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LEGAL UPDATES

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# California Real Estate Developers Optimistic About CEQA Reform

On June 30, 2025, California Governor Gavin Newsom signed into law Assembly Bill 130 (AB 130) and Senate Bill 131 (SB 131), legislation that contains significant changes to the California Environmental Quality Act (CEQA) that many real estate industry participants believe will spur housing development in the state.

As we have written about previously, many municipalities and state governments across the United States are struggling to address dislocations in the residential housing market that have led to a scarcity of affordable housing, and California is no exception. In an April 2025 affordability and homebuilding report card from Realtor.com, California was one of seven states to receive an F. Real estate developers often cite California's array of state and local regulations as the principal factor that has thwarted new housing units from reaching the market.

## **CEQA reform has come**

Enacted in 1970 and signed into law by then-Governor Ronald Reagan, CEQA has been a formidable hurdle for developers, often deployed by project opponents to delay or derail housing, infrastructure, and commercial developments. The new reform, passed as part of California's \$321 billion budget deal, is a nod of acknowledgement concerning the severity of the state's housing crisis and marks a shift in public policy. Although the measures were strongly opposed by California's environmental and labor lobbies, support for the legislation brought together a broad coalition of interests.

The legislation exempts nine categories of projects from CEQA review, including housing for farmworkers, broadband infrastructure, wildfire prevention, and advanced manufacturing facilities such as those involved in electric vehicles and semiconductors. These exemptions are expected to streamline approvals and reduce litigation risk, giving developers a clearer, more predictable path for development. The new law was effective upon the governor's signature on June 30.

Governor Newsom called the reform "the most consequential housing policy in modern California history," underscoring the administration's commitment to accelerating development and addressing affordability.

## **Infill housing projects**

Both AB 130 and SB 131 contain provisions related to state housing law that could create more favorable conditions for developers. In particular, AB 130 features enhanced exemptions for qualifying urban housing projects. Under certain conditions, housing projects on infill sites of up to

20 acres will be exempt from CEQA review. Among the major applicable criteria, projects must be:  
located in an incorporated city or urban area

consistent with a jurisdiction's general plan and zoning ordinances

in alignment with certain minimum residential density requirements

in compliance with certain environmental and prevailing-wage requirements

In addition, there are certain prohibitions against projects located in environmentally sensitive areas or that require the demolition of a historic structure, among other restrictions; however, the law does open up possibilities that should occasion developers to reassess their project pipelines and ongoing projects.

Notably, SB 131 also contains provisions that allow projects previously disqualified due to one condition to enter into a more streamlined process where CEQA review would be limited to an examination of the environmental effects caused solely by that condition, rather than having the project endure a more thoroughgoing analysis.

### **What this means to you**

The enactment of AB 130 and SB 131 certainly improves the operating environment for real estate developers in California, although it remains to be seen if the CEQA exemptions provide enough economic incentive to spur large-scale additions to the state's housing supply. As such, the new legislation is an excellent first step in reorienting state policy toward a more accommodative stance vis-à-vis infrastructure development, but follow-on measures will likely be required to create the robust level of confidence needed by developers.

### **Contact us**

If you have questions regarding the impact of these reforms on your development projects, contact Mhare Mouradian, MaryBeth Heydt, or your Husch Blackwell attorney.