Office of Senate Floor Analyses
(916) 651-4171

THIRD READING

Bill No: AB 2181
Author: Zbur (D), et al.
Amended: 8/21/26 in Senate
Vote: 21

SENATE HOUSING COMMITTEE: 10-0, 6/24/26
AYES: Arreguín, Seyarto, Cabaldon, Caballero, Cortese, Durazo, Gonzalez, Grayson, Ochoa Bogh, Padilla

SENATE LOCAL GOVERNMENT COMMITTEE: 7-0, 7/1/26
AYES: Durazo, Choi, Arreguín, Ashby, Cervantes, Laird, Seyarto

ASSEMBLY FLOOR: 68-0, 5/21/26 (Consent) - See last page for vote

SUBJECT: Housing development: density bonuses: rent

SOURCE: Unite Here International Union, Afl-cio
Unite Here Local 11

DIGEST: This bill prohibits land improved with an operating hotel or motel from being valued for purposes of establishing, adjusting, or resetting ground rent under an existing lease, based on density bonuses, concessions or incentives, or waivers under density bonus law (DBL), unless those density bonuses are entitled and vested as of the valuation date, including the issuance of all required discretionary land use approvals and permits.

Senate Floor Amendments of 8/21/26 move this bill to a new section within the Density Bonuses and Other Incentives Chapter and make other clarifying changes.

ANALYSIS:

Existing law:

1) Requires each city and county to adopt an ordinance that specifies how it will implement state density bonus law (DBL). Requires cities and counties to grant

a density bonus when an applicant for a housing development — defined as "five or more units" including mixed-use developments — seeks and agrees to construct a project that will contain at least one of the following:

a) 10% of the total units of a housing development for lower-income households;

b) 5% of the total units of a housing development for very low-income households;

c) A senior citizen housing development or mobile home park;

d) 10% of the units in a common interest development (CID) for moderate-income households;

e) 10% of the total units for transitional foster youth, veterans, or persons experiencing homelessness;

f) 20% of the total units for lower-income students in a student housing development; or

g) 100% of the units of a housing development for lower-income households, except that 20% of units may be for moderate-income households.

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, notwithstanding DBL, 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 density bonuses, concessions or incentives, or waivers pursuant to DBL, 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

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."

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.

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. This bill allows 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 for hotels and motels reflect realistic land values, rather than speculative potential, specifically related to the benefits afforded under DBL, with ground leases from artificially inflated lease reset values.

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

SUPPORT: (Verified 8/20/26)

Unite Here International Union, Afl-cio (co-source)
Unite Here Local 11 (co-source)
California Federation of Labor Unions, Afl-cio
California Travel Association (CALTRAVEL)

OPPOSITION: (Verified 8/20/26)

None received

ASSEMBLY FLOOR: 68-0, 5/21/26
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gallagher, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Irwin, Jackson, Johnson, Kalra, Krell, Lee, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ransom, Michelle Rodriguez, Rogers,

Blanca Rubio, Sanchez, Schiavo, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Zbur, Rivas
NO VOTE RECORDED: Arambula, Chen, Gabriel, Garcia, Hoover, Lackey, Lowenthal, Ramos, Celeste Rodriguez, Schultz, Wicks, Wilson

Prepared by: Alison Hughes / HOUSING / (916) 651-4124
8/24/26 12:00:42

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