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UNIVERSITY OF CALIFORNIA ELECTIONS WILL PROPOSITION 10 HELP THE HOUSING CRISIS?

Proposition 10, the Rent Initiative which will appear on the June California ballot, is an attempt by some groups in the building industry to exploit voters' concerns about the inadequate supply of rental housing in many parts of the state. Supporters suggest that the Proposition could improve the rental housing situation while maintaining reasonable rents and local control of housing ordinances. This constitutional amendment will further none of these objectives. The actual proposals of Proposition 10 and their likely impact are discussed below.

What Prop. 10 Proposes

The major legal changes that Proposition 10 would institute are all restrictions on the flexibility of local communities to formulate rent control ordinances. First, the amendment requires all present rent control measures to expire at the next local elections. After that time, communities that wish to regulate the local rental housing market could only do so by placing a measure before the voters in an election. This procedure is considerably more costly and time consuming than the current alternative, allowing local elected officials to act on measures.

Second, landlords would be allowed to raise rents at an annual rate equal to the current rate of increase of the U.S. Consumer Price Index. Landlords may increase rents above this level to pay for improvements or for changes necessary to meet the housing code. Since a large fraction of landlords' costs do not increase at the rate of inflation, this provision would allow landlords in highly developed and desirable areas to have a constantly increasing rate of return on their investment.

Third, the types of units controlled by local ordinances are limited by Proposition 10. Newly constructed units are exempt from rent control. Furthermore, rent increases on recently vacated units are unrestricted. This provision would make rent control ordinances in markets with high renter turnover virtually ineffective.

The Economics of Prop. 10

Tight controls on the power of local rent control ordinances might be sensible if California communities had irresponsibly enacted measures that interfered with well functioning housing markets. In that case, setting rents below the rate that the market would bear would discourage potential investors from building new housing units and encourage current landlords to allow their properties to decay until their rents gave them a fair return on the value of their capital.

Unfortunately for this argument, many local rent control measures were enacted in response to local housing shortages. Community preferences for certain types of buildings, reflected in zoning restrictions, plus limited available land in many communities and the high costs of building materials and financing, had severely cut back apartment building well before current rent control ordinances became effective. These community ordinances are instead a reflection of the limited supply of rental units relative to demand. When it is impossible or unprofitable for builders and potential landlords to add to the housing stock,

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the current landlords may take advantage of their situation by charging rents well in excess of costs plus a fair rate of return. Rent control in this case simply prevents unscrupulous landlords from profiting from their advantageous position relative to tenants. If rent control is removed in these communities, the result will not be more building, or more jobs in construction, or more satisfied renters. Instead it will be no building, no jobs, higher rents and rent gouging.

Conclusion

Some housing economists have estimated that the rental housing crisis in California may be over by the end of the 1980s. Because Proposition 10 does not alleviate the central causes of the rental housing shortage in California, it will not accelerate needed adjustment. Instead Proposition 10 will accelerate rents and, following the trend of other recent initiative measures, take one more local issue out of the control of local residents.

- Anthony Rodrigues

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