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Insights

Orange County Rent Stabilization Measure | October Update

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Orange County's "rent stabilization" measure is now officially on the November ballot. The exact language on which Orange County voters will vote (and are in fact already voting if they opted to get a vote-by-mail ballot) reads as follows:

> *"Shall the Orange County Rent Stabilization Ordinance, which limits rent increases for certain residential rental units in multifamily structures to the average annual increase in the Consumer Price Index, and requires the County to create a process for landlords to request an exception to the limitation on the rent increase based on an opportunity to receive a fair and reasonable return on investment, be approved for a period of one year?"*

Rent stability and affordability are certainly very worthy public policy objectives. For that reason, when presented with ballot language like the above, a majority of voters will likely vote in favor.

It is less clear, however, if the measure will be effective in achieving more affordable housing in the County.

The price of any good or service is largely a function of the supply and demand for such good or service. If demand goes up while supply stays the same, prices are likely to increase. Similarly, if supply goes down while demand remains constant, prices will also likely rise, and so on.

What happens if price increases are artificially capped while demand remains constant? Again, the general relationship between these three measures would suggest that supply is likely to *decrease*.

An early look at the multifamily building permits data appears to support such an expectation. Building permits for multifamily construction are a leading indicator for the anticipated growth in rental unit inventory – the *supply* side of the relationship discussed earlier.

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Orange County is comparable in size to Hillsborough County (but Hillsborough does not have a rent-increase cap similar to the one proposed for Orange), so it may serve as a useful "baseline" when trying to isolate the effects of the rent-control measure. And, in fact, it appears that the five-year trends for the two counties are starting to change rather significantly starting with the second quarter of this year:

It is too soon to know with any degree of certainty that the rent stabilization measure—which is not even in effect yet—is the major cause of the divergence in the relative multifamily pipelines between the two counties, but there are at least anecdotal signs that the possibility of these types of measures in Orange County is affecting decision-makers as to where they put their resources with respect to new multifamily developments.

It will be interesting to see how these trends hold after the November election, and the months that follow. Stay tuned!

Related Article: Orange County Commissioners Approve Rent Stabilization Measure for November Ballot