[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 renovating houses since [year started flipping]. 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.

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 activity
* Increase in outdated and inefficient housing stock
* Lower tax basis
* Lower owner-occupancy rates

When I renovate a property, I help sellers exit their property all cash and in as-is condition. In many instances, the property is in such disrepair, the average lender will not fund the property because of poor condition. The property is typically off-market and is not listed on the MLS due to the condition.

On average, I spend [$ average amount costs for renovations], I hire on average [number of local contractors] local contractors, and it takes on average [number of months] to complete. [please indicate here if you are building ADUs as part of your flips]. When the property is fully renovated, it goes back on the market. The target audience is an owner occupant that benefits from a fully renovated property that needs zero additional work making it easier for them to afford.

Covid, supply chain disruptions, and inflation have already greatly increased risks and costs for my business. AB 1771 would completely upend my business along with impacting the extended team of contractors, Realtors, lenders, and escrow professionals involved in every transaction. If forced to comply with the new taxes, my only option, should I stay in the business, is to build that in as a cost and the seller would receive less for their property. This would mean they have less to bring to the next transaction as well as creating lower comparable sales.

The other unintended consequence is this directly benefits Wall Street institutional buyers armed with billions that are targeted first-time buyer inventory in California. 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 they face, increasing the amount they will buy. More first-time buyers will be frustrated as they are outbid by Wall Street who buy all cash.

I create local jobs, improve the tax base, raise values for the neighborhood, and eliminate blight. In addition, I live here, I work here, I give here, and I hire here. I am a small business owner and not a Wall Street institutional player that can afford to lose money on every transaction. Please reconsider this well-meaning but ill-proposed bills and focus instead on allowing the private sector to participate via SB9 and SB10 to meet and exceed RHNA targets.

I believe that this proposed legislation has far-ranging unintended and materially adverse consequences for private investors, like me, as well as for small businesses and business start-ups that rely on small businesses like mine. I am deeply concerned that the costs, benefits, risks, and returns of this legislation are not currently understood by policymakers and want my voice to be heard.

**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.

**3 Ways Main Street Can Help Cities Meet RHNA Numbers**

Instead of limiting flips, the state and cities can leverage the private sector to help meet their RNHA numbers with three bills that have already passed. As it stands, California has mandated that most cities meet or exceed their top production year and repeat that for the next eight years or lose funding. This is impossible without the help of the private sector.

1. **ADUs.** Since 2017, California has implemented several laws making accessory dwelling units 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 these when they are complete. Investor-built ADUs cost the city nothing yet add to RHNA goals.
2. **SB9.** This bill went into effect January of 2022 but excludes Main Street investors. Main Street investors have access to private capital and teams that can create these lot splits. Making SB9 investor-friendly would allow them to assist cities to meet their RHNA numbers, allowing cities to creatively go after larger projects on target price points. No extra infrastructure is needed, no city funds need to be spent. Investors also have the experience to carefully design projects to match the neighborhood to maximize values.
3. **SB10.** This bill also went into effect in January of 2022 and thankfully includes investors. However, it requires cities to designate where these projects are best suited, and this has not happened quickly. Upzoning and reaching out to local Main Street investors will be a huge benefit to cities in need of more inventory. The professionals can complete these projects with private financing as well.

**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]