

## CITY COUNCIL TALKING POINTS

### ***What should you say?***

FACTS haven't mattered much in the past with City Council. This will be an EMOTIONAL decision by City Council. So -- Share your personal story. In addition, you can use these main points.

### **RENT CAP LEADS TO DILAPITATED PROPERTY & DESTROYS NEIGHBORHOODS**

- 2% DOESN'T EVEN COVER THE COST OF INFLATION \*(See costs below)  
Give example of what you pay and increasing costs. If willing, share what % of rent payment is actual profit for you.
- BECAUSE PRICE OF EVERYTHING IS GOING UP, MAINTENANCE IS ONLY EXPENSE I CAN CUT BACK ON. HOW CAN I KEEP MY PLACE CLEAN & HABITABLE IF I DON'T RAISE RENTS?

### **WE ARE TRYING TO BE GOOD NEIGHBORS**

- I have great tenants, and rarely raised rents in the past. Now? Because of all this uncertainty and fear about what City Council will do next, I am now increasing my rents.
- We were below market before this all started.
- I raised rents only x% in past X years.
- I am so frustrated! I have always tried to do the right thing for my renters. I am always trying to help out my renters, but all you do is impose increased legislation and reporting on me. I have suffered enough during the Pandemic, trying to help your tenants, and now City Council is bringing up rent control again?
- Councilmembers ask us to take emergency housing vouchers for the homeless and others, but why should we do that when they are being so punitive to us? Do Council member realize how difficult it is for owners to get mortgage funding if we accept Section 8?

### **RENT REGISTRY IS HUGE EXPENSE**

Another expense that will be added on to the cost of every unit of housing in SB.

### ***EXAMPLES OF INCREASING COSTS:***

*In 2020, the cost of electricity for some of our multi-unit owners went up 33.58%. In 2021, another 39.38%. This is before rate hike effective October 1 of \$0.02/kWh announced by Edison and the launch of California Public Utilities Commission that is also estimated to increase rates. The cost of gas went up 33.94% in 2020. In 2021, they increased another 34.20%. We saw water and sewer bills go up on average 25.28% in 2020, and again, another 25% in 2021 and expect drought surcharges in 2022.*

*The trash went up 12% in 2020 and the City authorized another 5% increase for 2021.*

*Meanwhile, the City talks about wanting to keep our neighborhoods beautiful, yet authorizes big utility companies massive increases while landlords are already capped under law on their rental rate increases.*

*To the mom and pops that could afford to do revitalize their buildings while crippled with capped revenue, they will displace the very people they are intending to help leaving little affordable inventory in our city by doing substantial renovations in their units or simply forego improvements and let units scrape by to meet habitability standards.*

*To those that cannot, they will sell to eager wealthy developers ready to take advantage of the new zoning laws, which will also require displacement of many hardworking locals.*

### **RENT CAPS REDUCE SUPPLY**

Rent caps have time and again shown to be ineffective at addressing housing affordability challenges. Instead, rent caps **reduce supply** of rental properties. This increases demand for available units, resulting in higher prices for available rental properties.

Local owners, concerned over the cap, sell their properties or convert rent properties to owner-occupied condos. Investors look to other areas to develop housing under more reasonable regulatory environments. All these issues culminate in substantially less rental housing properties, thereby increasing costs for Santa Barbara's working families who rent.

### **RENT CAPS REDUCE HABITABILITY**

Property owners cannot cover costs for repairs or routine maintenance, **reducing** the quality and **habitability** of housing.

### **RENT CAPS BENEFIT THE RICH**

Rent caps benefit the wealthy at least as much as the poor. Rent caps are not programs means-tested, with eligibility criteria including limits on income and total assets. The first in-depth analysis of who benefits most from rent control comes from a study completed 3 months ago by two University of Potsdam economists. Their analysis of micro-data in their detailed statistical analysis corroborates the anecdotal information from California cities like Santa Monica that have enacted rent control:

- 1) Rent control benefits high-income tenants more than low-income.
- 2) Rent control leads to gentrification.

*Rainhold Borck and Niklas Gohl, "Gentrification and Affordable Housing Policies," CESifo Working Paper No. 9454, November 29, 2021. [https://www.cesifo.org/DocDL/cesifo1\\_wp9454.pdf](https://www.cesifo.org/DocDL/cesifo1_wp9454.pdf):*

*"Recent experimentation with rent control in Germany (where municipal limits were enacted and then struck down by courts), coupled with detailed micro-data on the rental marketplace, provides a basis for examining the impact of rent control on different households.*

The paper offers two key findings: first, that the benefits of rent control flow disproportionately to higher income households, and that second that rent control tends to increase the level of income segregation in the city.

While rent control policies are usually promoted as a way to help low-income households, rent controls typically apply to *all* of the rental housing in a subject jurisdiction, regardless of the rent level of the apartment or the income level of the household. Many of the benefits of rent control are captured by higher income households. In effect, rent control can dissuade higher income households from moving out of their rent-controlled apartments to new market rate housing. This, in turn, means fewer apartments are vacated and become available to other households.

As we've noted, the moving chains generated by new housing development are a key way in which existing housing filters to moderate and lower income households. If high income households remain in their rent controlled apartments, this source of new supply doesn't materialize.

The second key finding looks at the whether income segregation increases or decreases under rent control. One argument frequently made for rent control is that it enables low or moderate income households to remain in neighborhoods that would otherwise gentrify, increasing income integration. But this paper suggests that the opposite happens, as high income households remain or increase in central neighborhoods.

We find that rent control leads to an increase in segregation: compared to the baseline, the city-wide dissimilarity index rises from 0.2323 to 0.2606. When looking at the ZIP code specific change in concentration, we find that the increase in concentration is particularly driven by an increase in the concentration of high income households in the regulated central city ZIP codes . . . This finding stands in contrast to popular arguments which view rent control as a measure to preserve a relatively even income mix in central cities.:

#### **MUNICIPAL FUNDS BETTER USED TO HELP TENANTS BY CITY FUNDING TO COMPLY WITH NEW “HABITABILITY INSPECTION” STATE LAW, AB 838, THAT GOES INTO EFFECT JULY 1**

Emphasis State new unfunded mandate AB838 requires municipalities to investigate habitability complaints as of July 1. City funds not available. Municipalities’ limited funds are better allocated to protect tenants and comply with new California law, by spending to investigate habitability complaints than running a rent cap program. (Cite examples from City Attorney Ariel Calonnes’s study of prohibitive costs of rent cap program, ESP SANTA MONICA, which Ariel cited as most comparable to SB. Attached.)

**Table 5**

City	Population	Rental Stock	FY2017 Budget	Full-time Employees
Santa Monica	92,000	27,542	\$5,181,693	25
Berkeley	121,000	19,093	\$5,243,029	22
Richmond	108,565	10,469	\$2,425,355	7

(Source: Management Partners, 2017)<sup>95</sup>

*Could the City provide a plan and cost estimate for the City to comply with 838?* A cost estimate that is separate from the City attorney's estimate of the cost of the total rent cap program? That way if the rent cap program is voted down, the City could still approve a plan to create a new tenant complaint inspection program to solve habitability complaints -- and comply with the State's new AB838 mandate.

The City already has a program in place to handle tenant complaints. It's the City's existing Rental Housing Mediation Program (RHMP). But nobody seems to know about it. CAUSE and Tenants' Union never mention it to tenants. Perhaps it's because they want the complaints to go to them instead? Or they don't want the City to have accurate records of actual tenant complaints maintained by RHMP? This allows CAUSE to claim "mass evictions" and tenant complaints with no factual basis.

- RHMP does a great job on very little money
- It has bi-lingual staff and an attorney.
- City spent less than \$300,000 last year on RHMP.
- RMP handled over 1,100 complaints and had an almost 100% success rate in resolving complaints.
- Can we get out information to let tenants know about RHMP? Also, perhaps put link on City's website for tenant complaints? Also, get RHMP to show up in google searches by tenants. For example, when a tenant searches "*tenant complaint in Santa Barbara*", a link to the RHMP program shows up?
- Can the City give RHMP more money to hire additional staff? Especially with 838 going into effect July 1 of this year, we need someone that all tenants can take complaints to. Maybe a "Tenant Complaint Advisor" at RHMP? Then if for some reason, RHMP can't solve a tenant's complaint it could be forwarded to the City's Inspection Dept.

Providing additional funding to expand an existing successful tenant complaint program (the RHMP) is much more cost-effective and prudent use of City's funds than having tenant complaints go directly to the Inspection Dept. or City Attorney.

- o Whoever does the "intake" of a tenant complaint will initially spend hours and hours listening to the tenant, then write up the complaint, followed by an enormous amount of time documenting the accuracy of the complaint.
- o RHMP has the staff and experience to perform the initial "intake".
- o Next, RHMO can offer to bring in the landlord for mediation as the first alternative to solve the complaint -- instead of the tenant initially proceeding with filing a complaint with the City's inspection dept., who must immediately use their limited resources to immediately investigate.
- o Currently, RHMP has almost 100% success rate in reaching a solution on tenant complaints. Thus, it could be very effective in reducing the number of complaints that would be forwarded to the City's Inspection Dept.

## **RENT CAPS LEAD TO SIGNIFICANT REDUCTION IN PROPERTY TAX REVENUE**

Impact on City's property tax revenue. I asked our national headquarters (NAA) VP of Research to use her computer modeling software to run the impact on the City of a 2% rent cap. They calculate a \$763k loss of property tax revenue/year.

### **RENT CAPS BENEFIT ONLY EXISTING TENANTS**

Rent caps lead to tenants staying in place, making it harder for employers to recruit new employees to the region as there are no rental housing available.

### **RENTAL ASSISTANCE PROGRAMS ARE BEST WAY TO PROVIDE HOUSING ASSISTANCE**

Rental assistance programs are the most effective way to reduce homelessness and evictions. Instead of a rent cap, cities should consider innovative new rental assistance programs to assist the 80-120% AMI that are not helped by traditional Section 8 voucher programs.

“The Stanford Study, (2019) points out that **rental assistance is a better solution** to housing insecurity because it lowers the likelihood that tenants’ default in the first place as opposed to making it harder to evict tenants who have already defaulted. Rental assistance reduces evictions and homelessness and improves welfare, despite its monetary costs. Research conducted on data for the City of San Diego concluded that the cost that homelessness imposes on the city is so high that rental assistance more than pays for itself. In other words, the study concluded “the savings in terms of expenditure on homelessness outweigh the cost of subsidizing rent.” The study further points out that “rental assistance lowers the likelihood that tenants’ default on rent and face eviction, and it prevents poor households from becoming homeless by subsidizing their rent.”

High rents as % of income is not unique to SB, this is normal in 45% of the US because of inadequate housing supply.

Of the nearly 44.1 million renter households in 2019, more than 45% paid rent equal to 30% or more of their gross household income (30% being a [common rule of thumb](#) for how much of a person’s gross income should be spent on housing). PEW RESEARCH

### **EMPIRICAL STUDIES WITH FACTS SUPPORTING THESE POINTS**

There are many examples that illustrate these issues

**San Francisco:** From 1979 to 1994, San Francisco imposed rent control on all standing buildings with five or more apartments. Rent control in San Francisco consisted of regulated rent increases, linked to the CPI, within a tenancy. Results from the cap include:

- 25 percentage point reduction in the number of renters living in rent-controlled units, relative to 1994 levels
- Landlords treated by rent control reduced rental housing supplies by 15% by selling to owner-occupants and redeveloping buildings
- With the redevelopment of higher-end, owner-occupied condos and new construction rentals, San Francisco attracted residents with at least 18% higher income (Citation: Diamond, McQuade, and Qian, 2018, DMQ San Francisco)

**St. Paul, Minnesota:**

- In 2021, St. Paul, Minnesota enacted a 3% rent cap that caused developers to put major projects on hold, “putting hundreds of new housing units at risk” [as reported by the Minnesota Star Tribune](#).
- Minneapolis-based Ryan Cos. “paused major St. Paul projects that are jeopardizing hundreds of new affordable house units, as reported by the [Star Tribune](#).”

**Boston, Massachusetts:** A study examined Boston data from the American Housing Survey years 1985–1998 to determine how rent control affected the quantity, price and quality of rental housing. [Rent control ended suddenly in 1995]

- The study found that towns in the Boston metropolitan area in which rent control was abolished saw increases in rental supply and increased housing maintenance.
- The study also found that chronic maintenance problems— such as holes in walls or floors, chipped or peeling paint and loose railings—were more prevalent in controlled than in non-controlled units during the rent control era and that this differential fell substantially with rent control’s elimination (Citation: Sims, David P, 2007, Out of Control: What Can We Learn from the End of Massachusetts Rent Control? Journal of Urban Economics, Boston, Massachusetts)

Below is brief impact analysis done by NAA for me that summarizes some of the adverse unintended consequences.

# Impacts of Rent Control in Santa Barbara



**All of these impacts make Santa Barbara a less desirable place to do business for apartment property investors, developers, owners and operators.**

**California apartments and their residents contribute \$499.1 billion to the state economy every year and support 2.1 million jobs.**

## Sources

1. NAA model based on "Modeling the Impact of Rent Growth Caps on Metropolitan Apartment Markets" Capital Policy Analytics for the National Apartment Association, April 2019. Sources in the aforementioned report include Lincoln Institute of Land Policy "50-State Property Tax Comparison Study for Taxes Paid"
2. CoStar
3. [www.apartments.org](http://www.apartments.org)

## Notes

- Impact model results for estimated rent reduction based on CoStar Metropolitan Statistical Area median rent data for 5+ unit apartment buildings and CoStar submarket data for multifamily apartment buildings.
- Estimated decrease in maintenance spending based on CoStar data on the number of apartment units in buildings with 50 or more units and average 2-year maintenance spending per unit in the 15 largest metropolitan areas from the NAA Income and Expenses Survey 2020 & 2021.
- Estimated property value decreases utilize the rate of return on a 30-year Treasury Bill.
- Property tax loss estimates based on apartment property tax rates for each city reported in the Lincoln Institute of Land Policy "50-State Property Tax Comparison Study for Taxes Paid in 2020" Appendix Table S1. An average of the reported property tax rate of 7 California cities included in the study was used as proxy for Santa Barbara property tax rate. The estimates of revenue loss reflect assessed value fully following market value changes.
- All source, impact and forecast data cover the Santa Barbara Metropolitan Statistical Area with the exception of property tax impacts.

Produced by NAA Research

For more information on impact model methodology and assumptions, please contact Paula Munger @ [pmunger@naa.org](mailto:pmunger@naa.org).