

Date of Hearing: September 11, 2025

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Juan Carrillo, Chair

SB 423 (Gonzalez) – As Amended September 9, 2025

SENATE VOTE: 39-0

SUBJECT: Housing: real property transfer taxes: affordability covenants.

SUMMARY: Limits the authority of the City of Los Angeles (LA) to impose a documentary transfer tax (DTT) and authorizes a local agency administering an affordable housing program to enter into a regulatory agreement containing a provision regarding curing an event of default or waive, modify, amend, or delete a provision of a regulatory agreement regarding curing an event of default, as specified. Specifically, **this bill:**

1) Defines the following terms:

- a) “Affordable housing program” as any program the purpose of which is to finance the acquisition, development, rehabilitation, preservation, or operation of housing affordable to households at lower or moderate incomes, as defined.
- b) “First lien capital” as any loan investment, secured by a first lien deed of trust on the property, and underwritten on the basis of repayment from project revenues. First lien capital does not include any loan or investment whose repayment is contingent upon or deferred or limited to surplus cash, residual receipts, or similar arrangements.
- c) “Event of default” as the occurrence of any event that constitutes a defined event of default under an agreement for a loan or related security agreement or guarantee secured by the property.
- d) “Regulatory agreement” as an agreement with a governmental agency for the purposes of any governmental program, which obligates the project sponsor to maintain the affordability of the assisted housing development for households at lower or moderate incomes, as defined.

2) Provides that, except as otherwise specified, a local agency administering an affordable housing program may enter into a regulatory agreement containing a provision regarding curing an event of default or, with the consent of the project sponsor, waive, modify, amend, or delete a provision of a regulatory agreement within the control of the agency regarding curing an event of default, if all of the following conditions apply:

- a) The provision regarding curing an event of default relates to any of the following:
 - i) Subordination to first lien capital.
 - ii) Resale restrictions to specified entities that may be modified so long as certain nonprofit entities, and others, are given the opportunity to submit an offer to purchase the development.
 - iii) Income or rent limits.

- iv) Target population or set-aside requirements.
 - v) Term of a regulatory restriction period that exceeds 55 years.
 - b) Rents for an affordable housing project subject to the regulatory agreement shall not exceed an affordable rent for lower income households set in an amount consistent with the rent limits established by the California Tax Credit Allocation Committee.
 - c) The term of the regulatory restriction amended pursuant to 2)a)v), above, shall not be less than 55 years from the initial recording date.
- 3) Specifies that an affordable housing project with a regulatory agreement entered into or altered under 2), above, shall be exempt from any land use restriction, declaration of restrictive covenants, deed restriction, or similar instrument that conflicts with any provision entered into or altered pursuant to 2), above, excepting any such instruments recorded by any state agency or to which any state agency is a party.
- 4) Provides that nothing in this bill shall be construed to supersede any other law governing the foreclosure of deeds of trust or mortgages and the extinguishment of junior interests, including, but not limited to, specified liens and mortgages.
- 5) Provides that the City of LA shall not impose a DTT greater than the rate of \$7.50 for \$500 (1.5%) in consideration or value of the interest or property, or fractional part thereof, conveyed on a deed, instrument, or writing that conveys real property that has been issued its first certificate of occupancy within the previous 15 years.
- 6) Provides that the City of LA may impose a DTT greater than the rate specified in 5), above, for a building receiving its entitlement after the specified operative date of this bill if both of the following conditions are met:
- a) The building is over 85 feet in height above grade.
 - b) The construction of the building did not meet specified labor standards.
- 7) Specifies that the City of LA may impose a DTT greater than the rate specified in 5), above, unless the real property is a single-family property and both of the following conditions are true:
- a) The dwelling unit on the single-family housing property was destroyed by a disaster that resulted in a declared local emergency.
 - b) The single-family housing property was issued a certificate of occupancy on a date that is both of the following:
 - i) Within the previous five years.
 - ii) After the declared local emergency described in a), above.
- 8) Provides that for the purposes of 5) through 7), above, “single-family housing property” means a property containing a single dwelling unit that is not an accessory dwelling unit or junior accessory dwelling unit, as defined.

- 9) Provides that 5) through 8), above, shall become operative on the applicable of the following dates, but if only relevant conditions are met:
 - a) On January 1, 2026, if, as of that date, Initiative 25-0004A1, Initiative 25-0005A1, and Initiative 25-0006A1 have each been withdrawn by their respective proponents.
 - b) On the 39th day, excluding Saturdays, Sundays, and holidays, after February 25, 2026, if, as of that date, Initiative 25-0004A1, Initiative 25-0005A1, and Initiative 25-0006A1 have each failed to qualify to appear on the ballot for the November 3, 2026, statewide general election.
- 10) Specifies that if neither of the conditions described in 9), above, are satisfied, 5) through 8), above, shall not become operative.
- 11) Contains findings and declarations to support its purposes.

EXISTING LAW:

- 1) Provides that any change in state statute which results in any taxpayer paying a higher tax must be imposed by an act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed (California Constitution, Article XIII A, Section 3).
- 2) Authorizes cities, counties, and special districts, by a two-thirds vote of the qualified electors of such district, to impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such city, county or special district (California Constitution, Article XIII A, Section 4).
- 3) Specifies that, except as permitted in Section 1 of Article XIII A of the California Constitution, no local government or district may impose any ad valorem taxes on real property. No local government or district may impose any transaction tax or sales tax on the sale of real property within the city, county or district (Government Code § 53725).
- 4) Establishes the DTT Act that governs the authority of a city or county to impose a transfer tax and provides for specific exemptions to the tax [Revenue and Taxation Code (RTC) §§ 11901-11935].
- 5) Specifies that the board of supervisors of any county or city and county, by an ordinance, may impose, on each deed, instrument, or writing by which any lands, tenements, or other realty sold within the county shall be granted, assigned, transferred, or otherwise conveyed to, or vested in, the purchaser or purchasers, or any other person or persons, by their direction, when the consideration or value of the interest or property conveyed (exclusive of the value of any lien or encumbrance remaining thereon at the time of sale) exceeds \$100, a tax at the rate of \$0.55 for each \$500 or fractional part thereof (RTC § 11911).
- 6) Provides that the legislative body of any city which is within a county which has imposed a tax pursuant to 5), above may, by an ordinance, impose, on each deed, instrument, or writing by which any lands, tenements, or other realty sold within the city shall be granted, assigned, transferred, or otherwise conveyed to, or vested in, the purchaser or purchasers, or any other

person or persons, by their direction, when the consideration or value of the interest or property conveyed (exclusive of the value of any lien or encumbrance remaining thereon at the time of sale) exceeds \$100, a tax at the rate of one-half the amount specified in 5), above, for each \$500 or fractional part thereof (RTC § 11911).

- 7) Requires a credit to be allowed against the tax imposed by a county ordinance for the amount of any tax due to any city by reason of an ordinance (RTC § 11911).
- 8) Species that any tax imposed pursuant to 5) and 6), above, shall be paid by any person who makes, signs or issues any document or instrument subject to the tax, or for whose use or benefit the same is made, signed or issued (RTC § 11912).

FISCAL EFFECT: Unknown.

COMMENTS:

- 1) **Bill Summary.** This bill prohibits the City of LA from imposing a DTT greater than \$7.50 per \$500 dollars (1.5%) of property value on a deed or instrument that conveys real property that has been issued its first certificate of occupancy within the previous 15 years. However, the City of LA may impose a DTT greater than 1.5% if the building is over 85 feet tall and the construction of the building did not meet specified labor standards. Additionally, the City of LA may impose a DTT greater than 1.5% unless the real property is a single-family property that was destroyed by a disaster that resulted in a declared local emergency and the single-family housing property was issued a certificate of occupancy within the previous five years after the declared local emergency. This bill states that these provisions related to City of LA DTTs only become operative if certain conditions are met.

This bill also authorizes a local agency administering an affordable housing program to enter into a regulatory agreement containing a provision regarding curing an event of default or to waive, modify, amend, or delete a provision of a regulatory agreement regarding curing an event of default if certain conditions are met. This bill is sponsored by Karen Bass, Mayor of the City of LA.

- 2) **Author's Statement.** According to the author, "While Measure ULA is a valuable resource for protecting tenants and subsidizing affordable housing, these benefits come with significant costs. Preliminary data suggests that Measure ULA has depressed new construction of multifamily housing in Los Angeles and has frustrated the industry to the point where they are now backing the Taxpayer Protection Act (TPA). This Act will not only repeal Measure ULA, but it will also negatively impact local governments' ability to raise revenue.

"To address these concerns, SB 423 will create targeted exemptions for new construction of commercial, industrial, and multifamily housing, as well as homes impacted by disasters. Furthermore, SB 423 will remove barriers to affordable housing development and safeguard future local revenue authority. SB 423 is a balanced approach that will only take effect if the TPA fails—all while spurring housing and commercial development, stimulating local economies, and supporting well-paying jobs."

- 3) **Documentary Transfer Taxes.** The California Constitution and state statute prohibit transaction taxes or sales taxes on transfers of real property. The DTT Act allows counties to levy a tax upon the recording of documents that transfer interests in real property. All 58 counties impose a DTT, which is levied at a rate of 55 cents per \$500 (0.11%) of the value of the real property or interest being transferred. The Act allows a city within a county that has adopted a DTT to impose a DTT at one-half of the county rate. The amount of tax paid to a city is a credit against the amount of the tax owed to a county. Most cities levy a DTT pursuant to the Act. Under the “municipal affairs” doctrine established by Article XI, Section 5 of the California Constitution, some charter cities tax the transfer of ownership of real estate at rates that exceed the statutory limit on the DTT.
- 4) **Recent Real Estate Transfer Tax Measure.** A recent University of California, Los Angeles (UCLA) study titled, *The Unintended Consequences of Measure ULA*, released in April 2025, discusses the effect that the passage of Measure ULA has had on higher-end real estate transactions in LA. Measure ULA was placed on the ballot by and approved by LA voters in 2022 with a 57.77% vote. Measure ULA went into effect in April 2023. The tax was framed as a “Mansion Tax”, and it imposed a real estate transfer tax designed to help alleviate LA’s housing crisis. The study provides details on how the tax affects certain real estate transactions saying the measure initially applied to real estate transactions over \$5 million, and it imposed a 4% tax on transactions priced between \$5 million and \$10 million, and a 5.5% tax on transactions over \$10 million. The tax thresholds are to be adjusted for inflation every year.

Prior to Measure ULA, like many cities, LA did have a real estate transfer tax, but it was low: its rate was 0.45% on transactions above \$100,000. The study states, “For high-end sales, then, Measure ULA represented an almost ninefold increase in the tax rate. ULA’s goal is to help alleviate housing burdens, and the revenue it raises is dedicated to projects like homeless housing, affordable housing, and tenant assistance.” The Los Angeles Housing Department Dashboard shows that Measure ULA has generated more than \$830 million over 1,207 transactions since it was imposed by the voters.

According to the UCLA study, “...While ULA has real and visible benefits, there are signs that it also carries considerable, albeit less visible, costs. One sign of those costs is the revenue ULA hasn’t raised. The measure’s supporters are correct that ULA has raised more money than any other local housing program, but this is a depressingly low bar to clear. It’s also a different bar than the one laid out when voters were asked to support the measure. When proponents first placed the ‘Mansion Tax’ on the ballot, they did so estimating that it would raise between \$600 million and \$1.1 billion annually. It has not come close to hitting that mark. According to the city’s ULA Dashboard, from April 2023 to December 2024 the measure actually raised \$480 million, or roughly \$288 million per year — well below what was anticipated.” (citations omitted)

In its conclusion, the UCLA study notes, “In summary, we believe a fair reading of the evidence should give cause for concern. Measure ULA is plausibly reducing a small but disproportionately important segment of real estate transactions. These transactions — the trade in more expensive non-single family property — are pivotal for increasing our housing supply, and for repurposing many spaces that the new economy has rendered obsolete. These transactions also drive growth in the property tax base, which means they have strong fiscal implications for not just the City of LA but also the other governments (the county, the

school district, and various special districts) that rely on revenue from property in the City of L.A. Not least, discouraging these transactions also reduces ULA's own revenue.

"A final point is that Measure ULA, in targeting these transactions, departs from the spirit in which it was advertised. ULA was heavily promoted as a 'Mansion Tax' and a tax on unearned gains, but our evidence suggests it is landing heavily on the trade in commercial, industrial and multifamily residential property. Put another way, Measure ULA was advertised as a tax on what might be called 'consumer' real estate — high-value single-family residences — but we see that in practice it lands heavily on investor real estate, which is to say people trying to build, or to operate properties as businesses."

- 5) **Related Legislation.** AB 698 (Wicks and Mark Gonzalez) requires, before a legislative body adopts any transfer tax on the sale of real property, the legislative body to provide an analysis that examines the effect of the proposed tax. This bill is currently in the Senate Rules Committee.
- 6) **Arguments in Support.** According to the sponsor, Mayor of the City of LA, Karen Bass, SB 423 would, "...revise the City of Los Angeles' Measure ULA to create targeted exemptions for new construction and disaster recovery, removing barriers to affordable housing development and safeguarding future local revenue authority. This revision will make housing more available and affordable in Los Angeles while helping families seeking to rebuild after January's wildfires.

"City of Los Angeles voters approved Measure ULA in November 2022 to provide stable long-term funding dedicated to developing affordable housing and preventing homelessness. While the initiative has generated millions of dollars to help the most vulnerable, ULA has had an unintended impact on multi-family and commercial development in the City. SB 423 is a targeted measure that would address these issues and advance our priority to recover and rebuild while preserving ULA's core intent."

- 7) **Arguments in Opposition.** According to the Howard Jarvis Taxpayers Association, "This bill uses fire victims in the Pacific Palisades as props in a cynical ploy to disrupt our initiative qualification campaign to restore Proposition 13's two-thirds vote requirement for all local special taxes and ban on transfer taxes above 0.11 percent.

"If this Legislature actually cared about the people in the Palisades, they wouldn't make their relief contingent on the outcome of our initiative. SB 423 is about stopping our initiative, not about helping the fire victims in the Palisades."

REGISTERED SUPPORT / OPPOSITION:

Support

Karen Bass, Mayor of the City of LA [SPONSOR]
 Abundant Housing LA
 California Association of Local Housing Finance Agencies
 California Community Foundation
 California Council for Affordable Housing
 Circulate San Diego
 Housing Action Coalition

The Two Hundred for Homeownership

Opposition

Howard Jarvis Taxpayers Association

Analysis Prepared by: Jimmy MacDonald / L. GOV. / (916) 319-3958