

California Makes Housing Scarcer

Housing in California will become even more scarce. California's legislature has shelved a bill that would result in more housing construction, while moving forward on other legislation that would reduce the supply of housing.

The State Senate just blocked a bill that would have allowed denser development near transit stops, increasing the number of housing units that can be constructed. The [*Press Democrat* reports](#):

State legislation that sought to ramp up housing creation along the North Bay's commuter rail line and pave the way for denser residential development near transit stops statewide ran into a dead end Thursday in Sacramento, where top lawmakers shelved the bill...for this year...The bill's sponsor, Sen. Scott Wiener, D-San Francisco, a vocal advocate for stronger state intervention to spur housing development, bemoaned the decision.

"California's failed housing policy is pushing people into homelessness, poverty, and two-hour commutes, is pushing working families out of their communities and out of the state entirely, and is undermining California's climate goals," Wiener said in a statement. "We need to do things differently when it comes to housing."

SB 50 would allow denser development on vacant plots in many single-family neighborhoods and open the door for taller buildings along railways like the Sonoma-Marín Area Rail Transit system and bus lines.

The shelving of this bill will dramatically reduce the construction of new housing, making it scarcer and more

expensive, and placing heavy financial burdens of many people seeking housing.

Rather than expand the supply of housing, the California legislation is moving to shrink the supply of housing instead. The California Assembly this week is expected to pass legislation imposing rent control in California ([AB 1482](#)). Rent control creates [shortages](#): “in Stockholm, the [waiting list](#) for a rent-controlled apartment is nine-to-20 years.”

Economists say rent controls are destructive. In a 1990 poll, [93 percent of them agreed](#) that rent control “reduces the quantity and quality of housing available.” Not even left-leaning economists support rent-control: The left-of-center Swedish economist Assar Lindbeck [said](#) that “next to bombing, rent control seems in many cases to be the most efficient technique so far known for destroying cities.”

Former business school professor John Cochrane explains what’s wrong with rent control at [The Grumpy Economist](#). As [he observes](#):

there is a very long list of documented harms that rent control causes. It provides a strong disincentive to build more rental housing. It drives landlords to reduce spending on maintaining their units until the quality of the housing has drawn down to the point where it matches the allowed rent. And thus by reducing property values, it reduces property tax revenues. It reduces mobility for renters, causing them to stay in their rent-controlled housing rather than move when a better job or the needs of their family require it. It misallocates the total housing stock by encouraging people to stay in housing that doesn’t match their needs. It encourages rental property owners to convert apartments to condominiums, thereby reducing the rental housing stock. It inevitably leads to a ‘cluster’ of regulations piled on top to try to legislate away all of rent control’s problems. And it doesn’t help the people with the

greatest need, but rather the people most capable of gaming the system.

As he notes, among “economists there is broad consensus that rent control is a bad idea. The consensus is on par with the scientific community on climate change, and the medical community on the safety of vaccinations.”

But many of the problems caused by rent control take years to materialize, while the current renters who benefit do so immediately. As Cochrane notes, an economics paper shows that rent control “confers its benefits early, and extracts its costs late.” So even though the costs of rent control far, far exceed its benefits (even to future renters), cynical politicians can find it “attractive.”

California’s AB 1482 limits rent increases to the lesser of 10 percent (regardless of the inflation rate), [or 5 percent plus inflation](#). Right now, that won’t keep rents from rising somewhat. (Indeed, given the refusal of California officials to allow much more housing to be built, California’s population will continue to outstrip its housing supply, and thus, rents will probably rise at the maximum rate of 5 percent plus inflation in many areas. Just to keep pace with rising population, California needs to [build 180,000](#) housing units per year. But California’s existing zoning regulations make building new housing [virtually impossible](#) in many places. California constructs much [less new housing](#) per capita than other states with growing populations, and builds only about half as many new units per 100 new residents as the average state.)

But in the future, political pressure will likely result in these rent-control limits being tightened so that even smaller increases are prohibited. Rent controls often start off relatively mild only to become more severe over time. Rent control is usually enacted in response to what politicians

deem a “housing shortage,” under the pretext that it is a temporary measure. But even supposedly “temporary” rent control tends to become permanent. In 1943, New York City adopted rent control – the “War Emergency Tenant Protection Act” – and 75 years later, it [still has rent control](#). That’s because rent controls worsen the very “shortage” that was cited as a reason to enact them in the first place. They cause, or perpetuate, the very problem they were enacted to “fix.”

Even milder rent-control laws lessen the incentive to build new units and fully maintain existing buildings. But California’s rent-control legislation [was recently approved](#) by legislative committees in lopsided, party-line votes (12-to-4 and 6-to-1, reflecting Democratic dominance in the state legislature) and it is expected to pass the state Assembly this month.

California’s Assembly is also poised to pass [AB 1481](#), which restricts landlords’ ability to opt out of renewing a lease, by requiring them to either provide a government-approved reason for not renewing it, or to pay off the tenant. A committee [approved it](#) on a 7-to-3 vote and is now expected to pass the entire Assembly this month.

If that bill passes, a landlord may be financially compelled to continue renting to tenants she finds personally disagreeable, even those living in close proximity to her own family. That’s a reason for people to not rent out housing units in the first place, lest they lose their freedom to choose whom they associate with. That will further shrink the amount of rental housing available to tenants.

Hostility towards landlords results in many dwellings being left vacant rather than housing a needy tenant. Would-be landlords won’t rent out, for fear that they can’t get rid of a tenant who turns out to be obnoxious. Such vacancies are widespread in some cities that sharply restrict evictions or

have rent control, like San Francisco. (It has rent control only for older units [built before 1979](#), but landlords fear that rent control will be extended to later-built units, too). As the R Street Institute's Greenhut [notes](#),

In San Francisco, where typical rents are above \$3,000 a month, there are 30,000 [vacant](#) apartments. Who would forego such enticing profits to leave units to languish? Owners who know just-cause evictions and rent control mean they can never get rid of tenants, even bad ones.

As he [observes](#), many small landlords will just stop renting to avoid the hassle of rent control and restrictions on their ability to not renew a lease to disagreeable tenants:

Margins can be small after paying for repairs, mortgage, taxes, insurance, property management, any utilities and government fees. One [roof replacement](#) at \$10,000 can obliterate a year's profit in a flash. Many landlords will sell their properties to single-family buyers and put the money in a mutual fund. It doesn't take many of these decisions to reduce a city's housing supply. That mutual fund never calls at 2 a.m. about a stopped toilet, nor does it trash the living room.

Prospects for future reforms to expand housing availability seem poor in California. The bill to allow more housing construction, SB 50, was shelved even though it had been amended to add compromise provisions designed to protect existing tenants and the historical character of communities. As [Reason Magazine notes](#):

To win over skeptical low-income tenant groups – who fear that upzoning will bring gentrification and displacement – [the bill's sponsor, Senator] Wiener also included strict demolition controls and affordability requirements.

In April, the bill was [amended even more](#) to exempt smaller coastal communities and existing historic preservation districts from the relaxed development regulations.

California legislators have also been unwilling to reform other state policies that drive up the cost of housing. High housing costs mean that many landlords have big mortgages and must charge more rent to break even. As the California Policy Center [notes](#),

“There are obvious reasons the median [home price in California is \\$544,900](#), whereas [in the United States it is only \\$220,100](#). In California, demand exceeds supply. And supply is constrained because of unwarranted environmental laws such as [SB 375](#) that have made it nearly impossible to build housing outside the ‘urban service boundary.’”

These laws have made the value of land inside existing urban areas artificially expensive. Very expensive. Other overreaching environmentalist laws such as [CEQA](#) have made it nearly impossible to build housing anywhere. Then there are the government fees attendant to construction, along with the ubiquitous and lengthy permitting delays caused by myriad, indifferent bureaucracies with overlapping and often conflicting requirements. There is a separate fee and a separate permit seemingly for everything: planning, building, impact, schools, parks, transportation, capital improvement, housing, etc. Government fees per home in California often are well over \$100,000; in the City of Fremont in 2017, [they totaled nearly \\$160,000](#) on the \$850,000 median value of a single family home.

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