



## **LOCAL RENT CONTROL INITIATIVE**

*November 2020*

**SDCTA Position:**

**OPPOSE**

**Rationale for Position:**

The measure does not adhere to SDCTA's principles on Rent Control adopted in 2018.

**Title:** California Proposition 21, the Local Rent Control Initiative

**Jurisdiction:** State of California

**Type:** Initiative Constitutional Amendment

**Vote:** 55% Supermajority

**Status:** Qualified for the November 3, 2020 General Election Ballot

**Issue:** Rent Control

**Description:** Proposition 21 would narrow the Costa-Hawkins Rental Housing Act to allow local governments to establish rent control on residential properties over 15 years old.

**Fiscal Impact:** Losses of state and local revenues of tens of millions of dollars annually in the long term.

### **Background**

California Proposition 21, the Local Rent Control Initiative, would amend the Costa-Hawkins Rental Housing Act and allow local governments to establish rent control on residential properties that are over 15 years old. Landlords would be allowed to increase rent on rent-controlled properties by up to 15% of the previous tenant's rent over a three year period, in addition to increases allowed by local ordinance after the unit has been vacated. In addition, property owners who own two or fewer homes are to be exempted from local rent control policy. While Proposition 21 increases local government authority on enacting rent control measures, new rent control policies are prohibited from violating landlords' rights to fair financial return on their property, in accordance with California law.



SDCTA has previously opposed all forms of rent control as an inefficient and counterproductive mechanism to achieve housing affordability. As a core principle, SDCTA advocates against government intervention in a mechanism best served by the free market. In September 2018, SDCTA created principles to evaluate rent control as a way to address housing affordability in California. A summary table can be found below.

#### *Costa-Hawkins Rental Housing Act*

This act limits cities' abilities to enact rent control. Under Costa-Hawkins, local rent control cannot apply to single-family homes nor to any type of housing built after February 1, 1995. It also prohibits municipalities from expanding rent control to include "vacancy control," which prevents landlords from increasing the rents of vacant units to match market price.<sup>1</sup>

#### *Proposition 10 (2018)*

A similar measure to the current one was placed on the ballot in 2018 to amend Costa-Hawkins. Proposition 10, the Local Rent Control Initiative, would have allowed local governments to implement rent control measures on any type of building. Proposition 10 was defeated with 59% of voters opposing the measure.<sup>2</sup>

A key difference between Proposition 10 (2018) and Proposition 21 (2020) is that the current measure limits the ability of local governments to establish rent control to only residential properties over 15 years old and provides an exemption to property owners with two or fewer homes. The 15 year old requirement addresses concerns that implementing rent control discourages new housing development and maintenance of existing rental stock.

### **Governance Impact**

The measure would amend portions of the Costa-Hawkins Rental Housing Act to permit local governments to enact local rent control measures and limit the amount a landlord can raise rent.

### **Fiscal Impact**

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<sup>1</sup> San Diego County Taxpayers Association. "PROPOSITION 10: 'AFFORDABLE HOUSING ACT.'" San Diego County Taxpayers Association, September 21, 2018. [sdcta.org](http://sdcta.org).

<sup>2</sup> "California Proposition 10, Local Rent Control Initiative (2018)." Ballotpedia. Accessed July 15, 2020. [https://ballotpedia.org/California\\_Proposition\\_10,\\_Local\\_Rent\\_Control\\_Initiative\\_\(2018\)](https://ballotpedia.org/California_Proposition_10,_Local_Rent_Control_Initiative_(2018)).



The measure is projected to decrease future local government and state revenues, depending on local government action. Potential losses are estimated at tens of millions of dollars annually in the long term.

The Legislative Analyst's Office (LAO) predicted that if jurisdictions decided to implement rent control measures, property owners would likely sell their properties to avoid regulation and rental property value would decrease as landlords would not be incentivized to buy or reinvest in rent-controlled properties. Renters would not have to pay as much in rent, leading landlords to not make as much revenue.

If landlords are disincentivized to purchase and maintain rental properties, property tax revenue is likely to decrease. Alternatively, increases in rental property sales would increase property tax revenue. Reductions in housing costs would increase revenue in sales tax, as renters would have additional expendable income.

The LAO predicts a net **loss** in property tax revenue over several years. In the long term, the most significant fiscal effect would be reduction in property tax revenue. The scale of that effect would depend on local government action.<sup>3</sup>

*Fiscal Impact Statement:*

“Potential reduction in state and local revenues of tens of millions of dollars per year in the long term. Depending on actions by local communities, revenue losses could be less or more.”<sup>4</sup>

## **Proponents**

Proponents argue that the measure will address housing affordability in California by allowing local governments to reduce housing cost burden. The measure emphasized California's high rental prices and the high cost-burden on renters, with over half of Californians paying over 30% of their income on rent.<sup>5</sup> The measure cited “a growing body of evidence [that] suggests stabilizing rents can bring broad benefits to renters, the state's economy, the environment, and its public services.”<sup>6</sup>

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<sup>3</sup> Petek, Gabriel, and Keely Martin Bosler. “Initial Analysis: A.G. File No. 19-0001.” Legislative Analyst's Office, June 10, 2019. <https://lao.ca.gov/ballot/2019/190298.pdf>.

<sup>4</sup>Ibid.

<sup>5</sup> “California Proposition 21, Local Rent Control Initiative (2020).” Ballotpedia. Accessed July 15, 2020. [https://ballotpedia.org/California\\_Proposition\\_21,\\_Local\\_Rent\\_Control\\_Initiative\\_\(2020\)](https://ballotpedia.org/California_Proposition_21,_Local_Rent_Control_Initiative_(2020)).

<sup>6</sup> Ibid.



Supporters include:

- Homeowners and Tenants United
- ACCE Action
- AIDS Healthcare Foundation
- Democratic Socialists of America, Los Angeles
- Eviction Defense Network
- National Lawyers Guild, Los Angeles

**Opponents**

Opponents argue that rent control is an inefficient mechanism to ensure housing affordability, and instead advocate for other policy options dedicated towards addressing housing affordability in California.

Opponents include:

- Californians for Responsible Housing
- Californians for Affordable Housing

**Prior SDCTA positions**

SDCTA **opposed** the 2018 Local Rent Control Initiative as a means of addressing housing affordability, as the measure did not address any adverse effects outlined in SDCTA’s Rent Control principles.<sup>7</sup>

Proposition 21 “Local Rent Control Initiative”		
Criteria from Principle	Meets Criteria?	Comments
Creates New Affordable Housing and Disincentivizes Property Owners to Take their Properties Off the Market	No	Proposition 21 does not outline plans to address reduced availability of housing for the middle class.
Promotes New Construction and Development	No	Proposition 21 does not outline plans to create new

<sup>7</sup> San Diego County Taxpayers Association. “PROPOSITION 10: ‘AFFORDABLE HOUSING ACT.’” San Diego County Taxpayers Association, September 21, 2018. sdcta.org.



		development.
Incentivizes Property Maintenance and Prevents Reduction in Property Owners' Income	Yes	Disincentivizes continued investment via rent control, but prohibits violating landlords' rights to fair financial return on property.
Prevents Blighting and Takeover for Development	No	Proposition 21 does not provide plans to prevent blighting or takeover for development.
Does Not Depress the Actual Market Value of a Unit	No	Proposition 21 has the potential to freeze and/or reduce property values.



## References

“California Proposition 10, Local Rent Control Initiative (2018).” Ballotpedia. Accessed July 15, 2020. [https://ballotpedia.org/California\\_Proposition\\_10,\\_Local\\_Rent\\_Control\\_Initiative\\_\(2018\)](https://ballotpedia.org/California_Proposition_10,_Local_Rent_Control_Initiative_(2018)).

“California Proposition 21, Local Rent Control Initiative (2020).” Ballotpedia. Accessed July 15, 2020. [https://ballotpedia.org/California\\_Proposition\\_21,\\_Local\\_Rent\\_Control\\_Initiative\\_\(2020\)](https://ballotpedia.org/California_Proposition_21,_Local_Rent_Control_Initiative_(2020)).

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