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To: Supervisor Sheila Kuehl, Chair
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Janice Hahn
Supervisor Kathryn Barger

From: Sachi A. Hamai
Chief Executive Officer

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MOTION TO SUPPORT PROPOSITION 10, WHICH WOULD REPEAL THE COSTA HAWKINS RENTAL HOUSING ACT (ITEM NO. 3, AGENDA OF OCTOBER 2, 2018)

Item No. 3 on the October 2, 2018 agenda is a motion by Supervisors Kuehl and Solis recommending that the Board of Supervisors support Proposition 10, which is on the November 6, 2018 State General Election ballot, and would expand local governments' authority to enact rent control on residential property.

Approval of this motion is a matter of Board policy determination.

Background

Current law authorizes the legislative body of any local government to adopt ordinances regulating zoning within its jurisdiction. Such ordinances may regulate the following: the use of buildings, structures, and land; signs and billboards; location, height, and size of buildings and structures; size and use of lots, yards, courts, and other open spaces; intensity of land use; off-street parking; setbacks; and creation of civic districts.

Several cities in California, including Los Angeles, San Francisco, and San Jose, have rent control laws that limit how much landlords can increase rent for housing from one year to the next. The courts have ruled that rent control laws must allow landlords to receive a fair rate of return on their property, thereby allowing landlords to increase rents enough to receive some profit each year.

The Costa-Hawkins Rental Housing Act (Chapter 331, Statutes of 1995) places limitations on locally enacted rent control laws. Specifically, Costa-Hawkins allows residential property owners to charge market-rate rent upon vacancy of existing rent stabilized units (vacancy

decontrol), permanently decontrolled single-family rental housing and housing first occupied on or after February 1, 1995, and prohibits new construction from being subject to rent control.

Proposition 10 – Expand Local Governments’ Authority to Enact Rent Control

If approved by the voters, Proposition 10 would: 1) repeal state law that currently restricts the scope of rent control policies that local governments may impose; and 2) allow local governments to implement policies that would limit the rental rates that residential property owners may charge for new tenants, new construction, and single-family homes.

If approved by the voters, this measure would become effective on November 7, 2018.

The Legislative Analyst’s Office (LAO) indicates that renters in California typically pay 50 percent more for housing than renters in other states, and that the cost of rent is high because the state does not have enough housing for the population that wants to live in California.

The LAO reports that expanding rent control laws could lead to several economic effects including: 1) some landlords may sell their rental property to new owners to avoid rent regulation; 2) some rental properties may lose value because potential landlords would not want to pay as much for these properties; 3) some renters would spend less on rent and their landlords would receive less rental income; and 4) some renters would move less often. The LAO indicates that these effects would depend on how many local governments pass new rent control laws, and that if many localities enact strong rent control, other economic effects (such as impacts on housing construction) could occur.

The LAO also reports that Proposition 10 economic effects would affect property tax, sales tax, and income tax revenues. Specifically, if the measure passes and local governments enact rent control laws, the largest impacts could be: 1) less property taxes paid by landlords due to a decline in value of rental properties; 2) more sales taxes paid by renters who would use some of the money they save on rent to buy taxable goods; and 3) changes in income taxes paid by landlords who receive less rental income (decreasing their income tax payments) or who reduce expenses they can claim to lower their income tax payments (such as mortgage interest, property taxes, and depreciation).

The LAO notes that, overall, passage of Proposition 10 would likely reduce state and local revenues in the long term, with the largest impact on property taxes. The amount of revenue loss would depend on how many local governments enact rent control laws and the strength of those laws. The LAO estimates revenue losses could range between tens of millions of dollars per year to hundreds of millions of dollars per year.

Proposition 10 is supported by: California Alliance for Retired Americans; California Democratic Party; California Nurses Association; California Teachers Association; the cities of Berkeley, Beverly Hills, Santa Monica, and West Hollywood; City of Berkeley Rent

Stabilization Board; Coalition for Affordable Housing; East Los Angeles Community Corporation; Eviction Defense Network; Los Angeles Mayor Eric Garcetti; Los Angeles Times; Sacramento Bee; SEIU California; Southern California Association of Non-profit Housing (SCANPH); Southern Christian Leadership Conference of Southern California; Trust South L.A.; and Venice Community Housing Corporation, among others.

Proposition 10 is opposed by: American G.I. Forum; BRIDGE Housing; California Apartment Association; California Building Industry Association; California Business Roundtable; California Chamber of Commerce; California Housing Consortium; California Rental Housing Association; California Republican Party; California Small Business Association; California Senior Advocates; Central City Association; Lennar Homes of California; Los Angeles Area Chamber of Commerce; Los Angeles Business Council; Los Angeles County Business Federation (LA Biz-Fed); Long Beach Area Chamber of Commerce; No on Prop 10; State Building and Construction Trades Council of California; Valley Industry and Commerce Association (VICA); Westside Council of Chambers of Commerce; and Women Veterans Alliance, among others.

County Impact

The Chief Executive Office – Affordable Housing Branch (CEO-AH) reports that in the County's unincorporated areas, approximately 55 percent (or 65,186) of all renter-occupied units in 2016 were single family homes and exempt by Costa Hawkins. With a potential repeal of Costa Hawkins, both single family rental units and multi-family units built in 1995 or after (another 3,5000 to 4,000 units) may be subject to local rent stabilization regulation. The CEO-AH indicates that, if enacted, Proposition 10 could potentially permit rent stabilization for all 119,000 rental units in unincorporated Los Angeles County.

Conclusion

Approval of this motion is a matter of Board policy determination.

SAH:JJ:OR
AO:sy

c: Executive Office, Board of Supervisors
County Counsel