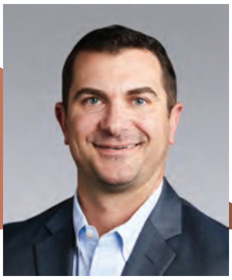
santa barbara rental property association

Santa Barbara Rent Freeze



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Santa Barbara's Newly Adopted Rent Freeze is Reshaping Multifamily Property Values

Santa Barbara's newly adopted rent freeze has not yet taken effect, but its impact is already being felt across the multifamily housing market.

On February 26, 2026, the City's temporary rent freeze will officially take effect as an interim step toward a permanent rent stabilization program expected later this year. While the ordinance has been described as a pause designed to provide policy runway, buyers and lenders are treating it as something more structural: a fundamental change in how rental housing is valued.

The result is not a freeze in activity, but a recalibration of price and perceived value in the marketplace.

From "Future Upside" to Present-Day Income

For decades, Santa Barbara's multifamily market has been driven by long-term local ownership that, by and large, has kept rents below market in exchange for good long-term tenants. Properties with below-market rents are routinely sold at a compressed CAP rate and a market-comparable per-unit basis, based on the expectation that rents could be raised over time as units turn over.

That assumption no longer holds.

Today, buyers are underwriting properties almost entirely on current, in-place income, rather than projected rent growth. The reason is straightforward: with rent increases frozen and long-term rules still undefined, future income is no longer underwritten reliably.

In investment terms, this is known as legislative risk, and it now sits squarely in Santa Barbara's pricing models.

How Math Changes Under a Rent Freeze

The impact becomes clear when looking at a simplified example.

Consider a five-unit apartment building where each one-bed unit rents for $1,500 per month, producing $90,000 in annual gross income. Assuming operating expenses of 40% ($36,000), the property generates $54,000 in net operating income (NOI). At a 5% capitalization rate, the property is valued at approximately $1.08 million.

If those same five units were rented at the current market level of $2,500, on the market, per month, the annual income would rise to $150,000, and expenses are still 40% ($60,000), NOI would now sit at $90,000, and the implied value would increase to $1.8 million at the same 5% cap rate.

In the past, buyers were often willing to pay closer to the higher valuation, anticipating they could grow into the income over time and seeing this as a potential upside and working to move the rent closer to market levels. Under the rent freeze, that upside is no longer immediately accessible, and buyers are declining to pay for future potential upside; they are paying based on the property's current situation.

The difference between those two scenarios is $720,000 in value, not lost through deterioration or declining demand, but through a change in regulatory assumptions. The owner of the $1500/month, in the past, we have seen trade closer to a 4.25-4.5% CAP as buyers see the opportunity to improve the property and, over time, improve rents naturally based on AB 1482. Which would have closed that gap in value between the two properties. In this current environment, with the uncertainty in place and knowledge of rent control coming to the market, Buyers will now pull back on their 'Value Add' component and focus more on the current situation, as it will take much longer to create value at the $1500/month location, and for that reason, buyers will make offers on properties based on the current situation, and less on future upside.

Previously, buyers were willing to 'reach' on pricing for properties with below-market rents and potentially purchase at a 4.5% CAP or better, knowing they could create value through annual increases and, as units naturally turn, raise rents closer to market. Buyers will still be attracted to lower-priced per-unit properties, but the return on investment, or 'CAP rate,' will need to be adjusted now that the value-creation component will take much longer to realize. Buyers will not be willing to 'reach' on pricing as much as we saw over the past few years, i.e., before the rent freeze and rent control environment. Buyers will price properties based on the current situation rather than future potential upside, and for owners and sellers with properties that are well below market rent, this will influence their value in the market.

Operating Costs Continue to Rise

While rental income is frozen, operating expenses are not. Insurance premiums, utilities, labor, and maintenance costs continue to increase, often outpacing inflation.

This results in a margin squeeze that puts additional pressure on property values, especially for older buildings with legacy rents. Even buildings that are still cash-flow positive might experience a decline in net income over time, making valuation more difficult.

A major concern for many of these ownership groups is the age of their properties and the repairs and maintenance on the horizon, which the City is aware of and has noted in its General Plan.

Based on the 'City of Santa Barbara | General Plan (Revised Draft 2023-2031 Housing Element – *6th Cycle, Revised Draft, April 10, 2023*) published by the City of Santa Barbara notes 87% of the housing stock was built before 1990.

> ***'Housing Stock Characteristics***
> ***Housing Conditions***
>
> ***The age and exterior condition of housing is one indicator of overall housing conditions. Approximately 87 percent of the housing stock in the City was built prior to 1990 (Table 9), which can raise housing maintenance issues. Housing units older than 30 years typically need some rehabilitation work to address issues with roofing, siding, and plumbing and electrical systems.'***

Housing Stock Characteristics

HOUSING CONDITIONS

The age and exterior condition of housing is one indicator of overall housing conditions. Approximately 87 percent of the housing stock in the City was built prior to 1990 (Table 9), which can raise housing maintenance issues. Housing units older than 30 years typically need some rehabilitation work to address issues with roofing, siding, and plumbing and electrical systems.

Table 9: Housing Unit Age
City of Santa Barbara vs. Santa Barbara County

YEAR STRUCTURE BUILT	CITY OF SANTA BARBARA		SANTA BARBARA COUNTY	
	ESTIMATE	PERCENT	ESTIMATE	PERCENT
Built 2014 or later	241	0.6%	2,406	1.5%
Built 2010 to 2013	798	2.0%	3,078	2.0%
Built 2000 to 2009	1,682	4.2%	12,308	7.8%
Built 1990 to1999	2,313	5.8%	15,497	9.9%
Built 1980 to 1989	4,189	10.5%	23,414	14.9%
Built 1970 to 1979	5,587	14.0%	29,155	18.6%
Built 1960 to 1969	6,665	16.7%	31,650	20.1%
Built 1950 to 1959	7,319	18.3%	20,148	12.8%
Built 1940 to 1949	2,829	7.1%	6,058	3.9%
Built 1939 or earlier	8,309	20.8%	13,447	8.6%
Total Housing Units	**39,932**	**100%**	**159,317**	**100%**

2015-2019 ACS, Table DP-4 (census data collected for this table has a high margin of error, the estimate for units built 2014 or later in the City of Santa Barbara is lower than actual numbers)

What Other Cities Suggest: Pasadena and Oxnard as Case Studies

Santa Barbara is not the first California city to trigger a re-underwriting moment. While every market is unique with similar fundamentals, Pasadena and Oxnard help illustrate what typically follows: new administrative systems, higher compliance requirements, and buyers placing more weight on current income stability.

Pasadena: A New Rent-Control Regime

In November 2022, Pasadena voters approved Measure H, amending the city charter to create rent control provisions, a rent board structure, and expanded tenant protections.

As implementation progressed, Pasadena built out a formal Rental Registry and administrative apparatus (including the Rent Stabilization Department) to manage program requirements.

Pasadena also illustrates another recurring feature of rent regulation: litigation and rule refinement over time. In late 2025, a California Court of Appeals decision addressed legal challenges to aspects of Pasadena's measure, signaling that, even after passage, details can remain unsettled.

Market takeaway: Once a city creates a rent-control framework, buyers typically underwrite not only rent limits but also the administrative and legal environment that accompanies it, registration systems, rulemaking, enforcement processes, and ongoing changes.

Oxnard: A Clear Cap on Rent Increases

Oxnard provides a different but instructive example: a straightforward rent stabilization program that limits increases for many units to 4% per year, with restrictions on the frequency of increases.

Oxnard also demonstrates how these programs often expand into registries and fees during implementation and enforcement, adding a measurable operating and compliance layer for owners.

Market takeaway: In capped-growth environments, buyers tend to pay closer attention to what's true today (in-place NOI), applying more conservative assumptions to turnover and rent growth — and scrutinizing operating expenses more aggressively — because expense inflation continues even when revenue is constrained.

The “Golden Handcuffs” Effect

One of the most immediate and least intuitive consequences of rent freezes and rent stabilization programs is a sharp decline in tenant mobility. Economists and housing professionals often refer to this phenomenon as the “golden handcuffs” effect.

When tenants secure housing materially below current market levels, that rent advantage begins to function like an asset. Even if a unit no longer fits a tenant's needs, moving becomes financially irrational once replacement housing would require a substantial increase in monthly cost.

For example, a tenant paying $1,800 per month in a regulated unit may face market rents of $2,800 or more for a comparable apartment. That $1,000 monthly gap translates to a $12,000 annual increase, enough to discourage relocation absent a significant life event. As a result, tenants stay longer, turnover slows, and units stop circulating through the market.

Effective Supply Shrinks — Even If Unit Counts Don't

While the number of housing units does not change overnight, the adequate supply (the number of units that become available each year) declines meaningfully. In an open market, natural tenant turnover regularly returns units to circulation, whereas under rent restrictions, churn diminishes.

The result is a housing supply desert for renters. Fewer listings appear, competition intensifies, and wait times increase, even though the city's total housing stock remains unchanged on paper.

This dynamic often produces a two-tier market:

- Regulated or frozen units, where rents remain constrained, and tenants stay put.
- Unregulated or exempt units, where demand concentrates, and rents can rise more quickly due to scarcity.

Paradoxically, policies designed to stabilize rents in one segment can increase pressure and volatility in the segment that remains flexible.

Why Turnover Matters to Value

For property owners and investors, turnover is more than a leasing event; it has historically been the primary mechanism for adjusting rents to market and creating value, particularly in older assets.

When tenant mobility declines:

- Buyers assume slower or nonexistent rent resets.
- “Value-add” strategies become harder to execute.
- Properties are underwritten more like bond-style investments, valued primarily on current net operating income rather than future growth.

These outcomes are not unique to Santa Barbara; they have appeared in varying forms in other regulated markets. What changes from city to city is the degree, not the direction, of the effect.

How This Shows Up in Today's Market

In practical terms, the concept of golden handcuffs is already influencing underwritten conversations. Buyers are increasingly focused on tenant tenure, rent-to-market gaps (loss-to-lease), and realistic turnover assumptions under evolving regulations.

As rent policies shift from temporary measures to permanent frameworks, tenant behavior becomes a structural component of valuation rather than a short-term anomaly.

Understanding how these dynamics work is essential for both owners and policymakers, because housing availability is shaped not only by the number of units but also by how freely they move through the market.

What the Ordinance Does and Doesn't Do

The rent freeze takes effect February 26, 2026, and will remain in place until December 31, 2026, or until a permanent rent stabilization ordinance is adopted.

However, the City has established December 16, 2025, as a reference date. Rent increases implemented after that date may be credited against future allowable increases once a permanent program is in place.

The city has also amended its Just Cause Eviction Ordinance. Under the updated rules, owners seeking to withdraw units from the rental market under the Ellis Act must withdraw all units on the property at once. They may not re-rent the property for five years. We expect to see the draft ordinance towards the end of June or early July.

A Market Still Functioning, Differently

Importantly, buyers have not left the Santa Barbara market. Capital remains active, but it is more selective and disciplined. Properties with rents already at or near market levels are proving more resilient, while those with significant rent gaps are seeing sharper pricing adjustments.

In effect, the market is shifting from a growth-driven model to one centered on income certainty.

Whether the rent freeze proves temporary or becomes the foundation for a permanent regulatory framework, its influence on valuation is already established. For owners, understanding how properties are priced today, not how they were priced last year, will be critical to navigating the months ahead and long-term ownership in the City of Santa Barbara.