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## SENATE COMMITTEE ON APPROPRIATIONS

Senator Anna Caballero, Chair  
2025 - 2026 Regular Session

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### AB 507 (Haney) - Adaptive reuse: streamlining: incentives

**Version:** July 3, 2025

**Urgency:** No

**Hearing Date:** August 18, 2025

**Policy Vote:** L. GOV. 5-2, HOUSING 8-2

**Mandate:** Yes

**Consultant:** Mark McKenzie

**Bill Summary:** AB 507 would establish a streamlined, ministerial approval process for certain adaptive reuse projects on infill sites, and make those projects a “use by right,” regardless of local zoning, as specified.

#### **Fiscal Impact:**

- Staff estimates that the Department of Industrial Relations (DIR) would incur unknown, potentially significant ongoing workload costs in future fiscal years for oversight and enforcement activities related to prevailing wage and apprenticeship standards requirements on projects constructed pursuant to the provisions of this bill. There could be some penalty revenue gains to partially offset these costs. Actual costs and penalty revenues would depend upon the number of qualifying adaptive reuse projects constructed under this bill, and the number of complaints and referrals to the Division of Labor Standards and Enforcement that require enforcement actions, investigations, and appeals. (State Public Works Enforcement Fund)
- The Department of Housing and Community Development (HCD) estimates minor and absorbable costs to provide technical assistance to local agencies and project proponents using the streamlined ministerial approval process for adaptive reuse projects. Staff notes that, unlike previously enacted measures that provide for streamlined, ministerial approval of certain projects deemed to be a “use by right,” the bill does not provide explicit enforcement authority for HCD if a local agency fails to comply with the requirements of the bill. (General Fund)
- Unknown local costs for cities and counties to revise planning requirements for certain adaptive reuse developments, and provide for streamlined and expedited review of those projects. These costs are not state-reimbursable because local agencies have general authority to charge and adjust planning and permitting fees to cover their administrative expenses associated with new planning mandates. (local funds)

**Background:** Existing law defines “adaptive reuse” as the repurposing of building structures for residential purposes, such as former office use, commercial use, or business parks. When referring to building structures, adaptive reuse means retrofitting and repurposing of existing buildings that create new residential rental units, and expressly excludes a project that involves rehabilitation of any construction affecting existing residential units that are, or have been, recently occupied. The ability to adaptively reuse a building is highly dependent on the initially designed use. For example, uses such as warehouses and big box retail are not generally suitable to

adaptive reuse, while office buildings maintain some potential for conversion, because their multi-floor layout is conducive to housing, but the large configuration of most office buildings makes it difficult to provide the necessary light and air that is required for residential units. Other commercial properties, however, like hotels and motels, are more conducive to adaptive reuse, since they are already designed for short-term human habitation, consisting of separate residential units, often with bathrooms.

Numerous bills have been enacted in recent years to address land use and regulatory constraints of new housing production by providing for streamlined, ministerial approval of certain projects deemed to be a “use by right,” regardless of local zoning. Notable among these are AB 2011 (Wicks, 2022) and SB 6 (Caballero, 2022), which made certain affordable housing and mixed-use developments that meet specified criteria an allowable use on land zoned for commercial purposes. Project proponents must ensure that certain labor standards, including specified prevailing wage, apprenticeship, and healthcare expense requirements, are met. In addition, AB 1490 (Lee, 2023), requires a housing development project that is an extremely affordable adaptive reuse project (100% affordable with 50% of units for extremely-low income households) to be an allowable use, regardless of any inconsistent provision of a local agency’s general plan, specific plan, zoning ordinance, or regulation. AB 1490 authorizes a local agency to impose objective design review standards, but specifies that it cannot impose, or require the curing of any preexisting deficit of or conflict with any maximum density or floor area ratio requirements, additional parking requirements, or any additional open space requirements.

**Proposed Law:** AB 507 would enact the Office to Housing Conversion Act, which makes an adaptive reuse project that meets specified criteria a use by right in all zones, regardless of the zoning of the site, and subject to a streamlined, ministerial review process, as specified. Among other things, this bill would:

- Specify that an adaptive reuse project is the retrofitting and repurposing of an existing building to create new residential or mixed uses on an infill site in an urban area, and meets specified criteria, including the following:
  - Be proposed for an existing building less than 50 years old or that meets certain requirements regarding historic preservation.
  - Require an adaptive reuse project to meet specified affordability criteria:
    - For rental projects, at least 8% of the units must be affordable to very low-income households and 5% for extremely low-income households, or 15% for lower-income households, for 55 years.
    - For ownership projects, 30% of the units must be affordable for moderate-income households, or 15% for lower-income households, for 45 years.
  - Require at least 50% of the square footage of the project to be dedicated to residential purposes, if the adaptive reuse project includes mixed uses.
  - Require the development proponent to conduct a specified environmental assessment and mitigate any identified hazardous conditions
  - The project complies with objective planning standards, as specified.
  - The project site is 20 acres or less.
- Allow an adaptive reuse project to include the development of new residential or mixed-use structures on undeveloped areas and parking areas on the same parcel

as the proposed repurposed building, or on parcels adjacent to the proposed project site if certain conditions are met.

- Specify the process for streamlined, ministerial review, including requirements to approve a project that is consistent with applicable objective standards within specified timelines.
- Prohibit the imposition of additional parking requirements in specified circumstances.
- Exempt an adaptive reuse project from all impact fees not reasonably related to the impacts resulting from the change of use of the site from nonresidential to residential or mixed use, and specify that any fees charged are roughly proportional to the difference in impacts caused by the change of use. A project on an adjacent site must pay all local fees required under existing law.
- Authorize local agencies to establish an adaptive reuse investment incentive program by ordinance or resolution, which allows a local agency to provide payments for up to 30 fiscal years to a project proponent that is equal to the amount of property tax growth on the adaptive reuse project property that the local agency receives. A city or special district may also pay the county or city that establishes an incentive program an amount equal to its share of property tax increment derived from an adaptive reuse project for the purpose of subsidizing affordable housing units in the project.
- Require adaptive reuse projects approved by a local government pursuant to this bill to meet certain labor standards, as specified in the Affordable Housing and High Road Jobs Act of 2022, that include the following:
  - A requirement for contractors to pay prevailing wages and maintain and verify payroll records, as specified.
  - Authorization for prevailing wage requirements to be enforced by the Labor Commissioner, an underpaid worker, or a joint labor-management committee through a civil action, as specified.
  - A requirement that a project of 50 or more housing units that is approved pursuant to this bill to meet additional standards, including requirements for project proponents to certify with a local agency that contractors will be paid prevailing wages, and for contractors to participate in an apprenticeship program and make health care expenditures for each employee, as specified.
  - Subject the development proponent to monthly compliance reporting with the labor standards above, and other reporting and disclosure requirements regarding payroll records, the apprenticeship program participation, and health care requirements, as specified.
  - Specify penalties for failure to provide specified reports and for other violations.
- Require projects involving buildings over 85 feet in height above grade to meet additional specified labor standards, including the use of a skilled and trained workforce, as specified.

**Related Legislation:** AB 1445 (Haney), which is currently pending in this Committee, would extend the authority for all cities and counties in the state to establish Downtown Revitalization and Economic Recovery Financing Districts to finance commercial-to-residential conversion projects with incremental property tax revenues generated by conversion projects within a district, as specified. These projects would be subject to specified labor standards that are similar to the requirements in this bill for adaptive reuse projects.

AB 3068 (Haney), which was vetoed by Governor Newsom last year, was substantially similar to this bill, with certain differences regarding compliance and enforcement of the labor standards. The veto message included the following:

*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.*

AB 1490 (Lee), Chap. 764/2023, required a housing development project that is an extremely affordable adaptive reuse project to be an allowable use, regardless of any inconsistent provision of a local agency's general plan, specific plan, zoning ordinance, or regulation.

**-- END --**