

SENATE BILL REPORT

SB 5496

As Reported by Senate Committee On:
Housing, February 12, 2025

Title: An act relating to preserving homeownership options by limiting excessive home buying by certain entities.

Brief Description: Preserving homeownership options by limiting excessive home buying by certain entities.

Sponsors: Senators Alvarado, Orwall, Bateman, Conway, Frame, Hasegawa, Lovelett, Nobles, Saldaña, Stanford, Trudeau, Valdez, Wellman and Wilson, C..

Brief History:

Committee Activity: Housing: 2/05/25, 2/12/25 [DPS-WM, DNP].

Brief Summary of First Substitute Bill

- Prohibits an investment entity, or a business entity that has an interest in more than 50 single-family residential properties, from purchasing, acquiring or otherwise obtaining an interest in another single-family residential property, with certain exceptions.
- Creates a civil penalty that may be enforced by the Attorney General's Office under the Consumer Protection Act.

SENATE COMMITTEE ON HOUSING

Majority Report: That Substitute Senate Bill No. 5496 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Bateman, Chair; Alvarado, Vice Chair; Orwall, Salomon and Trudeau.

Minority Report: Do not pass.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Signed by Senators Goehner, Ranking Member; Gildon.

Staff: Bill Fosbre (786-7531)

Background: Business entities in Washington State including associations, companies, firms, partnerships, corporations, limited liability companies, and limited liability partnerships are regulated by various state laws, which govern such things as registration, licensing, and labor and tax requirements.

Investment entities, such as real estate investment trusts (REITs), are companies that own or finance income-producing real estate that may include residential, or commercial real estate properties, or both. Most REITs trade on major stock exchanges and are regulated by federal securities laws, and under certain circumstances the Securities Act of Washington. REITs are also subject to regulations that cover other business entities.

The Consumer Protection Act (CPA) prohibits unfair or deceptive acts or practices in trade or commerce, the formation of contracts, combinations, and conspiracies in restraint of trade or commerce, and monopolies. A person injured by a violation of the CPA may bring a civil action to enjoin further violations and recover actual damages, costs, and attorneys' fees.

The attorney general (AG) may bring an action in the name of the state, or on behalf of persons residing in the state, against any person to enjoin violations of the CPA and obtain restitution. The AG may seek civil penalties up to the statutorily authorized maximums against any person who violates the CPA. Civil penalties are paid to the state.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (First Substitute): A business entity that has an interest in more than 50 single-family residential properties may not purchase, acquire, or otherwise obtain an interest in another single-family residential property.

An investment entity may not purchase, acquire, or otherwise obtain an interest in a single-family residential property.

A business entity or investment entity is not subject to this prohibition if the entity is:

- a nonprofit corporation or nonprofit legal entity;
- purchasing an existing single-family residential property and making modifications to the property that are necessary to achieve substantial compliance with existing building codes;
- purchasing an existing single-family residential property to increase the number of residential units on the property, only if the entity cannot hold a single-family residential structure for more than five years without applying for building permits;
- acquiring an ownership in single-family residential property through construction of

- new properties; or
- a business entity purchasing through foreclosure or otherwise acquiring a single-family residential property where the business entity is currently servicing a recorded loan on the property.

Any entity who violates this act shall pay a civil penalty of not more than \$100,000 for each violation and sell the property in violation to an independent third party within one year of the date that the court enters the judgment. A seller of a single-family residential property is not liable for any violation of this act. Real estate brokers licensed under state law are not liable in any civil, administrative, or other proceeding for the failure of any seller, buyer, or other property owner to comply with the requirements of this section. The AG's Office may enforce a violation of this law under the CPA.

EFFECT OF CHANGES MADE BY HOUSING COMMITTEE (First Substitute):

- Prohibits an investment entity, or a business entity that has an interest in more than 50, increased from 25 under the original bill, single-family residential properties, from purchasing, acquiring or otherwise obtaining an interest in another single-family residential property.
- Excludes from the definition of "business entity" or "investment entity" businesses that are regulated under state or federal banking laws and are operating as commercial banks, bank holding companies, savings banks, trust companies, savings and loan associations, or credit unions.
- Removes the requirement that the Department of Commerce submit a report to the Legislature with recommendations to disincentivize business and investment entities from maintaining ownership of single-family residential properties.
- Adds an exemption from liability for licensed real estate brokers for the failure of any seller, buyer, or other property owner to comply with the requirements of this act.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Proposed Substitute: *The committee recommended a different version of the bill than what was heard.* PRO: Home ownership is out of reach for many families in Washington to buy a home, especially a starter home, where many buyers find they are getting out bid by all cash offers from institutional buyers.

In 2024 across the U.S., investors bought one out every six homes sold. In the second quarter of 2024, roughly 9 percent of homes in the Seattle were purchased by investors.

Studies show that institutional investment may increase home prices. Data shows that investors tend to purchase lower cost homes, which is concerning for first-time homebuyers who are competing for the same properties.

State legislatures across the country are taking action to stop institutional investors from buying single family homes in Illinois, Indiana and New York, bills were introduced that would require investors to sell off their homes.

The bill takes preventative steps to stop institutional investors from buying single family homes and crowding out Washington home buyers. We need to protect the limited supply of homes for purchase in Washington State for Washington residents to purchase. This bill is not intended to restrict home buying or home building. The bill contains an exemption for investors who buy homes that are purchased as part of a redevelopment effort.

Unlike investors, families who buy homes are more likely to stimulate the economy by using realtors and by getting mortgages through local banks. When investment funds purchase homes they reshape communities, cause displacement and lack of stability. This is a balanced approach.

When investors buy up single family homes in our state, they are locking local families out of home ownership, taking away the opportunity to experience the security and stability that home ownership brings as well as the ability to build intergenerational wealth.

CON: There are concerns this bill will have some unintended consequences and a potential chilling effect on new investment housing construction. What does it mean to obtain an interest in a home and how it will be determined. Does prohibition apply to minority investors, if so, is there threshold. Does interest apply to the REIT or investment firm solely, but not to the individual investors? Would investors who participate in a REIT be subject to the potential penalties. What about lenders who issue the mortgage?

Homes that are in foreclosure or in financial distress, are targets for investment portfolios, or a flip portfolios. If they flip them, then those houses go back out on the market.

There is a difference between value and cost. Investment fund purchasers, drive up the value of the home through improvements and reselling them. They don't drive up the cost of housing, costs are related to impact fees and the building code that makes it more expensive to build a home.

The limit of 25 single-family homes is arbitrary and not related to anything reasonable. California has similar legislation, but their numbers are set at 1000 homes.

Sometimes developers build a 1000 or 2000-home development, sell half and then sit on the remaining homes waiting for market conditions to change. What are developers supposed to do when they need to sell the remaining homes to raise capital. Who is going to buy that

many homes?

This is not a problem. There is a willing buyer and willing seller, this is just the marketplace working. This bill will mess up the marketplace by penalizing sellers. Sellers should be able to sell for the most they can get for their home.

OTHER: Appreciate the effort to protect the vitality of our single-family housing market. This bill could capture too many productive market participants. Any business entity owning more than 25 units would be captured, even those domiciled in Washington State including residents of Washington State. The 25-unit threshold would likely capture a significant number of local housing providers, many of whom provide affordable housing in their communities, and many of whom are family businesses, not Wall Street hedge funds. Maybe the bill could provide that if a property sits on the market for a certain period, then anyone would have the opportunity to purchase.

Persons Testifying: PRO: Senator Emily Alvarado, Prime Sponsor; Kevin Hunter; Ethan Robinson, Habitat for Humanity Seattle-King & Kittitas Counties; Denise Rodriguez, WA Homeownership Resource Center; Nick Federici, Northwest Community Land Trust Coalition.

CON: Brent Ludeman, Building Industry Association of Washington; Morgan Irwin, Association of Washington Business; Tim Eyman, Initiative Activist.

OTHER: Riley Bengel, Washington REALTORS.

Persons Signed In To Testify But Not Testifying: No one.