



Downtown Specific Plan

Developer Advisory Group Interviews Summary
August 2016



Project Overview

The goals of the Downtown Specific Plan include:

- Create a Specific Plan that paves the way for at least 10,000 housing units to be built
- Develop a varied housing stock that reflects the diversity of Sacramento
- Incentivize Transit-Oriented Development throughout downtown Sacramento including the Downtown Riverfront streetcar alignment
- Remove barriers to housing development by streamlining the development and environmental review process
- Maintain the quality of life central city residents experience and further neighborhood livability by including supporting amenities along with housing

On Wednesday, August 31, the project team facilitated a series of stakeholder focus group interviews with a Developer Advisory Group (D.A.G.) which included local private developers, affordable housing developers, architects, attorneys, and bankers. The D.A.G. provided feedback on the City's current development process and what challenges developers face when building in Sacramento.

The discussion topics for the interviews included:

- Challenges and barriers to residential development
- Opportunities to incentivize residential development
- Communities amenities needed
- Other recommendations

Project Team

Project team members involved in the interviews include:

Harriet Ross, *Environmental Science Associates*

Brian Boxer, *Environmental Science Associates*

Neal Payton, *Torti Gallas + Partners*

Matt Kowta, *Bae Urban Economics*

Gladys Cornell, *AIM Consulting*

Nicole Porter, *AIM Consulting*

Developer Advisory Group

Developer Advisory Group members interviewed include:

MARKET RATE DEVELOPERS

Nikky Mohanna, Mohanna Development

Mixed use residential project on 19th & J

Katherine Bardis, Bardis Homes

The Mill at Broadway

Sotiris Kolokotronis, SKK Development

L Street Lofts, Fremont Building, Q19

Bay Miry, D&S Development *

16 Powerhouse, 700 K Street, 15th & Q

Bill Heartman, Sares Regis *

Metro Square

Kirk Khasigian, Hines Property *

300 Capitol Mall & 400 Capitol Mall

ARCHITECTS

Steve Guest, RMW Architects

MAARS Building, Ice Blocks, 830 K Street renovation

Ron Metzker, LPAS

16 Powerhouse, Metro Crossing

Ron Vrilakis, Vrilakis Architects

Township 9, Oak Park Broadway Triangle, Elliot Building

AFFORDABLE HOUSING DEVELOPERS

Stephan Daues, Mercy Housing

7th & H Street Apartments,

Land Park Woods

Rachel Iskow, Mutual Housing

Keith Bloom, Mutual Housing

Lavendar Courtyard

Wendy Saunders, CADA

Warehouse Artist Lofts,

Eviva Apartments, Legado De Ravel,

16 Powerhouse

Ali Youssefi, CFY Development

700 K Street, Warehouse Artist Lofts,

Ridgeway Studios, Globe Mills

ATTORNEYS

Tina Thomas, Thomas Law Group

Chris Butcher, Thomas Law Group

Jeff Dorso, Pioneer Law Group

BANKERS

Dennis Raymond, F&M Bank

* The project team held separate interviews with these DAG members.

Interview Feedback

Below is a summary of the stakeholder interviews.

What do you see as the barriers, if any, to development downtown?

AVAILABLE WORKFORCE CAPACITY

- The City has not increased their (staffing) capacity to meet the current demand.
- Since the recession, the (staffing) capacity has decreased for both public and private sectors. For example, some architects and builders went out of business during the recession. The City's planning and public works department also experienced severe attrition during the recession.
- Sacramento is competing with the Bay Area for construction workers. The Sacramento market is faced with Bay Area construction costs, but only getting Sacramento area rent prices.

COMMUNITY COLLABORATION

- There needs to be better outreach with Neighborhood groups. Neighborhood groups and other stakeholders are determining appropriate density and what growth should look like in their neighborhoods.
- We need to get all stakeholders on the same page. 50% of stakeholders want Sacramento to remain tree-lined neighborhoods with abundant parking and 50% want Sacramento to become a dense urban community.

PROCESS

- There is no comprehensive understanding of existing utility systems. It is often a developer's responsibility to figure out existing water, sewer, and storm water systems. The City could take control and/or help by developing a better understanding of where utilities are in the streets.
- The entitlement process is relatively painless. However, after the entitlement process and getting through the building permit is where things fall apart. A lot of people who want to come to the Sacramento market get tripped up over the building process. Economic Development folks are not connected to the people in the Building Department. No one has consistently held the role of Chief Building Officer since Ryan DeVore. City staff has become very cautious and demand that you follow the City's Development Code, but their interpretation of the building code varies.
- Building permit review process can be very challenging but it is getting easier. With 12 to 15 separate permits required for a project and then things change in the field; inspectors are hesitant to sign off which requires that the revision has to go through a formal approval process.

RETURN ON INVESTMENT

- Revenue drives the residential market. If the pricing and rents go up, then it can justify the construction costs. There are a substantial number of entitlements (both for sale and rental) being processed right now, however, it is highly unlikely many of these projects will move beyond entitlement until the market can bear higher prices and rents.
- There is still a lot of cheap land in the surrounding communities that can compete with living downtown.
- There are still many other viable less expensive housing options, e.g., North Natomas, which offer nice amenities and are relatively close to the Central City.
- Residential developers whose primary product type is 10 to 12-story mid- to high-rise projects would like to see rents around \$3.50 per square foot to make it pencil out.

TARGETED DEMOGRAPHICS

- I'm not sure how deep the market is for the current market rate housing being offered. While the recent increase in employment may help to drive market demand, we still don't have the employment structure like the Bay Area that will pay the millennials enough to afford the rent on market rate housing.
- A lot of those who work for the State (which is still a large percentage of our local economy) don't want to live in the Central City.

OTHER COMMENTS

- The grid has the capacity to get market rate housing built, but there is a lack of land that is easily accessible and a lack of assembled lots.
- Sacramento is still dependent on cars. There is not a robust enough public transportation system to get people to and around downtown. In addition, parking needs must be addressed, but this makes building infill developments more difficult.

What do you see as the barriers, if any, to affordable housing development?

CAP AND TRADE

- Because the goal of Cap and Trade is to reduce greenhouse gases, affordable housing sustainable communities need to be paired with transportation projects, which aren't happening in Sacramento. The City and Regional Transit won't co-apply with the affordable developer in order to indemnify as other cities (example Davis) do. The City's Public Works department said they were unwilling to cosponsor due to a potential liability regarding the City's local credit rating.
- Affordable housing projects are at a disadvantage in Sacramento because there is no transportation authority involved in the area. Regional Transit is not as involved as they could or should be. Meanwhile in Los Angeles, the MTA is coaching its developers on how to take advantage of programs by partnering with developers to obtain funding.

OTHER COMMENTS

- Small but active opposition from neighbors can be a barrier to affordable housing and market rate development. City councilmember support does help, and this support can be bolstered by other constituents that are supportive of the project.
- Small parcels need to be assembled for developers.
- The City should take action on buildings that should be condemned, so we can see them as opportunities for development.
- Affordable housing developers are required to pay an issuer monitoring fee throughout projects that are funded by tax exempt bonds. The City's fee can be more than \$20,000 per year, but there are other issuers that charge less than half of that. The City's large fee reduces the amount of money an affordable housing developer can use to complete their project.

If regulatory, what changes would you like to see?

BETTER PARTNERSHIP WITH CITY STAFF

- There should be sit-downs or symposiums for the departments and developers to discuss the vision and bigger picture.
- There is no communication between the vision for the 10,000 housing initiative and codes that should be flexible to meet this initiative.
- Developers create designs based on the City's central core design guidelines, but departments other than the planning department do not follow these guidelines.
- Developers feel that while the planning department may understand the big picture, individual departments such as public works, utilities, and fire do not.
- New City staff should be educated about urban development form so all departments know to look at codes differently and creatively to understand what needs to be accomplished with each project.
- The city's planning department is great at a planning level, but not a lot of them seem to be aware of the cost burdens associated with infill development.
- A developer should be able to lean on the City to guide them through the process.

BETTER PARTNERSHIP WITH CITY STAFF (CONTINUED)

- There should be a kick-off meeting for each new project that includes a representative from each department where the City and the developer can discuss all the issues at the beginning of the process.
- The City's design guidelines and zoning codes are good. The problem is that these policies are administered randomly.
- If the design guidelines are not administered in a rational and consistent way, public anger will build.
- There is core group of developers that are committed to building in the grid, and they will build no matter how difficult it is. But there are other developers who come to Sacramento for all the right reasons and trip over the development process. Because there is no one in the City that can help them navigate the system, they panic and leave.
- There needs to be better communication between City departments and housing agencies.
- Modifications to planning codes will need to be made for projects to fit within the context of some communities.
- The City should make provisions to allow applicants to pay for 3rd party plan reviews if the building department is too busy to handle the work load.

FEES

- The City has done a great job keeping the fees low. Especially in comparison to the suburban market.
- Impact fees should be due when a project is ready for close of sale, or when the final building permit is issued.
- There needs to be a fee concierge, or an informational sheet, that can help developers figure out what fees they owe to the City.
- Fees seem to be inconsistently determined.
- Park fees are too high.

URBAN DESIGN PLANS AND CONSISTENCY

- The City should develop an urban design plan and then consistently enforce it.
- There is no consistency in the development process. Every infill project goes through a variance from the product code, but the process for each project is different.
- Each urban high-density project should go through its own planning and review public process. Staff review of a project has not always been successful. It gives a lot of power to one person, and that power can be mistreated and/or used as leverage (i.e. otherwise you will have to go to the commission).
- If the City uses form based codes, it should be synced with the building codes.
- The City should develop a clear consensus of what buildings are historic and need to be preserved and what buildings could be changed and redeveloped.

REVIEW PROCESS

- Within each department there are several different reviewers, and they all seem to follow different rules.
- In a best case scenario, it takes 3-4 months from the time a developer submits their plans to the time they obtain a building permit. 6-8 months is the most consistent timeline. There is an expedited process, but it is very expensive and it only shortens the process by two weeks.
- Even when a planning code is not applicable, it is treated as the most important part of a project.
- There needs to be a way to streamline the permit process so a developer doesn't have to go back to the Planning Commission every time they want to change something. It is time consuming, expensive, and makes the developers much more open to litigation.

OTHER COMMENTS

- Avoid having to do a traffic study for every project, e.g., if a completed traffic study exists in the same area as a proposed development project, then the developer is still required to do an additional traffic study.
- Pending litigations from neighborhoods or about the environment tend to scare banks off. Banks, especially smaller ones, cannot get tied into any litigation.
- There needs to be better communication and partnerships with the community.
- Open space requirements are too high; debatable on whether private open space is needed in Downtown.

If market related, what incentives, might be appropriate?

- Detroit has a program where a developer receives \$2,000 when they sign a \$1,000 lease and again something similar when they renew. This type of program could provide an incentive to developers in Sacramento.
- The City needs to help with Sacramento's homeless issue. Developers will have problems with getting the rents they need, especially on the J, K, and L corridors because of this issue. A lot of people from the suburbs don't feel comfortable moving to downtown because of the homeless issue.
- Younger people in the private sector will drive demand. We need to diversify and improve our Central City economy with high paying, private sector jobs.

If infrastructure related, what is the best way of funding the infrastructure?

- Infrastructure is a continuing issue. The infrastructure downtown wasn't meant to support such a high demand of high-rise or mixed-use developments.
- Developers must upsize an entire infrastructure for one project with no cost-subsidy. Developers must pay upfront to break the barrier for the entire infrastructure, but may end up using 20%.
- Later developers benefit from the initial upsizing.

Infrastructure (continued)

- There should be a cost-share agreement between developers, the City, and SMUD to resolve this problem.
- The costs associated with updating many vacant buildings in Sacramento scare off developers who would otherwise be interested.

Generally, speaking what type of “product” types do you see as appropriate for central business district, midtown, or corridors like R Street/Broadway?

- Smaller developments are the key to revitalizing the grid.
- Smaller residential spaces.
- Need more units with 3-4 bedrooms for families.
- Commercial corridors. The City should plan for and provide a vision for distinct areas, such as R Street, so projects can be developed according to the vision.
- Commercial corridors with some level of form-based code to create a vision (i.e. J Street).

What types of amenities are necessary for downtown?

- A grocery store.
- An improved school system. If possible, developer fees should go directly to the schools in the project’s area.
- Improved light rail that people feel safe riding and want to use.
- Public transportation that takes people where they need to go.
- Streetcar. It would connect downtown to West Sacramento.
- Street infrastructure such as bike paths, sidewalks, and road diets.
- Walkable streets. Not every block has to have every amenity if we can keep the districts and neighborhoods connected.
- Parks and improving the public realm.

How significant is transit proximity to your development?

- Streetcar would positively impact the desirability of development for both tenants and buyers.
- Transit is not currently a factor in regards to bank loans, because the transit that exists now does not add a lot of value to projects we assess in the area. Streetcar could, but it is unknown.
- From the perspective of affordable housing, streetcar is not guaranteed to be helpful for cap and trade funding acquisition.

Are there parking code adjustments that should be addressed to entice development?

- If developers want to attract all demographics, parking is a necessary amenity. There is no bus line or light rail route that is feasible for someone who has to commute.

What is your assessment of the City's current parking requirements relative to affordable housing?

- Developers currently favor flexible parking. Improvements to public transportation, potential driverless cars, and other advances in transportation technology over the next 20 years make it difficult to anticipate future needs.
- Parking should have no requirements. Allow the market to determine what is needed.
- Affordable housing developers favor flexible parking, because they cannot charge for parking.

Is there a way for the City to bring down risk?

- Strong and clear policy associated with the General Plan that can reduce the chance for litigation.
- A Planning Commission that makes a case for a project, not against it.

What do you see as the most important drivers for housing demand?

- Availability of jobs is a big deal for the area. The Kaiser development, which would bring 3,000 jobs, is huge.
- Livability and walkability are the first things people look towards when considering moving to the grid.
- Preserving the feeling of a community in an urban environment. Restaurants, bars, public parks, market places, and other amenities can pull residents to the core and make them feel like they are not sacrificing anything from the suburbs.
- Walking paths, green strips, and general areas that encourage people to communicate with one another.
- The Golden 1 Center.

If you've been following the State Legislature's various affordable housing initiatives, which if any proposed measures do you think could impact your work? How?

- The legislation is only passing funding and subsidies for special needs housing only. This includes housing projects for people in extreme poverty, homeless with mental disabilities, and veterans. Funding for normal affordable housing projects is not being provided.
- The affordable housing sustainable communities cap and trade funding becomes more important.

Has the increased supervision and regulatory requirements imposed by the Federal Government impacted your underwriting of loans for infill development? If so, how?

- No. Most of these requirements do not relate to commercial lending.

Have demographic shifts and new investment in downtown Sacramento made investment easier to justify? What is the outlook for the next 10 years?

- Sacramento was recently ranked in the top five cities in the country with the highest rent escalation. This helps the brokerage community understand how downtown and midtown are performing.
- The Golden 1 Center has helped with the success of retail spaces and improving vacancy rates.
- Occupancy rates have reduced the perceived risk for investing in the Sacramento area.
- Increased activity and nightlife in Sacramento prove there is momentum in the area. Banks like to lend money where there is momentum.
- The City's investment in the grid further proves there is momentum in the area.
- The state putting funding into streetcar positively impacts projects

Do mixed-use projects pencil out in current regulatory environment and current market conditions?

- Yes. Sacramento has performed well in regards to retail spaces and vacancy rates. This makes banks more comfortable with lending to projects in the area.

From your perspective, what are some of the impediments to infill development that impact your underwriting?

- The time it takes a project to get from the entitlement process to construction. Banks like to see projects go vertical by 6 months. They want to have the assurance that something will start going up fairly quickly after a deal is closed.
- Developers need to have their planning approvals, or a lot of them, completed by the time they go to the bank.

Where development is near transit, how flexible are your underwriting standards when it comes to providing reduced parking?

- Bankers are approached on a case-by-case basis, and flexibility depends on who the bank is and what they are looking for.
- Most banks are market “lagers,” meaning they wait until something proves itself before lending.
- There is no federal regulation; every bank has its own set of policies. And within each bank, people have their own comfort levels for nuances of each project.

How have the current General Plan and urban design/development standards impacted your development plans?

- The goal that 40% of the 10,000 units should be affordable housing units has an impact on development plans. Market rate developers need to participate on the same scale as affordable housing developers so Sacramento does not end up with large, segregated communities. Affordable large single buildings can be included in neighborhoods with mixed-use buildings that are similar in form.
- At least half of the 40% of 10,000 housing is number sounds like it is being counted for temporary housing for the homeless and extremely low-income housing.
- Another good portion of the 40% of 10,000 units includes just preserving the existing affordable housing in downtown and enhancing it.
- The General Plan’s F.A.R. (Floor Area Ratio) regulations can be difficult to work with. F.A.R. applies to housing unless there is a “community benefit,” but there needs to be a definition of what that is exactly. Technically, housing should count as a community benefit.
- The 10,000 housing initiative can impact a bank’s willingness to lend. The timing of the 10,000 units will lead banks to assume the initiative will take about 10-20 years to figure out, so loans will tend to be for 5-7 years at a time.