Expansion of Local Rent Control Measures in California Fails to Pass

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Authors:

Elijah Beau Eisert
Shannon L. Rutherford
S. Bradford Butler
Jerry J. Ruiz

Earlier this month, California voters soundly rejected the expansion of local rent control measures. According to votes tallied as of the date of this post, more than 60% of voters voted against Proposition 33 (also known as the "Justice for Renters Act" or "Prop 33"), which would have granted local governments the authority to enact rent control ordinances for certain types of residential properties by repealing the 1995 Costa-Hawkins Rental Housing Act. This was the third time since 2018 that California voters have voted to maintain the current state limitations on local rent control.

Current Rent Control Laws

The Costa-Hawkins Rental Housing Act preempts local governments from enacting rent control measures in three specific ways. First, owners who rent out single family and condo properties are permitted to set the initial and renewal rental rates for their tenants. Second, owners of multifamily residential properties built after February 1, 1995, are permitted to set the initial and renewal rental rates for their tenants. Finally, for multifamily residential properties built prior to February 1, 1995, local governments may not control the initial rents for new tenants moving into vacated properties (known as "vacancy decontrol"); however, local governments may limit renewal rental rates.

Although Prop 33 did not pass, around a quarter of California residents live in communities with some form of local rent control law. In Los Angeles, for example, certain residential rental properties are subject to limitations on allowable rent increases through the city's Rent Stabilization Ordinance. This ordinance allows the Los Angeles City Council to set a maximum allowable rent increase as a percentage of the tenant's current rent, which can be 0% as it was from March 30, 2020, through January 31, 2024.

Additionally, California enacted a state law in 2019 that prevents the owners of most multifamily residential properties from increasing rent for existing tenants by the lesser of the sum of 5% per year plus an inflation index, or 10%. Certain single family homes and all multifamily homes built in the previous 15 years are exempt from this statewide rent control measure. If a residential property is not exempt under this law, the owner may set the initial rental rate for new tenants, but renewal rental rates are subject to limitations on increases. These rental control provisions will remain in effect until January 1, 2030, unless extended by the California Legislature.

Despite passing several measures in recent years to address the supply of housing and its affordability in California, it is noteworthy that the Legislature has not voted to repeal the Costa-Hawkins Rental Housing Act.

Rent Control Policy Considerations

Supporters of Prop 33 and other rent control measures aim to curb the negative impacts from the statewide housing shortage and the general affordable housing crisis. However, these measures could be accompanied by unintended and undesirable consequences. A nonpartisan analysis conducted by the California Legislative Analyst's Office predicted that repealing Costa-Hawkins would decrease the value of rental housing, reduce property tax revenues, and lead to fewer homes available for rent. Another study found that rent control measures decrease geographic and economic mobility by disincentivizing tenants from moving, while simultaneously decreasing the quality of existing housing by disincentivizing owners from spending money on maintenance.

Opponents of Prop 33 seek to address the housing affordability crisis by incentivizing development and increasing housing availability. Others have suggested that a more comprehensive legislative process is needed, bringing together tenant advocates, developers and other housing stakeholders, which may include some reforms of rent control.

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