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5/27/2025

SB 1123: Developers & Investors - Everything You Should Know

Senate Bill 1123 (SB 1123), signed into law on September 19, 2024, is a transformative piece of legislation aimed at addressing California's housing crisis by streamlining development processes. **Effective July 1, 2025**, SB 1123 builds on SB 684 (2023) to allow **ministerial approval** for subdividing vacant lots up to 1.5 acres in single-family or multifamily zones into up to 10 for-sale homes. This bill will have a substantial impact in urban and suburban cities across California, especially on properties that fall within the guidelines – properties that are less than 1.5 acres and are residentially zoned. Cities and Counties in California will have 60 days to approve or deny a project once a submittal application is “deemed complete”. The city or county will only be allowed to deny a project if it is deemed a **substantial risk to public health**. So, as long as you're not proposing to build over an existing gas station, toxic waste facility or an oil refinery, you should be okay! (creeks are another story).

By bypassing discretionary reviews, California Environmental Quality Act (**CEQA**) requirements, and **public hearings**, the bill accelerates approvals for small-scale housing projects near jobs, schools, or transit. Time has a way of killing projects, the State of California has recognized that and attempts to rectify the issue with a higher quantity of smaller scale residential developments. The implications of this bill will greatly benefit landowners, homeowners with excess land and smaller community developers. These types of projects are not likely to attract REITs or institutional investors as individual project sizes would likely be too small. Local investors and developers, the ball is in your court!

How are local municipalities responding to SB1123? And How to Proactively Avoid Cities “Kicking the Can”.

I have approached multiple cities and counties asking their planning departments about the new proposed legislation. Roughly 80% have said that they will deal with it when they receive an application after **July 1st, 2025**, the date the bill is set to go into effect. A few cities, notably, have prepared in anticipation of new applications and have created SB 1123 development checklists. Developers will have to be ready to educate and work with the cities in interpreting the development guidelines of SB 1123, so stay informed and on your toes!

If you are looking to utilize SB 1123, it is anticipated that cities will try to delay the expedited processing by not “deeming your application complete”. Cities may use this method to try to kick the can down the road and not get to your application. It is recommended that before you formally submit a development application, to have an extra predevelopment meeting and go over your project plan set and verify that you have provided all the necessary documentation to move your project forward.

What are the Development Standards for my project?

Provisions for SB 1123 development standards include the following: No new lot created can be smaller than <1200 square feet as well as no limits on front or side setbacks. If a project proposes to create 3-7 new units, FAR (floor area ratio) cannot be greater than >1.0. For projects aiming to create 8-10 new units, FAR coverage can go up to 1.25.

For example: if you create a 1200 sq/ft parcel, the new unit size cannot exceed 1200 sq/ft in a development creating only 3-7 units. If your project creates 8-10 new units with a 1200 sq/ft parcel, the new unit size may go up to 1500 sq/ft, achieving an FAR of 1.25.

Another provision to be aware of is that the average unit size across the proposed new development cannot be greater than 1,750 sq/ft of livable or finished space (garage not

included). The purpose of this is to put a cap on the sizes of the new homes built to make housing more affordable.

An example of this would be if you wanted to do a 10-lot subdivision build 10-new 2,000sqft homes, this would **not be compliant**.

However, if you wanted to do a 10-lot subdivision and build 5 homes that are 1,950sq/ft and 5 homes that are 1,550 sq/ft, this **would be acceptable**.

Highest and Best Use for Land

For homeowners and developers, to achieve **highest and best use** for any given property you would ideally be able to yield (10) 6,000sq/ft lots with an average home size of 1,750 sq/ft in a perfect scenario. Leaving size for a modest size home and a bit of yard space to breathe + highest sales price of final product. Another variation that would likely be popular are properties that are less than 1 acre and doing (10) 2 or 3 story townhome type products on say a 1,200-2,000 sq/ft lot each. However, every property is unique and will require a tailored approach to design.

What are the subdivided lots worth?

In high-demand markets like greater Los Angeles or the Bay Area, these “paper lots” can be worth **\$100,000 to \$300,000 per lot**, depending on housing type and final sales price of the home when sold. Move over, house flipping—SB 1123 sparks a new era of “map-flipping” for savvy investors!

No public hearings mean fewer delays, and cities must approve or deny projects within 60 days, only rejecting for public health or safety risks (in which case your due diligence is questionable). This bill will transform the landscape of the residential entitlement process throughout California. **NIMBY’s** will have to sit on the sidelines for this one.

Enjoy **SB 1123'ing** my friends!