BLUE FOLDER ITEM

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CITY COUNCIL MEETING
MARCH 19, 2024

N.3 DISCUSSION AND POSSIBLE ACTION REGARDING THE CITY COUNCIL'S POLICY POSITION ON CALIFORNIA ASSEMBLY BILL (AB) 2230 (BENNETT) WHICH SEEKS TO APPLY RESIDENTIAL HOUSING TO CALIFORNIA'S PRINCIPAL ANTITRUST LAW AND CLARIFY THAT CITY ATTORNEYS MAY INVESTIGATE AND PROSECUTE ANTI-COMPETITIVE BEHAVIOR

PROVIDE DIRECTION TO STAFF ON THE PREPARATION OF A LETTER OR RESOLUTION ARTICULATING THE CITY'S POSITION ON AB 2230

CONTACT: LUKE SMUDE, ASSISTANT TO THE CITY MANAGER

- **SUMMARY AND BACKGROUND OF AB 2230**
- **ANTITRUST ADVOCACY LETTER TO CITY ATTORNEY MIKE WEBB FROM THE OFFICE OF THE LOS ANGELES CITY ATTORNEY HYDEE FELDSTEIN SOTO**
- **BANK RATE ARTICLE- HOW REAL ESTATE INVESTORS AFFECT THE HOUSING SHORTAGE**

AB 2230: Anti-Trust Practices - Housing

SUMMARY

Assembly Bill 2230 would clarify that California's anti-trust laws can be applied to anti-competitive practices occurring in residential housing, and would clarify that City Attorneys may investigate and prosecute anticompetitive behavior.

BACKGROUND

California is currently experiencing a housing and affordability crisis that disproportionately affects low-income households and historically disadvantaged communities. For example, 55% of very low-income households, and 23% of low-income households, are spending over half of their income on rent, compared to 6% of moderate-income households.

Although the lack of affordable housing stock contributes to the lack of affordability, market distortions make the existing crises more pronounced in rent burdened communities. Despite owning 3.6% of apartments and 1.6% of rental homes nationally, institutional investors can still have adverse impacts. A Washington Post analysis in 2022 found that some zip codes in Los Angeles, Oakland, Sacramento, San Francisco, San Jose, and San Diego saw an increase in investors purchased properties, with one zip code in Los Angeles seeing as many as 48% of properties sold that year being bought by investors.

The same Washington Post analysis found that "30 percent of home sales in majority Black neighborhoods went to investor." The U.S. Department of Housing and Urban Development's Office of Policy Development and Research has noted that institutional investors have concentrated their purchases in low-income communities throughout the US, and were 68% more likely to file for eviction, compared to small landlords.

California residents have experienced the effects of this steady increase of investor owned properties. In San Diego, one group bought 66 relatively low-rent apartment buildings that resulted in rent increases between 7% and 201%.

As institutional investors, with vast resources, continue to purchase property in California they can potentially limit the ability for individuals and families to compete for the limited housing stock available. The growing role of algorithms as a tool for property owners to adjust their rental or sale price, and consolidation of properties at the zip code level requires scrutiny to ensure that the housing market is not being manipulated.

THIS BILL

AB 2230 would explicitly list residential housing to the California's principal antitrust law (the Cartwright Act), and clarify that a City Attorney could enforce violations of the act, or other anticompetitive practices.

California anti-trust law already makes it illegal for two or more persons to restrain trade, fix prices or production, or reduce competition, and this bill would ensure proper enforcement against anticompetitive practices in housing. AB 2230 provides the Attorney General and City Attorneys the necessary tools to protect California residents from market distortions that only worsen our housing crisis.

SUPPORT

Office of the Los Angeles City Attorney

OPPOSITION

CONTACT

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Office of the Los Angeles City Attorney
Hydee Feldstein Soto

March 5, 2024

Michael Webb, Redondo Beach City Attorney (via email only)

Re: Residential Unfair Housing Practices Act

Dear City Attorney Webb:

Our office is writing to seek your office's support of the Residential Unfair Housing Practices Act, Assembly Bill (AB) 2230, introduced by Assemblymember Steve Bennett (D- Oxnard).

As the attached Fact Sheet from Assemblymember Bennett's office indicates, California is currently experiencing a housing and affordability crisis that disproportionately affects low-income households and historically disadvantaged communities. For example, 55% of very low-income households, and 23% of low-income households, are spending over half of their income on rent, compared to 6% of moderate-income households.

This problem is made worse by the fact that more and more properties available for sale in California are being purchased by institutional investors.

AB 2230 would clarify that California's anti-trust laws can be applied to anti-competitive practices occurring in residential housing, and would clarify that City Attorneys may investigate and prosecute anti-competitive behavior. In San Diego, one investor group bought 66 relatively low-rent apartment buildings that resulted in rent increases between 7% and 201%. And Los Angeles saw one zip code have as many as 48% of properties sold that year to institutional investors.

As institutional investors, with vast resources, continue to purchase property in California, they can potentially limit the ability for individuals and families to compete for the limited housing stock available. The growing role of algorithms as a tool for property owners to adjust their rental or sale price, and consolidation of properties at the zip code level, requires scrutiny to ensure that the housing market is not being manipulated.

AB 2230 provides that protection to all California residents.

AB 2230 is needed *now*, as the U.S. Department of Housing and Urban Development's Office of Policy Development and Research has noted that institutional investors have concentrated their purchases in low-income communities throughout the US, and were 68% more likely to file for eviction compared to small landlords. This is happening all over California, and if this problem is not solved our affordable housing crisis will continue to grow.

Thank you for your consideration of the Residential Unfair Housing Practices Act. If you have any questions that our office can answer to help with your decision to support this bill, please do not hesitate to contact me, or the City Attorney directly at hydee.feldsteinsoto@lacity.org.

Sincerely,

KEVIN JAMES
Special Assistant City Attorney
kevin.james@lacity.org
213-978-8100

REAL ESTATE

How real estate investors affect the housing shortage

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4 MIN READ

February 15, 2023

Written by **TJ Porter**   Edited by **Michele Petry**

Real estate has seen a lot of volatility over the past few years. Home prices have skyrocketed; mortgage rates have fluctuated wildly. And while the severe inventory squeeze may be starting to ease up, the supply of homes for sale is still well below what a balanced market requires.

Many factors have influenced this unusual market, of course. But one that affects the housing shortage in particular is institutional real estate investment. Institutional investors purchased 13.2 percent of all properties sold in 2021, according to a 2022 report by the National Association of Realtors (NAR). Perhaps more concerning is the fact that they bought those homes for 26 percent lower than the state median prices during that period.

These large investment companies are exacerbating the home-inventory shortage by buying up the most affordable properties and renting them out, making it even harder for individuals and families, especially first-time homebuyers, to get themselves onto the housing ladder.

What are institutional investors in real estate?

Institutional investors are typically large companies (ie, institutions) looking to make an investment that ultimately turns a profit. They can invest millions, or even billions, at a time.

When it comes to real estate, these companies typically buy up large amounts of properties. An institutional investor might purchase 100 or more homes in a single city, creating a portfolio of properties that they can then rent out to tenants for a profit. This removes those homes from the sales market for residential buyers, making an already-low supply dip even lower.

How investors affect housing inventory

Because of their sheer size and deep pockets, institutional investors can have a massive impact on home inventory on both a local and national scale. This is particularly true in growth areas, where companies can swoop in and get what practically amounts to a “bulk deal” on inexpensive houses. While that may be good for business, it’s bad for hopeful homeowners: The number of homes these companies are able to purchase can greatly reduce the available supply in a given area, especially for affordable starter homes, making it even harder for regular buyers to compete.

To make matters worse, many investment companies make cash offers to buy homes and are willing to accept them as-is. This makes them more appealing to sellers than individual buyers, because there’s no financing risk and no need to worry about appraisals, repairs or updates.

Because of their financial resources, institutional investors “are often able to lose money on properties for a few years, eventually increasing rent enough to make it worthwhile,” says Dennis Shirshikov, head of content at Awning, a San Francisco–based real estate tech company and brokerage.

Even people who aren't looking to buy a home can feel the squeeze in housing inventory caused by these investors. For example, with fewer people able to buy homes, more people wind up renting, which in turn can drive up rent prices.

Which markets are most affected?

While institutional investors are putting a strain on housing supplies across the country, the most affected areas are typically located in the south. The top five states with the highest share of institutional-investor purchases, according to the NAR report, are:

State	Share of homes sales that went to institutional investors
Texas	28%
Georgia	19%
Oklahoma	18%
Alabama	18%
Mississippi	17%

The next five states, Florida, Missouri, North Carolina, Ohio and Utah, all tied for sixth place with 16 percent. Some areas are affected particularly heavily. For example, in Lincoln County, Mississippi, more than 60 percent of homes sold went to institutional investors. In Charlotte, North Carolina, a hot and growing real estate market, corporate investors were responsible for 32 percent of home purchases in the fourth quarter of 2021.

Some fear that institutional investors are creating a long-term shortage of inventory in these markets. "When a hedge fund comes in and buys up a bunch of single-family properties, those houses are gone," says Doug Greene, owner of Philadelphia-based Signature Properties. "And if they ever decide to sell, it will be to another large institution, which means they may never come back onto the market for the regular homebuyer."

Investment buyers declining in some markets

Interestingly, according to a new Redfin report, the phenomenon of investors buying up residential homes may have peaked. The company found that investor home purchases fell drastically over the course of 2022, declining by 45.8 percent from the fourth quarter of 2021 to the fourth quarter of 2022.

The decrease was particularly notable in markets that saw a large bump in population during the pandemic. Five markets saw investor purchases fall by more than 60 percent, according to the report: Las Vegas (-67.0 percent), Phoenix (-66.7 percent), Nassau County, New York (-63.0 percent), Atlanta (-62.8 percent) and Charlotte (-61.9 percent). In fact, of the 40 metro areas Redfin analyzed, only one saw an increase in investor purchases: Baltimore, which was up by 1.4 percent year-over-year.

What homebuyers can do

There is still hope for house hunters, though. Even if you live in a market where institutional investors have taken up a lot of the inventory, here are a few things you can do to improve your chances of buying a home.