Meeting Summary

The project team members that attended the Developer and Finance Stakeholder Representative Group Meeting are as follows:

Greg Sandlund, City of Sacramento
Jim McDonald, City of Sacramento
Kate Gillespie, City of Sacramento
Marco Gonzalez, City of Sacramento
Harriet Ross, Environmental Science Associates
Matt Kowta, BAE Urban Economics
Gladys Cornell, AIM Consulting
Sal Ramirez, AIM Consulting

Representatives from the following organizations that attended the meeting included:

Black Pine Communities
CADA
CFY Development
Community Business Bank
Downtown Railyard Venture
F&M Bank
Fulcrum Property
H L and Co
Mercy Housing
Mohanna Development
Mutual Housing
RMW Architects
Sacramento Metro Chamber of Commerce
SKK Development
The Hodgson Company
Tsakapoulos Investments
Umpqua

Nineteen stakeholder representatives attended the first Developer and Finance Stakeholder Representative Group meeting for the Downtown Specific Plan. Below is a discussion summary.

The meeting objectives included:

- Provide an overview of the Downtown Specific Plan and its goals and objectives.
- Review the project approach and schedule.
- Present recent work completed including a survey of opportunity sites within the project area, market analysis, and input from a Developer Advisory Group.
- Discuss the Sacramento housing market and product type.
- Outline the next steps for the Downtown Specific Plan.

Project Overview

The City of Sacramento is developing a Downtown Specific Plan to assist with implementing the Downtown Housing Initiative and identify necessary public improvements to support new development. In 2015, the Downtown Housing Initiative was launched to bring 10,000 new housing units in the next 10 years to Downtown Sacramento.

The goals for the Downtown Specific Plan include:

- Create a Specific Plan that paves the way for at least 10,000 places to live in the next 10 years
- Develop a varied housing stock that reflects the diversity of Sacramento
- Incentivize Transit-Oriented Development throughout downtown Sacramento including along the streetcar corridor
- 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

Project boundaries for the Downtown Specific Plan are bound by the Sacramento River to the West, the American River to the North, Highway 80 to the East, and Highway 50 to the South.

Stakeholder Engagement Process

The Downtown Specific Plan's public engagement process includes facilitated discussions with key stakeholder representing members of Property and Business Improvement Districts, representatives from Neighborhood and Advocacy groups, and members of the Developer and Finance community.

Project Schedule and Approach

The project team presented the project schedule for the Downtown Specific Plan. Work for the Downtown Specific Plan began in late summer of 2016 and is anticipated to be completed in 2018.

An overview of the project's deliverables includes:

- Downtown Specific Plan
  - Land Use and Amenities
  - Mobility (Grid 3.0) for Multimodal Transportation Users
  - Historic Resources
  - Public Services and Utilities
  - Infrastructure Financing Plan
- Environmental Impact Report
- Central City Design Guideline Amendments
- Updated Development Standards
- General Plan/Zoning Code Updates, as necessary

A list of opportunity sites will also be developed as an outcome of the completed project using the following criteria:

- Vacant and underutilized sites
- Location in established corridors and Central Business District as identified in the 2035 General Plan for growth
- ¼ acre or greater in size
- Considered community context
- Considered State ownership of land

Summary of Questions regarding the Approach

- *Question*: Is the project team trying to get 10,000 units in 10 years built, and how many will be in the Railyards?
  - *Response:* The Railyards has 6,000-10,000 units entitled. As a whole, this is a 20-year plan, aiming for a build-out of approximately 22,000 units. If you look at the opportunity

sites map, there are about 9,000 units attributed to the Tier one sites alone. Railyards and River District Specific Plans would be additional.

- *Question*: Is the Downtown Specific Plan looking at State-owned properties?
    - *Response:* Yes, the project team looked at State-owned properties that were identified as underutilized, especially parking lots.
- *Question:* Can the project team find other sites that have not been included in the opportunity sites map, and if so will we get the same benefits with these sites?
    - *Response*: Additional sites will not be added into the identified opportunities sites on the map. However, the technical work being done on these sites will provide the similar advantages to other sites within the study area. Additionally, infrastructure analysis is being done on a block by block level, so if a site is next to an identified opportunity site that becomes developed, there will be a benefit for the entire area and not just the opportunity site.

Market Analysis Findings

Participants were presented with a high-level housing market analysis for the Sacramento Downtown Specific Plan (DSP). This market analysis looked at existing and projected future demographic and economic trends, and real estate market conditions within the project area. The analysis also summarizes the results of case study research regarding the conditions and trends in five peer cities including Denver, Colorado; Long Beach, California; Minneapolis, Minnesota; Nashville, Tennessee; and Portland, Oregon.

Key findings from the market analysis presented to the participants include:

Demographic Trends and Characteristics:

- Very little growth in Downtown since 2000
    - *Response*: I thought Sacramento's population since 2002 had not changed downtown. This data is odd because it says the population is moving up.
- Different household characteristics
    - Mostly smaller (1.6 persons average)
    - Non-family and single person
    - Majority of residents in 25-34 and 55-75 age groups
- Lower income individuals, with less equity
    - Younger than average
    - More single-earner households
- Positioned for long-term income growth
    - High educational attainment
    - Inflation adjusted income growth
    - Age driven household formation
- Difficult to gauge depth of demand

    - Low historic population growth
    - Lack of new housing supply
- Demand for low-cost rentals
    - Smaller household sizes
    - Lower incomes with less equity
- High end and for-sale units
    - Demand from 55-75 age group
    - Growing demand from 25-34 age group
    - Household formation and relocation?

Economic Trends:
- Downtown is the region's most important job center
- Two thirds of jobs are in Government, but employment is starting to diversify
    - Business Management; Education and Healthcare; Entertainment & Recreation
    - Management, Financial, Education, Legal, Community Service, Arts, and Media
- Imbalanced commute
    - 94% of workers commute in
    - 64% of residents commute out

Housing Supply and Affordability:
- Mostly older multifamily buildings
    - Duplex, triplex, and small apartments
    - Shift to higher densities since 2010
    - Less than 10% built since 2000
- Highest prices in the city/region
    - Rapid appreciation since 2008
    - Good design commands a premium
    - Rents up to twice market average
- Market rates affordable only at the higher income levels
- Market is targeting young professionals and empty nesters
    - Those who seek an "urban experience"
    - Those who would like to easily lock up and leave for the weekend
    - Those without families or children

Future Development:
- Projects in the pipeline exceed 2026 projections
    - Almost 13,500 new units
    - Mostly market rate and mixed-use
- Units in adjacent neighborhoods

  - Offer greater affordability

Challenges to Infill:

- More complex, time consuming, and expensive than greenfield
  - Higher prices needed to offset costs
- Prices dictated by local market; costs have regional influences
  - Competition with Bay Area for labor
  - Infrastructure can be a constraint
- Home prices don't justify for-sale

Peer City Research:

- Peer cities include Denver, Long Beach, Minneapolis, Nashville, and Portland
- Demand driven by job growth
  - Small studios and one-bedrooms
  - High-end rentals with amenities
- Gentrification and displacement
  - Loss of market rate affordability
  - High transportation costs
- Coordinate with regional planning
- Focus demand with growth controls
- Innovative regulatory frameworks
  - Height and density bonuses
  - Design oriented regulations
  - Inclusionary housing requirements
- Amenities and cultural assets
- Invest in local and regional transit

Strategic Needs:

- Diverse housing types for all incomes
  - Draw demand from a broad base
- Develop amenities, including recreation and cultural venues
  - Add value for residents and businesses
- Mitigate infrastructure constraints
- Ensure permitting capacity
  - Provide certainty and efficiency

Summary of Comments/Questions

Amenities

- *Question:* Has the project team compared development fees in the peer city research to other cities that are bigger?
    - *Response:* No; however, the team is discussing the possibility of collecting development cost information for peer cities, to compare with development costs in Sacramento.
- *Question:* How did those cities figure out financing amenities? More specifically, how did they fund cultural public amenities when there were other expenses such as fixing public sewers?
    - *Response*: The project team has not evaluated cultural amenities yet, but based on cost factors it is anticipated that incorporation of public amenities is needed to attract younger populations. In terms of finance, a range of tax increment financing and more regional measures helped stimulate private investment.
- *Comment:* We need to look at amenities that are missing downtown, such as grocery stores.
- *Comment:* The project team should work closely with the Parks Department to develop public realm with amenities.
- *Comment:* If you have to buy the land at more than $2 per square foot, it becomes hard to pencil out because we can't get the same rents but we pay the same costs for construction labor and materials as the bay area. Midtown gets higher rents per square foot, and right now midtown has the amenities that can generate high rents. But in downtown this isn't the case. We need the restaurants and grocery stores and everything else residents desire to work and play. As developers looking to build future projects, we need to build up the amenities to make the numbers work.

Transportation & Parking

- *Question:* Did the project team look at why workers in downtown choose to commute in for work instead of living in downtown?
    - *Response*: That information is difficult to obtain because the data collected shows individuals that are going in and out of Sacramento, but there is no data on the individual demographics. A survey of downtown workers would be one method to learn more about why downtown workers choose to commute into downtown versus live downtown.
- *Comment:* Parking is a challenge for developers when building infill development. Reducing parking requirements and looking for creative ways to address parking, e.g., shared parking, etc. would be beneficial.

Job Growth

- *Comment:* Two out of every three jobs in downtown is in government. We need a diverse economy with higher paying private sector jobs. All of this housing will not get built because there is not a large enough number of potential residents who can afford market rate housing.
- *Question:* In the peer cities, how are many of them attracting businesses downtown?
  - *Response:* Many of these peer cities are able to attract business to their downtown area by adding employment and residential units. The peer cities case studies did find that a major driver of downtown housing demand was strong growth in their regional economies.

Families

- *Comment:* Downtown has many studios and one bedroom units which become difficult for young people to live in when they start to have children. We need to be planning for more schools in downtown and to create development with amenities that fit the needs of the families.
- *Comment:* We need to encourage families to live downtown. It is healthy to have all types of users.

Affordability

- *Comment:* It is too expensive to build downtown, and most people can't afford to live there either. People cannot afford $2,000 a month for a 700 square foot new apartment.
- *Comment:* Build-out is not feasible if the infrastructure costs don't go down. There is old infrastructure in need of repair throughout the grid.
- *Comment:* In West Sacramento, the City does not burden developers with the costs of everything, and they are helping developers so they do not have to pay to build all the sewer, water, parking, and housing costs because otherwise it gets too expensive. In the Bridge District, I am building housing and other projects because I now have a sense of costs, and can compare them to what people are willing to pay so I know what to build.
- *Comment:* We need to drive down the cost of building market rate units. Even if you wiped out fees, it is still very expensive to build downtown.
  - Response: Other cities are developing micro-units as a way to create affordability to stay in downtown. The City would be interested in other ways to create affordability like this strategy.
- *Question:* Have you looked at displacement?
  - *Response:* Lower income renters are getting stressed by the market increase downtown, and it is not easy to predict what new developments are coming in that may be affordable for them.

Other Responses

- *Comment:* The City should create an infill development leader who would help navigate with all the City departments.
- *Comment:* We are without question facing an enormous housing crisis in our downtown and one that is somewhat unique to our City.
- *Comment:* Construction labor costs are high and rents are too low, but ultimately the Downtown Specific Plan is important and should happen.
- *Question:* Is there a real number on net new housing units coming into the grid?
    - *Response*: There are approximately 13,500 units planned.
- *Comment:* What we have is a matter of missed opportunities in early 2000. Instead of infill development, the City was building North Natomas and other areas outside the urban core.
- *Comment:* The market for apartments is not necessarily there. We need to be providing for-sale, market-rate units, and we don't want to have solely deed-restricted. Our median income is too low to afford the market rate that can get built in the city. We also need to focus on getting more private jobs to increase the median income in the area.
- *Question:* How does Sacramento's population compare to other cities?
    - *Response*: Sacramento has a population of a moderate size, but it is not capturing the people that work in this area to live downtown.
- *Question:* Is anyone looking at what a combination of low rise, 3-4 story mixed use with a handful of high rises would look like? What would the split be between the two product types if the Specific Plan needs to yield 9,000 units?
    - *Response*: The project team assumes approximately 150 units per acre, which was determined for traffic model purposes. This does not mean that high rises will not happen. This analysis is being done on a district by district level because the opportunity sites are on more than one parcel.
    - *Response*: Realistically, if there are 13 or 14 applications for high rises, only one will get built. There is less enthusiasm for condominium towers. There is plenty of capacity in downtown for housing, and reaching the Downtown Housing Initiative goal can be accomplished without high-rise development.
- *Comment:* We need to know where our developer fees are going.
- *Comment:* The City has done a lot for developers. In the past 10 years, the projects that I have built have been easy getting approvals. I see a great partnership with the City. But it is not as great as it could be when it comes to communications between departments.

Summary of Findings

The project team facilitated a discussion on what elements are critical to the Sacramento housing market and product types. Throughout the presentation, participants were asked to respond to these focus questions:

Why isn't more housing getting built?

- Market demand?
- Construction costs?
- Construction liabilities?
- Infrastructure costs?
- Lack of amenities?
- Process improvements?

How can we get higher-density, mixed-use housing built in the project study area?

- What types of housing is penciling out, and why?
- What isn't penciling out, and why?
- What can be done to attract the Baby Boomer market?

Summary of Comments

- Ultimately, the type of housing that makes sense is what gets built. It is a combination of time and cooperation, and communication between City departments. It would be helpful to have someone from both the Department of Public Works and Utilities at these meetings.
- Different products and housing types are needed to make the numbers work. Portland is getting higher rents, their core is more established, and they have many for-sale products. If we want more mid-rise in downtown, we need to see 25-30 percent higher prices than what is out there now.

Feedback Forms

In order to better understand the needs of the community and these organizations, the stakeholders were asked to fill out feedback forms. The following shows the results from the feedback forms.

1. What are your thoughts, observations, or remaining questions regarding the Market Analysis?
   - A policy that directs City housing resources towards mixed income housing could also be helpful since in some cases 80/20 development works but 100% market rate does not. In this scenario, the City's investment in the affordable piece of a mixed-income building can also help kick start the development of market rate supply.
   - When income is lower or per capita income is higher, the type of development that gets built becomes more a matter of comparable household size. It is the presence of single family

households that will be pushed out because the renters coming up are looking for bigger housing options.
- It would be useful to differentiate rental markets between downtown and midtown.
- To build more housing downtown, we need rents per sq. ft. to match those in midtown.
- Downtown rents are currently lower than midtown rents, which has limited dense growth.
- The goal is to create density in areas with unlimited height limits in the downtown core.
- We need more information on the demographics: How many current housing units in downtown/midtown, size and rents for these units, range and income of current and future residents (what would they like and what can they afford?)

2. Why isn't more housing getting built?
    - We are without question facing an enormous housing crisis in our downtown and one that is somewhat unique to our City. The crisis is that we are not (and will not be able to) build high density rental and for sale housing in our central city for the middle class. The problem that this creates cannot be overstated, and if the City wants to address this it will take more than just adjusting fees, streamlining permitting, granting density bonuses, etc.
    - The City must aggressively and expeditiously start providing gap financing for these projects.
    - Housing advocates must realize that as important as it is for limited resources to go towards extremely low and very low income housing, resources must also be committed to workforce, mixed-income, and moderate rate housing as well.
    - The majority of new housing in our urban core will be for low income or high income residents. In other cities, this means that older housing stock becomes more affordable to the middle class. In our City, however, the older housing stock barely exists. We are in the unique position of not having vertically grown for the last 40 years.
    - In other cities products like affordable by design can help fill the gap. In our City, however, the life style change is more pronounced (and harder to sell) when the alternative of living 5 miles and less than 10 minutes away in any direction provides drastically enlarged living accommodations. The convenience of our downtown to the suburbs has always allowed residents to have the best of both worlds (cheap living, close to the action).
    - The suburbs will remain the only housing option for the middle class, and since the middle class remains the largest segment of our population, the vitality of our downtown will always be stunted by the lack of working class residents.
    - Construction costs and land costs are increasing, making projects difficult to pencil.
    - Residential projects can only pencil through economies of scale; so zoning that enables greater density and increased FAR will be the key to solving this dilemma.
    - A building department open to new forms of construction and creative techniques to lower costs will also be essential as developers look at innovative ways to build cost-effectively.

- The costs to build (land, construction, fees, infrastructure, etc.) are currently greater than the rent or sales prices can afford. The exception is the higher end product where houses/condos sell for $400 - $600 per square feet and/or rents are at least $3 per square feet and up. People are now paying these prices but it is the high end of the market. This is not "workforce" housing. It does not address the "missing middle."

3. How can we get higher-density, mixed-use housing built in the project study area?
   - There is a market right now for high end apartments and condos because of the lack of supply, but it won't take long for that demand to be met and then we will be back in a position where the only high density projects getting funded are subsidized, tax-credit financed low income housing. We will start losing energy, and creatives, back to the suburbs. A great case study is WAL. Some of the artist tenants who have been living in downtown for 2 years no longer qualify for affordable housing. As they graduate from the 60% AMI level and have to move out of a regulated unit, they desperately start looking around R Street and downtown for a place to live. There is nothing for these households, and they face the real prospect of having to move back out of downtown. This is a huge loss.
   - We cannot afford to wait for the State or Federal government to create funding sources for moderate rate housing, and in all likelihood the free market will never produce this voluntarily in our grid. The City needs to create a meaningful funding stream for the purpose of building high density housing for the middle class in our downtown, and it may end up becoming a model that is utilized by cities around the country.
   - Deferring impact fees until receiving a Certificate of Occupancy is a no-brainer and done elsewhere, but all it does is save us a little bit of money on interest expense. A more meaningful change would be to have a policy that would allow any below-market rate housing development (or for now, any housing development in general that hits certain densities) defer all City-controlled impact fees beyond CO and be carried back by the City as a residual receipts loan to be paid over the life of the project (20+ years). Other cities currently do this as a way of helping fund affordable housing.
   - Looking at commercial corridor zoning and increasing the FAR (Floor Area Ratio) in appropriate areas.
   - The existing FARs in the downtown core disincentivize projects on smaller footprints.
   - The current open space requirements are prohibitive to the development of smaller units and increased density per acre and increase construction costs substantially.
   - We should be incentivizing smaller units to meet the demands of the middle-income workforce through our planning requirements, zoning, and fee structures.
   - Encourage higher end product which hopefully will then encourage more affordable units. The only way to get market rate workforce housing is with much smaller units (300 - 450 square feet).

This is how New York, San Francisco, Boston, and other urban areas try to address it. Studying the infrastructure needs in downtown and finding funding to address them will be very helpful.

4. Other Comments?
    - Land assembly is the problem, and it's easy to look at the opportunity sites map and add up all the land. The problem is that a lot of the land is infill or not accessible.
    - It is getting better in midtown because if all things work out something can get penciled in. It might be different if the developer has owned property forever, but doesn't know how people make it all pencil. They need to ask themselves what are the bottom lines? And ultimately, they are looking to build stuff to make money in the future.

Next Steps

- The second Stakeholder Representative Group (SRG) meeting will be in spring 2017.
- The first Community Workshop will be in spring 2017 after the second SRG meeting.
- The second Community workshop will be in July 2017 and will highlight the draft EIR and draft Downtown Specific Plan.

Appendix

- Meeting Invite
- Meeting Agenda
- Feedback Form
- Developer Advisory Group Interviews Summary
- BAE Report - Sacramento DSP Housing Market Analysis

Appendix

You're invited to a Stakeholder Meeting for the Downtown Specific Plan

Wednesday, December 14, 2016
12:00 – 1:30 p.m.
300 Richards Boulevard, 2nd Floor, Room 221
Sacramento, CA 95811

In an on-going effort to encourage and facilitate urban infill housing in the Central City area, for the next twenty years and beyond, the City of Sacramento is developing the Downtown Specific Plan.

The plan will focus primarily on:

- Identifying and evaluating a number of urban infill sites within the project area
- Removing barriers to housing development by streamlining the development and environmental review process
- Incentivizing Transit-Oriented Development throughout the Central City, including along the streetcar corridor
- Maintaining and improving the quality of life for Central City residents, and furthering neighborhood livability by including additional amenities and housing opportunities

As a key stakeholder representative, we are interested in partnering with you on this effort. The project team is hosting an initial focus group meeting to discuss the City's overall goals and approach for this plan. The project team will review the proposed opportunity sites, and the findings of the recent market analysis. The project team will also facilitate a discussion on potential urban infill housing, community amenities, and specific elements that may contribute to a healthy business district.

Please RSVP by December 5th by RSVPing to Salvador Ramirez at sramirez@aimconsultingco.com or calling 916-442-1168. If you have any questions regarding this meeting, please contact Gladys Cornell at gcornell@aimconsultingco.com or at 916-442-1168.

For more information about the Downtown Specific Plan, please visit www.DowntownSpecificPlan.com

Stakeholder Representative Group Meeting Agenda

December 14, 2016 12:00 – 1:30 p.m.

300 Richards Boulevard, 2nd Floor, Room 221

I. Welcome and Introduction

II. Project Background

III. Goals & Objectives

IV. Approach

V. Review of Findings of Market Analysis

VI. Why are Projects not Being Built?

VII. Wrap Up Discussion

VIII. Next Steps

Downtown Specific Plan
Developer & Finance Focus Group Meeting
December 14, 2016 | 12:00 - 1:30 p.m.
300 Richards Boulevard, Second Floor, Room 221
Feedback Form

Please any thoughts, observations, or remaining questions regarding any of the following topics discussed today:

Market Analysis Findings

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____
____
____

Why isn't more housing getting built?

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____
____
____

How can we get higher-density, mixed-use housing built in the project study area?

____
____
____
____
____
____

Name ______________________ Business/Property ______________________

Phone ______________________ Email ______________________

Please submit your feedback to the project team team or send to Sal Ramirez by email at sramirez@aimconsultingco.com, by fax at 916-442-1186, or by mail to 2523 J Street, Suite 202 Sacramento, CA 95816.

Downtown Specific Plan
Developer & Finance Focus Group Meeting
December 14, 2016 | 12:00 - 1:30 p.m.
300 Richards Boulevard, Second Floor, Room 221
Feedback Form

We strive to make each meeting valuable and results driven. We look forward to any comments and/or ideas to improve the meeting experience for you. Please feel free to provide us with your thoughts.

1. Information shared at the meeting was useful? o YES o NO

____

____

____

2. Discussions were appropriately facilitated to engage all participants? o YES o NO

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____

____

3. The participants involved in the process are appropriate? o YES o NO

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4. Any other recommendations to improve the meetings?

____

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Name ______________________ Email ______________________

Can we follow up with you? o YES o NO

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Downtown Specific Plan

Developer Advisory Group Interviews Summary
August 2016

SACRAMENTO DOWNTOWN SPECIFIC PLAN

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 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 "laggers," 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.

SACRAMENTO DSP HOUSING MARKET ANALYSIS

EXECUTIVE SUMMARY

The following summarizes the results of a comprehensive housing market analysis for the Sacramento Downtown Specific Plan (DSP). It begins with an overview of the existing and projected future demographic and economic trends, and real estate market conditions, within the DSP area. The analysis includes comparisons to the City of Sacramento as a whole and to the Sacramento-Roseville-Arden Arcade Metropolitan Statistical Area (MSA). It also summarizes the results of case study research regarding the conditions and trends in five peer cities, including Denver, Colorado; Long Beach, California; Minneapolis, Minnesota; Nashville, Tennessee; and Portland, Oregon. The analysis concludes with a review of housing demand projections. The projections include three alternative scenarios, representing the range of potential housing demand that may reasonably be captured within the DSP area, under different circumstances, over the next 10-20 years.

Demographic Characteristics

Key findings from the analysis of existing demographic trends and characteristics include:

- The DSP area lost ~170 residents between 2000 and 2010-2014.
- Area households are smaller than average, with 1.6 persons per household.
- Non-family households make up more than 75 percent of all households, while single people living alone represent about 60 percent of all households.
- Renters represent 88 percent of all DSP area households.
- The median age in the DSP area is lower than in the City and MSA as a whole, and trended downward between 2000 and 2010-2014.
- Only two age cohorts grew since 2000, including 25 to 34 year-olds and 55 to 75 year-olds.
  - The 25 to 34 age cohort represents about one-third of the DSP area total population, while children under the age of 18 represent less than ten percent.
- Inflation-adjusted household incomes in the DSP area are significantly lower than in the City and MSA as a whole.
  - The DSP area has a disproportionate share of low-income households (53 percent of households) compared to the City (46 percent).

    - This is partially explained by the area's younger population and smaller household sizes.
    - Younger single-person households often have lower incomes and have not had time to accumulate substantial wealth/equity to facilitate home purchases.
    - Although lower than the regionwide median, the inflation-adjusted median household income in the DSP area increased between 2000 and 2010-2014.
    - This means that the DSP area is capturing a disproportionate share of the growth in the number of the region's higher-income households.
- The DSP area is attracting more highly educated residents and at a faster rate than the rest of the City and MSA, positioning DSP area households for long-term income growth.
- The lack of a recent track record of population growth in the DSP area means that it is difficult to gauge the depth of demand to absorb increases in the DSP area housing supply.
    - Developers will need to provide housing in range of sizes, configurations, and price points to maximize the capture of demand for new housing from a broad base.
    - The prevalence of younger single-person households indicates that demand is likely to be strong for smaller, more affordable rental housing units.
    - Lower incomes in the DSP area mean that rental rates and sales prices would ideally be lower than elsewhere in the City and region.
    - Lower price points could be provided by construction of smaller housing units (i.e., studios and one-bedroom units), given the prevalence of single-person households.
    - Household formation, income growth, and educational attainment may translate to the ability for current DSP area renters to transition to homeownership as their incomes increase.
    - It is not clear whether the Millennials will seek homeownership at the same rates as prior generations, or whether they will seek ownership options outside of the DSP area.

Economic Characteristics

Key findings from the analysis of economic trends include:

- DSP area job growth was much more robust than the MSA in the 2005 to 2010 period, and performed much worse than the MSA between 2010 and 2015.

- The DSP area is the region's most important job center, accounting for 13 percent of regional employment in 2015.
- Government employment continues to represent an exceedingly large portion of the DSP area employment, accounting for almost two out of every three DSP area jobs.
- There are signs that the DSP area employment base is diversifying to some extent.
    - Job gains in sectors such as Construction; Wholesale Trade; Management of Companies and Enterprises; Educational Services; Health Care and Social Assistance; Arts, Entertainment, and Recreation; Accommodation and Food Services; and Professional and Technical Services.
    - The Retail sector contracted by about 25 percent since 2005, implying a reduction in the availability of lower-skill, lower-wage employment opportunities
    - The contraction in in retail employment also indicates a possible contraction in the availability of retail shopping opportunities for residents and visitors.
    - Convenient shopping for everyday goods is typically an important consideration for renters and homebuyers who are looking for a residence location.
- DSP area resident occupations, regardless of their workplace location, tend to be concentrated in various professional and "white collar" categories, such as:
    - Management, Business, and Financial occupations, and Education, Legal, Community Service, Arts, and Media occupations.
    - Resident occupations that tend to be associated with lower education and skill levels and lower wages have tended to decrease over time.
    - This general shift in occupations correlates with an increase in household incomes between 2000 and 2010-2014, which was counter to citywide and regional trends.
- An estimated 94 percent of DSP area workers commute in from outside the DSP area, while only 36 percent of employed residents work in the DSP area.
    - Residential properties are currently capturing housing demand from only a very small portion of the local workforce, and the residential sector has the potential to absorb considerable additional housing demand from the local workforce at its current level.

Housing Market Conditions

Key findings from the housing market existing conditions assessment include:

- The DSP area housing market is predominantly characterized by attached single-family housing units (i.e., duplex, triplex, townhome, etc.), as well as smaller apartment buildings.
- New housing in the DSP area is predominantly oriented toward higher-density multifamily and attached single-family housing types, including larger (>50 units) apartment buildings.
- The DSP area's extremely low-, very low-, and low-income households (53 percent of total) are at risk of displacement, due to high prevalence of excessive or severe housing cost burdens.
    - Housing displacement risk among moderate-income and above moderate-income households is less of a concern, due to their higher incomes.
    - Overcrowding does not appear to be a significant problem in the DSP area.
- Home prices in the DSP area tend to be at the high end, compared to the city as a whole, both on a total price basis ($476,250 median sale price) and on a price per square foot basis ($354 per square foot).
    - DSP area sales prices are only below those of East Sacramento ($498,500 median sale price /$372 per square foot), and generally exceed the values in other neighborhoods.
    - DSP area values are considerably above average, indicating that homebuyers attribute considerable value to a downtown Sacramento location.
    - These high home values exist in the context of a housing market that has seen rapid price appreciation since the start of the recovery, around the turn of the decade.
- Among different residential product types, per square foot values were highest among condominiums and townhomes.
    - This indicates that buyers are accepting of higher density living options and, in the case of condominiums, are willing to pay a premium for the right type of high density product.
    - This pricing bolsters development feasibility for higher density infill and redevelopment projects, where higher sales prices per square foot are necessary to offset costs.
- Interviews indicate that the buyers of units in new DSP area residential projects are primarily single individuals, couples, young professionals, empty-nesters, and retirees.
    - Families with children are noticeably absent from the DSP area buyer profile.

    - Homebuyers are seeking the "urban experience" and the "lock and leave" convenience.

- Maximum affordable home purchase prices for households in the moderate-income category (up to 120 percent of AMI) are just below $400,000, for a five-person household.
    - Maximum home purchase prices for smaller moderate-income households are lower. For example, a moderate-income one-person household could a home costing ~$258,000.
    - Affordable home purchase prices for lower-income households are below these limits.
    - Based on a comparison between these affordable purchase prices and the sales prices of recently constructed for-sale housing units in the DSP area, the marketplace is only providing new housing units affordable at the above moderate-income level.
    - Households that cannot afford to purchase market rate housing, either new or resales, turn to the rental housing market in order to secure affordable housing.
- Housing rental rates in the DSP area, as well as in the City and the MSA have increased on a strong upward trend since the Great Recession.
    - The average apartment rental rate for the DSP area has increased 32 percent since 2008, to $1,737 per month, while vacancy rates have dropped to 3.2 percent.
    - Current average monthly rents range from $1,313 for a studio apartment, to $2,117 for a three-bedroom townhouse, for an overall average of $2.16 per square foot.
    - Among recently completed projects, rental rates tend to be considerably higher than the DSP area market averages, ranging up to as high as $4.11 per square foot.
- The tenant profile for newly constructed residential units tends to include higher-income young professionals in their mid-20s to mid-30s, acknowledging that younger workers in lower-paid occupations likely cannot afford the rents.
- While older renters, who are more likely to have children than the younger renters, typically prefer more suburban locations, empty-nesters are showing interest in the DSP area.
    - Many are testing out urban living and choose to rent for a period of time in the DSP area, before committing to purchasing a home or condominium in the DSP area.

- Real estate professionals indicated that demand was strong for all available rental unit types, with primary demand coming from people who work in or near the DSP area.
- However, some complexes noted that they have a portion of tenants who live in the DSP area for the urban environment, and reverse commute to suburban jobs outside the DSP area.
- For rental projects (and for-sale projects) neighborhood walkability and proximity to restaurants, shopping, parks, cultural amenities, and jobs are key amenities for residents.
- Comparing affordable housing costs by income level with the market rate average rents in the DSP area indicates that moderate-income households of various sizes can generally afford the average rental rates for housing that would be suitable for their household size.
    - Low-income households at various sizes could not afford market average rents.
    - Some may still find affordable rental units in the lower end of the DSP area market rental rate ranges, for appropriately sized units.
    - Very low- and extremely low-income households will likely face great difficulty in finding affordable market rate rental housing in the DSP area.

Non-Residential Market Conditions

Important findings from the assessment of non-residential real estate market conditions include:

- Based on existing commute patterns and tenant profiles shared by managers at recently completed rental and for-sale residential projects, there is an important link between DSP area jobs and housing demand.
- Current real estate market information indicates that the DSP area remains a key job center within Sacramento and the larger MSA, accounting for approximately 57.4 percent of citywide office inventory, as well as a portion of the region's industrial and retail space.
- With relatively low vacancy rates, the DSP area's non-residential real estate sector will not be able to accommodate substantial new employment growth without new development.

Planned and Proposed Residential Projects

Key findings from the planned and proposed projects inventory include:

- The City of Sacramento currently has a substantial pipeline of approved, planned, and proposed residential projects, totaling almost 13,500 new housing units.
- Most of the projects are planned as market rate mixed-use developments.
- The split between market rate and below-market rate units in large projects such as the Railyards and the remaining units in Township 9, is yet to be determined.
- There are also a number of higher density residential projects proposed and under construction just outside of the DSP area boundary.
    - While these projects represent competition, many are targeted somewhat down market from the DSP area projects, offering more affordable housing options and many complementary housing types (e.g., townhomes versus luxury apartments).
    - Also, with considerably fewer units, these projects are much less likely to set the market for housing in urban Sacramento, compared to projects like the Railyards.
- New rental and new for-sale housing developments tend to be priced significantly above the current market averages.
    - Mismatch between the construction cost and rental rates/sales prices.
    - Limited affordability for households with incomes less than the above moderate level in the for-sale market and the lower-income income levels for prospective renters.
    - To the extent that any of the existing lower income households are at risk of displacement, there are few new below-market rate relocation options.
    - Mixed income housing strategies are currently under development for the Railyards and Township 9 developments, in compliance with the City's mixed income housing ordinance.
    - Given the large number of units associated with these projects, robust mixed income housing strategies could help to mitigate some of the displacement pressure.

Baseline Growth Projections

The following are key findings derived from a review of the available growth projections and a comparison with the current pipeline of planned and proposed projects:

- SACOG has relatively robust expectations for residential growth in the DSP area between 2012 and 2036, projecting an average growth rate of 3.7 percent per year.
    - This is substantially higher than the rate that SACOG projects for the City as a whole (1.7 percent per year) and for the MSA overall (1.4 percent per year).

- SACOG's growth projections translate to 3,877 new housing units in the DSP area between 2012 and 2020, and an additional 15,836 units between 2020 and 2036.

- The currently identified residential projects can more than address SACOG's anticipated increase in DSP area housing units through 2020.
    - If all the currently approved, planned, and proposed projects were completed by 2036, this would address about 70 percent of SACOG's projected DSP area housing unit growth.
- Additional planning will be necessary to ensure that the DSP area continues to include a wide variety of housing types offering housing opportunities for all household types and incomes.
    - Further analysis will be necessary to determine whether the specific residential product types being proposed in the DSP area are optimized to meet the anticipated demand, including an appropriate distribution of affordability levels, and unit types and sizes, based on expected DSP area household characteristics.

Peer City Case Studies

To better understand the conditions and trends that contribute to increasing demand for central city housing, BAE conducted five peer city case studies, including Denver, Colorado; Long Beach, California; Minneapolis, Minnesota; Nashville, Tennessee; and Portland, Oregon. Some of the common themes that surfaced through the case studies include:

- The peer city downtown housing markets emphasize development of smaller studio and one-bedroom multifamily rental units, sized at around 1,000 square feet or less.
- This includes the development of "micro-units" in all five peer cities, which can offer as little as 350 square feet per unit.
- The central city rental offerings in all five peer cities are generally oriented toward the higher-end of the market, providing a stunning array of amenities ranging from fitness centers, to rooftop decks, and pet grooming services.
- The for-sale market is somewhat dormant in most downtowns, due in part to concerns over liability exposure for construction defects, according to real estate brokers.
- Developers in all five peer cities leverage a robust assortment of cultural, recreational, and entertainment offerings, which contribute to the desirability of central city housing.
- While all five peer cities are working to improve access to public transit, Nashville remains largely auto dependent. Denver, by comparison, has developed the eighth largest light rail network in the country, which is helping to drive downtown growth.

- The primary driver of central city housing demand is the capture of a share of overall regional demand growth, which is most closely tied to regional employment growth. Changing consumer preferences and the provision of a more vibrant assortment of downtown amenities mainly help to increase the central city capture rate; though a reputation for urban vibrancy can also induce additional demand, as seen in Portland and Nashville.
- Demand for central city housing primarily originates from among households headed by members of the Millennial and Baby Boom generations.
- All five peer cities utilized public investments in infrastructure, site remediation and preparation, and project subsidies to catalyze development early on. Tax Increment Financing (TIF) remains an important funding mechanism in most cities.
- All five peer cities have central city plans in place that direct downtown development and coordinate the regulatory framework with broader citywide and regional efforts.
- Portland and Nashville offer two of the more innovative approaches to incentivizing central city housing development, including the use of height and density bonuses and design oriented regulations which de-emphasize, or eliminate, use restrictions.
- Denver offers an example of robust regional cooperation, anchored in the Mile High Compact, which commits jurisdictions throughout the region to cooperate on matters of economic development and infrastructure. Minneapolis offers another example with a regional tax sharing agreement designed to even out infrastructure spending.
- Two of the peer cities, Portland and Denver, also feature urban growth boundaries, which help to concentrate development pressure within existing urban areas.

Housing Demand Projections

The following summarizes the key characteristics of BAE's three housing demand growth scenarios, along with key considerations for interpretation of the scenarios:

- The demand projections developed by BAE for the Sacramento DSP area are based on population, household, and housing unit projections published by SACOG.
- To put the SACOG projections into perspective, BAE compared the Sacramento DSP area household capture rate (i.e., the proportion of new regional household growth that is being allocated to the central city) to the capture rates identified in the five peer city case studies.
- BAE then developed three alternative scenarios to illustrate the range of potential housing demand that may be captured, under different circumstances, over the next ten to 20 years.

- The low-end scenario assumes that the DSP area will capture the same proportion of regional housing growth as reported in the 2000 Census and the 2010-2014 ACS.
- The mid-range scenario assumes that the DSP area will capture a significantly higher proportion of regional housing growth, which is consistent with SACOG's projections.
- The high-end scenario assumes that the DSP area will capture housing demand sufficient to absorb the current pipeline of planned housing projects.
    - This is based on the assumption that the volume of planned and proposed housing development reflects a positive developer outlook, including certain expectations about anticipated future demand for housing in the central city.
    - It also assumes that by providing a substantial increase in the number of housing projects that are available in different locations and configurations, compared to historic offerings, the expanded supply of new housing will induce a higher level of demand for central city housing, in large part from existing area workers.

Table ES-1: Projected DSP Area Housing Demand Growth, 2016-2026-2036

	2016	2026	2036
Metro Area Households	807,841	916,896	1,050,579
New Households	*n.a.*	*109,055*	*133,683*
Historic Trend Scenario (a)			
Household Capture Rate (b)	n.a.	0.3%	0.3%
Central City Households	18,938	19,292	19,727
New Households	*n.a.*	*354*	*435*
Central City Housing Units (c)	21,358	21,679	22,463
New Housing Units	*n.a.*	*321*	*784*
SACOG Scenario (d)			
Household Capture Rate (b)	n.a.	6.4%	8.2%
Central City Households	18,938	25,900	36,811
New Households	*n.a.*	*6,963*	*10,911*
Central City Housing Units (c)	21,358	29,104	41,917
New Housing Units	*n.a.*	*7,746*	*12,812*
Supply Driven Scenario (e)			
Household Capture Rate (b)	n.a.	8.7%	8.7%
Central City Households	18,938	28,423	40,051
New Households	*n.a.*	*9,486*	*11,628*
Central City Housing Units (c)	21,358	*32,017*	45,257
New Housing Units	*n.a.*	*10,659*	*13,240*

Notes:
(a) Based on the historic household capture rate exhibited in the Sacramento Downtown Specific Plan Area between the 2000 Census and the 2010-2014 American Community Survey (ACS).
(b) Represents the proportion of regional household growth captured within the Sacramento Downtown Specific (DSP) area.
(c) Assumes an average housing vacancy factor of 11-12 percent, as projected by SACOG.
(d) Based on the implied household capture rate reported in the 2012-2020-2036 regional projections published by SACOG.
(e) Based on the current list of planned and proposed housing projects slated for completion during the next 10-20 years. This scenario assumes that such development activity functions as one possible indicator of potential new housing demand.

Sources: SACOG, Draft Modeling Projections for 2012, 2020, and 2036, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; City of Sacramento, 2016; SHRA, 2016; Sacramento Business Journal, 2016; Downtown Sacramento Partnership, 2016; BAE, 2016.

- While the low-end scenario is based on documented historic trends, the moderate- and high-end scenarios represent significant departures from historic trends.
- While there is substantial evidence indicating that the DSP area is likely to satisfy a significantly higher proportion of regional housing demand than was achieved over the prior decade, there are a number of key conditions that will need to be met, including:
    - The economic fundamentals driving housing demand, both within the DSP area and the broader Sacramento region, must remain sound.
    - Another recession could result in lower regional growth and a lack of feasibility and/or interest in building new housing, particularly high density infill.
    - While the peer city case studies identified a significant shift in demographics and housing preferences as a primary driver of central city housing demand, the depth of the higher density urban infill market has yet to be fully demonstrated.

- To appeal to a broad spectrum of households and maximize demand capture, developers provide a broad range of household types and income levels.
  - This would broaden the appeal beyond the higher-end renter segment that is the primary focus of recent DSP area housing development.
  - This will likely need to include additional rental housing options for lower-income households, including both market rate and subsidized options, as well as additional home ownership opportunities.
- Residential developments will need to closely coordinate with the City and other central city stakeholders to leverage major public investments, such as the Golden 1 Center, K Street revitalization, R Street redevelopment, Railyards redevelopment, riverfront reinvestment, and other related public and private investments, to further catalyze interest in central city living and the "downtown lifestyle."
- The planning and building approval and permitting capacity of the City of Sacramento will need to be able to accommodate a substantial increase in volume of infill projects.
- The City will also need to respond effectively to the substantial changes in service demand resulting from a significant increase in the DSP resident population.

Housing Demand by Unit Size and Tenure

In addition to estimating the total number of housing units which may be absorbed within the DSP area under each housing demand capture scenario, BAE developed breakdowns of housing units by unit size, tenure, and household income level.

- BAE anticipates that just under 60 percent of the future housing demand will be for studio and one-bedroom units, with just under 30 percent allocated toward two-bedroom units, and just over 11 percent allocated to housing units with three or more bedrooms.
- Just over 44 percent of the projected housing demand will come from lower-income households (i.e., those earning 80 percent or less of AMI).
  - Just over 18 percent will come from moderate-income households (i.e., those earning 81 to 120 percent of AMI), and the remaining 38 percent coming from above moderate-income households (i.e., those earning more than 120 percent of AMI).
- Approximately 59 percent of the housing demand will be in the rental market, with the remainder oriented toward the for-sale housing market.

Housing Demand by Density Type

While the housing demand projections do not specify housing preferences in terms of housing density, some inferences are possible based on household income and tenure:

- To promote affordability at the lower income levels, most of the projected rental housing is likely to take the form of higher density multifamily apartments.
    - For example, rental units targeted toward lower income households account for approximately 44 percent of the total projected new housing demand through 2026.
- Rental housing for households in the moderate- and above moderate-income categories, which accounts for 15 percent of projected demand, will likely be high-density multifamily.
    - Some of this demand may be met through provision of moderate density townhomes and live/work units in locations where lower-density development is preferable.
- For higher income households seeking home ownership opportunities, which account for roughly 41 percent of the total projected new housing demand, preferences may range from:
    - High density condominiums through moderate density townhomes; and
    - Moderate density small lot single-family housing options, particularly in Midtown.