

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: May 24, 2022

TO: Honorable Members of the Rules and Government Committee

FROM: Sharon M. Tso *Krek*
Chief Legislative Analyst

Council File No. 22-0002-S67
Assignment No. 22-05-0286

SUBJECT: Resolution (Krekorian – O’Farrell) to SUPPORT AB 1791 (Nazarian)

CLA RECOMMENDATION: Adopt Resolution (Krekorian – O’Farrell) to include in the City’s 2021-2022 State Legislative Program, SUPPORT for AB 1791 which would authorize cities and counties to cap rent increases on single-family home and condo rentals, regardless of their age, if they are owned by corporations that own ten or more rental units and have annual gross receipts of \$1 billion or more.

SUMMARY

Resolution (Krekorian – O’Farrell), introduced on April 27, 2022, advises that the Costa-Hawkins Rental Housing Act and AB 1482 exempt certain rental properties from rent control ordinances in the City of Los Angeles. The Resolution further reports that AB 1791 (Nazarian), currently pending before the State Assembly, would expand rent control in the State by authorizing cities and counties to cap rent increases on single-family home and condo rentals, regardless of their age, if they are owned by corporations that own ten or more rental units and have annual gross receipts of \$1 billion or more. AB 1791 would protect tenants of some rental units not currently protected by local or State rent controls from extreme rent increases by the largest corporate landlords. The Resolution therefore requests that the City support AB 1791.

BACKGROUND

The Costa-Hawkins Rental Housing Act and the California Tenant Protection Act of 2019 (AB 1482) identify the rental properties that can be covered by rent control in the State, while the Los Angeles Rent Stabilization Ordinance (RSO) prescribes which rental properties can be covered by rent control in the City. The State of California enacted the Costa-Hawkins Rental Housing Act in 1996 to prevent cities from establishing rent control on rental units constructed after 1995, single-family homes, and condominiums. The RSO, enacted in May 1979, limits allowable rent increases on rental properties that were first built on or before October 1, 1978, but does not apply to single-family homes and condominium rentals due to the Costa-Hawkins Rental Housing Act. The RSO currently applies to approximately 624,000 residential units, or three-quarters of the City’s apartment rental stock. In 2020, the State of California expanded statewide rent control by enacting AB 1482, which established a cap on rent increases for all rental units, including corporate-owned single-family homes and condos, but only after they turn 15 years old.

According to recent studies, rents in the City of Los Angeles have increased by nearly 15 percent since the beginning of 2021. Furthermore, rents across several of California’s largest corporate rental ownership entities rose much faster than the market average. Strategic Actions for a Just Economy released a report in March 2021, “Beyond Wall Street Landlords,” that found that over two-thirds of all Los Angeles rental properties are now owned by corporations and investment vehicles. The report also finds that tenants of

corporate-owned properties pay above-market rents for the housing they receive and experience faster-rising rents and frequent and fast evictions than tenants of “mom and pop” landlords.


There is an urgent need to protect renters of corporate-owned housing from extreme rent increases, especially as the State and City phase out renter protections and eviction moratoriums established during the COVID-19 pandemic. Additional renter protections and expanded rent control will also prevent many households from falling into homelessness, as renters comprise the majority of Los Angeles residents, and more than half of those renters are already rent burdened, or are spending more than 30 percent of their income on housing.

DEPARTMENTS NOTIFIED

Los Angeles Housing Department

BILL STATUS

2/3/22	Introduced
3/24/22	Referred to Committees on Revenue and Taxation and Housing and Community Development
3/24/22	Amended
3/28/22	Re-referred to Committee on Revenue and Taxation
4/18/22	Amended, re-referred to Committees on Revenue and Taxation and Housing and Community Development



Susan Oh
Analyst

Attachment 1. Resolution (Krekorian – O’Farrell)
 2. AB 1791

ATTACHMENT 1

RULES, ELECTIONS, INTERGOVERNMENTAL RELATIONS

RESOLUTION

WHEREAS, any official position of the City of Los Angeles with respect to legislation, rules, regulations or policies proposed to or pending before a local, state or federal governmental body or agency must have first been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, in 1996 the State of California enacted the Costa-Hawkins Rental Housing Act, which prevents cities from establishing rent control on rental units constructed after 1995, single family homes, and condos; and

WHEREAS, the City of Los Angeles' Rent Stabilization Ordinance (RSO) limits allowable rent increases on approximately 624,000 residential units, or three-quarters of the City's apartment rental stock, but does not apply to single-family home and condo rentals due to the Costa-Hawkins Rental Housing Act; and

WHEREAS, in 2020, the State of California enacted AB 1482, the California Tenant Protection Act of 2019, to establish a statewide cap on rent increases for all rental units, including corporate owned single-family homes and condos, but only after they turn 15 years old; and

WHEREAS, according to studies, rents across several of California's largest corporate rental ownership entities rose much faster than the market average; and

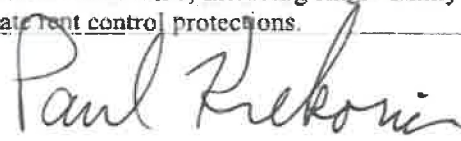
WHEREAS, rents in the City of Los Angeles have increased by nearly 15 percent since the beginning of 2021; and

WHEREAS, on February 3, 2022, California Assemblymember Adrin Nazarian introduced Assembly Bill 1791 that will authorize cities and counties to cap rent increases on single-family home and condo rentals, regardless of their age, if they are owned by corporations that own ten or more rental units and have annual gross receipts of \$1 billion or more; and

WHEREAS, AB 1791 will protect tenants of some rental units not currently protected by local or State rent controls from extreme rent increases by the largest corporate landlords;

NOW, THEREFORE, BE IT RESOLVED, with concurrence of the Mayor, that by adoption of this Resolution, the City of Los Angeles hereby includes in its 2021-22 State Legislative Program SUPPORT for AB 1791 to cap rent increases on corporate-owned rental units, including single-family homes and condos, that are not already covered by local or State rent control protections.

PRESENTED BY:



PAUL KREKORIAN
Councilmember, 2nd District

SECONDED BY:



ATTACHMENT 2

AMENDED IN ASSEMBLY APRIL 18, 2022

AMENDED IN ASSEMBLY MARCH 24, 2022

CALIFORNIA LEGISLATURE—2021–22 REGULAR SESSION

ASSEMBLY BILL

No. 1791

Introduced by Assembly Member Nazarian

February 3, 2022

~~An act to add Part 16 (commencing with Section 35004) to Division 2 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy. An act to amend Sections 1954.51 and 1954.52 of the Civil Code, relating to residential rental housing.~~

LEGISLATIVE COUNSEL'S DIGEST

AB 1791, as amended, Nazarian. ~~Excise tax. Rent control: local ordinances:~~ residential units.

Existing law, the Costa-Hawkins Rental Housing Act, prescribes statewide limits on the application of local rent control with regard to certain properties. That act, among other things, authorizes an owner of residential real property to establish the initial and all subsequent rental rates for a dwelling or unit that has been issued a certificate of occupancy after February 1, 1995, has already been exempt from a residential rent control ordinance as of February 1, 1995, pursuant to a local exemption for newly constructed units, or is alienable separate from the title to any other dwelling unit or is a subdivided interest in a subdivision and meets specified requirements, subject to certain exceptions.

This bill would prevent the application of the above-described limitation on local rent control measures where the property is owned by an applicable large business, defined as a business entity that owns

10 or more single-family residential properties and has annual gross receipts of \$1 billion or more.

~~Under existing law, the Franchise Tax Board collects and administers various taxes:~~

~~This bill would require the Franchise Tax Board to collect and administer a fee of \$500 per residential unit owned by a business, as defined. The bill would state the intent of the Legislature that the moneys collected from this fee will be used for the development of affordable housing. The bill would also require the Franchise Tax Board to report annually to the Legislature the number of businesses that have paid the fee.~~

~~Existing law provides for the valuation of real property for property tax purposes:~~

~~This bill would require a county assessor to report annually to the Legislature the number of residential units owned by a business and the total number of residential units in that county. By imposing a duty on county assessors, this bill would impose a state-mandated local program:~~

~~The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement:~~

~~This bill would provide that, if the Commission on State Mandates determines that the bill contains costs mandated by the state, reimbursement for those costs shall be made pursuant to the statutory provisions noted above.~~

~~This bill would include a change in state statute that would result in a taxpayer paying a higher tax within the meaning of Section 3 of Article XIII A of the California Constitution, and thus would require for passage the approval of $\frac{2}{3}$ of the membership of each house of the Legislature.~~

~~This bill would take effect immediately as a tax levy.~~

~~Vote: $\frac{2}{3}$ -majority. Appropriation: no. Fiscal committee: yes-no. State-mandated local program: yes-no.~~

The people of the State of California do enact as follows:

- 1 SECTION 1. Section 1954.51 of the Civil Code is amended to
- 2 read:
- 3 1954.51. As used in this chapter, the following terms have the
- 4 following meanings:

1 (a) (1) "Applicable large business" means a business entity,
2 however formed, that owns 10 or more single-family residential
3 properties and has annual gross receipts of one billion dollars
4 (\$1,000,000,000) or more.

5 (2) For purposes of this subdivision, gross receipts and holdings
6 of a business include the gross receipts and holdings of any
7 affiliated company.

8 (a)

9 (b) "Comparable units" means rental units that have
10 approximately the same living space, have the same number of
11 bedrooms, are located in the same or similar neighborhoods, and
12 feature the same, similar, or equal amenities and housing services.

13 (b)

14 (c) "Owner" includes any person, acting as principal or through
15 an agent, having the right to offer residential real property for rent,
16 and includes a predecessor in interest to the owner, except that this
17 term does not include the owner or operator of a mobilehome park,
18 or the owner of a mobilehome or ~~his or her~~ their agent.

19 (c)

20 (d) "Prevailing market rent" means the rental rate that would
21 be authorized pursuant to 42 U.S.C.A. 1437 (f), as calculated by
22 the United States Department of Housing and Urban Development
23 pursuant to Part 888 of Title 24 of the Code of Federal Regulations.

24 (d)

25 (e) "Public entity" has the same meaning as set forth in Section
26 811.2 of the Government Code.

27 (e)

28 (f) "Residential real property" includes any dwelling or unit that
29 is intended for human habitation.

30 (f)

31 (g) "Tenancy" includes the lawful occupation of property and
32 includes a lease or sublease.

33 SEC. 2. Section 1954.52 of the Civil Code is amended to read:

34 1954.52. (a) Notwithstanding any other ~~provision of~~ law, an
35 owner of residential real property may establish the initial and all
36 subsequent rental rates for a dwelling or a unit about which any
37 of the following is true:

38 (1) It has a certificate of occupancy issued after February 1,
39 1995.

- 1 (2) It has already been exempt from the residential rent control
2 ordinance of a public entity on or before February 1, 1995, pursuant
3 to a local exemption for newly constructed units.
- 4 (3) (A) It is alienable separate from the title to any other
5 dwelling unit or is a subdivided interest in a subdivision, as
6 specified in subdivision (b), (d), or (f) of Section 11004.5 of the
7 Business and Professions Code.
- 8 (B) This paragraph does not apply to either of the following:
- 9 (i) A dwelling or unit where the preceding tenancy has been
10 terminated by the owner by notice pursuant to Section 1946.1 or
11 has been terminated upon a change in the terms of the tenancy
12 noticed pursuant to Section 827.
- 13 (ii) A condominium dwelling or unit that has not been sold
14 separately by the subdivider to a bona fide purchaser for value.
15 The initial rent amount of the unit for purposes of this chapter shall
16 be the lawful rent in effect on May 7, 2001, unless the rent amount
17 is governed by a different provision of this chapter. However, if
18 a condominium dwelling or unit meets the criteria of paragraph
19 (1) or (2) of subdivision (a), or if all the dwellings or units except
20 one have been sold separately by the subdivider to bona fide
21 purchasers for value, and the subdivider has occupied that
22 remaining unsold condominium dwelling or unit as ~~his or her~~ *their*
23 principal residence for at least one year after the subdivision
24 occurred, then subparagraph (A) ~~of paragraph (3)~~ shall apply to
25 that unsold condominium dwelling or unit.
- 26 (C) Where a dwelling or unit in which the initial or subsequent
27 rental rates are controlled by an ordinance or charter provision in
28 effect on January 1, 1995, the following shall apply:
- 29 (i) An owner of real property as described in this paragraph may
30 establish the initial and all subsequent rental rates for all existing
31 and new tenancies in effect on or after January 1, 1999, if the
32 tenancy in effect on or after January 1, 1999, was created between
33 January 1, 1996, and December 31, 1998.
- 34 (ii) Commencing on January 1, 1999, an owner of real property
35 as described in this paragraph may establish the initial and all
36 subsequent rental rates for all new tenancies if the previous tenancy
37 was in effect on December 31, 1995.
- 38 (iii) The initial rental rate for a dwelling or unit as described in
39 this paragraph in which the initial rental rate is controlled by an
40 ordinance or charter provision in effect on January 1, 1995, may

1 not, until January 1, 1999, exceed the amount calculated pursuant
2 to subdivision (c) of Section 1954.53. An owner of residential real
3 property as described in this paragraph may, until January 1, 1999,
4 establish the initial rental rate for a dwelling or unit only where
5 the tenant has voluntarily vacated, abandoned, or been evicted
6 pursuant to paragraph (2) of Section 1161 of the Code of Civil
7 Procedure.

8 (b) Subdivision (a) does not apply where the owner has
9 otherwise agreed by contract with a public entity in consideration
10 for a direct financial contribution or any other forms of assistance
11 specified in Chapter 4.3 (commencing with Section 65915) of
12 Division 1 of Title 7 of the Government Code.

13 (c) Nothing in this section shall be construed to affect the
14 authority of a public entity that may otherwise exist to regulate or
15 monitor the basis for eviction.

16 (d) (1) This section does not apply to any dwelling or unit that
17 contains serious health, safety, fire, or building code violations,
18 excluding those caused by disasters for which a citation has been
19 issued by the appropriate governmental agency and which has
20 remained unabated for six months or longer preceding the vacancy.

21 (2) *This section does not apply to any dwelling or unit owned
22 by an applicable large business.*

23 ~~SECTION 1. Part 16 (commencing with Section 35004) is
24 added to Division 2 of the Revenue and Taxation Code, to read:~~

25
26 ~~PART 16. RESIDENTIAL UNITS~~

27
28 ~~35004. (a) A business that owns residential property shall pay
29 an annual fee of five hundred dollars (\$500) per residential unit.~~

30 ~~(b) The Franchise Tax Board shall administer and collect the
31 fee imposed by this section.~~

32 ~~(c) It is the intent of the Legislature that moneys collected
33 pursuant to this section will be used for the development of
34 affordable housing.~~

35 ~~(d) Both of the following entities shall submit the following
36 information in an annual report to Legislature, pursuant to Section
37 9795 of the Government Code:~~

38 ~~(1) The Franchise Tax Board shall report the number of
39 businesses who have paid the fee required by subdivision (a):~~

1 ~~(2) A county assessor shall report the number of residential units~~
2 ~~owned by a business and the total number of residential units~~
3 ~~owned in that county:~~

4 ~~(c) For purposes of this section, "business" means a sole~~
5 ~~proprietorship, partnership, limited liability company, corporation,~~
6 ~~trust, or other association:~~

7 ~~SEC. 2. If the Commission on State Mandates determines that~~
8 ~~this act contains costs mandated by the state, reimbursement to~~
9 ~~local agencies and school districts for those costs shall be made~~
10 ~~pursuant to Part 7 (commencing with Section 17500) of Division~~
11 ~~4 of Title 2 of the Government Code.~~

12 ~~SEC. 3. This act provides for a tax levy within the meaning of~~
13 ~~Article IV of the California Constitution and shall go into~~
14 ~~immediate effect.~~