SENATE COMMITTEE ON HOUSING
Senator Aisha Wahab, Chair
2025 - 2026 Regular

Bill No:	AB 507	**Hearing Date:**	7/15/2025
Author:	Haney		
Version:	7/3/2025 Amended		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Alison Hughes		

SUBJECT: Adaptive reuse: streamlining: incentives

DIGEST: This bill enacts the Office to Housing Conversion Act, which creates a streamlined, ministerial approval process for adaptive reuse projects and provides certain financial incentives for the adaptive reuse of existing buildings.

ANALYSIS:

Existing law:

1) Establishes the California Environmental Quality Act (CEQA), which requires public agencies with the principal responsibility for carrying out or approving a proposed project to prepare a negative declaration, mitigated negative declaration, or an environmental impact report (EIR) for this action, unless the project is exempt from CEQA.

2) Establishes, pursuant to SB 423 (Wiener, Chapter 778, Statutes of 2023), a streamlined, ministerial approval process for certain infill multifamily affordable housing projects that are compliant with local zoning and objective standards and that are proposed in local jurisdictions that have not met their regional housing needs allocation (RHNA).

3) Establishes, pursuant to AB 2011 (Wicks, Chapter 647, Statutes of 2022), a streamlined, ministerial approval process for certain infill multifamily affordable housing projects that are located on land that is zoned for retail, office, or parking.

4) Allows, pursuant to SB 6 (Caballero Chapter 659, Statutes of 2022), the Middle Class Housing Act of 2022, residential uses on commercially zoned property without requiring a rezoning.

5) Authorizes the California Department of Housing and Community Development (HCD) to enforce state housing laws.

This bill:

1) Defines the following:

   a) "Adaptive reuse project" means the retrofitting and repurposing of an existing building to create new residential or mixed uses, including office conversion projects. "Adaptive reuse project" shall not include any of the following:

      i) The retrofitting and repurposing of any industrial use building, unless the planning director or equivalent position finds, based on substantial evidence in the record, that the building is no longer economically viable for industrial use or uses.

      ii) The retrofitting and repurposing of any hotels, or any mixed-use buildings that contain hotel use, except if they have been discontinued for a minimum of five years from the date on which this article becomes operative.

   b) "Industrial use" means utilities, manufacturing, transportation storage and maintenance facilities, warehousing uses, and any other use that is a source that is subject to permitting by a district, as specified. "Industrial use" does not include any of the following:
      i) Power substations or utility conveyances such as power lines, broadband wires, and pipes.
      ii) A use where the only source permitted by a district is an emergency backup generator.
      iii) Self-storage for the residents of a building.

   c) "Mixed use" means residential uses combined with at least one other land use, but not including any industrial use.

   d) "Office conversion project" means the conversion of a building used for office purposes or of a vacant office building into residential dwelling units.

   e) "Residential uses" includes, but is not limited to, housing units, dormitories, boarding houses, group housing, and other congregate residential uses. "Residential uses" does not include prisons or jails.

2) Enacts the Office to Housing Conversion Act, which creates a streamlined, ministerial approval process for adaptive reuse projects and provides certain financial incentives for the adaptive reuse of existing buildings.

3) An adaptive reuse project must be located on an infill site, as specified, and be for an existing building that is:

   a) Less than 50 years old;
   b) Listed on a local, state, or federal register of historic resources and the adaptive reuse project proponent complies with specified historic resource protection requirements described below; or
   c) More than 50 years old and the local government has evaluated the site as specified and determined that the building or site is either: (i) a historic resource and the adaptive reuse project proponent complies with the historic resource protection requirements; or (ii) not a historic resource.

4) Requires a development proponent, before submitting an application for an adaptive reuse project for a structure that is more than 50 years old and not listed on a local, state, or federal register of historic resources, to submit to the local government a notice of its intent to submit an application, as specified. The notice of intent must be evaluated for the existence of historical resources within 90 days.

5) Requires an adaptive reuse project to meet specified affordability requirements:

   a) At least 8% of the units for very low-income households (VLI) and 5% of the units for extremely low-income (ELI) households, or 15% for lower-income households, for rental projects; or
   b) 30% for moderate-income households, or 15% for lower-income households, for ownership projects.

6) Provides that an adaptive reuse project may include the development of new residential or mixed-use structures on undeveloped areas and parking areas on the same parcel or parcels adjacent to the proposed adaptive reuse project site if all of the following requirements are met:

   a) The portion of the project that is adjacent to the proposed repurposed existing building complies with one of the following: all local objective standards, as specified, or the requirements of two existing laws that allow residential construction in office or retail zones;
   b) The adjacent portion of the project is also an infill site and not on specified sensitive environmental sites identified in existing law;

c) The project complies with specified demolition and anti-displacement provisions in existing law;
d) The applicant and local agency follow procedures for identifying impacts to tribal cultural resources in existing law;
e) Any existing open space on the proposed project site is not a contributor to a historic resource; and
f) Meets specified labor standards.

7) Requires an adaptive reuse project to comply with the following:

a) The proponent must complete specified environmental assessments and avoid or mitigate specified environmental harms; and
b) If the adaptive reuse project includes mixed uses, at least one-half of the square footage of the adaptive reuse project must be dedicated to residential uses.

8) Authorizes a city or county to adopt an ordinance that is consistent with the requirements of the bill, but a local agency cannot impose any requirements on the basis that the project is eligible for approval under the bill. Specifies that adopting an ordinance is not a project for the purposes of CEQA and that a city or county that has not adopted an ordinance must still ministerially approve applications submitted under the bill.

9) Requires a local government to approve an adaptive reuse project if the local planning director or equivalent position determines that the project is consistent with the objective planning standards in the bill. If the planning director determines that the project conflicts with any of the objective planning standards, they must provide the development proponent written documentation of which standards the development conflicts with, and an explanation for the reason or reasons the development conflicts with that standard or standards. This must be done within:

a) 60 days if the project contains 150 or fewer housing units; or
b) 90 days if the project contains more than 150 housing units; and
c) 30 days of submittal of any adaptive reuse project that was resubmitted to the local government following a determination of a conflict with one or more objective planning standards

10) Limits any local design review to objective standards, including, as applicable, those for new exterior additions to historic buildings, as specified, and prohibits a city or county from inhibiting, chilling, or precluding the ministerial approval in any way. If the project is consistent with the applicable objective standards, the city or county must approve the project within:

a) 60 days if the project contains 150 or fewer housing units; or
b) 90 days if the project contains more than 150 housing units.

11) Identifies procedures for requesting modifications to an adaptive reuse project or a project on an adjacent site, and requires local agencies to grant subsequent permits for projects without unreasonable delay. Alterations to comply with building codes or other code standards must also be permitted.

12) Provides that a project proponent can use other applicable ministerial streamlining laws, and can benefit from the protections of the Housing Accountability Act.

13) Exempts an adaptive reuse project from all impact fees that are not reasonably related to the impacts resulting from the change of use of the site from nonresidential to residential or mixed use, and requires any fees charged to be roughly proportional to the difference in impacts caused by the change of use. A project on an adjacent site cannot benefit from these provisions and must pay all local fees as required by the local government under existing law.

14) Authorizes a city or county to offer financial incentives for up to 30 years to subsidize affordable units that are part of an adaptive reuse project. Specifically:

a) A local government can adopt an ordinance or resolution creating the incentive program. A project proponent applies to the city or county by filing a request, which must be approved by a majority vote of the city or county's governing body for payments to commence. If approved, a proponent receives a payment equal to the amount of property taxes paid and received by that city or county that is in excess of the adaptive reuse project property's valuation at the time of the proponent's initial request for funding.
b) Provides that other agencies' shares of tax revenues from that property are not affected, but a city or special district may also pay the county or city that establishes this program an amount equal to the amount of property tax revenue that the local government receives, less the assessed valuation at the time the application is submitted.

Background

Housing needs and approvals generally. Every city and county in California is required to develop a general plan that outlines the community's vision of future development through a series of policy statements and goals. A community's general plan lays the foundation for all future land use decisions, as these decisions must be consistent with the plan. General plans are comprised of several elements that address various land use topics. Seven elements are mandated by state law: land use, circulation, housing, conservation, open-space, noise, and safety. Each community's general plan must include a housing element, which outlines a long-term plan for meeting the community's existing and projected housing needs, which are allocated through the RHNA process. The housing element demonstrates how the community plans to accommodate its "fair share" of its region's housing needs. To do so, each community establishes an inventory of sites designated for new housing that is sufficient to accommodate its fair share. Communities also identify regulatory barriers to housing development and propose strategies to address those barriers. State law requires cities and counties to update their housing elements every eight years.

Cities and counties enact zoning ordinances to implement their general plans. Zoning determines the type of housing that can be built. In addition, before building new housing, housing developers must obtain one or more permits from local planning departments and must also obtain approval from local planning commissions, city councils, or county board of supervisors.

Some housing projects can be permitted by city or county planning staff ministerially or without further approval from elected officials. Projects reviewed ministerially — also known as "housing streamlining — require only an administrative review designed to ensure they are consistent with existing general plan and zoning rules, as well as meet standards for building quality, health, and safety. Most large housing projects are not allowed ministerial review. Instead, these projects are vetted through both public hearings and administrative review. Most housing projects that require discretionary review and approval are subject to review under CEQA while projects permitted ministerially generally are not.

In addition to bypassing the CEQA process and the potential for litigation, housing streamlining provides more certainty as to what is required for permitting approval, and generally also requires approval within specified timelines. This certainty and shortened approval timelines are particularly beneficial to affordable housing developers seeking funding from multiple federal, state, and local public funding sources. Additionally, this certainty provides more opportunities for multifamily

developers to build in jurisdictions that are not housing friendly. Some local governments have intentionally made entitlement and permitting onerous to such a degree that developers —and in particular affordable housing developers — have avoided working in those jurisdictions altogether. Longer, uncertain permitting situations are risky for developers, and could kill projects all together. Streamlining unlocks more land opportunities, particularly in higher-resource, unfriendly housing cities.

Notable existing streamlining bills. Housing streamlining has been available to certain housing developments projects for several years, or decades in the case of accessory dwelling units, homeless shelters, and specified affordable multifamily housing projects. In recent years, however, the Legislature and the Governor have sought to expand the kinds of projects eligible for housing streamlining, if these projects meet specified requirements. Some notable examples include:

a) SB 35 (Wiener, Chapter 366, Statutes of 2017) / SB 423 (Wiener, Chapter 778, Statutes of 2023). Establishes a ministerial approval process for certain multifamily affordable housing projects that are proposed in local jurisdictions that have not met regional housing needs if the projects meet specific affordability and labor criteria.
b) AB 2162 (Chiu, Chapter 753, Statutes 2018). Provides that supportive housing shall be a use by right in all zones where multifamily and mixed uses are allowed. SB 744 (Caballero, Chapter 346, Statutes of 2019) made changes to AB 2162 and created a CEQA exemption for developments that qualify for No Place Like Home funding.
c) AB 1783 (Rivas, Chapter 866, Statutes of 2019). Creates a new streamlined, ministerial approval process for agricultural employee housing that is not dormitory style housing, on land zoned for agricultural uses.
d) SB 9 (Atkins, Chapter 162, Statutes of 2021) / SB 450 (Atkins, Chapter 286, Statutes of 2024). Requires ministerial approval of a housing development of no more than two units in a single-family zone (duplex) or the subdivision of a parcel zoned for residential use into two parcels (lot split), or both.
e) AB 2011 (Wicks, Chapter 647, Statutes of 2022)/ AB 2243 (Wicks, Chapter 272, Statutes of 2024). Requires specified mixed-income and affordable housing development projects to be a use by right on specified sites zoned for retail, office, or parking.
f) SB 6 (Caballero, Chapter 659, Statues of 2022). Enacts, until January 1, 2033, the Middle Class Housing Act of 2022, which establishes housing as an allowable use on any parcel zoned for office or retail uses. Allows parcels subject to the bill to be eligible for SB 35's (Wiener, 2017) streamlined ministerial approval process if it meets specified requirements.

g) SB 4 (Wiener, Chapter 771, Statutes of 2023). Establishes the Affordable Housing on Faith and Higher Education Lands Act of 2023, which, until January 1, 2036, enables 100% affordable housing to be a use by-right on land owned by religious institutions and independent institutions of higher education.
h) SB 684 (Caballero, Chapter 783, Statutes of 2023) / SB 1123 (Caballero, Chapter 783 Statutes of 2024). Requires local agencies to ministerially approve subdivision maps and projects for specified projects in urban areas in multifamily zones, and specified vacant single-family lots that include 10 or fewer housing units.

Comments

1) *Author's statement*. "COVID-19 permanently changed how people work. In the post-pandemic era, many businesses realized technology allows them to move away from the 9-to-5, commuter model that once kept downtown office buildings full. California has been especially impacted as more tech companies shift to offering remote work as a benefit. A major downside is the emptying of downtown business districts. Office vacancies across the state have hit record highs, with Los Angeles and San Francisco both exceeding 30%. Downtowns now face a potential doom loop: empty, devalued buildings reduce local tax bases, leading to cuts in services and increased blight. Converting vacant office buildings into residential units can stop this cycle and reinvigorate downtowns, which often turn into ghost towns after 5 p.m. California also faces a persistent housing shortage—local governments must plan for over 2.5 million new homes in the coming years. Office-to-housing conversions offer a win-win: they build much-needed housing, preserve historic buildings, and create vibrant communities in transit-rich areas."

2) *Adaptive reuse.* According to a brief published by McKinsey and Company, the onset of COVID-19 aggravated the challenges that the retail sector faces, including:

   a) A shift to online purchasing over brick-and-mortar sales;
   b) Customers seeking safe and healthy purchasing options;
   c) Increased emphasis on value for money when purchasing goods;
   d) Movement towards more flexible and versatile labor; and
   e) Reduced consumer loyalty in favor of less expensive brands.

   As the shift away from traditional office and retail uses accelerates, interest has grown in "adaptive reuse"—the process of converting an existing non-

residential building to housing. Adaptive reuse is not a new concept: in 1999, the City of Los Angeles adopted an Adaptive Reuse Ordinance (ARO) to revitalize underused buildings within the city's downtown area by facilitating the conversion of existing commercial buildings into residential or mixed-use properties. By easing some zoning requirements, the ARO enabled developers to transform vacant or underutilized office buildings, theaters, and other commercial structures into residential units.

However, adaptive reuse is not without its challenges. According to a 2021 report by the Terner Center for Housing Innovation, *Adaptive Reuse Challenges and Opportunities in California*: "the potential of adaptive reuse is contingent upon numerous different factors, including architectural considerations related to the existing structure, political and legislative constraints, and issues surrounding economic feasibility." The report notes light and ventilation requirements differ between commercial and residential uses, which are often fundamental features of the existing structure that may not be easily modified, and bringing older buildings up to current residential codes can be rife with undiscovered challenges, which increase costs.

3) *Streamlining for adaptive reuse projects.* This bill deems an adaptive reuse project that meets the requirements of the bill a use by-right in all zones and establishes a streamlined, ministerial review process. The project must be located on an infill site, include affordable housing, may not be on specified environmentally sensitive sites, and may not demolish units occupied by tenants or on a site in which tenants occupied units in the last 10 years. This bill exempts adaptive reuse projects from impact fees that are not reasonably related to the impacts resulting from the change of the use of the site from nonresidential to residential or mixed use, and may also benefit from other financial incentives to subsidize affordable housing.

4) *If at first you don't succeed*. This bill is nearly identical to AB 3068 (Haney, 2024) with one notable exception: labor standards. The Governor vetoed AB 3068 with the following message:

> "This bill would establish the Office to Housing Conversion Act, creating a ministerial approval process for adaptive reuse projects, aimed at converting nonresidential buildings, such as offices or industrial sites, into residential or mixed-use developments. The bill also provides financial incentives for developers, including the option for local governments to allocate up to 30 years of property tax revenue to support affordable housing conversions, and establishes specific labor standards for qualified adaptive reuse projects. While I

> strongly support efforts to address California's housing crisis by promoting adaptive reuse projects, this bill raises several concerns. The proposed compliance and enforcement mechanisms for labor standards, including the issuance of stop-work orders for any violations, represent a significant expansion beyond existing law, which limits this remedy to a narrow subset of violations, such as those posing immediate threats to health and safety. Moreover, the bill lacks clear procedures for contesting violations or addressing noncompliance, creating considerable uncertainty that could lead to delays, and increased costs, potentially making projects financially unviable - ultimately undermining the bill's goal of increasing housing production. For these reasons, I am unable to sign this bill."

This bill was amended in the Senate Local Government Committee to include labor provisions that require the payment of prevailing wages to all contractors on projects that are not a public works. For projects involving buildings over 85 feet, the development proponent shall employ a skilled and trained workforce.

5) *Opposition.* According to the League of California Cities and other individual cities, "the bill undermines cities' ability to make decisions locally and disregards the unique planning and zoning considerations of individual municipalities. This one-size-fits-all approach may not be suitable for all communities and could lead to incompatible development in sensitive areas. Also, the exemption from certain impact fees could result in lost revenue for local governments. These fees play a crucial role in funding essential services and infrastructure improvements, such as transportation, parks, and public safety. By exempting adaptive reuse projects from these fees, AB 507 places an additional financial burden on cities already struggling to meet the needs of their residents."

6) *Incoming!* This bill was heard in the Senate Local Government Committee on July 2nd and passed on a 5-2 vote.

Related/Prior Legislation

AB 3068 (Haney, 2024) — would have enacted the Office to Housing Conversion Act, which would have created a streamlined, ministerial approval process for adaptive reuse projects and provided certain financial incentives for the adaptive reuse of existing buildings.

AB 2011 (Wicks, Chapter 647, Statutes of 2022) — required specified housing development projects to be a use by right on specified sites zoned for retail, office, or parking, as specified.

SB 9 (Atkins, Chapter 162, Statutes of 2021) — required ministerial approval of a housing development of no more than two units in a single-family zone (duplex), the subdivision of a parcel zoned for residential use into two parcels (lot split), or both.

AB 2162 (Chiu, Chapter 753, Statutes of 2018) — streamlined affordable housing developments that include a percentage of supportive housing units and onsite services.

SB 35 (Wiener, Chapter 366, Statutes of 2017) — created a ministerial approval process for specified infill, multifamily housing development projects.

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

POSITIONS: (Communicated to the committee before noon on Wednesday, July 9, 2025.)

SUPPORT:

Bay Area Council
California Apartment Association
California Big City Mayors Coalition
California Downtown Association
California Yimby
City of Bakersfield
Streets for All

OPPOSITION:

City of Lake Forest
City of Norwalk
City of Santa Clarita
City of Simi Valley
City of Yorba Linda
League of California Cities

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