[Date]

The Honorable \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

California State Assembly

[Office Address]

***Re: AB 1771, California Flip Tax Bill (California Housing Speculation Act)***

Dear Assembly Member \_\_\_\_\_\_\_\_\_:

I am one of your constituents. My name is [Name] and I am a[n**]** [Insert Profession] who has been actively making loans primarily to mom-and-pop real estate investors. I am writing about AB 1771 and the negative impacts it would have on my small business, other businesses involved in my business, and the local housing market.

Every year, hundreds of millions of dollars are invested with real estate investors to turn dilapidated, blighted, and often vacant structures into housing that is safe and fit for human habitation. This investment not only improves the housing stock but often adds housing by turning previously unused properties into habitable apartments, condominiums, or single or multifamily homes. It also employs thousands of local contractors, material providers, engineers, architects, and other local trades people. These jobs will be at serious risk of loss or diminishment should this Bill pass.

As described below, the impacts of AB 1771 include:

* Negative outcomes for local investors, Realtors, lenders, contractors, and escrow professionals
* Lower RHNA numbers
* Increased Wall Street institutional purchasing activity
* Increase in outdated and inefficient housing stock
* Lower tax basis
* Lower owner-occupancy rates

The typical real estate investor we work with will hire local contractors and invest significant sums of money renovating the property with the intent to sell a turnkey property to a first-time homebuyer shortly thereafter. Should this bill pass, these same investors have indicated that their intent would be to simply purchase the same properties, renovate them and then offer them for rent since they will be required to hold for a period of seven years. Effectively, what would be an opportunity to increase inventory and improve communities will turn into one less property available for purchase.

The other unintended consequence is this directly benefits Wall Street institutional buyers armed with billions and that are targeting first-time buyer inventory in California for acquisition. They do not do extensive renovations and resell. They hold these houses long-term as rentals. Getting rid of the small investor lowers the amount of competition Wall Street faces, increasing the amount they will buy. More first-time buyers will be frustrated as they are outbid by Wall Street who buy all cash.

Real estate investors create local jobs, improve the tax base, raise values for the neighborhood, and eliminate blight. In addition, they renovate properties in the communities they live in rather than a Wall Street institutional player that can afford to lose money through overbidding on every transaction and simply views the property for its rental income potential.

**Please vote NO on AB 1771.**

**Wall Street vs Main Street investors?**

**Institutional Investors:** In 2012, Wall Street entered the investor space in California via trustee sales. At the time, California prices had dropped in many areas by 50%. The play at the time was for Wall Street to purchase properties at the courthouse steps, evict the occupants, and hold the property as a long-term rental. They have continued this venture and many new players have entered the space raising billions to continue turning houses into long-term rentals. Their target “buy box” is first-time buyer range inventory. The unfortunate reality is builders aren’t building as often in this price range. Any property Wall Street buyers is one less house available for first-time buyers. Their activity is hard to monitor as they open new entities constantly. They purchase from ibuyers, on the MLS, and have even started building their own inventory.

**iBuyers:** These new tech-enabled behemoths went from $0 to being worth billions, even though they lose billions. Zillow, Offerpad, Redfin, and Opendoor have been operating in California since 2017. They never intended to make a ton of money on the buy-sell side of real estate. Instead, their aim was to introduce tech to enable a fast transaction in an ecosystem they control, making money on many pieces of the transaction including sales, closings, and loans. Unfortunately, the data on “investors” reported in the media is incorrect as iBuyer activity is included. Most investor formulas look at properties purchased and resold within six months. iBuyers typically do few repairs before relisting and falls within this category. In Q4-2021, [Zillow reported spending $5,555](https://s24.q4cdn.com/723050407/files/doc_financials/2021/q4/Zillow_4Q-21_Shareholder_Letter.pdf) on average to repair a property, far less than the average Main Street investor. 90% of their sales go to an owner occupant unless they sell to institutional players which has been increasing as reported by [Bloomberg News last year.](https://www.bloomberg.com/news/articles/2021-05-21/mega-landlords-are-snapping-up-zillow-homes-before-the-public-can-see-them) iBuyers rarely tackle properties that need substantial renovations or where the owner needs a creative solution. They don’t want people or property problems; they are built for scale. “We have a history of losses, and we may not achieve or maintain profitability in the future.” ([Opendoor’s Q4 10-K report](https://investor.opendoor.com/static-files/f9ceaf54-a0cb-4a84-af91-4a129b10eb77))

**Main Street.** Mom-and-Pop investors live locally. They live, work, play, give, and hire here. They aren’t afraid of accessory dwelling units, hoarder houses, lot splits, or additions. Unlike Wall Street, Main Street will tackle the ugly ones that need work. Legislation often targets these large layers but it ends up impacting small businesses already challenged to compete with Wall Street players that don’t have to make a profit to survive for years.

**Alternative Solutions**

The Assembly should consider providing incentives, including tax **credits**, to investors who create additional housing stock for California homeowners through accessory dwelling unit (ADU) subdivisions or otherwise. This targeted approach would provide at least partial immediate relief to the affordable housing crisis in California.

All counties and municipalities in California should also consider simplifying and streamlining the process by which investors seek permits and related approvals for property renovations. To achieve new and improved housing stock in the immediate future, it is critical that all local governments in California adopt uniform and simplified processes and procedures providing for such permits.

Since 2017, California has implemented several laws making ADUs easier and less costly to produce. Local investors can continue to add ADUs to flip projects while upgrading the primary structure. The two units will more closely match, upgrades in systems will be less of a burden on infrastructure, and new owners can more easily finance such dwellings upon completion.

California Senate Bill 9, also known as the California Home Act, became law on January 1, 2022. This Act streamlines the process for a homeowner to create a duplex or subdivide an existing lot, thereby enabling homeowners to provide access to more ownership options for working families who would otherwise be priced out of neighborhoods. Unfortunately, investors are not able to take advantage of this legislation, because local agencies must impose owner-occupancy requirements as a condition to receiving ministerial lot split. If the Act were amended to allow local investors to participate, these investors could deploy private capital and the resources to facilitate these lot splits. Local investors have the ability and experience necessary to assist municipalities in designing appropriate and thoughtful projects consistent with the tenor of the neighborhood, thereby maximizing homeowner value.

**Conclusion**

The intended goal of AB 1771 is to ensure investors don’t outbid potential owner-occupants. Unfortunately, the outcome of this bill encourages the very activity it seeks to limit. Wall Street will continue to spend billions buying first-time buyer inventory to hold as rentals. The bill will greatly reduce local Main Street activity and impact its ability to help local jurisdictions from adding to RHNA goals.

Thank you for your consideration, and please feel free to contact me if you would like to discuss this issue further.

Sincerely,

[Name]

[Address]

[City, State and Zip]

[Phone Number]

[Email Address]