

ASSEMBLY THIRD READING
AB 2185 (Quirk-Silva)
As Amended March 19, 2026
Majority vote

SUMMARY

Requires various state departments to evaluate state-funded multi-family affordable housing programs to remove any barriers and create opportunities to fund fabricated built housing (FBH).

Major Provisions

- 1) Includes the following definitions:
 - a) "Agency" includes all of the following: California Debt Limit Allocation Committee (CDLAC), California Housing and Homelessness Agency (CHHA), California Housing Finance Agency (CalHFA) and California Tax Credit Allocation Committee (TCAC).
- 2) "Multifamily affordable housing program" includes all of the following:
 - i) The Affordable Housing and Sustainable Communities Program;
 - ii) The Infill Incentive Grant Program of 2007;
 - iii) The Infill Infrastructure Grant Program of 2019;
 - iv) The Joe Serna, Jr. Farmworker Housing Grant Program;
 - v) The Low-Income Housing Tax Credit Program;
 - vi) The Multifamily Housing Program;
 - vii) The Multifamily Rental Housing Program;
 - viii) The Transit-Oriented Development Implementation Program; and
 - ix) The Veterans Housing and Homeless Prevention Act of 2014
- 2) Provides that no later than July 1, 2027, the agency, when administering a multifamily affordable housing program, shall do all of the following:
 - a) Review, analyze, and make any changes necessary to their guidelines and regulations to facilitate the production and use of factory-built housing;
 - b) Clarify that factory-built housing projects are an allowable use of funding under these programs; and
 - c) To the extent the agency directly funds the multifamily affordable housing program project, whether for construction financing, permanent financing, or both, make sufficient early deposits available for factory-built housing projects as an allowable use of funding

under each of the programs listed in b) 1) to support the upfront payments needed to cover material costs and factory production.

- 3) Requires each agency to establish market-based underwriting guidelines as to the amount and timing of early deposits, including a requirement that any project receiving financial support be considered to have all of its construction and permanent financing committed at the time the deposits are funded by the agency.
- 4) Provides that each agency may require that either the factory, general contractor, or project sponsor provide a payment and performance bond, financial guarantee, letter of credit, or other security to protect the agency in the event that the project fails to close its financing and begin construction.

COMMENTS

Factory-Built Housing: FBH, often referred to as modular, manufactured, or prefabricated housing, involves the construction or assembly of various components of a housing unit or room in a factory and the transport of those components or structures to the construction site, where they are installed and fixed to a building foundation. This is in contrast to traditional ("site-built" or "stick-built") homes, which are built piece by piece on top of the foundation at the actual construction site. The mass production techniques in a factory environment can sometimes be faster and cheaper than site-built construction methods and are not as impacted by weather constraints that might hamper construction progress on a site, though benefits will vary widely between projects.

The California Department of Housing and Community Development (HCD) has maintained building code and plan approval authority over FBH since the California Factory-Built Housing Law was first enacted in the 1960s. HCD currently contracts with various Design Approval Agencies (DAAs) who perform third-party review and approval of FBH designs according to regulations established by HCD and the building standards governing FBH. Approved FBH must bear a California Insignia of Approval on each FBH system or component in the project. There are also Quality Assurance Agencies (QAAs) approved by HCD that inspect FBH during the production phase in the manufacturing facility or offsite. Local agencies maintain authority over a variety of post-manufacture elements of these projects (for example, snow load, wind pressure, building setback, and architectural requirements) and are also responsible for inspecting and approving the installation of the FBH at the project site.

Select Committee on Housing Construction Innovation: In late 2025, the Assembly Select Committee on Housing Innovation (Select Committee) was established to explore how the state can play a role in reducing housing costs by facilitating innovation in housing construction. The Select Committee conducted two hearings in January 2026 and received testimony from industry experts. These experts discussed all of the following: the benefits and risks of industrialized construction methods, including potential cost savings; the ability to reduce project timelines; and regulatory, labor, and budget considerations. The hearings also explored barriers to opportunities for scaling construction innovation.

The Select Committee requested support from the University of California, Berkeley's Turner Center for Housing Innovation (Turner Center) to conduct research, including interviews with people familiar with the industry. The Turner Center interviewed 65 people representing different perspectives in the industry, including market-rate and affordable housing developers,

general contractors, off-site manufacturers, architects, investors, lenders, building trades unions and carpenters union members, state and regional government staff, building code experts, and representatives from companies using 3D printing, artificial intelligence, or other emerging technologies.

The Turner Center published a white paper, titled "Potential Pathways to Scale Innovative Construction Methods in California." The Turner Center's white paper details seven categories of approximately 40 policy proposals identified by stakeholders as potential pathways to reducing barriers to accelerating industrialized construction, including FBH, at scale. These categories of proposals include:

- 1) increase certainty through building code reform;
- 2) increase consistency and certainty through other process reforms;
- 3) reduce financial risk and liability to encourage industry growth;
- 4) support pipeline certainty through demand aggregation;
- 5) increase long-term industry certainty by developing a strong workforce pipeline;
- 6) modify existing state funding stream to better align with the realities of FBH; and
- 7) address negative perceptions of industrialized construction through education and data

This bill incorporates one of the Turner Center recommendations to use state funding programs to help create more predictable demand for newly built FBH products.

Affordable Housing Finance: The state finances affordable multifamily rental housing using a combination of loans, tax credits, and private activity bonds. Unlike market rate housing, affordable housing does not have the cash-flow from rents to support traditional financing. Affordable housing is provided to tenants whose household income is below the area median income (AMI). To qualify, very low-income tenants must make 60% or less of the AMI and lower-income tenants must make only 80% or less of AMI. Tenants in affordable housing are only required to pay 30% of their income toward rent, so the state provides enough long-term subsidy to reduce the overall debt service on a development. HCD loans serve as the permanent financing that comes in once a development is complete to take out the predevelopment and construction loans a developer took on to construct the development. HCD loans are secured with a lien in first position on the property. Developments are also subject to a 55-year recorded regulatory agreement that runs with the project. If a developer pays off an HCD loan before the covenants expire, the regulatory agreement is not extinguished, and the developer must continue to provide the units at an affordability rent for the length of the regulatory agreement to lower-income tenants. FBH housing is currently utilizing both the Low-Income Housing Tax Credit (LIHTC) and MHP, the state's main housing programs. This bill would require CCHA and TCAC to review the guidelines and regulations of the programs they operate and make any changes to facilitate the production of FBH.

Historically, HCD has not provided construction loans to developers. In fact, AB 1053 (Gabriel), Chapter 264, Statutes of 2025 required HCD to adopt guidelines by July 1, 2026, to allow for construction financing for the Joe Serna Jr. Farmworker Housing Program, Affordable Housing

and Sustainable Communities Program (AHSC), and Multifamily Housing Program (MHP). CalHFA has the authority to provide construction loans and has provided this type of financing in the past, but currently it does not. This bill would require CCHA and CalHFA to make "early deposits" available to FBH to support the upfront payments needed to cover material costs and factory production. This would be similar to a construction loan and could potentially create more risk should the factory providing the product face economic challenges due to a lack of consistent volume and high overhead. At the same time, encouraging, or at a minimum, reducing barriers to using state funding for FBH will create a greater demand, and state funding from the programs included in this bill may provide a stable source to fund the upfront costs of production of FBH units.

This Bill: This bill would require the state's housing agencies, CDLAC, TCAC, CalHFA and CHHA, by July 1, 2027, to review and analyze the guidelines and regulations for the affordable housing programs they administer to make any changes necessary to facilitate the production and use of FBH. These entities would be required to make changes to their programs to accommodate FBH. Unlike traditional stick-built housing, developers work with a factory to build FHB units that meet their site requirements, and that FBH is delivered to the site. This means developers need funding in the construction phase of the project. The state's funding programs are not currently used for construction loans, they are used as permanent financing to take out construction loans that developers secure from private banks. There has been a push by affordable housing developers to shift state funding to the construction stage to reduce the cost of carrying higher interest loans during construction, but the state has yet to take this step with its existing programs. Concerns have been raised about the cost of underwriting and the risk associated with construction loans. This bill would require state housing agencies to establish market-based underwriting guidelines for FBH as to the amount and timing of early deposits, including a requirement that any project receiving financial support be considered to have all of its construction and permanent financing committed at the time the deposits are funded by the agency. Sequencing funding so that a developer has a grant from HCD or an award of LIHTC, has site control, and is ready to begin construction relatively quickly, will be key to reducing risk associated with this type of financing.

According to the Author

"California cannot solve its housing crisis with yesterday's tools. Factory-built housing can lower costs and deliver homes faster, but our state programs have not kept up. When funding structures delay projects instead of supporting them, we lose time, we lose units, and we lose opportunities for families who need housing now. AB 2185 updates our affordable housing programs in line with how homes are actually being built today. It removes barriers, supports innovation, and helps us build more affordable housing at the scale California needs."

Arguments in Support

"The UC Berkeley Turner Center for Housing Innovation recently released a report, which explores opportunities to adopt industrialized construction methods in California. It covers the potential advantages of factory-built housing and highlights the barriers that prevent the scaling of innovative construction methods in our state. To take advantage of the benefits of factory-built housing, the report recommends modifying existing state funding programs to better align them with the unique circumstances of factory-built housing. For example, the state's housing agencies typically release funds for projects as on-site work is completed. However, this does not work for factory-built housing, since developers accrue costs earlier in the process. As a result, developers must cover factory deposits and early production costs through other forms of financing."

Arguments in Opposition

None on file.

FISCAL COMMENTS

Minor and absorbable costs to the State Treasurer's Office (TCAC and CDLAC), CalHFA, and HCD.

VOTES

ASM HOUSING AND COMMUNITY DEVELOPMENT: 12-0-0

YES: Haney, Patterson, Ávila Farías, Caloza, Garcia, Kalra, Lee, Quirk-Silva, Ta, Tangipa, Wicks, Wilson

UPDATED

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