

bae urban economics

Sacramento Central City Worker Housing Demand Analysis

September 2017



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September 12, 2017

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Dear Wendy and Leslie:

We are pleased to submit the attached Sacramento Central City Worker Housing Demand Analysis. As always, it was a pleasure working with CADA and City staff on this project.

Sincerely,



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ACKNOWLEDGEMENTS

We gratefully acknowledge the following people for their assistance in producing this report.

Capitol Area Development Authority

Wendy Saunders, Executive Director
Marc de le Vergne, Deputy Executive Director
Tom Kigar, Development Director
Karen Ulep, Communications Manager
Kendra Reed, Development Project Assistant

City of Sacramento

Leslie Fritzsche, Senior Economic Development Project Manager
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Midtown Association

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Dan Hines, Raymond Property Management
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Megan Brown, Fremont Mews
Michael Olmstead, Coldwell Banker
Pat Nielsen, Nielsen Property Management
Rachel Bartis, Bartis Homes
Rebecca Wilson, Legado de Ravel
Rosa Chong, FPI Management
Shauna Gowen, Eviva

We also gratefully acknowledge the more than 4,300 people who responded to the Central City Employee Housing Survey. Their input is invaluable in addressing issues of housing availability, costs and suitability for Central City workers and existing and future residents.

EXECUTIVE SUMMARY

The Capitol Area Development Authority (CADA), in partnership with the City of Sacramento (City), retained BAE Urban Economics (BAE) in spring of 2017 to conduct an analysis of housing market supply and demand in the Sacramento Central City area. Providing housing for Central City workers is central to CADA's mission. Given the surge in new Central City multifamily development, CADA and the City were interested in knowing whether the expanding market supply is addressing worker housing needs. Further, the parties wanted to identify specific gaps in the housing supply for the Central City workforce. CADA and the City may choose to use this information to develop policies to address worker housing needs that are not being met by the private marketplace.

Demographics and Economic Trends

Census data indicates that the Central City area has added very few new residents over the past decade. The data also shows that Central City residents are distinct from residents of the larger region in many respects. Central City residents are younger (i.e., 25-34 years of age) with lower incomes, but with higher average educational attainment levels. Central City residents live in smaller households (1.6 persons on average) and are more likely to live with others who are not family. In addition, the Central City is gaining more highly educated residents at a faster rate than the remainder of the region. This, coupled with the smaller average household size, means that residents are well positioned for longer-term income growth as they begin to form households and advance along their respective professional career tracks.

Although the Central City is the region's most important job center, approximately 94 percent of Central City workers commute in from elsewhere in the region, and only 6 percent of Central City workers live in the Central City. Similarly, only 36 percent of Central City residents also work within the Central City, with the balance of Central City residents commuting elsewhere in the region to find employment. This significant cross-commute highlights the mismatch between the housing needs of Central City workers and the characteristics and affordability of the available Central City housing stock, indicating a significant opportunity for the development community. While such cross-commute patterns such as these are not uncommon, some of Sacramento's peer cities manage to maintain lower in-commuter rates, compared to central Sacramento. Of the five communities studied in support of the Downtown Specific Plan, only Nashville, Tennessee, had an in-commuter rate higher than central Sacramento at 95.6 percent. The other communities all had notably lower in-commuter rates, including Denver, Colorado (91percent); Long Beach, California (86 percent); Minneapolis, Minnesota (91 percent); and Portland, Oregon (91.0 percent).

Housing Market Trends

The Central City housing stock is comprised mostly of attached single-family housing units (i.e., duplex, triplex, townhome, etc.) and small apartment buildings. However, most recent housing developments consist of high-density apartments in buildings containing more than 50 units. Housing costs are relatively high in the Central City compared to elsewhere in the region, and an estimated 53 percent of Central City households are projected to likely be at risk of displacement due to excessive housing cost burdens.

While there is very little historic evidence for rapid housing growth in the Central City, SACOG projects the area to add 3,877 new housing units between 2012 and 2020, and 15,836 units between 2020 and 2036. While the current pipeline of planned and proposed projects can more than address SACOG's anticipated growth through 2020 in terms of total numbers, there remains concern that the distribution of new units by affordability may not align with anticipated worker demand.

Central City Employee Survey Results

The Central City Employee Housing Survey was designed to collect information on the housing preferences of Central City workers, so that CADA and the City can better understand whether the pipeline of development projects will meet the needs of Central City workers.

A total of 4,279 individuals responded to the survey, including 85.6 percent who work in the Central City and 14.4 percent who work elsewhere. Most survey respondents (68.4 percent) work for government agencies, which represents a modest overrepresentation. Conversely, the survey responses reflect an underrepresentation of service workers, such as those employed in retail and consumer services (e.g., food service workers, etc.).

Of the non-resident Central City workers surveyed, 66 percent indicated that they would be interested in relocating to the Central City if suitable housing options were available. Those interested in relocating to the Central City are typically professional workers with household incomes around \$100,000 per year. Close to 60 percent of these households own their own homes and the remainder are renters. These households are larger than average and are more likely to contain children under the age of 18, compared to existing Central City residents. Central City workers interested in relocating indicated that they would do so primarily to be closer to work, but also to take advantage of the walkable environment and proximity to restaurants and bars. Those not interested in relocation are looking for certain types of housing not available in the Central City, and are also concerned with homelessness, safety and security, traffic congestion, and school quality.

Developer and Property Manager Interviews

To better understand the characteristics of persons currently searching for housing in the Central City, BAE interviewed Central City property managers, real estate brokers, and developers. The purpose was to better understand current housing demand and the

characteristics of households searching for housing in the Central City. Interview participants generally divided the market into three categories, including young professionals, empty nesters, and rent-by-necessity.

The primary market for the newer Class A rental properties in the Central City are the young professionals. These individuals are mostly college educated professionals in their mid-20s to early-40s. They include state government workers, medical students in residency, technology workers, travel nurses, etc. They typically live in single or double occupancy units and typically do not have children. The empty nester market segment is only a small portion of the Class A market. These individuals are in their 50's or 60's and are typically downsizing from larger units in the suburbs. Again, these households are typically small and do not include children. They have considerably more wealth, but are looking to downsize and reduce costs, while retaining all of the amenities they had before, while gaining proximity to restaurants and "lock and leave" convenience.

Demand for older Class B and C rental properties is roughly evenly divided between the three identified market segments. The older units provide an alternative for young professionals and empty nesters who dislike the modern architecture of the newer Class A rental offerings and appreciate the "charm" of the older rental housing stock. In addition, the Class B and C properties also serve the "rent by necessity" market segment, which includes mostly younger individuals, many of whom work in the Central City. These individuals often have lower incomes and cannot afford to rent the Class A offerings or buy homes elsewhere in the region. They are much more likely to live with unrelated individuals in order to make renting in the Central City affordable.

Unmet Housing Demand Projections

To estimate the unmet Central City worker housing demand, BAE identified the total number of jobs located in the Central City and calculated the number of workers who commute in from outside the Central City. BAE then adjusted the estimate based on the proportion of survey respondents who indicated that they would be interested in relocating to the Central City and who would be interested in something other than detached single-family housing units. BAE then converted to households based on the average number of workers per household. Using this method, BAE estimates that approximately 11,706 worker households may be interested in relocating to the Central City. Broken down by income level, this would include 1,851 low-income households, 2,591 moderate-income households, and 7,264 above moderate-income households.

Affordability of Pipeline Projects

In cooperation with CADA and other project partners, BAE identified 47 projects currently planned, proposed, approved, or under construction in the Central City. Of those, five are planned with no plans yet submitted, eight are proposed with plans submitted to the City, 25 are approved but not yet under construction, and nine are under construction. To assess the

degree to which these projects will adequately satisfy the projected unmet worker housing demand, BAE contacted project representatives to identify anticipated pricing levels.

Based on a comparison to estimated affordable rental rates and for-sale housing prices, there are 931 units (7.2 percent) with pricing that would be affordable to lower-income households. These units are being constructed with affordable housing subsidies, which means that they will be regulated to insure their long-term affordability. Only 26 units (0.2 percent) of the pipeline projects are anticipated to be affordable to moderate-income households at unregulated market rates. By comparison, there are 3,871 units (30.1 percent) priced market rates which are affordable at above moderate-incomes and another 8,020 units (62.4 percent) with no confirmed pricing. The available information indicates that most of the remaining units will be priced at market rates, which in most cases are likely to be affordable at the above moderate-income level.

Comparison between anticipated pricing levels of planned and proposed projects and the worker housing demand estimates indicates a significant under supply of housing units affordable to low-income and moderate-income households. To adequately address the unmet worker housing demand, as estimated here, the Central City would need roughly 920 additional housing units priced to be affordable to low-income households and more than 2,500 housing units priced to be affordable to moderate income households. When considering only those projects that are approved for development or under construction, the Central City is also undersupplied even at the above moderate-income level, with a shortfall of approximately 3,794 units. However, the current planned and proposed project pipeline would be more than adequate to meet this demand, if developed as currently envisioned.

Please note that the comparison between worker housing demand and the new project pipeline fails to account for a number of important factors. The first, is that the Central City is experiencing demand for housing from a variety of market segments beyond simply those who work within the Central City. These notably include retirees and other households who value the amenities provided by an urban environment. Thus, there is likely additional demand for housing beyond that generated by worker households, who may help to absorb any potential excess supply. Also, the nature of the housing stock varies considerably by neighborhood, with some areas offering a larger supply of more affordable housing (e.g., Midtown) and some areas offering fewer housing opportunities (e.g., Downtown). According to a housing inventory maintained by the Downtown Sacramento Partnership, the housing stock in the Central Business District (CBD) is 67 percent income restricted, reflecting a shortage of market rate housing. Therefore, the development of higher-income housing in areas like the CBD may represent an important market correction, helping to ensure a more balanced neighborhood and to provide important housing opportunities for are workers and non-workers alike.

Conclusions and Recommendations

The primary conclusion of this research is that the current pipeline of residential development is positioned to undersupply housing affordable to moderate-income (80-120 percent of AMI) and low-income (less than 80 percent AMI) worker households by a significant margin. Note also that the worker housing demand estimates likely underestimate demand from lower-income retail and service workers. The existing planned and proposed projects pipeline also likely represents an undersupply of ownership housing opportunities at all income levels. Recognizing that most non-resident Central City workforce own their own homes, the lack of homeownership opportunities in the Central City is likely to function as a deterrent for higher wealth households that value opportunities to build equity.

Recognizing the unique interests of each of the partner organizations who funded this research, BAE presents the following recommendations:

- Work with developers to efficiently redesign projects, as necessary, to align with anticipated market demand and worker housing needs;
- Identify housing types and construction methods that can produce units at affordable price points (e.g., 19J, The Mill at Broadway, etc.);
- Incentivize and/or facilitate development of rental housing affordable to households with incomes that are at or below 120 percent of AMI;
- Incentivize and/or facilitate development of for-sale housing options;
- Intensify the City's residential code enforcement efforts to identify and remediate problem rental properties and improve the quality of the housing stock;
- Identify opportunities to acquire existing class B/C rental properties to be incorporated into the affordable housing program to preserve the existing lower cost housing stock.

INTRODUCTION

The Capitol Area Development Authority (CADA), in partnership with the City of Sacramento, retained BAE Urban Economics (BAE) in Spring of 2017 to conduct an analysis of housing market supply and demand in the Sacramento Central City area. This work builds on information previously collected as part of BAE's work on behalf of the City of Sacramento for the Sacramento Downtown Specific Plan. The purpose of the current effort is to expand our understanding of the Central City housing market, with an emphasis on identifying gaps in the supply of housing for the existing Central City worker households. The intent is that CADA and the City of Sacramento may then use this information to develop and refine policies to address the needs of worker households, which are not currently being met by the existing market and/or will not be satisfied by the current pipeline of planned and proposed projects.

Report Organization

This report is divided into six main sections. The first summarizes the demographic and economic characteristics of existing resident households based on the information previously collected through research associated with preparation of the Sacramento Downtown Specific Plan. The second section outlines the results of the Central City Employee Housing Survey, including a review of the household characteristics and housing preferences of all respondent workers, including those who live inside the Central City area and those who live outside the Central City area. The third section discusses the results of an analysis using information available through a specialized Census Bureau data product, known as the Public Use Microdata Sample (PUMS), which focuses on the household characteristics associated with individuals who both work and live in the Central City. The fourth section summarizes the results of interviews conducted with Central City property managers, real estate brokers, and developers. The purpose of these interviews was to better understand current housing demand and the characteristics of households searching for housing in the Central City. The fifth section synthesizes the results of the prior analyses to generate a set of estimates of unmet Central City worker housing demand. The estimates focus on the segment of Central City workers who do not currently live in the Central City, but who would be interested in relocating. The final section puts the demand estimates into context by reviewing the current pipeline of planned and proposed projects, aligning these with anticipated rent and sale prices and the incomes that would be necessary to afford that housing.

RESIDENT DEMOGRAPHIC AND ECONOMIC TRENDS

The City of Sacramento retained Environmental Science Associates (ESA) with BAE as a sub-contractor, to assess existing conditions and trends within the Sacramento Central City area, as background research for the Sacramento Downtown Specific Plan. That analysis used publicly available data from the U.S. Census Bureau, among other sources, to assess the existing and projected demographic and economic trends, and real estate market conditions, in the Downtown Specific Plan area, with comparisons to the City of Sacramento as a whole, and the Sacramento-Roseville-Arden Arcade Metropolitan Statistical Area (MSA). For documentation regarding these three geographic definitions, please refer to Appendix A. The analysis also included case study research regarding existing conditions and trends in the central city areas of five peer cities, including Denver, Colorado; Long Beach, California; Minneapolis, Minnesota; Nashville, Tennessee; and Portland Oregon. What follows is a brief summary of the results of that research, as well as a discussion of gaps in the information previously collected, which are the focus of this supplemental research.

Demographic Characteristics and Trends

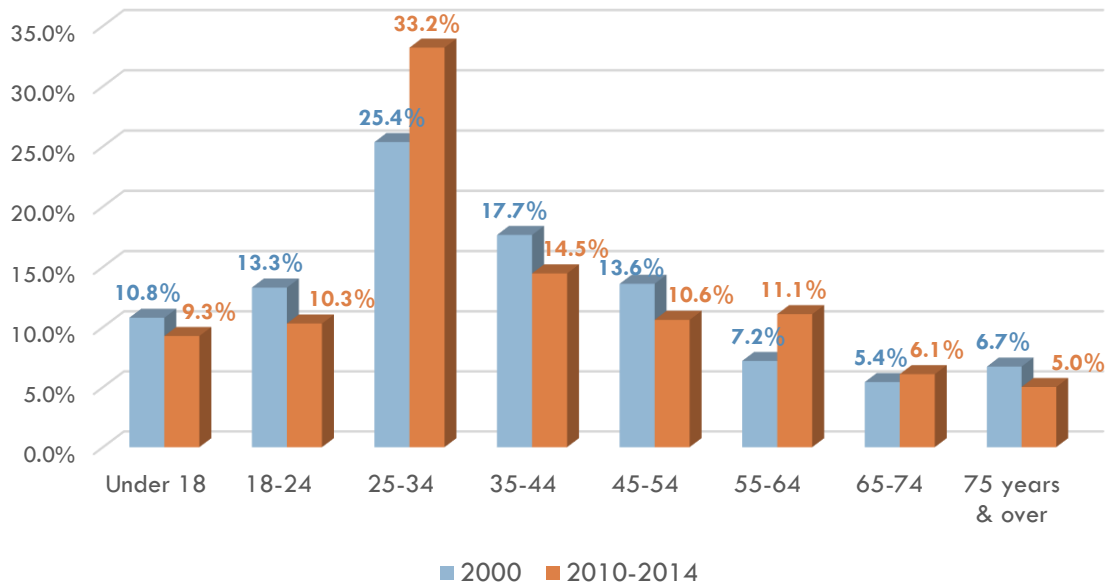
Central City demographics have remained stable in many respects, with a shifting age profile being the notable change since 2000. The Central City population was flat between 2000 and 2010-2014, at roughly 32,500 persons, as was the average household size, at about 1.6 persons per household. Non-family households comprise over three-fourths of the total population, and single people living alone represent about 60 percent of the households. All of this indicates sustained demand for smaller housing units; however, the lack of a recent track record of substantial population growth in the Central City means that it is difficult to gauge the depth of demand to absorb increases in the Central City housing supply.

Resident Age Distribution

While the population within the City as a whole, and within the larger region, is generally aging, the Central City counters this trend with a current median age that is lower than in the larger comparison areas. The Central City median age also trended downward between 2000 and 2010-2014, while the median ages for the larger areas increased during the same period. With a relatively stable population count, the only two age cohorts in the Central City that saw growth in numbers over the period were those aged 25 to 34 and those aged 55 to 75 years. The 25 to 34 age group now represents about one-third of the Central City total, or more than double the proportion in this age group found in the City as a whole. The Central City population under the age of 18 declined substantially, to the point that children represent less than ten percent of the total population. Growth in the number of younger adult residents who likely have lower incomes and have not had time to accumulate substantial equity for home purchases, indicates that maximizing the potential base of demand for new housing in the

Central City will require that developers provide a range of price points and tenure options. This is compounded by the fact that the Central City is attracting single-earner households, meaning that they have less income to afford a large mortgage, as opposed to dual-earner households.

Figure 1: Age Distribution, Central City, 2000 and 2010-2014

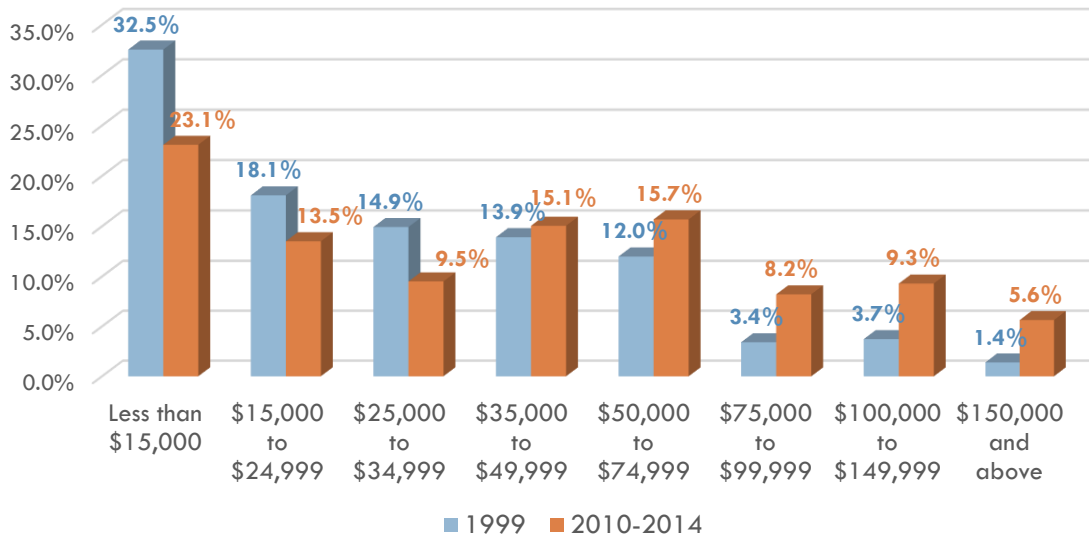


Sources: U.S. Census Bureau, 2000 Census and 2010-2014 American Community Survey, 2016; BAE, 2016.

Resident Income Distribution

In terms of household characteristics, the Central City is heavily dominated by renters (about 88 percent of all households). Central City household incomes tend to be significantly lower than in the City as a whole and the MSA; however, this is somewhat mitigated by the fact that household sizes are also lower than in the City and MSA. When adjusted for household size and organized into income categories, The Central City still has a disproportionate share of lower income households. In terms of absolute buying power, the Central City's lower incomes mean that targeted rental rates and sale prices would ideally be lower than elsewhere in the City. Lower price points may, at least in part, be achieved through construction of smaller housing units (i.e., studios and one-bedroom units), given the prevalence of single-person and other smaller households. Although still lower than the City overall and the MSA, inflation-adjusted household incomes in the Central City have increased over time, while the inflation-adjusted incomes for the City and MSA actually declined between 2000 and 2010-2014. This means that the Central City is capturing a disproportionate share of the region's growth in higher-income households, which has narrowed the gap between incomes in the Central City and elsewhere in the region.

Figure 2: Household Income Distribution, Central City, 1999 and 2010-2014



Sources: U.S. Census Bureau, 2000 Census and 2010-2014 American Community Survey, 2016; BAE, 2016.

Resident Educational Attainment

The Central City is attracting more highly educated residents and at a faster rate than the rest of the City and MSA. This bodes well for the potential for Central City households to increase their incomes over time, which may translate to the ability for current Central City renters to transition to homeownership as their incomes increase; however, it is not clear whether the Millennial generation (i.e., the 25 to 34 age cohort) will seek homeownership at the same rates as their parents.

Economic Characteristics and Trends

Jobs by Industry Sector

The Central City area is the region's most important job center, accounting for 13 percent of all MSA jobs as of 2015. Unsurprisingly, Government represents the largest employment sector, accounting for two out of every three Central City jobs, though the employment base is beginning to diversify somewhat. For example, the California Employment Development Department (EDD) reports increases in the proportion of Central City employment in Construction; Wholesale Trade; Management of Companies and Enterprises; Educational Services; Health Care and Social Assistance; Arts, Entertainment, and Recreation; Accommodations and Food Services; and Professional and Technical Services. Notably, the Retail Trade sector contracted by approximately 25 percent since 2005, implying a reduction in retail sales, though this may be offset by growth in Accommodation and Food Service.

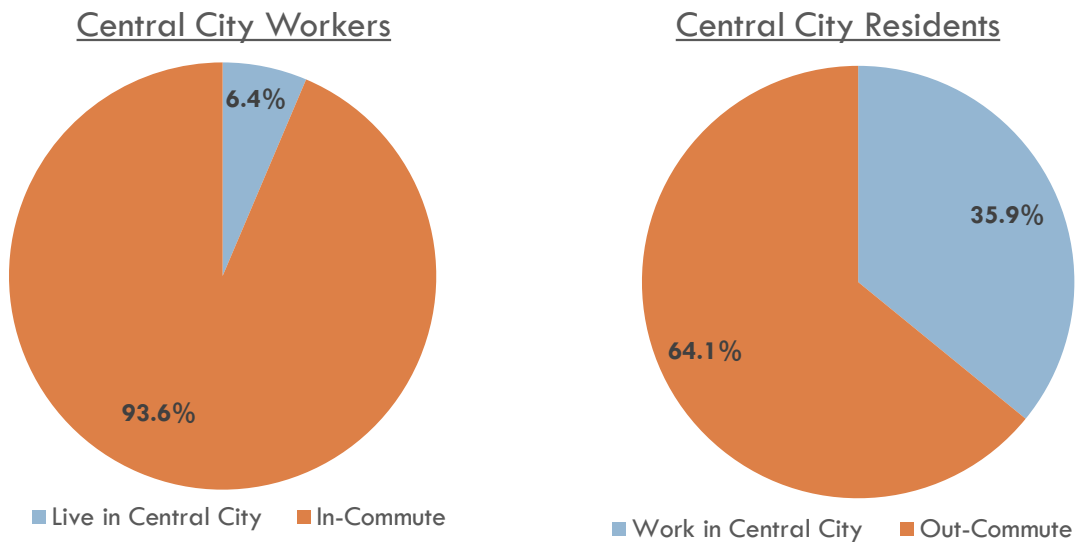
Employed Residents by Occupation

The available data indicate that most Central City residents, regardless of their workplace location, are employed in “white collar” occupations, 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 may be correlated with the general increase in household incomes between 2000 and 2010-2014, which was counter to citywide and regional trends.

Net Commute Flows

According to data from Sacramento Area Council of Governments (SACOG) travel demand model, the clear majority of Central City workers (94 percent) commuted in from homes located outside the Central City in 2012. As illustrated in Figure 3, only about 36 percent of Central City residents also worked in the Central City. While such cross-commute patterns such as these are not uncommon, some of Sacramento’s peer cities manage to maintain lower in-commuting rates, compared to central Sacramento. Of the five communities studied in support of the Downtown Specific Plan, only Nashville, Tennessee, had an in-commuter rate higher than central Sacramento at 95.6 percent. The other communities all had notably lower in-commuter rates, including Denver, Colorado (91percent); Long Beach, California (86 percent); Minneapolis, Minnesota (91 percent); and Portland, Oregon (91.0 percent). This information, combined with the very large employment base in the Central City, indicates that housing developers have a substantial opportunity to capture additional housing demand from the Central City’s existing employment base.

Figure 3: Commute Flows, Central City, 2012



Sources: SACOG, 2016; BAE, 2016.

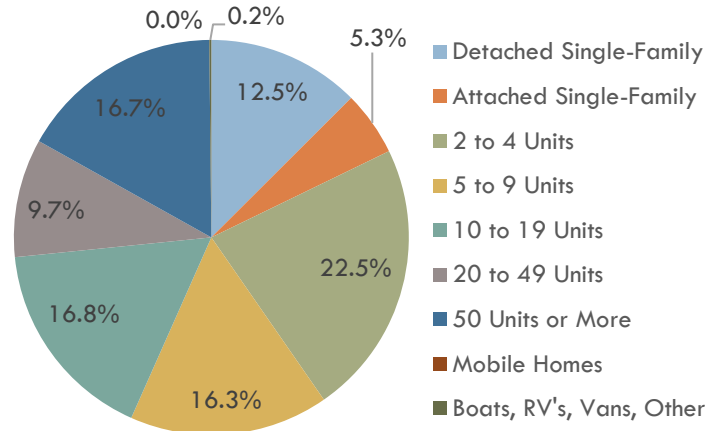
Housing Market Conditions

The following excerpts discussion from the Downtown Specific Plan background report. Note that market data discussed below are current as of Fall 2016.

Housing Stock Characteristics

The Central City's multifamily properties are much more likely to be duplex, triplex, fourplex, or smaller multifamily apartment buildings, compared to elsewhere in the region. New housing projects in the Central City and surrounding neighborhoods are predominantly oriented toward large multifamily and attached single-family housing types, indicating a shift toward higher densities.

Figure 4: Central City Housing Units by Type



Sources: U.S. Census Bureau, 2010-2014 American Community Survey, 2016; BAE, 2016.

Cost Burdens and Overcrowding

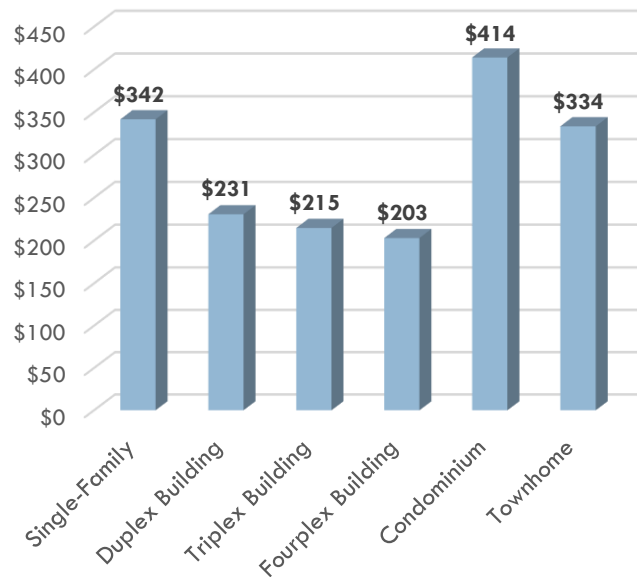
Housing cost burden information indicates that under current market conditions, the Central City's extremely low-, very low-, and low-income households are likely to be at risk of displacement, due to a prevalence of lower-income households that have excessive or severe housing cost burdens. These lower-income households represent about 53 percent of all Central City households, so the effects of downtown development plans on the availability of housing for this substantial segment of the population will be important. Housing displacement risk among moderate-income and above moderate-income households is less of a concern, as these households tend to have manageable housing costs and, due to their higher incomes, are more able to absorb some increases in housing cost, without facing excessive cost burdens. Overcrowding does not appear to be a significant problem in the Central City at this time, even among lower-income groups.

For-Sale Home Prices

Home sale prices in the Central City tend to be high, both on a total price basis (\$476,250) and on a price per square foot basis (\$354 per square foot), compared to the rest of the City and the MSA. Compared to other nearby neighborhoods, Central City sales prices are only below those of East Sacramento (\$498,500 per unit/\$372 per square foot), and generally exceed those of other neighborhoods by a considerable margin. Within Sacramento County, Central City values are considerably above average, indicating that homebuyers attribute considerable value to a downtown Sacramento location in relation to other more suburban locations. In addition, the Central City's high home values exist in the context of a housing market that has seen rapid price appreciation in the last six years, since the start of the recovery from the late 2000s housing market collapse.

Among different residential product types, per square foot values were highest among condominiums, and the per square foot values for townhouses are only slightly below the per square foot values for lower density single-family homes. This indicates that buyers in the Central City housing market 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 housing product. This pricing bolsters development feasibility for higher density infill and redevelopment projects, where higher sales prices per square foot are necessary to help offset developers' increased costs associated with redevelopment and the higher cost of construction for housing built at higher densities.

Figure 5: Central City Average Price per Square Foot by Unit Type, July 2015 to July 2016



Sources: ListSource, 2016; BAE, 2016.

Interviews with project sales representatives and residential real estate brokers indicate that the buyers of units in new Central City residential projects are primarily single individuals, couples, young professionals, empty-nesters, and retirees. Families with children are noticeably absent from the Central City buyer profile. Reportedly, Central City homebuyers are seeking the “urban experience” and value proximity to restaurants, bars, and entertainment, and the ability to walk to work and other activities. Buyers are attracted to the higher density residential units due to the “lock and leave” convenience that comes with their low maintenance requirements and homeowner’s associations or property managers who handle many maintenance responsibilities on behalf of the owners.

For-Sale Housing Affordability

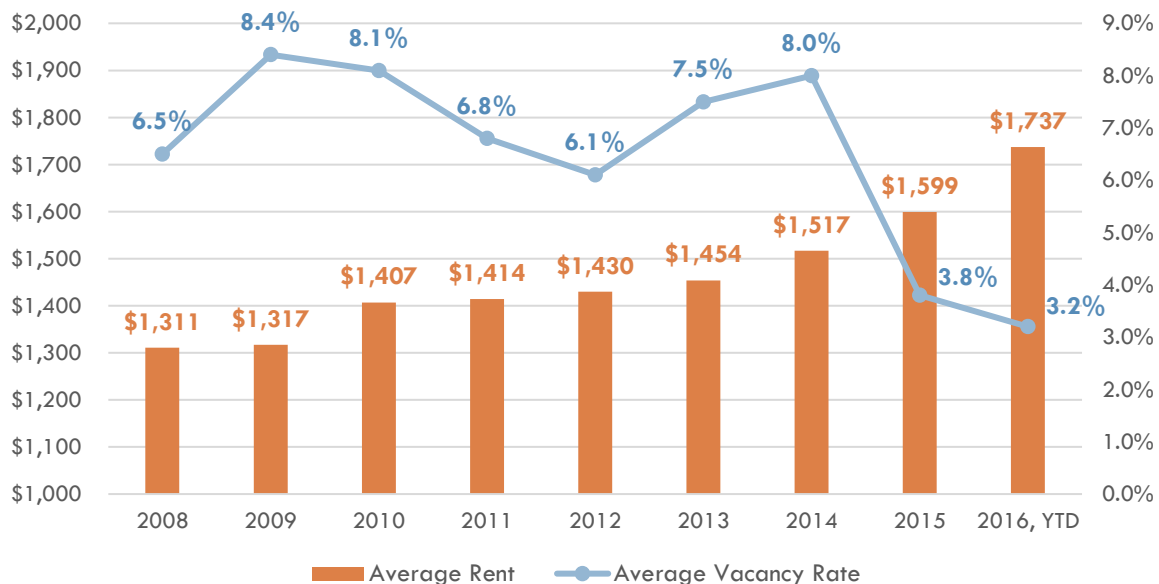
Maximum affordable home purchase prices for households in the moderate-income category (up to 120 percent of area median income) are just below \$400,000, for a household of five people. Maximum home purchase prices for smaller moderate-income households are lower. For example, a one-person household at the moderate-income limit could afford to purchase a home costing approximately \$258,000. Affordable home purchase prices for households in lower income categories will be 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 Central City, the marketplace is only providing new for-sale housing units that are affordable to homebuyers with incomes considerably above the moderate-income level. Similarly, only five-person households with moderate incomes and above would be able to afford the median re-sale price for single-family homes, townhomes, or condominiums, while moderate-income households with four or fewer persons would only be able to afford resale homes priced below the median for these different product types. Alternatively, the households who cannot afford to purchase market rate housing units, either new units or resales, may need to turn to the rental housing market to secure housing at affordable cost.

Rental Housing Prices

As in the for-sale housing market, housing rental rates in the Central City, 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 Central City has increased 32 percent since 2008, to \$1,737 per month, while vacancy rates have dropped to a very low 3.2 percent. Current average monthly rents range from \$1,313 for a studio apartment, to \$2,117 for a 3-bedroom townhouse, for an overall average of \$2.16 per square foot. Among recently completed rental projects in the Central City, rental rates tend to be considerably higher than the Central City market averages, ranging up to as high as \$4.11 per square foot.

Figure 6: Historic Rental and Vacancy Rates, Central City, 2008 to Q2 2016



Sources: RealAnswers, 2016; BAE, 2016.

Conversations with property managers and other project representatives indicate that the tenant profile for newly constructed residential units tends to be young professionals in their mid-20s to their mid-30s, acknowledging that younger workers in lower-paid occupations likely cannot afford the rents in newer projects. Real estate professionals indicated that older renters, who are more likely to have children than the younger renters, typically prefer more suburban locations. One other group that has rented in these newer projects includes empty-nesters, who are testing out urban living and choose to rent before committing to purchasing a Central City home. Overall, real estate professionals interviewed as part of this study indicated that demand was strong for all available rental unit types, with primary demand coming from people who work in or near the Central City; however, some complexes also noted that they have some tenants who live in the Central City for the urban environment, and reverse commute to suburban job locations outside the Central City.

Rental Housing Affordability

Comparing affordable housing costs by income level with the market rate average rents in the Central City 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 cannot afford market average rents, but some may still find affordable rental units in the lower end of the Central City 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 Central City.

Housing Growth Projections

Baseline Growth Projections from SACOG

SACOG has relatively robust expectations for residential growth in the Central City between 2012 and 2036, projecting that the number of residential units will increase at an average rate of 3.7 percent per year, which is substantially higher than for the City as a whole (1.7 percent per year) and for the MSA overall (1.4 percent per year). In the Central City, SACOG's growth projection translates to 3,877 new units between 2012 and 2020, and an additional 15,836 units between 2020 and 2036. The SACOG growth projections provide a baseline to estimate the potential demand for Central City housing, as discussed below.

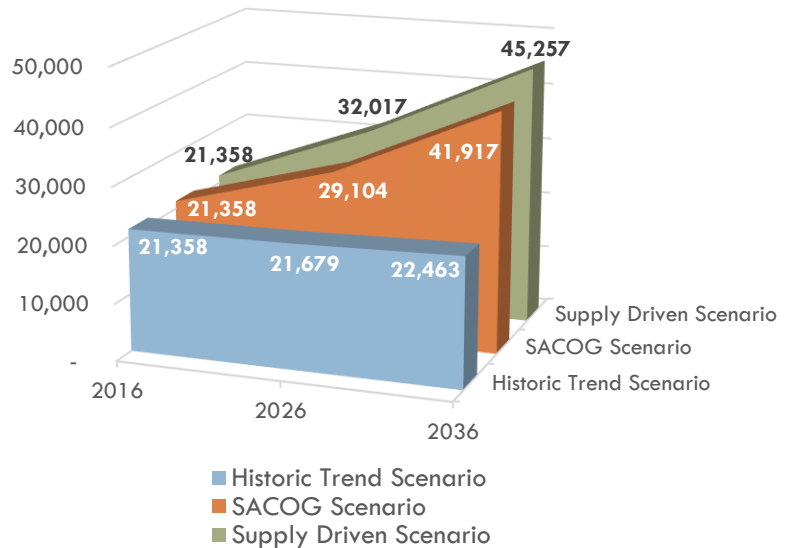
Supplemental Growth Projections from BAE

The demand projections developed by BAE for the Downtown Specific Plan area are based on population, household, and housing unit projections published by SACOG, which are summarized above. To put the SACOG projections into perspective, BAE compared the Sacramento Central City household capture rate (i.e., the proportion of new regional household growth that is occurring in the Central City) to the household and housing unit capture rates identified in the five peer city case studies (for more information regarding the peer city case studies, please refer to the summary provided in Appendix B). BAE then developed three

alternative scenarios which represent the range of potential Central City housing demand that may reasonably be captured, under different circumstances, over the next ten to 20 years.

The low-end housing demand scenario assumes that the Central City will capture the same proportion of regional housing growth as reported between the 2000 Census and the 2010-2014 ACS. The mid-range scenario assumes that the Central City will capture a significantly higher proportion of regional housing growth than indicated by the historic trend, which is consistent with SACOG's projections. The high-end scenario assumes that the Central City will capture housing demand sufficient to absorb the current pipeline of planned housing projects, 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 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. This scenario would leverage prevailing demographic trends and shifting household preferences, which favor higher density housing and take advantage of the increased interest in urban living.

Figure 7: Projected Housing Demand by Scenario (All Unit Types)



Sources: SACOG, 2016; U.S. Census Bureau, 2016; SHRA, 2016; Downtown Sacramento Partnership, 2016; BAE, 2016.

Table 1: Projected Central City Housing Demand Growth, 2016-2026-2036

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

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.

Need for Additional Analysis

CADA, the City of Sacramento, and other regional policy makers, are currently working to identify ways to revitalize the Central City area, including the creation and preservation of diverse housing opportunities. However, with historically low population growth in the Central City, there is some question as to who, exactly, will occupy newly available housing units. One likely source of supplemental demand is Central City workers. The data summarized above indicate that the Central City is a major employment hub for the broader Sacramento region, with some 82,000 workers. As mentioned previously, approximately 94 percent of the workforce commutes into the Central City for work each day. By comparison, peer cities case studies completed as part of the Downtown Specific Plan background report found that between 86.0 and 95.9 percent of workers commute into their respective central city areas. While it is clear that a high proportion of Central City workers commute in from outside the area, the reasons for that behavior are not as clear.

The remainder of this analysis is focused on developing a better understanding of the characteristics of Central City worker households, as well as their housing needs and preferences. The foundation of this analysis is a survey of Central City workers, developed and administered by BAE, in coordination with CADA, the City of Sacramento, the Downtown Sacramento Partnership, and the Midtown Association. The survey collected information regarding employment, income, household characteristics, housing preferences, and the respondents' interest in living in the Central City. The survey response data are then supplemented with additional information collected from the U.S. Census Bureau's Public Use Microdata Sample (PUMS), which provides some limited quantitative information regarding the characteristics of Central City resident worker households. To supplement this information, BAE also conducted interviews with local developers and property managers in order to better understand the types of households who are currently seeking housing in the Central City. These interviews were also designed to solicit information that would help to provide a better understanding of the potential maintenance of existing Class B and C apartment properties as a more affordable component of the Central City housing stock. BAE then used this information, in conjunction with information from sources, to estimate the existing unmet housing demand in the Central City, by income level and unit type.

CENTRAL CITY EMPLOYEE HOUSING SURVEY

To address the information gaps discussed above, BAE developed an online survey tool to collect pertinent information regarding the Central City workforce. The survey targeted persons employed within the Central City, regardless of residence location. BAE administered the survey between April 3rd and May 15th, 2017, using the SurveyMonkey online platform. CADA conducted participant outreach and recruitment, in close cooperation with the Downtown Sacramento Partnership and the Midtown Association, in addition to major employers, like the State of California. The survey garnered a total of 4,279 unique responses, including 3,664 individuals who work in the Central City and 615 that work elsewhere in the region. Based on the response data received from Central City workers, BAE developed the following profiles of household characteristics and housing preferences. For a printable copy of the survey instrument, please refer to Appendix C. For a more detailed summary of the survey responses, broken out by residence location, please refer to Appendices D through F.

Overview of Survey Respondents

As noted above, a total of 4,279 individuals responded to the survey. Of that total, 85.6 percent worked in the Central City, while 14.4 percent worked outside of the Central City. Because the purpose of the survey is to identify housing needs of Central City workers, the 615 respondents that work outside of the Central City are excluded from this analysis.

Profile of Central City Workers

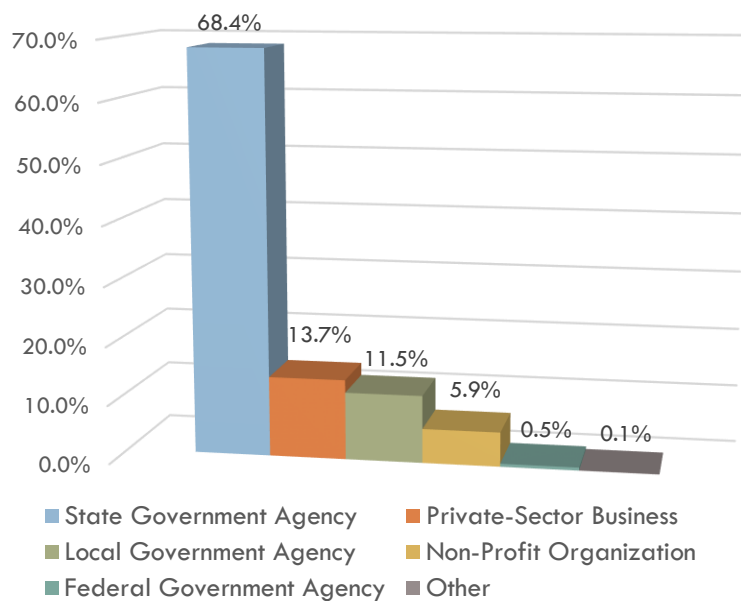
Central City workers responded to various questions about their current demographics, including their age, employer type, occupation, and how long they have worked in the Central City. In addition to characteristics about the individual, the survey asked respondents a series of questions about their current household characteristics and housing situation, including household income, household size, number of children, residence location, tenure, unit type and size, and monthly rent or mortgage. Lastly, depending on the respondents' current living situation, respondents were asked about their broader housing preferences, including ideal location, preferred unit type and size, and housing budget. The following section provides a high level summary of these responses, while subsequent subsections describe details regarding certain subsets of the response pool, including Central City workers who live in the Central City versus those that do not.

Employment and Occupational Characteristics

The average respondent has worked in the Central City for approximately 10 years, with 15.2 percent having worked in the Central City for more than 20 years.

Most survey respondents are employed with government agencies, including 68.4 percent who work for State Government Agencies and 11.5 percent who work for Local Government Agencies. While this generally reflects the current mix of employment opportunities available within the Central City, a comparison with the available jobs data indicates an over-representation by State Government Agency workers within the survey response pool. For example, while 68.4 percent of survey respondents work for a State Government Agency, data from the California Employment Development Department (EDD)

Figure 8: Central City Workers by Employer Class



Sources: Central Sacramento Employee Housing Survey, 2017; BAE, 2017.

indicate that only 47.4 percent of Central City jobs are in State Government. Nonetheless, the survey also collected responses from a total of 475 workers employed in private sector businesses and 205 workers in the non-profit sector. Although these workers are proportionately underrepresented, the large number of responses does allow for crosstabulation; though averages based on the entire response pool are likely skewed toward the characteristics of State Government Agency workers.

Approximately 56.7 percent of respondents identified themselves as Professional workers, with an additional 29.5 percent identifying themselves as Administrative workers. In addition, the survey collected responses from almost 300 Business Managers or Executives, with only 100 responses from Retail or Service Workers and 54 from Tradespersons (e.g., construction workers, plumbers, electricians, etc.). The relatively small number of Retail or Service Workers indicates that persons employed in this category are likely under-represented within the survey response pool, based on the anecdotal understanding that both retail and service jobs represent an important component of the Central City economy. It is unclear, however, the degree to which Central City employment opportunities require the skills associated with typical tradespersons, so it is not possible to determine whether this group is adequately represented within the survey response pool.

Demographic and Household Characteristics

Central City worker survey respondents are predominantly female (61.7 percent) and older. While the Central City is known as an attractive residence location for younger workers, workers aged 30 and under represent a relatively small proportion of the survey respondents. Reflecting this older age profile, most respondents are either currently, or have previously been, in a married relationship.

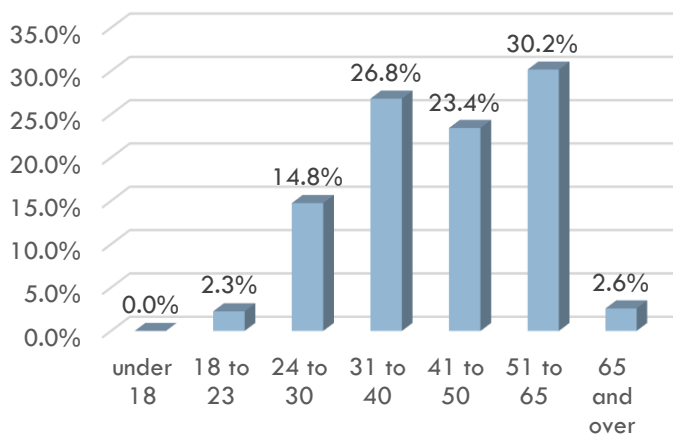
Age Distribution

The median age of Central City worker survey respondents is 43.6 years. Only 17.0 percent of Central City workers surveyed are age 30 or under, while 26.8 percent are between the ages of 31 and 40, and 53.6 percent are between the ages of 41 and 65. This is notable, given that local developers and property management company representatives indicate that much of the current demand for housing in the Central City is being driven by younger individuals and households, while the bulk of the Central City workforce falls into the upper age brackets.

Household Type and Size

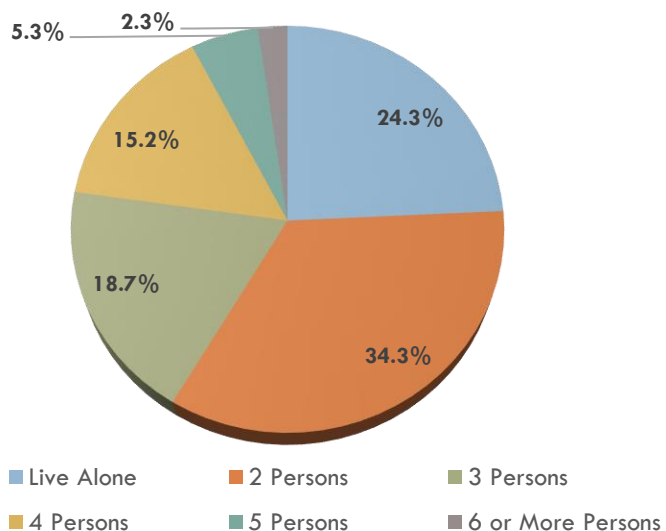
The average household size among survey respondents is 2.51 persons. This reflects the relative prevalence of married households, which account for 51.9 percent of the response pool. Nonetheless, 75.7 percent of respondents indicate that they live with two or more people. Single-person households account for only 24.3 percent of the survey response pool.

Figure 9: Age Distribution, Central City Workers



Sources: Central Sacramento Employee Housing Survey, 2017; BAE, 2017.

Figure 10: Household Size, Central City Workers



Sources: Central Sacramento Employee Housing Survey, 2017; BAE, 2017.

Survey respondent households contain an average of 1.7 employed persons per household, indicating a prevalence of multiple wage earner households. Meanwhile, respondent households contain only one child for every three households, on average. This indicates that young (i.e., under 18) children are relatively uncommon among Central City worker households, which is somewhat consistent with the higher average age of survey respondents (e.g., respondents may have never had children, or their children have already moved out of the house).

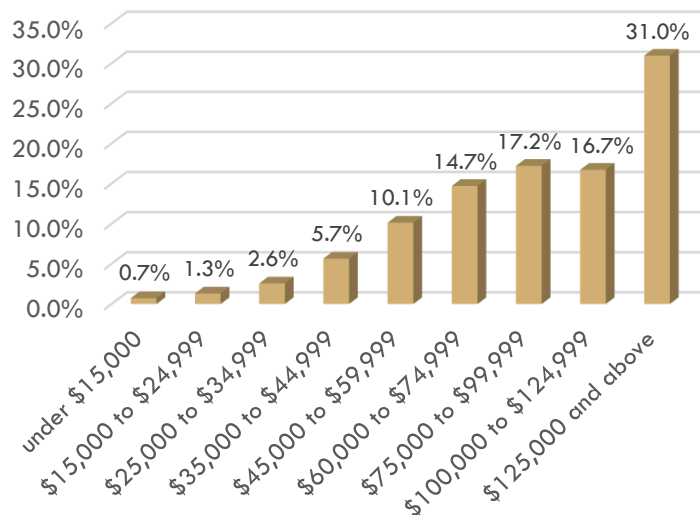
Household Income

The income profile of survey respondents indicates that most earn relatively high wages, particularly compared to Central City residents at large (as discussed in the prior section). For example, 47.7 percent of surveyed Central City workers have household incomes of \$100,000 or more. Note, however, that this may also reflect a bias towards state government workers, who often earn higher professional wages compared to retail and service works, who are underrepresented in the survey response pool. Based on this overall income distribution, BAE estimates the median household income of Central City worker survey respondents at roughly \$96,640.

Housing Characteristics

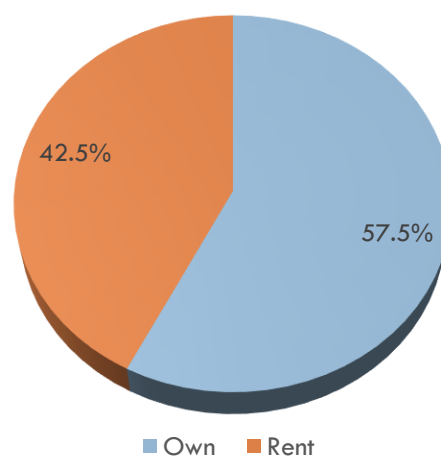
Reflecting the above average incomes of many Central City workers, compared to Central City residents at large, most survey respondents own their own homes (57.5 percent) versus rent (42.5 percent). Most respondents live in single-family housing units (67.3 percent), with apartments (19.9 percent) representing the next

Figure 11: Household Income, Central City Workers



Sources: Central Sacramento Employee Housing Survey, 2017; BAE, 2017.

Figure 12: Tenure, Central City Workers



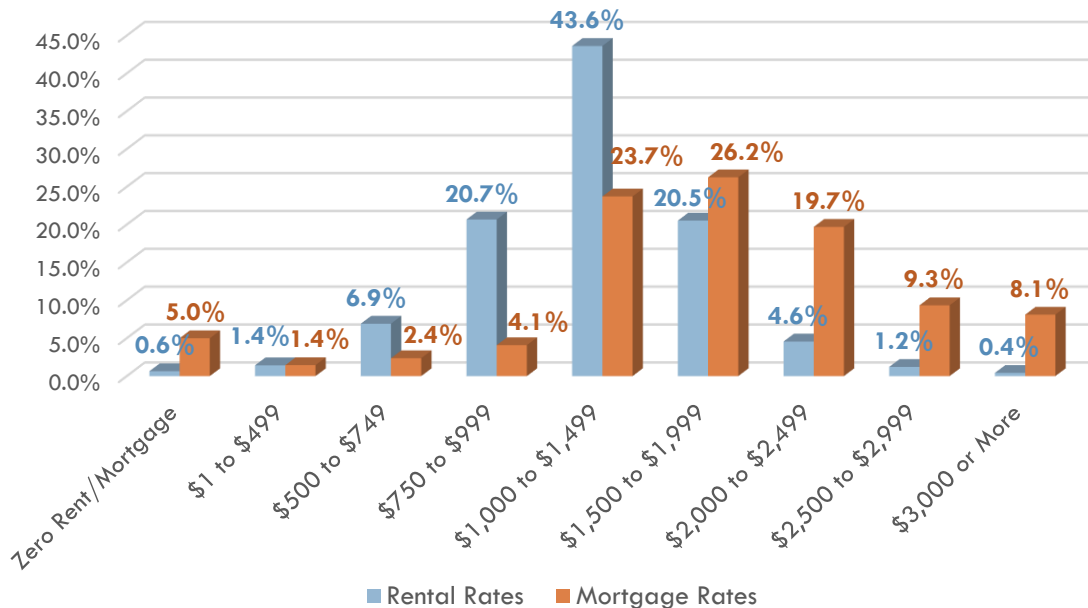
Sources: Central Sacramento Employee Housing Survey, 2017; BAE, 2017.

most common unit type. More than 80 percent of respondents live in housing units with between two and four bedrooms, with 11.3 percent living in units with only one bedroom and only 2.5 percent living in studio units.

Among respondent renter households, 84.8 percent pay between \$750 and \$1,999 per month in rent. Only 9.0 percent pay less than \$750 per month, while only 6.2 percent pay \$2,000 or more per month. Based on this distribution, BAE estimates that the average rent paid by Central City worker survey respondents is approximately \$1,251 per month. Rent typically includes water, sewer, and garbage service, with few other utilities, services, or amenities provided without additional charge.

Among respondents who own their homes, 69.7 percent pay between \$1,000 and \$2,499 per month on their mortgage. Only five percent of respondents had zero mortgage, while 7.9 percent pay less than \$1,000 per month, and 17.4 percent pay \$2,500 or more per month.

Figure 13: Monthly Housing Costs by Tenure, Central City Workers



Sources: Central Sacramento Employee Housing Survey, 2017; BAE, 2017.

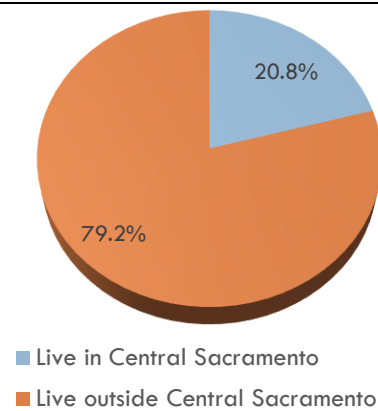
Vehicle Ownership and Parking

Central City worker survey respondents own 1.8 vehicles per household on average. The most common forms of parking that respondents have access to at home include private garages, private driveways, and public on-street parking. For more information on parking and transportation preferences, please see the *Transportation, Vehicle Use, and Parking* subsection.

Residence Location

Of the 3,664 survey respondents who work in the Central City, only 700 (20.8 percent) indicated that they also live within the Central City. As discussed in the prior section, SACOG estimates that approximately 94 percent of Central City workers commute in from outside of the Central City area. This indicates that the survey responses discussed above are somewhat biased towards persons who already live within the Central City area, compared to all workers.

Figure 14: Central City Workers by Residence Location



Sources: Central Sacramento Employee Housing Survey, 2017; BAE, 2017.

Profile of Non-Resident Worker Households

The following section summarizes the demographic and housing characteristics of the 2,664 Central City workers who do not currently live in the Central City, while providing a summary of their overall housing preferences and willingness to consider relocating into the Central City.

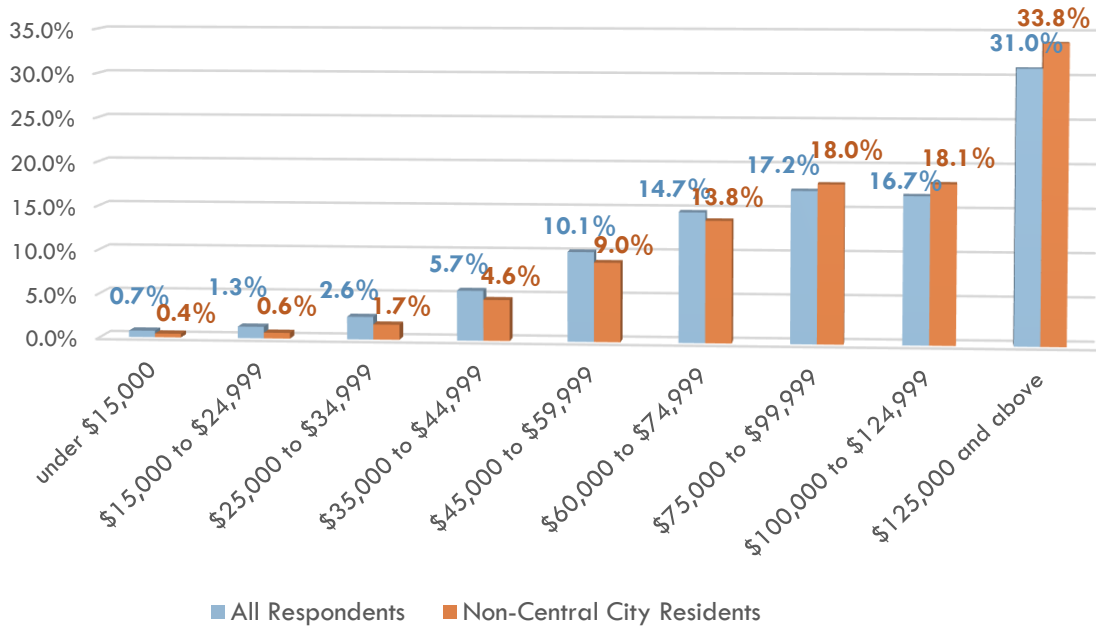
Employment and Occupational Characteristics

The average non-Central City resident has worked in the Central City for approximately 10.7 years, which is slightly higher than the average for all respondents, and these respondents are almost exclusively professional and administrative workers employed in State Government Agencies.

Demographic Characteristics

Relative to all respondents, Central City workers that do not live in the Central City tend to live in somewhat larger households, with an average of 2.67 persons per household, compared to 2.51 for all respondents. These respondents are somewhat more likely to live in households that contain children, with 37.0 percent of non-Central City resident households reporting the presence of at least one child under the age of 18, compared to 31.8 percent for all respondents. In terms of household income, non-Central City resident households reported somewhat higher incomes, with an estimated median of \$102,600, compared to a median of \$96,637 for all respondents. Non-Central City residents are significantly more likely to own their home versus rent, with 66.3 percent of non-Central City residents reporting owning their home, versus 57.5 percent for all Central City worker respondents.

Figure 15: Distribution of Household Income



Sources: Central Sacramento Employee Housing Survey, 2017; BAE, 2017.

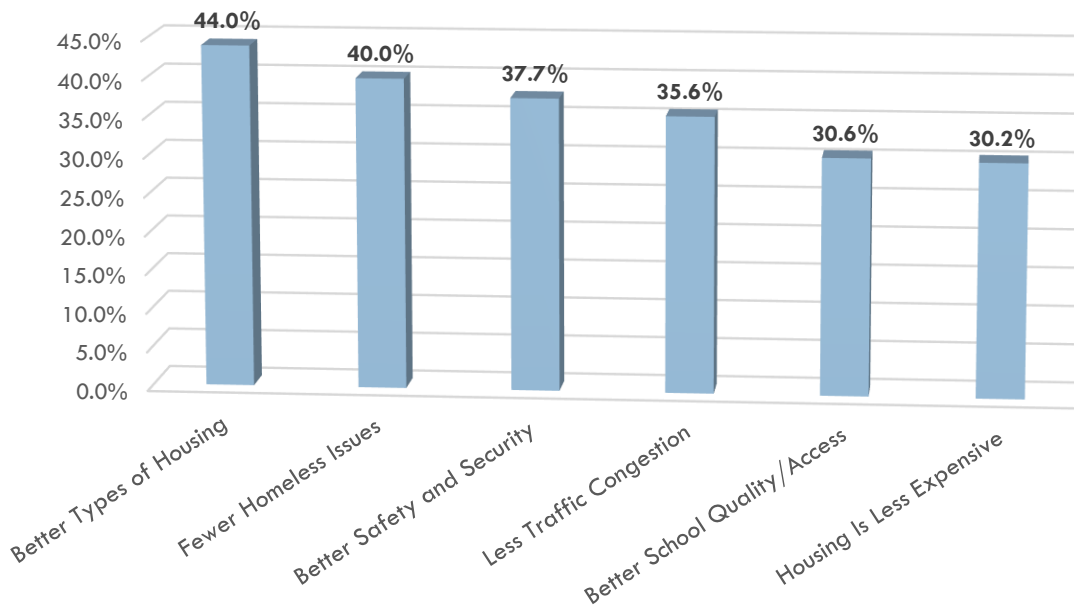
Housing Characteristics

Non-Central City residents are more likely to live in single-family housing units compared to all respondents, at 77.8 percent and 67.3 percent, respectively. In terms of unit size, non-Central City residents live in slightly larger units, with the average home containing 3.1 bedrooms, versus 2.9 bedrooms for all respondents. Non-Central City resident owner households reported similar mortgage payments compared to all respondents, while average monthly rental rates for renter households living outside of the Central City area are marginally higher, at \$1,278 per month, than for Central City residents overall. This generally reflects a higher incidence among non-Central City residents of renting single-family homes instead of lower cost multifamily apartments.

Residence Location Preference – Non-Central City

Of the non-Central City residents who responded to the survey, 899 (33.8 percent) indicated that they are not interested in living in the Central City. Figure 16 illustrates the top six reasons why some Central City workers prefer to live outside of the Central City. These include, ranked by frequency: 1) the availability of better types of housing (44 percent); fewer homeless issues (40.0 percent); better safety and security (37.7 percent); and less traffic congestion (35.6 percent). Respondents not interested in locating in the Central City were also asked to identify the communities in which they would prefer to live, other than Central Sacramento. The most common responses were: Folsom (21.4 percent); Roseville (20.4 percent); East Sacramento (18.4 percent); Elk Grove (18.0 percent); Land Park (15.0 percent); El Dorado Hills (14.9 percent); and Rocklin (13.3 percent).

Figure 16: Non-Central City Residents' Reasons for Living Elsewhere



Sources: Central Sacramento Employee Housing Survey, 2017; BAE, 2017.

Residence Location Preference – Central City

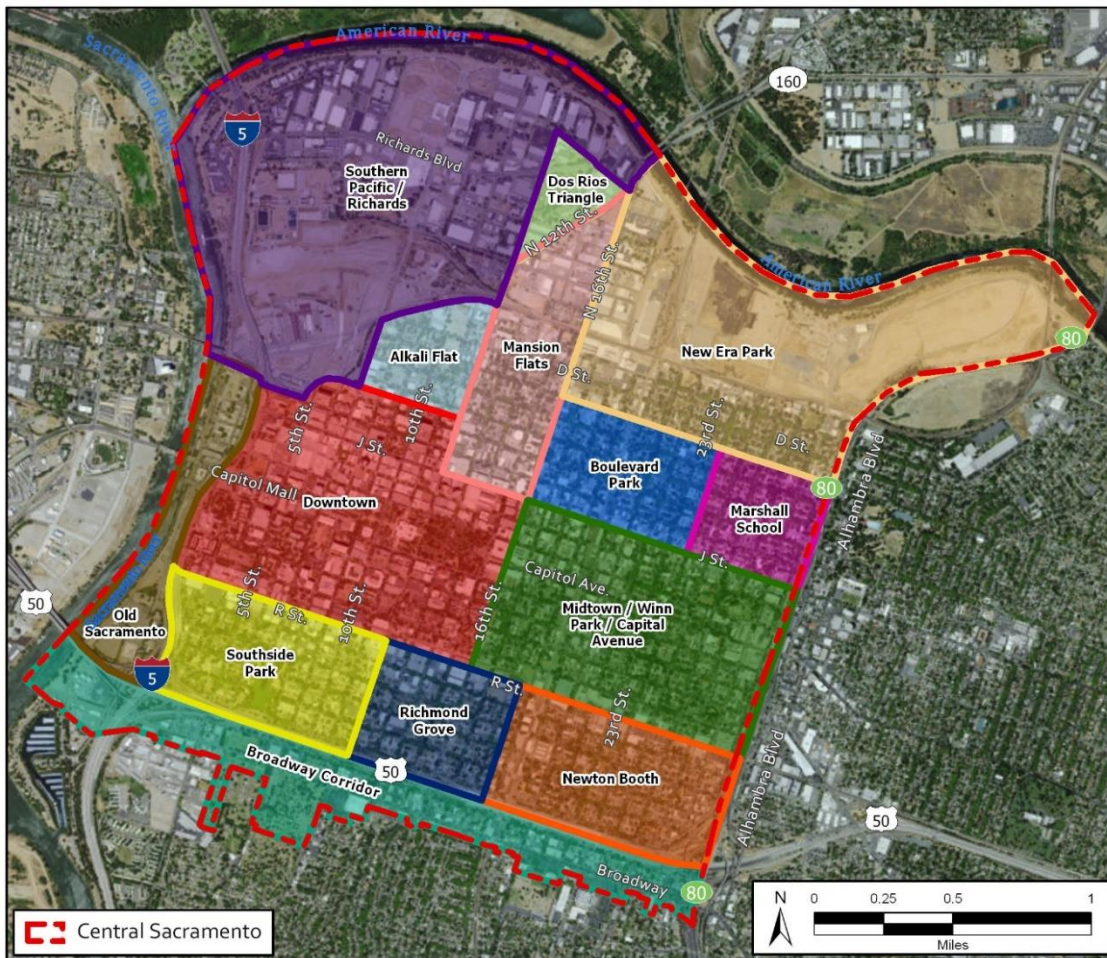
Neighborhood Preference

Non-Central City residents that are interested in eventually relocating to the Central City were asked a series of questions identifying their location preferences and any possible impediments to relocation. Of the 1,760 respondents interested in moving to the Central City, 80.6 percent highlighted the Midtown/Winn Park/Capitol Avenue area as one of their ideal locations, followed the Downtown (67.1 percent); Boulevard Park (48.1 percent); Marshall School (40.3 percent); and Southside Park (39.2 percent). However, the response data indicate that at least 20 percent of respondents who answered this question would be interested in living in any of the identified neighborhoods shown in Figure 17, with one exception. Only 12.2 percent of respondents indicated that they would be interested in living in the Dos Rios Triangle neighborhood.

Central City Attractions/Amenities

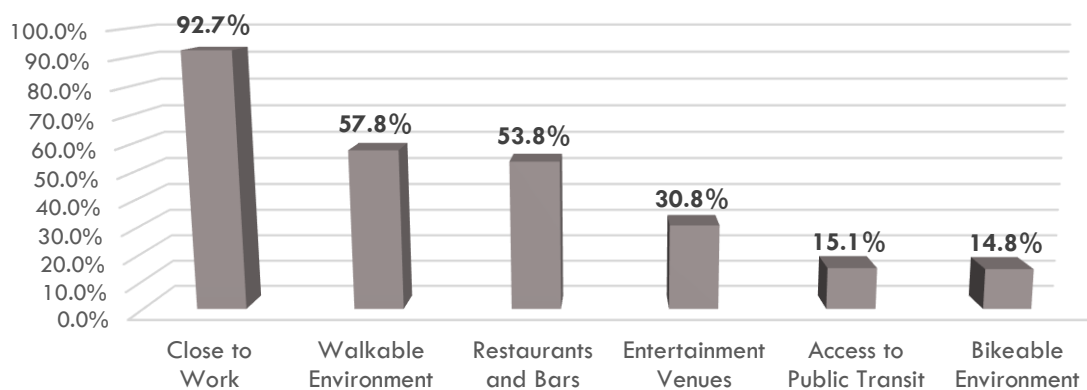
When questioned regarding the top three reasons they would like to live in the Central City, 92.7 percent of respondents identified proximity to work as one of the main attractions. Other notable attractions, as seen in Figure 18, include the walkable environment (57.8 percent); restaurants and bars (53.8 percent); and entertainment venues (e.g., music, theater, etc.) (30.8 percent). Access to public transit, a bikeable environment, and parks and public spaces each were identified among the top three attractions by around 15 percent of respondents.

Figure 17: Sacramento Central City Neighborhoods



Sources: City of Sacramento, 2017; BAE, 2017.

Figure 18: Non-Central City Residents Reasons for Considering Relocation



Sources: Central Sacramento Employee Housing Survey, 2017; BAE, 2017.

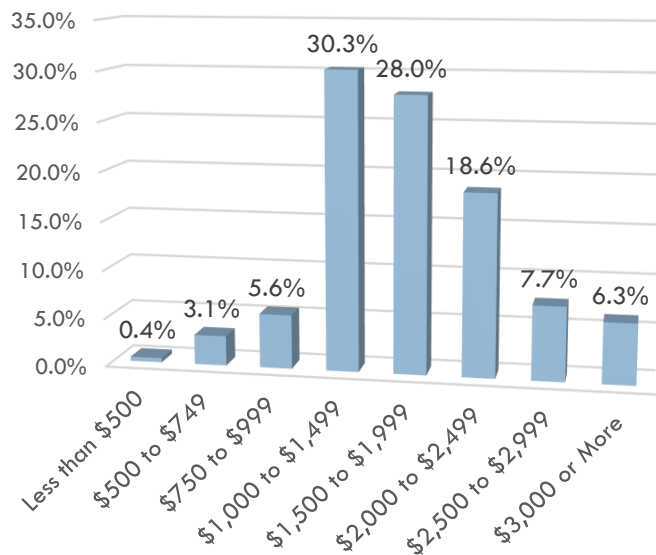
Impediments to Relocation

To better understand potential impediments to moving to the Central City, non-resident respondents with a stated interest in living in the Central City were asked to list the top three issues that could prevent them from relocating. The most common responses include a lack of affordable housing options (85.8 percent); lack of parking (49.1 percent); homeless issues (35.8 percent); safety and security concerns (26.3 percent); the wrong types of housing (25.2 percent); and difficulties in finding housing (22.7 percent).

Monthly Housing Costs

Of all non-resident respondents, regardless of tenure preference, the average budget amount for housing is \$1,278 per month, which naturally aligns with what respondents are currently paying for housing. Respondents interested in purchasing a home report an average of \$1,300 available for housing, with 18.9 percent able to pay above \$2,500 per month. Respondents interested in renting report having \$1,200 available for housing, with only 8.7 percent able to pay \$2,000 or more per month, and 1.6 percent able to pay \$2,500 or more.

Figure 19: Monthly Budget for Housing, Non-Central City Residents



Sources: Central Sacramento Employee Housing Survey, 2017; BAE, 2017.

Housing Type Preference

Most non-resident respondents (72.3 percent) would prefer to purchase a home, while 27.7 percent would prefer to rent. Similarly, most non-resident respondents would prefer to occupy a traditional detached single-family home, which received the highest overall weighted ranking, followed by condominiums, townhomes, and duplex units. Apartments and micro-units (<350 square feet) received the lowest overall ranking, with just 136 respondents and 40 respondents, respectively, selecting these types of units as their preferred housing type. In terms of unit size, non-resident Central City workers are interested in units that contain between two and three bedrooms, with roughly 80 percent selecting those two-bedroom counts. Only 19 non-resident respondents (1.1 percent) expressed interest in studio units.

Residential Amenities

In addition to questioning respondents regarding housing type preferences, the survey also asked respondents to rank a list of amenities by level of importance. The amenity categories

that received the highest weighted rankings include air conditioning, washer/dryer hookups (in-unit), internet/cable television, proximity to employment, and a dishwasher (in-unit). Amenity categories with the lowest weighted rankings include media and business rooms, vehicle charging stations, onsite child care, and concierge services.

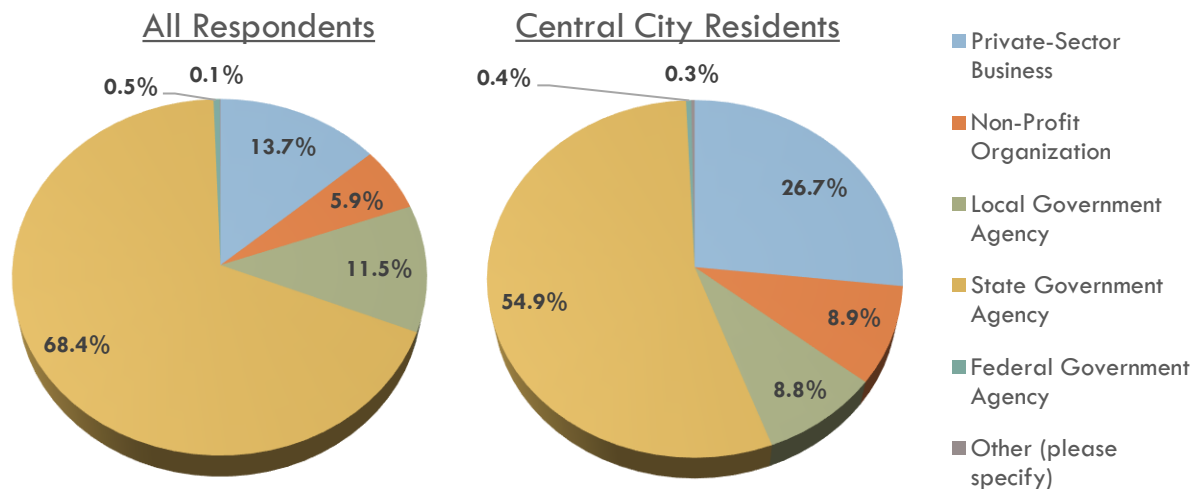
Profile of Resident Worker Households

The following section summarizes the demographic and housing characteristics of the 700 Central City workers that currently live in the Central City, while providing a summary of their overall housing preferences and desire to remain in the Central City.

Employment and Occupational Characteristics

The average resident Central City worker has worked in the Central City for approximately 7.7 years, which is notably lower than for all Central City workers (10.0 years). Resident Central City workers have lived in the Central City for just over one year longer than they have worked there, indicating that many relocated to the Central City prior to securing employment. Most resident Central City workers are employed in State Government and the private sector and work in professional and administrative occupations.

Figure 20: Employer Business Type, Central City Residents

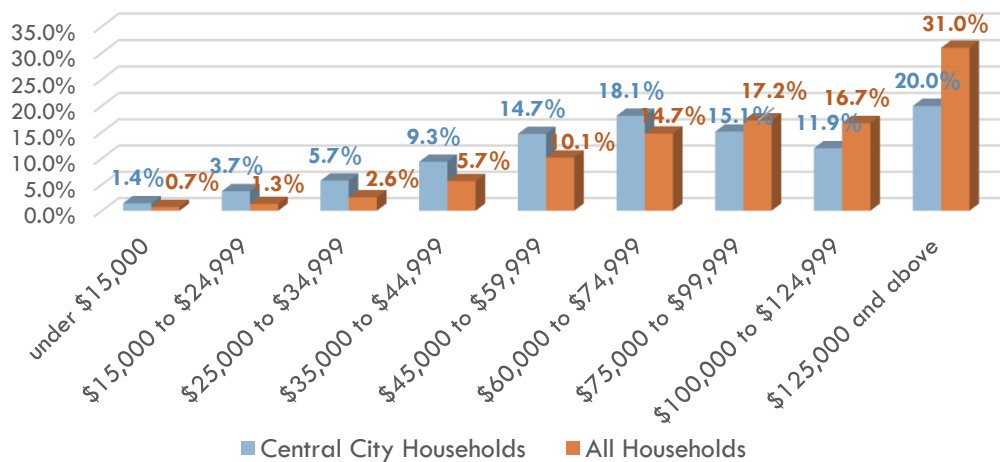


Sources: Central Sacramento Employee Housing Survey, 2017; BAE, 2017.

Demographic Characteristics

The median age of resident Central City workers is notably lower than that of all respondents, at 35.8 years of age compared to 43.6 years of age, respectively. A significantly higher proportion of resident Central City workers live alone, at 43.5 percent, compared to just 24.3 percent of all respondents. This is also evident from the average household size of resident Central City workers, at 1.89 persons per household, compared to 2.51 for all respondents. Corresponding with a smaller average household size, resident Central City worker households are significantly less likely to contain children under the age of 18, at just 11.7 percent, compared to 31.8 percent for all respondent households. In terms of household income, the median income for resident Central City worker households is considerably lower than for all respondents, at \$72,500, compared to \$96,637. Central City residents are also much more likely to rent their home, compared to all respondents, with 75.7 percent of Central City residents renting their current housing compared to 42.5 percent of all respondents.

Figure 21: Household Income Distribution

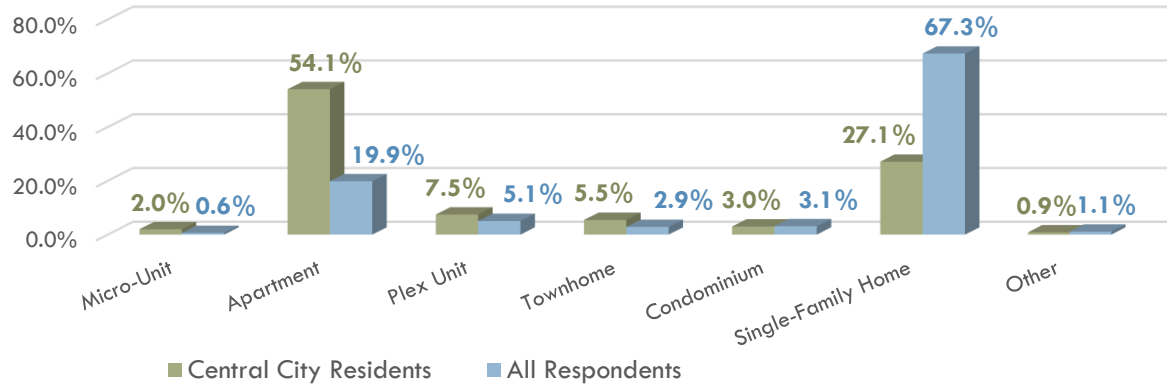


Sources: Central Sacramento Employee Housing Survey, 2017; BAE, 2017.

Housing Characteristics

In contrast to all respondents, Central City residents are significantly more likely to live in multifamily apartment units (54.1 percent), versus single-family homes (27.1 percent). Central City residents also tend to live in smaller units, with most resident Central City workers living in units with two or fewer bedrooms, including 10.4 percent living in studio units. Resident Central City workers who rent their accommodations generally pay less in monthly rent, with an average monthly rent of \$1,200 per month, versus \$1,250 for all respondents. Note, however, that this difference is largely driven by the prevalence of renting large single-family homes among non-Central City residents, which generally cost significantly more than a typical multifamily apartment. Monthly mortgage payments for owner households, by contrast, mirror that of all respondents, at approximately \$1,760 per month.

Figure 22: Current Residence Type

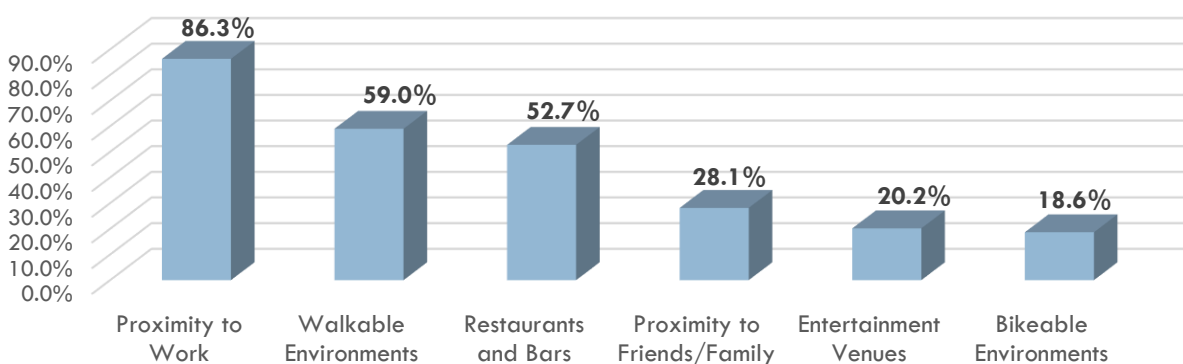


Sources: Central Sacramento Employee Housing Survey, 2017; BAE, 2017.

Housing Preferences

Current Central City workers who also live in the Central City were attracted to living in the area for similar reasons as those non-residents who are interested in moving to downtown. More specifically, 84.5 percent of Central City residents noted that proximity to work was one of the primary attractions to living in the Central City, followed by the walkable environment (63.7 percent), and restaurants and bars (55.7 percent). The clear majority of Central City residents plan to continue living in the Central City at 91.1 percent, with only 8.9 percent planning to leave the Central City. The respondents that plan to remain in Central City housing displayed preferences similar to those that attracted them to the Central City in the first place. Among residents planning to remain in the Central City, the most important residential amenities include air conditioning, proximity to employment, and washer/dryer hookups (in-unit). Conversely, of the 8.9 percent of Central City residents that are not interested in continuing to live in the area, primary reasons for leaving are that housing is too expensive, followed by homeless issues, lack of parking, and the desire to purchase a home.

Figure 23: Central City Residents' Reasons for Staying in the Central City

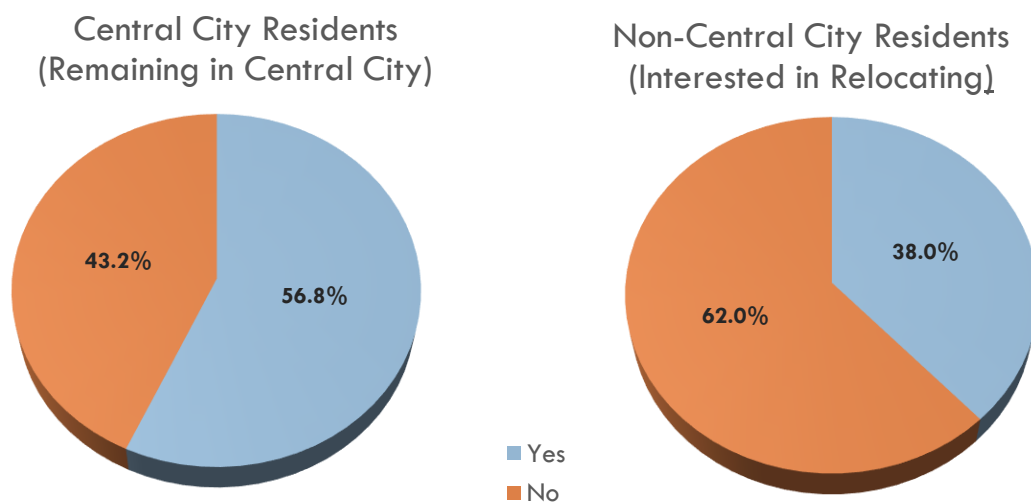


Sources: Central Sacramento Employee Housing Survey, 2017; BAE, 2017.

Transportation, Vehicle use, and Parking

At the request of CADA and other stakeholders, the worker survey included a series of questions targeting transportation preferences, vehicle use, and parking needs. As previously mentioned, Central City workers have an average of 1.8 cars per household, with only 3.6 percent living without a vehicle, the majority of whom live in the Central City. Of all respondents, roughly 46.9 percent currently have access to a private parking garage, while 38.9 percent use a private driveway. Almost 37.0 percent had access to on-street parking, though it is unclear whether this is their only parking option. In terms of general parking preferences versus what respondents have access to now, non-Central City residents interested in living downtown overwhelmingly prefer private garage parking (76.2 percent), followed by a private driveway (58.5 percent), and covered parking in off-street parking lots (42.2 percent). Similarly, Central City residents that plan to stay in the Central City prefer private garage parking (51.9 percent), followed by on-street parking (32.6) percent.

Figure 24: Interest in Foregoing Personal Vehicle Ownership



Sources: Central Sacramento Employee Housing Survey, 2017; BAE, 2017.

Recognizing ongoing trends regarding vehicle sharing and autonomous vehicles, the survey also asked respondents about their willingness to forego vehicle ownership within the next five years, if adequate transportation options became available, such as walking, biking, public transit, and ride-sharing, among other possible options. Among existing Central City residents who plan to remain in the Central City, 56.8 percent indicated that they would be willing to forego vehicle ownership, citing walkability and bikeability as the primary reasons, as well as the ability to cut travel costs and access to public transit. For the Central City residents who are not willing to go without a personal vehicle, frequent travel outside the area and the “joy of driving and freedom it provides” were cited as the main reasons. For non-Central City residents interested in relocation, only 38.0 percent said they would be willing to go without a personal vehicle, which is considerably lower than for existing Central City residents. This

reflects a trend that property managers also highlighted, whereby people newly relocating into the Central City seem less willing to forego vehicle ownership and are more concerned about the availability of secure parking compared to residents who have lived in the Central City for some time. The common explanation was that, over time, Central City residents learn to navigate by walking, biking, and using transit, and rely less heavily on their vehicles.

Micro Apartment Unit Demand

At the request of CADA, BAE also evaluated the survey results for information that might indicate the presence, or lack thereof, of demand for micro apartment units, which are typically defined as being 350 square feet in size or less, though definitions vary. Among all survey respondents only 22 (0.6 percent) indicated that they currently live in a micro unit. Among all survey respondents, micro units were typically listed as the least desirable housing type. A total of 107 respondents listed micro units among their top three choices for housing types in the Central City, which represents around 2.5 percent of all non-resident respondents who indicated that they are interested in living in the Central City. The survey results reflect this general pattern, even when filtered to include different types of workers and their households, who theory would suggest might be more interested in micro units, such as smaller one- and two-person households, low-income households, retail and service worker households, and younger (i.e., 18-30 years of age) households. For these respondent worker households, the proportion of respondents who identified micro units as one of their top three choices ranged from roughly two to five percent.

While micro units were consistently identified as the least desirable housing type, roughly four to five percent of respondents in the above categories identified micro-units as their second preferred housing type, after a more typical apartment unit. This highlights a unique feature of micro units as a housing option for households. Households typically strive to maximize the utility received from their chosen housing. Most would prefer a large lot, high square footage, detached single-family housing unit, if money were no object and there was sufficient availability. That said, budget constraints and a lack of available units narrows the choices available to any given household at any given point in time. The survey question, as it was phrased on the questionnaire, asked what type of housing the respondent would prefer. The responses, therefore reflect a hierarchy of preference that consistently ranged from single-family homes, to condominiums, townhomes, duplexes, apartments, and micro units, in that order. This shows a general preference for ownership opportunities and larger unit sizes, where possible. Actual consumer behavior may differ significantly from stated preferences, as noted earlier, due to budget constraints and housing availability.

To evaluate revealed preferences for micro units, BAE filtered the survey results to identify only those respondents who indicated that they currently live in a micro unit. In total, there were 14 survey respondents who indicated that they live in an apartment unit that is 350 square feet in size or less. These respondents primarily work in professional and administrative occupations, with 43 percent working in the private sector. The median age of these

respondents was 38.5 years, with more than 75 percent living alone. The median household income for these respondents was \$42,150, with an average rent of \$804 per month. In addition, there were five respondents who specifically commented in open-ended responses that they would like to see more micro units developed within the Central City. Two of these comments specifically mention a desire to see income restricted micro units.

PUBLIC USE MICRODATA SAMPLE ANALYSIS

As a supplement to the information collected as background for the Sacramento Downtown Specific Plan and the Central City Employee Housing Survey, BAE also collected information on the household characteristics of Central City workers who also live in the Central City. This was done by leveraging a special data product published by the U.S. Census Bureau known as the Public Use Microdata Sample (PUMS). The PUMS data set reports untabulated records pertaining to individual people and housing units collected as part of the American Community Survey (ACS). The Census Bureau produces the PUMS to facilitate the creation of custom tabulations that are not available through the pre-tabulated ACS data products. Confidentiality of survey respondents is protected by the Census Bureau in a variety of ways, ensuring that data users cannot identify individuals based on published data. For example, the PUMS records contain no names, addresses, or other personally identifiable information, and PUMS data are not reported for small areas, like Census Blocks, Block Groups, or Census Tracts, where the detailed data may make it possible to identify specific individuals or households.

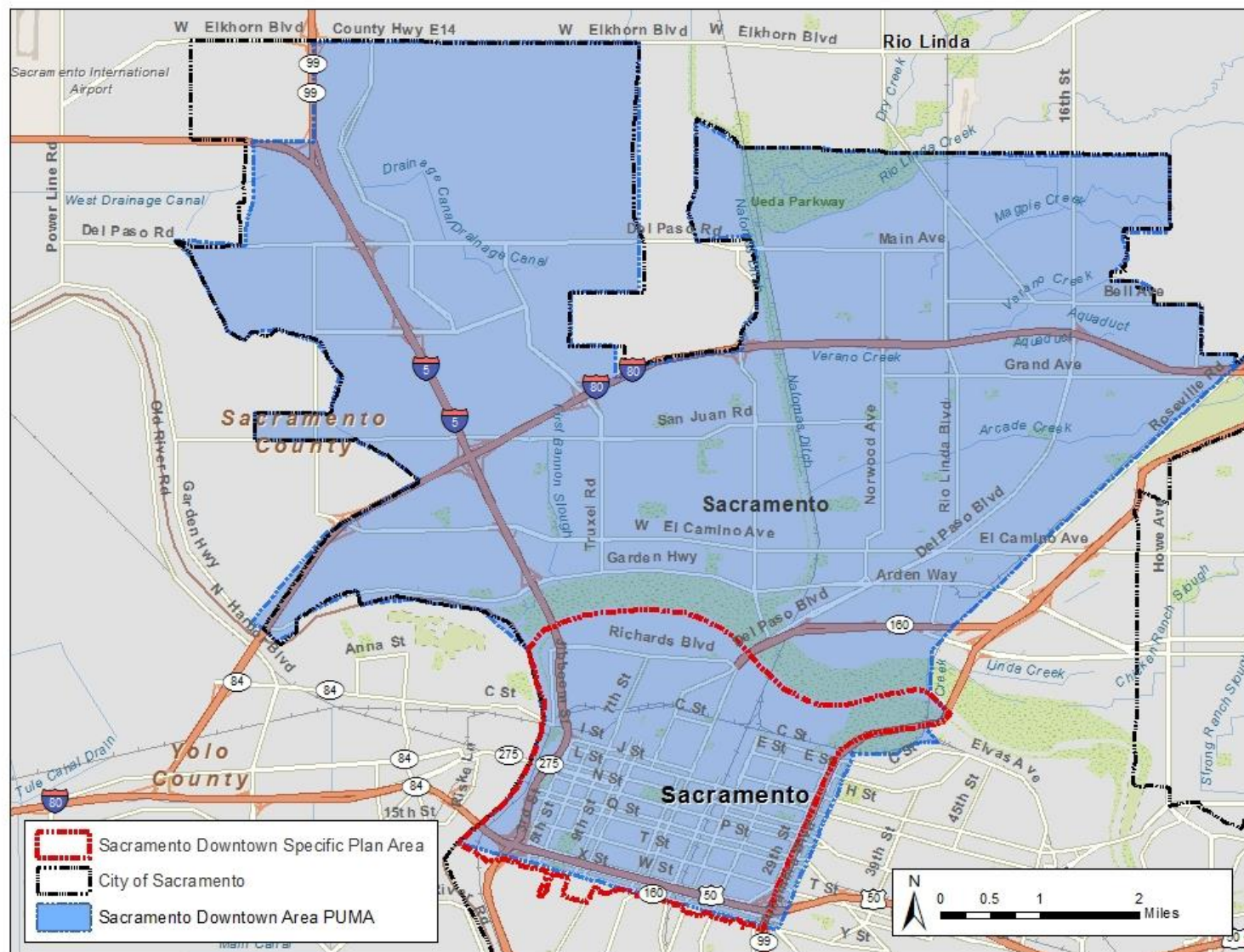
Study Areas and Data Issues

Records associated with the PUMS data set can be downloaded covering one-year and five-year periods, depending on the geographic area under analysis. The data are made available using unique geographic units known as Public Use Microdata Areas (PUMAs). For data collected prior to 2012, the PUMS data set uses PUMAs defined based on aggregations of Census 2000 Tract boundaries intended to include at least 100,000 residents, which were defined by the Census Bureau without local consultation. Prior to establishing the 2010 PUMA definitions, which came into effect as of 2012, the Census Bureau consulted with local government entities, like SACOG, to ensure that PUMA boundaries are logically defined, based on prevailing geographic, political, and demographic divisions. As illustrated in Figure 25, the 2000 PUMA that contains the Central City area, also contains large portions of Natomas, between Business 80 to Interstate 5. By comparison, the 2010 PUMA shown in Figure 26 includes everything north of Fruitridge, between Highway 99 and Interstate 5, as well as all of East Sacramento out to Watt Avenue, and portions of the Arden Arcade area between Howe Avenue and Business 80, and south of Fair Oaks Boulevard. These changing definitions mean that the most recent available PUMS data, which are a derivative of the 2011-2015 ACS, represent a blend of data collected from these two areas. Therefore, the results of this PUMS data analysis should be interpreted with caution.

Profile of the Resident Workforce

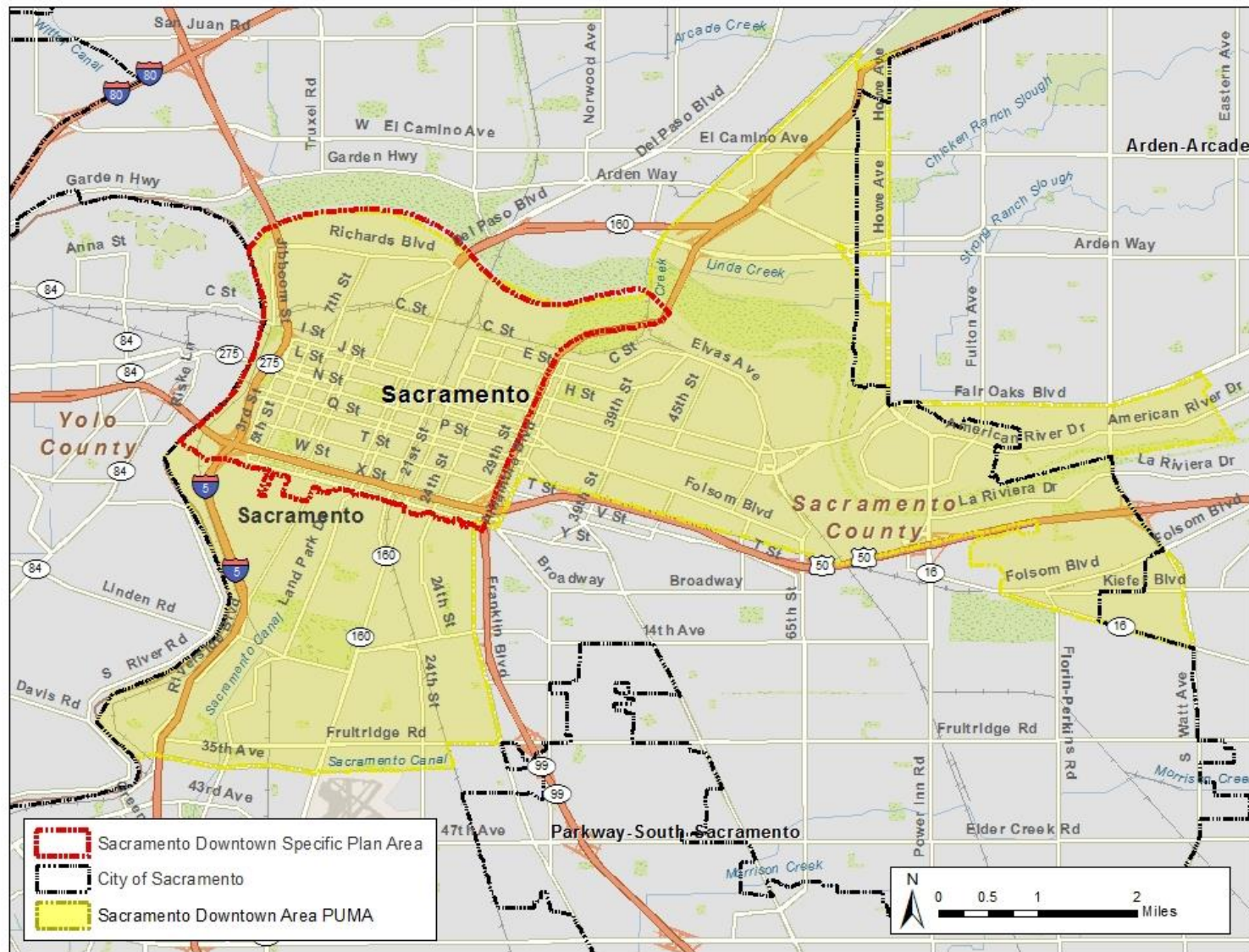
The following is a brief summary of the results of the PUMS data analysis. Due to the complexity associated with developing cross tabulations, plus the inherent shortcomings of the data set itself (i.e., large geographic units that changed over time), the following analysis focuses on a small number of key data points, including age, household composition, income, housing cost burdens, overcrowding, and commute mode, among others.

Figure 25: 2000 Public Use Microdata Area Definition



Sources: City of Sacramento, 2016; ESA, 2016; U.S. Census Bureau, 2016; BAE, 2017.

Figure 26: 2010 Public Use Microdata Area Definition



Sources: City of Sacramento, 2016; ESA, 2016; U.S. Census Bureau, 2016; BAE, 2017.

Age and Household Composition

Based on the available PUMS data, recognizing the caveats discussed above, Central City workers who also work in the Central City are older than the many other Central City residents, with a median age of 36 years, compared to 33 years. These individuals are also significantly more likely to live in family households, with 36 percent living in married family households and 25 percent including children under the age of 18.

Table 2: Working Residents by Age, 2011-2015

Age	2011-2015	
	Count	Percent
Less than 18	81	1.1%
18 to 24	1,071	14.0%
25 to 34	2,430	31.7%
35 to 44	1,582	20.7%
45 to 54	1,059	13.8%
55 to 64	1,055	13.8%
65 or Older	378	4.9%
Total, All Resident Workers	7,656	100%
Median Age	36	

Sources: U.S. Census Bureau, 2011-2015 Public Use Microdata Sample, 2017; BAE, 2017

Table 3: Working Residents by Household Type, 2011-2015

Household Type	2011-2015		
	Count	Percent of Total	Percent of Valid
Married-couple family household	2,775	36.2%	36.8%
Family HH, Male HHer, no wife present	447	5.8%	5.9%
Family HH, Female HHer, no husband present	595	7.8%	7.9%
Non-family, male HHer living alone	1,174	15.3%	15.6%
Non-family, male HHer not living alone	757	9.9%	10.0%
Non-family female HHer living alone	1,094	14.3%	14.5%
Non-family female HHer not living alone	697	9.1%	9.2%
Data not available	115	1.5%	n.a.
Total, All Households	7,656	100%	100%

Sources: U.S. Census Bureau, 2011-2015 Public Use Microdata Sample, 2017; BAE, 2017

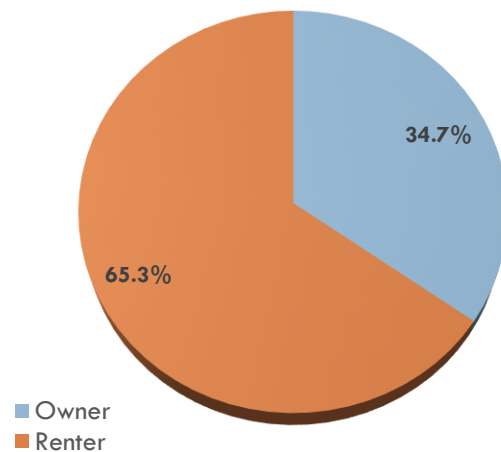
Table 4: Working Residents by Presence of Children in Household, 2011-2015

Presence of Children (Under 18 Years of Age)	2011-2015		
	Count	Percent of Total	Percent of Valid
Households with Children	1,943	25.4%	25.8%
<i>With children under 6 years only</i>	469	6.1%	6.2%
<i>With children 6 to 17 years only</i>	1,062	13.9%	14.1%
<i>With children under 6 years and 6 to 17 years</i>	412	5.4%	5.5%
Households without Children	5,598	73.1%	74.2%
Data not available	115	1.5%	n.a.
Total, All Households	7,656	100%	100%

Sources: U.S. Census Bureau, 2011-2015 Public Use Microdata Sample, 2017; BAE, 2017

Household Tenure

Compared to the average Central City resident, Central City workers who also live in the Central City are much more likely to own their own home, although the ownership rate among this group is still considerably lower than for the City of Sacramento as a whole, or the broader Sacramento MSA. For example, the home ownership rate among resident Central City workers is approximately 34.7 percent, according to the PUMS data, compared to 47.6 percent and 59.6 percent in the City and MSA, respectively, according to the 2010-2014 ACS.

Figure 27: Working Residents by Tenure, 2011-2015

Sources: U.S. Census Bureau, 2011-2015 Public Use Microdata Sample, 2017; BAE, 2017

Table 5: Working Residents by Household Tenure, 2011-2015

Owner/Renter	2011-2015		
	Count	Percent of Total	Percent of Valid
Owner	2,617	34.2%	34.7%
Renter	4,924	64.3%	65.3%
Data not available	115	1.5%	n.a.
Total, All Households	7,656	100%	100%

Sources: U.S. Census Bureau, 2011-2015 Public Use Microdata Sample, 2017; BAE, 2017

Industry of Employment

On average, Central City workers who also live in the Central City have 1.37 workers per household. These workers are generally concentrated in six main industry sectors, which account for 66.8 percent of the total. These include Public Administration (19.0 percent), Professional, Scientific, and Technical Services (12.5 percent), Accommodation and Food Service (10.6 percent), Health Care and Social Assistance (10.0 percent), Education (9.8 percent), and Retail Trade (7.6 percent).

Table 6: Working Residents by Industry of Employment, 2011-2015

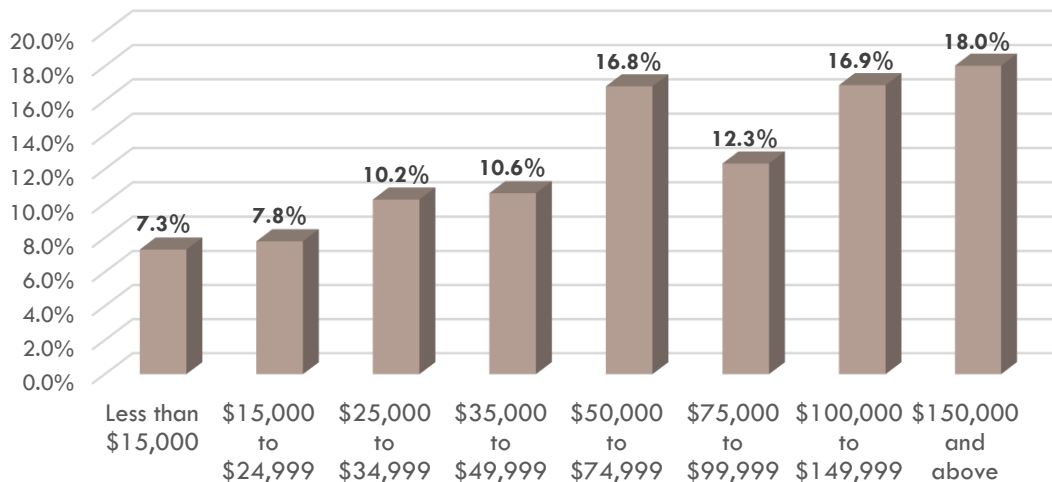
NAICS	Industry Description	2011-2015	
		Count	Percent
11	Agriculture, Forestry, Fishing and Hunting	10	0.1%
21	Mining, Quarrying, and Oil and Gas Extraction	4	0.0%
22	Utilities	37	0.5%
23	Construction	238	3.1%
31-33	Manufacturing	156	2.0%
42	Wholesale Trade	54	0.7%
44-45	Retail Trade	579	7.6%
48-49	Transportation and Warehousing	93	1.2%
51	Information	225	2.9%
52	Finance and Insurance	248	3.2%
53	Real Estate and Rental and Leasing	292	3.8%
54	Professional, Scientific, and Technical Services	960	12.5%
55	Management of Companies and Enterprises	1	0.0%
56	Administrative and Support and Waste Management and Remediation Services	364	4.7%
61	Educational Services	748	9.8%
62	Health Care and Social Assistance	769	10.0%
71	Arts, Entertainment, and Recreation	179	2.3%
72	Accommodation and Food Services	815	10.6%
81	Other Services (except Public Administration)	426	5.6%
92	Public Administration	1,458	19.0%
Total, All Workers		7,656	100%

Sources: U.S. Census Bureau, 2011-2015 Public Use Microdata Sample, 2017; BAE, 2017

Income Distribution

The above average rate of home ownership for Central City workers who also live in the Central City, versus all Central City households, is likely a result of above average household incomes. For example, approximately 64.1 percent of resident Central City workers have household incomes of \$50,000 or more, compared to only 38.8 percent of all Central City residents. Similarly, only 14.9 percent of Central City households earn \$100,000 or more, compared to an estimated 34.9 of resident Central City worker households. This income difference is also reflected in the median household income estimates for each population. According to the 2010-2014 ACS, the median household income in the Central City is \$38,874 per year. By comparison, the PUMS data indicate that the median household income for Central City workers who also reside in the Central City PUMA is approximately \$115,433 per year.

Figure 28: Working Residents by Household Income, 2011-2015



Sources: U.S. Census Bureau, 2011-2015 Public Use Microdata Sample, 2017; BAE, 2017

Table 7: Working Residents by Household Income, 2011-2015

Household Income	2011-2015		
	Count	Percent of Total	Percent of Valid
Less than \$15,000	551	7.2%	7.3%
\$15,000 to \$24,999	588	7.7%	7.8%
\$25,000 to \$34,999	771	10.1%	10.2%
\$35,000 to \$49,999	799	10.4%	10.6%
\$50,000 to \$74,999	1,269	16.6%	16.8%
\$75,000 to \$99,999	929	12.1%	12.3%
\$100,000 to \$149,999	1,274	16.6%	16.9%
\$150,000 and above	1,359	17.8%	18.0%
Data not available	115	1.5%	n.a.
Total, All Households	7,656	100%	100%
Median Household Income	\$70,502		

Sources: U.S. Census Bureau, 2011-2015 Public Use Microdata Sample, 2017; BAE, 2017

Housing Cost Burden

HUD estimates monthly housing cost burdens as a share of a household's monthly income. Households are considered to have an excessive housing cost burden when it exceeds 30 percent of the monthly gross household income. Households are considered to have a severe housing cost burden when monthly housing costs exceed 50 percent of the monthly gross household income. For renter households, housing costs include rental payments, plus utility charges. For owner households, cost burden calculations include mortgage principal, interest, property taxes, and insurance (PITI), but do not include utility charges.

Owner Households

According to the PUMS data, only 19.6 percent of resident worker households who own their homes spend more than 30 percent of income on housing,¹ with only 6.3 percent paying more than 50 percent. This is notably lower than for all Central City residents, where 28.0 percent of owner households pay more than 30 percent of income on housing, while 13.3 percent pay more than 50 percent, according to the 2009-2013 Comprehensive Housing Affordability Strategy (CHAS) data set.

Renter Households

The data indicate that renter households face considerably higher housing cost burdens, which is consistent with broader local and regional trends. The PUMS data indicate that for resident worker households who rent their homes, around 33 percent pay more than 30 percent of income for housing, while 14 percent pay more than 50 percent. By comparison, among all renter households living in the Central City, 40.8 percent pay more than 30 percent of income for housing, while 21.4 percent pay more than 50 percent.

Table 8: Distribution of Worker Households by Tenure and Cost Burden, 2011-2015

	2011-2015		
	Count	Percent of Total	Percent of Valid
Owner Households			
With ≤ 30% Housing Cost Burden	2,104	80.4%	80.4%
With > 30%, but ≤ 50% Housing Cost Burden	349	13.3%	13.3%
With > 50% Housing Cost Burden	164	6.3%	6.3%
Data not available	0	0.0%	n.a.
Subtotal, Owner Households (c)	2,617	100%	100%
Renter Households			
With ≤ 30% Housing Cost Burden	3,189	64.8%	66.4%
With > 30%, but ≤ 50% Housing Cost Burden	940	19.1%	19.6%
With > 50% Housing Cost Burden	671	13.6%	14.0%
Data not available	123	2.5%	n.a.
Subtotal, Renter Households (c)	4,924	100%	100%
All Households			
With ≤ 30% Housing Cost Burden	5,293	69.1%	71.4%
With > 30%, but ≤ 50% Housing Cost Burden	1,289	16.8%	17.4%
With > 50% Housing Cost Burden	835	10.9%	11.3%
Data not available	239	3.1%	n.a.
Total, All Households (c)	7,656	100%	100%

Sources: U.S. Census Bureau, 2011-2015 Public Use Microdata Sample, 2017; BAE, 2017

¹ Excluding those records with information insufficient to calculate a cost burden.

Overcrowding

According to HUD, a housing unit is overcrowded when the number of persons per room exceeds 1.0, and severely overcrowded with more than 1.5 persons per room. Under this definition, “rooms” include living rooms, dining rooms, kitchens, bedrooms, finished recreation rooms, enclosed porches suitable for year-round use, and lodgers’ rooms, while excluding bathrooms, porches, balconies, foyers, halls, or half-rooms.

Table 9: Workers by Persons per Room in Housing Unit, 2011-2015

Persons per Room	2011-2015		
	Count	Percent of Total	Percent of Valid
Less than 0.5 Persons per Room	3,068	40.1%	40.7%
0.5 to 1.0 Persons per Room	3,341	43.6%	44.3%
1.0 to 1.5 Persons per Room	868	11.3%	11.5%
1.5 to 2.0 Persons per Room	149	1.9%	2.0%
2.0 or More Persons per Room	115	1.5%	1.5%
Data not available	115	1.5%	n.a.
Total, All Households	7,656	100%	100%

Sources: U.S. Census Bureau, 2011-2015 Public Use Microdata Sample, 2017; BAE, 2017

Tenure by Year Structure Built

While BAE considered collecting data on household characteristics based on the age of the housing unit that worker households live in, the PUMS data do not provide detail sufficient to discern any meaningful differences between subgroups. Nonetheless, the data do offer a glimpse into the distribution of resident worker households by age of unit and tenure. The data generally indicate that the differences between owners and renters are fairly minimal. However, there is a slight difference in the concentration of renter households in housing units constructed before 1939 and between 1950 and 1989, which combined account for 69.9 percent of renter worker households. By comparison, owner households are more heavily concentrated in units constructed between 1939 and 1969, which account for 76.3 percent of owner worker households. Note, however, that these figures may be influenced somewhat by the inclusion of other areas, such as East Sacramento, in the PUMS study area, though the magnitude of that impact cannot be clearly distinguished.

Table 10: Distribution of Worker Households by Tenure and Cost Burden, 2011-2015

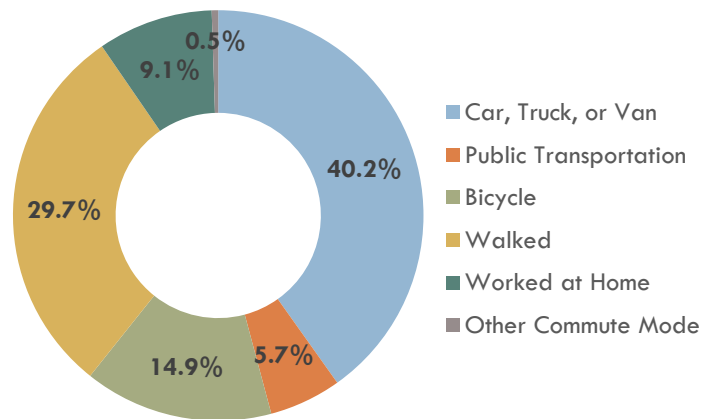
	2011-2015		
	Count	Percent of Total	Percent of Valid
Owner Households			
With ≤ 30% Housing Cost Burden	2,104	80.4%	80.4%
With > 30%, but ≤ 50% Housing Cost Burden	349	13.3%	13.3%
With > 50% Housing Cost Burden	164	6.3%	6.3%
Data not available	0	0.0%	n.a.
Subtotal, Owner Households (c)	2,617	100%	100%
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With > 50% Housing Cost Burden	835	10.9%	11.3%
Data not available	239	3.1%	n.a.
Total, All Households (c)	7,656	100%	100%

Sources: U.S. Census Bureau, 2011-2015 Public Use Microdata Sample, 2017; BAE, 2017

Commute Mode

Lastly, BAE also collected information from the PUMS dataset regarding mode of transportation to work. An estimated 29.7 percent of Central City workers who live in the Central City walk to work, with another 14.9 percent riding a bicycle, and 5.7 percent taking some form of public transit. An estimated 40.2 percent drive private vehicles.

Figure 29: Working Residents by Commute Mode, 2011-2015



Sources: U.S. Census Bureau, 2011-2015 Public Use Microdata Sample, 2017; BAE, 2017

DEVELOPER AND PROPERTY MANAGER INTERVIEWS

In addition to administering the survey and the supplemental PUMS data analysis, BAE also conducted a series of interviews with real estate brokers, property managers and developers, which built upon interviews that BAE previously conducted with representatives of select new Central City development projects as part of the Downtown Specific Plan housing market analysis. BAE staff conducted all interviews, in close consultation with CADA staff, who helped to coordinate some of the meetings. The purpose of these interviews was to refine our understanding of types of households that currently live in the Central City, or that are seeking to live in the Central City, including which demographic groups are not being particularly well-served by the new market rate housing that is being built in the Central City area. The focus of conversations with property managers of older Class B and C apartment properties, versus newly constructed Class A properties, was to develop a better understanding of how their typical tenant profile differs from that of new Central City housing projects, and to explore ways to preserve B/ C housing as a more affordable component of the housing stock.

Newly Constructed Rental Properties (Class A)

For the purposes of this research, BAE spoke with a number of individuals representing newly constructed multifamily projects, including Eviva, Fremont Mews, and Legado de Ravel. BAE also spoke with a representative from FPI Management, which maintains a portfolio of properties throughout the greater Sacramento region. Additionally, this research includes information previously collected from representatives for 16 Powerhouse, the M.A.Y. Building, and LINQ Midtown in East Sacramento as part of the Downtown Specific Plan market analysis.

Rent and Vacancy Overview

Overall, interview participants were very consistent in their characterization of the current Central City rental housing market. All described the market as strong and reported having little difficulty leasing units. While most interview participants maintain a target occupancy rate of 96 to 97 percent, with 95 being the minimum, most reported current occupancy rates of 98 to 99 percent. Participants indicate that rents are quite strong, with robust price appreciation year-over-year. Nonetheless, the property manager at Eviva reported needing to lower rents for one-bedroom units from \$2,140 per month to \$1,950 per month, recognizing that prospective tenants view \$2,000 per month as the limit on what they would be willing to pay for a one-bedroom apartment. Property managers at other better established properties acknowledged similar experiences, but indicate that two- and three-bedroom units are leasing at prices well over \$2,000 per month. Rental rates ranged from \$1,675 to \$2,500 per month for one-bedroom units; \$2,200 to \$2,600 a month for two-bedroom units; and \$2,150 to \$2,450 for three-bedroom units. Rental rates collected in 2016 for the Downtown Specific Plan housing market analysis ranged from \$1,730 to \$2,750 for one-bedroom units, and

\$2,225 to \$4,500 for two-bedroom units. One-bedrooms in the Central City commanded roughly \$100 to \$200 more per month, and two-bedroom units commanded roughly \$800 to \$1,800 more per month compared to units in LINQ Midtown in East Sacramento.

Profile of Tenant Characteristics

Interview participants indicate that residents of newly constructed apartment units tend to be smaller households, with most being single occupants or couples. Most are college educated professionals in their mid-20s to early 40s. Example occupational categories include State Government workers, medical students in residency, technology workers, travel nurses, pilots, military personnel, attorneys, and legal aides, with much smaller numbers of servers and bartenders. Participants indicated that in many of the newer projects, there is a roughly even split between residents who occupy their units full-time, versus those who are there only on a part-time basis. The latter group often includes lobbyists, travel nurses, and other workers who stay in the Central City during the work week or while off duty only. Interview participants indicate that most tenants or prospective tenants are unmarried (as discernable based on application content) and do not have children. Older, so called “empty nester” households are relatively uncommon amongst the properties represented by these interviews, though some did identify a small cohort of older (i.e., age 50 to 60) tenants.

Amenity Preferences

As one interview participant put it, “amenities trump affordability” within this market segment. Likely due to the occupational characteristics described above, prospective tenants at newly constructed apartment projects are less concerned with cost (i.e., are higher wage and can afford rents at current asking rents), so are much more interested in matching their needs with the suite of amenities offered at each property. For all properties, location is a primary amenity. Proximity to dining options and entertainment, as well as employment opportunities and public transportation were all cited as inherent advantages, though none of the individuals interviewed for this research indicate that they are specifically marketing the location of their property. Rather, they indicate that the location is an inherent attribute of the property, which prospective tenants already understand and appreciate. Some of the minimum amenities that tenants are looking for include an in-unit washer and dryer, central heat and air, high quality finishes (e.g., granite counter tops, stainless steel appliances, etc.), gas stoves, walk-in closets, and a pet friendly leasing structure, as well as a fitness center and outdoor space. Property managers indicate that common rooms and business centers are thought to be important, but do not get much use in practice. While properties recognize that this demographic enjoys their pets, none currently offer any pet oriented amenities (e.g., dog wash station, bathroom area, etc.), though two do offer referrals to a pet groomer.

DESIRED AMENITIES

- Washer/Dryer (in-unit)
- Central Heat & Air
- High Quality Finishes
- Walk-in Closets
- Gas Stoves
- Pet Friendly

Parking Preferences

Aside from the portfolio of amenities available at each property, parking availability is among the top concerns of prospective tenants. Many prospective tenants reportedly relocate from other metropolitan areas and expect there will be an additional charge for parking. Most of these prospective tenants will not hesitate to pay extra, since their perspective is that they need a car. In mixed-income projects, residents of the below market rate units typically do not drive. Among the newer properties, there is a general preference for gated or structured parking, though most do not expect to have a dedicated parking space. There is a general recognition that tenants who have lived in the Central City longer tend to be more willing to go without a personal vehicle, though property managers indicated that there is not much interest in car share programs (e.g., Zipcar), due to the easy availability of rideshare programs (e.g., Uber and Lyft). Bicycle parking is an important amenity, though property managers indicated that it may be of more theoretical interest to tenants (i.e., they want to know they have the option), but is not widely utilized at the properties represented by these interviews.

Older Existing Rental Properties (Class B/C)

Recognizing that the majority of existing Central City multifamily housing units are contained in older rental properties, known as Class B and C properties, BAE contacted two property management firms that specialize in older Central City properties to gain a better understanding of how their profile of prospective tenants differs from that of newer Class A properties and how these properties may be preserved as more affordable housing options within the Central City. These included Nielsen Property Management and Raymond Property Management. Both of these companies manage a portfolio of small multifamily complexes and individual single-family and duplex/triplex units throughout the Central City area, but generally represent a set of more engaged property owners who are often more willing than some to commit resources to the upkeep and renovation of their properties. As a result, these companies do not often represent the most affordable of the existing multifamily properties in the Central City, since those are often less well-kept properties managed by less engaged representatives/owners.

Rent and Vacancy Overview

Interview participants indicate very strong demand for existing Class B and C units, with one participant reporting a vacancy rate between 2.0 and 2.5 percent. Lower cost units are in highest demand. Available units with rents below \$1,500 per month tend to lease within eight to ten days, while higher priced units tend to stay on the market between two and three weeks. Current lease rates are around \$750 a month for a studio unit; \$1,300 to \$1,800 a month for a one-bedroom unit, with lower end units going for as low as \$995 per month; and \$1,500 to \$2,000 per month for a two-bedroom unit. Interview participants indicate that rents have increased by 20 to 30 percent over the past two to three years, corresponding to sharp a decrease in vacancy; however, property owners are becoming wary that rapid increases in rent may spawn rent control proposals among the City Council, something they prefer to avoid.

Profile of Tenant Characteristics

Interview participants indicate that the Class B and C market really serves two different market segments, including higher income professional workers, versus the “rent by-necessity” market.

Younger Professionals

The first group overlaps with the Class A market, with higher income professional workers, who value the urban environment, but dislike the modern design of many of the more newly constructed apartment properties. By contrast, they prefer the charm offered by the older rental housing stock, often selecting high quality units in prime locations in portions of Midtown. However, unlike the newer Class A properties, the Class B and C properties receive a higher amount of interest from empty-nester households (e.g., age 50 and over). These households typically favor the more traditional styling and character of the Class B and C housing stock, but higher quality units, with top quality finishes and in-unit amenities, as well as larger square footages. Interview participants indicate that these households are moving into the Central City to be close to urban amenities, but do not want to downgrade their standard of living.

Rent-By-Necessity

The second market segment served by the Class B and C housing stock is households that rent by necessity, since they cannot afford for-sale housing. These households are typically in their 20s to early 30s and choose to live in the Central City for its urban lifestyle, but also to be close to work. By living in a central location, they can limit their need to commute long distances, often foregoing vehicle ownership, or at least frequent usage, in exchange for riding a bicycle or taking public transportation. Due to low wages in the retail and service industries, these households often contain multiple unrelated individuals (i.e., roommates), who all contribute to the monthly rent.

Tenants of older Class B/C units vary, with some tenants attracted to the character and charm of older units, and others attracted by the lower rental rates compared to newer rental units. Tenants tend to be younger professionals and adults in their late 20s to early 30s, many of whom live with roommates. Interview participants indicate that younger adults in their early 20's usually cannot afford the rent, despite these units being more affordable than the newer rental housing stock. Similar to the profile of young adults in newer rental units, tenants of older rental units tend to be employed in traditionally white-collar jobs, however some also work in the service industry as bartenders or servers.

Renovation and Redevelopment

The Class B/C properties represented by the two property management companies interviewed for this research are typically held by long-time owners who maintain a low basis in their properties (i.e., do not carry a mortgage). This provides them with the financial flexibility to invest, as necessary, in maintenance and renovations without necessarily raising rents.

Interview participants indicate that most of the property owners they represent are sensitive to their tenants' price points and value stability over rapid price appreciation. Nonetheless, they recognize that rents are rising rapidly within the Central City, but indicate that most of the price appreciation is occurring among the lower quality Class B and C housing stock. In terms of redevelopment potential, interview participants indicated that most properties can be preserved with basic renovations. Those properties in need of replacement are obvious (e.g., visible deterioration); however, without a robust inspection program at the City, the current market (i.e., robust rent growth and very low vacancy) provides little incentive for at least some less motivated and scrupulous property owners to invest in their buildings. A more robust inspection program would incentivize ongoing maintenance, such that properties would be less likely to reach such a state of disrepair that replacement becomes the only viable option.

Parking Preferences

Similar to tenants in newly constructed properties, parking remains a key concern among Class B and C renters, with tenants often willing to pay a premium for units that include garage space or covered off-street parking. Nonetheless, many properties in the Class B and C housing stock do not offer parking, forcing residents who own cars to park on the street, which is not necessarily seen as a barrier to leasing.

Newly Constructed For-Sale Product

In addition to conducting interviews with property managers, BAE also contacted four representatives for newer, attached and detached for-sale properties in the Central City, as well as in the Broadway Corridor, East Sacramento, and West Sacramento. Including interviews conducted for the Downtown Specific Plan housing market analysis, the following market summary reflects conditions at The Creamery, Tapestry Square, L Street Lofts, 2500 R Street, the Mill at Broadway, McKinley Village, and The Good Project in West Sacramento. These projects reflect a wide variety of product types, ranging from single-family detached units and attached townhomes to higher density condominiums. Reported sale prices for these units range from as little as \$200,000 for the smaller attached units at the Mill, which are designed to be affordable to moderate-income households at current market rates, to luxury condominiums that are listed for sale at prices up to \$1,200,000. Note that the list of projects conspicuously excludes the Residences at the Sawyer, which is a luxury product overlooking the Golden1 Center, with units offered at prices ranging from \$600,000 to more than \$4.0 million. This project was excluded since it caters to a much different market, such as corporate buyers and second homeowners, and is not targeted to meet the needs of worker households.

Profile of Tenant Characteristics

According to interview participants, the for-sale housing offered in and around the Central City currently targets two distinct market segments, including the young professionals discussed above, as well as an older generation of empty nesters.

Younger Professionals

Young professionals, particularly first-time homebuyers of the Millennial generation, are looking for well-designed homes at affordable price points that include amenities such as central heating and air, in-unit washer and dryer, functional storage, quality flooring and countertops, and outdoor space. One interview participant indicated \$400,000 is around the maximum price that Millennial households are able to pay to purchase housing. For example, the Mill at Broadway provides a good example of this kind of affordable-by-design product oriented to meet the needs of younger professional households. While these households may be looking at both rental and for-sale housing options, buyers in this category typically differ from renters in that they have a longer-term outlook on the region (i.e., they plan to stay more than a year or two), while many renter households in this income bracket are unsure whether they will stay in the area, or whether they will move away for personal or professional reasons. Otherwise, these two groups share a considerable amount in terms of overall characteristics. While these younger professional buyers typically do not have children, there seems to be a broad understanding among those in the industry that a large portion of these households will relocate to more suburban locations as they begin to start families. In the meantime, they are willing to accept less than ideal neighborhood conditions (e.g., high costs, small unit sizes, limited parking, petty crime, homelessness, etc.) in order to avail themselves of other Central City amenities (e.g., restaurants and bars, entertainment venues, proximity to employment, etc.).

Empty Nesters and Mid-Career Professionals

Empty-nesters, by comparison, are much more likely to be existing homeowners looking to downsize from their suburban homes, to low-maintenance single-story units offering a full assortment of amenities, such as dedicated parking, in-unit storage, and high-quality finishes and appliances. While this group also generally does not include households with children, most are still looking for larger units of around 1,500 square feet or more, with between two and three bedrooms. Empty-nesters, and some young professionals, are especially attracted to the “lock and leave” convenience attributed to buildings with homeowner’s associations and property managers, who handle maintenance responsibilities on behalf of the owners. Sale price is less of a consideration for empty-nesters, since they use equity from the sale of their previous homes to purchase DSP area units. Interview participants identified relatively strong demand among empty nesters and mid-career professionals for units priced between \$400,000 and \$800,000 per unit, with prices above this appealing more to the luxury market.

UNMET HOUSING DEMAND PROJECTIONS

This section presents estimates of potential housing demand originating from existing Central City worker households who do not currently live in the Central City, but would be interested in relocating, if appropriate and affordable housing options were made available.

Worker Household Relocation Potential

As reported in Table 11, BAE estimates that approximately 11,700 worker households may be interested in relocating into the Central City, if appropriate and affordable housing options were made available.

Baseline Jobs Estimates

This estimate is based on the total number of jobs located in the Central City, as estimated by SACOG for use in their transportation model. These numbers are preferred, due to known issues with the Quarterly Census of Employment and Wages (QCEW), published by the Employment Development Department (EDD) related to misallocation of State Government employment to the Central City, when in fact certain jobs are located elsewhere in California. The SACOG jobs numbers are more heavily vetted and therefore represent a more reliable starting point.

Adjustments and Conversions

The first adjustment to the data is intended to reduce the number of jobs to represent only those workers who commute into the Central City for work, based on SACOG's estimated in-commuter rate of 93.6 percent. The second adjustment further reduces the number of workers based on the proportion of Central City Employee Housing Survey respondents who indicated that they are interested in relocating into the Central City, at 66.2 percent.

The number of workers is then reduced even further, recognizing that of those workers who express interest in relocating to the Central City, only a portion will actually do so. BAE did this by examining the housing preferences of survey respondents who expressed interest in relocation, taking the percentage of those who identified something other than single-family detached housing units as their first preference (i.e., townhomes, condominiums, apartments, etc.). This is intended to recognize that those households that are the most likely to relocate are those who already prefer the types of higher density housing available in the Central City.

BAE then converted the estimated number of workers that may be considered likely to relocate into the Central City to households, based on the average number of workers per household among survey respondents who match the housing preference criteria discussed above.

Table 11: Worker Household Relocation Potential

Central City Jobs (2012)(a)	87,600
In-Commuter Rate (2012)(b)	93.6%
In-Commuting Workers	81,994
Percent of In-Commuters Interested in Relocating (c)	66.2%
In-Commuters Open to Relocation	54,280
Percent Likely to Relocate (d)	35.8%
In-Commuters Likely to Relocate	19,432
Ave. Workers Per Household (e)	1.66
Households Likely to Relocate	11,706

Notes:

(a) The number of individuals that work within the Central City, as estimated by the Sacramento Area Council of Governments (SACOG). While this figure is rather dated, the employment estimates are more well vetted compared to the Quarterly Census of Employment and Wages (QCEW) available through the Employment Development Department (EDD).

(b) The percent of workers who commute into the Central City for work, as estimated by SACOG.

(c) The proportion of Central City Employee Housing Survey respondents who indicated that they are interested in relocating to the Central City, if adequate housing opportunities become available.

(d) This figure is based on the proportion of Centrally City Employee Housing Survey respondents who do not currently live in the Central City, but indicated that they would be interested in relocating, who identified something other than a single-family detached housing unit as their first or second preference (i.e., townhome, condominium, apartment, etc.).

(e) The average number of workers per household, based on Central City Employee Housing Survey responses for non-Central City residents who are interested in relocating and who identified something other than a single-family unit as their first or second preference.

Sources: Sacramento Area Council of Governments, 2016; BAE, 2017.

Distribution by Income Category

To provide CADA and the City with some understanding of how shifting housing preferences among Central City workers might translate into new Central City housing demand for specific product types, BAE allocated the number of Central City worker households likely to relocate into the Central City by income category and household size. This was done based on the survey results for respondents who fit previously described housing preference criteria. However, because lower income retail and service workers are likely underrepresented in the Central City Employee Housing Survey response pool, the following breakdown likely underestimates housing demand from lower income households.

As reported in Table 12, BAE estimates that approximately 11,700 households may be expected to relocate into the Central City, if adequate and affordable housing options become available. Of these, 15.8 percent are likely to be lower-income (i.e., with incomes equal to 80 percent or less of the area median income). As noted above, this proportion is likely understated due to the under-representation of retail and service workers in the survey

response pool. By comparison, BAE estimates that 22.1 percent are likely to be moderate income (i.e., 81 to 120 percent of the area median income), while 62.1 percent are likely to be above moderate -income (i.e., more than 120 percent of the area median income).

Table 12: Worker Household Relocation Potential by Income Category

Persons Per Household (b)	Income Category (a)					Total, All Incomes	Percent of Total
	Extremely Low (30% FMI)	Very Low - Income (50% FMI)	Low -Income (80% FMI)	Moderate Income (120% FMI)	Above Moderate Income (>120%)		
1 Person	42	61	312	713	1,481	2,609	22.3%
2 Person	66	92	432	888	2,515	3,993	34.1%
3 Person	15	112	250	499	1,539	2,415	20.6%
4 Person	0	12	315	365	1,081	1,773	15.1%
5+ Person	0	21	120	127	649	916	7.8%
Total, All Sizes	123	299	1,429	2,591	7,264	11,706	100%
Percent of Total	1.1%	2.6%	12.2%	22.1%	62.1%	100%	

Notes:

(a) Based on a comparison between the reported income levels of Central City Employee Survey respondents and the FY2016 HCD income limits for Sacramento County.

(b) Based on the distribution of Central City Employee Survey respondents by household size.

Sources: HCD, 2016; BAE, 2017.

Implications for Housing Demand

Relocation of the households described above may impact housing demand somewhat differently based on a number of factors, such as tenure preferences, ability to afford ownership housing, unit size preferences, and neighborhood preferences. On a simplistic level, CADA and the City may reasonably expect that if all of these households pursue relocation, it would generate demand sufficient to absorb nearly 12,300 housing units.

Distribution of Units by Tenure

The driving factor behind household tenure in the Central City is affordability. As discussed in greater detail in the following section, most ownership housing opportunities are affordable only to larger moderate income and above moderate-income households. Therefore, most lower-income households are categorized into the “rent-by-necessity” market. Since smaller moderate-income households may also struggle to afford home ownership, either due to high sale prices or lack of equity, most are similarly expected to rent their accommodations. Larger moderate-income households, as well as above moderate-income households of all sizes, typically have considerably more choice among housing options, and may either chose to rent or purchase housing, as best suits their needs.

Table 13 reports the preferred tenure of Central City Employee Survey respondents who would be interested in relocating and have unit type preferences that include higher density housing (i.e., townhomes, condominiums, apartments, etc., versus single-family detached housing).

Based on these stated preferences, 55 percent of lower-income households would prefer to rent housing in the Central City, compared to 45 percent who would prefer to purchase housing. As noted above, these households may struggle to locate affordable ownership housing opportunities. Interestingly 61 percent of moderate income respondents indicated that they would prefer to rent versus purchase housing in the Central City, while only 33 percent of above moderate-income households would choose to rent their accommodations.

Table 13: Preferred Tenure by Income Category

Preferred Tenure	Lower-Income (80% HAMFI)		Median Income (100% HAMFI)		Moderate Income (120% HAMFI)		Above Moderate Income (>120% HAMFI)	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Rent	35	55%	43	61%	44	57%	93	33%
Own	21	45%	28	39%	33	43%	191	67%
Total	56	100%	71	100%	77	100%	284	100%

Note:

(a) Figures are based on the proportion of Centrally City Employee Housing Survey respondents who do not currently live in the Central City, but indicated that they would be interested in relocating, who identified something other than a single-family detached housing unit as their first or second preference (i.e., townhome, condominium, apartment, etc.).

Sources: BAE, 2017.

Distribution of Units by Size

Similar to the dynamics driving tenure characteristics, there is a cost incentive for lower-income households not to over-consume housing (i.e., occupy units that are larger than they need), thus most lower-income households are assumed to occupy the smallest that would adequately meet their needs. Nonetheless, there may be some instances where households are unable to locate adequate housing and are forced to occupy units that are larger than they might prefer due simply to lack of alternative options. Often the standard in these instances is an assumption of one person per bedroom, though the ratio can vary considerably based on the unique circumstances and preferences of individual households. Moderate- and above moderate-income households, on the other hand, are much more likely occupy units that exceed the one person per bedroom standard. This is due to the greater discretionary spending power that these households possess and desire for more space.

Table 14 reports the preferred number of bedrooms of Central City Employee Survey respondents who would be interested in relocating and have unit type preferences that include higher density housing. Based on these stated preferences, most of these households would prefer two-bedroom units, regardless of household income. Only around seven percent of lower-income households would prefer studio units, while 23 percent prefer one-bedrooms and 53 percent prefer two bedrooms. Among moderate- and above moderate-income households, the preference is clearly for one- and two-bedroom units, with the proportion that prefer one-bedroom units falling below 30 percent.

Table 14: Preferred Unit Size by Income Category

Number of Bedrooms (b)	Lower-Income (80% HAMFI)		Median Income (100% HAMFI)		Moderate Income (120% HAMFI)		Above Moderate Income (>120% HAMFI)	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Studio	4	7%	1	1%	1	1%	6	2%
1	13	23%	19	27%	12	16%	18	6%
2	30	53%	41	58%	52	68%	146	52%
3	9	16%	7	10%	11	14%	101	36%
4	1	2%	3	4%	1	1%	11	4%
5 or more	0	0%	0	0%	0	0%	0	0%
Total, All	57	100%	71	100%	77	100%	282	100%

Note:

(a) Figures are based on the proportion of Centrally City Employee Housing Survey respondents who do not currently live in the Central City, but indicated that they would be interested in relocating, who identified something other than a single-family detached housing unit as their first or second preference (i.e., townhome, condominium, apartment, etc.).

Sources: BAE, 2017.

AFFORDABILITY OF PIPELINE PROJECTS

To better understand how the current pipeline of planned and proposed development projects will meet the needs of worker households, BAE conducted interviews with project representatives to identify their anticipated rent levels and sale price targets. For projects that include below-market rate units, BAE identified the targeted household income levels. Where housing projects do not include below-market rate units, BAE estimated the targeted income levels based on anticipated unit characteristics and proposed market rate rents or sale prices.

Review of Planned and Proposed Projects

As reported in Table 15, BAE identified five planned projects and eight currently proposed projects, as well as 25 projects that are approved but not yet constructed, and nine projects that are currently under development. These projects provide a total of 12,848 new housing units, assuming these projects build out as planned. This is notably more housing that would be necessary to accommodate all 11,706 worker households that may likely consider relocation into the Central City. Nonetheless, some of these units will be occupied by other households, such as those that work elsewhere but wish to live in the Central City as a lifestyle preference, as well worker households that relocate into the area to take advantage of new employment opportunities (the unmet demand analysis is based on existing employment).

Based on a comparison between anticipated pricing and the estimated rental rates and for-sale housing prices that are affordable to households at each income level, there are 931 units (7.2 percent) that would be affordable to lower-income households. These units are being constructed with affordable housing subsidies, which means that they will be regulated to insure their long-term affordability. Only 26 units (0.2 percent) in the pipeline are anticipated to be affordable to moderate-income households. These units are unregulated and are expected to be affordable at the moderate-income level due to the small size of the units, and are known as being “affordable-by-design.” By comparison, there are 3,871 units (30.1 percent) unregulated units, priced market rates, that are confirmed as affordable at above moderate-incomes, along with another 8,020 units (62.4 percent) with no confirmed pricing. Developer interviews indicate that most of the projects that do not have publicly available pricing schedules are expected to be unregulated and priced at market rates, which in most cases will be affordable at the above moderate-income level.

Comparison between anticipated pricing levels of planned and proposed projects and the unmet worker housing demand estimates discussed in the previous section indicates a likely under supply of housing units that are affordable to low-income and moderate-income households. To adequately address the unmet demand, the Central City would need to add roughly 920 additional housing units priced to be affordable to lower-income households and more than 2,500 housing units priced to be affordable to moderate-income households.

Table 15: Planned and Proposed Residential Development Projects, Central City (Page 1 of 3)

Project	Target Income Level					Target Income Unknown	Total All Income Levels
	Extremely Low -Income < 30% AMI	Very Low -Income 30%-50% AMI	Low -Income 50%-80% AMI	Moderate-Income 80%-120% AMI	Above Moderate-Income > 120% AMI		
Proposed Projects							
1915 S Street	0	0	0	0	0	3	3
2026 I Street Apartments	0	0	0	0	0	9	9
23rd and K	0	0	0	0	0	9	9
301 Capitol Mall (a)	0	0	0	0	0	100	100
The Cresleigh Building	0	0	0	0	78	0	78
Subtotal	0	0	0	0	78	121	199
Application Received							
14th and N	0	0	0	0	78	0	78
1900 3rd Street	0	0	0	0	0	40	40
21st and U Street	0	0	0	0	0	15	15
Creamery 5	0	0	0	0	0	5	5
Power House Alley Lofts	0	0	0	0	0	5	5
Railyards (Phase I and Future Phases) (c)	0	277	83	TBD	TBD	5,640	6,000
S Street Housing (b)	0	0	64	0	96	0	160
Twin Rivers Redevelopment (d)	218	64	65	0	152	0	499
Subtotal	218	341	212	0	326	5,705	6,802
Approved Project Not Constructed							
1500 S St Mixed Use (The Parker)	0	0	0	0	76	0	76
15Q Mixed Use	0	0	0	0	73	0	73
19J (e)	0	0	26	26	121	0	173
20th Street Apartments	0	0	0	0	5	0	5
2205 27th Street	0	0	0	0	0	34	34
2301 K Street Mixed Use	0	0	0	0	8	0	8
5th and S Townhomes	0	0	0	0	0	5	5
800 K Street	3	27	0	0	118	0	148

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Sources: City of Sacramento, 2016; SHRA, 2017; Downtown Sacramento Partnership, 2016; Project Representative Interviews, 2017; BAE, 2017.

Table 15: Planned and Proposed Residential Development Projects, Central City (Page 2 of 3)

Project	Target Income Level					Target Income Unknown	Total All Income Levels
	Extremely Low -Income < 30% AMI	Very Low -Income 30%-50% AMI	Low -Income 50%-80% AMI	Moderate-Income 80%-120% AMI	Above Moderate-Income > 120% AMI		
Approved Project Not Constructed (Continued)							
Aura Condos	0	0	0	0	283	0	283
Belvue	5	16	0	0	1	0	22
Broadway Redux	0	0	0	0	9	0	9
Brownstones at 15th and T	0	0	0	0	4	0	4
C Street Lofts	0	0	0	0	4	0	4
Cathedral Square	0	0	0	0	233	0	233
Clarion/Mansion Flats	0	0	0	0	50	0	50
Fast Feet Lofts	0	0	0	0	4	0	4
Mansion Flats Modern	0	0	0	0	8	0	8
Metropolitan	0	0	0	0	190	0	190
Press Building	0	0	0	0	253	0	253
Remaining Township 9 (f)	n.a.	n.a.	n.a.	n.a.	n.a.	2,129	2,129
Sacramento Commons (g)	0	0	0	0	1,470	0	1,470
Tomato Alley TM	0	0	0	0	4	0	4
Urbane 30	0	0	0	0	7	0	7
Winn Park Lofts	0	0	0	0	16	0	16
Yamane	0	0	0	0	134	0	134
Subtotal	8	43	26	26	3,071	2,168	5,342
Approved Projects Under Construction							
1024 R Street (New Helvetia Theater)	0	0	0	0	0	26	26
19th and Q Mixed Use	0	0	0	0	72	0	72
20th Street Townhomes	0	0	0	0	32	0	32
700 Block Project	0	0	83	0	54	0	137
California Brownstones	0	0	0	0	12	0	12
F Street Housing	0	0	0	0	6	0	6
Ice Blocks 2	0	0	0	0	148	0	148

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Sources: City of Sacramento, 2016; SHRA, 2017; Downtown Sacramento Partnership, 2016; Project Representative Interviews, 2017; BAE, 2017.

Table 15: Planned and Proposed Residential Development Projects, Central City (Page 3 of 3)

Project	Target Income Level					Target Income Unknown	Total All Income Levels
	Extremely Low -Income < 30% AMI	Very Low -Income 30%-50% AMI	Low -Income 50%-80% AMI	Moderate-Income 80%-120% AMI	Above Moderate-Income > 120% AMI		
Approved Projects Under Construction (Continued)							
Manor Flats	0	0	0	0	27	0	27
Residences at the Sawyer Hotel	0	0	0	0	45	0	45
Subtotal	0	0	83	0	396	26	505
Total Units	226	384	321	26	3,871	8,020	12,848
Percent of Total	1.8%	3.0%	2.5%	0.2%	30.1%	62.4%	100%

Notes:

- (a) Site of the project formerly known as the Towers on Capitol Mall.
- (b) CADA indicates that at least some market rate units will be affordable to moderate-income households.
- (c) City staff indicate the Railyard will likely generate 6,000 new housing units, although up to 10,000 housing units are permitted. The number of very low - low -income units and represents the proportional distribution of anticipated affordable units at a 6,000 total housing unit build-out scenario, per the Mixed-Income Strategy.
- (d) Redevelopment of an existing 218-unit SHRA property into a 499-unit mixed-income community with 347 rent restricted housing units, including 218 replacement units.
- (e) Income levels based on a preliminary price sheet. Developer is targeting single and two-person households making between \$30-50K per year at market rates.
- (f) Phase I of project proposes 436 multifamily apartments, which includes 24 live/work units. Phase II details are TBD.
- (g) Price sheet not yet publicly available. Project representative indicates certain studios and 1-bedroom units will be priced to the high end of the moderate-income bracket, while most units will be priced above moderate. No units will be deed restricted.

Sources: City of Sacramento, 2017; SHRA, 2017; Downtown Sacramento Partnership, 2017; Project Representative Interviews, 2017; BAE, 2017.

CONCLUSIONS AND RECOMMENDATIONS

The following discusses the implications of the identified mismatch between the housing needs/preferences of worker households and the current pipeline of planned and proposed development projects. The section then concludes with some recommendations for how CADA and the City can plan to better meet the needs of worker households while simultaneously repositioning the Central City to experience more sustainable long-term housing growth.

The Worker Housing Supply Mismatch

As noted in the prior section, the primary conclusion of this research is that the current pipeline of residential development projects is positioned to undersupply housing affordable to moderate-income and low-income worker households by a significant margin. Also, please note that the worker housing demand estimates likely underestimate worker housing demand coming from lower-income retail and service workers, such that the magnitude of the anticipated undersupply is likely even larger than currently estimated (i.e., 920 additional low-income units and more than 2,500 moderate-income units). In addition to the identified mismatch in terms of household affordability, the existing planned and proposed projects pipeline also likely represents an undersupply of ownership housing opportunities.

Recognizing that most non-resident Central City workforce own their own homes, the lack of affordable homeownership opportunities in the Central City is likely to function as a deterrent for higher wealth households that value opportunities to build equity.

Note also that the comparison between worker housing demand and the new project pipeline fails to account for a number of important factors. First, the Central City experiences demand from a variety of market segments beyond those who work in the area, including retirees and other households who value the amenities provided by the dense urban environment. Thus, there is likely additional demand beyond that generated by worker households. Second, the nature of the housing stock varies considerably by neighborhood, with some areas offering a larger supply of more affordable housing (e.g., Midtown) and some areas offering fewer housing opportunities (e.g., Downtown). According to a housing inventory maintained by the Downtown Sacramento Partnership, the housing stock in the Central Business District (CBD) is primarily income restricted, reflecting a shortage of market rate housing. Therefore, the development of higher-income housing in areas like the CBD represents an important market correction, which will help create a more vibrant and balanced neighborhood and to provide important housing opportunities for area workers and non-workers alike.

Recommendations for Possible Policy Action

These findings present a number of important implications for local housing policy for CADA, the City of Sacramento, and other partner organizations, though the housing goals of each organization vary considerably. For example, CADA's interest in housing originates from its role as manager of State owned properties, with one-quarter of all CADA developed housing

required to be set aside for occupancy by low- and very low-income households. The City's interest originates with the General Plan Housing Element and the Regional Housing Needs Allocation (RHNA), as well as former Mayor Johnson's Downtown Housing Initiative. In addition, the City is also interested in improving the jobs-housing balance in the Central City to help lessen broader citywide impacts on traffic and infrastructure. Bringing more housing to the Central City is also strategically viewed by both organizations as a central component of Central City revitalization and economic development efforts. With these interests in mind, BAE presents the following recommendations:

- Work with developers to efficiently redesign projects, as necessary, to align with anticipated market demand and worker housing needs;
- Identify housing types and construction methods that can produce units at affordable price points (e.g., 19J, The Mill at Broadway, etc.);
- Incentivize and/or facilitate development of rental housing affordable to households with incomes that are at or below 120 percent of AMI;
- Incentivize and/or facilitate development of for-sale housing options;
- Intensify the City's residential code enforcement efforts to identify and remediate problem rental properties and improve the quality of the housing stock;
- Identify opportunities to acquire existing class B/C rental properties to be incorporated into the affordable housing program to preserve the existing lower cost housing stock.