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Rent Control: A False Solution to California's Housing Crisis

In the recent 2024 US election, California voters made the wise decision to reduce the potential for more rent control laws by voting against Proposition 33.

Proposition 33 was a proposed 2024 California ballot measure that was not in the best long term interests of Californians. If passed, it would have allowed for the formation of stronger and less consistent rent control laws by giving more power over such laws to local governments. Fortunately, California voters rejected the ballot measure with 60% of the electorate voting “no” (Khouri). Importantly, there is a high probability that similar ballot measures will appear in the future, so voters should be well informed about the challenges associated with rent control. Instead of relying on poorly conceived solutions like rent control, we should explore alternative approaches that will better serve California's citizens.

The problem that Proposition 33 sought to address is an important one to millions of California voters. Housing affordability is a decades-old issue across America and is especially pronounced in California. According to The California Legal Analyst's Office, “Renters in California typically pay about 50 percent more for housing than renters in other states. In some parts of the state, rent costs are more than double the national average” (“Proposition 33”). Furthermore, California renters must allocate approximately one third of their monthly income to rent, which is very high relative to other states (“Proposition 33”).

In the worst cases, poor housing affordability has contributed to an increase in the homeless population. In fact, around 186,000 Californians now live on the streets and in homeless shelters in California (Kendall). According to the 2022 CA Homelessness study by UCSF Benioff Homelessness and Housing Initiative team, “Twenty-one percent of leaseholders cited a loss of income as the main reason that they lost their last housing” (2023 CASPEH Executive Summary). In an analysis of “California’s Homelessness Challenges in Context”, the California LoA states, “While homelessness is a complex problem with many causes, the high costs of housing is a significant contributor” (The California Legal Analyst’s Office). We’ve seen the impact of homelessness in our own Mountain View community, with people living in recreational vehicles and tents across town.

The high costs of housing also create less visible problems like malnutrition. According to DIW Berlin senior researcher Konstantin A. Kholodilin’s empirical research, high housing costs prevent “households from buying other goods and services, thus negatively affecting the quality of life. In extreme cases, it can lead to poverty and malnutrition” (Kholodilin).

Housing affordability is a serious issue we need to solve, but first we need to understand the sources of the problem and potential solutions. In a free market, the price of monthly rent is based on both the supply of housing and the demand for that housing. Depending upon the specific situation, governments can address the price of housing by introducing measures that seek to affect housing supply, demand, or price. Sometimes all three measures are applied. In California, the demand for housing is high, with a total population of 39 million people (Cain and Preeti). However, the supply of housing is not sufficient to meet the needs of this population. As a result, rental prices are too high for many Californians, especially those with lower incomes.

In an attempt to address the housing affordability problem, state and local governments in California created rent control laws that artificially control the price of rent. “Rent control is a government-enforced limit on the rents that property owners may charge in private, market rate rental housing. This policy can go by many names, such as rent stabilization, rent freeze, rent caps, and anti-price gouging” (National Apartment Association).

In fact, there are currently multiple rent control policies at the state and local levels in California. First, at the state level, the California Tenant Protection Act of 2019 limits rent increases. Specifically, this law prevents most landlords from increasing a tenant’s rent by more than 5 percent plus inflation (up to a total of 10 percent) in a year. This California state law lasts until 2030 and limits rent increases for tenants in apartments and corporate-owned single-family homes that are older than 15 years.

Another California state law known as the Costa-Hawkins Rental Housing Act (Costa-Hawkins), limits local rent control laws in three main ways. First, rent control cannot apply to any single-family homes. Second, rent control cannot apply to any housing built on or after February 1, 1995. Third, rent control laws generally cannot tell landlords what they can charge a new renter when first moving in. Instead, rent control can only limit how much landlords increase rent for existing renters. This law limits the types of rent control laws local governments can pass and it is the focus of Proposition 33.

Finally, several cities in California have local rent control laws. Some local governments in California have laws that limit how much landlords can increase rents from one year to the next. About one-quarter of Californians live in communities with local rent control. Examples of places with rent control are the Cities of Los Angeles, San Francisco, and San Jose.

Proposition 33 would have eliminated Costa-Hawkins, thus shifting power over rent control from the California state government to local governments. The law would have allowed local governments the freedom to make more restrictive laws regarding rent control. Importantly, if Proposition 33 had passed, Californians would have likely experienced stricter local rent control laws. This is because the measure would have removed prohibitions that currently bar municipalities from expanding rent control to single-family houses, newer properties and vacant units. It would have replaced those prohibitions with language that says, “the state may not limit the right of any city, county, or city and county to maintain, enact, or expand residential rent control.” The Proposition itself would not have made any changes to existing local rent control laws, meaning that cities and counties would have to take separate actions to change their local laws.

There is abundant evidence to suggest that rent control laws have multiple negative long term effects for Californians. We can look at the negative impacts of rent control laws from various perspectives, including those of renters, landlords, and communities.

First, let’s look at how rent control laws impact renters. Rent control laws have consistently reduced housing supply and increased the cost of housing over time. This is because, under rent control, it becomes less profitable for landlords to build or keep rental properties, and they sell the properties or convert them to different housing options. As stated in the California Legal Analyst’s Office analysis of Proposition 33’s fiscal effects, “Fewer homes would be available to rent. One reason for this is that some landlords would sell their properties to new owners who would live there instead of renting it out”(The California Legal Analyst’s Office). This prediction is further supported by rent control studies like a 2019 Stanford study of the effects of a rent control law on San Francisco's housing economy. The study found that,

“Landlords treated by rent control reduce rental housing supplies by 15 percent by selling to owner-occupants and redeveloping buildings” (Diamond, McQuade, and Qian). In this way, rent control laws like the one examined in San Francisco often result in a lower rental housing supply because there are less properties available to rent, and consequently increase rents over time.

Furthermore, rent control laws usually lead to a reduction in the quality of rental housing available to renters. When landlords experience lower rents, there is much less incentive for them to maintain their properties. A comprehensive analysis of 206 works on the effects of rent control by Konstantin A. Kholodilin found that nearly all the surveyed studies demonstrated that “rent control leads to a deterioration in the quality of those dwellings subject to regulations. The landlords, whose revenues are eroded by rent control, have reduced incentives to invest in maintenance and refurbishment, thus they let their properties wear out until the real value of the dwellings decreases and becomes equal to the low real rent”(Kholodilin). In this way, rent control laws are harming renters by providing deteriorating housing quality that may hold health risks or lower quality of living.

The relationship between rent control laws and housing quality is further supported by studies on the increase in housing quality and availability that occurs when rent control laws are removed from areas. In his analysis, Konstantin A. Kholodilin references a study by David P. Sims titled “Out of control: What can we learn from the end of Massachusetts rent control?” Kholodilin states that Sims “uses American Housing Survey (AHS) data to show that towns in the Boston metropolitan area in which rent control was abolished saw increases in rental supply and increased housing maintenance.” Clearly, abolishing rent control laws could improve renter’s lives by increasing the quality of their housing options.

Rent control also harms renters by making rent controlled units available regardless of income level, thus reducing the supply of low cost housing to those most in need. One way this manifests is as a misallocation of resources, in which rent controlled units are occupied by people who could afford to pay more rather than those who truly need affordable housing. According to Konstantin A. Kholodilin, “this stems from the policy's concentration on regulating dwellings rather than the occupants’ income levels ... controlled rental prices apply to dwellings irrespective of the socioeconomic status of the households occupying them. Consequently, there is a possibility that higher-income households end up residing in controlled units.” (Kholodilin).

Rent control laws also negatively impact the broader community. Rent control laws cause lower tax revenue by reducing both income taxes and property taxes from landlords. First, as stated by author Konstantin A. Kholodilin, is that “the imposition of rent limits diminishes landlords’ earnings, thus, reducing the state's taxation revenue derived from their profits” (Kholodilin). Second, “rent control has the potential to diminish the value of properties under its regulation, consequently leading to a reduction in the revenue obtained from property taxes”(Kholodilin). In support of this argument, the California Legal Analyst office’s generated a predictive analysis of the effects Proposition 33 might have had on local communities if it had passed. The LOA predicted that over time, “property tax reductions likely would be at least tens of millions of dollars each year (annually) ... About half of the reduction would be property tax revenues that would have gone to schools.” Of course, lower tax revenues result in fewer services for local communities.

Finally, rent control laws have a negative impact on landlords and property owners. Rent control laws harm landlords by reducing the value of rental property investments and related incomes. This is because “potential landlords would not want to pay as much for these

properties” (The California Legal Analyst’s Office). Rent control often makes properties less appealing to buyers because it is harder to profit from a property where income is limited by things like rent ceilings and where profit won’t grow with inflation, making them uncertain investments. For example, this may manifest as a finding like: a “tenant-occupied dwelling is sold with a 27% discount partially reflects the difficulty of evicting sitting tenants due to legal protections” (Kholodilin).

Many Californians may mistakenly believe that rent control is the best way to solve the housing affordability crisis. On a positive note, rent control is fast acting and immediately increases the stability of people in rent controlled homes. Rent control laws can also keep tenants housed longer, stabilizing their situations and causing them to have to move less. In their study of rent control in San Francisco, Stanford researchers found that “rent control limits renters’ mobility by 20 percent and lowers displacement from San Francisco.” Regardless of these modest short-term benefits, the long term harms of rent control laws are overpowering.

There are better alternatives to rent control laws. Rather than artificially managing the price of rental housing, governments can increase the housing supply and better target support to help low income residents. Governments can increase the housing supply by relaxing zoning laws and increasing government investment in affordable housing units. The federal government has tackled this with programs like the Low-Income Housing Tax Credit (LIHTC) program. This program provides incentives to develop affordable rental housing. In addition, Governor Newsom’s California Comeback Plan will lead to over 84,000 new housing units. This plan includes \$1.75 billion in affordable housing funding. (“Governor Newsom Signs Historic Legislation”). Solutions like these increase the supply of affordable housing rather than attempting to artificially regulate prices. In addition to increasing the housing supply, the

affordable housing crisis can be addressed by providing financial assistance directly to renters in need via solutions like housing vouchers and tax breaks. For example, the Housing Choice Voucher Program uses federal funds to subsidize the rent of low-income households. (“About the Housing Voucher Program.”).

In conclusion, California voters rightfully defeated Proposition 33 in 2024 because more rent control is not in the long term interests of renters, local communities, or landlords. When similar future ballots surface, well informed voters should vote against legislature promoting rent controls. Rather, Californians should seek to increase the housing supply and provide assistance directly to those in need.

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