

ORANGE COUNTY REGISTER

Rent-control initiative could obliterate state housing markets

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SACRAMENTO — “In many cases rent control appears to be the most efficient technique presently known to destroy a city — except for bombing,” opined Swedish economist Assar Lindbeck. He’s right on target given that rent control destroys housing markets because it takes away the incentive to build new apartments, reduces the willingness of landlords to upgrade and maintain their properties, and encourages tenants to squat indefinitely in their below-market units.

Californians need to ponder this unpleasant reality given that community activists appear to have gathered enough signatures to place a statewide initiative on the November ballot that would overturn state limits on local rent-control ordinances. The 1995 Costa-Hawkins Act forbids California localities from placing rental-price caps on single-family homes, condos and newer construction. It also bans vacancy controls, meaning that landlords in rent-controlled cities are free to raise the rent to market rates once tenants vacate the property.

If California voters approve the repeal of that measure, the state’s housing crisis will get worse — especially in the liberal, high-priced coastal cities that almost certainly will embrace tougher rent control laws. It’s going to be difficult to stop the initiative, for obvious reasons. The pro side will hit the “easy button” (the rent is too damn high; we’ll magically make it lower!).

Unfortunately, it’s hard to make a complex economic argument to voters who are suffering from unaffordable rent and housing prices, but it’s worth rehashing the long-proven results of such ordinances.

In San Francisco, New York and other cities that have embraced the concept, we find glaring housing shortages, escalating prices and a burgeoning homeless population. Rent control isn’t totally to blame, but these problems have been exacerbated by rent controls. (Growth controls are the other culprit.) Vast areas of San Francisco resemble an open sewer thanks to the homeless situation. Rents typically exceed \$4,000 a month, leading families to double-up in tiny apartments. Poverty is rampant, as rents consume the bulk of people’s income. The entire housing market is out of whack.

Ironically, more than 10,000 apartment units in San Francisco reportedly sit vacant. That's another result of the city's rent control and tenant ordinances: Landlords are afraid to rent their apartments to strangers. Because tenants are granted special "rights," it's difficult to evict them. Landlords let the properties sit idle. Some officials have responded in true San Francisco fashion, by calling for taxes on those with vacant units.

Lefty politicians never get it. You get more of whatever you reward and less of whatever you punish. Rent control imposes severe punishments on those who want to provide rental housing. So fewer people are willing to provide it. "In most businesses, governments will place only limited controls and taxes on your enterprise," wrote Sam Bowman for the Adam Smith Institute. "But if you entrust your money to rental housing, you must pass one additional hurdle: the rent-control authority, with its hearings, red tape, and rent ceilings. Under these conditions is it any wonder that you are less likely to build or purchase rental housing?"

That's a reality. If the cities where I own rental houses pass rent control, I won't be the only one who is done with that type of investment. Who has enough blood-pressure medication to handle the stress of it? In rent-controlled cities, landlords exit the business and turn their apartments into luxury condos. If they can't make a profit, they're not about to install new counters or put on a pricey new roof. We end up with third-world conditions: the wealthy living in beautiful places and everyone else in squalor.

Price controls have unintended but entirely predictable negative consequences. Pick any example. Let's say the government imposed a cap on the price that dealers can charge for new cars. What would happen? Demand would outstrip supply. Lines would form to buy cars that were priced below the market amount. The cost of used models would soar. Manufacturers would slow their production because cars would be less profitable. Dealerships would go out of business. We'd have a car shortage. Wealthy people would still get cars and the rest of us would take the bus.

Try that thought experiment for the industry you work in or for any product that interests you. Price controls cause shortages as demand exceeds the supply. "When the federal government restricted gasoline price increases in the 1970s, long lines formed at gas stations and only those motorists who waited long hours in line received the scarce gasoline," explained Fiona M. Scott Morton, in a Cato Institute report.

It's hard to immediately grasp the results of rent-control laws because people aren't literally standing in line waiting for an apartment, but the devastation is real. Rent-controlled cities don't actually look like they've been carpet-bombed, but these laws destroy the social fabric and housing market wherever they are implemented. Sorry, but we can't solve the housing crisis by voter edict.