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Fact Sheet: AB 1771
California Housing Speculation Act

PROPOSED BILL

AB 1771 would impose a 25% surtax on the profit from the quick sale of a home or residential property by investors seeking short term investments. After the third year of the original purchase, the surtax would be reduced by 20% until it is reduced to 100% by year seven.

The Franchise Tax Board would collect the revenue, and the funds would be placed in the Speculation Recapture Community Reinvestment Fund. Generated funds would be allocated to counties to create affordable housing, school districts, and to cities and unincorporated areas for community infrastructure.

The tax shall be exempted for first-time home buyers, active military personnel, sites providing affordable housing, sites where the same owner is listed on the total property or a part of a divided property, undevelopable, open space or vacated space.

BACKGROUND

In 2021, home prices climbed statewide by more than 17%, and in some regions exceeded 20% year-over-year with forecasts of a continued rise in 2022. While this is generally attributed to a continued supply/demand imbalance, new home permits have also risen after years of decline, albeit still not fast enough.

Additionally, inferred market analysis suggests that investor-bought homes represented approximately 51% growth of sales year over year from 2020 to 2021 in Southern California, compared to a national average of 18%. This activity represents a major market concern, which contributes significantly to the economic and social risk to the State. We have seen this growing trend of short term investors affect housing costs in resale properties, upzoned properties and new constructions.

For resale property – short term investors see a quick return on investment through purchasing a property and then selling it a short time later with minor or no improvements, at a much higher price. If new buyers pay more, all comparable properties and future sale costs are inflated. Further, there is increasing observation about who “wins” a bidding war: all-cash buyers, often dubbed ‘investors,’ leave potential middle-income buyers losing more opportunities.

For upzoned property – the same concern is raised when an investor rezones a single family home and develops it into luxury units. When developed, the new units are sold at such high costs that attainable housing is not the end-result, instead there are more units of expensive housing. The result is a profit flow through to the developer and an unchecked market that allows for too much equity flow-through and excessive profits.

For new construction – investors often purchase empty lots and wait for their value to increase in a few years. Once the value is at a desirable profit, the investor will sell the plot to a developer. This process is often repeated multiple times before any housing is developed. This significantly adds to the burdensome cost of developing new housing, making it more difficult to make housing affordable.

Land values are becoming an increasingly higher percentage of the assessed values of a property – historically, they may have been 30 percent of an assessment, but today can account for 50-60% or more. Long-term equity for homeowners, or long-term rental units, should continue to be a dream to attain for building personal wealth, but short-term equity gains that use limited real estate as an investment vehicle and create market distortions need to be addressed.

As a consequence to these growing trends, new homebuyers are increasingly locked out of the housing market and forced to move out of their communities, and away from city and job centers in search of more affordable options.

California's housing market has been manipulated to profit the rich. Legislative action is necessary to discourage short term investments, and to allow all Californians to invest into a community to call their home.

SOLUTION

AB 1771 will offer financial control to dissuade short-term investment in housing stock and give an advantage to potential homebuyers interested in entering the housing market, or seeking long term asset in a home.

By utilizing a 25% surtax on the portion of a qualified taxpayer's net capital gain from the sale or exchange of a home or residential property, potential short term investors would see risk increased and make choices to invest outside the housing market instead, giving average buyers a stronger chance of succeeding in their offers to purchase a home. Furthermore, the Speculation Recapture Community Reinvestment Fund would directly benefit local government, schools, and affordable housing resources to offset the impacts created by non-resident owners.

SUPPORT

OPPOSITION

FOR MORE INFORMATION

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