FACT SHEET FOR AB 1850 (Ward) TO ESTABLISH MINIMUM STANDARDS FOR LOCAL GOVERNMENT ACQUISITION OF MIDDLE-INCOME HOUSING

Problem: There is a new and growing phenomenon of private investors using local governments to purchase luxury housing developments, gain a property tax exemption, and then offer minimal rent reductions for middle income households. To date, at least 28 acquisitions have occurred in California, removing more than $4 billion in real estate from property tax rolls. As currently structured, these transactions do not provide public benefit commensurate with the lost tax revenue. Moreover, they are inherently risky ventures at high risk of default and pay out exorbitant fees to the investors. A recent article by Forbes highlights the unregulated nature of these acquisitions.

Solution: AB 1850 recognizes the potential benefit of local government ownership of middle-income housing but sets minimum standards for these transactions to ensure commensurate public benefit. Specifically, the bill requires that each acquisition:

- Be subject to a traditional 55-year deed restriction requiring affordability to low- and moderate-income families.
- Ensure rent savings at least 10% below current rents and 20% below market rents for the neighborhood.
- Calculate affordability using the traditional standard of 30% of the targeted percentage of area median income, as opposed to the unusual 35% common to these transactions.
- Require amortizing loans and standard financial underwriting to ensure long-term viability.
- Grant the local government owner the right to approve all debt taken out against the property.
- Ensure appropriate public monitoring over time.

Sponsors: California Housing Partnership
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