LAO

Proposition 21

EXPANDS LOCAL GOVERNMENTS’ AUTHORITY TO ENACT RENT CONTROL ON RESIDENTIAL PROPERTY. INITIATIVE STATUTE.

ANALYSIS OF MEASURE

Background

Rental Housing Is Expensive in California. Renters in California typically pay 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. Rent is high in California because the state does not have enough housing for everyone who wants to live here. People who want to live here must compete for housing, which increases rents.

Several Cities Have Rent Control Laws. Several California cities—including Los Angeles, San Francisco, and San Jose—have laws that limit how much landlords can increase rents for housing from one year to the next. These laws often are called rent control. About one-fifth of Californians live in cities with rent control. Local rent boards carry out rent control. These boards are paid for with fees on landlords.

Court Rulings Limit Local Rent Control. Courts have ruled that rent control laws must allow landlords to receive a “fair rate of return.” This means that landlords must be allowed to increase rents enough to receive some profit each year.

State Law Limits Local Rent Control. A state law, known as the Costa-Hawkins Rental Housing Act (Costa-Hawkins), limits local rent control laws. Costa-Hawkins creates three main limitations. First, rent control cannot apply to any single-family homes. Second, rent control can never apply to any newly built housing completed on or after February 1, 1995. Third, rent control laws cannot tell landlords what they can charge a new renter when first moving in.

State Law Limits Rent Increases. In addition to local rent control allowed by Costa-Hawkins, a new state law limits rent increases for most rental housing in California. Landlords cannot increase rent by more than 5 percent plus inflation in a year, or 10 percent, whichever is lower. This applies to most housing that is more than 15 years old. This law lasts until January 1, 2030.

State and Local Government Tax Revenues. Three taxes are the largest sources of tax revenue for the state and local governments in California—personal income tax, property tax, and sales tax. The state collects a personal income tax on income—including rent received by landlords—earned within the state. Local governments levy property taxes on property owners based on the value of their property. The state and local governments collect sales taxes on the retail sale of goods.

Proposal

Allows for Expansion of Rent Control. The measure modifies the three main limitations of Costa-Hawkins, allowing cities and counties to apply rent control to more properties than under current law. Specifically, cities and counties can apply rent control to most housing that is more than 15 years old. This does not include single-family homes owned by people with two or fewer properties. In addition, cities and counties can limit how much a landlord can increase rents when a new renter moves in. Communities that do so must allow a landlord to increase rents by up to 15 percent during the first three years after a new renter moves in.

Requires Fair Rate of Return. The measure requires that rent control laws allow landlords a fair rate of return. This puts the results of past court rulings into state law.

Fiscal Effects

Economic Effects. If communities respond to this measure by expanding their rent control laws beyond the existing protections for renters, it could lead to several economic effects. The most likely effects are:

- To avoid rent regulation, some landlords would sell their rental housing to new owners who would live there.
- The value of rental housing would decline because potential landlords would not want to pay as much for these properties.
- Some renters would spend less on rent and some landlords would receive less rental income.
- Some renters would move less often. For example, fewer renters would move because their rents increase.

The size of these effects would depend on how many communities pass new laws, how many properties are covered, and how much rents are limited.

Changes in State and Local Revenues. The measure's economic effects would affect property tax, sales tax, and income tax revenues. The largest and most likely impacts are:

- ***Less Property Taxes Paid by Landlords.*** A decline in the value of rental properties would lead to a decrease in property tax payments made by owners of those properties over time. These property tax loses would be partially offset by higher property tax payments resulting from the sales of rental housing. This is because property sales often cause property tax bills to reset at a higher level. Revenue losses from lower property values would be larger than revenue gains from increased sales. Because of this, the measure would reduce overall property tax payments.
- ***More Sales Taxes Paid by Renters.*** Renters who pay less in rent would use some of their savings to buy taxable goods.
- ***Change in Income Taxes Paid by Landlords.*** Landlords' income tax payments would change in several ways, both up and down. The overall effect on state income tax revenue is not clear.

Overall, the measure likely would reduce state and local revenues over time. The largest effect would be on property taxes. The amount of revenue loss would depend on many factors, most importantly how communities respond to this measure. For example, if communities that already have rent control expand their rules to include newer homes and single-family homes, revenue losses could be in the high tens of millions of dollars per year. If many communities create new rent control rules, revenue losses could be larger. If few communities make changes, revenue losses would be minor.

Increased Local Government Costs. If cities or counties create new rent control laws or expand existing ones, local rent boards would have increased costs. Depending on local government choices, these costs could **range from very little to tens of millions of dollars per year**. These costs likely would be paid by fees on owners of rental housing.

YES/NO STATEMENT

A **YES** vote on this measure means: State law would allow cities and counties to apply more kinds of rent control to more properties than under current law.

A **NO** vote on this measure means: State law would maintain current limits on rent control laws cities and counties can apply.

SUMMARY OF LEGISLATIVE ANALYST'S ESTIMATE OF NET STATE AND LOCAL GOVERNMENT FISCAL IMPACT

Overall, a potential reduction in state and local revenues in the high tens of millions of dollars per year over time. Depending on actions by local communities, revenue losses could be less or more.

BALLOT LABEL

Fiscal Impact: Overall, a potential reduction in state and local revenues in the high tens of millions of dollars per year over time. Depending on actions by local communities, revenue losses could be less or more.