

*The wrong remedy*

## **Faced with a housing crisis, California could further restrict supply**

*Rent control sounds appealing but is counter-productive*

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“THE rent is too damn high,” read the signs brandished by tenant advocates at rallies held in late April in Oakland (median monthly rent: \$2,950), Los Angeles (median monthly rent: \$2,700), and Sacramento (median monthly rent: \$1,895). The activists gathered, along with local politicians, to announce that they had collected the signatures necessary to include a proposal on California’s November ballot that would pave the way for cities to expand rent control. This, they feel, is the only way to mitigate the shortage of affordable housing in the state.

The measure will seek to repeal the Costa Hawkins Rental Housing Act, a law passed in 1995 that places restrictions on local rent controls. It bars the 15 Californian cities that have them from introducing rent control in buildings constructed after 1995, and freezes previous municipal rent-control ordinances in place. In Los Angeles, this means that local leaders cannot mandate rent control in any building completed after October 1978. The law also regulates how much landlords can increase rent between tenants, and bans rent control on single-family homes. California’s legislators tried and failed to repeal Costa Hawkins earlier this year.

The renewed push for an expansion of rent control comes at a time of fierce debate over the future of California’s biggest cities, where housing is in short supply and rents have been rocketing. According to Trulia, a property-rental and sales platform, median rents in Oakland grew by 51% between 2012 and 2017; in San Francisco, they grew by 38% over the same period. Over half of California’s renters spend more than 30% of their income on shelter, according to the California Budget and Policy Centre, a research group. Instead of straining to cobble together rent, many Californians are trading palm trees for cheaper pastures in Texas, Arizona and Nevada. Others have been forced onto the streets. Homelessness in California rose by 14% between 2016 and 2017, according to the Department of Housing and Urban Development, a federal agency, compared with 1% nationally. Gloria Cortez, a mother of six, alleges she was recently evicted from her home in Pomona after complaining that mould was making her feel ill. She and her family cannot find another apartment they can afford, and now divide their sleep between hotels, cars and parks.

Champions of expanded rent control argue that it will allow cities to protect and increase their stock of affordable housing. “We need tools to prevent price gouging,” says Elena Popp, executive director of the Eviction Defence Network, one of three groups leading the charge to repeal Costa Hawkins. “It’s insane that a developer can go in and buy a building where the median rent is \$1,100 and bump it up to \$2,700 from one day to another.”

Such stories are troubling, but rent control is likely to make California’s housing problems even worse. A team of economists at Stanford University recently studied a 1994 ballot initiative in San Francisco that brought in rent protections for small multi-family housing built before 1980. The policy inspired landlords affected by it to convert their units into condos or

redevelop their buildings, reducing their supply of rental housing by 15% and pushing up rents by 5% across the city. Paul Habibi, a professor at the Anderson School of Management at the University of California, Los Angeles, who invests in a mix of rent-controlled and non-rent-controlled property in the city, also points out that rent control does not necessarily benefit those most in need. "It seems sort of perverse that you can end up with a banker making \$400,000 in a rent-controlled unit, while a plumber is forced to pay market rates."

It would make more sense to build some houses. Data released by the California Department of Housing and Community Development in January suggest that 98% of the state's cities are failing to approve the construction needed to keep pace with population growth. In Los Angeles, the main barrier is an antiquated zoning code that is heavily skewed towards single-family homes. In April California's state legislature blocked a plan to abolish caps on building height in some places, which would have allowed developers to scrape the sky.

The Golden State is thus likely to respond to its shortfall by restricting housing supply even more. No polling has yet been done on the movement to repeal the restrictions on rent control, but a survey conducted by the Institute of Governmental Studies at the University of California, Berkeley, of registered Californian voters in 2017 found that 60% of those polled supported rent control. Just 26% opposed it.

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