



### Fact Sheet: AB 1406 Condo Deposit Reform

#### **PROPOSED BILL**

AB 1406 would incentivize condominium development by increasing the existing liquidated damages cap from 3% of the sale price to 10%, aligning California with other states such as New York, Colorado, and Nevada. This change would reduce lender risk, unlock financing for condo projects, and increase the supply of more affordable, entry-level for-sale housing.

#### **BACKGROUND**

Despite significant growth in multifamily housing, very little of this new housing is available for sale. According to research conducted by Lambda Alpha International, from 2011 to 2021, for sale multifamily condominiums made up only 3% of all newly constructed housing here in California.<sup>1</sup> By comparison, states such as Hawaii and Washington, produce condominiums at roughly ten times California's annual rate.<sup>1</sup>

California has strict limits on developers' use of homebuyers' deposits when constructing condo projects. There is a de facto 3% earnest money deposit cap, requiring any funds over 3% to be fully refunded to the buyer, if they decide to terminate the deal. This limit restricts the financing that developers can use for construction and forces them to rely on more expensive debt. It also encourages buyers to purchase condos speculatively, increasing project risk.

The limited production of condominiums significantly restricts pathways to homeownership—especially in dense urban areas where land is scarce and single-family homes are financially out of reach for most Californians. According to data from the California Association of Realtors (CAR), only 15% of California households could afford the median-priced home. In comparison, 25% of all home buyers were able to afford the median-priced condo or townhome.<sup>2</sup> While Californians are ready to buy homes, the state's minuscule condominium production rate impedes homeownership.

#### **SOLUTION**

AB 1406 would encourage condominium development by increasing the liquidated damages cap from 3% to 10% while maintaining existing bonding and consumer protection requirements that safeguard purchasers' deposits. The bill would reform condominium financing, aligning California with other states.

By improving project feasibility, AB 1406 would increase the availability of affordable entry-level homeownership opportunities and help alleviate the state's housing crisis.

#### **SUPPORT**

SPUR (Co-Sponsor)  
California YIBMY (Co-Sponsor)

<sup>1</sup> [lai\\_webinar\\_discussion\\_paper\\_-\\_home\\_ownership\\_in\\_transition-r0.pdf](https://lai.org/-/media/assets/advocacy/2021/03/lai_webinar_discussion_paper_-_home_ownership_in_transition-r0.pdf)

<sup>2</sup>

<https://www.car.org/aboutus/mediacenter/newsreleases/2025releases/2qtr2025hai>

## **OPPOSITION**

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California Association of Realtors

## **FOR MORE INFORMATION**

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