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California Apartment Landlords Dump Properties Ahead of Rent Control Vote

Investors, housing advocates gear up for a fight, expected to spend tens of millions of dollars on campaigning

By Laura Kusisto

A push to expand rent control in California is sending a chill through the state's apartment industry, prompting more investors to sell properties or hold off on buying.

Ben Lamson, whose family owned just under 100 apartments in the Inland Empire area in southern California, said he has sold about 70 units and is in contract to sell the remaining ones. He is taking all the money and investing it in properties in the Las Vegas area, he said.

Mr. Lamson said he started reading news about the push for rent control a year ago and decided it was time to leave the state where he was born and has lived for five decades. He and his wife bought a home for themselves in Las Vegas, where they plan to retire in the next five years.

"These renter groups are starting to speak out and say, 'These rents are ridiculous.' They've gotten more organized than they ever have been," he said. "I started getting a little freaked out or a little scared or concerned [that] this could really happen."

In late April, a coalition of housing advocates said they submitted some 595,000 signatures, more than enough to get a measure on the ballot in November to repeal Costa Hawkins, state legislation that prevents cities and towns from imposing rent control on buildings constructed after 1995 and on single-family rentals.

Both sides are gearing up for a fight and are expected to spend tens of millions of dollars on campaigning.

In Santa Monica, the number of properties on the market is at the highest level in 20 years, according to Tony Solomon, a first vice president at Marcus & Millichap based in southern California. Mr. Solomon said there are 90 properties on the market, about 80% more than normal.

He said developers are also holding off on bidding on land to build new developments.

Many of the buildings on the market are a direct result of the fear that if "this were to pass, what this would do to the community again" in terms of prompting landlords to stop investing in their buildings and creating widespread disrepair, Mr. Solomon said.

Data from property tracker Real Capital Analytics show a 22% increase in multifamily sales, to \$4.5 billion in the first quarter of 2018, compared with the same quarter a year earlier. Prices have risen 8% during this time, which indicates demand is healthy.

Brokers and owners say they have become more spooked since the measure officially garnered enough signatures to be on the ballot, which won't be reflected until the second-quarter data. The potential expansion of rent control is also having a bigger effect in places like Santa Monica and Santa Ana, where politicians and advocates are openly weighing expanding rent control.

Advocates are skeptical of owners' complaints that the push for rent control is having a negative impact on the market. Stephen Barton, who has a doctorate in city and regional planning from the University of California at Berkeley and is a former deputy director of Berkeley's rent stabilization program, noted that real-estate groups are pushing for loosening development regulations even though that can depress rents.

"It's very self-contradictory to say we need an enormous increase in supply and then point to rent control and say this would be terrible," Mr. Barton said.

Landlords said what is concerning to them is the uncertainty over how municipalities will react to the repeal of Costa Hawkins and how far they will go to limit their ability to raise rents.

A Santa Monica apartment owner with roughly 50 apartment buildings, who declined to be named because he said he was afraid of attracting additional scrutiny at a politically sensitive moment, said he was in contract to purchase two properties but decided to back out because he wasn't confident the measure would be defeated.