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California's New Rent Control Law May Have Limited Effect on Apartment Investors, Executives Say

Strong Financial Performance in Golden State Offsets Concerns on Rent Caps, Eviction Restrictions



Tenant protection groups rallied to support California's new rent-control law. (Michael Fleshman/Flickr)

California's new rent cap and eviction protection law may have a limited effect on the Golden State's surging apartment market following some uncertainty and disruption for investors, according to sales brokers and rental housing industry executives.

The legislation [signed last week by Gov. Gavin Newsom](#) is one of the nation's strongest tenant protection laws, capping annual rent increases at 5% plus inflation and restricting a landlord's ability to evict a tenant.

Rent control critics have argued it can have a cooling effect on apartment sales as investors wait on the sidelines to see how the legislation will affect property income and pricing, or as they look for opportunities and higher yields in other states where their income potential isn't limited. But early results from Oregon, which enacted a 7% statewide cap on rents this year, show that apartment investment activity actually increased within six months after the law took effect.

In California, which is watched closely because it's the nation's most-populous state, the new rent control law similarly isn't anticipated to have a major effect on most apartment sales or investment activity, said John Chang, vice president of research for Marcus & Millichap, a national brokerage focused on investment sales of apartments, retail and other commercial properties priced at \$50 million or less. He and other industry executives spoke at a recent Marcus & Millichap forum on the issue.

Total statewide multifamily investment [declined by 38%](#) three months after the enactment of Oregon's rent cap compared to 12 months prior, but activity had actually gone up 2% by the end of August over the prior year, six months after the 7% cap in Oregon took effect, [according to a recent CoStar analysis](#).

Despite increasing local and statewide regulations, and though fewer properties have traded hands, investors retain strong interest in Oregon and [Portland's multifamily market](#). Investment in Oregon assets constructed within the past 15 years that are not yet subject to the rent cap increased 50%, according to CoStar.

Over the next five years, CoStar projects seven California markets to be among the 20 U.S. markets logging the strongest rent growth, albeit at lower levels than the previous few years, including all parts of the San Francisco Bay Area, the Inland Empire, San Diego and Orange County, said John Affleck, CoStar's vice president of market analytics, [during CoStar's recent third-quarter State of the U.S. Apartment Market presentation](#).

In a state where rents increased 5% to 7% annually over the past few years, apartment buyers and sellers may have a harder time agreeing on prices, especially for older properties requiring remodeling or updating, as owners learn about the law and gauge its financial impact, Chang said during a Marcus & Millichap webinar on the new measure.

"This is not the end of the world for apartments in California," Chang said. "There are still plenty of opportunities, and once investors get familiar with the rules, it will be back to business as usual."

Even if investors wanted to look at other markets, there are fewer areas of opportunity than there were last year.

Oregon passed statewide rent control this year and New York strengthened its restrictions in New York City and opened an opportunity for other cities to apply the caps. At least 14 states plus the District of Columbia representing more than half the nation's total rental housing stock have significantly expanded rent control since 2017, said Jim Lapidés, spokesman for the National Multifamily Housing Council, an apartment advocacy group.

"Unfortunately this is an issue we'll see across the country for the foreseeable future," Lapidés said. "This is a national movement."

Members of the panel, which also included Damon Conklin, director of government affairs for the Federation of California Builders Exchanges, a construction industry group, agreed the law probably won't affect record high apartment property values and occupancy in California, or cause investors to move large volumes of capital to other states because of the state's strong economy and strong population of well-heeled renters.

"I don't think investors are thinking they've got to get out of the California market," added John Sebree, Marcus & Millichap's national multifamily director. "The ability to operate in this climate is not that bad. It will create some uncertainty in the short term, but it should snap back quickly as buyers and sellers learn more about the law."

He said his company has represented property owners in rent-controlled market for years and "transactions will still take place and investors will continue to make money," Sebree said.