



SACRAMENTO STATE

Rent Control and its Implications to the Real Estate Industry

Think Tank Series

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Outline of Presentation

- ✓ Are rents high in California & Sacramento?
- ✓ Economics & Rent Control
- ✓ Costa Hawkins & Rent Control in CA
- ✓ Proposed Sacramento City Rent Control
- ✓ Discussion

Are Rents High in California & Sacramento?



http://www.hcd.ca.gov/policy-research/plans-reports/docs/SHA_Final_Combined.pdf

YES!

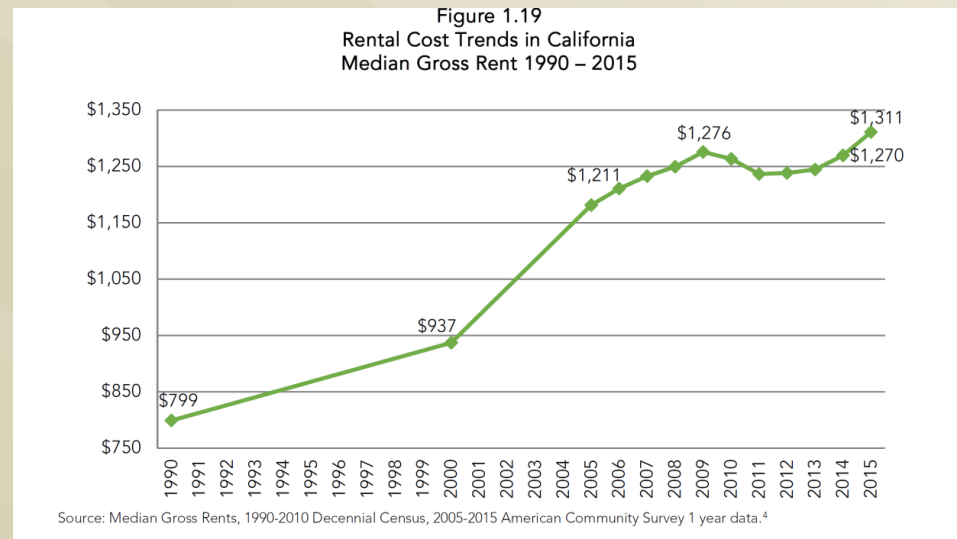
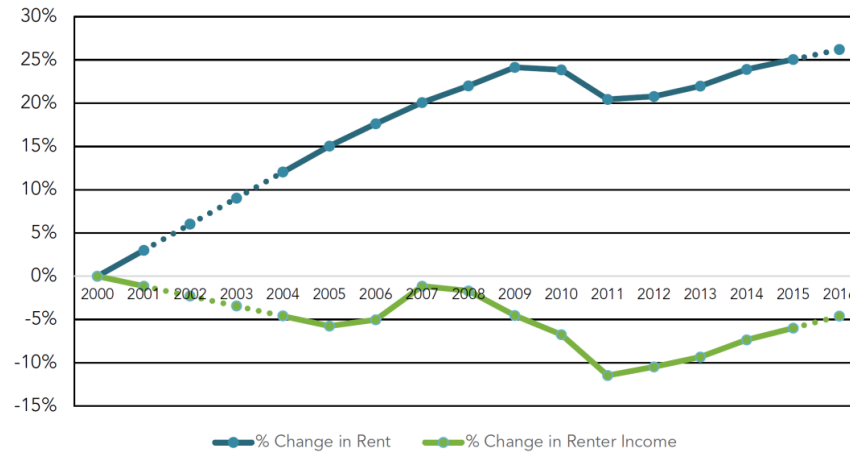


Figure 1.23
Renter Income Has Not Kept Pace with Increasing Rents 2000-2013
 Change in Inflation Adjusted Median Rent and Renter Income Since 2000



Source: California Housing Partnership analysis of 2000 Decennial Census and 2005-2014 American Community Survey 1 year data. 2001-2004 and 2015-2016 are an estimated trend. Median rent and renter income are inflation adjusted to 2014 dollars. Graphic recreated by HCD.

Both Demand (a, b, and d) and Supply reasons for high rents

- a. Foreclosures and former owners moving into the rental market.
- b. Demographic shifts, particularly the generational boom of millennials coming of age and entering the housing market with strong rental tendencies.
- c. Lack of supply of affordable home ownership and rental options.
- d. Deferred home buying, due to:
 - Lack of market confidence.
 - Reduced access to mortgage credit following the recession.
 - Unemployment and stagnant wages.
 - Competition with investors buying homes to convert to rentals.

Table 1.2
Percentage of California's Renter Households Experiencing Rent Burden by Income

Income	Total Renter Households (million)	% Rent Burdened	% Severely Rent Burdened
Extremely Low-Income or Below Poverty Line	1.41	90.2%	76.9%
Very Low-Income	.82	85.4%	47.4%
Low-Income	1.13	64.6%	16.9%
All Lower-Income Renter Households (80% AMI and below) Subtotal of above	3.36	80.4%	49.5%
Moderate-Income	.59	41.5%	5.3%
Above Moderate-Income	2.03	12%	0.9%
All Renter Households Total	5.97	53.4%	28.7%

Source: 2017 National Low-Income Housing Coalition tabulations of 2015 American Community Survey Public Use Microdata Sample (PUMS) housing file.

Definitions:

Rent Burdened – 30 to 50% income spent on rent

Severely Rent Burdened – 50% plus income spent on rent

Extremely Low-Income – 0 to 30% median income in area

Very Low-Income – 31 to 50% median income in area

Low Income – 51 to 80% median income in area

Moderate Income – 81 to 120% median income in area

Figure 1.21
California's Renter Households Experiencing Severe Rent Burden
Total renter households paying more than 50% of income toward housing costs

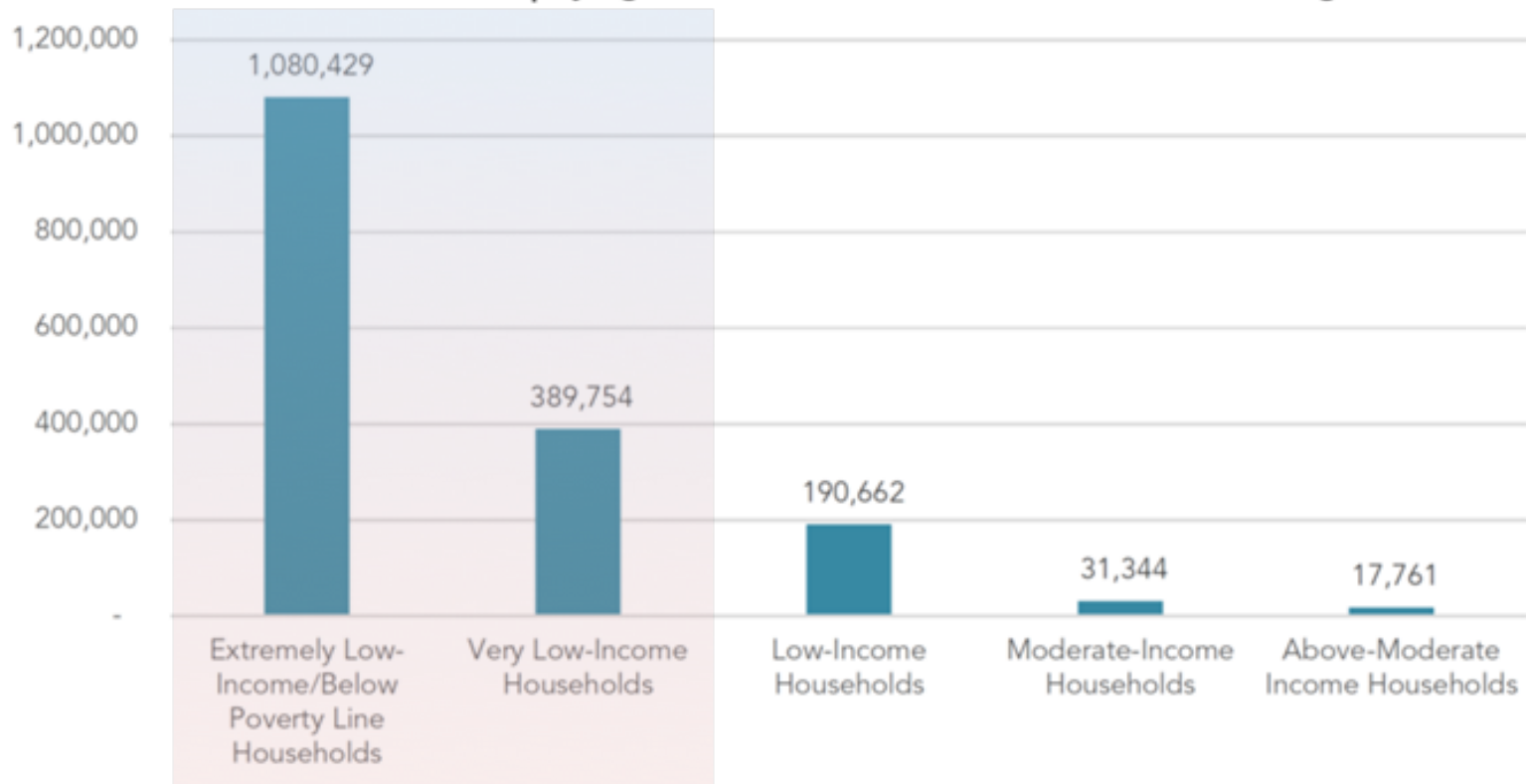
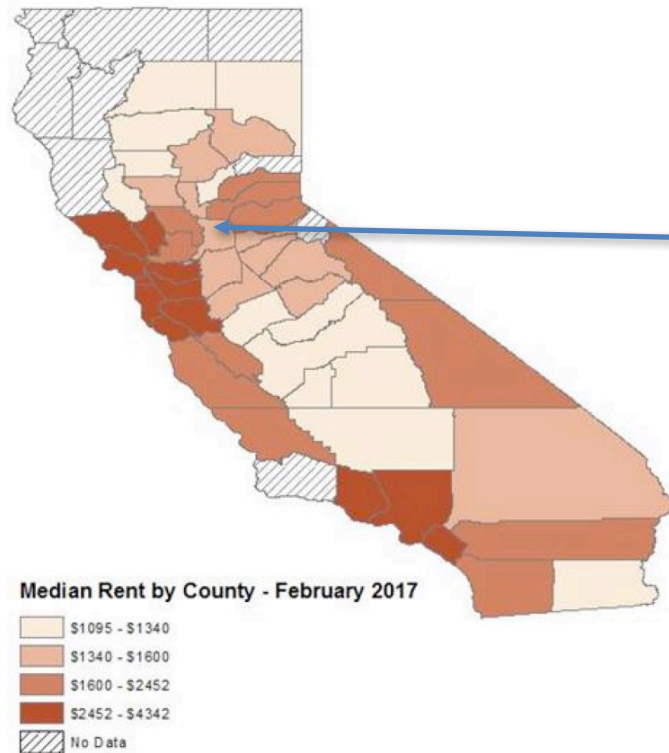


Figure 1.20
Median Rent by County, February 2017



Source: Zillow Median Rent Index (All Homes; Multifamily, Single Family Rental, Condo) by County. February 2017. Graphic by HCD. For more information on Zillow Median Rent Index methodology visit <http://www.zillow.com/research/zillow-rent-index-methodology-2393/>

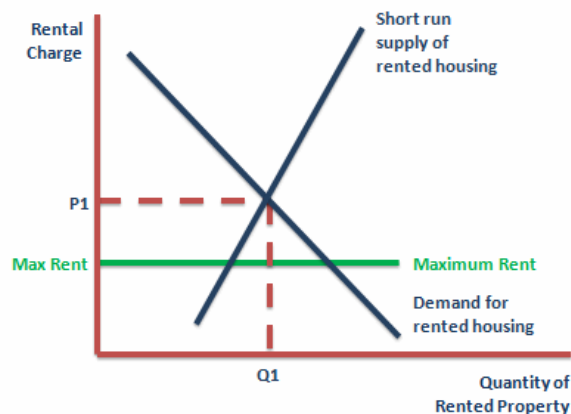
February 2018,
average apartment
rent in Sacramento,
CA is \$1,416 which is
a 4.38% increase
from last year

[https://www.rentjungle.com/
average-rent-in-sacramento-
rent-trends](https://www.rentjungle.com/average-rent-in-sacramento-rent-trends)

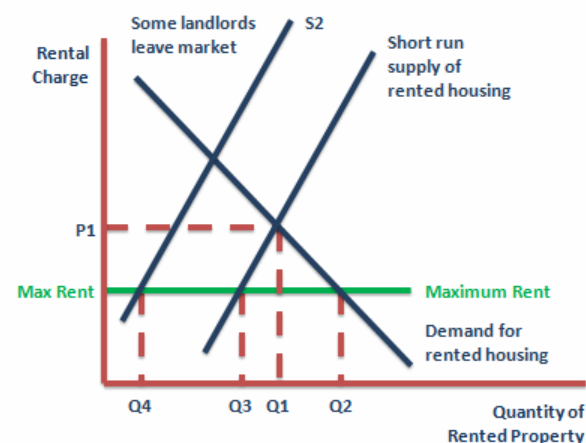
- Sac County median home price is one-third of same in SF County
- Sac County median rent is only half of same in SF County
- Rental rate bigger concern here than home price
 - A call to do something about it!
 - Justified on equity and efficiency reasons (GHG goals)

Economics & Rent Control

Introducing a Rent Ceiling



Likely to cause fall in rental supply



- Simplified textbook treatment of **strict rent control**
 - <https://www.tutor2u.net/economics/blog/unit-1-micro-revision-on-maximum-rents-in-housing>
- P1 (\$1,416) and Q1 households renting
- Set max rent (ceiling) below P1, Q3 rental units available and Q2 wanted (in short run)
 - Q2 – Q3 shortage
- Rental units taken off market by conversion lack of replacement (in long run)
 - Q2 – Q4 shortage grows larger
- When demand rises in future (more households come to Sac), shortage becomes worse
- **Observed rent falls, but less households renting, quality of units decline**

Costa-Hawkins & Rent Control in CA

- Current CA rent control cities
 - Berkeley, Beverly Hills, East Palo Alto, Hayward, Los Angeles, Oakland, Palm Springs, San Francisco, San Jose, Santa Monica, and West Hollywood
 - Santa Rosa just repealed
 - Limit or prohibit rent increases; some also limit the grounds to evict tenants
 - CPI as usual index
 - San Francisco 60% of the CPI or 7% of existing rent
 - Berkeley allows annual increase of 65% of CPI
- Costa-Hawkins Rental Housing Act (1995)
 - Prohibits rent control in single family and anything built after 1995
 - Allow right to rent at market price when vacated
 - Allows only **vacancy rent control**
 - No strict rent control
- AB 1506 (Bloom, Bonta, and Chiu) in 2017 to repeal Costa-Hawkins
 - January 2018 Assembly vote and lost
 - Likely to qualify for November 2018 ballot initiative

Proposed Sacramento City Rent Control

- Abides by Costa-Hawkins state law
 - Apply to all rental units built before 1995 but not-for-profit, residential secondary units, govt owned, temporary tenancy in single family homes
- Limits the amount that rent can rise and restricts evictions
 - Base rent set at February 2018, or initial occupancy after that
 - Rent can rise by CPI (provided in **range of 2 to 5 percent**)
 - But eight member district represented, and one mayor-appointed member, Board can grant landlord right to raise to “fair” increase above CPI upon petition; or tenant a lower rent if landlord fails to maintain a “habitable” rental unit
 - Board decisions can be challenged in court
- Justification in declaration for proposal:
 - *Sacramento is experiencing a job/housing imbalance and the housing supply, particularly available rental housing, is not adequate to serve the needs of the community*
- **THIS WILL NOT HELP TO ALLEVIATE IT**

- Sacramento City proposing **vacancy rent control**
 - Different than strict rent control
- Arnott, Time for revision on rent control?, *Journal of Economic Perspectives* (1995)
 - <https://www.aeaweb.org/articles?id=10.1257/jep.9.1.99>
 - Model holds for first-generation (WWII) strict rent control of NYC
 - Under vacancy rent control, landlord effectively enters into a long-term lease with tenant with less uncertainty, **tenant may be willing to pay more for this advantage**
- Do rent controls work?, *The Economist* magazine (2015)
 - <https://www.economist.com/blogs/economist-explains/2015/08/economist-explains-19>
 - Argument for long term security for tenants and sway balance of power to tenant
 - Evidence that **rent-controlled apartments have higher median income tenants**; resources to chase down and obtain
- Misra, Rent controls: a reckoning, *CITYLAB* (2018)
 - <https://www.citylab.com/equity/2018/01/rent-control-a-reckoning/551168>
 - Recent Stanford study of 1994 SF extension of rent control law
 - **Decreased rental housing by 6 percent, and increased rent by 5.1 percent**
 - “Likely fueled the gentrification of San Francisco”

- Levin, Things CA should now about rent control, *Cal Matters* (2018)
 - <https://calmatters.org/articles/5-things-californian-know-now-rent-control>
 - Economists, on left or right, think rent control bad
 - Recent poll, 98% agreed that rent control had negative influence of San Francisco affordability
 - Primarily benefits older households with rent control, at expense of younger
 - Young people are more likely to move
 - Rent control fuels gentrification
 - Strong incentive to convert to condos
- Tatian, Is rent control good policy?, Urban Institute (2013)
 - <https://www.urban.org/urban-wire/rent-control-good-policy>
 - Tenants in uncontrolled units pay higher rents than if no rent control – landlords try to make up difference on them
 - Those in rent controlled units had higher rent because they were willing to pay more to get into
 - Poor are no more likely to be in rent controlled units
 - Research revealed very little evidence that rent control is good policy

Discussion

- My informed opinion
 - Recognize the concern of Sac City affordable housing advocates that available rental housing not adequate to serve the needs of the community
 - But “free lunch” solution of rent control will make no better
 - Instead suggest City policymakers consider alternatives
 - Allow more high density affordable housing “as of right”
 - Reduce fees and requirements for extremely low and very low income housing
 - <https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.32.1.3>
 - Find a new non-real-estate-based tax to subsidize above households so they spend no more than 50% of disposable household income on housing
 - Hard for the City to do this alone (in past TIF, Fed subsidies, and Fed tax laws)
- Caveat
 - What if Sacramento City takes action and the rest of metropolitan area does not?
- Your thoughts?