

SENATE JUDICIARY COMMITTEE
Senator Thomas Umberg, Chair
2023-2024 Regular Session

AB 2584 (Lee)
Version: June 20, 2024
Hearing Date: July 2, 2024
Fiscal: Yes
Urgency: No
ME

SUBJECT

Single-family residential real property: corporate entity: ownership

DIGEST

This bill prohibits a business entity, as defined, that has an interest in more than 1,000 single-family residential properties from purchasing, acquiring, or otherwise obtaining an ownership interest in another single-family residential property and subsequently leasing the property. If the business entity violates this law then the Attorney General is entitled to bring an action in court. If the Attorney General prevails then the court is required to make the business entity pay \$100,000 in civil penalties and the court is required to force the business entity to sell the property to an independent entity, which is not defined, within one year of the date the court enters judgment. The Court must also order reasonable attorney's fees and costs to be paid to the Attorney General and any other relief the court deems appropriate.

EXECUTIVE SUMMARY

Under this bill, a business entity that has an interest in more than 1,000 single-family residential properties is prohibited from purchasing another single-family residential property and leasing the property. The Attorney General can bring an action against a business entity that violates this provision. The court is forced to order a \$100,000 civil penalty and to require the business entity to sell their property to an independent entity within one year of the entry of judgment.

This prohibition on the business entity will have negative impacts on the seller of single-family homes who would otherwise receive offers from business entities. This could lead to a lower selling price for the seller of the home. Additionally, a renter who is in a home that was purchased by the business entity may be forced out of their home because the business entity will be forced to sell the property within a year. Moreover, materials submitted to the Committee do not show that these business entities that own 1,000 or more single family residential properties are buying up large amounts of single family residences in California. The materials that were submitted to the Committee show that these business entities accounted for about 2% of home purchasers

throughout the United States in the first quarter of 2022. Forcing the sale of properties that can result in the displacement of renters and lowering the selling price of homes can have a detrimental impact on Californians. The Committee has received no evidence that there is a demonstrated problem that justifies the negative impact that this bill would have on renters and sellers that this bill would have.

This bill is author sponsored and supported by some unions, some cities, and affordable housing advocates. The bill is opposed by the California Association of Realtors, California Business Roundtable, California Mortgage Bankers Association, National Rental Home Council, California Apartment Association, and the California Land Title Association.

PROPOSED CHANGES TO THE LAW

Existing law:

- 1) Provides that all property has an owner, whether that owner is the state and the property is public, or the owner is an individual and the property is private. Provides that the State may also hold property as a private proprietor. (Civ. Code § 669.)
- 2) Provides that any person, regardless of their citizenship status, may take, hold, and dispose of property, real or personal, within this state. (Civ. Code § 670.)

This bill:

- 1) Prohibits a business entity that has an interest in more than 1,000 single-family residential properties from purchasing, acquiring, or otherwise obtaining an ownership interest in another single-family residential property and subsequently leasing the property.
- 2) Authorizes the Attorney General to bring a civil action in the name of the people of the State of California for a violation of the above.
- 3) Requires the court to order all of the following if the Attorney General prevails in a civil action brought pursuant to this bill: order the business entity to pay a \$100,000 civil penalty for each violation of this bill; order the business entity to sell the property to an independent third party within one year of the date that the court enters the judgment; order the business entity to pay reasonable attorney's fees and costs to the Attorney General; and order any other relief the court deems appropriate.
- 4) Provides that 3), above, is the exclusive means of enforcing this bill.
- 5) Specifies that the seller shall have no liability for a violation of this bill.

- 6) Defines the following for purposes of this bill:
- a) “Business entity” means any association, company, firm, partnership, corporation, limited liability company, limited liability partnership, real estate investment trust, or other legal entity, and that entity’s successors, assignees, or affiliates, but does not include a nonprofit corporation or other nonprofit legal entity; or a person or entity primarily engaged in the construction of new housing.
 - b) “Single-family residential property” means a single parcel of real property improved with only one detached dwelling unit on it for which a certificate of occupancy has been issued.

COMMENTS

1. Author statement

According to the author:

Corporations are buying up whole neighborhoods worth of housing inventory. First-time homebuyers are not able to compete with cash offers from these large corporate firms. By outbidding homebuyers and converting properties to rentals, these corporations are taking homeownership opportunities away from hard working Californians and exacerbating the scarcity of single-family homes. This bill will protect Californians’ opportunities for stability and homeownership.

A report by the Joint Center for Housing Studies of Harvard University provided to the Committee by the author of this bill clarified the following¹:

7. Large rental operators own a small share of the single-family rental stock

According to one estimate by [Adam Travis tabulating Zillow ZTRAX data](#) for 2018, investors with at least 1,000 properties owned just 2 percent of small rental properties (single-family homes and multifamily structures with 2-4 units), though 12 percent of properties [are] owned by some corporate entity. By comparison, micro investors or mom and pop landlords with 1-2 units owned two-thirds (66 percent) of all small rental properties.

Another report provided to the Committee by the author’s office explained that investors who own 1000 of more units purchased 2% of single family homes nationwide in the first quarter of 2022.²

¹ *8 Facts About Investor Activity in the Single-family Rental Market*, Alexander Hermann (July 18, 2023) available at: [8 Facts About Investor Activity in the Single-Family Rental Market | Joint Center for Housing Studies \(harvard.edu\)](#) as of June 20, 2024.

² *Single-Family Investor Activity Bounces Back in the First Quarter of 2022* (July 7, 2022) Available at: [Single-Family Investor Activity Bounces Back in the First Quarter of 2022 | CoreLogic®](#) as of June 20, 2024.

2. The bill can harm the population the author intends to protect

This bill places restrictions on selling houses and includes enforcement mechanisms that will lead to renters being displaced.

a. Places restrictions on sellers selling housing and renting that housing

Under this bill, a business entity, as defined, that has an interest in more than 1,000 single-family residential properties is prohibited from purchasing, acquiring, or otherwise obtaining an ownership interest in another single-family residential property and subsequently leasing the property. If the business entity violates this law then the Attorney General is entitled to bring an action in court. If the Attorney General prevails then the court is required to make the business entity pay \$100,000 in civil penalties and the court is required to force the business entity to sell the property to an independent entity, within one year of the date the court enters judgment. The Court must also order reasonable attorney's fees and costs to be paid to the Attorney General and any other relief the court deems appropriate. The bill will negatively impact sellers of single family homes that would otherwise have offers from the business entity. Therefore the seller's property will have less value than it would have without this restriction.

b. Enforcement mechanisms will have unintended consequences on renters

Under this bill, a tenant who lives in a property that was acquired by the business entity in violation of the terms of the bill can end up losing their housing as the business entity will be forced to sell the home to an undefined independent entity. Presumably the author intends this to mean any person or entity that is not a business entity with an interest in more than 1,000 single family homes. When the home is sold, the purchaser may want to move into their property, thus leading to housing instability for the renter of the home. The stated purpose of the bill is to help Californians with housing stability. This bill arguably undermines Californian's housing stability. The Committee may wish to hold the bill so as not to unintentionally harm California home sellers and renters.

3. Support

In support of the bill, the American Federation of State, County, and Municipal Employees, AFL-CIO, writes:

Corporate entities' involvement in the single-family housing market has increased exponentially since the foreclosure crisis that occurred at the beginning of the Great Recession. There were thousands of available homes that had been foreclosed upon and many investment firms saw them as portfolio assets. Fast forward nearly twenty years later and giant investment firms like Blackstone are now the landlord for hundreds of thousands of single-family properties across the United States and California.

This trend has dire consequences for the future of housing in California. According to MetLife Investment Management, corporate investment entities will own 40 percent of all single-family rental units in the country by 2030. When entities like Blackstone, which manages more than \$1 trillion of total assets, buy up single-family properties, it prices out Californians like AFSCME members who may be trying to buy their first home or are looking to rent a home. While these entities claim they may let go of some of their current holdings soon because of market forces, current law would not stop them from doing exactly what they did in 2008 again.

AB 2584 aims to provide a solution to this issue by targeting the biggest culprits in the market. The bill targets corporate and other business entities that have an ownership interest in at least 1000 single-family residential properties. Specifically, it would ban these entities from acquiring ownership interests in additional homes if they plan on leasing them to prospective tenants. The bill would vest enforcement authority in the Attorney General's office and make each violation come at a cost of \$100,000.

Livable California, a supporter of the bill, writes that "[s]peculation is a key element causing high housing costs and difficulty for 1st time home buyers in California. Anti-speculation bills are rare. We welcome AB 2584's attempt to reign in this problem."

The City of San Jose writes the following in support of the bill:

According to data from the California Association of Realtors, in April 2024, the median sale price for a single-family home in California was \$904,210, an 11.4% increase from the previous year and the highest median price in the state's history. Locally, the median single-family home in Santa Clara County reached \$2 million, according to the Santa Clara County Association of Realtors. California's inventory of for-sale single-family homes has declined in recent years, making it difficult for first-time home buyers to enter the housing market.

As we work to build up our housing supply, resale listings remain stagnant as existing homeowners are reluctant to list their properties given market conditions and high interest rates. This has only deepened the housing affordability crisis as many working families and young people struggle to compete against institutional investors with the means to purchase single-family properties in cash. This bill places much-needed guardrails against this practice, allowing prospective homebuyers to compete under more fair market conditions.

The City of San José supports legislation that makes it easier for first-time homebuyers to enter the market.

Community Alliance with Family Farmers writes the following in support of AB 2584:

The bill clears a path for working-class homebuyers by prohibiting large corporate real estate firms that own more than 1,000 homes from buying additional homes and converting them to rentals. Home prices have soared in the state of California and the median home price has risen to \$800,000 in 2024. Only 15% of Californians can afford to buy a home at current costs. With nearly 75 percent of farmers operating on less than \$100,000 in gross sales in California accessing a home at such extreme prices would be nearly impossible.

Meanwhile, institutional investors and large real estate firms have gone on a homebuying spree. In 2022, investors purchased 1 in 3 homes that were on the market. In California, large landlords like Invitation Homes own thousands of single-family properties, primarily buying more affordable homes in cheaper markets. This takes away homebuying opportunities from working families like small farmers. By passing AB 2584, the state legislature could even the playing field and stop the corporate buy-out of single-family neighborhoods.

4. Opposition

The California Association of Realtors and California Land Title Association write the following in opposition to AB 2584:

AB 2584 (Lee) seeks to eliminate and prohibit anyone from owning more than 1,000 primary (1-unit) single-family homes. As drafted the measure lacks clarity. Among other things, the bill eliminates the opportunity to purchase homes once an owner reached a specified threshold which, if enacted, could be reduced to lower thresholds of unit ownership, thus restricting individual wealth generation opportunities. Furthermore, enforcement and verification of title will be nearly impossible to achieve creating unresolvable conflicts within the real estate transaction purchase process that could have a variety of unintended consequences to property ownership in California.

The California Apartment Association and California Mortgage Bankers Association write the following in opposition to AB 2584:

[. . .] CAA and CMBA continue to oppose AB 2584, your bill that would prohibit a business entity that has an interest in more than 1,000 single-family residential properties from purchasing, acquiring, or otherwise obtaining an interest in another single-family residential property and subsequently leasing the property. "Business entity" is defined in AB 2584 as any association, company, firm, partnership, corporation, limited liability company, limited liability partnership, real estate investment trust, or other legal entity, and that entity's successors, assignees, or affiliates, but does not include a nonprofit corporation or other nonprofit legal entity.

Ownership of single-family homes by “business entities” in California is extremely limited, estimated at 0.15 of 1 percent. Admittedly, there were homes purchased by business entities during the 2007-2008 financial crisis, triggered by a housing bubble in the United States, which led to massive bank foreclosures of homes during that time. Instead of keeping homes boarded up and allowing neighborhoods to decline, banks sold the homes to business entities that maintained them for tenants. Today, however, because of the high cost of homes in California, we do not see investment by “business entities” like we did in the mid 2000’s.

Today business entities are moving away from the single-family home market. It may be a better approach for AB 2584 to focus on requiring these businesses to give tenants in the home the first right to purchase the home when the entity decides to sell. We believe this is a better focus for AB 2584 and may give more tenants the option to become homeowners.

According to information provided to the Committee by the National Rental Home Council, an opponent of this bill:

Single-family rental homes account for nearly 25% of California’s housing market, providing access to quality, affordably priced housing for more than 2 million resident households across the state in neighborhoods with proximity to quality schools, employment centers, and transportation corridors. [. . .]

We are concerned about AB 2584 which proposes to target an industry with a modest presence in the California rental housing market. In recent years, many institutional housing investors have been net sellers of single-family rental homes in California. Today, NRHC members own approximately 0.15 of 1% of the approximately 8.5 million single family homes in California – the vast majority of rental housing in California is owned by non-institutional owners (“mom-and-pops”).

AB 2584 seeks to outlaw one class of home buyer from freely entering into a contract with another willing party for a home purchase. Given the scant overall institutional presence in the California single family rental home marketplace, this proposal appears to be legislating against a narrative of institutional ownership, not actual statistics.

Institutional owners of housing are able to bring rental housing products to the market more rapidly than some other potential rental property owners. In a high-cost housing market like California, more supply, and choice within that supply, should be an overriding public policy goal. The marketplace demand for rental housing in California is very strong, with many owners having occupancy rates consistently in excess of 95%. Our member companies bring choice to prospective renters who may wish to have a single-family home,

versus a multifamily (or other) housing alternative. The occupancy rates of the single-family rental homes reflect the marketplace demand for these housing choices.

SUPPORT

Alchemist Community Development Corporation
American Federation of State, County, and Municipal Employees, AFL-CIO
Ceres Community Project
Children's Partnership
CFT, AFT, AFL-CIO
City of Concord
City of San Jose
Community Alliance with Family Farmers
East Bay Housing Organizations
Housing Now! CA Coalition
Livable California
Long Beach Forward
Pesticide Action Network
Santa Monica Democratic Club
Sustainable Agriculture Education
TechEquity Action
Urban Habitat

OPPOSITION

California Association of Realtors
California Apartment Association
California Business Roundtable
California Land Title Association
California Mortgage Bankers Association
National Rental Home Council

RELATED LEGISLATION

Pending Legislation:

SB 1212 (Skinner, 2024) places restrictions on Real Estate Investment Trusts (REITs) purchasing housing, as defined, and places restrictions on REITs selling housing, as provided. AB 2584 is currently in this Committee.

AB 2230 (Bennett, 2024) enacts the Residential Housing Unfair Practices Act of 2023, to: (1) bring residential housing within the purview of the Cartwright Act, the Unfair Practices Act, and the Unfair Competition Law to prevent market manipulation of housing prices and supply during the period of the previously declared statewide housing emergency; and (2) ensure that residential housing is developed and managed

to be responsive to the needs, demands, and pricing affordable to residents of our state and not to the needs, demands, and pricing desired by nonresident investors or speculators. The bill is currently in the Assembly Judiciary Committee.

AB 1333 (Ward, 2023) prohibits a developer of residential one to four dwelling units from conducting a bundled sale of real property to an institutional investor. Applies this restriction only to properties for which the occupancy permit was issued on or after January 1, 2025. Defines "bundled sale" as the sale of two or more parcels real property containing one to four residential dwelling units, inclusive, in a single transaction. Defines "institutional investor" as an entity that is not a natural person and having portfolios containing more than 1,000 units. This bill is scheduled to be heard in this Committee on the same day as AB 2584.

Prior Legislation: None known.

PRIOR VOTES:

Assembly Floor (Ayes 48, Noes 11)
Assembly Appropriations Committee (Ayes 11, Noes 4)
Assembly Judiciary Committee (Ayes 8, Noes 2)
