



Quality Housing • Ethics • Professionalism



March 25, 2014

The Honorable Mark Leno
California State Senate
State Capitol, Room 5100
Sacramento, CA 95814

RE: SB 1439 - Ellis Act: OPPOSE

Dear Senator Leno:

On behalf of the members of the California Apartment Association (CAA), I am writing to inform you that CAA has taken an oppose position on Senate Bill 1439, your legislation that amends the State Ellis Act and forces rental property owners to hold their properties for at 5 years before being able to sell or convert them.

Passed by the State Legislature in 1985, California's Ellis Act provides that no local government can require a rental property owner to continue to offer his or her housing for rent. Over the years, rental property owners have relied on the Ellis Act in order to avoid the potential for bankruptcy or to move into their own rental units.

SB 1439 significantly amends the Ellis Act and creates a host of challenges for rental property owners and their families. These include:

Forces Property Owners into Bankruptcy

If SB 1439 becomes law, rental property owners may no longer be able to sell a property, even if they are losing money every month. There is no other industry in the United States where a local government can force a small business owner to stay in business against his or her will, even when losing money. The Ellis Act is used by small property owners, with duplexes or Victorians, who no longer want to, or can afford to, stay in business.

In addition to forcing rental property owners to hold on to their property for 5 years before they can sell or convert their housing, SB 1439 also prohibits an owner from utilizing the Ellis Act on more than one property. As a result, owners with more than one property are forced to continue losing money on all their other properties in perpetuity.

Prevents Families from Moving Into Their Own Homes

SB 1439 would prevent families who own small rental buildings from creating a home that meets their needs. It would prevent a family from combining two or three small units into a larger one to provide a home for a growing family. Couples with young children often find themselves in need of additional space they did not anticipate when they purchased a 2 or 3 unit Victorian rental. In San Francisco, in many cases, the Ellis Act is the only way for small property owners to move into their own units.

▪ **Sufficient Tenant Protections Currently in Place**

Current law expressly allows local governments to impose a variety of requirements on owners who desire to exit the rental market, including relocation assistance to displaced tenants, specific notice periods, and deed restrictions. In San Francisco, for example, an owner must pay each tenant \$5,265 when the owner wishes to take the units off the market. In addition, owners must pay an additional \$3,510 for each elderly or disabled tenant, for a total of \$8,769 per person, per unit. An owner must also provide tenants with a minimum of 120 days' notice to a maximum of one-year notice if the tenant is senior or disabled.

▪ **Fails to Solve Housing Problems nor Does it Create More Housing**

Proponents claim that there has recently been a drastic increase in Ellis Act evictions in the City of San Francisco, and blames rental property owners for their housing problems. According to a San Francisco Board of Supervisors, Budget & Legislative Analyst Report, dated October 30, 2013, there were 116 Ellis Act evictions in 2013. *In a city with over 175,000 rent controlled units, that amounts to 0.06% of rental units.*

▪ **Reduces the Value of Rental Property**

By limiting the ability of owners and buyers to sell or convert their properties, SB 1439 significantly reduces the value and marketability of a property. Potential buyers who seek to purchase a 2 or 3 unit Victorian and combine units for a home will not buy a property they can't move into or convert. As a result, an existing owner must continue to lose money each month with reduced options to sell. The bill would create significant disincentives to ownership and investment in smaller rental properties.

While CAA does not promote the elimination of rental housing, owners must be given equitable opportunities and solutions to exit the rental market, particularly in jurisdictions where local laws have become overly burdensome to the point that they make it difficult for owners to operate effectively. We stand ready to work with advocates to find ways to encourage more rental housing opportunities instead of misguided approaches that do nothing to create more housing.

The California Apartment Association is the largest rental housing trade organization in the country, representing more than 50,000 owners and operators who are responsible for more than 2 million rental units.

Sincerely,

CALIFORNIA APARTMENT ASSOCIATION



By
Shant Apekian
Vice President Public Affairs

cc: Senate Transportation and Housing Committee
Senate Republican Caucus