Title

Prioritize Rental Housing to Equitably Meet California's Emissions Reduction Targets

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Publication Date

2026-04-24

Peer reviewed

UC DAVIS
Graduate Program of
Environmental Policy and Management

Policy Brief December 2025

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Executive Summary

California’s building sector accounts for 25% of all emissions in the State of California, making building decarbonization a crucial component of the state’s plan to achieve net zero emissions by 2045. Within this sector, rental housing poses a unique set of challenges.

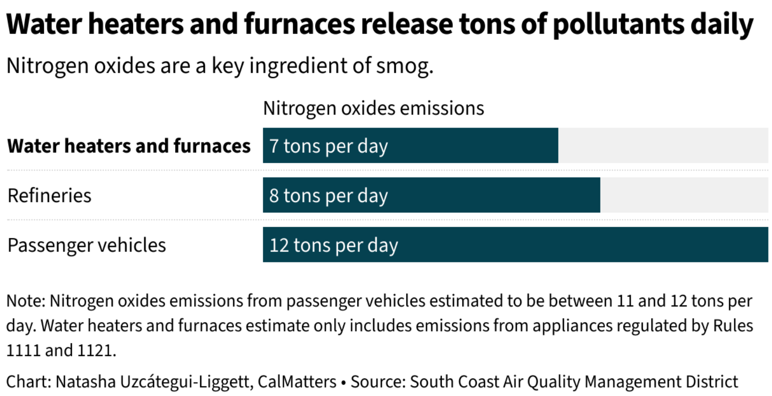


Figure 1: NOx emissions from home water heaters and furnace roughly equivalent to NOx emissions from oil refineries.

Gas appliances in rental buildings generate both indoor and outdoor pollution, contributing to health issues such as asthma and lung disease. This pollution burden is carried disproportionately by low-income Californians. Compounding this effect, nearly half (44%) of Californians live in rental housing and are unable to take direct advantage of the state’s incentives to electrify the housing sector. Responsibility for housing electrification resides with property owners, alongside the cities and air quality management districts who regulate their rental businesses.

Recent efforts by the Bay Area Air District, the South Coast AQMD, and the City of Berkeley to establish gas appliance bans and/or energy efficiency requirements have faced significant challenges in court. To address these challenges and proceed with statewide electrification of the rental housing sector, we propose that the state prioritize rental housing in its funding, outreach, and inter-agency coordination on building decarbonization. Prioritizing rental properties will more effectively serve the state’s goals of energy equity, public health, and the rapid decarbonization of California’s housing sector.

Background

In 2018, California’s landmark climate legislation, SB100, established a statewide goal of net zero emissions by the year 2045. SB 100 requires cooperation between the California Energy Commission, the California Public Utilities Commission, and the California Air Resources Board (CARB) to transition the state to 100% renewable energy.

CARB has communicated a 2030 target for requiring that all furnaces and water heaters sold in the state produce zero nitrogen oxide (NOx). While this is not a ban on gas appliances for space and water heating, it functions as such, since all gas appliances on the market today produce NOx via combustion.

In advance of CARB’s upcoming regulation, local jurisdictions have implemented more ambitious targets, also known as reach codes. Notably, the Bay Area Air District (BAAD) has set target dates of 2027 to phase out the sale of gas water heaters, and 2029 to phase out gas furnaces, with this regulation applied not to gas as a fuel source, but to NOx as a combustion byproduct. The South Coast Air Quality Management District attempted a similar rule in June of 2025, but the district's board rejected the measure 7-5, citing cost concerns for property owners.

In 2019, the City of Berkeley voted to ban natural gas hook-ups in new buildings. This ordinance faced a legal challenge from the California Restaurant Association, and was ultimately escalated to the US Ninth Circuit Court of Appeals, which overturned Berkeley's gas ban in 2023.

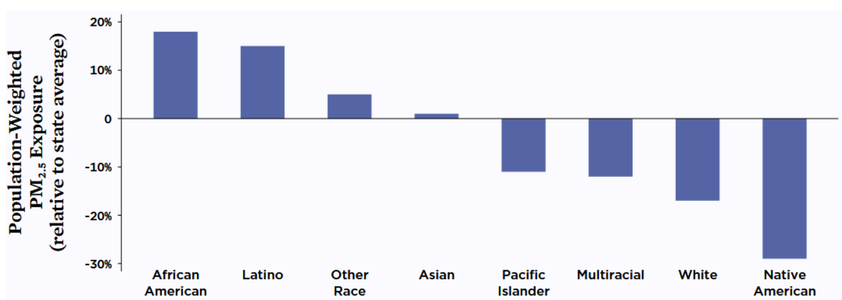
Issue Analysis

The challenges faced by local jurisdictions in banning gas appliances point to a need for increased state-level coordination, provision of resources, and technical support for building decarbonization, especially in the rental sector. While local agencies can be more nimble and more trusted sources of information, they are also more vulnerable to litigation from industry and trade associations, and they have more limited resources to defend these climate-mitigation measures in court.

Crucially, owners of California rental housing face the "split incentive" problem, in which building owners bear the cost of electrification, but tenants reap the benefits in lowered energy costs and improved indoor air quality. Split incentives can be partially addressed with increased state funding for incentives such as those offered by the CEC's Equitable Decarbonization Program. But to fully address the need, incentive programs will need to augment financial support with hands-on technical assistance to building owners, as multi-unit buildings can have complex and unique electrical requirements.

Rental property owners face an uncertain regulatory and information landscape. Local energy regulations have been overturned at the federal level, while related messaging from industry groups such as the California Apartment Association state that gas-related local regulations are "unlawful." There is a need for greater outreach and information from CARB and the CEC as to (1) state targets and deadlines for decarbonization, and (2) financial incentives available to building owners. Cities, community choice aggregators, and air quality management districts can provide crucial on-the-ground support for a statewide information campaign.

Finally, removing gas appliances from California's rental housing is a public health issue and an equity concern. California's renters are more likely to be Black or Latino than the overall population. Due to the de facto segregation created by prejudicial lending practices known as redlining, Black and Latino Californians are also more burdened by pollution from the transportation sector, i.e. smog and particulate pollution.



African American and Latino Californians have 19 and 15 percent higher exposure to $PM_{2.5}$, respectively, than the state average, while white Californians are exposed to 17 percent lower concentrations.

Note: The following US Census Bureau-defined racial groups were used in the analysis: White; Black or African American; American Indian or Alaska Native; Asian; Native Hawaiian or Other Pacific Islander; Hispanic; Latino; and Some Other Race. In the chart above, Latino includes census respondents who select Hispanic, Latino, or both; Other Race includes census respondents who select Some Other Race as their only race.

SOURCES: US CENSUS BUREAU 2018; EPA 2014.

Figure 2: Racial disparities in pollution burden, *Union of Concerned Scientists*

Household gas appliances thus constitute a secondary pollution burden on California's renters. It is incumbent on the state, and consistent with the equity goals outlined by the CEC, CARB, and the California Department of Housing and Community Development, to alleviate this unequal pollution burden.

Policy Recommendations

Focusing on California's rental housing sector can yield numerous benefits for statewide decarbonization, including:

- Improved socioeconomic and racial equity
- More rapid and widespread adoption of heat pump technology
- Greater number of units electrified per property owner contacted.

Local reach codes have faced strong industry opposition and will require state-level support in the form of increased incentives, technical guidance, and improved communication of existing state climate policy.

These policy recommendations address the SB 100 deliverables established for the CEC, CPUC, and CARB:

- **Prioritize rental housing** in joint agency efforts to define and deliver emissions reduction from the building sector as required by SB 100.
- **Designate one office** within these existing agencies to oversee the particular needs of the rental housing sector to comply with state zero-emissions timelines.
- **Communicate state targets and deadlines for building decarbonization.** State and local governments can become the source of truth for property owners who currently receive their information from trade groups who oppose climate regulation. Clarity and outreach efforts from the state will additionally support local governments in their efforts to accelerate California's transition to 100% renewable energy.
- **Expand existing incentives to include technical assistance for multi-family dwelling (MFD) owners.** MFD owners face unique challenges in funding, complexity, and implementation of gas-to-electric conversion.
- **Avoid tenant displacement.** The first objective of the California Statewide Housing Plan is to "keep Californians in their homes." To fulfill this objective, rental housing providers will need to electrify their investments without displacing tenants. Additional renter protections may be required in certain jurisdictions.

Further reading

- California Energy Commission. SB 100 Joint Agency Report.
- Reyes-Velarde, Alejandra. "Air Board Rejects Smog Rules Phasing Out Gas-Powered Heaters in the LA Basin." Cal Matters, June 6, 2025. https://calmatters.org/environment/2025/06/gas-water-heaters-furnaces-phaseout-la-basin-aqmd-rules/
- California Department of Public Health. Climate Change and Health Equity.
- California Department of Housing and Community Development. Statewide Housing Plan.

Authorship

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