Real Estate

California Doesn’t Want Landlords or Investors. Maybe it is Time to Listen to Them.

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Each year, California seems to make the real estate business much more difficult. The state’s hostility to employers, landlords and investors is clear. It seems like California wants us gone. Maybe we should start listening.

LOS ANGELES EVICTION MORATORIUM AND EXPANSION OF RENT CONTROL

On January 20th, the Los Angeles City Council formalized its decision to end the COVID eviction moratorium on January 31 – but also issued a slew of new eviction and rent increase limitations: including expanding these rules to single family residences and condominiums. Then on January 24th, the city council voted to extend the eviction moratorium by an additional two months to the end of March, 2023. Since this has been extended repeatedly since the pandemic’s start 3 years ago, will March really be the end of it?

THE SPREAD OF RENT CONTROL STATEWIDE AFTER IT WAS RESOUNDINGLY VOTED DOWN IN AN ELECTION

In 2019, I wrote two articles about the spread of rent control in California. In them, I noted that Proposition 10 – which sought to expand these regulations in the state – was soundly defeated on the ballot 59% to 41%. Since California voters overwhelmingly stated they did not want rent control, the state responded by instituting statewide rent controls that limit annual rent increases and restrict evictions to “just cause only.” The state is so hostile to landlords that it will ignore voters in order to “get” them.

THE “MANSION TAX.” SURPRISE! IT APPLIES TO ALL REAL ESTATE OVER $10 MILLION

Ballot measure ULA in Los Angeles County last November promised to “soak the fat cats” with a “Mansion Tax” on sales of property over $5 million. After the measure passed, the real effects be-came clearer: This is not a tax on “mansions” but a tax on all real estate sales above that amount. Properties selling for greater than $5 million will pay a 4% tax and those valued over $10 million will pay 5.5%. The existing Los Angeles City and County transfer tax, of course, will remain in place so sellers can add 0.56% to those numbers.

It’s easier to get citizens to vote for something if it doesn’t apply to them, but this law doesn’t include provisions for inflation or the eventual rise of real estate values. According to realtor.com, the median

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home sales price in Los Angeles County from 2022 was $824,900. Between 2000 to 2022, home values in the county rose at 6.25% annually. If this trend continues, the average home will be worth $5 million in September of 2051. Could you imagine paying a tax of 4.5% when you sell an average house? Your grandkids will!

THE PROPOSED "WEALTH TAX" OF 1% ANNUALLY ABOVE $50 MILLION

In 2020, the California State Senate declined to pass a statewide "wealth tax" but Assemblyman Alex Lee introduced a new bill in mid-January this year that would impose an annual 1.5% tax on "worldwide net worth." Once again, the bill's headline sells going after the very rich while the fine print in the bill attacks much "smaller fish." This tax will start at 1% on a net worth over $50 million. Once again, time will make this tax affect a lot of people: If you currently own an $8.1 mil-lion real estate portfolio, or are working to build one, it could be worth $50,000,000 in just 30 years if we see that same 6.25% annual growth. Remember that hamburgers used to cost 20 cents, so what will 1% of $50 million be like 30 years from now? The same as 1% of an equivalent amount of money today. 1% of the previously mentioned $8.1 million is $81,000. Can you imagine paying an additional $81,000 of taxes every year? Real estate investors could be faced with just that in 30 years.

OTHER STATES ENCOURAGE GROWTH WHILE CALIFORNIA DISCOURAGES IT

Other states are actively courting growth and seeking to attract the ingredients to drive it. To create economic growth, a region needs capital and investors to spend that capital building companies and generating jobs – and then creating places for those employees to eat, shop and live. States like Texas and Florida are actively seeking ways to attract wealthy investors, developers and employers. Based on California's actions, on the other hand, it is hard to believe that they are not intentionally trying to drive these positive attributes out of the state.

TAXES DISCOURAGE WHILE INCENTIVES ENCOURAGE

The field of economics teaches us that raising the price of something will result in less of that product getting sold. Higher minimum wages make labor more expensive and lead to fewer employees. Raising the price of a toothbrush will result in fewer sold toothbrushes. When the government wants to discourage an action, as with smoking cigarettes, it will impose a tax on that action. If the government wants to encourage an action, such as having children, they will "pay" citizens with a tax break.

What is California seeking to do with these new regulations? If the state wants to discourage wealthy investors, (or those who aspire to be so), from living here or dissuade landlords from remaining in the housing business – perhaps we should listen. I know that Texas and Florida will be happy to have us.

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