

## CONCURRENCE IN SENATE AMENDMENTS

AB 507 (Haney)

As Amended September 5, 2025

Majority vote

### SUMMARY

Establishes the Office to Housing Conversion Act (Act), creating streamlined, ministerial approvals process for adaptive reuse projects, as defined, and provides certain financial incentives for the adaptive reuse of existing buildings.

#### Senate Amendments

Amendments taken in the Senate:

- 1) Require more stringent labor standards to be used for adaptive reuse projects;
- 2) Limit the use of the bill on industrial sites;
- 3) Address chaptering issues;
- 4) Adds in "structures" in addition to "buildings" for purposes of historic resource evaluations;
- 5) Delays implementation until July 1, 2026; and
- 6) Makes other technical changes.

### COMMENTS

*Adaptive Reuse:* Adaptive reuse is the process of converting an existing non-residential building to housing. 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 could not functionally be adaptively reused, because their tall ceilings, single stories, and rudimentary plumbing would need to be completely reconstituted to be appropriate for human habitation. Office buildings maintain some potential for conversion, because their multi-floor layout is conducive to housing; however, the large floor plate configuration of most office buildings makes it difficult to provide the necessary light and air that is required for residential units throughout 100% of the building's square footage. For these conversions to occur, it would also need to be financially attractive to the property owner, something that has recently increased due to the sharp downturn in the downtown office market since the beginning of the COVID-19 pandemic.

According to an April 24, 2020 brief published by McKinsey and Company, the onset of COVID-19 has aggravated the existing challenges that the retail sector faces, including: a shift to online purchasing over brick-and-mortar sales, customers seeking safe and healthy purchasing options, increased emphasis on value for money when purchasing goods, movement towards more flexible and versatile labor, and reduced consumer loyalty in favor of cheaper brands.

The buildings most readily converted to housing are hotels and motels. These uses are already divided into quarters designed for short-term human habitation, and units can readily be converted to housing with the addition of kitchens. The viability of this conversion is visible in the success of Project Homekey, which has created over 15,000 units of housing to date, with a

cost of approximately \$306,000 per unit - substantially less than the current cost to build newly constructed housing. Notably, this bill excludes the retrofitting or repurposing of any hotel uses, unless the hotel use was discontinued for at least five years before this bill would go into effect.

A local example of successful adaptive reuse can be found in the City of Los Angeles' Adaptive Reuse Ordinance (ARO). ARO has been a significant policy tool in revitalizing underused buildings within the city's downtown area. By easing certain local requirements, the ARO has enabled developers to transform vacant or underutilized office buildings, theaters, and other commercial structures into vibrant residential units, contributing to urban density and reducing the need to build on undeveloped land. Since its inception, the ARO has led to the creation of over 12,000 residential units in downtown Los Angeles by some estimates, significantly impacting the local housing market and revitalizing the historic core of the city.

This bill would establish a streamlined, ministerial review and approval process for adaptive reuse projects that contain at least 50% residential uses. This bill aims to facilitate the conversion of underutilized commercial buildings into housing through adaptive reuse. It would establish a streamlined, ministerial approval process for qualifying projects, exempting them from the CEQA and certain impact fees, thereby reducing bureaucratic hurdles and costs. It would also designate adaptive reuse projects as a "use by right" in all zoning districts in urban areas, eliminating the need for conditional use permits and further expediting development if the proposed residential use conflicts with any local plans, zoning ordinances, or other regulations. This bill includes affordability requirements, ensuring that a portion of the units are reserved for lower-income households. This bill includes stringent labor standards specific to adaptive reuse projects. The bill would also allow for the new construction of mixed-use developments on vacant or underutilized parcels adjacent to an adaptive reuse project.

Local governments would be required to approve an adaptive reuse project that met the bill's specifications in an expedited timeframe. Under this bill, local governments can also "opt-in" to establishing an adaptive reuse investment incentive fund, through which they could give the developer financial incentives equivalent to up to 30 years of property tax revenues (but not a direct tax break). By simplifying the approval process and providing financial incentives, these measures encourage the efficient transformation of existing structures into housing, promoting sustainable urban development and helping to address California's housing shortage.

### **According to the Author**

"COVID-19 permanently altered the way humans approach work. In the post pandemic era, many businesses realized that developments in technology allow them to move away from the nine to five, commuter model that kept downtown office buildings full of people during the work week. As the capital of technological innovation, California has been particularly impacted by this transition as more and more tech companies shift to offering remote work as a benefit to their employees.

A major downside to this transition is California's emptying downtown business districts. Office vacancies across the state have hit record highs with Los Angeles and San Francisco both reaching over 30% vacancy rates. Many economists are theorizing that unless local and state governments act quickly, downtowns may be facing a doom-loop scenario with empty, devalued buildings leading to a severe decrease in local government tax bases, leading to decreased services and blight. Office to housing conversion is a win-win scenario that builds housing, preserves historic buildings, and creates new thriving communities in transit rich areas.

California needs to get out of its own way and make office to housing conversions as easy as humanly possible. This bill does exactly that."

### **Arguments in Support**

The California Apartment Association writes in support: "As you know, California is in the midst of a shift in work culture. Offices in places like downtown Los Angeles and the financial district in San Francisco are seeing the highest vacancy rates in 30 years. Companies are shifting to hybrid work models with fewer employees working full-time in the office. At the same time, California continues to suffer from a statewide housing shortage. While there is desire to repurpose vacant office buildings to residential ones, there are many technical challenges to doing so. While converting existing buildings to housing is often seen as more cost effective than a new construction, renovating an existing office building in California is often more expensive than a complete tear-down. AB 507 will help with the conversion challenges."

### **Arguments in Opposition**

The California Contract Cities Association writes in opposition: "While AB 507 allows a city to enact a local ordinance that outlines a streamlined process applicable to adaptive reuse projects, the ordinance must abide by a number of state-mandated requirements, limiting the city's authority over its framework. Considering the important role cities ought to play in overseeing and managing adaptive reuse projects in their communities, we strongly believe local review and approval processes should remain in place. These kinds of projects revitalize existing buildings that can have historical significance within the community. Consequently, it is critical that no city is stripped of their ability to make key determinations about adaptive reuse projects."

## **FISCAL COMMENTS**

- 1) Minor and absorbable costs to the Department of Housing and Community Development.
- 2) Local costs resulting from this bill are not reimbursable by the state because local agencies have general authority to charge and adjust planning and permitting fees to cover their administrative expenses associated with new planning mandates.

## **VOTES:**

### **ASM HOUSING AND COMMUNITY DEVELOPMENT: 10-0-2**

**YES:** Haney, Patterson, Ávila Farías, Caloza, Garcia, Kalra, Lee, Quirk-Silva, Wicks, Wilson  
**ABS, ABST OR NV:** Ta, Tangipa

### **ASM LOCAL GOVERNMENT: 9-0-1**

**YES:** Carrillo, Hoover, Pacheco, Ramos, Ransom, Blanca Rubio, Stefani, Ward, Wilson  
**ABS, ABST OR NV:** Ta

### **ASM APPROPRIATIONS: 10-0-5**

**YES:** Wicks, Arambula, Calderon, Caloza, Elhawary, Fong, Mark González, Hart, Pellerin, Solache  
**ABS, ABST OR NV:** Sanchez, Dixon, Pacheco, Ta, Tangipa

### **ASSEMBLY FLOOR: 64-1-14**

**YES:** Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Calderon, Caloza, Carrillo, Connolly, Davies,

Elhawary, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Kalra, Krell, Lackey, Lee, Lowenthal, McKinnor, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Solache, Soria, Stefani, Valencia, Wallis, Ward, Wilson, Zbur, Rivas

**NO:** DeMaio

**ABS, ABST OR NV:** Bryan, Castillo, Chen, Dixon, Ellis, Hadwick, Macedo, Muratsuchi, Nguyen, Sanchez, Sharp-Collins, Ta, Tangipa, Wicks

## **UPDATED**

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