

NOVEMBER 21, 2019 | JUAN ARIAS

# California Rent Control Won't Solve Affordability Problem for Lowest-Income Households

CoStar Insight: Rent Growth Analysis for Past Seven Years Shows Limited Effect on State's Housing Crisis



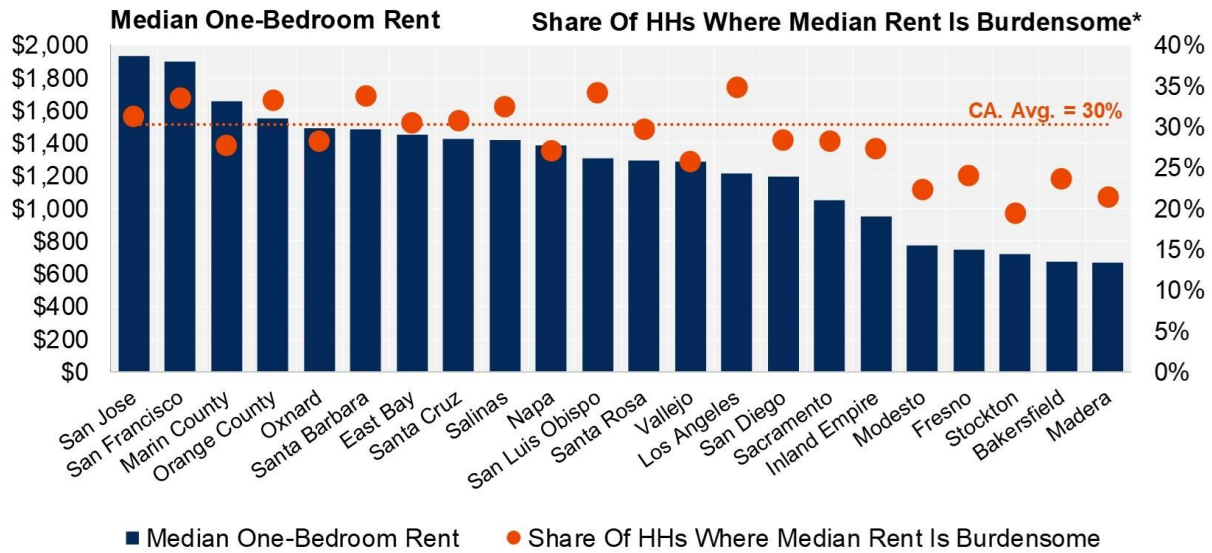
Apartment rent control legislation has been at the forefront of real estate investor minds as lawmakers increasingly search for options to address a lack of affordable housing for their constituents. But a CoStar analysis finds the approach has its limitations.

In October, California became the second state to pass a blanket statewide rent control law, following the lead of Oregon, which limited annual rent increases to 7% plus inflation in early 2019. The California rent control law is similar, capping allowable rent hikes to 5% plus inflation each year until 2030.

CoStar analyzed the stock of apartments in California that will be affected by the new law, those that are over 15 years old, to assess the potential impact of the rent control provision. Median one-bedroom rents in the affected inventory vary widely based on location, ranging from \$666 in the inland markets of Bakersfield and Stockton to more than \$1,900 per unit in the Bay Area markets of San Jose and San Francisco.

While this range is well below the average \$2,500 single-bedroom rents for newer units built since 2010 in California, the rent levels in older apartment buildings are still more than 30% of average household income for many renters. On average across California, more than 30% of households will continue to find these rent levels burdensome or unattainable. In major markets such as Los Angeles, San Francisco, Orange County and San Jose, about 2 million low-income households struggle to afford these rent levels.

## Rent Levels Remain Burdensome For Low-Income Households



Source: CoStar Group

Note: Analysis limited to apartments fifteen years or older  
 \*?Median rent

As of 19Q3

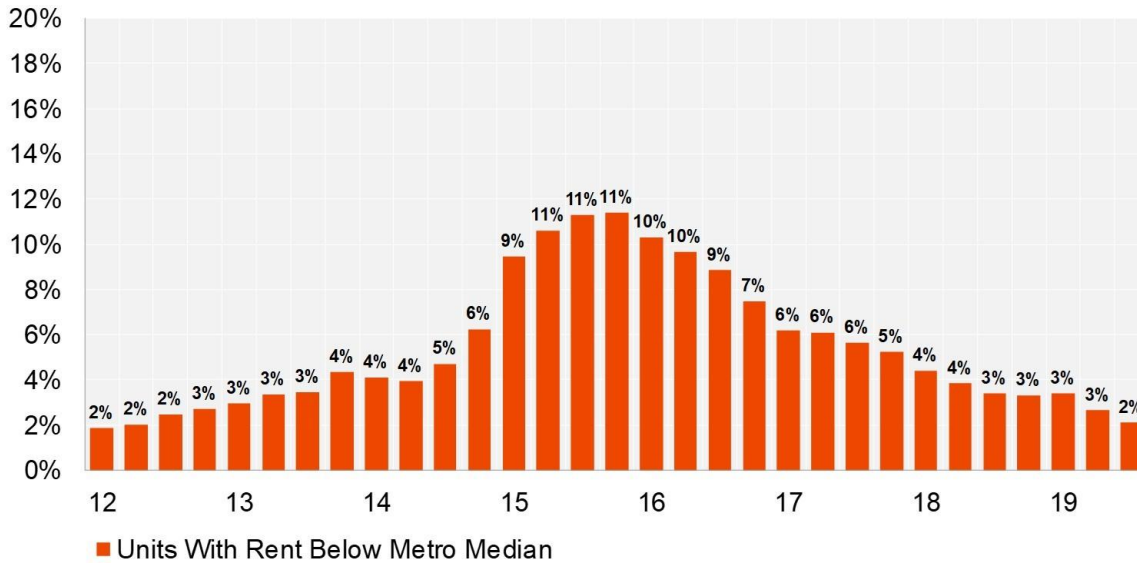


At a state level, the new rent control law may have a minimal impact on the current housing crisis in California, based on rent growth this economic cycle. Annual rent increases, minus inflation, for properties more than 15 years old in California averaged about 2.7% since 2012, significantly below the new rent cap of 5%. In the past seven years, annualized rent growth briefly surpassed 5% plus inflation in 2015, though it was by less than 100 basis points.

This further erodes the strength of the law, but should provide some breathing room for concerned investors, as above-average rent growth can still be achieved in these older properties. However, the residents most in need of affordable housing are unlikely to benefit from the new law, which does little to affect rent-controlled housing units for low-income households.

## Affordable Units Typically Do Not Reach Rent Growth Cap

Share Of Units That Exceeded 5% Rent Growth Plus Inflation



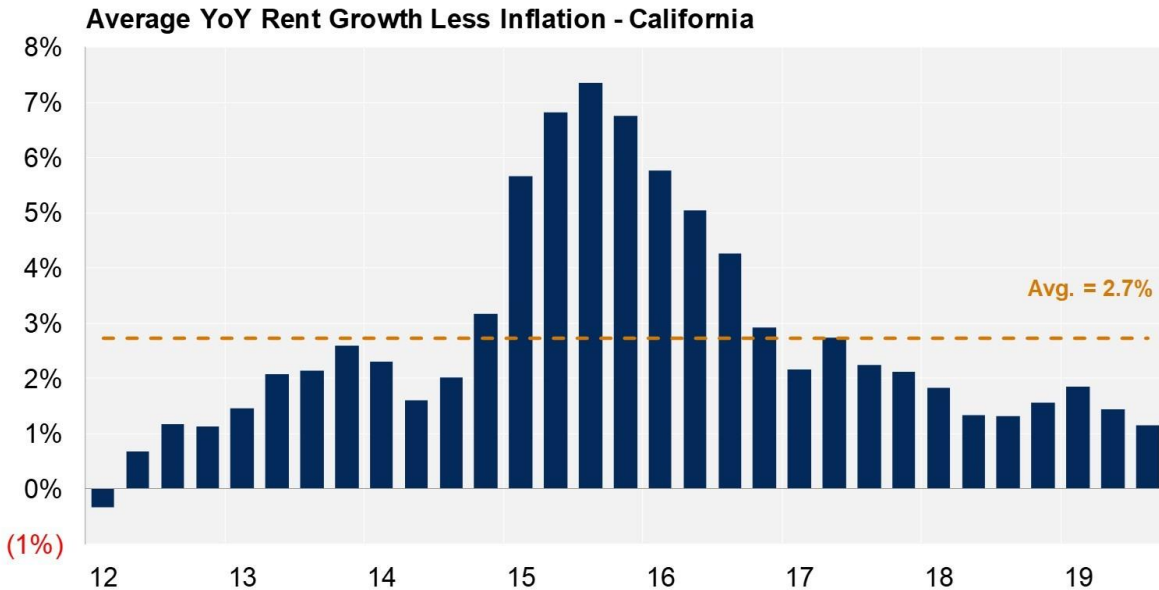
Source: CoStar Group  
Note: Analysis limited to apartments fifteen years or older



The vast majority of multifamily properties aged 15 years or older in California that did have rent increases of more than 5% plus inflation in the past seven years have rent levels above the median for their respective market. On average, only about 6% of apartment units with rents below the median achieved rent gains surpassing 5% plus inflation at any point since the last recession.

Effectively, the rent control provision targets higher-rent properties that are unattainable, or for which rent is very burdensome for lower-income residents. The new law is unlikely to control rent growth in the lower half of the market, which typically does not experience rent gains above the law's stated limit.

## Rent Growth Has Mostly Remained Below The Cap This Cycle



Source: CoStar Group  
Note: Analysis limited to apartments fifteen years or older.



As other policy options, such as rent vouchers for low-income and rent-burdened residents — which cause limited distortion to the housing market through limited market intervention — are ignored in favor of blanket rent cap laws, California will likely continue to suffer from a shortage of affordable housing.

Based on this analysis, investors can breathe easy as the rent cap law in California may do little to limit rent growth outperformance across those apartments it targets, while continuing to allow newer properties exempt from rent control policies to continue to grow rents more substantially.

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