

Crisis Crossroads



Industry issues across the U.S. could affect what happens in our backyard

By Blythe Edmondson, Attorney at Law

As those of us in the multihousing industry are aware, laws and regulations vary widely across the country. However, trends impact us all whether legislation related to these trends makes it way to the state Legislature in our individual states in any given year.

While rent control is certainly not a new concept, the country has seen an increase in the discussion of and amendment of laws and regulations related to rent control in the last year. The National Apartment Association (NAA) and National Multifamily Housing Council (NMHC) identified this issue as a policy priority for the coming year.

What is rent control? The term rent control refers to laws or ordinances that function to reduce the rate at which a landlord can increase the rental rate on an apartment or unit. Rent control puts a cap on what a landlord can charge in rent.

What has been going on nationally with regard to rent control, and what do we in Arizona need to be aware of? In March 2019, Oregon became the first state to impose statewide rent control. Landlords across the state are limited to an annual rent increase of 7% plus the increase in the Consumer Price Index.

While landlords in most cases are free to increase rents between residents who voluntarily vacate, the cap remains in place if the prior resident is evicted or their lease isn't renewed after the first year. The law exempts some new construction and subsidized housing.

The California Legislature has been working toward statewide rent control since 2018. Proponents of statewide rent control found victory on Oct. 8, 2019, when Gov. x Newsom signed Assembly Bill 1482. Effective Jan. 1, 2020, rent increases in California are capped annually at 5% plus local inflation (estimated to average about 2.5% annually in California).



However, annual rent increases cannot ever exceed 10%, even if local inflation is over 5%. The change in California law is a bit more complex with the local ordinances already in place regarding rent control; the new law takes these into consideration. The new California law exempts buildings built in the past 15 years as well as single family homes and condominiums.

Currently 36 states, including Arizona, have laws preempting local governments from imposing rent control. (ARS §33-1329.) Prior to the passage of the new laws in Oregon and California, at least four states and the District of Columbia had laws in place in individual local jurisdictions imposing rent control.

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The passage of the Oregon and California laws have shifted the discussion of rent control to a larger stage. The increasing discussion and passage of statewide regulation on rent control increases the likelihood states such as Arizona may see statewide legislation regarding rent control.

Discussion of rent control has come about because of the shortage in affordable housing seen nationally. Proponents of rent control argue not only does it make housing more affordable, but because it discourages individuals from moving, it increases their stake in their local community. They argue in large cities where land is scarce, development of new housing is already limited, and rent control makes housing more affordable.

While rent control is seen as solution to the affordable housing shortage by its proponents, most studies show rent control decreases the number of rental units available as well as discourages new development in the multi-housing industry.

Economists at either end of the political spectrum disagree on many issues; however, rent control is an area where economists find common ground. When applying the basics of supply and demand we see the decreased cost to tenants increases the demand while disincentivizing the landlords to provide supply.

This makes it harder for low-income residents to find housing and reduces the supply of affordable housing; the problem rent control is arguably being introduced to resolve. Rent control generally disproportionately benefits higher-income residents compared to lower-income residents; the higher-income residents are generally considered more desirable because of their financial stability.

With rent control restrictions, landlords often have a larger pool of prospective residents from which to choose and naturally make the better financial decision for their businesses.

As rent control measures are put in place in other jurisdictions, the Arizona Multihousing Association should be vigilant in watching and monitoring the impact these laws have on owners and residents. We need to be mindful of the discussion we hear in our own community and work to educate all involved on the impact of rent control legislation.



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