



POLICY BRIEFING

# Opening the Door for Rent Control

Toward a Comprehensive Approach to Protecting California's Renters

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# Overview



- I. Context
- II. Consequences of the Housing Affordability Crisis
- III. The Rationale for Rent Control
- IV. Rent Control as Part of a Comprehensive Policy Approach

Housing insecurity, unmanageable rent increases, and the threat of displacement carry deep consequences, since having a home is about more than just having shelter.

*Home is a locus of opportunity.*

**54%**

of California's  
renters are  
burdened by  
housing costs

an estimated  
**9.5 million**  
tenants

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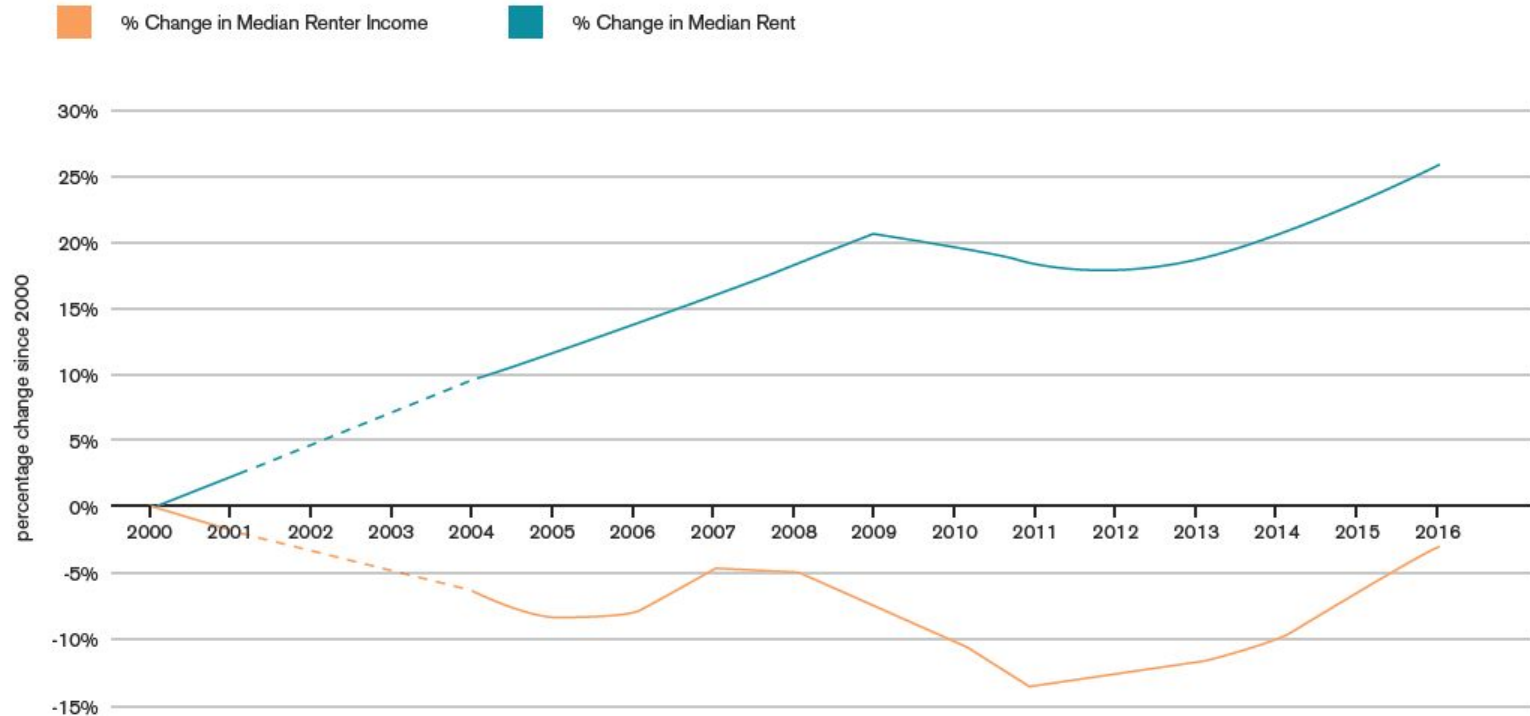
A household is considered housing cost burdened if it spends **30% or more** of its income on housing.

*How do we  
**protect overburdened renters**  
from displacement and  
**increase the needed supply of housing**  
to meet the needs of people  
at all income levels?*

# Rising Rents, Stagnating Wages



Change in Inflation-Adjusted Median Rent and Renter Income in California Since 2000



**\$3,406 increase**

in annual median rent between 2000 and 2016

**\$1,449 decrease**

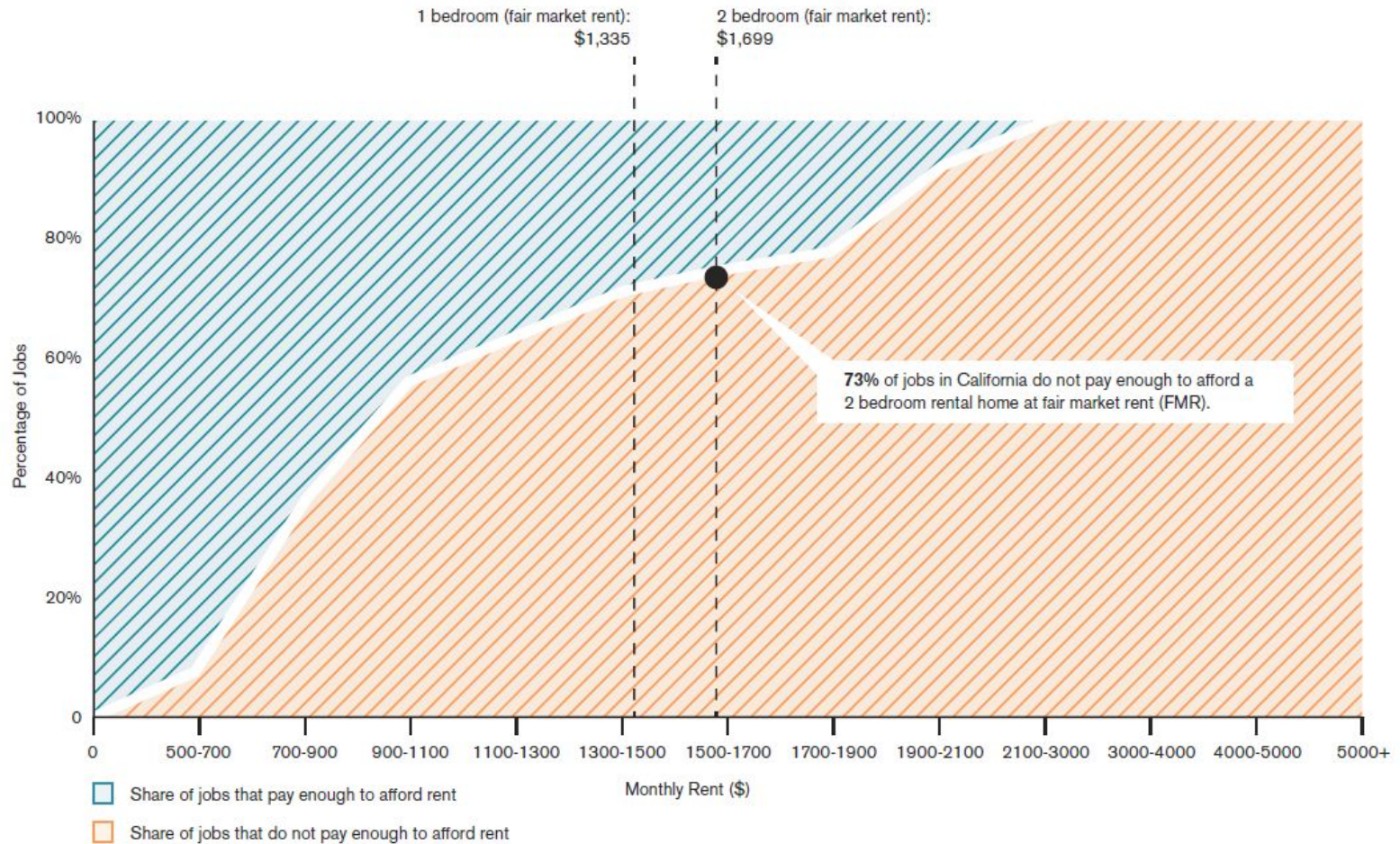
in annual median renter income between 2000 and 2016

Sources: HIFIS analysis of 2015 and 2016 American Community Survey one-year data; California Housing Partnership Corporation analysis of 2000 Decennial Census and 2005-2014 American Community Survey one-year data, as cited by the California Department of Housing and Community Development in the Statewide Housing Assessment, California's Housing Future: Challenges and Opportunities.

# Rising Rents, Stagnating Wages

## Rental Affordability for California Workers

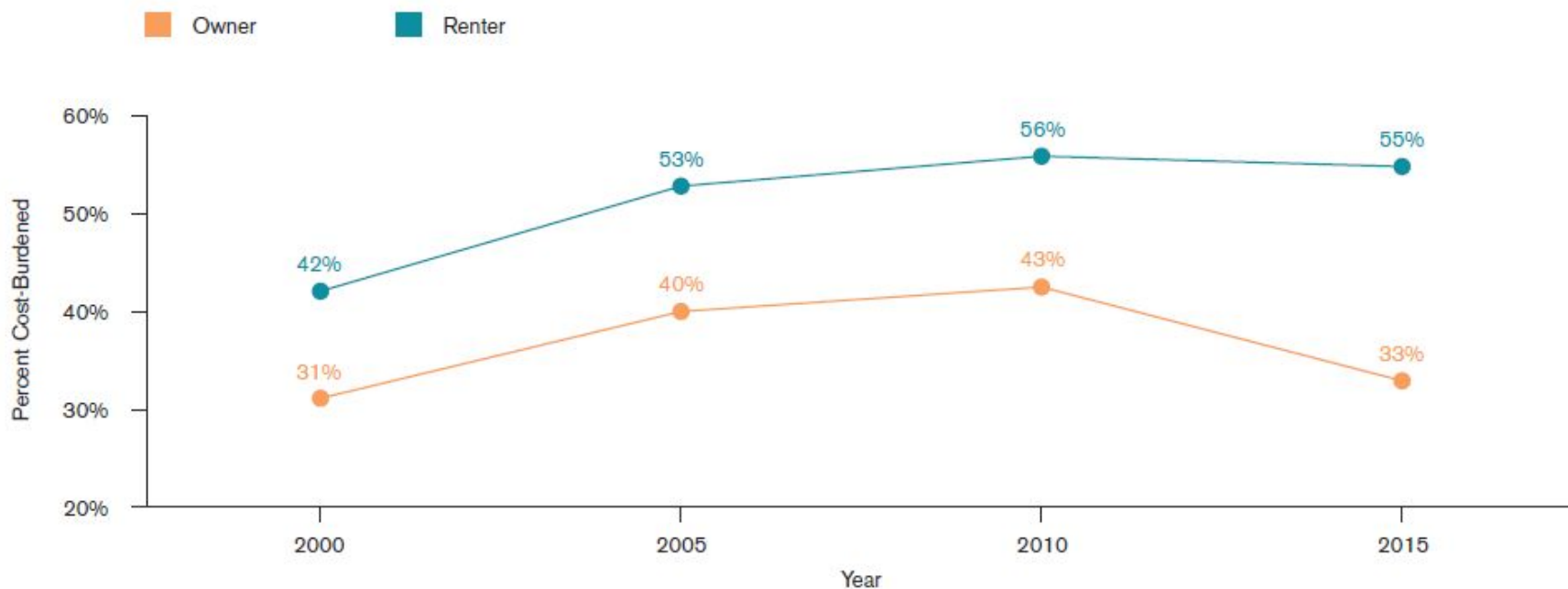
(based on total employment and average wages for all California occupations)



# Inequitable Impacts

Disparities in housing cost burden between renters and homeowners have increased over time, with the rate of cost burden among renters exceeding that of homeowners by 22 percentage points by 2015.

## Housing Cost-Burdened Californians Homeowner vs. Renter Households; 2000-2015

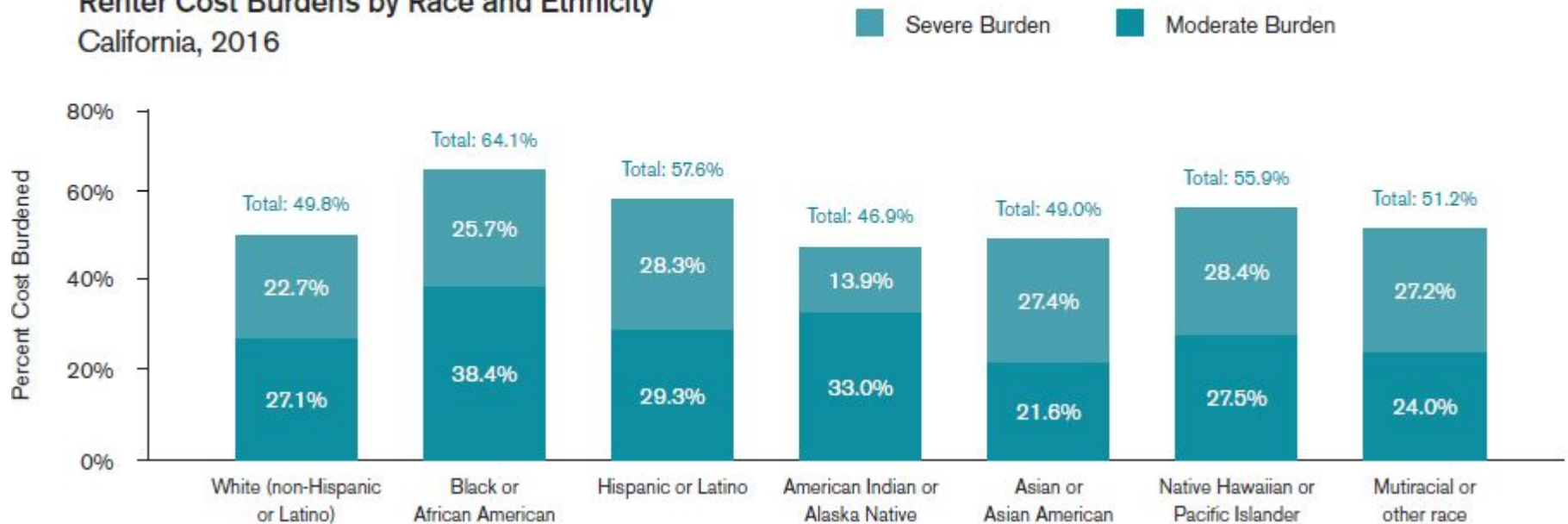




# Inequitable Impacts

In California, Greater shares of Black and Latino renter households are burdened by housing costs than white renter households. Latino, Asian, and Pacific Islander renter households have among the highest rates of severe housing cost burden.

Renter Cost Burdens by Race and Ethnicity  
California, 2016



# Inequitable Impacts



**134,000**

people in California  
are experiencing  
homelessness on a  
given night

an increase of  
**16,000 people**  
in just one year  
(2016-2017)

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CA has the highest number  
of people experiencing  
homelessness among all 50  
states.

# Lasting Consequences

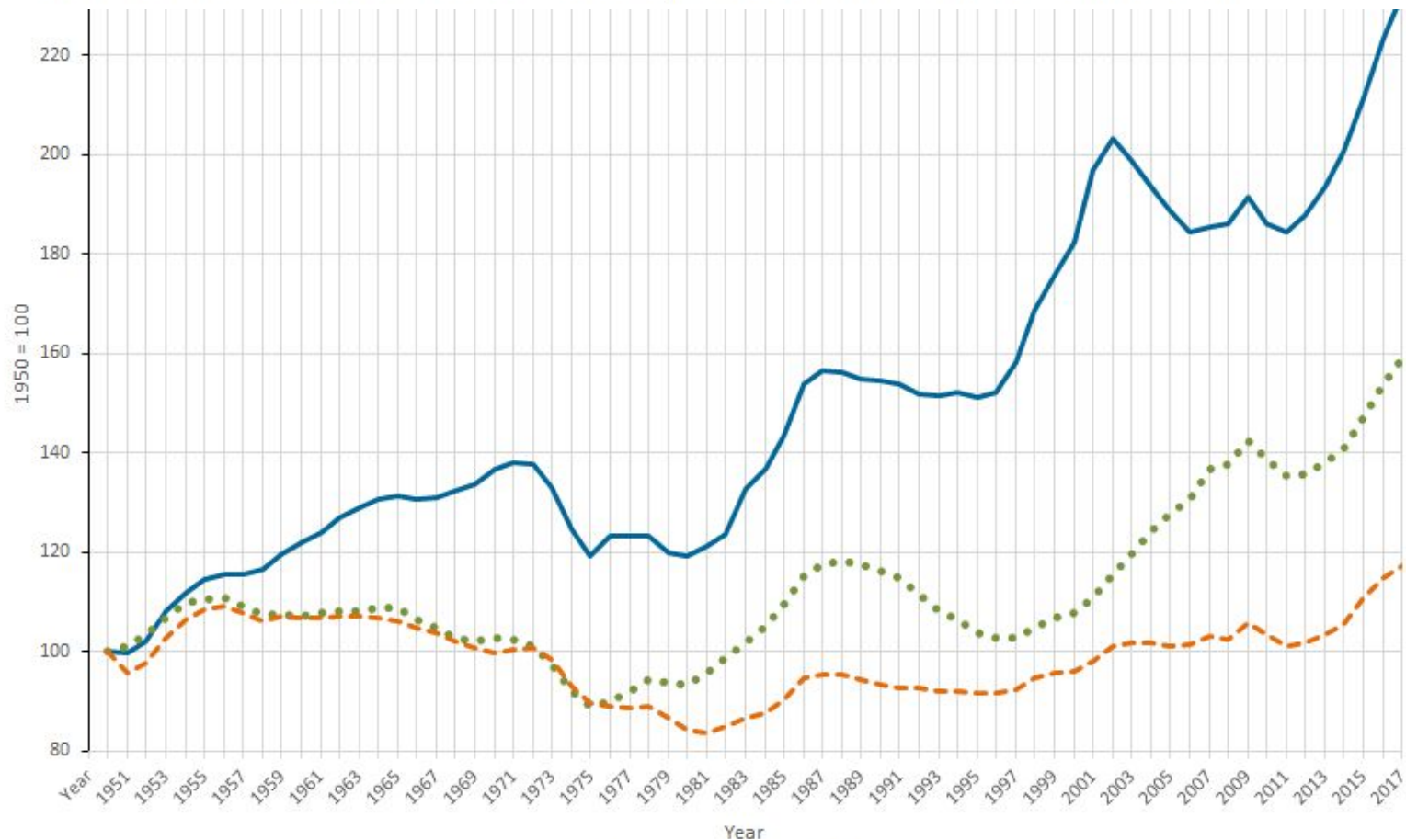
People experiencing housing insecurity are **3x more likely to be under frequent mental distress**

- Difficult tradeoffs
- Unhealthy conditions
- Disconnection from community
- Intense impacts on children

Rents have risen rapidly in California since 2011, with the greatest increases in the state's largest metropolitan areas.

### Trend in Real (Inflation-Adjusted) Rent; SF Bay Area, LA Area, & All US Cities: 1950-2017

(Increase in CPI Residential rent index divided by increase in CPI - All items except Shelter)



Source: Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers, Current Series, San Francisco-Oakland Metropolitan area. Accessed at <https://www.bls.gov/data/#prices>.

- **A market is a socially created institution that exists to serve the public interest.**
- Common description – Government versus the Market. False opposition.
- Markets can't work without framework provided by government.
- Government defines rights and obligations, sets and enforces rules, provides essential infrastructure and services.

- **As conditions change, government needs to adjust the rules to keep markets working in the public interest.**
- The rental housing market in California today is not serving the public interest.
- The people of California can and should use the democratic process to change the rules governing the rental housing market so that it will serve the public interest.
- Question is how to do that.

# What's behind “supply & demand?”



- **A simple matter of supply & demand?**
- **No! Housing is different from most market commodities.**
- Simple commodity model: demand for heirloom tomatoes increases, price increases, farmers quickly double production, availability of heirloom tomatoes increases 100%, prices fall.
- Housing is not like heirloom tomatoes.
- Housing production is slow and only partly responsive to demand.

# Production is slow

- Currently, production of housing adds 1% a year to the supply, doubling rate of construction will add 2% per year.
- McKinsey estimated need at 3.5 million units by 2025.
  - 30 years at current rate.
- Lots of focus on eliminating exclusionary land use restrictions, but other major barriers include geographic constraints, rising per unit cost of in-fill construction at higher densities, rising cost of materials and shortage of skilled construction workers.



# New Rental Housing & Older Rental Housing



- *New rental housing is built for higher income tenants who will pay rents high enough to profitably repay construction costs as well as operating and maintenance costs.*
- *Most tenants can't afford new construction.* They live in older buildings (20+ years), where cost of construction was paid off.
- In older housing, if supply is adequate, competition among landlords for tenants will keep rents to the minimum necessary to cover operating and maintenance expenses and make a modest profit.
- Average U.S. rents are half of Bay Area rents, 2/3rds of LA Area rents.

# The Supply Disconnect, 1



- Shortage of housing results in higher rents for both new and older rental housing.
- Price increases are incentive for additional supply of new housing.
- But, increase in rents in older housing cannot generate increased production of older housing.
- **Higher rents in older housing result in a massive transfer of income from renters to real estate investors and immense hardship for lower-income tenants without generating additional supply.**

## **Current market framework fails to encourage new supply.**

- When higher-income tenants displace lower-income tenants from existing older housing, the displaced tenants do not have enough income to support new construction.
  - They have a need for housing, but they don't make enough money to generate "effective demand".
- When higher-income tenants move into upgraded older housing they are less likely to want to rent newly constructed housing, which reduces the effective demand for new housing.
- This helps explain why studies show modern rent controls do not reduce construction of new rental housing.

## How do we get more housing where the costs of construction are paid off and rents are more affordable?

- One way to increase the supply of older housing is to wait 10 or 20 years for it to age, what economists call “*filtering down*”.
- Another is for government to *subsidize the cost of construction* of new, affordable non-profit housing.
- Still another is to put some limits on the rent increases allowed in older housing, for *government regulation* to step in where the market has failed.
  - What gives the public the right to regulate prices charged by private investors for use of their property?

# Public value and private profit



- Housing combines a building and land, a location. Demand for housing is based on location as well as building quality.
- Rent is partly for access to scarce location as well as for building.
- **Value of land/location is a product of the larger society.**
  - Government infrastructure and services: roads, education, public safety, parks, etc. make land valuable.
  - Dense, diverse urban areas generate a creative culture, increased productivity and a strong economy.
- Housing market currently structured so that **real estate investors convert publicly created land value into private profit** by charging higher rent for access to desirable locations.
- **Public has moral and legal rights over the value it creates.**

# Government Must Restore Balance & Fairness to the Rental Housing Market



## Rent Regulation is a Necessary First Step

- Government should regulate the rent increases in older housing that inflict so much useless hardship.
- Appropriate model is public utility regulation which allows a fair return on investment but does not allow the utility to use its power in a non-competitive market to exact excessive prices from consumers.

# Priority Concern is Human Suffering



- Current public policy debates on how to deal with the housing crisis are too often focused on creating an ideal competitive housing market that is impossible to attain in most of California.
- Instead, our public policy discussions should give priority to relief of immediate suffering, while working on long-term solutions.
- Rent control is an essential public policy for shaping the housing market in the public interest.

# A Comprehensive Approach

Rent control alone does not solve for the full range of California's housing needs, but it is essential.

**Without rent control, the benefits of all other strategies will manifest too late.**

- Protection
- Production
- Preservation
- Power
- Placement



