

# Opinion: Rent Control Fallout

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By Michael Shields

San Jose's apartment building owners are smart and hard working, but few are wealthy. They are simply people who have saved enough money to buy an investment property they hope will generate income and appreciate, as any investment might. Most take pride in their buildings and want to offer clean and well maintained rental units.

Unfortunately, the San Jose City Council's new Apartment Rent Ordinance (ARO) is about to cause a financial earthquake that could ruin this dream.

Under the newly revised ARO, effective June 17, owners of multifamily properties built before 1979 may now only increase rents up to 5 percent annually (instead of the previous 8 percent) and they have lost the opportunity to pass through and recapture any capital improvement costs—things like apartment renovations, exterior upgrades and roofing—items that keep buildings attractive.

This has apartment property owners across San Jose asking a big question: Now What? Sadly, I can tell you.

The new ARO will place added burdens on property owners and ultimately fail to reach its desired objective. Here's how that scenario will play out. The city implements more stringent rent control regulations and owners quickly see a squeeze on income. As maintenance issues arise, cash-strapped landlords will be unable to improve their properties, though they may want to. Buildings then sink into disrepair, and we witness firsthand the dissolving curb appeal of rent controlled apartment communities across our city—consisting of 44,000 apartments in San Jose, housing about 11 percent of our population.

I applaud the City for wanting to provide financial relief to low-income renters struggling with the high cost of living. But putting the burden of affordable housing on small apartment property owners is a shortsighted strategy that is wrought with far-reaching consequences. Even the U.S. Department of Housing and Urban Development, according to an article by Peter Salins published in the City Journal (<http://www.city-journal.org/html/rent-control%E2%80%99s-last-gasp-11951.html>) has concluded that “The benefits of rent control, from the tenant’s standpoint, are likely to decline steadily over time, as the quality of units deteriorate.”

In the above all-too-likely scenario, owners are left with limited options. They can maintain the downtrodden status quo, losing income and value along the way as they deal with an overreaching Housing Department, or they can exchange their property and reinvest in a market not hindered by rent control such as Sunnyvale, Campbell or Santa Clara. As more owners sell (to fewer interested investors), property values will drop, in turn generating lower income from the city transfer tax. This leads to yet another frustrating end result: Reduced revenue to already ailing city coffers.

This off-kilter system is not only considerably more expensive for San Jose to manage, it is also unattractive to investors in the private sector. Indeed, many are already telling me, “anywhere but San Jose.” Unfortunately, the new ARO is in place despite the warnings from a city-appointed advisory council, the California Apartment Association and hundreds of building owners.

Of course, proponents of rent control say that it protects low-income residents. But, in truth, renters lucky enough to live in a cost controlled unit cling to their low rents, even

after they are financially able to move on to a higher rent base. This reduces the availability of affordable units for those who truly need them.

Rent control opponents generally agree that a realistic solution involves a return to fundamentals of economic stimulation: Government programs that provide financial assistance to low-income renters, and financial incentives (including tax credits) that support the construction of affordable housing units, thereby expanding inventory rather than narrowing it.

And the fallout? A number of owners are actively taking steps to avoid this impending disaster by planning their exit—while the market is still strong. Those that chose to “wait and see” may fall victim to this man-made disaster known as rent control.