

- 2) Requires a city or county to allow an increase in density on a sliding scale from 20% to 80%, depending on the percentage of units affordable to low- and very low-income households, over the otherwise maximum allowable residential density under the applicable zoning ordinance and land use element of the general plan. Requires the increase in density on a sliding scale for moderate-income for-sale developments from 5% to 50% over the otherwise allowable residential density.

This bill:

- 1) Prohibits land improved with an operating hotel or motel shall not be valued by the landowner, for purposes of establishing, adjusting, or resetting ground rent under an existing lease, based on residential density or density bonuses, unless those density increases are entitled and vested as of the valuation date, including the issuance of all required discretionary land use approvals and permits.
- 2) Provides that this bill shall not be construed to alter the requirements for obtaining a density bonus under DBL.

Background

DBL. Given California's high land and construction costs for housing, it is extremely difficult for the private market to provide housing units that are affordable to low- and even moderate-income households. Public subsidy is often required to fill the financial gap on affordable units. DBL allows public entities to reduce or even eliminate subsidies for a particular project by allowing a developer to include more total units in a project than would otherwise be allowed by the local zoning ordinance, in exchange for affordable units. Allowing more total units permits the developer to spread the cost of the affordable units more broadly over the market-rate units. The idea of DBL is to cover at least some of the financing gap of affordable housing with regulatory incentives, rather than additional subsidy.

Under existing law, if a developer proposes to construct a housing development with a specified percentage of affordable units, the city or county must provide all of the following benefits: a density bonus; incentives or concessions (hereafter referred to as incentives); waiver of any development standards that prevent the developer from utilizing the density bonus or incentives; and reduced parking standards. To qualify for benefits under DBL, a proposed housing development must contain a minimum percentage of affordable housing. If one of these options is met, a developer is entitled to a base increase in density for the project as a

whole (referred to as a density bonus) and one regulatory incentive. Under DBL, a developer is entitled to a sliding scale of density bonuses, up to a maximum of 50% of the maximum zoning density and up to four incentives, as specified, depending on the percentage of affordable housing included in the project. At the low end, a developer receives 20% additional density for 5% very low-income units or 20% density for 10% low-income units. The maximum additional density permitted is 50%, in exchange for 15% very low-income units or 24% low-income units. Additionally, specified 100% affordable housing projects may receive up to an 80% density bonus. The developer also negotiates additional incentives, reduced parking, and design standard waivers, with the local government. This helps developers reduce costs while enabling a local government to determine what changes make the most sense for that site and community.

Comments

- 1) *Author's statement.* "California's hospitality industry is one of the state's largest employers, supporting good paying union jobs and contributing to our local communities. AB 2181 protects those jobs by addressing an unintended consequence of California's density bonus law, which was enacted to incentivize the development of more affordable housing. Current law creates uncertainty during ground lease appraisals by allowing property owners to utilize density bonuses that hypothetically may be available to a property to inflate the land value when ground lease rents are reset. This speculation can artificially inflate land valuations, dramatically inflate ground lease payments, and threaten the economic viability of existing hotels and dependent hospitality jobs. When operating costs increase because of speculative appraisals rather than real market conditions, hospitality workers whose livelihoods depend on these businesses are harmed. AB 2181 simply clarifies that hypothetical density bonuses cannot be used to value operating hotels for ground lease resets unless those development rights have actually been approved and vested. It preserves the intent of California's density bonus law, ensures fair and predictable property valuations, and helps protect California hotels and the thousands of hospitality jobs they support."
- 2) *Hotel and motel leases.* Hotels and motels may be subject to ground lease arrangements with a landowner under a long-term agreement, that include options for construction or improvements to the property. According to the sponsors, ownership of the improvements reverts to the landowner at the end of the lease. Ground leases can last 50 to 99 years, with periodic rent reset adjustments, but the landowners and the hotel operators often renegotiate the terms and rents in the leases periodically (usually every five to seven years). During this time, the landowners and hotel operators may utilize appraisers to

value the property, and those valuations inform the creation or increases in rents.

According to the sponsors, it unclear whether appraisers can consider the value of density bonuses and other benefits in their land valuations, even when the benefits are hypothetically available to the land owner. In other words, if the land is zoned to allow for multifamily developments and meets the threshold requirements for utilizing DBL, could the mere fact that the site is *eligible* for DBL benefits factor into a land valuation, even if the landowner has no plans to construct a housing project using DBL?

This issue arose with a hotel in Santa Monica; in that case, an appraisal accounted for potential density bonus benefits, which resulted in significantly higher lease reset rates for a hotel operator. The landowner, as part of their five-year rent reset in 2020, hired an appraiser to assess the fair market value of the land. The appraiser asserted that due to the potential for DBL to apply to the land, the fair market value of the land should be increased, which resulted in a 77% increase in the assessed rent from the prior five-year reset. The increased rental price continues to create ongoing risk to the viability of the hotel, putting 100 UNITE HERE Local 11 workers jobs at risk.

While it's not clear that this is happening elsewhere, replication of this practice could be devastating for hotel operators that are locked into long-term ground leases and put hotels at risk of shuttering.

- 3) *Curb your enthusiasm.* This bill takes a targeted approach to specify that in instances in which a hotel or motel operator has a ground lease with a landowner, and the landowner is not actively seeking to construct a housing project utilizing the benefits conferred by DBL, an appraisal of the land for purposes of establishing or adjusting the rent may not take into account the potential benefits of DBL. The bill allows for DBL to be factored in, however, when a landowner has taken steps to develop a housing project; specifically, the landowner must have been issued the permits for the DBL project.

According to the author, this bill is intended to be a narrowly focused effort to ensure that appraisals of ground leases specifically for hotels and motels reflect realistic land values, rather than speculative potential and protect businesses with ground leases from artificially inflated lease reset values.

- 4) *Gutted.* This bill was gut and amended on June 11th from a bill dealing with the Public Utilities Commission.

5) *Double-referral*. This bill was also referred to the Local Government Committee.

FISCAL EFFECT: Appropriation: No Fiscal Com.: No Local: No

POSITIONS: (Communicated to the committee before noon on Wednesday, June 17th, 2026.)

SUPPORT:

Unite Here International Union, Afl-cio (Co-Sponsor)

Unite Here Local 11 (Co-Sponsor)

OPPOSITION:

None received.

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