

## HOUSING MOTION

The affordable housing crisis in Los Angeles is unprecedented and out of control. Families are struggling, with many paying more than 50% of their income on rent. The shortage of supply and spike in home prices is being driven by several factors, including speculative real estate.

In "hot" markets such as Los Angeles, investors often purchase properties with the hope of reselling at a higher price shortly thereafter. This infusion of cash in properties can quickly drive up prices, putting even single-family homes out-of-reach for families and residents here in Los Angeles. Major cities in the U.S. are rapidly becoming venues for this speculative real estate because of the ability to use anonymous shell companies to snatch up properties that then sit vacant, held as investments while residents struggle to find available housing.

The ability for wealthy investors to hide their identities behind Limited Liability Companies (LLCs) is facilitating such real estate speculation. These legal entities, while sometimes serving the legitimate purpose of separating a business and the personal assets of an investor, may also be used to obfuscate the source of ill-gotten money or to cover up illegal activity.

The U.S. Census Bureau reports that nearly 3 million U.S. homes and 13 million apartment units are owned by LLC, LLP, LP, or shell companies, with the proportion of residential rental properties owned by individuals falling to 74% in 2015, down from 92% in 1991. This anonymity provides an opportunity for money laundering, while at the same time blocking out first-time homebuyers who can't compete for affordable homes.

In Los Angeles, wealthy investors have purchased high-valued real estate through the use of LLCs that obscure their identities, sometimes using a chain of multiple LLCs to make them virtually untraceable. California does not require disclosure of a company's owners when an LLC is established, making it easy for investors to remain anonymous.

However, LLCs are required to maintain their own ownership records and provide it in state and federal tax filings. Since 2016, The U.S. Department of Treasury's Financial Crimes Enforcement Network, or FinCEN, has tracked the true owners of residential real estate bought with cash, beginning with six metro areas that include Los Angeles. Recent court filings indicate that this information should be available to the public upon request.

In addition, New York recently enacted a law requiring limited liability companies to disclose the names of individuals who own any membership interest in an LLC of a residential property,



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including the names of any directors, managers, officers and shareholders involved in the purchase or sale of a property and a business address for each individual; this could be used as a model for a similar ordinance in Los Angeles.

As preventing speculative real estate, as well as money laundering, is of vital public interest to the City of Los Angeles, the City should explore options of requiring disclosure of beneficial owners of LLCs in purchases of residential real estate.

**I THEREFORE MOVE** that City Attorney, in consultation with the Office of the Chief Legislative Analyst (CLA), the Housing and Community Investment Department (HCID), and researchers, experts and activists in the field, report back with recommendations on a citywide ordinance requiring the disclosure of beneficial ownership (individuals who exercise substantial control over an LLC) of LLCs purchasing residential real estate in Los Angeles;

**I FURTHER MOVE** that the City Attorney, CLA, and HCID, in consultation with experts in the field, report back with recommendations on including other types of corporations, beyond LLCs, in the ordinance;

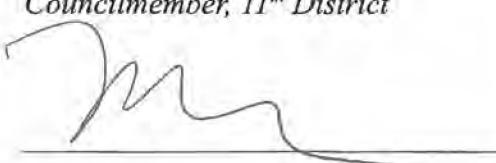
**I FURTHER MOVE** that the CLA, CAO, and HCID report back with an estimate of the number of residential units currently owned by LLCs in Los Angeles, including as a proportion of total units.

**PRESENTED BY:**



MIKE BONIN  
*Councilmember, 11<sup>th</sup> District*

**SECONDED BY:**



ORIGINAL