SENATE THIRD READING
SB 1365 (Allen)
As Amended August 20, 2026
Majority vote

SUMMARY

Revises existing exemptions to the prohibition against rental housing price gouging following a declared state of emergency by revising the definition of housing, narrowing scope of the repairs-and-improvements exemption in existing law, and capping the price of housing that is newly converted to a daily rate.

Major Provisions

1) Eliminates the provision of existing law providing that a rental price increase over 10% in the 30 days following an emergency declaration is not unlawful if that person can prove that the increase is directly attributable to additional costs for repairs or additions beyond normal maintenance that were amortized over the rental term that caused the rent to be increased greater than 10%.

2) Specifies that *it is an affirmative defense to a charge of* rental price *gouging* in the 30 days following the proclamation or declaration of a state of emergency if a person can prove either of the following:

   a) That an increase was contractually agreed to by the tenant prior to the proclamation or declaration.

   b) That the increase was directly attributable to additional costs for repairs or additions beyond normal maintenance incurred within the year prior to the proclamation or declaration and either of the following is true:

      i) The housing was rented, advertised for rent, or offered for rent at the time the costs were incurred.

      ii) That person can prove that within a year before the proclamation or declaration, the intent to offer the housing for rent within six months of the repair or addition already existed.

3) Expands the definition of "housing" to include any rental housing regardless of the length of the initial lease term.

4) Provides that the rental price of housing advertised, offered, or charged at a daily rate following a declaration or proclamation of emergency, but that was not advertised, offered, or charged at a daily rate in the year prior to the declaration or proclamation of emergency is capped at one-thirtieth of 160% of the fair market rent established by the United States Department of Housing and Urban Development.

5) *Reframes existing exemptions from the cap on price increases following the proclamation or declaration of a state of emergency as affirmative defenses.*

6) *Incorporates chaptering amendments.*

COMMENTS

In the wake of the Palisades and Eaton fires, there have been numerous allegations of price gouging and other unfair business practices, that have caused further harm to those who have lost their homes and their community. (Jack Fleming, *Rampant post-fire price gouging went unpunished, report alleges*, LA Times (Feb. 11 2026), available at: https://www.latimes.com/california/story/2026-02-11/rampant-post-fire-price-gouging-went-unpunished-report-alleges.) To protect residents from further price gouging, the author brings this bill.

California price gouging statutes and the rental market. California's price gouging statute prohibits selling or offering to sell certain goods or services for a price more than 10 percent greater than the price charged immediately prior to a declared state of emergency. (Penal Code Section 396.) As it pertains to rental housing, the statute makes it unlawful for any person, business, or other entity to increase, among other things, the rental price advertised, offered or charged for housing to an existing or prospective tenant by more than 10 percent. (*Id.*) However, under existing law, a landlord can raise the rent by more than 10 percent if the increase was agreed upon by the landlord and tenant prior to the declaration of emergency or if they can prove that the increase is directly attributable to higher costs for significant repairs or improvements beyond routine maintenance that accrued over the rental term. (*Id.*)

According to the sponsor, the Los Angeles City Attorney, their office has encountered loopholes when attempting to enforce the price gouging statute that have allowed landlords to increase the price of rental housing beyond the 10 percent cap. First, because the law currently defines housing as “any rental housing with an initial lease term of no longer than one year,” some rentals are being listed for longer than 12 months to circumvent the cap on rental increases. To address this concern, the bill eliminates the one-year lease limitation, allowing all rentals regardless of lease term to be subject to the cap on rental price increases.

Second, as mentioned above, landlords can get around the 10 percent price cap if they can prove that the increase is directly attributable to higher costs for significant repairs or improvements beyond routine maintenance that accrued over the rental term. As a result, some landlords have begun construction and retrofitting projects to avoid the cap, and hike up the prices of the rental units far beyond the cap. To disincentivize perverse use of this exemption, this bill specifies that *it is an affirmative defense to a charge of price gouging* if that increase was directly attributable to additional costs for repairs or additions beyond *normal maintenance* incurred within the year before the declaration of the emergency and either of the following are true: 1) the housing was rented, advertised for rent, or offered for rent at the time the costs were incurred; or 2) that person can prove that within a year before the proclamation or declaration, the intent to offer the housing for rent within six months of the repair or addition already existed.

Finally, existing law provides price gouging protections for short term rentals leased at daily rates at the time of the disaster declaration. For daily rate housing that remains subject to a daily rate following the declaration of a disaster, the rules on rental pricing are the same rules as other units rented or offered for rent within one year prior to the emergency declaration. This typically means the rental price is the actual rental price paid by the tenant or the most recent rental price offered before the proclamation of the state of emergency, subject to some exceptions. However, for daily rate housing that is offered or charged pursuant to a periodic lease agreement after the emergency declaration is subject to the same rules as new rentals, which allows for rental prices at 160 percent of the fair market rent established by the U.S. Department of Housing and Urban Development. To discourage conversions to daily rates post-declaration to circumvent price caps on daily rate housing, the bill specifies that the rental price must be 1/30th of the rental price (i.e., 160 percent of the fair market rent established by HUD, which may be increased by 5 percent if the housing is fully furnished) if the daily rate was advertised, offered, or charged following a declaration, but was not advertised, offered, or charged at a daily rate in the year prior to the declaration or proclamation of emergency.

According to the Author

In January of 2025, Pacific Palisades and Altadena experienced fires that killed 31 people and destroyed thousands of homes. To this day, tens of thousands of displaced residents are still living in temporary housing as they navigate the re-build process.

Existing California law provides people who are affected by a state of emergency protections against price gouging. Rental housing prices are not permitted to increase more than 10% above the prices charged immediately prior to the emergency. However, some have attempted to circumvent these protections through longer lease lengths or with rents charged at daily rates.

Additionally, the fires have highlighted a lack of robust enforcement of existing protections against anti-competitive business practices under the Cartwright Act. There is already evidence of these practices impacting fire survivors in the Los Angeles region. Approximately 40% of fire impacted lots and about two out of every five lots that sell in the Pacific Palisades, Altadena, and Malibu areas have been purchased by real estate developers. Homeowners have reported that investors are making low-ball offers that some desperate fire victims feel forced to accept.

SB 1365 improves enforcement of anti-competitive business practice restrictions to protect vulnerable disaster victims. This bill enhances existing rent gouging protections by closing lease length and day rate loopholes and provides authority to City Attorneys of large cities to enforce the Cartwright Act to protect consumers and prohibit anti-competitive business practices.

Arguments in Support

Sponsor of the bill, the Los Angeles City Attorney's Office, states the following in support of the bill:

> Since the January 7, 2025 wildfires, the Public Rights Branch of the Los Angeles City Attorney's Office has done a substantial amount of work in the field of rental housing price gouging. Generally, the state's price gouging law, Penal Code Section 396, prohibits increasing rent by more than 10% above the amount charged shortly before a proclamation or declaration of emergency (subject to a few caveats and exceptions). Through our enforcement work, we encountered some loopholes in PC Section 396 that allowed property owners to increase rental prices far beyond the 10% cap. This bill *closes* those three commonly-encountered *loopholes* by: (1) revising the definition of "housing" to eliminate the lease-length loophole; (2) adding price protection for monthly rentals that are converted to daily rates; and (3) limiting the use of amortized additional costs for repairs beyond normal maintenance to increase rental rates.

Arguments in Opposition
Groups representing realtors, and rental housing property owners have expressed opposition to the bill. For example, the California Rental Housing Association and several affiliated organizations write:

> SB 1365 is a fundamental departure from the original intent of Penal Code Section 396. Existing law appropriately targets sudden and opportunistic price increases following an emergency. This bill, however, expands those restrictions too broadly to apply across all rental housing, including long-term leases negotiated well in advance of any emergency. By doing so, the measure shifts from addressing misconduct to imposing sweeping constraints on lawful and preexisting mutual agreements and, accordingly, very likely represents a violation of the Contracts Clause under the U.S. Constitution (Article I, Section 10, Clause 1 prohibiting state governments from passing any law that "impairs the Obligation of Contracts.").
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> The bill modifies the repair and improvement exemption in ways that, while more specific in some respects, introduce new factual disputes concerning the timing and intent of pre-emergency capital expenditures. A property owner who made substantial improvements in the year before a fire and who is now offering that property for rent to displaced residents must satisfy a multi-part evidentiary standard or potentially face criminal prosecution. The practical question of whether qualifying intent already existed more than six months before a disaster is precisely the kind of subjective, fact-intensive inquiry that creates unpredictable legal exposure for responsible housing providers. Under these circumstances, housing providers will simply choose not to provide available housing to avoid the complex regulatory requirements imposed and legal risk associated with SB 1365.
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> SB 1365 adds unnecessary complexity to an already highly regulated housing environment. California along with local jurisdictions have imposed extensive tenant protection regimes, including statewide rent caps under AB 1482 and far lower local rent caps, extensive just cause tenant protection rules, and existing emergency anti-price gouging laws. Layering additional restrictions—particularly within a criminal statute—creates compliance challenges and increases the risk of inadvertent violations, and will likely lead to even harming responsible housing providers acting in good faith.

FISCAL COMMENTS

According to the Assembly Appropriations Committee, potential court cost pressures of an unknown, but likely minor amount (Trial Court Trust Fund (TCTF), General Fund (GF)) to adjudicate additional misdemeanor prosecutions and civil enforcement actions resulting from the expanded definition of housing, the narrowed repairs-and-additions exemption, and the cap on daily-rate conversions. Actual costs will depend on the frequency and duration of future emergency declarations and on the number of actions local prosecutors elect to bring. Although courts are not funded on a workload basis, an increase in workload could create a need for increased funding for courts from the GF. The 2025-26 Budget Act included a total of $117.3 million GF to backfill the TCTF for reduced fine and fee revenue.

VOTES

SENATE FLOOR: 29-9-2
YES: Allen, Archuleta, Arreguín, Ashby, Blakespear, Cabaldon, Caballero, Cervantes, Cortese, Durazo, Gonzalez, Grayson, Hurtado, Laird, Limón, McGuire, McNerney, Menjivar, Padilla, Pérez, Reyes, Richardson, Rubio, Smallwood-Cuevas, Stern, Umberg, Wahab, Weber Pierson, Wiener
NO: Alvarado-Gil, Choi, Grove, Jones, Niello, Ochoa Bogh, Seyarto, Strickland, Valladares
ABS, ABST OR NV: Becker, Dahle

ASM JUDICIARY: 8-3-1
YES: Kalra, Bauer-Kahan, Bryan, Connolly, Harabedian, Papan, Stefani, Zbur
NO: Macedo, Dixon, Sanchez
ABS, ABST OR NV: Pacheco

ASM PUBLIC SAFETY: 5-1-3
YES: Schultz, Mark González, Haney, Harabedian, Sharp-Collins
NO: Lackey
ABS, ABST OR NV: Alanis, Nguyen, Ramos

ASM APPROPRIATIONS: 11-3-1
YES: Wicks, Arambula, Calderon, Caloza, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache
NO: Hoover, Ta, Tangipa
ABS, ABST OR NV: Dixon

UPDATED

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CONSULTANT: Kristian Wright / JUD. / (916) 319-2334 FN: 0003954