Date of Hearing: July 2, 2025

ASSEMBLY COMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
Matt Haney, Chair
SB 21 (Durazo) – As Amended May 1, 2025

SENATE VOTE: 39-0

SUBJECT: Single-room occupancy units: demolition and replacement: housing assistance programs: eligibility for homeless individuals and families

SUMMARY: Creates an exemption to the Housing Crisis Act (HCA) for the demolition and replacement of Single Room Occupancy (SRO) Units. Specifically, **this bill**:

1) Includes the following definitions:

    a) "Complete private bathroom" means a bathroom that consists of a toilet and shower with a vanity sink that may or may not be in the same room;

    b) "Kitchen" means a section of a dwelling unit that does include a stove, sink, and refrigerator;

    c) "Single-room occupancy unit" (SRO) means a dwelling unit that does not include a complete private bathroom and kitchen; and

    d) "Studio unit" means a dwelling unit that does not include a separate bedroom, but includes a complete private bathroom and a private kitchen.

2) Provides that in the case of a rehabilitation or replacement of an existing SRO building where units are deed restricted at affordable rents to low-income households, a city or county may reduce the number of required replacement units if it finds, based on substantial evidence in the record, that all of the following conditions are met:

    a) The reduction is necessary to accommodate the conversion of a SRO unit to a larger unit; to accommodate the addition of facilities, including private bathrooms, kitchens, or community rooms; to increase accessibility for persons with disabilities; or to address code compliance for matters related to health, welfare, life, and safety;

    b) The conversion of the SRO unit will be completed within four years from the date of rehabilitation or demolition of the SRO unit. Provides that if the completion of improvements will take longer than four years, the city our county may provide for a one-year if the delay is outside of the project proponent's control;

    c) The converted SRO unit will be a rental unit with affordable rent at or lower than at the applicable affordable rent level of the replaced SRO unit, unless the affordable rent level is precluded due to limitations or other requirements of one or more funding source of the housing development;

    d) The converted SRO unit will only be available to households with a household income at or below the income levels for lower income, very low income, extremely low income, or acutely low income households;

e) A converted unit will remain available at the applicable affordable rent level of the replaced SRO unit for the longest feasible amount of time, but not less than 55 years;

f) A covenant of affordability shall be recorded with the county recorder prior to the issuance of the certificate of occupancy or completion of work as approved by the local agency; and

g) A displaced SRO unit occupant shall have a right of first refusal for admission to a replacement unit, provided the SRO unit occupant would not be precluded due to unit size limitations or other requirements of one or more funding source of the housing development.

3) Requires that if an occupant is precluded from occupying a replacement unit due to not meeting the income requirements of a new funding source used to finance the SRO rehabilitation, the project proponent must offer the occupant a comparable unit within their portfolio.

4) Provides that the initial rent for the returning SRO occupant shall not exceed the rent they paid at the time of displacement by more than 5%, and if the displaced tenant was paying more than 40% of their income toward rent at the time of displacement, the initial rent shall not exceed the rent paid at the time of displacement.

5) Provides that the net loss of SRO units due to a rehabilitation or replacement shall not exceed 25% of the total SRO units in the development, as specified.

6) Specifies where SRO replacement units must be located, with priority given to local community plan areas, redevelopment project areas, the jurisdiction in which the SRO is located, and finally in the census tract or census block area that is designated as the highest resource or high resource on the opportunity maps created by the California Tax Credit Allocation Committee.

7) Requires a project proponent to submit a replacement housing plan to the jurisdiction, as specified.

8) Provides that an occupant of a SRO removal is subject to all required relocation benefits, as specified.

9) Modifies eligibility criteria for a resident to occupy units funded by the Department of Housing and Community Development (HCD). Specifically, provides that an individual is eligible for a unit that received funding from HCD and that is for a homeless individual or family as follows:

a) The individual is deemed homeless if they meet one of a list of specified criteria. One criterion that qualifies an individual as homeless is if they are transferring from an existing SRO that is undergoing rehabilitation or replacement, as specified; and

b) An individual or family that meets the above criteria is not subject to a requirement that the unit be filled through a referral from a coordinated entry system or a similar referral system.

10) States that it is the Legislature's intent in adding Government Code Section 66300.6.5 of the Government Code to not preempt, preclude, or invalidate local laws, settlement agreements, or judgments that provide greater protections for SRO tenants or require more replacement housing. States that Section 66300.6.5 of the Government Code shall not invalidate the validated judgment that incorporates the settlement in *Wiggins, et al. v. Community Redevelopment Agency of Los Angeles, et al., Los Angeles Superior Court, Case No. BC 276472*.

EXISTING LAW:

1) Defines "protected units" as any of the following:

   a) Deed-restricted affordable units;

   b) Rent-controlled units;

   c) Units rented by lower or very low income households within the past five years; and

   d) Units that were withdrawn from the housing market under existing law (the Ellis Act). (Government Code Section (GOV) 66300.6)

2) Prohibits specified cities and counties from approving a housing development project that will require the demolition of residential units unless the project will create at least as many units as demolished (i.e., no net loss in housing units) within the last five years. Prohibits approval of a project if it will demolish protected units, unless all of the following apply:

   a) The project will replace all protected units demolished on or after January 1, 2020, and any protected units replaced must be considered in determining whether the project meets inclusionary requirements;

   b) The project will include at least as many residential units as the greatest number of residential units that existed on the site within the last five years;

   c) Any existing occupants will be allowed to occupy their units until six months before the start of construction with proper notice, and any existing occupants required to leave must be allowed to return at their prior rental rate if the demolition does not proceed and the property returns to the rental market; and

   d) The developer agrees to provide both of the following to the occupants of any protected units:

      i) Relocation benefits; and

      ii) A right of first refusal for a comparable unit available in the new housing development affordable to the household at an affordable rent or an affordable cost. (GOV 66300.6)

FISCAL EFFECT: Unknown

COMMENTS:

Author's Statement: According to the author, "Single Room Occupancy buildings are a critical housing resource in my district and throughout California. Many of these buildings are aging and increasingly unsustainable to operate. Lacking private bathrooms, kitchenettes, and supportive service space, these properties struggle with high vacancy rates, low rents, and insufficient revenue to fund maintenance or upgrades. SB 21 preserves the role of SROs in providing the stability of a home while enabling their long-term viability in our communities."

HCA and Housing Demolition Protections: In response to the housing crisis, the Legislature enacted the Housing Crisis Act of 2019 (HCA) (SB 330 (Skinner, Chapter 654, Statutes of 2019) and subsequent amendments to the Act that prohibits local governments from reducing the capacity for housing development within their jurisdictions and includes demolition protections designed to ensure that there is no net reduction of housing in the state, especially affordable housing. Under the HCA, projects cannot require the demolition of housing unless the project creates at least as many new homes, and cannot demolish affordable housing units protected by law unless the project replaces the units and allows existing residents to occupy their units until six months before construction starts. The developer must also provide relocation assistance and a right of first refusal to the residents in the new development at affordable rates.

Single-Room Occupancy Units*:* A single-room occupancy (SRO) unit is a small housing unit (usually 200-300 square feet) that lacks a kitchen and bathroom, so residents share those facilities communally with other units in a building. According to HCD, "these units provide a valuable source of affordable housing for individuals and can serve as an entry point into the housing market for people who previously experienced homelessness. Many older SROs have been lost due to deterioration, hotel conversions, and demolition."

SRO buildings are often run by nonprofit entities to preserve a source of affordable housing. For example, in Los Angeles's Skid Row, there are approximately 6,500 SROs, about 3,500 of which are operated by nonprofit housing organizations. SROs in Los Angeles are subject to various restrictions intended to preserve them, including a settlement agreement (known as the "Wiggins Settlement Agreement") dating to 2006 that settled allegations that the Central Industrial Plan and City Center Plan adopted by the redevelopment agency in Los Angeles in 2002 did not adequately preserve affordable housing or create job opportunities for low- and very low-income households. The Wiggins Settlement Agreement restricts the use and redevelopment of SROs in downtown Los Angeles to preserve deeply affordable housing and requires any lost SROs to be replaced with units at the same income level. The City of Los Angeles has also adopted an ordinance that requires replacement of any demolished SROs citywide. Los Angeles currently has a total of around 9,000 SROs.

According to Enterprise Community Partners, SRO properties are inherently old as they represent some of the earliest acquisition and rehabilitation examples in the affordable and supportive housing universe. On average, the SRO properties in a sample that Enterprise assessed were constructed in the early 20th century, with 1928 being the average year for the original building date, and even earlier for the median age of 1913. For the most part, nonprofit owners financed, acquired, and rehabbed these buildings to "place them in service" (or PIS) as deed-restricted affordable housing assets in the late 1990s or early 2000s (average PIS date was 2001; median PIS date was 1997).

While it is not uncommon for aging affordable housing that has been in operation for over 20 years to show signs of financial distress, Enterprise found in this sample of 39 SRO properties across the state that 95% of the projects (essentially all but two sites) reported an operating deficit. SROs also seem to be less desirable for renters; of the 39 projects identified above, 20% of the units were vacant. The absence of incoming rental income for those units can result in the loss of SRO units as they become financially unsustainable.

Challenges in Making SROs Financially Feasible: According to the sponsors, some affordable developers are facing challenges with rehabilitating SROs to create more sustainable affordable housing developments. One example is the Mary Andrew Clark Residence in Los Angeles' Westlake North Neighborhood, which is a 150 unit SRO building with shared common kitchens, bathrooms, and shower facilities on each floor. This property has been owned and operated by a nonprofit housing organization, Abode Communities, for the past 34 years and is deed-restricted to households at or below 40% AMI. Abode Communities reports that in the last five years, operating expenses have exceeded their rental revenues, and this year the property faces a shortfall of $150,000. Abode Communities has proposed to redevelop this building as deed-restricted affordable studio units to make the building more financially stable and provide a better housing experience for its residents. However, because this conversion process would result in the loss of 44 SRO units, the HCA forbids such a plan without replacing all of the units.

Demolishing Units to Create More Housing Opportunities: State law generally blocks developers from demolishing housing units unless they will build an equivalent number of new units, pay relocation benefits to lower-income residents that are being displaced from protected units, and allow those residents a right to return at an affordable rent or housing cost. This bill, however, allows demolition of more SRO units than will be replaced as studio or larger units, which could result in more individuals without housing than if the units weren't demolished. However, affordable housing developers indicate that SRO buildings face unique fiscal challenges that are stretching them to the breaking point: insurance costs for SRO buildings are higher and occupancy rates are lower because they are less desirable places to live. If SRO buildings are likely to close their doors completely, this bill could result in an increase in affordable housing as these buildings are redeveloped into more financially sustainable projects. Guardrails placed on these projects will ensure that they remain available and affordable to the lowest-income earners and those most likely to be homeless or at risk of homelessness.

This bill would allow for people who had previously been homeless and occupying an SRO under redevelopment to be eligible for relocation assistance. Most programs that offer permanent supportive housing through HCD require tenants to be currently homeless and referred through a local coordinated entry system (CES)—criteria that SRO tenants may not meet because they no longer possess their homelessness documentation from their initial move to the SRO.

This bill would amend HCD regulations to: 1) authorize SRO tenants to relocate to HCD units without homelessness documentation; and 2) allow for referrals to HCD units outside CES. Affordable housing projects and permanent supportive housing projects funded by the California Debt Limit Allocation Committee and California Tax Credit Allocation Committee already accommodate flexibility for SRO relocation assistance in their guidelines, but HCD has around a dozen programs, each with their own regulations and guidelines. This change would apply to all programs at once.

Arguments in Support: According to various supporters, "SROs, built largely in the early 20th century and rehabbed by nonprofits decades ago, remain a housing lifeline for low-income, elderly, and disabled Californians. Yet many struggle: lacking private bathrooms and kitchens, they face high turnover and vacancies (over 4x more than normal), while low, often unsubsidized rents fail to cover rising costs. 95% report operating deficits, per a recent study by Enterprise Community Partners. Nonprofits, committed to preserving this housing, increasingly subsidize operations with organizational reserves—a practice that, while a testament to their dedication, strains budgets already stretched by rising maintenance and staffing costs. For some, this reliance signals a looming risk of insolvency, threatening not just individual properties but the broader mission of providing affordable housing. The collapse of Skid Row Housing Trust (SRHT) highlights these challenges. SRHT's SRO portfolio—strained by these same issues—played a significant role in its insolvency and disrupted Los Angeles' affordable housing community considerably. Many properties in severe physical and financial decline proved too risky for other nonprofits to take on, prompting the City of Los Angeles to spend nearly $40 million on a receiver to maintain habitability—a sobering example of the stakes involved."

Arguments in Opposition: None on file.

***Committee Amendments*:** The following amendment clarifies that the priorities created in the bill for CES apply to units that subject to a regulatory agreement with HCD and for individuals displaced or returning to SRO units undergoing rehabilitation or replacement. As currently written, the language could be interpreted to apply more broadly to any unit subject to a regulatory agreement with HCD that is required to use CES to fill a unit.

SEC. 4. Section 50406.6 is added to the Health and Safety Code, to read:

50406.6. (a) For the purposes of this section, "coordinated entry system" means a centralized or coordinated assessment system developed pursuant to Section 578.7 of Title 24 of the Code of Federal Regulations, designed to coordinate homelessness program participant intake, assessment, and provision of referrals.

(b) Notwithstanding any other provision of law, or any regulatory agreement that the department entered into pursuant to this part, both of the following shall apply for determining eligibility for **<u>any individual displaced from or returning to a single-room occupancy unit undergoing rehabilitation or replacement</u>** a unit that received funds from the department, including for a unit that received funds prior to the enactment of this section, and is for a homeless individual or family:

(1) An individual or family shall be deemed homeless if they meet any of the following criteria:

(A) They moved to the unit described in this subdivision and were homeless upon initial occupancy of a prior unit.

(B) They are receiving or received supportive services or rental subsidies administered by a continuum of care or other program for people experiencing homelessness, including a public housing authority's shelter plus care program or Section 8 Moderate Rehabilitation Single-Room Occupancy Program.

(C) They are transferring from an existing single-room occupancy building where units are deed restricted at affordable rents to low-income households, and which is undergoing rehabilitation or replacement to accommodate the conversion of single-room occupancy units to studio or larger units, to accommodate the addition of private bathrooms, kitchens, community rooms, or like facilities, to increase accessibility for persons with disabilities, or to address code compliance for such matters as life and safety, shall be deemed homeless.

(D) They are subject to a continuum of care emergency transfer plan.

(2) An individual or family described in paragraph (1) shall not be subject to a requirement that the unit be filled through a referral from a coordinated entry system or a similar referral system.

(c) Implementation of this section is contingent upon an appropriation by the Legislature for purposes of this section.

Related Legislation:

SB 8 (Skinner), Chapter 161, Statutes of 2021: Extended the sunset on the Housing Crisis Act of 2019 by five years and made a number of minor changes to the Act, including clarifying the provisions for demolition and replacement.

SB 330 (Skinner), Chapter 654, Statutes of 2019: Restricted, for a period of five years, actions by cities and counties that would reduce the production of housing, including demolition of housing that would result in less total units and less units affordable to lower income households.

Double Referred: This bill was also referred to the Assembly Committee on Local Government where it will be heard should it pass out of this committee.

REGISTERED SUPPORT / OPPOSITION:

Support

Southern California Association of Nonprofit Housing (Sponsor)
A Community of Friends
Abode Communities
Art House Pasadena
California Council for Affordable Housing
California Housing Consortium
California Housing Partnership
California Rural Legal Assistance Foundation
EAH Housing
East Bay Housing Organization
East LA Community Corporation
Enterprise Community Partners, INC
Housing California
LA Family Housing
LAFHBuilds
Legal Aid Foundation of Los Angeles
Linc Housing
Little Tokyo Service Center

Long Beach Environmental Alliance
National CORE
Northern Enterprise Community Partners
Our Lady Queen of Angeles Housing
People's Self-Help housing
Public Counsel
Public Interest Law Project
Sacramento Housing Alliance
Southeast Asian Community Alliance
Southern Enterprise Community Partners
SRO Housing Corporation
Supportive Housing Alliance
Thai Community Development Center
The People Concern
West Hollywood Community Housing Corporation

Opposition

None on file for the current version of the bill.

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