CONCURRENCE IN SENATE AMENDMENTS
AB 2181 (Zbur)
As Amended August 21, 2026
Majority vote

SUMMARY

This bill provides that notwithstanding the requirements of Density Bonus Law (DBL), land improved with an operating hotel or motel shall not be valued, 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. This bill further clarifies that it shall not be construed to alter the requirements for obtaining a density bonus pursuant to DBL.

Senate Amendments
This bill was gut and amended in the Senate on June 11th from a bill pertaining the Public Utilities Commission.

COMMENTS

Density Bonus Law: California's DBL, originally enacted in 1979, is a state policy tool aimed at addressing the financial challenges of building affordable housing. Given the state's elevated land and construction costs, the private market struggles to deliver housing that is affordable to low- and moderate-income households without public subsidy. DBL seeks to close some of the financial gaps associated with building affordable housing by allowing developers to build more units than local zoning laws typically permit, known as a "density bonus," in exchange for reserving a certain percentage of the housing units as affordable. This increased density enables the fixed costs of development to be spread across more units, thereby helping to offset the lower returns from the affordable units and reducing the need for direct public subsidy. Under current law, any housing development proposing five or more units, including mixed-income developments, can take advantage of the provisions of DBL.

Under DBL, when a mixed-income housing development includes a minimum percentage of affordable units, such as 5% very low-income or 10% lower-income, it becomes eligible for a density bonus for additional market-rate units starting at 20%, with the potential to increase up to 50%, depending on the proportion of affordable units provided. Fully affordable projects can qualify for up to an 80% density bonus, or unlimited density if located within ½ mile of a major transit stop, or in a very low vehicle travel area. Furthermore, DBL provides an additional density bonus on top of the typical density bonus for proposed developments that provides very-low or moderate-income units, if certain affordability thresholds are met.

In addition to the density bonus, eligible projects are entitled to receive between one and five regulatory incentives or concessions, depending on the share of affordable housing units provided. These may include modifications to development standards such as reduced setbacks, increased building height, higher floor area ratios (FAR), or reduced parking requirements, when those changes result in actual and identifiable cost savings that help support the affordable units. Because DBL applies to mixed-use developments, a project may also receive incentives or concessions for increased intensity or expanded nonresidential uses if doing so would reduce the overall cost of development. Projects can also request other zoning or regulatory modifications that reduce development costs, and local governments must grant those incentives, unless they can make specific findings to deny them as narrowly defined in state law. Developers maintain that these incentives and concessions are critical for making affordable housing projects financially feasible.

In practice, DBL plays a critical role in the state′s housing strategy, both by reducing development costs and by increasing the overall supply of housing at all income levels, particularly in communities that might otherwise see little affordable housing development. By leveraging regulatory flexibility instead of direct public funding, DBL offers a cost-effective mechanism to stimulate the production of both mixed-income and 100% affordable housing projects throughout California. According to Annual Progress Report (APR) data, published by HCD and analyzed by Circulate Planning & Policy, since 2021, DBL has been used to approve over 140,000 homes, including more than 69,000 deed-restricted affordable homes.[1]

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 bill 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 bill 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 problematic for hotel operators that are locked into long-term ground leases and put hotels at risk of shuttering.

Narrow Fix: 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

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[1] Circulate Planning & Policy, *Win-Win Bonus, How Bonus Law quietly transformed California's Housing Approvals,* April 2026.

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.

Gutted: This bill was gut and amended in the Senate on June 11th from a bill pertaining the Public Utilities Commission.

According to the Author
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.″

Arguments in Support
UNITE HERE International Union, one of the bill′s co-sponsors, writes in support: ″AB 2181 helps preserve the integrity of that important housing production tool by clarifying that hypothetical density bonuses that have not been entitled and vested cannot be used to establish, adjust, or reset ground lease values for operating hotels and motels.

Our union has led the way on commonsense legislative fixes, including SB 838 (Durazo) last year, to ensure housing reforms are used to build affordable housing. As advocates for livable communities for our members, we believe density bonus incentives should be tied to actual housing development opportunities, not speculative assumptions regarding what may someday be built on a property. When unvested density bonuses are used to inflate land valuations, the policy is no longer serving its intended purpose of encouraging affordable housing production. Instead, it is being leveraged in a manner wholly unrelated to the creation of new homes.

AB 2181 provides a sensible and narrowly tailored solution. The measure does not alter Density Bonus Law, limit the availability of density bonuses, or restrict a property owner′s ability to pursue residential development. If a project secures the necessary approvals and vests its development rights, those entitlements may appropriately be reflected in the property′s value. Until then, appraisals should be based on existing realities rather than speculative possibilities.″

Arguments in Opposition
None on file.

FISCAL COMMENTS

None.

VOTES:

ASM UTILITIES AND ENERGY: 18-0-0
YES: Petrie-Norris, Patterson, Boerner, Calderon, Chen, Davies, Mark González, Harabedian, Hart, Irwin, Kalra, Papan, Rogers, Schiavo, Schultz, Ta, Wallis, Zbur

ASM APPROPRIATIONS: 15-0-0
YES: Wicks, Hoover, Bauer-Kahan, Calderon, Caloza, Ellis, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache, Ta, Tangipa

ASSEMBLY FLOOR: 68-0-12
YES: 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
ABS, ABST OR NV: Arambula, Chen, Gabriel, Garcia, Hoover, Lackey, Lowenthal, Ramos, Celeste Rodriguez, Schultz, Wicks, Wilson

UPDATED

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