SDCTA Opposes Rent Control Measures as a Way to Address Housing Affordability Challenges in California
September 2018

On the week of July 5, 2018, the San Diego County Registrar of Voters confirmed that the National City Rent Control and Community Stabilization citizens' initiative would be up for the consideration of voters in the November 6, 2018 General Election ballot. The measure would approve an ordinance establishing a program of residential rent control. For its enforcement, the ordinance would create a five-member Rent Board with four-year terms independent of city officials but appointed by the City Council. SDCTA has opposed the local measure, which could have larger implications in San Diego if voters across the state also approve Proposition 10 in November 2018.

Proposition 10: "The Affordable Housing Act" is a statewide initiative that, if passed, would repeal the Costa-Hawkins Rental Housing Act. Often referred as "Costa-Hawkins," the act limits cities' abilities to enact rent control, preventing houses, condos and other units built after February 1, 1995 to be subject to rent control, and prohibits municipalities from expanding rent control to include "vacancy control," which prevents landlords from increasing the rents of vacant units to match market price.

Historically, the San Diego County Taxpayers Association (SDCTA) has opposed all forms of rent control, as it is counterproductive, expensive, and inefficient. SDCTA holds as a core principle that the government should not intervene in a mechanism that is best-served by the free market. The imposition of rent control by local governments equates to setting a price ceiling below the market value of a property to a given portion of the market, prompting several adverse effects.

With these considerations in mind, SDCTA states the following academic findings are important and should be taken into account as the state of California considers different forms of rent control as a solution to the affordable housing crisis in the future. SDCTA also states that the below list of observed adverse effects is not exhaustive; other principles may need iteration as new policy proposals develop and measures are considered.

1. **Rent control does not create any new affordable housing.**

   Instead, rent control measures create an immediate shortage for mandated low-price housing, encouraging landlords to take their rental units off the market. Landlords affected by rent control are not necessarily legally obligated to keep their units on the market as their incomes decrease. Retaliation against these profit-limiting regulations include landlords moving into the units themselves, creating an "owner-occupied" rental, and converting the units to condos or other property classification. According to a report released by Stanford Economics on the use of rent control in the city of San Francisco, "landlords whose properties were exogenously covered by rent control reduced their supply of available rental housing by 15%, by either converting to condos/TICs, selling to owner

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occupied, or redeveloping buildings. This led to a city-wide rent increase of 5.1% and caused $2.9 Billion of total loss to renters."[1]

2. Rent control stifles new construction and development.

Investors and developers may refrain from building even in cities where new construction is exempt from these rent limitations due to the fear that those exemptions may be repealed later on.[2] According to Richard A. Epstein of the University of Chicago Law School, "…All rent control statutes depress the future total return of any investment. Reduced returns mean reduced investments, so that rent control statutes only exacerbate the housing shortages they are said to alleviate." Local San Diegan Norm Miller, Hahn Chair of Real Estate Finance at University of San Diego School of Business, also claims that rent control would actually reduce the supply of housing in the area by discouraging investment, and in the long term actually exacerbate the housing crisis, where the resulting decrease in housing stock prompts a rationing system in which controlled units have large pent-up demand.[3]

3. If the revenue gained by renting out a price-controlled unit does not exceed the cost of maintenance, a rational owner may let the property deteriorate.

Overall, rent control limits landlords' abilities to raise prices, thereby discouraging them from making investments that would increase the condition, quality, and value of the unit. Richard Arnott of Boston College explains, "the rent ceiling reduces the profitability of rental housing, discouraging maintenance and thereby speeding up deterioration of the existing rental stock."[4] Robin Miller takes this finding a step further in his analysis of the effects of rent control in Washington D.C., stating that "from a housing provider's perspective, rent control reduces the return on investment and can result in deteriorated and dilapidated housing because a housing provider is not induced to make repairs when no rental increase can be attained." This may make a property manager's job more difficult, as most of the infrastructure will be outdated and yield increased operating costs and inefficiencies.[5]

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[1] Diamond, Rebecca, McQuade, Tim, and Franklin Qian. (2017). "The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco. Stanford University Department of Economics.
[2] Willis, John. (1950). "Short History of Rent Control Laws." Cornell Law Review. Volume 36, Issue 1.
[3] Miller, Norm. (2018). "California Rent Controls: Good Intentions with Disastrous Consequences." University of San Diego School of Business.
[4] Arnott, Richard. (1997). "Rent Control." Boston College Department of Economics.
[5] Miller, Robin. (2010). "Rent Control in the District of Columbia: An Analysis of the Quality, Condition, Maintenance, and Economic Impact on Housing Accommodations." Johns Hopkins University.

4. **Even with restrictions placed on government eminent domain seizures, local governments may declare sufficiently neglected and deteriorated properties blighted, enabling a takeover for redevelopment.**

   Another party may then obtain the property at a below market rate caused by the imposition of rent controls, and upon their removal, experience skyrocketing property values.

5. **For the housing market as a whole, rent control has been shown to create "shadow economies" that arise to absorb the shortage of low-priced housing caused by imposed rent controls.**

   The shadow pricing is driven upwards to compensate for the excess number of individuals remaining in the market (increased demand) resulting from the imposition of rent control. Professor of Economics at Harvard University Edward Glaeser elaborates: "In hot markets, drying up supply is likely to increase the shadow price of housing and may very well increase, not decrease segregation."

The overall result achieved by rent control is the subsidization of a small number of individuals at the expense of the vast majority of the housing market. The control distorts market prices and causes the number of units available in the market that fall above the median price to increase substantially. Ultimately, rent control policies create long-term harms on the very low-income population that they aim to serve and it is an unsustainable solution that does not efficiently address the current challenges of housing affordability. In the future, SDCTA will continue to oppose all forms of rent control that do not account for the described adverse effects.