SENATE JUDICIARY COMMITTEE
Senator Thomas Umberg, Chair
2025-2026 Regular Session

SB 722 (Wahab)
Version: April 21, 2025
Hearing Date: April 29, 2025
Fiscal: Yes
Urgency: No
ID

SUBJECT

Transfer of real property: single-family homes, townhomes, and condominiums

DIGEST

This bill requires that developers of single-family homes, townhomes, and condominiums only sell newly-constructed residences to natural persons, and prohibits a business entity from purchasing a newly constructed home.

EXECUTIVE SUMMARY

Since the great recession, there has been a rise in institutional investors and large business entities that purchase single-family homes and other residential properties; however, much of this activity has taken place in other parts of the country. While California's homeownership rate is lower than its peak in 2006, a plethora of factors account for homeownership rates, including demand, housing stock and production, prices, and interest rates for home loans. SB 722 aims to block out business entities from California's new housing market. It prohibits business entities, broadly defined, from purchasing newly constructed single-family homes, townhomes, and condominiums, and requires developers of such residential projects to only sell newly-constructed single-family homes, townhomes, and condominiums to natural persons. SB 722 also prohibits a natural person from selling or transferring more than four single-family homes, townhomes, or condominiums to a business entity in which they have a beneficial interest, and requires a business entity to disclose its beneficial owners. SB 722 also provides an enforcement mechanism, enforceable by the Attorney General or a local prosecutor, as defined, in which civil penalties may be awarded. SB 722's provisions are incredibly broad, and have the potential to discourage housing development in the state. SB 722 is author sponsored, and is supported by Western Center on Law and Poverty, Public Advocates, and the Sacramento Regional Coalition to End Homelessness. It is opposed by the California Land Title Association and the National Rental Home Council.

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) Requires that a developer only sell a newly constructed single-family home, townhome, or condominium that is issued a certificate of occupancy on or after January 1, 2026 to a natural person.

2) Prohibits a business entity from purchasing a newly constructed single-family home, townhome, or condominium that is issued a certificate of occupancy on or after January 1, 2026.

3) Specifies that, if a natural person or nonprofit corporation sells or transfers a single-family home, townhome, or condominium to a business entity, the business entity must disclose the names of all beneficial owners of the business entity in the real property transfer documents.

4) Specifies that a natural person shall not transfer more than four single-family homes, townhomes, or condominiums to a business entity of which the natural person is a beneficial owner.

5) Clarifies that these provisions do not prohibit a homebuilder from transferring or selling a newly constructed single-family home, townhome, or condominium to a nonprofit corporation that sells homes to low-income families participating in a below-market interest rate loan program.

6) Specifies that the Attorney General, a district attorney, county counsel, or city attorney, in the name of the people of the State of California, may bring a civil action to enforce these provisions, and that, if they prevail, the court may:
    a) order a civil penalty of $100,000 for each single-family home, townhome, or condominium sold in violation of this section; and
    b) award reasonable attorney’s fees and costs.

7) Defines, for the purposes of these provisions:
    a) "business entity" to mean 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, except for:
        i. a nonprofit corporation or other nonprofit legal entity;
        ii. a person or entity primarily engaged in the construction of new housing.
    b) "Beneficial owner" to mean a natural person for whom, directly or indirectly and through any contract arrangement, understanding, relationship, or otherwise, either of the following applies with respect to a business entity:
        i. The person exercises substantial control over the business entity, as specified; or
        ii. The person owns 25% or more of the equity interest of the business entity.
    c) "Interest" to mean any estate, remainder, or reversion, or a portion of the estate, remainder, or reversion, or an option pursuant to which one party has a right to cause legal or equitable title to housing to be transferred.

8) Repeals these provisions as of January 1, 2031.

COMMENTS

1. Author's statement

According to the author:

> Homeownership is the American Dream, and since the 2008 mortgage crisis we have seen large corporations, private equity firms, and real estate investment trusts slowly crush that dream. California has the largest economy in the nation, the fifth largest economy in the world, but we have the second lowest homeownership rate in the country. As these large institutional investors acquire more and more homes, the turnover in ownership decreases because they hold on to these properties in perpetuity. In turn, they are making it harder for homeowners to compete in the market because the number of homes that may be sold becomes more scarce; that scarcity increases the price of homes. Additionally, these large investors are shifting wealth out of our communities, out of California, and into the pockets of shareholders who do not circulate money back into our local economies at the same scale. This disinvestment through wealth shifting leads to the deterioration of small mom and pop business and our communities at large. Ensuring regular people are able to buy homes makes the dream of homeownership more attainable and enables these

same people to establish roots and create the vibrant communities we all envision for California.

2. SB 722 prohibits the sale of newly-constructed residential housing to business entities

SB 722 proposes to prohibit a developer of single-family homes, townhomes, and condominiums from selling any such housing unit to any entity that is not a natural person. It further would prohibit a natural person from transferring more than four residential units, whether or not newly-constructed, to a business entity of which the natural person is a beneficial owner. If a natural person or nonprofit corporation does sell or transfer a residential dwelling unit to a business entity, SB 722 requires that the business entity disclose to the seller the names of all beneficial owners of the business entity.

The author states that this prohibition is meant to ensure that Californians, rather than corporations, own newly constructed homes in the state. According to the author, this is important because large corporations, private equity firms, and real estate investment trusts have been acquiring more and more homes in the state. The author claims that this has increased the prices of homes in the state, and makes it harder for individuals to purchase homes because they must compete with these business entities for fewer available homes.

The author is correct that homeownership rates in California are lower now than they were at their peak in 2006, as illustrated by data from the Federal Reserve, but homeownership rates in California have actually improved since the 2010s, and are about where they were in the 1990s.[1] Another report shared by the author documents the rise of institutional investors in single-family homes since the great recession of 2008; however, that report notes that these institutional investors have primarily arisen and invested in southern states and the Sun Belt.[2] While some cities in the South and other areas of the United States have notable rates of homeownership by institutional investors, no California city is mentioned in the report for having any significant amount of homeownership by institutional investors. The GAO report also notes that it is unclear how institutional investors affected homeownership rates, as a variety of other factors affect homeownership, including foreclosures and demand for homes for sale, the amount of housing stock available, home prices and rental rates, and mortgage rates. Other reports and studies provided by the author likewise do not show that ownership rates of residential homes by institutional investors or large business entities

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[1] Federal Reserve Economic Data, "Homeownership Rate for California," Federal Reserve Bank of St. Louis (Mar. 18, 2025), https://fred.stlouisfed.org/series/CAHOWN.

[2] Government Accountability Office, Rental Housing: Information on Institutional Investment in Single-Family Homes, GAO-24-106643 (May 2024), https://www.gao.gov/products/gao-24-106643?utm_campaign=usgao_email&utm_content=topic_housing&utm_medium=email&utm_source=govdelivery.

are at significant rates in California. One report, for example, regarding San Joaquin County, found that only five percent of single-family home rentals in the county were owned by landlords with more than 25 single-family homes.[3]

3. <u>SB 722 could have significant impacts on California's housing market and home construction</u>

By placing strict prohibitions on the sale of residential dwellings, SB 722 could potentially have significant impacts on housing and the development of housing in California. Its prohibitions apply specifically to new construction, thereby disadvantaging new construction to existing housing. This, plus the fact that it would limit the number of potential buyers that a developer has for its properties, could discourage the development of new housing in California. Because SB 722 has such a broad definition for a business entity prohibited from purchasing newly constructed homes, it would not just prohibit large institutional investors, but also smaller companies. If a developer has less of an assurance that they will be able to sell their homes, they are less likely to engage in development at all. Moreover, because existing homes would not be subject to SB 722's prohibition, existing homes may see greater demand or prices than new construction, thereby also discouraging new development. This could hamper the state's efforts to combat the state's housing crisis, and could actually exacerbate that crisis.

In addition to its potential affect on new construction, SB 722 would also place limitations on developers and individuals attempting to sell their homes that would interfere with their ability to sell their home to the highest bidder. Homeowners, when they sell their home, aim to receive the highest price they can obtain for their home, so as to achieve the highest possible return on their investment. And why should they not be able to sell their home to the highest bidder, regardless of whether that bidder is an individual or a business or institutional investor? Limiting a homeowner or developer's ability to sell their property to any bidder hampers this right, and could well result in the homeowner receiving a lower price for their home than they otherwise would receive. Without definitive, conclusive evidence of the prevalence and negative impacts of homeownership by businesses in this state, such a drastic interference with the market may be unjustified.

4. <u>Arguments in support</u>

According to Public Advocates, which supports AB 722:

> Public Advocates is a nonprofit law firm and advocacy organization that challenges the systemic causes of poverty and racial discrimination by

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[3] Paul M. Ong et al., Patterns of Corporate Ownership of Single Family Home Rentals: San Joaquin County, UCLA Center for Neighborhood Knowledge (Feb. 2022).

> strengthening community voices in public policy and achieving tangible legal victories advancing education, housing, transportation equity, and climate justice.
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> Per the Public Policy Institute of California (PPIC), California continues to have one of the lowest homeownership rates in the nation. It also notes that homeownership rates remain especially low for young adults, as aging and older adults are choosing to age in place. A 2017 study by the Federal Reserve Bank of Atlanta found "large corporate owners of single-family rentals, which we define as firms with more than 15 single-family rental homes in Fulton County, are 8 percent more likely than small landlords to file eviction notices."
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> Corporate ownership of single-family homes, townhomes, and condos is fundamentally shifting how the home buying market functions. These corporations are pricing out the average Californian and will reduce—in the long-term—the market because a house is long-term investment that they can profit from over decades. Whereas, for a family in California, a house they own becomes a predictable expense in their cost of living.
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> We must actively protect our supply of single-family homes, townhomes, and condos in order to improve homeownership in California.

5. <u>Arguments in opposition</u>

According to the National Rental Home Council, which opposes SB 722:

> SB 722 is extremely broad, restricting virtually all business entity legal structures from freely entering into contracts to purchase new residential property. NRHC members have a small, fractional presence in the California new home marketplace. However, our members are generally financing the construction of new housing in California, adding to the overall state housing stock as California seeks measurable progress during a housing availability crisis. In some cases, new housing construction in the state would not proceed at all without investments by business entities. SB 722 would have the practical impact of artificially limiting new housing opportunities for natural people.
>
> This bill can also hamper economics flows for new housing construction. By limiting the buyer pool, new homes could take longer to sell, slowing some developers from recouping the financing needed to advance to the next new housing project. Slower return on investments will not stimulate new housing investments at a time when California needs capital to flow into housing construction.

> The California rental housing marketplace is evolving to provide a broader variety of housing options that includes condos, townhomes and single family. SB 722 seeks to temporarily allow business ownership of multifamily housing only, thereby limiting new housing variety for the California renter community. This bill will have the effect of driving renters to multifamily options only. The California housing crisis will not be solved without increasing the overall housing stock, and SB 722 creates countervailing pressure against new construction.
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> Lastly, the substance of SB 722 represents a significant housing policy disconnect in California. On the one hand, State of California financial entities are providing capital for new, in-state rental housing construction, not limited to multifamily, while on the other hand, the Legislature considers restrictions on those who manage those investments and facilitate the construction.

SUPPORT

Public Advocates
Sacramento Regional Coalition to End Homelessness
Western Center on Law & Poverty, Inc.

OPPOSITION

California Land Title Association
National Rental Home Council

RELATED LEGISLATION

Pending Legislation:

AB 1240 (Lee, 2025) 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. AB 1240 is currently pending before the Assembly Appropriations Committee.

Prior Legislation:

SB 1212 (Skinner, 2024) would have placed restrictions on Real Estate Investment Trusts (REITs) purchasing housing, as defined, and would have placed restrictions on REITs selling housing, as provided. SB 1212 died in this Committee.

AB 2584 (Lee, 2024) would have prohibited 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. AB 2584 died in this Committee.

AB 2230 (Bennett, 2024) would have enacted 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 died in the Assembly Judiciary Committee.

AB 1333 (Ward, 2023) would have prohibited a developer of residential one to four dwelling units from conducting a bundled sale of real property to an institutional investor. Would have applied this restriction only to properties for which the occupancy permit was issued on or after January 1, 2025. Defined "bundled sale" as the sale of two or more parcels real property containing one to four residential dwelling units, inclusive, in a single transaction. Defined "institutional investor" as an entity that is not a natural person and having portfolios containing more than 1,000 units. AB 1333 died in this Committee.

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