



# CALIFORNIA BUSINESS PROPERTIES ASSOCIATION

1121 L Street, Suite 501 · Sacramento, CA 95814 · Phone (916) 443-4676 · www.cbpa.com

*Protecting Commercial Real Estate for Over 50 Years*

## CBPA Legislative Summary: Key Changes Under SB 1103

This summary is intended to provide CBPA members with an overview of the key changes introduced by SB 1103, effective January 1, 2025. While this document outlines the significant provisions and implications of the bill, it is not intended to serve as legal advice. Members are encouraged to consult with legal counsel for specific guidance on compliance with SB 1103.

**Governor Newsom signed SB 1103 (Menjivar) into law**, despite strong opposition from a coalition of over 25 business groups led by CBPA. Although the bill's passage represents a loss for the commercial real estate (CRE) industry, CBPA successfully fought to limit its scope, reducing the bill's impact compared to its original version.

### Key Wins for CRE Secured by CBPA:

1. **Commercial Rent Control Removed:** The original bill included commercial rent control, which would have capped rent increases. This provision was completely removed, preserving property owners' ability to set rent based on market conditions.
2. **Flexibility on Operating Costs:** Initially, the bill imposed strict limits on how operating costs could be passed through to tenants, with heavy reporting requirements. The final version allows property owners more flexibility in cost allocation, as long as proportional documentation is provided.
3. **Treble Damages Replaced with Actual Damages:** The bill initially exposed property owners to treble damages for violations, but this was replaced with liability for actual damages, reducing the potential financial risk for property owners.
4. **No Limitations on Security Deposits:** Originally, the bill capped security deposits at one month's rent, which was insufficient to cover potential damages or defaults. The cap was completely removed, allowing property owners to set security deposits at appropriate levels.
5. **Qualified Commercial Tenant (QCT) Definition Narrowed:** The definition of a QCT was significantly narrowed from a broader category to only include microenterprises (5 or fewer employees), small restaurants (fewer than 10 employees), and small nonprofits (fewer than 20 employees). This change limits the scope of tenants eligible for the bill's protections, reducing its overall impact on commercial property owners.

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### Overview of the New Law

As of January 1, 2025, SB 1103 introduces new leasing requirements for commercial properties in California. This law specifically applies to **Qualified Commercial Tenants (QCTs)**, which include microenterprises (LLCs could potentially qualify under Microenterprises), small restaurants, and certain nonprofit organizations. Below is a summary of the key provisions and considerations for property owners to ensure compliance:



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## 1. Definition of Qualified Commercial Tenants (QCTs)

A Qualified Commercial Tenant (QCT) includes:

- **Microenterprises:** Businesses with five or fewer employees that generally lack access to significant financial capital.
- **Restaurants:** Small restaurants with fewer than 10 employees.
- **Nonprofits:** IRS-qualified 501(c)(3) nonprofit organizations with fewer than 20 employees.

QCTs must **self-attest** their status by providing written notice to their property owner. Tenants must submit this notice **annually**, or, for month-to-month tenancies, anytime within the previous 12 months.

## 2. Rent Increase and Notice Requirements for QCT's

SB 1103 imposes new notice periods for rent increases for QCT's if the lease does not explicitly outline the terms for rent increases.

- Rent increases of **10% or less** require **30 days' notice**.
- Rent increases **greater than 10%** require **90 days' notice**.

These requirements apply to both new and existing leases, as well as lease renewals, making it critical for property owners to update their procedures.

## 3. Operating Cost Pass-Through Restrictions for QCTs

Under SB 1103, property owners must follow strict guidelines for operating cost pass-throughs for both month-to-month and regular leases with Qualified Commercial Tenants (QCTs).

- **Operating Costs Allocation:**
  - Operating costs must be allocated proportionately among tenants, typically based on square footage or another substantiated method.
- **Documentation Requirements:**
  - Property owners are not required to provide documentation upfront but must supply it if requested by the tenant. This includes:
    - A breakdown of how costs are allocated.
    - Itemized quotes, receipts, or invoices for the operating costs.
    - A signed attestation confirming the accuracy of the costs.



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## 4. Translation Requirements for Lease Agreements for QCT's

Property owners' negotiating leases in **Spanish, Tagalog, Chinese, Vietnamese, or Korean** must provide full translations of the lease, covering every term and condition. This applies to both oral and written negotiations. Failure to comply grants the tenant an **ongoing right of rescission**.

## 5. Termination Notices for Month-to-Month Tenants for QCT's

CCTs under a month-to-month lease receive enhanced protections:

- Property owners must provide **60 days' notice** for termination if the tenant has been in the premises for more than 12 months.
- Tenants maintain the right to terminate with **30 days' notice**, even after receiving a 60-day notice from the landlord.

## 6. Legal Enforcement & Penalties

Violations of SB 1103 carry significant penalties:

- Tenants may **rescind** agreements for failure to provide required translations.
- Tenants can raise violations of operating cost rules as an **affirmative defense** in eviction cases.
- Property owners face potential liability for **actual damages, punitive damages, and attorney fees**.

Enforcement may also come from local district attorneys, city attorneys, or county counsel, who have the authority to seek **injunctive relief** for violations.

### Looking Ahead: The Future of CRE Regulation

While CBPA succeeded in preventing some of the most harmful provisions from becoming law, the passage of SB 1103 signals a shift in legislative focus. **Senator Menjivar** has made it clear that regulating commercial leases is a top priority, and further regulations may be introduced in future legislative sessions. CBPA will continue to advocate on behalf of the CRE industry, working to protect property owners from additional burdens.

### Next Steps for Property Owners

This summary does not constitute legal advice. Property owners should consult with legal counsel to ensure compliance with SB 1103 and to adjust leasing practices accordingly. The changes taking effect in January 2025 will require careful planning, particularly regarding notice requirements, documentation for operating costs, and translation obligations. **CBPA remains your strongest advocate in the Capitol**, and our efforts to protect the business community are far from over.