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## Rent Control Would Put Housing Out of Reach for More Californians

BY KERRY JACKSON

The most unaffordable city in the world in which to rent a home is not New York or Tokyo or Hong Kong. The title belongs to San Francisco, where a single person who wants to live on their own needs to earn more than \$85,000 a year to pay the rent and a family more than \$163,000.

Not far behind is Los Angeles, ranking 10th in the world, according to the 2017 Rental Affordability Index compiled by Nested, an international real estate service.

Surely there's been a mistake. Both cities, as well as a dozen or so others in California, have rent-control laws that were enacted to control costs.

Rent-control laws simply don't work, though. And rather than keep rents down, they actually discourage the development of additional housing that would lower prices. According to the nonpartisan Legislative Analyst's Office, government attempts to make housing more affordable – rent control, for one example – do “very little to address the underlying cause of California's high housing costs: a housing shortage.”

If rents were allowed to freely rise in response to market pressure, developers would address the shortage by building more units. The expanding housing stock would push prices down. As Brookings Institute economist Anthony Downs explained three decades ago, “stringent controls prevent owners from reaping the unusually high profits that would trigger the development of additional new rental units.”

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Rent control can also create run-down neighborhoods. The Legislative Analyst's Office says that because rent-control policies "reduce the income received by owners of rental housing," the rational response of owners is often "to cut back their operating costs by forgoing maintenance and repairs."

"Over time," says the report, "this can result in a decline in the overall quality of a community's housing stock."

Pacific Research Institute has just released a new issue brief on California's housing crisis, identifying rent control as one of the factors making housing unaffordable in the Golden State.

Despite rent control's miserable record, some lawmakers believe that one day it will finally work. Among them are three Democratic Assemblymembers who introduced a bill (Assembly Bill 1506) that would repeal the 1995 Costa-Hawkins Rental Housing Act. Current law restricts rent control laws from being enforced on units which were occupied after Feb. 1, 1995, or on properties that were already exempt from local residential rent control ordinances on or before that date. The law "also allow(s) landlords to reset rents to market rates when properties transferred from one tenant to another," according to the Legislative Analyst's Office, and protected single-family homes from rent control.

If Costa-Hawkins is repealed, then every home in the state could eventually fall under rent-control laws. That would chill the incentives for developers to build more homes in a state where a host of public policies has already undermined the economic incentives that encourage building.

Returning to a statewide rent-control regime would be a regression to poor economic thinking. Investments in rental units would lose their value, and worse than inhibiting new construction, it would likely also decrease the number of rental properties available on the market. Owners just might decide to sell the homes they're leasing or convert apartments into condominiums that require mortgages.

Real life examples from California cities show how rent control reduces housing supply. A study by California State University, Sacramento, and the Sacramento Regional Research Institute examined the effects of rent control in two cities over two decades. They determined that rental housing supply in Santa Monica fell by more than 8.7 percent, and by almost 7.5 percent in Berkeley.

Tenant groups argue that high rents in San Francisco, Los Angeles and elsewhere across the state prove that Costa-Hawkins should be repealed. But they'd be wrong. Rent control was not eliminated by Costa-Hawkins, it was merely restricted. There is still plenty of rent-control housing in this state. Roughly 85 percent of rentals in Los Angeles are still regulated by the city's rent-stabilization ordinance, says the mayor's office.

Costa-Hawkins wasn't enough to incentivize new building anyway. Wary developers didn't see it as a green light because they were concerned that any new units would eventually come under rent-control. Their concerns were justified.

California's high rental costs are a factor in a housing shortage that's so gaping that, according to the Legislative Analyst's Office, another 100,000 housing units must be built each year in addition to the 100,000 to 140,000 already being built. Freeing up cities to impose new rent control laws is not a solution to the cruel housing shortage and painfully steep rents.

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