

Date of Hearing: April 25, 2019

ASSEMBLY COMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

David Chiu, Chair

AB 1482 (Chiu) – As Amended April 22, 2019

SUBJECT: Tenancy: rent caps

SUMMARY: Establishes a maximum allowable rent increase for housing. Specifically, **this bill:**

- 1) Establishes that an owner of residential real property in the state may not increase the rental rate for that property in an amount that is greater than 5 percent plus percentage change in cost of living more than the rental rate in effect for the immediately preceding 12 months, subject to the following:
 - a) The “percentage change in the cost of living” is defined to mean the percentage change from April 1 of the prior year to April 1 of the current year in the regional Consumer Price Index (CPI) for the region where the real property is located, as published by the United States Bureau of Labor Statistics. If a regional index is not available, the CPI for All Urban Consumers for all items, as determined by the Department of Industrial Relations, will apply.
 - b) Applies to partial changes in tenancy of a residential rental property where one or more of the tenants remains an occupant in lawful possession of the property;
 - c) Does not apply to new tenancies where no tenants from the prior lease remain an occupant in lawful possession of the property; and
 - d) Does not apply to the following residential rental properties:
 - i. Deed-restricted affordable housing for persons and families of very-low, low-, or moderate-income, as defined in Section 50093 of the Health and Safety Code;
 - ii. Dormitories constructed and maintained in connection with any higher education institution within the state for use and occupancy by students in attendance at the institution; and,
 - iii. Housing subject to a local ordinance that imposes a maximum rental rate increase that is more restrictive than 5 percent plus CPI.
- 2) Applies to all rent increases occurring on or after March 15, 2019.
- 3) Requires an owner to provide notice of any increase in the rental rate to each tenant in accordance with existing law.
- 4) Establishes that a landlord may not terminate a tenancy for the purposes of increasing the rent in an amount greater than that authorized by this section.
- 5) Creates a rebuttable presumption that, in the absence of a written statement from the landlord to the tenant showing cause for the termination of a tenancy, the termination is for the purposes of avoiding this section.

- 6) Requires that, on or before January 1, 2033, the Department of Housing and Community Development (HCD) must report to the Legislature regarding the effectiveness of this program. The report shall include, but not be limited to, the impact of the rental rate cap established in this bill on the housing market within the state.

EXISTING LAW:

- 1) Establishes rules and processes regarding the hiring of real property, including hiring of a dwelling unit for purposes of tenancy (Civil Code Sections 1940-1954.5).
- 2) Establishes the Costa-Hawkins Rental Housing Act, which authorizes an owner of residential real property to establish the initial and all subsequent rental rates for a dwelling or a unit if any of the following is true, as well as other specified reasons:
 - a) There has been a complete change in the tenancy;
 - b) It has a certificate of occupancy issued after February 1, 1995;
 - c) It is a condominium dwelling or unit that has not been sold separately by the subdivider to a bona fide purchaser for value, as specified;
 - d) It is a single-family home;

(Civil Code Sections Civil Code Sections 1954.50 to 1954.535 1940-1954.05)

- 3) Provides that upon the declaration of a state of emergency resulting from an earthquake, flood, fire, riot, storm, or natural or manmade disaster declared by the President of the United States or the Governor, or upon the declaration of a local emergency resulting from an earthquake, flood, fire, riot, storm, or natural or manmade disaster by the executive officer of any county, city, or city and county, and for a period of 30 days following that declaration, it is unlawful for a person, contractor, business, or other entity to sell or offer to sell any consumer food items or goods, goods or services used for emergency cleanup, emergency supplies, medical supplies, home heating oil, building materials, housing, transportation, freight, and storage services, or gasoline or other motor fuels for a price of more than 10 percent above the price charged by that person for those goods or services immediately prior to the proclamation of emergency (Penal Code Section 396(b)).

FISCAL EFFECT: Unknown

COMMENTS:

Purpose of the Bill: According to the author, "AB 1482 would protect nearly 15 million Californians from large unforeseen rent increases without diminishing property owners' ability to make a fair return on their investment. Renters shouldn't have to choose between paying rent and keeping a roof over their heads or feeding their families. AB 1482 takes the choice off the table and makes it easier for renters to stay in their neighborhoods."

Background: The cost of housing in California is the highest of any state in the nation. Additionally, the pace of the change in the cost of housing has far outstripped that in other parts of the county. In 1970 housing costs in California were 30 percent more expensive than the U.S. average; now housing costs are 250 percent more expensive. While incomes have increased over that period, they have done so at a much slower pace than housing cost. Only 28 percent of households can buy the median priced home. Over half of renters and 80 percent of low-income renters are rent-burdened, meaning they pay over 30 percent of their income towards rent. Research by Zillow from 2018 found that some areas with a high percentage of rent-burdened households experienced a rapid increase in homelessness, and areas where high rents are combined with high poverty experienced triple the homelessness rate of the average community.

According to the Turner Center for Housing Innovation at UC Berkeley, California has approximately 16.6 million renters living in about 5.7 million rental units. Of those, 1.9 million renters live in the states approximately 700,000 rent-controlled units. The other 14.7 million Californians do not live in the five million housing units that are not subject to any controls regarding the amount of rent increases sought upon the completion of a lease.

About the Consumer Price Index (CPI): CPI is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. It is measured monthly by the U.S. Bureau of Labor Statistics (BLS). CPI is available for the state of California, as well as for several of the state's metropolitan regions, including Los Angeles-Long Beach-Anaheim, San Francisco-Oakland-Hayward, San Diego-Carlsbad, and as of 2017, Riverside-San Bernardino.

Over the past 25 years the CPI in California have averaged approximately 2.5 percent. However, CPI fluctuates year-to-year and region-to-region, based on macro- and local economic conditions.

Controls on Price-Gouging: This bill would create a cap on the potential annual rent increase a property owner can charge a tenant. The cap would be five percent of the lowest rent from the previous year plus the percentage change in the cost of living, as measured by CPI. The bill specifies that the cap could never exceed ten percent, which is the standard for price gouging for housing and other goods established by the State in 1872 in Penal Code Section 1872. This bill would apply to nearly all of the five million units not subject to rent control, excluding dormitories and deed-restricted affordable units. It would only apply to units with existing tenants.

The idea for anti-rent gouging came to the fore through the Turner Center's May 2018 policy brief "Finding Common Ground on Rent Control". According to that report, "this policy is intended to protect all California renters against the most egregious rent increases regardless of the unit that they rent, and regardless of whether their city has a rent control ordinance." Many of the measures in the proposed bill reflect what was included in the Turner Center policy brief, including the CPI+5 percent cap.

In February of 2019, Oregon passed the nation's first statewide anti-rent gouging statute (Senate Bill 608). The Oregon law establishes the rent cap at CPI+7%. Importantly, the Oregon law provides "just cause" eviction protection for all renters after one year of tenancy. Previous to the passage of this statute, setting maximum rent increases was illegal in Oregon.

Financial Implications for Property Owners: Analysis of BLS data provides a projection of the impact of the proposed rent cap on property owners. This analysis considered the San Diego-

Carlsbad metropolitan area, where no jurisdictions have rent control. In the period between 2007-2017, the median increase in contract rent in that region was 2.9 percent, including a low in 2010 of -0.02 percent and a high in 2017 of 5.41 percent. During that period, the average allowable annual rent increase under a rent cap of CPI+5 percent was 7.1 percent. As such, on average the allowable rent increase with the proposed cap was 145 percent higher than the actual increase. In 2017, when the regional median increase in contract rent was at its highest, the proposed rent cap (at 8.01 percent) exceeded the actual median increase by 48 percent.

The analysis also looked at the cumulative implication of the proposed rent cap. Adjusting to 2017, the median contract rent in the San Diego-Carlsbad metropolitan area in 2007 was \$1,297 per month. In 2017 it was \$1,506 per month, an increase of 16.1 percent. A property where the rent had been increased by CPI+5 percent each year between 2007 and 2017 would have been priced at \$2,132 per month, an increase of 64.4 percent. An analysis across all of California showed similar results: an increase in actual rents of 15.6 percent between 2007 and 2017, but a potential increase of 68.2 percent utilizing the maximum allowed under the proposed rent cap.

Arguments in Support: According to SEIU, “A majority of California renters do not live in jurisdictions with local rent control laws, and state law currently allows landlords to implement unlimited rent increases with very short notice to tenants. Increasingly, and predictably, this is causing renters to lose their homes and is driving our state’s unprecedented homelessness.” According to California YIMBY, “AB 1482 does not impose rent control, but simply guards against the most drastic and disruptive rent increases in places where tenants have no other protections.” According to the State Building and Construction Trades Council, “The bill seeks to balance the needs of renters with those of property owners by enabling a fair return similar to other business investments.”

Arguments in Opposition: According to the California Apartment Association and California Chamber of Commerce, “AB 1482, along with a dozen other bills that target the rental housing industry, would create a huge disincentive to invest in rental housing at a time when California so desperately needs more homes. Study after study has demonstrated that price controls end up crippling the commodity that is controlled, including housing. There may be a short-term reduction in the price of rent-controlled units, but over the mid to long run, controlling rental prices decreases inventory as property owners remove units from the market, and construction of new rental housing slows. As rental units dwindle in a city or region, working-class families, seniors, and others in need experience the most harm.” They note that specifically, this bill would make property financing more difficult, stop new housing construction, cost taxpayers more, benefit the wealthiest residents, create a slippery slope, and impose rent control.

Related Legislation:

AB 36 (Bloom) (2019): Enables local jurisdictions to apply rent control to units more than ten years old and/or single-family homes owned by a person who owns up to two units in the jurisdiction. This bill is pending hearing in this committee.

AB 1481(Bonta) (2019): Prohibits evictions without just cause stated and requires relocation assistance for terminated leases. This bill is pending hearing in the Assembly Committee on Judiciary.

AB 1697 (Grayson) (2019): Prohibits evictions without just cause for tenants with at least twelve months occupancy, and requires relocation assistance for terminated leases. This bill is pending hearing in the Assembly Committee on Judiciary.

Previous Legislation:

AB 1506 (Bloom et al.) (2018): Would have repealed the Costa-Hawkins Rental Housing Act. This bill died in this committee.

REGISTERED SUPPORT / OPPOSITION:

Support

Alliance of Californians for Community Empowerment (co-sponsor)
California Rural Legal assistance Foundation (co-sponsor)
PICO California (co-sponsor)
Public Advocates (co-sponsor)
Western Center on Law and Poverty (co-sponsor)
Abundant Housing LA
AFSCME Local 3299
Alliance for Community Transit - Los Angeles
American Civil Liberties Union of California
Asian Americans Advancing Justice - California
Asian Americans and Pacific Islanders for Civic Empowerment Education Fund
Asian Pacific Environmental Network
Bay Area Legal Aid
Bend the Arc: Jewish Action Southern California
California Alliance for Retired Americans
California Calls
California Conference Board of the Amalgamated Transit Union
California Conference of Machinists
California Labor Federation
California Renters Legal Advocacy and Education Fund
California Rural Legal Assistance Foundation
California Teamsters Public Affairs council
California YIMBY
Central Coast Alliance United for a Sustainable Economy
Central Valley Empowerment Alliance
Chan Zuckerberg Initiative
Coalition for Humane Immigrant Rights
Congregations Organized for Prophetic Engagement
Corporation for Supportive Housing
Courage Campaign
Drug Policy Alliance
EAH Housing
East Bay for Every One
East Bay Housing Organization
Engineers and Scientists of CA, IFPTE Local 20, AFL-CIO
Enterprise Community Partners

Esperanza Community Housing Corporation
Faith in Action Bay Area
Faith in the Valley, Stanislaus
Gamaliel of California
Hamilton Families
Hillcrest Indivisible
House Sacramento
Housing California
Hunger Action Los Angeles
Indivisible SF
Indivisible: San Diego Central
Inlandboatmen's Union of the Pacific
KIWA
Korean Resource Center
LA Forward
LA Voice
Latino Coalition for a Healthy California
Latinos United for a New America
Law Foundation of Silicon Valley
Leadership Counsel for Justice and Accountability
Legal Services for Prisoners with Children
Mayor Eric Garcetti
Mission Neighborhood Centers
Monument Impact
National Association of Social Workers, California Chapter
National Union of Healthcare Workers
Non-Profit Housing Association of Northern California
Oakland Tenants Union
Orange County Civic Engagement Table
Orange County Congregation Community Organization
Planning and Conservation League
PolicyLink
POWER
Power California
Professional and Technical Engineers, IFPTE Local 21, AFL-CIO
Public Counsel
Public Law Center
Sacramento Filipinx LGBTQIA
Sacred Heart Community Service
San Francisco Foundation
SEIU California
SOMOS Mayfair
Southern California Association of Non Profit Housing
State Building and Construction Trades Council
Strategic Actions for a Just Economy
TechEquity
Tenderloin Neighborhood Development
Thai Community Development Center
The Kennedy Commission

The Public Interest Law Project
Transform
UAW Local 2865
UC Davis Bulosan Center for Filipino Studies
UNITE HERE, Local 19
United Food and Commercial Workers, Western States Council
United Teachers Los Angeles
Unite-Here, AFL-CIO
Utility Workers of America
Venice Community Housing Corporation
Viet Vote SD
Working Partnerships USA
YIMBY Action

Support If Amended

Bay Area Council
Building Industry Association of the Bay Area
Community Legal Services in East Palo Alto
Housing for All Burlingame
Oakland Chamber of Commerce
One San Mateo
Related California
SPUR
Youth United For Community Action

Opposition

AMVETS
California Apartment Association
California Association of Realtors
California Business Properties Association
California Business Roundtable
California Chamber of Commerce
California Council for Affordable Housing
California Mortgage Bankers association
California Rental Housing Association
Prometheus
Southern California Rental Housing Association

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