

## Sacramento Apartment Market

### Rent Control: Not a Solution to California's Housing Shortage

**On July 28<sup>th</sup>, activists supporting local rent control organized and spoke to the Sacramento City Council.** The crux of their argument is the diminishing supply of affordable housing (subsidized and conventional market rate apartments) in the local community.

The demand for rental housing is evidenced by several sources. Local and national news agencies cite Sacramento's rental market leading the nation in year-over-year average rent increase at 9.9%. *Rosen Consulting* reports Sacramento's single family home prices appreciating 10.2% in 2016 and forecasted to increase an additional 4.2% in 2017. These trends have led to a 5.1% decline in the number of Sacramento households now able to afford a median priced home (46.5%).

California is experiencing this phenomenon as well; Per the Sacramento Bee, a report released by California housing officials indicate the State is in an unprecedented housing crisis where nearly half of the population rent and 84% of them are considered "burdened", spending 30% to 50% or more of annual income on rent.

#### **Rent Control vs. New Construction**

Democratic Assemblyman Richard Bloom introduced AB 1506 this February, 2017 to repeal the state law known as the Costa-Hawkins Rental Housing Act. This law, passed in 1995, limits the type of housing under rent control (single family homes, duplexes, condominiums and housing built after 1995 are exempt) and prevents cities that adopted rent control prior to '95 from strengthening their ordinances. Repeal would allow local governments to strengthen or adopt new rent control laws.

The California Apartment Association (CAA) and the California Association of Realtors (CAR) are lobbying against rent control measures. Tom Bannon, CEO of the California Apartment Association, states, "Our major concern if Costa-Hawkins is repealed is local

governments will impose rent control on newer apartments, and that would then have a chilling effect on the construction of new housing. Apartment builders have to look long-term to make sure their costs pencil out, so it would be a disincentive for investors who want to bring housing to California." The CAA spent roughly \$1.5 million last year on anti-rent control campaigns in California.

On the local front; Jim Lofgren, Executive Director of the Sacramento Rental Housing Association oppose rent control saying it would lead to an "economic disaster" that could curtail much-needed construction. Mayor Darrell Steinberg is also a skeptic of rent control saying he's worried about the "unintended consequences" and that the city should focus more on finding money for affordable housing.

Supply and demand factors typically seek equilibrium. Other than Sacramento's downtown/midtown markets, rents in suburban areas have not increased enough to compensate developers for the cost to construct. Thus, demand continues to out-pace supply. Rather than focus on rent control, perhaps our municipalities should look at the costs they impose on new construction in the form of permits, fees and their processing time. CoStar reports Sacramento area developers pay \$40,000 to \$50,000 per unit in these costs. Addressing these costs and reducing the timeline for approvals and the permitting of new construction would facilitate supply.

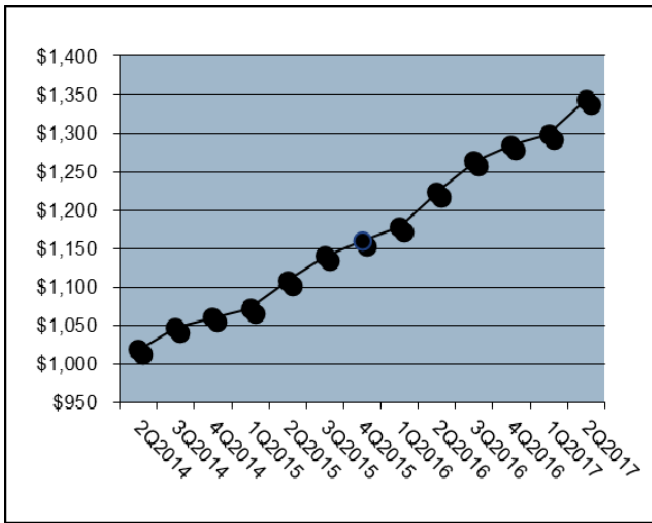
Owners and investors in California apartments need to be vocal and financially support lobbying organizations such as the Sacramento Rental Housing Association (916) 920-1120 and the California Apartment Association (916) 447-7881. With the Democrats holding a super-majority, we need all of the advocacy we can get.

~John Gallagher

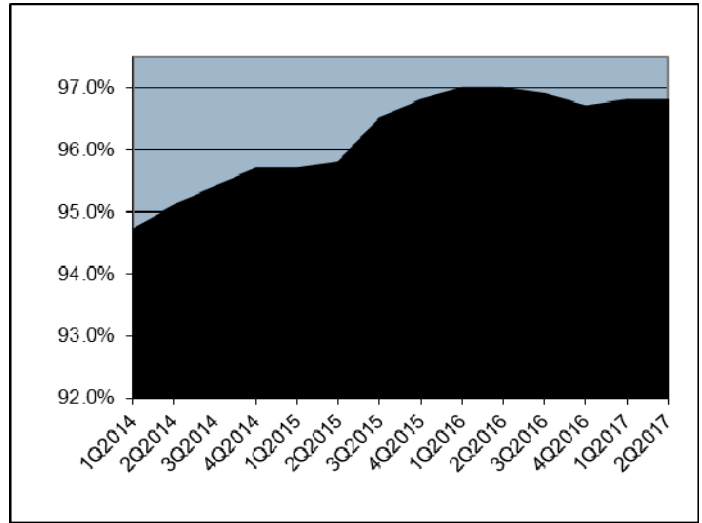


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### Greater Sacramento Rents\*



### Greater Sacramento Occupancy\*

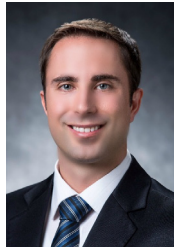


\* Rents & Occupancy data is obtained through Yardi Matrix.

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*If you would like to be added to our email database to receive our Available Apartment Report every month, please send me an email.*

Sources may include: CoStar, Rosen Consulting Group, Yardi Matrix, REBusinessOnline, Sacramento Business Journal, TheStreet.com

