

# California Voters Reject Ballot Measures Related to Rent Control and Property Tax

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While the results are yet to be certified, it is clear, a week after Election Day, that Californians have rejected both Proposition 15 – The California Schools and Local Communities Act of 2020 (“Prop. 15”)[1] and Proposition 21 – Rental Affordability Act (“Prop. 21”).[2] Despite this most recent response from the electorate, it is likely that real property tax “reform” and rent control will continue to be a topic of conversation during the next legislative cycle and appear on future ballots.

Please see below for a discussion of each proposition and voter response.

## Prop. 15

[Prop. 15](#) was intended to rollback California’s current real property tax regulatory scheme articulated in Proposition 13 (“Prop. 13”) for commercial properties only.[3] Prop. 13 allows state property taxes on residential and commercial properties to be based on their purchase price rather than their market value and prevents the assessed value of the property from increasing by more than 2% per year, unless there is a change of ownership or completion of new construction.

In contrast to Prop. 13, Prop. 15 would have amended the California Constitution to require that most commercial and industrial real property be assessed based on its market value beginning with the lien date for the 2022-23 fiscal year. Prop. 15 would have created a different taxing scheme for commercial and industrial property, resulting in a “split roll” for property tax assessment. Additionally, Prop. 15 would have created [a separate set of tax rules for commercial and industrial property holdings worth \\$3 million or more](#). County tax assessors would be required to revise the value of those business properties to reflect current market prices, increasing the total taxes paid.

The state nonpartisan [Legislative Analyst’s Office](#) estimated that Prop. 15 would have increased property taxes between \$8 billion to \$12.5 billion annually.

Supporters of Prop. 15 contended this revenue is necessary to address inequities in local educational and community facilities. The revenue would have first been allocated to the state to make up for decreases in personal and corporate income taxes resulting from increased deductions for property

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taxes, and to counties to cover the costs of implementation. Then approximately [40% of the revenue would have been sent to K-12 schools and community colleges while the remaining 60% would have been provided to counties, cities and special districts](#) for services such as law enforcement and fire suppression. Prop. 15 advocates asserted the measure would boost crucial public services by making large corporations pay property taxes more in line with what they can afford.

Opponents countered that higher taxes paid by corporations would trickle down to small businesses, who pay a portion of the building owner's property taxes as part of monthly rent, and either force them under or be passed on to consumers at a precarious time in the state's economy. Additionally, opponents warn that Prop. 15 is merely the first step toward higher homeowner property taxes.

The defeat of Prop. 15 was surprising given the general support the measure enjoyed during the majority of the election cycle. In the [final public poll](#) conducted by the UC Berkeley Institute of Governmental Studies, found 49% of likely voters said they would vote for Proposition 15, and 42% said they were opposed. This report was released a week prior to the November 3<sup>rd</sup> election and represented an uptick in opposition from the institute's September poll. However, the report indicated no change in the number of supporters.

Fundraising related to Prop. 15 totals close to \$140 million.

## **Prop. 21**

If approved, [Prop. 21](#) would replace the [Costa-Hawkins Rental Housing Act](#) (Civ. Code §§ 1954.50 *et seq.*) ("Costa-Hawkins") originally passed in 1995,[4] and allow California cities and counties to implement greater rent controls than currently permitted. More specifically, under Prop. 21, local governments would be authorized to adopt localized rent-related ordinances applicable to all residential units within the jurisdiction, except for those units that: (i) have been occupied for 15 years or less;[5] and (b) are owned by natural persons who own no more than two units under separate title, such as single-family homes, condos, and some duplexes, or subdivided interests, such as stock cooperatives and community apartment projects. Prop. 21 would also require rent control ordinances limit the ability of landlords to increase rental rates by only 15 percent during the first three years following vacancy. This is in contrast to Costa-Hawkins, which permitted landlords to increase rent prices to market rates (without limitation) upon vacancy.

Defeat of Prop. 21 comes on the heels of a "No" vote on Proposition 10, a nearly identical measure put forward to state electorate in 2018. Despite this duplicity, Prop. 21 qualified for the November ballot in early February after more than one million voter signatures were submitted in support of the measure.

According to the measure's opponents, Prop. 21 would restore extreme forms of rent control that proliferated the California rental market in the 1970s, necessitating the implementation of Costa-Hawkins. Per the "No on Prop 21" coalition, Prop. 21 would slow homebuilding and hurt the investments of small landlords. In this vein, opponents contended rejection of the ballot measure was required to avoid exacerbation of California's current housing crisis, further limitation on affordable housing, risks to blue collar jobs and reduction in funding for state and local services.

Advocates claim Prop. 21 would have expanded a local government's ability to implement rent control policies required to address California's sky-high housing costs, which force low- and middle-class residents to spend a significant portion of income on rent and creates housing insecurity. Prop. 21 supporters assert the measure had garnered key endorsements from federal, state and local

elected officials, and social, housing, and racial justice organizations. However, California Governor Gavin Newsom formally opposed Prop. 21, citing Assembly Bill (“AB”) 1482, which was signed into law last year and capped rent increases statewide at 5% plus inflation annually for most rental housing older than 15 years.[6] AB 1482 has been classified as one of the strongest policies of its kind in the country.

Total fundraising for Prop. 21 eclipsed \$100 million.

## FOOTNOTES

[1] Prop. 15 was often referred to as the “Split Roll” tax. A prior article on this measure can be found [here](#).

[2] As of Tuesday, November 10th, 51.8% and 59.6% of voters voted “No” on Prop. 15 and Prop. 21, respectively. These results have not yet been certified and remain unofficial.

[3] Prop. 15 would not have applied to residential property, including multifamily residential properties and vacant land zoned for residential use. Nor would it have applied to real property used for commercial agricultural production. Residential portions of mixed-use property would have also been excluded from Prop. 15, subject to certain conditions.

[4] Under Costa-Hawkins, local governments are permitted to enact localized rent control, except on: (a) housing that was first occupied after February 1, 1995; and (b) certain types of residential units held under fee title, including as condominiums, townhouses and single-family homes. Costa-Hawkins also prohibits “vacancy control” – also referred to as “strict” rent control.

[5] Measured on a rolling basis, as opposed to Costa-Hawkins’ fixed date.

[6] A prior article on AB 1482 can be found [here](#).

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