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## **Everything You Need to Know About the CA Statewide Rent Control Bill**

On October 8<sup>th</sup>, 2019, CA Governor Gavin Newsom signed bill AB 1482, also known as the Tenant Protection Act of 2019, effective January 1, 2020, in efforts to ease the housing crisis. The sunset provision repeals the just cause eviction law and rent cap provision as of January 1, 2030.

### **Brief Summary**

Under the new rent control bill, rental rates for residential property will be capped at a certain amount. If rental rates on or after March 15, 2019 are found to be greater than the allowed maximum, owners must reduce the rent starting January 1, 2020. Additionally, for residential real properties, owners must now provide a “just” cause for termination. Notices of termination that do not provide the just cause will be rendered void.

### **1. RENT CAP**

Operative January 1, 2020, landlords will not be allowed to increase the gross rental rate over a certain amount. The permissible percent increase is calculated in two ways: the first being a strict 10% of the lowest gross rental rate, and the second being 5% plus the percent change in the cost of living. The “lowest gross rental rate” is the lowest rent tenants paid during the 12-month period before the effective date of the increase; note that the lowest gross rental rate excludes any rent discounts, incentives, concession, or credits offered by the owner. Landlords should note that they cannot increase the rent beyond the maximum at any time but are allowed to increase the rent twice within the 12-month period, as long as the rent is still below the maximum. Even if a new tenant is added, the landlord still has to follow the rent cap law.

1.1 *Rent Roll-Back* This rent cap law applies to all rent increases occurring on or after March 15, 2019. Starting January 1, 2020, the rent roll-back requires landlords to reduce their rent if it turns out to be larger than the maximum. This roll-back applies even if it impairs the lease. Note that prior to January 1, 2020, if landlords collected rent that was above the maximum, they are allowed to keep that overpayment.

1.2 *Exemptions from Rent Cap* Certain properties are exempt from the rent cap. However, landlords may still be subject to local rent control law and must abide by the 30 and 60-day notice rules for raising rent. The following properties are exempt from the rent cap law:

- Single-family residences and condominiums. In order for such property to be exempt, the owner must provide a notice of the exemption to the tenants, and the owner cannot be a real estate investment trust, corporation, or limited liability company in which at least one member is a corporation.
- Housing that was issued a certificate of occupancy within the last 15 years.
- A duplex, in which the owner occupies one of the units during the entire tenancy.
- Housing restricted by deed for persons and families of very low to moderate income (as defined) or housing subject to an agreement that provides housing subsidies for affordable housing for persons and families of low to moderate income.
- Dormitories constructed and maintained in connection with any higher education institution within the state for use and occupancy by students in attendance at the institution.
- Housing subject to any form of rent or price control through a public entity's valid exercise of its police power that restricts annual increases in the rental rate to an amount less than that provided by the rent cap (in other words, housing already subject to local rent control).

## **2. Just Cause and Termination**

Starting January 1, 2020, in order for owners to terminate a tenant who has been continuously and lawfully occupying the residential real property for over 12 months, owners must 1) have a "just cause" for doing so and 2) include this just cause in the written notice to terminate tenancy. There are two types of just cause: at-fault and no-fault. The main difference between these two is that for terminations based on no-fault just cause, owners must provide relocation assistance (aka financial assistance) to the tenant(s).

2.1 *At-Fault Just Cause and Termination* An at-fault just cause indicates that the tenant is at fault for his/her termination of tenancy, hence the owner does not provide relocation assistance. The 11 at-fault just causes are:

- Failure to pay rent
- Breach of material term of the lease
- Committing waste

- Nuisance
- Usage of premises for unlawful purposes
- Refusal to execute written extension or renewal of lease
- Failure to allow owner to enter residential property
- Failure to vacate after termination
- Failure to deliver possession of residential property after agreeing to do so in a written notice
- Criminal activity
- Subleasing premises in violation of tenant's lease

Because at-fault just causes are “curable,” owners must give a notice of violation to the tenant and give the tenant the opportunity to cure the violation BEFORE issuing a notice to terminate a tenancy. If the violation is not cured within the time period set forth by the notice, owners are allowed to give a three-day notice of termination.

*2.2 No-Fault Just Cause and Termination* No-fault just cause indicates that the tenant is not a fault for his/her termination, rather, the termination is solely explained by the owner's need for the tenant to move out. No-fault just causes are any of the following:

- The occupancy of the residency by an intermediate relative
- The withdrawal of residential real property from the rental market
- An order issuing vacancy
- Demolishing residential real property
- Substantial remodeling of residential real property

Intermediate relatives include the owner's spouse, domestic partner, children, grandchildren, parents, and grandparents. Owners should take note that beginning July 1, 2020, in order for this to be an actual just cause, the tenant(s) must either agree to such termination in writing OR be notified that occupancy by relatives is a just cause in the provision of the lease.

“Substantial remodeling” is any replacement or modification of structural, electrical, plumbing, or mechanical system(s) that either requires a permit form a governmental agency or the abatement of hazardous materials. “Substantial remodeling” requires the tenant to vacate the residency for at least 30 days. So, any minor projects, such as painting and decorating, do not qualify.

The termination of tenancy based on a no-fault just cause requires relocation assistance. Owners must notify the tenant(s) of their right to relocation assistance in the notice of termination and must provide the tenant(s) any relocation assistance. There are two types of relocation assistance: payment and waiver.

*2.3 Relocation Assistance* Relocation assistance is only given to the tenant if an owner is issuing a termination based on a no-fault just cause. The first option is direct payment of an amount equal to one month of the tenant's rent. This rent should be equal to the rent that was in effect

during the time of notification of termination. The second option is to waive, in writing, the payment of rent for the final month of the tenancy before the rent is due.

Owners must provide the relocation assistance within 15 calendar days. Failure to do so renders the notice of termination void. If the tenant fails to vacate after the expiration of the notice of termination, owners can recover the relocation assistance as damages in an action to recover possession.

*2.4 Exemptions from Just Cause Eviction Law* Certain properties are exempt from the just cause eviction law. Owners of exempt properties are allowed to evict without just cause and may issue a standard 30 or 60-day notice. Owners are also not required to provide relocation assistance.

The following properties are exempt from the just cause eviction law:

- Single family residences and condominiums. In order for such property to be exempt, the owner must provide a notice of the exemption to the tenants, and the owner cannot be a real estate investment trust, corporation, or limited liability company in which at least one member is a corporation
- Housing that was issued a certificate of occupancy within the last 15 years.
- A duplex, in which owner occupies one of the units during the entire tenancy.
- Housing restricted by deed for persons and families of very low to moderate income (as defined) or housing subject to an agreement that provides housing subsidies for affordable housing for persons and families of low to moderate incomes.
- Housing accommodations where the tenant and owner share bathroom or kitchen facilities.
- Single-family owner-occupied properties that rent out up to 2 units or bedrooms.
- Vacation rentals, or properties rented out for 30 days or less.
- School dormitories, non-profit hospitals, religious facilities, licensed residential care facilities.

Should you have any questions or would like to learn more, please feel free to consult with one of our attorneys at McDowall Cotter, or give us a call at 650-572-7933. Our experienced and knowledgeable staff will be able to help you with any of your needs or concerns.

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