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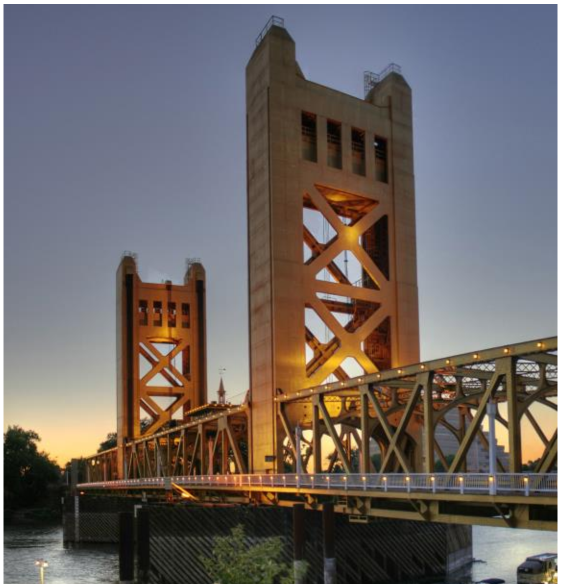
Sacramento Downtown Specific Plan

Housing Market Analysis, Phase I and Phase II

November 2016



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November 29, 2016

Greg Sandlund, Senior Planner
City of Sacramento
300 Richards Boulevard, 3rd Floor
Sacramento, CA 95811

Daniel Dameron, Community Development Director
Harriet Ross, Community Planning Program Manager
Environmental Systems Associates
2600 Capital Avenue, Suite 200
Sacramento, CA 95816

Dear Greg, Dan, and Harriet,

Enclosed please find the final housing market analysis for the Sacramento Downtown Specific Plan, including both the Phase I and II work products. We have combined the Phase I and Phase II analysis into a single, stand-alone report format. As always, it was a pleasure working with the City of Sacramento and ESA on this important project.

Sincerely,

Matt Kowta

Matt Kowta, MCP
Managing Principal

Aaron Nousaine

Aaron Nousaine, MCRP
Vice President

San Francisco
2600 10th St., Suite 300
Berkeley, CA 94710
510.547.9380

Sacramento
803 2nd St., Suite A
Davis, CA 95616
530.750.2195

Los Angeles
706 South Hill St., Suite 1200
Los Angeles, CA 90014
213.471.2666

Washington DC
1400 I St. NW, Suite 350
Washington, DC 20005
202.588.8945

New York City
49 West 27th St., Suite 10W
New York, NY 10001
212.683.4486

www.bae1.com

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EXECUTIVE SUMMARY

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

Demographic Characteristics

DSP area demographics have remained stable in many respects, with a shifting age profile being the notable change since 2000. The DSP area population was flat between 2000 and 2010-2014, as was the average household size, at about 1.6 persons per household. Non-family households have comprised 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 DSP area means that it is difficult to gauge the depth of demand to absorb increases in the DSP area housing supply.

While the population within the City as a whole, and within the larger region, is generally aging, the DSP area counters this trend with a current median age that is lower than in the larger comparison areas. The median age also trended downward between 2000 and 2010-2014, while the median ages for the larger areas increased during the same time period. With a relatively stable population count over the time period, the only two age cohorts in the DSP area that saw growth in numbers over the period were 25 to 34 year-olds and 55 to 75 year-olds, while the number of persons in other age groups decreased on an absolute basis. The 25 to 34 age group now represents about one-third of the DSP area total, or more than double the proportion in this age group found in the City as a whole. The DSP area population under the age of 18 declined substantially, to the point that children represent less than ten percent of the total, as of 2010-2014.

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 DSP area will require that developers provide housing at a range of price points. This is compounded by the fact that the DSP area is attracting many single-earner households, meaning that they have less income to afford a large mortgage, as opposed to dual-earner households.

In terms of household characteristics, the DSP area is heavily dominated by renters (about 88 percent of all households). DSP area 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 DSP area still has a disproportionate share of lower income households (53 percent of households at or below the low-income level) compared to the City (46.4 percent of households). As mentioned above, in terms of absolute buying power, the DSP area's lower incomes mean that targeted rental rates and sales prices would ideally be lower than elsewhere in the City. However, these lower price points could at least partially be provided by construction of smaller housing units (i.e., studios and one-bedroom units), given the prevalence of single-person households and other smaller households as compared to the rest of the City and the MSA.

Although still lower than the City and the MSA, inflation-adjusted household incomes in the DSP area 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 DSP area is capturing a disproportionate share of the growth in the number of the region's higher-income households, which has narrowed the gap between incomes in the DSP area and elsewhere in the region. Nevertheless, a large portion of DSP area households is at relatively low income levels, meaning that continuing demand for housing that is relatively affordable can be expected.

The DSP area 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 DSP area households to increase their incomes over time, which may translate to the ability for current DSP area renters to transition to homeownership as their incomes increase; however, it is not clear whether the Millennial generation, which corresponds with DSP area's growing 25 to 34 year-old age cohort, will seek homeownership at the same rates as their parents' generation.

Economic Characteristics

DSP area job growth was much more robust than the MSA in the 2005 to 2010 period, and performed much worse than the MSA between 2010 and 2015. For the 2005 to 2015 period as a whole, DSP area jobs increased ten percent compared to two percent in the MSA as a whole. With about 13 percent of the region's jobs as of 2015, the DSP area is the region's most important job center, and the trend further solidified this during the 10-year period. Government employment continues to represent an exceedingly large portion of the DSP area employment, accounting for almost two out of every three DSP area jobs. Although the data make it appear that Government employment dropped substantially between 2010 and 2015, most of this change is likely due to changes in the way the California Employment Development Department tracks the physical locations of state government jobs, rather than actual changes in the number of government employees working in the DSP area. Nevertheless, there are signs that the DSP area employment base is diversifying to some extent, with sectors such as Construction; Wholesale Trade; Management of Companies and Enterprises, Educational Services; Health Care and Social Assistance; Arts, Entertainment, and Recreation; and Accommodation and Food Services all growing significantly between 2010 and 2015, while Professional and Technical Services grew more modestly.

One sector that declined and which may have relevance for DSP area housing demand is the Retail sector, where the number of DSP area Retail jobs has decreased by about 25 percent since 2005. A smaller retail employment base implies that the amount of retail activity in the DSP area has also declined, which likely translates to reduced shopping opportunities for area residents. Convenient shopping for everyday goods is typically an important consideration for renters and homebuyers who are looking for a residence location. If the DSP area is lacking in retail options, this may pose a constraint to realizing the full potential of the DSP area as a residential location.

DSP area resident occupations, regardless of whether the workplace is in the DSP area or elsewhere, tend to be concentrated in various professional and “white collar” categories, such as Management, Business, and Financial occupations, and Education, Legal, Community Service, Arts, and Media occupations. Resident occupations that tend to be associated with lower education and skill levels and lower wages have tended to decrease over time. This general shift in occupations may be correlated with the general increase in household incomes between 2000 and 2010-2014, which was counter to citywide and regional trends.

The clear majority of DSP area workers (94 percent) commuted in from homes located outside the DSP area in 2012. Among working DSP area residents, only about 36 percent worked in the DSP area. This information, combined with the very large employment base in the DSP area, indicates that housing developers have a substantial opportunity to capture additional housing demand from the DSP area’s existing employment base.

Housing Market Conditions

Within the City and the region, the DSP area has a unique housing mix that is much more heavily skewed to multifamily housing units. Where multifamily units elsewhere in the City and the region tend to be concentrated in structures that contain large numbers of individual housing units, the DSP area’s multifamily units are much more likely to be located in duplex, triplex, fourplex, or smaller multifamily apartment buildings. New housing projects in the DSP area and surrounding neighborhoods are predominantly oriented toward multifamily and attached single-family housing types, indicating a shift toward higher densities.

Housing cost burden information indicates that under current market conditions, the DSP area’s extremely low-, very low-, and low-income households are at risk of displacement, due to an existing prevalence of lower-income households that have excessive or severe housing cost burdens. These lower-income households represent about 53 percent of all DSP area 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 likely able to absorb some increases in housing cost due to increasing rents or increasing homeowner costs, without facing excessive cost burdens. Overcrowding does not appear to be a significant problem in the DSP area at this time, even among lower-income groups.

Home prices in the DSP area tend to be at higher levels, both on a total price basis ($476,250) and on a price per square foot basis ($354 per square foot) as compared to the rest of the City and the MSA. Within the nearby neighborhoods in the City of Sacramento and West Sacramento, DSP area sales prices are only below those of East Sacramento ($498,500 per unit/$372 per square foot), and generally exceed the values in other neighborhoods by a considerable margin. Within Sacramento County, DSP area values are considerably above average, indicating that homebuyers attribute considerable value to a downtown Sacramento location in relation to other more suburban locations within the county. In addition, the DSP area’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 information indicates that buyers in the DSP area 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.

Interviews with project sales representatives and residential real estate brokers indicate that the buyers of units in new DSP area residential projects are primarily single individuals, couples, young professionals, empty-nesters, and retirees. Families with children are noticeably absent from the DSP area buyer profile. Reportedly, DSP area 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.

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 DSP area, the marketplace is only providing new housing units that are affordable to homebuyers with incomes considerably above the moderate-income level. Similarly, only five-person moderate-income households would be able to afford the median 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 DSP area medians 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 in order to secure affordable housing.

As in the for-sale housing market, housing rental rates in the DSP area, as well as in the City and the MSA have increased on a strong upward trend since the Great Recession. The average apartment rental rate for the DSP area has increased 32 percent since 2008, to $1,737 per month, while vacancy rates have dropped to 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 DSP area, rental rates tend to be considerably higher than the DSP area market averages, ranging up to as high as $4.11 per square foot.

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. 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 is empty-nesters who are testing out urban living and choose to rent for a period of time in the DSP area, before committing to purchasing a DSP area 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 DSP area; however, some complexes also noted that they have a portion of tenants who live in the DSP area for the urban environment, and reverse commute to suburban job locations outside the DSP area.

The qualitative information obtained from residential leasing and sales representatives and developers, combined with the quantitative data identifying 25- to 34-year-olds and 55 to

74year-olds as the growing age cohorts within the DSP area, and the prevalence of single-person households all point to demand for smaller high-density housing units, in contrast to the prevalence of single-family home demand in the City and region as a whole.

Comparing affordable housing costs by income level with the market rate average rents in the DSP area indicates that moderate-income households of various sizes can generally afford the average rental rates for housing that would be suitable for their household size. Low-income households at various sizes could not afford market average rents, but some may still find affordable rental units in the lower end of the DSP area market rental rate ranges, for appropriately sized units. Very low- and extremely low-income households will likely face great difficulty in finding affordable market rate rental housing in the DSP area.

Non-Residential Market Conditions

Based on existing commute patterns and tenant profiles shared by managers at recently completed rental and for-sale residential projects, there is an important link between DSP area jobs and housing demand. Current real estate market information indicates that the DSP area remains a key job center within Sacramento and the larger MSA, accounting for approximately 57.4 percent of citywide office inventory, as well as a considerable portion of the region's industrial and retail space. With relatively low vacancy rates, the DSP area's non-residential real estate sector will not be able to accommodate substantial new employment growth without new building development; however, as discussed previously, residential properties in the DSP area are currently capturing housing demand from only a very small portion of the local workforce, and the residential sector has the potential to absorb considerable additional housing demand from the local workforce at its current level, by increasing the proportion of DSP area workers who also live in the area.

Planned and Proposed Residential Projects

In terms of the potential to capture future housing demand in the DSP area, the City of Sacramento currently has a substantial pipeline of approved, planned, and proposed residential projects. In total, this includes potential for development of almost 13,500 new housing units, mostly in mixed-use projects. Most of the projects are planned as market rate developments, although the split between market rate and below-market rate units in large projects such as the Railyards and the remaining units in Township 9, has yet to be determined. There are also a number of higher density residential projects proposed and under construction just outside of the DSP area boundary. While these projects may represent competition for projects located within the DSP area, many are also targeted somewhat down market from the DSP area projects, offering more affordable housing options and many complementary, rather than directly competitive, housing types (e.g., townhomes versus luxury apartments). Also, with considerably fewer units, these projects are much less likely to set the market for housing in urban Sacramento, compared to projects like the Railyards.

As discussed above, approximately 53 percent of existing households in the DSP area are at the low-income level or below, while rental housing at average market rates is only affordable to some low-income households and generally not affordable to very low- and extremely low-income households. For-sale housing at median sales prices is generally only affordable to households above the moderate-income level, which is about 28 percent of DSP area households. Additionally, new rental and new for-sale housing developments tend to be priced significantly above the current market averages. Based on this information, it is likely that there is a mismatch between the cost of new residential units that could be constructed in the DSP area and the rental rates and sales prices that would be affordable to area households at incomes less than the above moderate level, for prospective homebuyers, and incomes at low-income and below for prospective renters. Further, this information indicates that to the extent that any of the existing lower income households are at risk of displacement, there are few new below-market rate housing units identified at this time that would provide relocation opportunities for this population in the event of displacement. There is, however, a mixed income housing strategy currently under development for the Railyards development, in compliance with the City's new mixed income housing ordinance. Given the large number of units associated with that project, a robust mixed income housing strategy could help to mitigate, at least in part, some of the potential displacement pressure.

Baseline Growth Projections

SACOG has relatively robust expectations for residential growth in the DSP area between 2012 and 2036, projecting that the number of residential units will increase at an average rate of 3.7 percent per year for the time period, 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 DSP area, 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 DSP area housing, as discussed below.

Match Between Pipeline Housing Projects and Projected Growth

Comparing SACOG's housing unit growth projections for the DSP area with the currently planned and proposed projects identified within the DSP area indicates that the currently identified residential projects can more than address SACOG's anticipated increase in DSP area housing units through 2020. In addition, if all of the currently approved, planned, and proposed projects were completed by 2036, this would address about 70 percent of SACOG's projected DSP area housing unit growth for the time period. However, additional planning may be necessary to ensure that the DSP area continues to include a wide variety of housing types offering housing opportunities to a variety of household types and across all income levels.

The preceding information indicates that Sacramento, and its downtown housing developers, are well-positioned to meet SACOG's projected long-term housing growth in the DSP area, in terms of the number of housing units; however, further analysis will be necessary to determine whether the specific residential product types being proposed in the DSP area are optimized to meet the demand on the basis of affordability to the range of household income levels that can be expected to seek housing in the DSP area, as well as the types of units and sizes of units that they would desire, based on their household characteristics. For example, given the pricing of most of the recently completed DSP residential projects, whether for-sale or for-rent, it is likely that most currently approved, planned, and proposed projects will be targeted primarily to households at the above moderate-income level, which only represent about 28 percent of all households in the DSP area.

While this assessment has noted a general increase in DSP area household incomes, and a shift in resident occupations to employment in higher paid jobs, this assessment also identified increases in DSP area employment opportunities in relatively low paid jobs, in sectors such as Arts, Entertainment and Recreation, and Accommodations and Food Services which, coincidentally, are likely tied to the types of establishments that provide amenities that help to attract residents to the DSP area. In order to help ensure the availability of a workforce that these local businesses need, the City should work towards ensuring that the housing stock in the DSP area expands to accommodate a full range of household incomes and housing affordability needs.

Peer City Case Studies

To better understand the conditions and trends which contribute to increasing demand for central city housing, BAE conducted five peer city case studies. The five peer cities selected in consultation with City staff for this research include Denver, Colorado; Long Beach, California; Minneapolis, Minnesota; Nashville, Tennessee; and Portland, Oregon. BAE collected information for each case study through a review of pertinent background materials and interviews with key city staff, downtown stakeholders, and other knowledgable local experts. Some of the common themes that surfaced through the case studies include:

- The peer city downtown housing markets emphasize development of smaller studio and one-bedroom multifamily rental units, sized at around 1,000 square feet or less.
- This includes the development of "micro-units" in all five peer cities, which can offer as little as 350 square feet per unit.
- The central city rental offerings in all five peer cities are generally oriented toward the higher-end of the market, providing a stunning array of supplemental amenities ranging from fitness centers, to rooftop decks, and pet grooming services.
- The for-sale market is somewhat dormant in most downtowns, due in part to concerns over liability exposure for construction defects, according to real estate brokers.
- Developers in all five peer cities leverage a robust assortment of cultural, recreational, and entertainment offerings, which contribute to the desirability of central city housing.

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

Housing Demand Projections

The demand projections developed by BAE for the Sacramento DSP 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 DSP area household capture rate (i.e., the proportion of new regional household growth that is being allocated to the central city) to the household and housing unit capture rates identified in the five peer city case studies. BAE then developed three alternative scenarios which represent the range of potential DSP 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 DSP area 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 DSP area 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 DSP area 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.

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

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

Notes:
(a) Based on the historic household capture rate exhibited in the Sacramento Dow ntow n Specific Plan Area betw een the 2000 Census and the 2010-2014 American Community Survey (ACS).
(b) Represents the proportion of regional household grow th captured w ithin the Sacramento Dow ntow n 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; Dow ntow n Sacramento Partnership, 2016; BAE, 2016.

Interpretation of the Capture Scenarios

While the low-end scenario is based on documented historic development trends, within both the DSP area and the region as a whole, the moderate- and high-end scenarios represent significant departures from historic trends. While there is substantial evidence indicating that the DSP area is likely to satisfy a significantly higher proportion of regional housing demand than was achieved over the prior decade, such as the current level of planned and proposed DSP residential development activity combined with the induced effects of increasing the range of DSP housing offerings, there are a number of key conditions that will need to be met in order to achieve the capture rates discussed above.

- The economic fundamentals driving housing demand, both within the DSP area and the broader Sacramento region, must remain sound. Another recession could result in lower regional growth and a lack of feasibility and/or interest in building new housing, particularly costly higher density housing in existing infill areas.

- While the peer city case studies identified a significant shift in demographics and housing preferences as a primary driver of central city housing demand, the depth of the higher density urban infill market has yet to be fully demonstrated in the local area. This represents considerable risk, recognizing that this trend represents a shift from historic trends.

- In order to appeal to a broad spectrum of households and maximize demand capture, developers will need to position new DSP housing development to serve a much broader range of household types and income levels, substantially broadening the appeal beyond the higher-end renter segment that is, broadly speaking, the primary focus of recent DSP area housing development. This will likely need to include additional rental housing options for lower-income households, including both market rate and subsidized options, as well as additional home ownership opportunities at an assortment of different density and affordability levels.

- Residential developments will need to closely coordinate with the City and other central city stakeholders to leverage major public investments, such as the Golden 1 Center, K Street revitalization, R Street redevelopment, Railyards redevelopment, riverfront reinvestment, and other related public and private investments, to further catalyze interest in central city living and the "downtown lifestyle."

- The planning and building approval and permitting capacity of the City of Sacramento will need to be able to accommodate a substantial increase in the volume of new development in the DSP area

- The City will also need to respond effectively to the substantial changes in service demand resulting from a significant increase in the DSP resident population.

Housing Demand by Unit Size and Tenure

In addition to estimating the total number of housing units which may be absorbed within the DSP area under each housing demand capture scenario, BAE developed breakdowns of housing units by unit size, tenure, and household income level. Based on this distribution, BAE anticipates that just under 60 percent of the future housing demand will be for studio and one-bedroom units, with just under 30 percent allocated toward two-bedroom units, and just over 11 percent allocated to housing units with three or more bedrooms. Just over 44 percent of the projected housing demand will come from lower-income households (i.e., those earning 80 percent or less of AMI), with just over 18 percent coming from moderate-income households (i.e., those earning 81 to 120 percent of AMI), and the remaining 38 percent coming from above moderate-income households (i.e., those earning more than 120 percent of AMI). In terms of tenure, as determined based on both anticipated affordability and consumer preference, BAE anticipates that approximately 59 percent of the housing demand will be in the rental market, with the remainder oriented toward the for-sale housing market.

Housing Demand by Density Type

While the housing demand projections do not specify housing preferences in terms of housing density, some inferences are possible based on household income and tenure. In order to promote affordability at the lower income levels, most of the projected rental housing under each scenario is likely to take the form of higher density multifamily apartments. For example, rental units targeted toward lower income households account for approximately 44 percent of the total projected new housing demand through 2026. Rental housing for households in the moderate- and above moderate-income categories, which account for around 15 percent of projected demand, is also likely to take the form of high density multifamily units, although some of this demand may be met through provision of moderate density townhomes and live/work units in locations where lower-density development may be preferable, such as in historic lower density neighborhoods. For higher income households seeking home ownership opportunities, which account for roughly 41 percent of the total projected new housing demand through 2026, preferences may range from high density condominiums through moderate density townhomes and even, in some cases, moderate density small-lot single family housing options, particularly in the Midtown district of the DSP area.

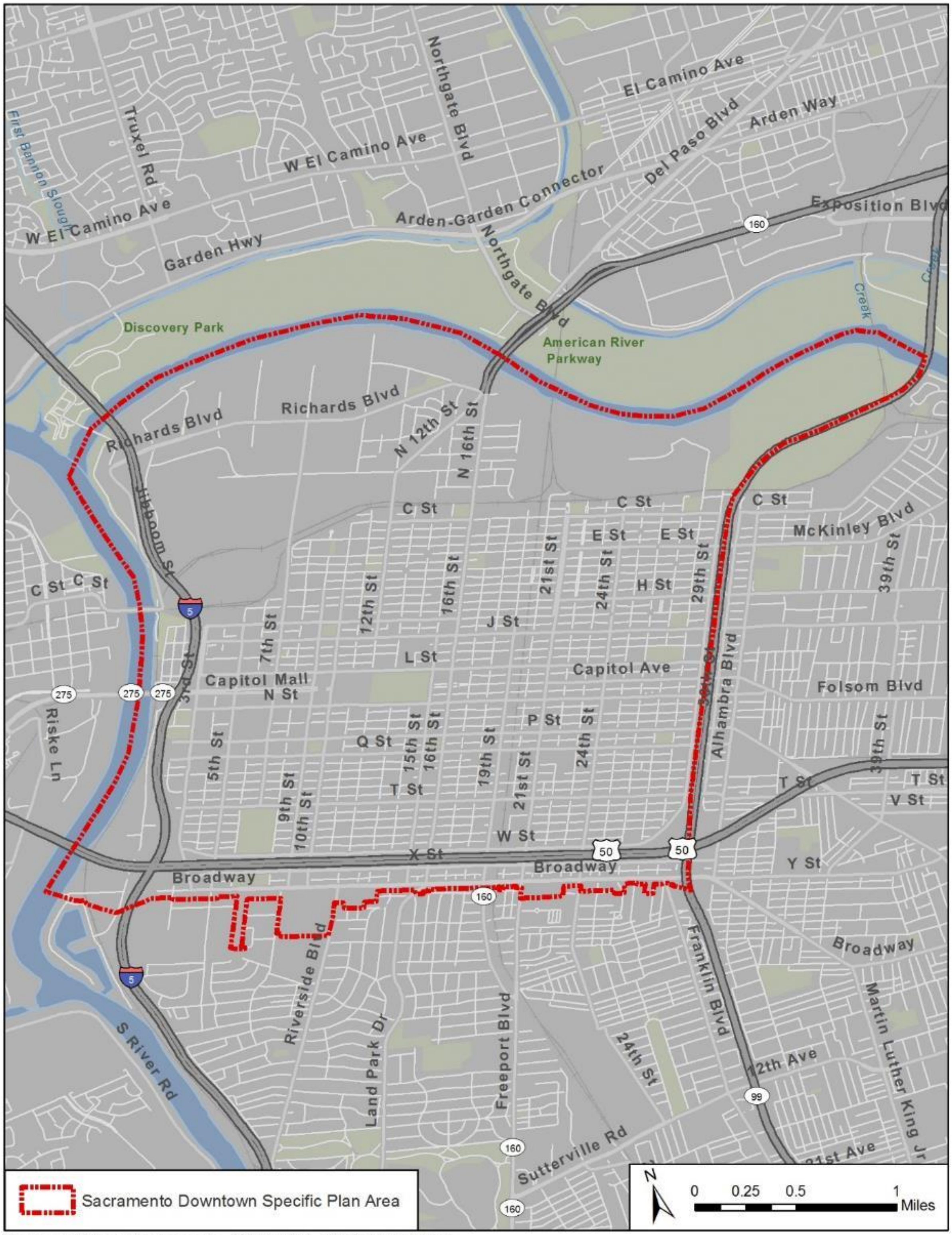
INTRODUCTION

This report presents the results of a comprehensive housing market analysis for the Sacramento Downtown Specific Plan (DSP). The report begins with an overview of the existing demographic and economic trends within the DSP area, including comparisons to the City of Sacramento and the Sacramento-Roseville-Arden Arcade Metropolitan Statistical Area (MSA). The purpose of this analysis is to identify the unique characteristics of the DSP area that have implications for future housing demand. This is followed by a review of existing real estate market conditions, including analysis of data regarding contemporary rental and for-sale housing market trends. While the analysis is focused on the residential market, BAE also reviewed relevant data regarding office, retail, and industrial real estate market trends. The purpose of this analysis is to better understand how conditions and trends within these non-residential markets may impact housing demand within the DSP area. This is followed by a review of the available population, household, housing unit, and employment projections. The report then transitions to discuss the results of case study research conducted regarding the conditions and trends which contribute to increasing demand for housing in the central city areas of five peer cities, including Denver, Colorado; Long Beach, California; Minneapolis, Minnesota; Nashville, Tennessee; and Portland, Oregon. The report then concludes with a review of housing demand projections developed by BAE for the Sacramento DSP area.

DSP Study Area

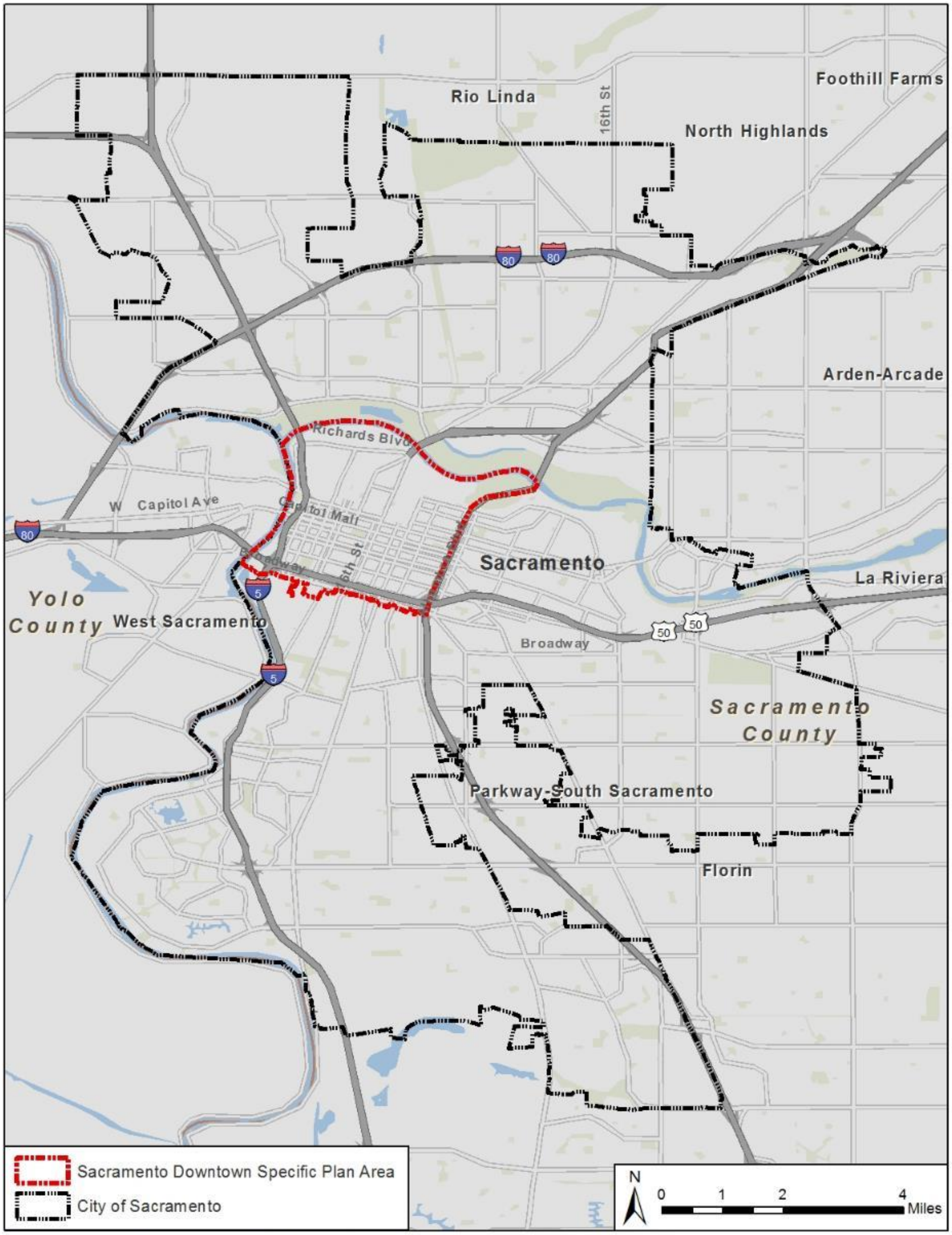
For the purposes of collecting a range of demographic and economic data to support this analysis, BAE defined a study area that approximates the Sacramento DSP area using both current and historic Census-defined geographic units. The geographic area applied in each case is dependent on the type of data, the available geographic resolution, and the time period of interest. The Sacramento DSP Study Area is illustrated in Figure 1, while the two comparison geographies, the City of Sacramento and the Sacramento-Roseville-Arden-Arcade Metropolitan Statistical Area, are illustrated in Figures 2 and 3, respectively. For additional detail regarding each of these study area definitions, please refer to Appendix A.

Figure 1: Sacramento Downtown Specific Plan Area



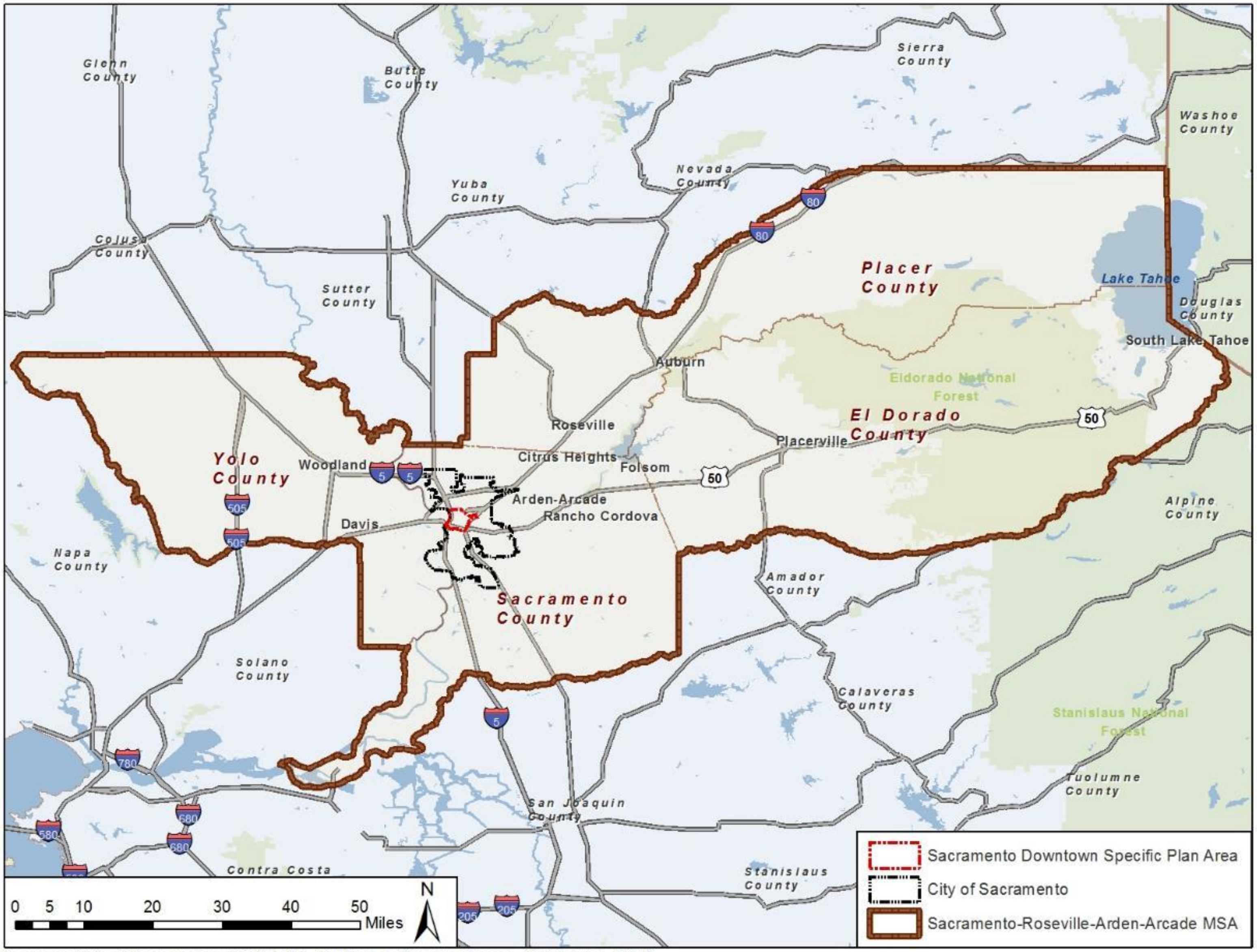
Sources: City of Sacramento, 2016; ESA, 2016; BAE, 2016.

Figure 2: City of Sacramento Comparison Geography



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

Figure 3: Sacramento-Roseville-Arden-Arcade Metropolitan Statistical Area Comparison Geography



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

DEMOGRAPHIC CHARACTERISTICS

This section of the housing market analysis presents a range of demographic data associated with households living in the DSP area and the comparison areas. The goal is to provide a more dynamic understanding the characteristics of the population currently residing within the DSP area, which informs the housing demand projections summarized later in this report.

Population and Household Trends

Following are trend data that illustrate changes in the number and characteristics of DSP area residents and households from the U.S. Census Bureau's 2000 Decennial Census and American Community Survey (ACS) 2010-2014 five-year estimates.[1] Note that due to the nature of the available demographic data, it is not possible to provide a detailed evaluation of conditions within the DSP area immediately before and after the onset of the 2008 global recession. Subsequently, there may be additional pertinent near-term trends that are not clearly identified in the following analysis, though which may impact the viability of future housing development within the DSP area and the Sacramento region more broadly. The Census data presented throughout this section for the DSP area are based on a Census Tract-based study area that approximates the DSP area, but includes some Census Tracts that extend beyond the Sacramento DSP area boundary. Although the Census Tract definitions for this part of Sacramento changed between 2000 and 2010, necessitating the use of different Census Tract numbers for the compilation of 2000 Census data points versus for 2010-2014 ACS data points, the overall boundaries of the resulting study areas are the same. Please see Appendix A for additional details regarding the Census Tracts included in these data compilations.

Population

According to data presented in Table 1, compared to the City of Sacramento and the Sacramento-Roseville-Arden-Arcade MSA, the number of persons residing in the DSP area remained stable since the year 2000. According to the U.S. Census Bureau, the DSP area contained 32,655 residents as of the year 2000. Most recent ACS estimates show that the DSP area averaged 32,488 residents between 2010 and 2014. This represents a nominal decrease of 167 residents since the year 2000. Conversely, the populations of the City of Sacramento and the Sacramento-Roseville-Arden-Arcade MSA exhibited comparatively robust average annual population growth of 1.3 percent and 1.7 percent annually between 2000 and 2010-2014.

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[1] Note that the American Community Survey includes multi-year data sets, such as the 2010-2014 data set, which present data as an average of the survey results conducted over the years included in the time period. By conducting survey sampling over a multi-year period, the American Community Survey can provide better statistical accuracy; however, the compromise is that the data do not represent a single point in time.

Table 1: Population and Household Trends, 2000 and 2010-2014

	2000	2010-2014	Average Annual Change (b)
Sacramento Downtown Area (a)			
Population	32,655	32,488	0.0%
Households	17,771	18,182	0.2%
Average Household Size	1.63	1.62	
Household Type (c)			
Families	24.3%	22.4%	
Non-Families	75.7%	77.6%	
Household Tenure			
Owner	12.1%	12.1%	
Renter	87.9%	87.9%	
City of Sacramento			
Population	407,018	476,075	1.3%
Households	154,581	177,578	1.2%
Average Household Size	2.57	2.63	
Household Type (c)			
Families	59.0%	58.6%	
Non-Families	41.0%	41.4%	
Household Tenure			
Owner	50.1%	47.6%	
Renter	49.9%	52.4%	
Sacramento-Roseville-Arden-Arcade MSA (d)			
Population	1,796,857	2,197,422	1.7%
Households	665,298	791,744	1.5%
Average Household Size	2.65	2.72	
Household Type (c)			
Families	67.0%	66.5%	
Non-Families	33.0%	33.5%	
Household Tenure			
Owner	61.3%	59.6%	
Renter	38.7%	40.4%	

Notes:

(a) The Sacramento Downtown Area is defined using 2000 and 2010 Census Tracts. For a complete listing of the included Census Tracts, please refer to Appendix A.

(b) Average annual change uses 2012 as the midpoint of the 2010-2014 American Community Survey estimate.

(c) According to the U.S. Census Bureau, a family household includes a household and one or more people who are related to the household by birth, marriage, or adoption. A family household may also contain people not related to the householder.

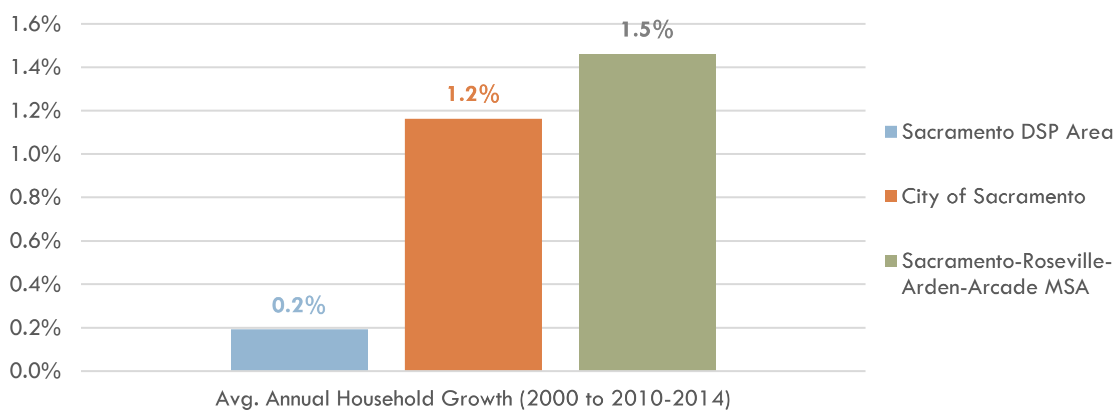
(d) The Sacramento-Roseville-Arden-Arcade Metropolitan Statistical Area (MSA) includes El Dorado, Placer, Sacramento, and Yolo Counties.

Sources: U.S. Census Bureau, Census 2000, Summary File 1, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; BAE, 2016.

Households

Similar to the overall population trends experienced in the DSP area, since the year 2000, the total number of households also remained relatively stable compared to the City of Sacramento and the Sacramento-Roseville-Arden-Arcade MSA. According to the U.S. Census Bureau, the DSP area contained 17,771 households in 2000, which increased to an average of 18,182 households between 2010 and 2014. This represents an average annual growth rate of 0.2 percent between 2000 and 2010-2014, which lagged the City and MSA's annual average growth of 1.2 percent and 1.5 percent, respectively, for the same time period.

Figure 4: Average Annual Household Growth, 2000 to 2010-2014

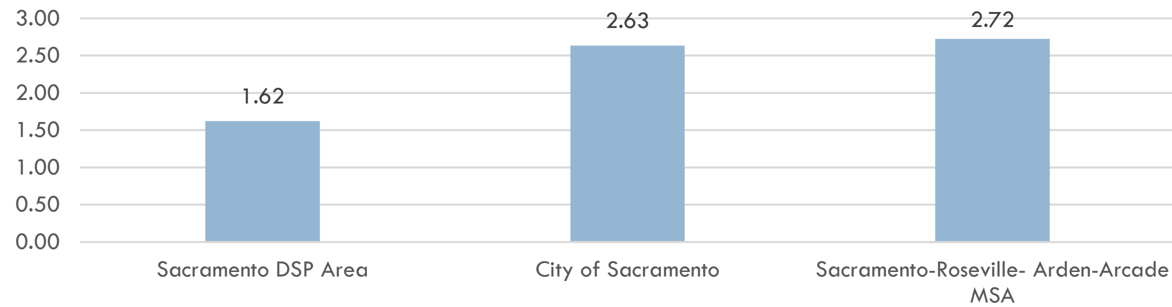


Sources: U.S. Census Bureau, Census 2000, Summary File 1, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016, BAE, 2016.

Average Household Size

Average household size is calculated based on the number of people living in households, divided by the number of occupied housing units. The calculation excludes those living in group quarters and other institutional settings. As identified in Table 1, households in the DSP area tend to be significantly smaller than those of the City of Sacramento and the MSA. Between 2010 and 2014, the DSP area averaged 1.62 persons per household, while the City and MSA averaged 2.63 and 2.72 persons per household, respectively. With significantly smaller household sizes, households in the DSP area will tend to demand smaller housing units than elsewhere in the City and MSA. Additionally, compared to the City and MSA, the average household size in the DSP area remained relatively unchanged. Between 2000 and 2010-2014 the average household size in the DSP area decreased from 1.63 to 1.62 persons per household while the average household size in the City and MSA increased from 2.57 to 2.63, and from 2.65 to 2.72 persons per household, respectively.

Figure 5: Average Household Size, 2010-2014



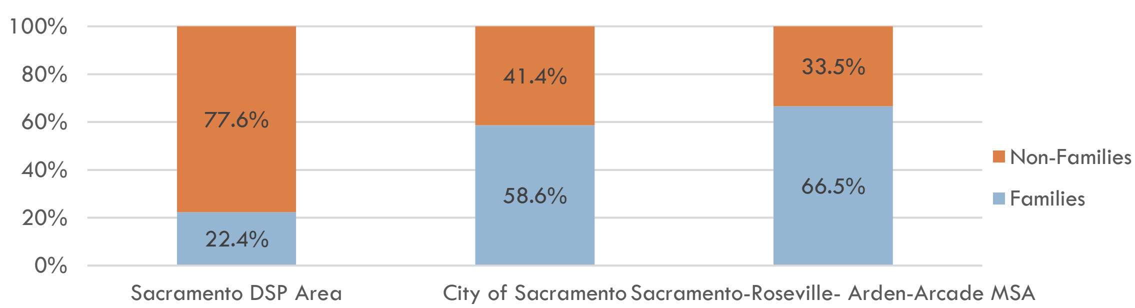
Sources: U.S. Census Bureau, 2010-2014 American Community Survey, 2016, BAE, 2016.

Households by Type

As shown in Table 1, non-family households represent the dominant household type in the DSP area, whereas family households represent the dominant household type in both the City and the MSA.[2] Within the DSP area, non-family households account for approximately 77.6 percent of all households. This proportion increased slightly since 2000 when non-family households accounted for 75.7 percent of all households in the DSP area. Within the City and MSA, the proportions of non-family households were significantly lower, averaging 41.4 percent and 33.5 percent of all households, respectively.

These household characteristics remain relatively unchanged since 2000, indicating that the DSP area attracts a diversity of household types. Based on these unique attributes, the mix of housing units in the DSP area should be much different than the mix of housing units elsewhere in the City and the MSA, providing flexibility to accommodate the needs of singles living alone, and groups of un-related individuals who share housing.

Figure 6: Percent Family and Non-Family Households, 2010-2014



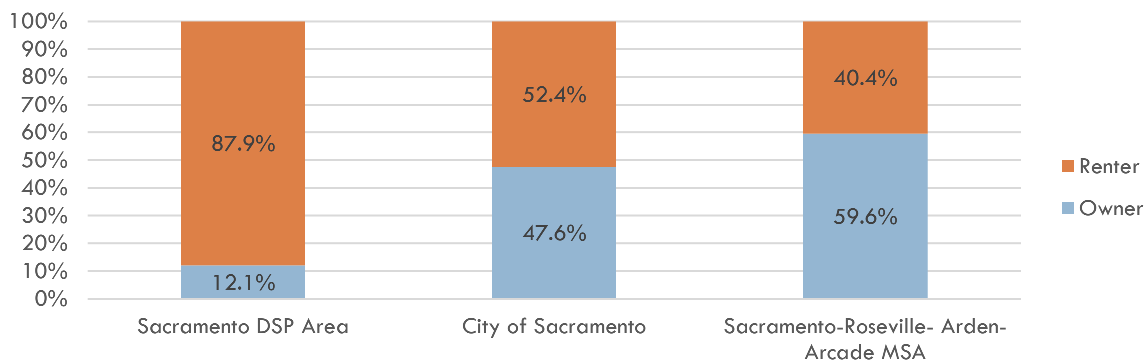
Sources: U.S. Census Bureau, 2010-2014 American Community Survey, 2016, BAE, 2016.

[2] Family households consist of at least two members related by birth, marriage, or adoption. Non-family households may contain a single person living alone or multiple unrelated persons who share a dwelling.

Households by Tenure

Households in the DSP area are notably more likely to be renter households relative to the City and MSA. Based on data shown in Table 1, an average of 87.9 percent of all households in the Sacramento Downton Area are renters, compared to 52.4 percent and 40.4 percent of all households in the City and MSA, respectively. This pattern of renter-occupied households remains unchanged in the DSP area since the year 2000, while the proportions of renter households has increased somewhat in both of the comparison areas during the same time frame. This information indicates that housing demand in the DSP area is primarily focused toward the rental housing market.

Figure 7: Households by Tenure, 2010-2014



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

Age Distribution

According to 2010-2014 ACS estimates, the DSP area features a resident population that is somewhat younger than the City and MSA. As shown in Table 2, the median age in the DSP area between 2010 and 2014 averaged 33.3 years, which was down from the median age of 35.3 in 2000. In contrast, the City's median age and the MSA's increased during the period studied, from 32.8 to 33.8, and from 34.6 to 36.4 years of age, respectively. Based on this information, the DSP area is attracting a disproportionate share of the region's younger adult population, sufficient to counter the prevailing citywide and regional trends towards a generally aging population. This also corresponds the below average proportions of family households living in the DSP area, compared to elsewhere in the City and the MSA.

Closer examination of resident age characteristics indicates that the distribution of DSP area residents' age varies significantly from the patterns in both the City and the MSA. Whereas the City and MSA experienced gains in almost every age group category between 2000 and 2010-2014, the DSP area experienced declines in all age groups except 25- to 34-year-olds and 55- to 74-year-olds.

Table 2: Age Distribution, 2000 and 2010-2014

Age Distribution	2000 Number	2000 Percent	2010-2014 Number	2010-2014 Percent	Average Annual Change (b)
Sacramento Downtown Area (a)					
Under 18	3,520	10.8%	3,009	9.3%	-1.3%
18-24	4,339	13.3%	3,346	10.3%	-2.1%
25-34	8,281	25.4%	10,784	33.2%	2.2%
35-44	5,765	17.7%	4,698	14.5%	-1.7%
45-54	4,441	13.6%	3,446	10.6%	-2.1%
55-64	2,345	7.2%	3,600	11.1%	3.6%
65-74	1,771	5.4%	1,976	6.1%	0.9%
75 years & over	2,193	6.7%	1,629	5.0%	-2.4%
Total, All Ages	**32,655**	**100%**	**32,488**	**100%**	**0.0%**
Median Age (c)	**35.3**		**33.3**		
City of Sacramento					
Under 18	111,290	27.3%	114,978	24.2%	0.3%
18-24	42,163	10.4%	52,035	10.9%	1.8%
25-34	63,321	15.6%	80,169	16.8%	2.0%
35-44	61,483	15.1%	61,663	13.0%	0.0%
45-54	52,118	12.8%	60,613	12.7%	1.3%
55-64	30,200	7.4%	52,266	11.0%	4.7%
65-74	23,052	5.7%	29,016	6.1%	1.9%
75 years & over	23,391	5.7%	25,335	5.3%	0.7%
Total, All Ages	**407,018**	**100%**	**476,075**	**100%**	**1.3%**
Median Age	**32.8**		**33.8**		
Sacramento-Roseville-Arden-Arcade MSA (d)					
Under 18	486,631	27.1%	531,244	24.2%	0.7%
18-24	174,564	9.7%	225,528	10.3%	2.2%
25-34	248,411	13.8%	300,653	13.7%	1.6%
35-44	293,566	16.3%	282,867	12.9%	-0.3%
45-54	245,456	13.7%	307,243	14.0%	1.9%
55-64	144,678	8.1%	264,918	12.1%	5.2%
65-74	107,413	6.0%	158,050	7.2%	3.3%
75 years & over	96,138	5.4%	126,919	5.8%	2.3%
Total, All Ages	**1,796,857**	**100%**	**2,197,422**	**100%**	**1.7%**
Median Age	**34.6**		**36.4**		

Notes:

(a) The Sacramento Downtown Area is defined using 2000 and 2010 Census Tracts. For a complete listing of the included Census Tracts, please refer to Appendix A.

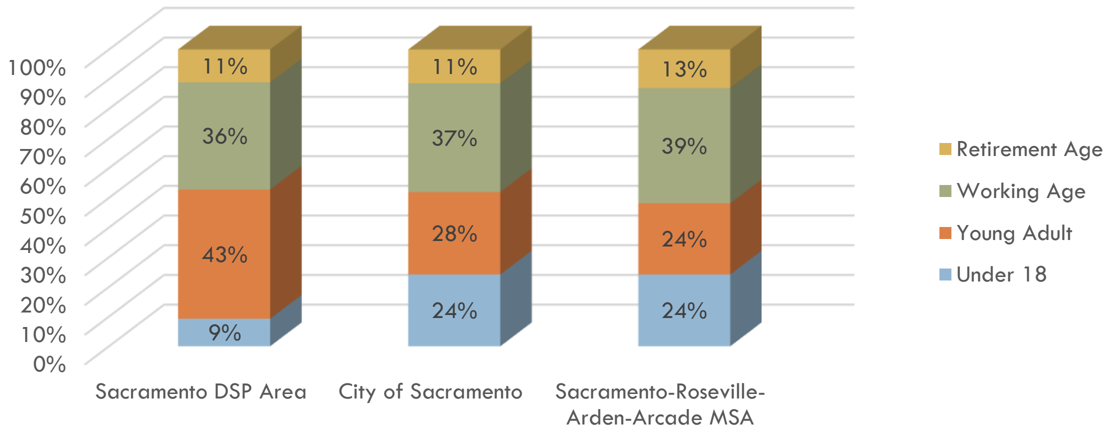
(b) Average annual change uses 2012 as the midpoint of the 2010-2014 American Community Survey estimate.

(c) The median age figure for the Sacramento Downtown Area was extrapolated based on detailed household income distribution data.

(d) The Sacramento-Roseville-Arden-Arcade Metropolitan Statistical Area (MSA) includes El Dorado, Placer, Sacramento, and Yolo Counties.

Sources: U.S. Census Bureau, Census 2000, Summary File 1, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; BAE, 2016.

Figure 8: Resident Age Distribution, 2010-2014



Note:

(a) Young adult includes residents age 19 to 35, Working Age includes residents age 36 to 64, and Retirement Age includes residents age 65 and over.

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

One of the most notable declines in the DSP area occurred in the population under 18 years of age. In 2000, the proportion of the population under 18 years of age in the DSP area was 10.8 percent, which was already significantly lower than the citywide and MSA-wide values of 27.3 percent and 27.1 percent, respectively. Nevertheless, since the year 2000, the proportion of the population under 18 years of age in the DSP area decreased at a rate of 1.3 percent per year, representing a total loss of approximately 511 residents. In contrast, the proportion of the population under 18 years of age in the City and MSA increased 0.3 percent and 0.7 percent per year during the same time period. These trends may have important implications for services provided within the DSP area. For example, the Sacramento City Unified School District (SCUSD) closed the Washington Elementary School at 18th and E Street in 2014. The school reopened for the 2016-2017 academic year on September 1st, 2016. The rational for the reopening was the dramatic increase in development activity and an inflow of younger family households who will require access to high quality public schools. While the ACS does not facilitate the analysis of demographic trends within the DSP area between 2010 and 2014, anecdotal evidence indicates a near-term increase in the number of young children living in the DSP area, though no data is currently available to substantiate this trend.

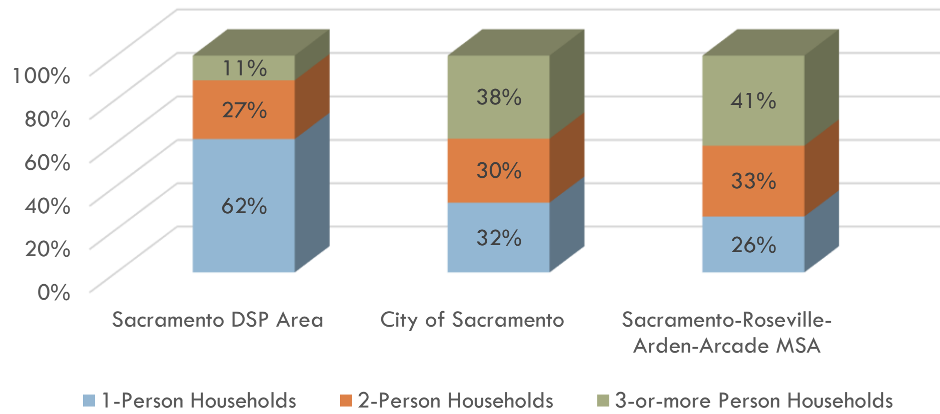
Given that the DSP area experienced losses in almost every age group category between 2000 and 2010-2014, the increase in the 25 to 34 age cohort and the 55 to 74 age cohort is significant. Since 2000, the proportion of the population between the ages of 25 and 34 in the DSP area increased roughly 2.2 percent annually. In 2000, the population between the ages of 25 and 34 represented 25.4 percent of the total DSP area population, compared to the same age group's 15.6 percent share in the City and 13.8 percent share in the MSA. By the 2010-2014 ACS survey period, the proportion of the population between the ages of 25 and 34 in the DSP area had expanded to approximately 33.2 percent of the total downtown population, while this age group represented only 16.8 percent citywide, and 13.7 percent of the MSA. Additionally, between 2000 and 2010-2014, the proportion of residents in the 25 to 34 age cohort was nearly double that of the City and MSA. The DSP area's larger proportion of residents ages 25 to 35, and that fact that the proportion of this age cohort grew faster than in the City and MSA, further supports the previous conclusion that the DSP area is attracting a disproportionate share of the region's younger population. In terms of implications for housing demand, these younger adults will tend to have lower incomes and less equity.

The increase in the number of residents age 55 to 74 years indicates in that these residents are more likely to have higher incomes and/or equity that will help them afford to purchase homes at higher price points, potentially creating demand for higher end residential units; however, like the younger group, these households may also be seeking smaller housing units, due to the fact that if they have children, they may well be empty-nesters.

Household Composition

Corresponding to the DSP area's below average household size, most households in the DSP area contain only one or two people. As shown in Table 3, one-person households averaged 61.6 percent of all households in the DSP area, and two-person households comprised 27.0 percent of all households. One- and two-person households represented the majority of all households regardless of whether or not they were homeowners or renters. With the exception of four-person owner-occupied households, the proportion of all households greater than two persons decreased in the DSP area, whereas all other household size categories increased in the City and MSA. Interestingly, between 2000 and the 2010-2014 survey period, the number of four-person, owner households in the DSP area increased more rapidly than any other household size in all three areas. In 2000 four-person owner households accounted for 0.8 percent of all households in the DSP area, and increased five percent annually to comprise 1.4 percent of households in 2010-2014. While this represents a relatively small change in the number of households, this may be a trend to monitor since household size can impact the size of the housing units demanded by the market.

Figure 9: Households by Size, 2010-2014



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

Table 3: Household by Size and Tenure, 2000 and 2010-2014 (Page 1 of 2)

Household Size	2000 Number	2000 Percent	2010-2014 Number	2010-2014 Percent	Average Annual Change (b)
Sacramento Downtown Area (a)					
Owner Households					
1-person household	858	4.8%	963	5.3%	1.0%
2-person household	777	4.4%	666	3.7%	-1.3%
3-person household	257	1.4%	221	1.2%	-1.2%
4-person household	141	0.8%	253	1.4%	5.0%
5-or-more person household	120	0.7%	93	0.5%	-2.1%
Subtotal, All Owners	**2,153**	**12.1%**	**2,196**	**12.1%**	**0.2%**
Renter Households					
1-person household	10,094	56.8%	10,242	56.3%	0.1%
2-person household	3,632	20.4%	4,244	23.3%	1.3%
3-person household	1,076	6.1%	885	4.9%	-1.6%
4-person household	469	2.6%	397	2.2%	-1.4%
5-or-more person household	347	2.0%	218	1.2%	-3.8%
Subtotal, All Renters	**15,618**	**87.9%**	**15,986**	**87.9%**	**0.2%**
Total, All Households	**17,771**	**100%**	**18,182**	**100%**	**0.2%**
City of Sacramento					
Owner Households					
1-person household	20,082	13.0%	23,368	13.2%	1.3%
2-person household	26,210	17.0%	28,079	15.8%	0.6%
3-person household	11,727	7.6%	12,382	7.0%	0.5%
4-person household	9,844	6.4%	11,072	6.2%	1.0%
5-or-more person household	9,651	6.2%	9,662	5.4%	0.0%
Subtotal, All Owners	**77,514**	**50.1%**	**84,563**	**47.6%**	**0.7%**
Renter Households					
1-person household	29,460	19.1%	33,954	19.1%	1.2%
2-person household	19,782	12.8%	24,368	13.7%	1.8%
3-person household	10,587	6.8%	12,644	7.1%	1.5%
4-person household	7,335	4.7%	10,570	6.0%	3.1%
5-or-more person household	9,903	6.4%	11,479	6.5%	1.2%
Subtotal, All Renters	**77,067**	**49.9%**	**93,015**	**52.4%**	**1.6%**
Total, All Households	**154,581**	**100%**	**177,578**	**100%**	**1.2%**

- Continued on next page -

Sources: U.S. Census Bureau, Census 2000, Summary File 1, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; BAE, 2016.

Table 3: Household by Size and Tenure, 2000 and 2010-2014 (Page 2 of 2)

Household Size	2000 Number	2000 Percent	2010-2014 Number	2010-2014 Percent	Average Annual Change (b)
Sacramento-Roseville-Arden-Arcade MSA (c)					
Owner Households					
1-person household	81,601	12.3%	104,399	13.2%	2.1%
2-person household	148,168	22.3%	173,352	21.9%	1.3%
3-person household	66,957	10.1%	73,832	9.3%	0.8%
4-person household	64,236	9.7%	69,641	8.8%	0.7%
5-or-more person household	46,754	7.0%	50,816	6.4%	0.7%
Subtotal, All Owners	**407,716**	**61.3%**	**472,040**	**59.6%**	**1.2%**
Renter Households					
1-person household	84,932	12.8%	100,347	12.7%	1.4%
2-person household	70,166	10.5%	85,774	10.8%	1.7%
3-person household	41,619	6.3%	50,642	6.4%	1.6%
4-person household	30,204	4.5%	42,393	5.4%	2.9%
5-or-more person household	30,661	4.6%	40,548	5.1%	2.4%
Subtotal, All Renters	**257,582**	**38.7%**	**319,704**	**40.4%**	**1.8%**
Total, All Households	**665,298**	**100%**	**791,744**	**100%**	**1.5%**

Notes:
(a) The Sacramento Downtown Area is defined using 2000 and 2010 Census Tracts. For a complete listing of the included Census Tracts, please refer to Appendix A.
(b) Average annual change uses 2012 as the midpoint of the 2010-2014 American Community Survey estimate.
(c) The Sacramento-Roseville-Arden-Arcade Metropolitan Statistical Area (MSA) includes El Dorado, Placer, Sacramento, and Yolo Counties.

Sources: U.S. Census Bureau, Census 2000, Summary File 1, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; BAE, 2016.

Household Income Characteristics

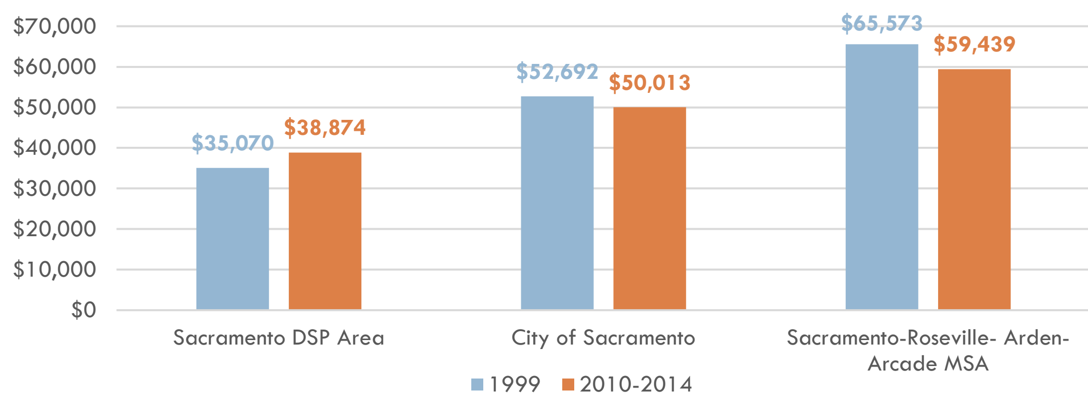
Table 4 presents data from the 2000 Census and the 2010-2014 ACS regarding the income levels for households located in the DSP area, the City, and the MSA.

Median Household Income

As reported in Table 4, the average adjusted median household income in the DSP area is substantially lower compared to both the City and MSA. Adjusted median income accounts for inflation over time based on the Consumer Price Index for Western Region Urban Consumers, published by the United States Bureau of Labor Statistics. The adjusted median household income over the 2010- 2014 period in the DSP area averaged $38,874. This was $11,138 less than the average adjusted median household income for the City, and $20,564 less than the MSA. Although the median income in the DSP area is substantially below the adjusted median incomes for households in the City and the MSA, the median for the DSP area actually increased by $3,804 since 1999, whereas average median incomes of households in the City and MSA decreased, by $2,679 and $6,134, respectively. These two trends indicate that while the households in the DSP area tend to have lower incomes than households in the City and the MSA, incomes within the DSP area are increasing compared to the other areas.

Table 5 similarly reports median household incomes by age of householder. The U.S. Census Bureau defines a householder as the person under who's name the home is owned, is being bought, or is rented. According to this data, the median household income in three out of the four reported householder age categories was lower than the comparable median income estimates for the City and MSA, with the exception of households where the householder is under the age of 25. DSP area households in the under 25 age category had a median household income of roughly $26,000. This is notably higher than for similar households in the City of Sacramento as a whole, and roughly equal to the MSA-wide median income value for the same householder age category.

Figure 10: Inflation Adjusted Median Household Income, 1999 and 2010-2014



Sources: U.S. Census Bureau, Census 2000, Summary File 1, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016, BAE, 2016.

As may be generally expected, median household incomes tend to increase as householder age increases. For example, data for the City and the MSA show clear increases in the median household income as householder age increases across the three lower age categories, including under 25 years, 25 to 44 years and 45 to 64 years. Corresponding with the onset of retirement, the median household incomes tend to drop in the highest householder age category or 65 years and over. However, within the DSP area, the median household income peaks among households in the 25 to 44 age category, with income steadily declining in the 45 to 64 and 65 and over categories. This corresponds with anecdotal evidence indicating that dense urban environments are predominantly attractive to younger non-family households. As householders age, housing preferences can shift towards more traditional housing types, such as detached single-family housing. This is thought to be commonly tied to the formation of family households (i.e., marriage and childbearing), as well as increased incomes which can open up a broader variety of housing options, both rental and ownership.

Households by Income Range

Unlike median household income the household income distribution ranges presented in Table 4 are not adjusted for inflation and should be interpreted with caution. That being said, corresponding to increasing average median household incomes in the DSP area, between 1999 and 2010-2014, the proportion of households with incomes of $75,000 or more increased faster than any other income category, with the most significant gains in households with incomes of $150,000 and above. According to data from the ACS shown in Table 4, the number of households in the range of $75,000 or more almost tripled between 1999 and 2010-2014, from 1,517 households to 4,210 households. That represents an average annual growth rate of eight percent per year. Within the City and MSA, households with incomes of $75,000 or more grew by six percent and five percent annually. Within the DSP area, households in the income range of $150,000 or more grew more rapidly than all other income categories. In 1999, approximately 248 households earned $150,000 or more. By the 2010-2014 time period, the average number of households at this income level quadrupled to 1,028, representing a 9.9 percent annual average growth rate. In contrast, households with incomes of $150,000 or more in the City and MSA grew at average annual rates of 8.4 percent and 7.8 percent annually, meaning that the DSP area is capturing a disproportionate share of the citywide and regional growth in higher income households.

Although the proportion of households in the DSP area with higher incomes grew between 1999 and 2010-2014, the majority of households in the DSP area still had incomes of less than $75,000 a year. Most notably, between 2010 and 2014, 36.6 percent of households (more than one third) averaged annual incomes less than $25,000. This is significantly higher than the citywide figure of 26.4 percent, or the MSA-wide 20.6 percent. Furthermore, approximately 23.0 percent of households, the largest proportion of all income categories in the DSP area, had incomes of less than $15,000 a year. This is also significantly higher than the citywide proportion (15.3 percent), and the MSA-wide proportion (11.2 percent). While it is worth noting that the proportion of households in the DSP area with income of less than $25,000 a year decreased by 14 percentage points since 1999, the concentration is still significant in relation to the share that households in this income range represent in the City and the MSA.

Table 4: Household Income Distribution, 1999 and 2010-2014

Annual Household Income	1999 Number (b)	1999 Percent	2010-2014 Number	2010-2014 Percent	Average Annual Change (c)
Sacramento Downtown Area (a)					
Less than $15,000	5,783	32.5%	4,198	23.1%	-2.1%
$15,000 to $24,999	3,212	18.1%	2,457	13.5%	-1.8%
$25,000 to $34,999	2,653	14.9%	1,729	9.5%	-2.8%
$35,000 to $49,999	2,474	13.9%	2,737	15.1%	0.7%
$50,000 to $74,999	2,133	12.0%	2,851	15.7%	2.0%
$75,000 to $99,999	607	3.4%	1,494	8.2%	6.2%
$100,000 to $149,999	662	3.7%	1,691	9.3%	6.5%
$150,000 and above	248	1.4%	1,025	5.6%	9.9%
Total, All Households	**17,771**	**100%**	**18,182**	**100%**	**0.2%**
Median Household Income (d)	**$24,659**		**$38,874**		
Adjusted Median Income (e)	**$35,070**		**$38,874**		
City of Sacramento					
Less than $15,000	30,121	19.5%	27,137	15.3%	-0.7%
$15,000 to $24,999	21,329	13.8%	19,809	11.2%	-0.5%
$25,000 to $34,999	21,242	13.7%	17,608	9.9%	-1.2%
$35,000 to $49,999	26,065	16.9%	24,215	13.6%	-0.5%
$50,000 to $74,999	28,717	18.6%	31,785	17.9%	0.7%
$75,000 to $99,999	12,580	8.1%	20,849	11.7%	3.4%
$100,000 to $149,999	10,150	6.6%	21,424	12.1%	5.1%
$150,000 and above	4,377	2.8%	14,751	8.3%	8.4%
Total, All Households	**154,581**	**100%**	**177,578**	**100%**	**0.9%**
Median Household Income	**$37,049**		**$50,013**		
Adjusted Median Income (e)	**$52,692**		**$50,013**		
Sacramento-Roseville-Arden-Arcade MSA (f)					
Less than $15,000	89,724	13.5%	88,639	11.2%	-0.1%
$15,000 to $24,999	76,209	11.5%	74,499	9.4%	-0.2%
$25,000 to $34,999	81,774	12.3%	73,681	9.3%	-0.7%
$35,000 to $49,999	110,391	16.6%	101,909	12.9%	-0.5%
$50,000 to $74,999	136,746	20.6%	138,953	17.6%	0.1%
$75,000 to $99,999	77,439	11.6%	100,642	12.7%	1.8%
$100,000 to $149,999	62,614	9.4%	119,528	15.1%	4.4%
$150,000 and above	30,402	4.6%	93,893	11.9%	7.8%
Total, All Households	**665,298**	**100%**	**791,744**	**100%**	**1.2%**
Median Household Income	**$46,106**		**$59,439**		
Adjusted Median Income (e)	**$65,573**		**$59,439**		

Notes:

(a) The Sacramento Downtown Area is defined using 2000 and 2010 Census Tracts. For a complete listing of the included Census Tracts, please refer to Appendix A.

(b) The percent distribution of annual household income is from Census 2000, Summary File 3, while the total household estimate is from Census 2000 Summary File 1.

(c) Average annual change uses 2014 as the year of reference, as the 2010-2014 American Community Survey estimates are reported in 2014 dollars.

(d) The median household income figure for the Sacramento Downtown Area was extrapolated based on detailed household income distribution data.

(e) Census 2000 median household income estimates are adjusted to 2014 dollars based on the Consumer Price Index (CPI) for All Urban Consumers in the Western Region of 1.422.

(f) The Sacramento-Roseville-Arden-Arcade Metropolitan Statistical Area (MSA) includes El Dorado, Placer, Sacramento, and Yolo Counties.

Sources: U.S. Census Bureau, Census 2000, Summary File 1 and Summary File 3, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; BAE, 2016.

Households by Size-Adjusted Income Category

Table 5 reports data collected from the 2009-2013 Comprehensive Housing Affordability Strategy (CHAS) dataset, which is a special tabulation of the 2009-2013 ACS 5-Year Estimates. Note that the CHAS data should be interpreted with caution, as the data are based on 5-Year ACS estimates covering the 2009 to 2013 time period, while other demographic data provided in this report are based on 2010-2014 5-Year ACS estimates. Also, because the data are based on multi-year survey sampling data, individual estimates may not sum to totals shown in the table, due to rounding.

The CHAS data set uses HUD-defined income categories to classify households by income level, after adjusting for household size. Note that these income categories also form the basis for the income limits published annually by the State Department of Housing and Community Development and are used to establish rental rate and home sales price limits for various affordable housing program implemented at the local level. The categories are based on the HUD Adjusted Median Family Income (HAMFI), which is calculated using 2009-2013 5-year median family income estimates,[3] supplemented with 2013 1-year estimates. The HUD income categories are calculated as a percentage of the HAMFI. The extremely low-income category includes households with incomes less than, or equal to, 30 percent of the HAMFI, while the very low-income category includes households with incomes greater than 30 percent, and up to 50 percent, of the HAMFI. The low-income category includes households with incomes greater than 50 percent, and up to 80 percent, of the HAMFI, while the moderate-income category includes households with incomes greater than 80 percent, and up to 120 percent of the HAMFI. The above moderate-income category subsequently includes the remaining households with incomes greater than 120 percent of the HAMFI. Note that both the HAMFI and the associated income limits are adjusted for household size, so that a larger household with a given income could be placed in lower income category than a smaller household with the same dollar amount of income.

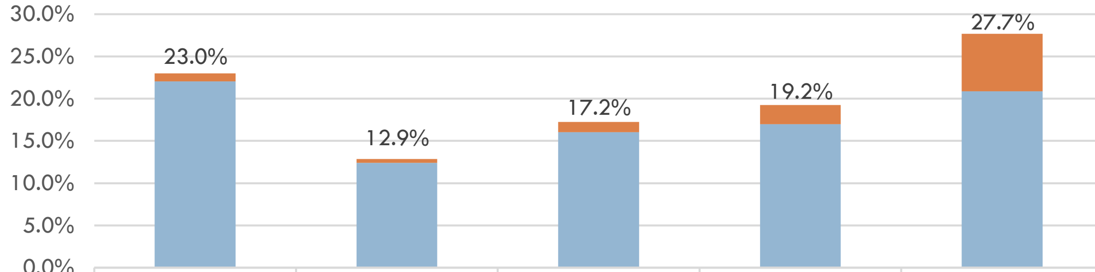
According to the CHAS data reported in Table 5, approximately 9,612 households in the DSP area, around 53.0 percent, were categorized as Lower-Income between 2009 and 2013, with incomes that were equal to 80 percent or less of the HAMFI, after adjusting for household size. Another 3,485 households, around 19.2 percent, were categorized as Moderate-Income, with the remaining 5,013 households, roughly 27.7 percent, categorized as Above Moderate-Income. The data indicate that of the 26,009 renter households in the DSP area, approximately 57.2 percent were categorized in the three lowest income categories. Meanwhile, of the 2,101 owner households in the DSP area, 462, or 22.0 percent, were categorized in the three lowest income categories. As noted above, the household totals

[3] Excludes one-person households and multi-person households comprised of unrelated individuals, based on the Census definition of a family, which includes a householder with one more other persons living in the same households who are related to the householder by birth, marriage, or adoption.

reported in Table 4 differ from those reported elsewhere in this report due to the use of different datasets, from different sources that correspond with slightly different time periods.

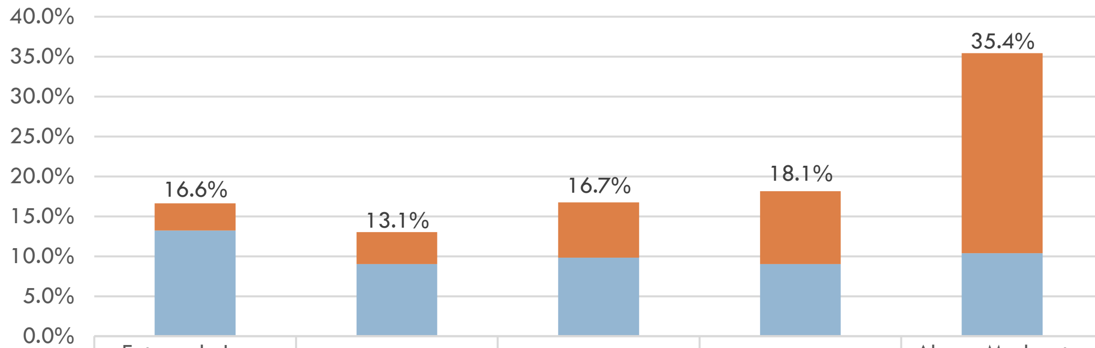
Figure 11: Households by Income Category and Tenure, 2009-2013

Sacramento DSP Area



	Extremely Low-Income	Very Low- Income	Low-Income	Moderate- Income	Above Moderate-Income
Owner	0.9%	0.5%	1.2%	2.3%	6.8%
Renter	22.1%	12.4%	16.1%	17.0%	20.9%

City of Sacramento



	Extremely Low-Income	Very Low- Income	Low-Income	Moderate- Income	Above Moderate-Income
Owner	3.4%	4.0%	6.9%	9.1%	25.1%
Renter	13.3%	9.0%	9.8%	9.0%	10.4%

Sources: U.S. Department of Housing and Urban Development, 2009-2013 Comprehensive Housing Affordability Strategy, 2016; BAE, 2016.

Compared to the City of Sacramento distribution of households by income category, also displayed in Table 5, the DSP area has a higher proportion of lower income households. Though the overall distribution indicates a higher percentage of lower income households, this is mainly a function of the significantly higher number of renter households located in the DSP area, which tend to have lower incomes versus owner households. As seen in Table 5, the distribution of renter households by income category within the DSP area indicates a slightly higher proportion of Moderate- and Above Moderate-Incomes, when compared to the Citywide figures. For example, whereas these two income categories accounted for 37.7 percent of Citywide households, the same categories comprised 42.8 percent of DSP area households. With regard to owner households, the majority of DSP area households and City of Sacramento households were categorized as Above Moderate-Income, at 58.6 percent and 51.7 percent respectively. The remaining distribution of owner households in both geographies are relatively equivalent, with the DSP area containing a slightly lower percentage of Very Low-Income and Low-Income owner households. In general, renter and owner households within the DSP area are more likely to fit into the higher income categories, when compared to their Citywide counterparts.

Table 5: Distribution of Households by Income Category, 2009-2013

	Owner Households		**Renter Households**		**All Households**	
Income Category (a)	Number	Percent	Number	Percent	Number	Percent
Sacramento Downtown Area (b)						
Extremely Low-Income *(≤ 30% of HAMFI)*	165	7.8%	3,996	25.0%	4,161	23.0%
Very Low-Income *(> 30% ≤ 50% of HAMFI)*	83	3.9%	2,248	14.0%	2,331	12.9%
Low-Income *(> 50% ≤ 80% of HAMFI)*	214	10.2%	2,907	18.2%	3,121	17.2%
Moderate-Income *(> 80% ≤ 120% of HAMFI)*	408	19.4%	3,077	19.2%	3,485	19.2%
Above Moderate-Income *(> 120% of HAMFI)*	1,232	58.6%	3,781	23.6%	5,013	27.7%
All Income Levels (c)	**2,101**	**100%**	**16,009**	**100%**	**18,110**	**100%**
City of Sacramento						
Extremely Low-Income *(≤ 30% of HAMFI)*	5,975	7.0%	23,499	25.7%	29,474	16.6%
Very Low-Income *(> 30% ≤ 50% of HAMFI)*	7,100	8.3%	16,045	17.5%	23,144	13.1%
Low-Income *(> 50% ≤ 80% of HAMFI)*	12,230	14.2%	17,455	19.1%	29,684	16.7%
Moderate-Income *(> 80% ≤ 120% of HAMFI)*	16,145	18.8%	16,020	17.5%	32,164	18.1%
Above Moderate-Income *(> 120% of HAMFI)*	44,439	51.7%	18,424	20.1%	62,863	35.4%
All Income Levels (c)	**85,888**	**100%**	**91,442**	**100%**	**177,330**	**100%**

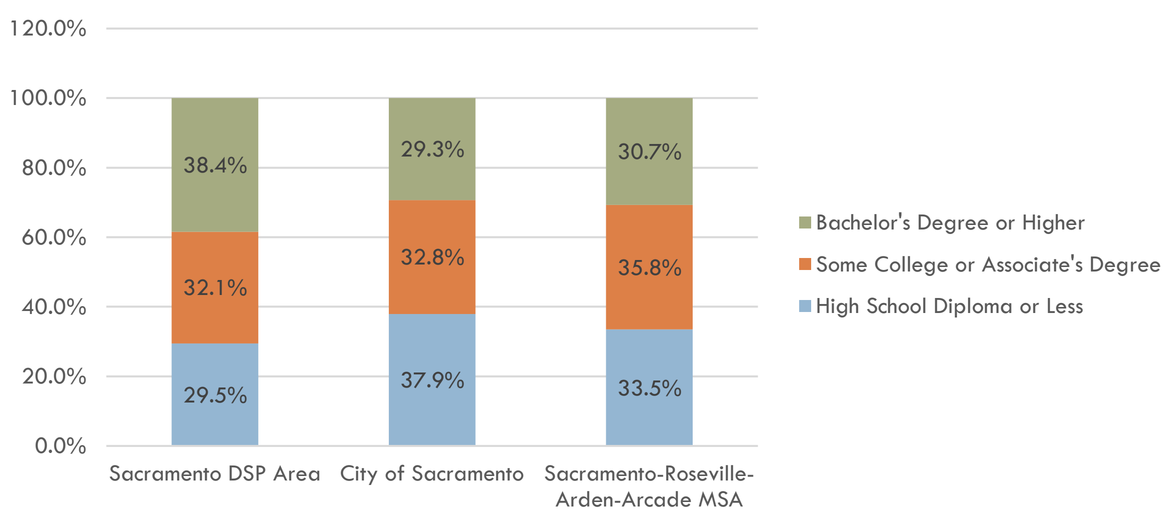
Notes:
(a) CHAS data reflect HUD-defined household income limits.
(b) The Sacramento Downtown Area is defined based on 2010 Census Tracts. For a complete listing of the included Census Tracts, please refer to Appendix A.
(c) Figures may not sum to totals due to rounding.

Sources: HUD, 2009-2013 CHAS, 2016; BAE, 2016.

Educational Attainment

According to 2010-2014 ACS data, DSP area residents generally have a higher level of educational attainment than residents in the City of Sacramento as a whole, but slightly lower educational attainment than their MSA counterparts. As reported in Table 6, approximately 87.2 percent of the DSP area population age 25 and over earned a high school diploma or higher, compared to 82.9 percent of the population of the City, and 88.0 percent of the MSA. However, the DSP area had a significantly higher concentration of residents with a bachelor's degree or higher. Approximately 38.4 percent of the population of the DSP area earned a bachelor's degree or higher, compared to 29.3 percent citywide and 30.7 percent of the MSA. This pattern extends through each of the higher educational tiers, with the DSP area having the highest proportion of residents having earned Master's degrees, Professional degrees, or Doctorate degrees. It is notable that the educational attainment level of the Sacramento Downton Area improved considerably between 2000 and 2010-2014. For example, in 2000, 41.1 percent of the DSP area residents aged 25 or over had earned a high school education or less. During the 2010-2014 time period, the proportion of the population with a high school education or less had decreased 11.7 percentage points, to 29.5 percent of the population 25 years or older. In comparison, the proportion of the population with a high school diploma or less decreased citywide by 6.2 percentage points, and 4.3 percentage points in the MSA. Conversely, during the same time period the proportion of DSP area residents with at least a bachelor's degree increased 12.1 percentage points, compared to the City and MSA which experienced increases of 5.4 and 4.2 percentage points. This information indicates that the DSP area is attracting a disproportionate number of more educated residents.

Figure 12: Residents Age 25 Years and Over by Educational Attainment, 2010-2014



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

Table 6: Educational Attainment, 2000 and 2010-2014

Educational Attainment	2000		2010-2014		Average Annual
	Number (b)	Percent	Number	Percent	Change (c)
Sacramento Downtown Area (a)					
Less than 9th grade	2,338	9.4%	1,640	6.3%	-2.9%
Some high school, no diploma	2,914	11.8%	1,704	6.5%	-4.4%
High school graduate (inc. GED)	4,952	20.0%	4,360	16.7%	-1.1%
Some college, no degree	6,147	24.8%	6,480	24.8%	0.4%
Associate's degree	1,924	7.8%	1,910	7.3%	-0.1%
Bachelor's degree	4,262	17.2%	6,294	24.1%	3.3%
Master's degree	1,307	5.3%	2,338	8.9%	5.0%
Professional school degree	671	2.7%	819	3.1%	1.7%
Doctorate degree	282	1.1%	588	2.3%	6.3%
Total, Age 25 and Over	**24,796**	**100%**	**26,133**	**100%**	**0.4%**
City of Sacramento					
Less than 9th grade	26,680	10.5%	28,160	9.1%	0.5%
Some high school, no diploma	30,866	12.2%	24,681	8.0%	-1.8%
High school graduate (inc. GED)	54,425	21.5%	64,375	20.8%	1.4%
Some college, no degree	60,318	23.8%	74,752	24.2%	1.8%
Associate's degree	20,558	8.1%	26,493	8.6%	2.1%
Bachelor's degree	39,398	15.5%	57,291	18.5%	3.2%
Master's degree	12,726	5.0%	20,712	6.7%	4.1%
Professional school degree	6,473	2.6%	8,415	2.7%	2.2%
Doctorate degree	2,120	0.8%	4,183	1.4%	5.8%
Total, Age 25 and Over	**253,565**	**100%**	**309,062**	**100%**	**1.7%**
Sacramento-Roseville-Arden-Arcade MSA (d)					
Less than 9th grade	69,186	6.1%	82,889	5.8%	1.5%
Some high school, no diploma	106,207	9.4%	90,261	6.3%	-1.3%
High school graduate (inc. GED)	253,360	22.3%	309,321	21.5%	1.7%
Some college, no degree	305,709	26.9%	376,900	26.2%	1.8%
Associate's degree	99,733	8.8%	139,034	9.7%	2.8%
Bachelor's degree	199,446	17.6%	287,163	19.9%	3.1%
Master's degree	64,220	5.7%	99,884	6.9%	3.7%
Professional school degree	25,671	2.3%	34,398	2.4%	2.5%
Doctorate degree	12,129	1.1%	20,800	1.4%	4.6%
Total, Age 25 and Over	**1,135,662**	**100%**	**1,440,650**	**100%**	**2.0%**

Notes:

(a) The Sacramento Downtown Area is defined using 2000 and 2010 Census Tracts. For a complete listing of the included Census Tracts, please refer to Appendix A.

(b) The percent distribution of educational attainment is from Census 2000, Summary File 3, while the total population 25 years of age and older is from Census 2000 Summary File 1.

(c) Average annual change uses 2012 as the midpoint of the 2010-2014 American Community Survey estimate.

(d) The Sacramento-Roseville-Arden-Arcade Metropolitan Statistical Area (MSA) includes El Dorado, Placer, Sacramento, and Yolo Counties.

Sources: U.S. Census Bureau, Census 2000, Summary File 1, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; BAE, 2016.

ECONOMIC CHARACTERISTICS

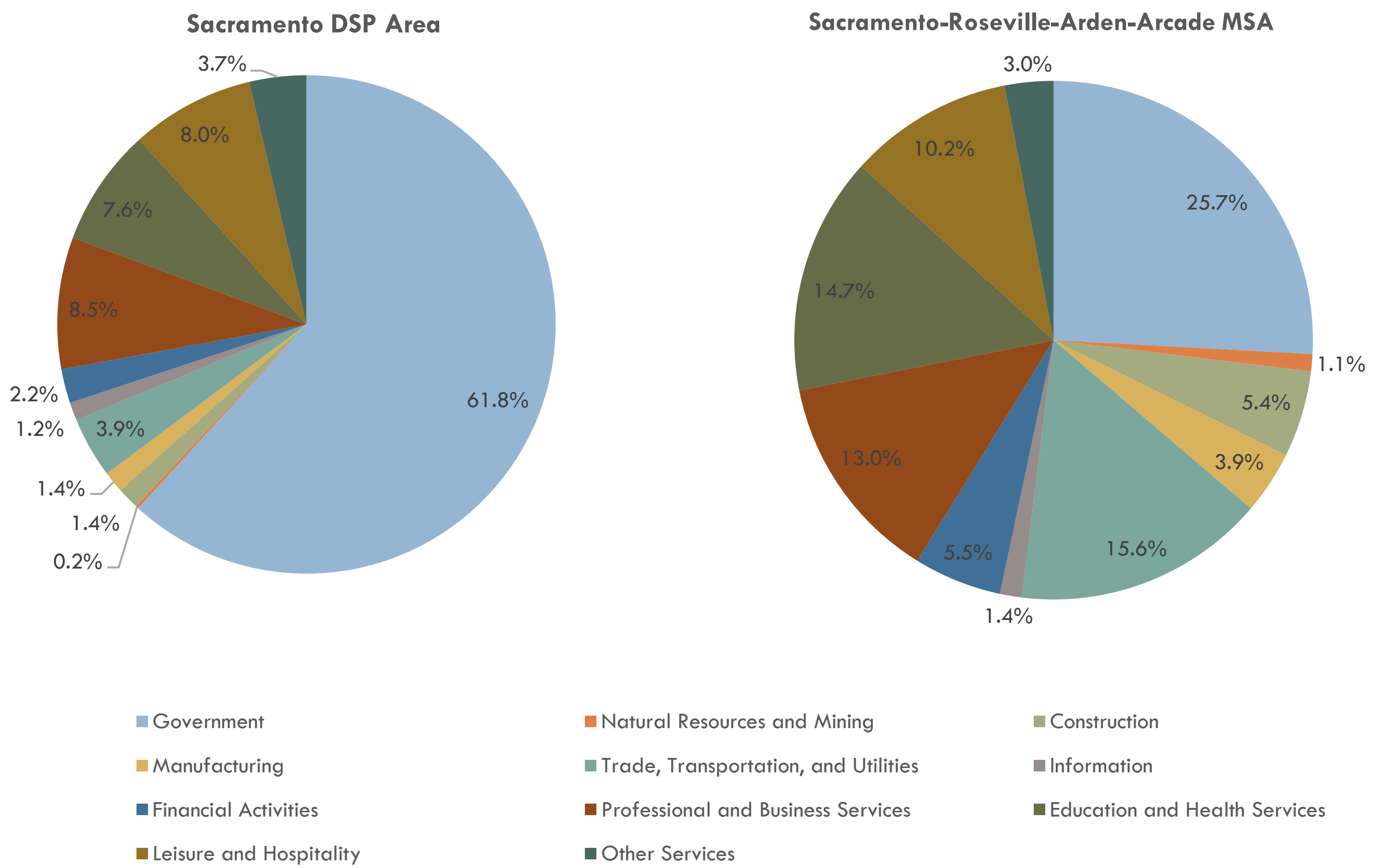
The following section summarizes current economic characteristics of the DSP area, in addition to comparison data showing broader trends in the City of Sacramento and Sacramento-Roseville-Arden-Arcade MSA. The analysis draws on data from a number of sources, including data published by the U.S. Bureau of Labor Statics, the California Employment Development Department (EDD), and the U.S. Census Bureau.

Employment by Industry

Table 7 reports jobs by major industry sector for the DSP area, defined using ZIP Codes, and the Sacramento-Roseville-Arden-Arcade MSA based on Quarterly Census of Employment and Wages (QCEW) data provided by the EDD and BLS. See Appendix A for a map of the ZIP Code boundaries used for this compilation of data. Based on this information, the DSP area experienced relatively robust job growth between 2005 and 2010, primarily driven by the increase in governmental employment. Over the same time period, the MSA experienced a decline in total jobs, losing roughly 63,000 jobs at a rate of 7.0 percent per year. Between 2010 and 2015, a period that coincided with a recovery from the Great Recession, the total DSP area jobs decreased at a rate of 9.4 percent per year, or a total decrease of roughly 12,000 jobs. Over the same time period, the number of jobs within the MSA expanded at a rate of 9.5 percent per year, demonstrating an opposite trend in employment relative to the DSP area.

As of 2015, governmental employment continued to account for the majority of the jobs located in the DSP area. According to the data, roughly 70,000 governmental employees worked in the DSP area in 2005, accounting for 65.9 percent of the total DSP area employment. This figure increased to almost 86,800 in 2010, demonstrating a 24.2 percent increase in governmental employment between 2005 and 2010. By 2015, the total governmental employment had decreased to roughly 71,900, still accounting for the majority of DSP area employment, or 61.8 percent. Further analysis and discussion with EDD staff indicate that the increase in governmental employment between 2005 and 2010, a period in which jobs Statewide declined at a rate of 1.3 percent per year, may be attributable to a number of factors. First, EDD staff noted that various California public agencies received additional federal funding during the Recession years in order to better support the various needs of California residents. Second, and most notably, EDD staff identified a potential flaw in the recording of State government employment, specifically noting that in 2013, the QCEW recorders began to better track the actual work location of State employees, indicating that some jobs located throughout California were being tabulated as working in their respective agency's headquarters, many of which are located in the DSP area. While EDD staff indicate that they are comfortable that 2015 figures are representative of the number of jobs in the DSP area, changes in employment from 2005 or 2010 may be due to the changes in how employees are counted, rather than actual changes in the number of jobs within the DSP area.

Figure 13: Employment by Industry, Sacramento DSP and Sacramento-Roseville-Arden-Arcade MSA, 2015



Sources: Bureau of Labor Statistics, Quarterly Census of Employment and Wages, 2016, BAE, 2016.

Though governmental employees account for the majority of 2015 employment, other industries that account for notable portions of the DSP area employment in 2015 include Professional and Technical Services (7,857 jobs; 6.8 percent of total), Health Care and Social Assistance (8,114 jobs; 7.0 percent), and Accommodation and Food Services (8,245 jobs; 7.1 percent). In addition to accounting for a notable portion of the total employment, these industries have also experienced significant increases in employment between 2005 and 2015. For example, between 2005 and 2010, employment within the Professional and Technical Services sector increased by roughly 17.0 percent, and more recent trends indicate that the growth has continued, albeit at a slower pace. Employment within the Health Care and Social Assistance sector demonstrates a similar trend, with employment steadily increasing between 2005 and 2015.[4] This is likely associated, at least in part, with the opening of the Sutter Hospital in 2015 and the overall expansion of the Sutter Sacramento Medical Center. Similarly, employment within the Accommodation and Food Services sector increased significantly over the same time frame, possibly demonstrating an increasing supply of dining options which represents a valuable amenity that may continue to help attract potential residents into the DSP area.

In comparison with the distribution of employment by industry at the MSA level, it is evident that the DSP area contains a lower percentage of employment within sectors that typically use industrial space. More specifically, DSP area employment within the Construction and Manufacturing industries represents a much smaller proportion of total employment, just 1.4 percent in each industry, compared to 5.4 percent and 3.9 percent in the MSA in the same industries, respectively. In addition, while the EDD suppresses the employment counts within the Wholesale Trade and Transportation and Warehousing industries for confidentiality purposes, the aggregated employment within the two industries account for roughly 4.9 percent in the MSA, while only accounting for 1.3 percent in the DSP area. Along with a lower percentage of jobs in industrial sectors, the DSP area also has a significantly lower percentage of employment in the Retail sector, which accounts for only 2.5 percent of total DSP area employment versus 10.5 percent in the MSA. While the Retail's disproportionately small share of total DSP area employment can be partially attributed to the disproportionately large share of Government employment, if the proportion of DSP area jobs in Government were adjusted to more closely align with the MSA norm, DSP area retail would still be disproportionately low, indicating that The DSP area may be under-retailed at present.

[4] In 2013, the QCEW program reclassified certain establishments within the NAICS Code 81411 (Private Households) into NAICS Code 62412 (Services for the Elderly and Persons with Disabilities) which may account for a portion of the growth in Health Care and Social Assistance between 2010 and 2015, as shown in the Table 7.

Table 7: Employment by Industry, 2005-2010-2015

Sacramento Downtown Area (a)	**2005** Employment	Percent	**2010** Employment	Percent	**% Change 2005-2010**	**2015** (b) Employment	Percent	**% Change 2010-2015**
Agriculture, Forestry, Fishing & Hunting	(c)	n.a.	(c)	n.a.	n.a.	(c)	n.a.	n.a.
Mining	(c)	n.a.	(c)	n.a.	n.a.	(c)	n.a.	n.a.
Utilities	49	0.0%	36	n.a.	-26.5%	93	0.1%	158.3%
Construction	1,199	1.1%	1,021	0.8%	-14.8%	1,647	1.4%	61.3%
Manufacturing	1,273	1.2%	1,525	1.2%	19.8%	1,600	1.4%	4.9%
Wholesale Trade	953	0.9%	917	0.7%	-3.8%	1,041	0.9%	13.5%
Retail Trade	3,979	3.8%	3,350	2.6%	-15.8%	2,951	2.5%	-11.9%
Transportation and Warehousing	506	0.5%	835	0.7%	65.0%	504	0.4%	-39.6%
Information	2,805	2.6%	2,014	1.6%	-28.2%	1,367	1.2%	-32.1%
Finance and Insurance	1,246	1.2%	1,791	1.4%	43.7%	1,612	1.4%	-10.0%
Real Estate and Rental and Leasing	863	0.8%	950	0.7%	10.1%	957	0.8%	0.7%
Professional and Technical Services	6,481	6.1%	7,578	5.9%	16.9%	7,857	6.8%	3.7%
Management of Companies and Enterprises	420	0.4%	502	0.4%	19.5%	563	0.5%	12.2%
Administrative and Waste Services	1,402	1.3%	1,969	1.5%	40.4%	1,517	1.3%	-23.0%
Educational Services	443	0.4%	501	0.4%	13.1%	773	0.7%	54.3%
Health Care and Social Assistance	5,347	5.0%	6,119	4.8%	14.4%	8,114	7.0%	32.6%
Arts, Entertainment, and Recreation	818	0.8%	867	0.7%	6.0%	1,075	0.9%	24.0%
Accommodation and Food Services	5,405	5.1%	7,142	5.6%	32.1%	8,245	7.1%	15.4%
Other Services, Ex. Public Admin	2,877	2.7%	4,280	3.3%	48.8%	4,301	3.7%	0.5%
Government	69,941	65.9%	86,832	67.6%	24.2%	71,905	61.8%	-17.2%
Federal Government	*1,220*	*1.2%*	*1,256*	*1.0%*	*3.0%*	*994*	*0.9%*	*-20.9%*
State Government	*51,228*	*48.3%*	*69,391*	*54.1%*	*35.5%*	*55,126*	*47.4%*	*-20.6%*
Local Government	*17,493*	*16.5%*	*16,185*	*12.6%*	*-7.5%*	*15,785*	*13.6%*	*-2.5%*
Unclassified Establishments	0	0.0%	92	0.1%	n.a.	180	0.2%	95.7%
Total, All Industries (d)	**106,061**	**100%**	**128,370**	**100%**	**21.0%**	**116,350**	**100%**	**-9.4%**

- Continued on next page -

Sources: Bureau of Labor Statistics, QCEW, 2016; California Employment Development Department, QCEW, 2016; BAE, 2016.

Table 7: Employment by Industry, 2005-2010-2015 (Page 2 of 2)

	2005		2010		% Change	2015		% Change
Sacramento-Roseville-Arden-Arcade MSA (e)	Employment	Percent	Employment	Percent	**2005-2010**	Employment	Percent	**2010-2015**
Agriculture, Forestry, Fishing & Hunting	7,596	0.8%	8,151	1.0%	7.3%	9,375	1.0%	15.0%
Mining	579	0.1%	379	0.0%	-34.5%	486	0.1%	28.2%
Utilities	(c)	n.a.	(c)	n.a.	n.a.	2,382	0.3%	n.a.
Construction	73,016	8.1%	38,359	4.5%	-47.5%	49,621	5.4%	29.4%
Manufacturing	48,799	5.4%	32,545	3.9%	-33.3%	36,127	3.9%	11.0%
Wholesale Trade	(c)	n.a.	(c)	n.a.	n.a.	(c)	n.a.	n.a.
Retail Trade	98,541	10.9%	87,590	10.4%	-11.1%	96,928	10.5%	10.7%
Transportation and Warehousing	20,276	2.2%	19,116	2.3%	-5.7%	(c)	n.a.	n.a.
Information	19,663	2.2%	15,147	1.8%	-23.0%	12,581	1.4%	-16.9%
Finance and Insurance	46,878	5.2%	36,374	4.3%	-22.4%	36,849	4.0%	1.3%
Real Estate and Rental and Leasing	16,462	1.8%	12,189	1.4%	-26.0%	13,666	1.5%	12.1%
Professional and Technical Services	45,915	5.1%	51,772	6.1%	12.8%	52,642	5.7%	1.7%
Management of Companies and Enterprises	9,819	1.1%	11,650	1.4%	18.6%	11,842	1.3%	1.6%
Administrative and Waste Services	47,963	5.3%	40,801	4.8%	-14.9%	55,740	6.0%	36.6%
Educational Services	11,203	1.2%	11,504	1.4%	2.7%	11,585	1.3%	0.7%
Health Care and Social Assistance	75,960	8.4%	87,206	10.3%	14.8%	124,511	13.5%	42.8%
Arts, Entertainment, and Recreation	13,271	1.5%	13,188	1.6%	-0.6%	14,873	1.6%	12.8%
Accommodation and Food Services	69,364	7.6%	66,781	7.9%	-3.7%	79,681	8.6%	19.3%
Other Services, Ex. Public Admin	37,491	4.1%	40,801	4.8%	8.8%	27,921	3.0%	-31.6%
Government	235,434	26.0%	243,730	28.9%	3.5%	237,803	25.7%	-2.4%
Unclassified Establishments	83	0.0%	1,535	0.2%	n.a.	4,012	0.4%	161.4%
Total, All Industries (d)	**906,813**	**100%**	**843,713**	**100%**	**-7.0%**	**923,826**	**100%**	**9.5%**

Notes:

(a) The Sacramento Downtown Area is defined using Zip Codes. For a complete listing of the included Zip Codes, please refer to Appendix A.

(b) Fourth Quarter 2015 data is preliminary.

(c) Data suppressed for confidentiality purposes.

(d) Figures may not sum to totals due to rounding and data suppression.

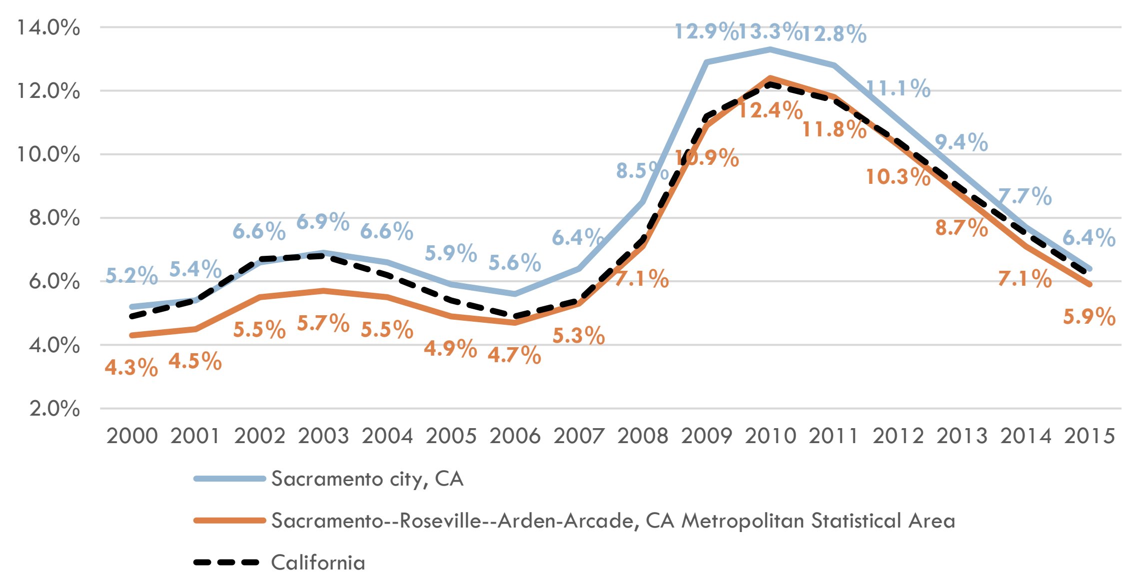
(e) The Sacramento-Roseville-Arden-Arcade Metropolitan Statistical Area (MSA) includes El Dorado, Placer, Sacramento, and Yolo Counties.

Sources: Bureau of Labor Statistics, QCEW, 2016; California Employment Development Department, QCEW, 2016; BAE, 2016.

Labor Force and Unemployment

According to EDD data, the labor force within the City of Sacramento has remained relatively constant between 2010 and 2015, with roughly 228,000 residents participating in the labor force. Within the same time frame, however, the number of employed residents has steadily increased, with nearly 215,000 employed residents in 2015, compared to just 198,000 in 2010. The increase in employed residents with a stable labor force size indicates a decreasing trend in the unemployment rate citywide and is a reflection of the positive economic impacts of the recovery from the Great Recession. As seen in Table 8, the City of Sacramento unemployment rate was 13.3 percent in 2010, indicating that just over 30,000 Sacramento residents were unemployed in that year. The 2015 unemployment rate, in contrast, was 6.4 percent, representing a decrease in the unemployment rate of almost seven percentage points between 2010 and 2015. Table 8 also displays the unemployment rate within the broader MSA area, as well as California for reference. As seen in the table, the MSA unemployment rate between 2010 and 2015 mirrored the statewide trend, with the most recent MSA unemployment rate registering slightly below the statewide average. In comparison, it is evident that the City of Sacramento has recorded a slightly higher unemployment rate relative to both the MSA and the State, with the City unemployment rate ranging from roughly one percentage point to 0.2 percentage points higher than the State. Additional data, shown in Figure 14, demonstrate a longer trend in unemployment rates for all three geographic areas. As indicated in the figure, similar to the recent trends, the City of Sacramento has historically experienced a higher unemployment rate relative to the MSA and, for the most part, the State as a whole.

Figure 14: Unemployment Rate Trends, 2000-2015



Sources: Bureau of Labor Statistics, Local Area Unemployment Statistics, 2016, BAE, 2016.

Table 8: Labor Force Characteristics, 2010-2015

Year	Labor Force	Employed Residents	Unemployment	Unemployment Rate
City of Sacramento				
2010	228,200	197,900	30,300	13.3%
2011	226,900	197,900	28,900	12.8%
2012	227,300	202,100	25,200	11.1%
2013	226,700	205,500	21,200	9.4%
2014	226,400	209,000	17,400	7.7%
2015	228,200	213,700	14,500	6.4%
Sacramento-Roseville-Arden-Arcade MSA				
2010	1,049,800	920,100	129,700	12.4%
2011	1,045,200	921,600	123,600	11.8%
2012	1,049,500	941,300	108,200	10.3%
2013	1,049,100	958,200	90,900	8.7%
2014	1,050,800	976,100	74,700	7.1%
2015	1,060,200	998,100	62,100	5.9%
State of California				
2010	18,336,300	16,091,900	2,244,300	12.2%
2011	18,415,100	16,258,100	2,157,000	11.7%
2012	18,551,400	16,627,800	1,923,600	10.4%
2013	18,670,100	17,001,000	1,669,000	8.9%
2014	18,827,900	17,418,000	1,409,900	7.5%
2015	18,981,800	17,798,600	1,183,200	6.2%

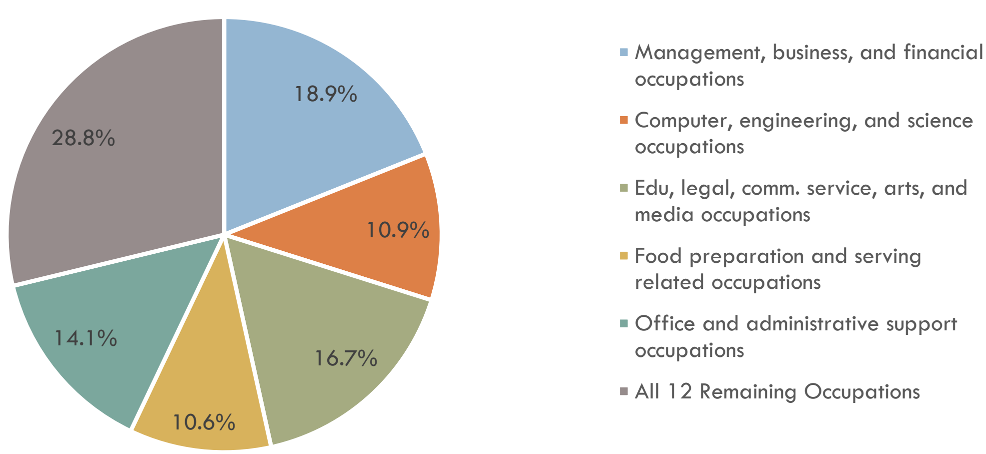
Sources: California Employment Development Department, 2016; BAE, 2016.

Resident Occupations

Table 9 provides a breakdown of the occupations of working residents aged 16 years and over in the DSP area in comparison to the City of Sacramento and the MSA. As seen in the table, the occupations of DSP area residents are concentrated in Management, Business, and Financial occupations, Education, Legal, Community Service, Arts, and Media occupations, and Office and Administrative Support occupations. Although these are the highest concentration of occupations, the proportion of employed residents working in the Office and Administrative Support occupations has decreased between 2000 and 2010-2014, while the proportions working in Management, Business, and Financial occupations, and Education, Legal, Community Service, Arts, and Media occupations have increased over the same time period. Other DSP area resident occupations that have increased in share over the same time period include Healthcare Practitioners and Technical occupations, and Food Preparation and Serving Related Occupations. In comparison to the occupations that decreased between 2000 and 2010-2014, it appears that the resident occupations that have increased in prominence among employed DSP area residents tend to be in higher earning occupations (e.g. Healthcare Practitioner occupations, Management, Business, and Financial occupations, etc.), while the occupations that generally retain lower wages seem to be decreasing (e.g., Food Preparation and Serving, Construction, Production, and Material Moving occupations, etc.)

In comparison to the distribution of the occupations of working residents within the City of Sacramento and the MSA, employed DSP area residents are more concentrated in Education, Legal, Community Service, Arts, and Media occupations, roughly 5.4 percentage points higher than the MSA proportion and 6.0 percentage points higher than the Statewide average. In addition, DSP area residents are more concentrated in Food Preparation and Serving Related occupations and Computer, Engineering, and Science occupations, both of which represent notably higher concentrations of occupational employment (roughly 4.0 percent greater than in the MSA or State). Occupations in which DSP area residents are less likely to be employed compared to their counterparts within the City and MSA include Construction and Extraction occupations (roughly three percentage points lower relative to the City and MSA average). In addition, DSP area residents are less likely to work in Building and Grounds Cleaning and Maintenance occupations (roughly 2.0 percentage points below the Citywide and MSA-wide averages). As noted above, the occupations in which DSP area residents seem to be more heavily concentrated tend to be associated with higher skills and wages, which also seem to have become more pronounced between 2000 and 2010-2014. While there may be a variety of reasons for the changing occupational profile of DSP area residents, possible explanations include the mix of employment opportunities available in the DSP area, as well as the increasing cost of DSP area housing, both for-rent and for-sale, which may be pushing the lower wage earners out of the DSP area.

Figure 15: Top Occupational Employment Sectors, 2010-2014



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

Table 9: Employed Residents by Occupation, 2000 and 2010-2014 (Page 1 of 2)

Occupation	2000		2010-2014		Average Annual Change (b)
	Number	Percent	Number	Percent	
Sacramento Downtown Area (a)					
Management, business, and financial occupations	2,330	14.3%	3,425	18.9%	3.3%
Computer, engineering, and science occupations	1,635	10.1%	1,979	10.9%	1.6%
Edu, legal, comm. service, arts, and media occupations	2,109	13.0%	3,013	16.7%	3.0%
Healthcare practitioners and technical occupations	474	2.9%	736	4.1%	3.7%
Healthcare support occupations	219	1.3%	172	1.0%	-2.0%
Protective service occupations	270	1.7%	324	1.8%	1.5%
Food preparation and serving related occupations	1,341	8.2%	1,909	10.6%	3.0%
Building and grounds cleaning and maint. occupations	476	2.9%	413	2.3%	-1.2%
Personal care and service occupations	441	2.7%	584	3.2%	2.4%
Sales and related occupations	1,655	10.2%	1,612	8.9%	-0.2%
Office and administrative support occupations	2,958	18.2%	2,557	14.1%	-1.2%
Farming, fishing, and forestry occupations	59	0.4%	37	0.2%	-3.8%
Construction and extraction occupations	499	3.1%	241	1.3%	-5.9%
Installation, maintenance, and repair occupations	396	2.4%	274	1.5%	-3.0%
Production occupations	679	4.2%	309	1.7%	-6.4%
Transportation occupations	360	2.2%	260	1.4%	-2.7%
Material moving occupations	354	2.2%	245	1.4%	-3.0%
Total, All Workers	**16,255**	**100%**	**18,090**	**100%**	**0.9%**
City of Sacramento					
Management, business, and financial occupations	23,312	13.7%	30,918	15.1%	2.4%
Computer, engineering, and science occupations	12,127	7.1%	13,722	6.7%	1.0%
Edu, legal, comm. service, arts, and media occupations	19,620	11.6%	22,981	11.2%	1.3%
Healthcare practitioners and technical occupations	6,439	3.8%	9,617	4.7%	3.4%
Healthcare support occupations	3,495	2.1%	4,572	2.2%	2.3%
Protective service occupations	3,313	2.0%	5,031	2.5%	3.5%
Food preparation and serving related occupations	8,698	5.1%	12,833	6.3%	3.3%
Building and grounds cleaning and maint. occupations	6,448	3.8%	8,767	4.3%	2.6%
Personal care and service occupations	5,478	3.2%	10,418	5.1%	5.5%
Sales and related occupations	16,543	9.7%	19,858	9.7%	1.5%
Office and administrative support occupations	32,024	18.9%	33,755	16.5%	0.4%
Farming, fishing, and forestry occupations	634	0.4%	684	0.3%	0.6%
Construction and extraction occupations	7,682	4.5%	8,487	4.1%	0.8%
Installation, maintenance, and repair occupations	5,298	3.1%	5,094	2.5%	-0.3%
Production occupations	9,107	5.4%	7,087	3.5%	-2.1%
Transportation occupations	4,840	2.9%	5,998	2.9%	1.8%
Material moving occupations	4,729	2.8%	4,924	2.4%	0.3%
Total, All Workers	**169,787**	**100%**	**204,746**	**100%**	**1.6%**

- Continued on next page -

Sources: U.S. Census Bureau, Census 2000, Summary File 3, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; BAE, 2016.

Table 9: Employed Residents by Occupation, 2000 and 2010-2014 (Page 2 of 2)

Occupation	2000 Number	2000 Percent	2010-2014 Number	2010-2014 Percent	Average Annual Change (b)
Sacramento-Roseville-Arden-Arcade MSA (c)					
Management, business, and financial occupations	122,929	15.1%	150,123	15.8%	1.7%
Computer, engineering, and science occupations	60,292	7.4%	67,473	7.1%	0.9%
Edu, legal, comm. service, arts, and media occupations	87,660	10.8%	101,122	10.6%	1.2%
Healthcare practitioners and technical occupations	33,462	4.1%	51,955	5.5%	3.7%
Healthcare support occupations	14,875	1.8%	21,656	2.3%	3.2%
Protective service occupations	17,422	2.1%	24,627	2.6%	2.9%
Food preparation and serving related occupations	36,476	4.5%	52,514	5.5%	3.1%
Building and grounds cleaning and maint. occupations	25,283	3.1%	36,183	3.8%	3.0%
Personal care and service occupations	25,817	3.2%	45,145	4.7%	4.8%
Sales and related occupations	89,831	11.0%	105,756	11.1%	1.4%
Office and administrative support occupations	143,372	17.6%	139,538	14.7%	-0.2%
Farming, fishing, and forestry occupations	5,254	0.6%	5,808	0.6%	0.8%
Construction and extraction occupations	43,125	5.3%	41,556	4.4%	-0.3%
Installation, maintenance, and repair occupations	29,482	3.6%	28,222	3.0%	-0.4%
Production occupations	36,350	4.5%	31,518	3.3%	-1.2%
Transportation occupations	24,447	3.0%	27,903	2.9%	1.1%
Material moving occupations	18,964	2.3%	19,636	2.1%	0.3%
Total, All Workers	**815,041**	**100%**	**950,735**	**100%**	**1.3%**

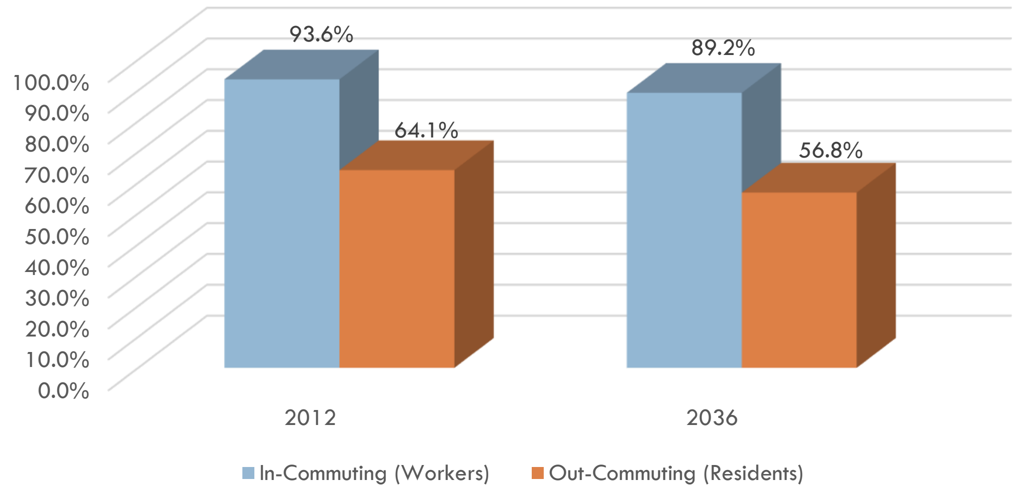
Notes:
(a) The Sacramento Downtown Area is defined using 2000 and 2010 Census Tracts. For a complete listing of the included Census Tracts, please refer to Appendix A.
(b) Average annual change uses 2012 as the midpoint of the 2010-2014 American Community Survey estimate.
(c) The Sacramento-Roseville-Arden-Arcade Metropolitan Statistical Area (MSA) includes El Dorado, Placer, Sacramento, and Yolo Counties.

Sources: U.S. Census Bureau, Census 2000, Summary File 3, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; BAE, 2016.

Regional Commute Patterns

Table 10 reports data on regional commuting patterns provided by SAOG based on their regional travel demand model. Note that the jobs and employed resident totals reported here differ from those reported elsewhere in this report, due to variations in data source. The data indicates that the DSP area is a commuter destination and that a relatively small percentage of the workforce lives within the DSP area. For example, SACOG estimates that of the 87,600 workers employed in the DSP area in 2012, approximately 82,000 lived outside of the DSP area, representing a rate of in-commuting of 93.6 percent. By comparison, of the 15,600 employed residents that live in the DSP area, only around 5,600 also worked in the DSP area, representing an out-commute rate of 64.1 percent. Projections indicate that SACOG projects both the in-commuter rate and the out-commuter rate to decrease through 2036, reflecting an increase in the proportion of residents both living and working within the DSP area.

Figure 16: Commute Flows, Sacramento DSP Area, 2012 and 2036



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

Table 10: Commute Flows, DSP area, 2004 and 2014 (a)

	2012		2036	
	Number	Percent	Number	Percent
Base Year Estimate	87,600	100%	132,800	100%
Worker Residing in Downtown RAD	*5,600*	*6.4%*	*14,300*	*10.8%*
In-Commuting Workers	*82,000*	*93.6%*	*118,500*	*89.2%*
Workers Residing in Dow ntow n RAD	15,600	100%	32,700	100.0%
Work in Downtown RAD	*5,600*	*35.9%*	14,127	*43.2%*
Out Commute from Downtown RAD	*10,000*	*64.1%*	18,573	*56.8%*

Note:
(a) The Sacramento DSP Area is defined by the Specific Plan Area based on SACOG's Regional Analysis Districts

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

REAL ESTATE MARKET CONDITIONS

The following section summarizes current real estate market conditions in the Sacramento DSP area, the City of Sacramento, and the Sacramento-Roseville-Arden-Arcade MSA. The analysis draws on data from a number of sources, including interviews with local real estate developers and property managers active in the DSP area, as well as other supplemental data sources. These include data regarding the existing housing stock published by the U.S. Census Bureau; home sales records from ListSource, a private data vendor; multifamily rental market data from RealAnswers, a private data vendor; and real estate market statistics for retail and office uses provided by CoStar, a private data vendor. Where appropriate, data from real estate market reports published by brokerages active in the Sacramento market supplement the sources previously mentioned.

Residential Market Overview

Following is a range of data that provide insight into residential real estate market conditions within the DSP area and the comparison areas.

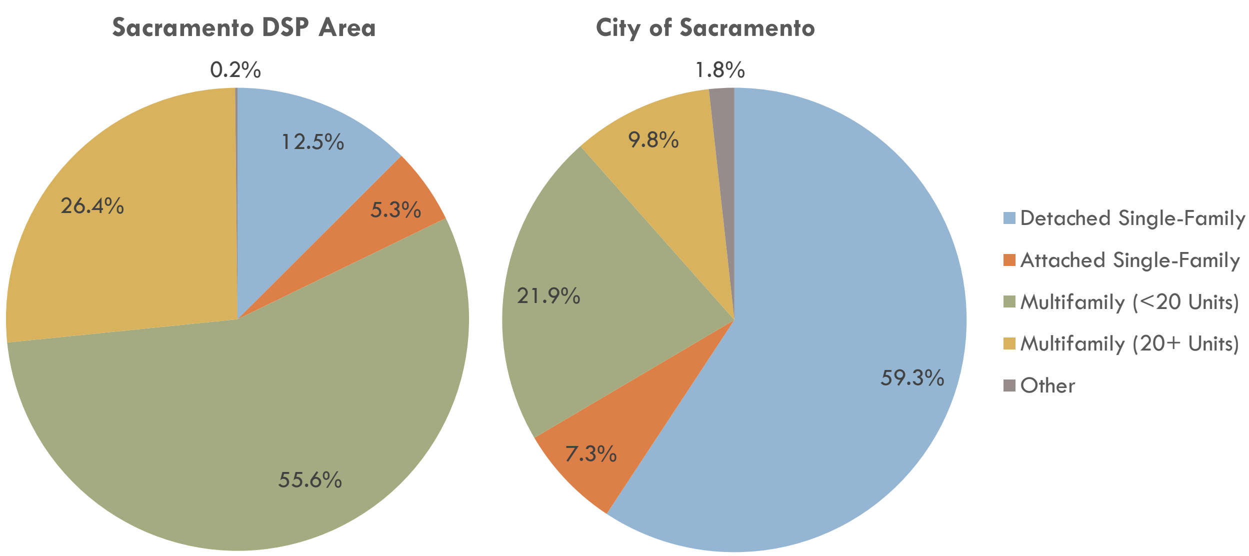
Housing Stock Characteristics

While the housing stock in both the City of Sacramento and broader Sacramento MSA are heavily weighted towards single-family homes, both attached and detached, the distribution of unit types in the DSP area is much more varied, with the majority of units being located in multifamily structures. As shown below in Table 12, the DSP area contained 19,432 total housing units in 2000. Of the total units, single-family units comprised just 17.8 percent of the total DSP area housing inventory, compared to 65.4 percent and 71.7 percent in the City of Sacramento and Sacramento MSA inventories, respectively. Conversely, multifamily units comprised 82.1 percent of the DSP area units, ranging from duplex units to complexes of 50 or more units. This is compared to just 32.3 percent citywide and 24.4 percent in the MSA. Within the DSP area, units in smaller multifamily complexes represent the majority of units, with units in structures of two to four units representing 23.3 percent of all units, compared to just 9.7 percent in the City of Sacramento and 7.0 percent in the Sacramento MSA. The remaining DSP area multifamily units are fairly evenly distributed between medium and large structures, ranging from five units to 50 or more units in the structure, all of which represent significantly higher proportions of the overall housing stock relative to the City of Sacramento and the MSA housing inventories.

Based on the average number of units in place between 2010 and 2014, the DSP area housing stock increased by roughly 0.6 per year between 2000 and 2010-2014, somewhat slower than the average Citywide and MSA growth rates of 1.4 percent and 1.7 percent, respectively. For the time period, the DSP area captured 5.1 percent of the increase in total Citywide housing unit growth and 14.6 percent of the increase in multifamily housing unit growth within the City.

Within the DSP area, single-family units continued to account for 17.8 percent of the total housing stock, though the number of attached single-family units increased between 2000 and 2010-2014, while the number of detached single-family units decreased. Over the same time period, the City of Sacramento and Sacramento MSA both expanded their inventories of single-family units at a higher rate relative to the inventory of multifamily units, resulting in a smaller percentage of multifamily units in both comparison areas. Within the DSP area, multifamily units within structures of between two and four units still comprised the largest portion of housing units, accounting for roughly 4,700 units, or 22.5 of the total inventory. The largest growth in DSP area multifamily units occurred in structures of 50 or more units, which increased by nearly 800 units, or 2.1 percent per year.

Figure 17: Housing Stock Characteristics, 2010-2014



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

SRO and Micro Housing Units

Title 18, Chapter 18.20 of the City Code states that "[t]he city shall maintain or cause to be maintained an inventory of not less than seven hundred twelve (712) resident hotel or comparable units; and to this end shall replace or cause to be replaced the residential hotel units subject to this chapter that are to be withdrawn, converted, or demolished." According to the available data, provided by the City of Sacramento, there are currently ten resident hotel, or single room occupancy (SRO), housing projects currently in operation in Sacramento, offering 807 total units. Six of these projects are currently regulated, including 479 units, while another four are currently unregulated, offering 328 units. All ten projects are located within the DSP area, primarily north of L Street, between 7th and 17th streets. In February 2014, the Sacramento Bee published an article stating that the Hotel Marshall on 7th Street would be undergoing rehabilitation and conversion to a boutique hotel. According to City staff, the Hotel Marshall has since closed, with no near-term plan to reopen as an SRO property.

Although there is not current standard for what constitutes a “micro unit,” the Urban Land Institute (ULI) uses a working definition that includes all small studio apartments, typical less than 350 square feet, with fully functioning and accessible kitchen and bathroom facilities.[5] These are typically different from SRO type units, with often have no kitchen or bathroom facilities within the unit, but often offer shared facilities elsewhere on site. There is no reliable inventory of micro housing units currently available within the DSP area. However, the newly proposed 19J project proposes the development of nearly 140 “smart studio” units, ranging in size from 312 to 480 square feet. Such units could help to provide much needed affordable housing targeted towards the DSP area workforce.

Table 11: Residential Hotel Properties, Sacramento DSP Area

Project Name	Number of Units
Regulated	
Ridgeway Hotel	22
7th and H Street Housing Community	150
Studios at Hotel Berry	105
YWCA	32
Shasta Hotel	80
Sequoia Hotel	90
Subtotal, Regulated Units	**479**
Non-regulated	
Capitol Park Hotel	180
Congress Hotel	27
Golden Hotel	26
Subtotal, Non-regulaed Units	**233**
Total, All SRO Units	**712**

Sources: Sacramento Entertainment and Sports Center, Final Environmental Impact Report, 2014; BAE, 2016.

[5] Urban Land Institute. (2015). *The Micro View on Micro Units*. Available at: http://uli.org/wp-content/uploads/ULI-Documents/MicroUnit_full_rev_2015.pdf

Table 12: Housing Stock Characteristics, 2000 and 2010-2014

Units in Structure	2000 Number (b)	2000 Percent	2010-2014 Number	2010-2014 Percent	Average Annual Change (c)
Sacramento Downtown Area (a)					
Detached Single-Family	2,717	14.0%	2,620	12.5%	-0.3%
Attached Single-Family	730	3.8%	1,107	5.3%	3.5%
2 to 4 Units	4,518	23.3%	4,717	22.5%	0.4%
5 to 9 Units	3,234	16.6%	3,411	16.3%	0.4%
10 to 19 Units	3,491	18.0%	3,506	16.8%	0.0%
20 to 49 Units	1,986	10.2%	2,031	9.7%	0.2%
50 Units or More	2,732	14.1%	3,501	16.7%	2.1%
Mobile Homes	14	0.1%	0	0.0%	n.a.
Boats, RV's, Vans, Other	11	0.1%	35	0.2%	10.1%
Total, All Housing Units	**19,432**	**100%**	**20,928**	**100%**	**0.6%**
City of Sacramento					
Detached Single-Family	95,907	58.5%	114,499	59.3%	1.5%
Attached Single-Family	11,350	6.9%	14,009	7.3%	1.8%
2 to 4 Units	15,863	9.7%	15,546	8.0%	-0.2%
5 to 9 Units	11,383	6.9%	14,716	7.6%	2.2%
10 to 19 Units	8,222	5.0%	12,112	6.3%	3.3%
20 to 49 Units	5,558	3.4%	6,730	3.5%	1.6%
50 Units or More	12,002	7.3%	12,162	6.3%	0.1%
Mobile Homes	3,395	2.1%	3,289	1.7%	-0.3%
Boats, RV's, Vans, Other	276	0.2%	110	0.1%	-7.4%
Total, All Housing Units	**163,957**	**100%**	**193,173**	**100%**	**1.4%**
Sacramento-Roseville-Arden-Arcade MSA (d)					
Detached Single-Family	469,547	65.7%	596,052	67.9%	2.0%
Attached Single-Family	42,920	6.0%	47,919	5.5%	0.9%
2 to 4 Units	49,822	7.0%	59,572	6.8%	1.5%
5 to 9 Units	32,945	4.6%	50,201	5.7%	3.6%
10 to 19 Units	23,399	3.3%	37,124	4.2%	3.9%
20 to 49 Units	19,015	2.7%	21,250	2.4%	0.9%
50 Units or More	49,197	6.9%	39,534	4.5%	-1.8%
Mobile Homes	26,713	3.7%	25,330	2.9%	-0.4%
Boats, RV's, Vans, Other	1,423	0.2%	1,075	0.1%	-2.3%
Total, All Housing Units	**714,981**	**100%**	**878,057**	**100%**	**1.7%**

Notes:

(a) The Sacramento Downtown Area is defined using 2000 and 2010 Census Tracts. For a complete listing of the included Census Tracts, please refer to Appendix A.

(b) The percent distribution of housing units by units in structure is from Census 2000, Summary File 3, while the total housing unit estimate is from Census 2000 Summary File 1.

(c) Average annual change uses 2012 as the midpoint of the 2010-2014 American Community Survey estimate.

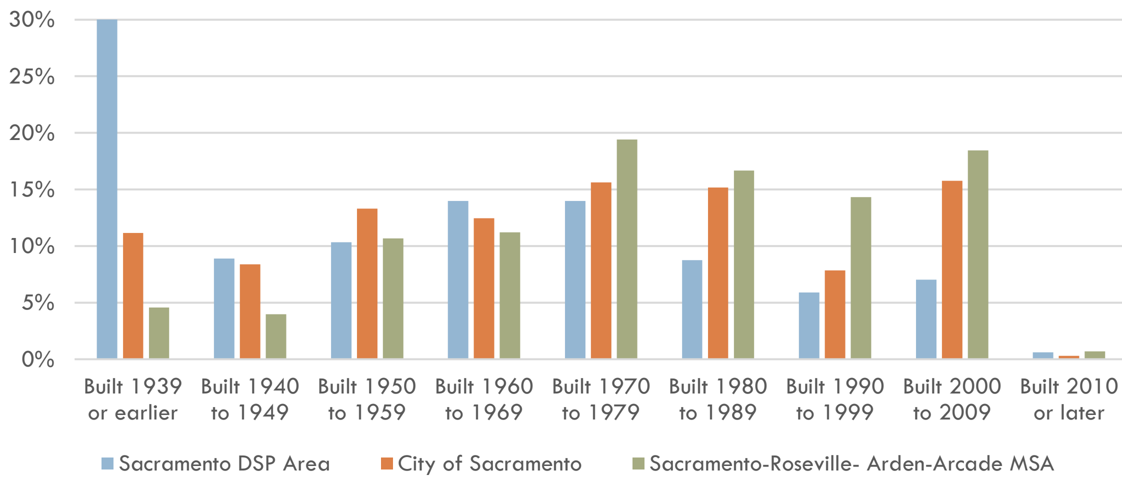
(d) The Sacramento-Roseville-Arden-Arcade Metropolitan Statistical Area (MSA) includes El Dorado, Placer, Sacramento, and Yolo Counties.

Sources: U.S. Census Bureau, Census 2000, Summary File 1 and Summary File 3, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; BAE, 2016.

Housing Stock by Year Built

As reported in Table 13, the DSP area contains a notably older inventory of housing units. More specifically, the majority of units located in the DSP area were built prior to 1970, representing 63.7 percent of the DSP area housing inventory. By comparison, units built prior to 1970 account for 45.3 percent and 30.4 percent of units in the City of Sacramento and Sacramento MSA, respectively. Of the older units, the DSP area has a significantly higher percentage of units built prior to 1940, comprising the largest percent of housing units, at 30.5 percent of all units in the DSP area. More recent trends indicate that the housing inventory in the DSP area did not expand as quickly as the City or the MSA.

Figure 18: Housing Units by Year Built, 2010-2014



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

Table 13: Housing Units by Year Built, 2010-2014

	Sacramento Downtown Area (a)		City of Sacramento		Sacramento-Roseville-Arden-Arcade MSA (b)	
Year Built	Number	Percent	Number	Percent	Number	Percent
Built 1939 or earlier	6,383	30.5%	21,537	11.1%	40,034	4.6%
Built 1940 to 1949	1,860	8.9%	16,204	8.4%	34,786	4.0%
Built 1950 to 1959	2,166	10.3%	25,703	13.3%	93,685	10.7%
Built 1960 to 1969	2,924	14.0%	24,043	12.4%	98,376	11.2%
Built 1970 to 1979	2,926	14.0%	30,207	15.6%	170,549	19.4%
Built 1980 to 1989	1,835	8.8%	29,292	15.2%	146,512	16.7%
Built 1990 to 1999	1,233	5.9%	15,166	7.9%	125,889	14.3%
Built 2000 to 2009	1,473	7.0%	30,440	15.8%	162,151	18.5%
Built 2010 or later	128	0.6%	581	0.3%	6,075	0.7%
Total, All Units	**20,928**	**100%**	**193,173**	**100%**	**878,057**	**100%**

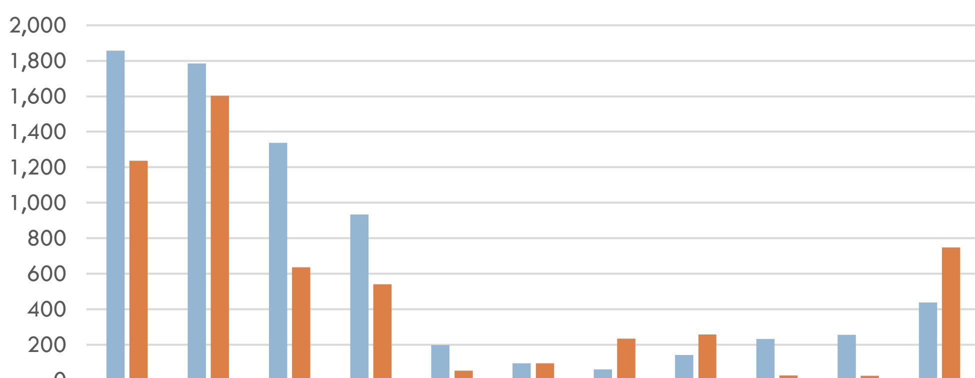
Notes:
(a) The Sacramento Downtown Area is defined using 2010 Census Tracts. For a complete listing of the included Census Tracts, please refer to Appendix A.
(b) The Sacramento-Roseville-Arden-Arcade Metropolitan Statistical Area (MSA) includes El Dorado, Placer, Sacramento, and Yolo Counties.

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

Building Permit Trends

As seen in Figures 19 and 20 below, the residential real estate market in the City of Sacramento and Sacramento MSA expanded rapidly in the mid-2000s. For example, between 2005 and 2006, the City of Sacramento issued a total of roughly 3,640 single-family building permits and roughly 2,840 multifamily building permits, for a total of 6,480 total permitted units over the two years. Over the same time period, the jurisdictions in the MSA, including both incorporated and unincorporated areas, issued a total of roughly 25,100 single-family building permits and 7,000 multifamily units, for a total of nearly 32,100 units. With the onset of the Great Recession, permits issued in both the City of Sacramento and Sacramento MSA steadily decreased between 2007 and 2010, reaching a low number of permitted units in 2010 of just 190 units in the City and 2,700 units in the Sacramento MSA. Both regions experienced fairly low levels of construction between 2010 and 2013, with the City of Sacramento permitting more multifamily units than single-family during that period. More recent trends seem to indicate that permitting in the both the City and MSA are steadily increasing, with 2015 including a significant number of multifamily units in the City, while single-family units continue to comprise the majority of the issued permits in the MSA.

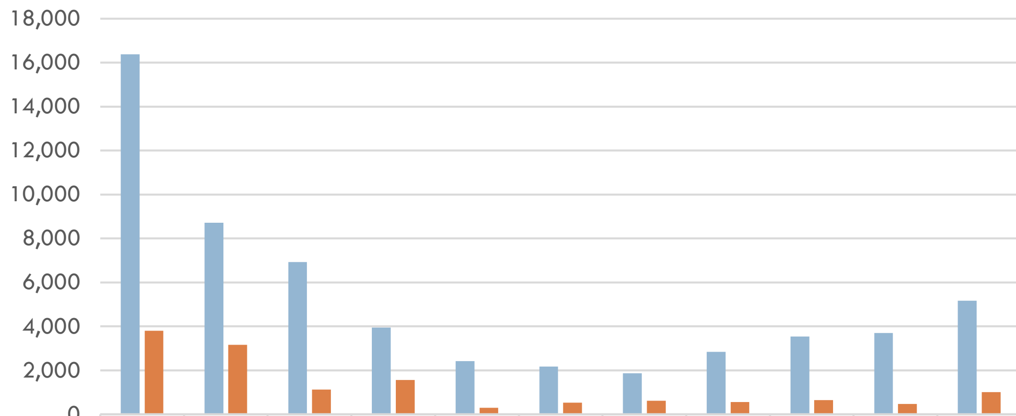
Figure 19: Building Permits Issued, City of Sacramento, 2005 to 2015



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Single-Family	1,856	1,785	1,337	934	199	95	61	142	232	256	438
Multifamily	1,236	1,603	636	541	54	96	234	258	27	25	749

Sources: U.S. Census Bureau, Building Permit Data, 2016, BAE, 2016.

Figure 20: Building Permits Issued, Sacramento-Roseville-Arden-Arcade MSA, 2005 to 2015



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Single-Family	16,380	8,714	6,924	3,952	2,415	2,166	1,873	2,848	3,539	3,694	5,175
Multifamily	3,802	3,163	1,126	1,559	295	536	618	560	650	465	1,009

Sources: U.S. Census Bureau, Building Permit Data, 2016, BAE, 2016.

Housing Occupancy and Vacancy Status

As reported in Table 14, the DSP area had a residential vacancy rate of 8.5 percent in 2000. Both the City of Sacramento and the Sacramento MSA contained somewhat lower vacancy rates, at 5.7 percent and 6.9 percent, respectively. Of the vacant units in the DSP area, a large proportion, roughly 900 units, registered as “for rent,” while units in the “other” vacancy category amounted for the majority of the remaining vacant units. More recent data indicate that the average vacancy rate recorded between 2010 and 2014 in the DSP area was somewhat higher than the rate recorded in 2000. As seen in Table 14, the DSP area vacancy rate averaged 13.1 percent between 2010 and 2014. By comparison, both the City of Sacramento and Sacramento MSA also experienced increases in residential vacancy rates over the same time period, most likely reflecting lingering effects of the housing market crash. Similar to the 2000 figures, units reported as “for rent” consisted of the majority of vacant units, or roughly 2,750 units. One notable increase between 2000 and 2010-2014 in the DSP area is the increase in units held vacant for seasonal or occasional use. These are typically second homes and/or units that were acquired for use during business trips or vacations. In 2000, these units accounted for only 154 units, but increased to an average of 407 between 2010 and 2014; though this still represented less than two percent of the total DSP area housing stock.

Table 14: Housing Occupancy and Vacancy Status, 2000 and 2010-2014

	2000		2010-2014		Average Annual
Units in Structure	Number	Percent	Number	Percent	**Change** (b)
Sacramento Downtown Area (a)					
Occupied Housing Units	17,771	91.5%	18,182	86.9%	0.2%
Vacant Housing Units	1,661	8.5%	2,746	13.1%	4.3%
For rent	*896*	*4.6%*	*1,156*	*5.5%*	*2.1%*
For sale only	*65*	*0.3%*	*108*	*0.5%*	*4.3%*
Rented or sold, not occupied	*62*	*0.3%*	*407*	*1.9%*	*17.0%*
For seasonal/occasional use	*154*	*0.8%*	*330*	*1.6%*	*6.6%*
For migrant workers	*0*	*0.0%*	*0*	*0.0%*	*n.a.*
Other vacant (c)	*484*	*2.5%*	*745*	*3.6%*	*3.7%*
Total, All Housing Units	**19,432**	**100%**	**20,928**	**100%**	**0.6%**
City of Sacramento					
Occupied Housing Units	154,581	94.3%	177,578	91.9%	1.2%
Vacant Housing Units	9,376	5.7%	15,595	8.1%	4.3%
For rent	*4,365*	*2.7%*	*5,506*	*2.9%*	*2.0%*
For sale only	*1,566*	*1.0%*	*1,786*	*0.9%*	*1.1%*
Rented or sold, not occupied	*735*	*0.4%*	*1,788*	*0.9%*	*7.7%*
For seasonal/occasional use	*629*	*0.4%*	*1,250*	*0.6%*	*5.9%*
For migrant workers	*2*	*0.0%*	*0*	*0.0%*	*n.a.*
Other vacant (c)	*2,079*	*1.3%*	*5,265*	*2.7%*	*8.1%*
Total, All Housing Units	**163,957**	**100%**	**193,173**	**100%**	**1.4%**
Sacramento-Roseville-Arden-Arcade MSA (d)					
Occupied Housing Units	665,298	93.1%	791,744	90.2%	1.5%
Vacant Housing Units	49,683	6.9%	86,313	9.8%	4.7%
For rent	*13,136*	*1.8%*	*20,127*	*2.3%*	*3.6%*
For sale only	*5,549*	*0.8%*	*8,957*	*1.0%*	*4.1%*
Rented or sold, not occupied	*2,969*	*0.4%*	*7,036*	*0.8%*	*7.5%*
For seasonal/occasional use	*21,374*	*3.0%*	*32,030*	*3.6%*	*3.4%*
For migrant workers	*94*	*0.0%*	*57*	*0.0%*	*-4.1%*
Other vacant (c)	*6,561*	*0.9%*	*18,106*	*2.1%*	*8.8%*
Total, All Housing Units	**714,981**	**100%**	**878,057**	**100%**	**1.7%**

Notes:

(a) The Sacramento Downtown Area is defined using 2000 and 2010 Census Tracts. For a complete listing of the included Census Tracts, please refer to Appendix A.

(b) Average annual change uses 2012 as the midpoint of the 2010-2014 American Community Survey estimate.

(c) Includes all vacant units that do not fit into any of the other categories of vacancy.

(d) The Sacramento-Roseville-Arden-Arcade Metropolitan Statistical Area (MSA) includes El Dorado, Placer, Sacramento, and Yolo Counties.

Sources: U.S. Census Bureau, Census 2000, Summary File 1, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; BAE, 2016.

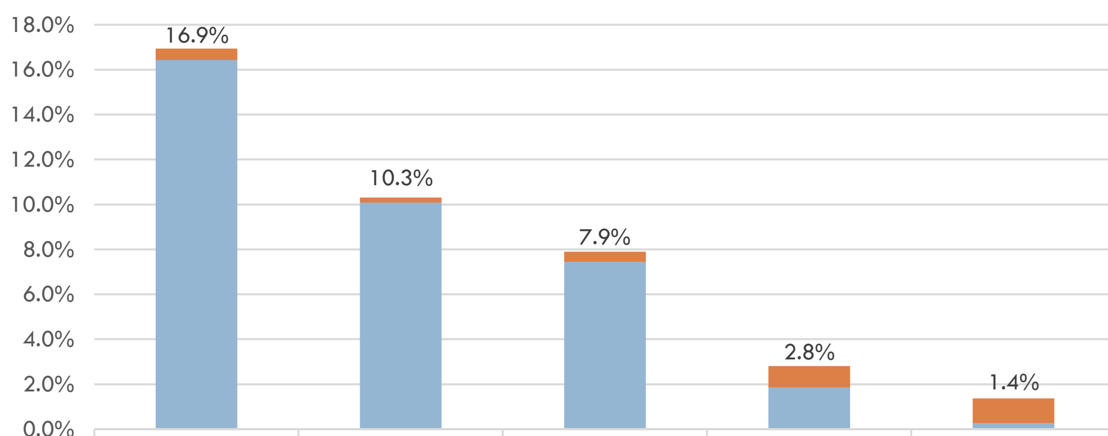
Housing Cost Burden by Income Category and Tenure

Table 15 presents data on housing cost burdens for owner and renter households in the DSP area, by HUD-defined income category. The data are from the same 2009-2013 CHAS data set described earlier in Table 5. As discussed previously, the household income categories are defined in relation to the HUD Adjusted Median Family Income, or HAMFI.

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.

All Income Levels: Among households at all income levels in the DSP area, 39.3 percent had housing cost burdens greater than 30 percent of income, while 20.4 percent had cost burdens greater than 50 percent of income. Owner households with excessive or severe cost burdens accounted for 28.0 percent of all owner households, while renter households with excessive or severe cost burdens accounted for 40.8 percent of all renter households, indicating that renter households are considerably more likely to experience excessive or severe cost burdens than homeowners.

Figure 21: Cost Burdened Households by Income Category and Tenure, 2009-2013



	Extremely Low-Income	Very Low- Income	Low-Income	Moderate- Income	Above Moderate-Income
Owner	0.5%	0.2%	0.5%	1.0%	1.1%
Renter	16.4%	10.1%	7.4%	1.9%	0.3%

Sources: U.S. Department of Housing and Urban Development, Comprehensive Housing Affordability Strategy, 2016, BAE, 2016.

Extremely Low-Income: Households categorized as extremely low-income include those with annual incomes that are equal to 30 percent, or less, of the area median income for the county in which it is located which is adjusted for household size. Households in this income category are typically the most heavily impacted by high housing costs. In the DSP area, 73.7 percent had housing cost burdens of greater than 30 percent, while 62.9 percent had cost burdens greater than 50 percent of income. Both owner and renter households in this category were highly impacted, with 60.5 percent of owner households and 74.2 percent of renter households facing cost burdens greater than 30 percent. With the prevalence of excessive or severe housing cost burdens, combined with extremely low income levels, this group of DSP area households can be considered very vulnerable to displacement under current conditions, as well as if there is any future loss of DSP area housing units and/or increases in rental rates. The effects of displacement from their current housing for this group are compounded by the fact that their extremely low incomes give them few, if any, options to find suitable affordable housing elsewhere within the City or the MSA, without incurring an excessive cost burden.

Very Low-Income: Households categorized as very low-income include those with annual incomes that are equal to more than 30 percent, but not more than 50 percent, of the area median income for the county in which it is located, adjusted for household size. Households in this income category were excessively or severely cost-burdened with frequency similar to that of households in the extremely low-income category, with 80.5 percent of all households paying more than 30 percent of income for housing, and 31.7 percent paying greater than 50 percent. Owner households in this income range were somewhat less affected, with 51.9 percent paying more than 30 percent of income. Renter households in this income category were more deeply impacted than those in the extremely low-income category, with 81.5 percent paying more than 30 percent. Although to a somewhat lesser extent than the Extremely Low-Income category, households in this category can be considered to be at significant risk of housing displacement under current or future conditions.

Low-Income: Households categorized as low-income include those with annual incomes that are equal to more than 50 percent, but not more than 80 percent, of the area median income for the county in which it is located, adjusted for household size. The prevalence of overpayment among low-income households is less than in the two other lower-income categories, though 46.1 percent of all low-income households still paid greater than 30 percent of income for housing costs, while only 6.1 percent paid greater than 50 percent. Among low-income households that own their home, 38.9 percent had cost burdens of greater than 30 percent. Among renter households approximately 46.7 percent paid greater than 30 percent of income for housing costs. Progressing into this somewhat higher income level, the majority of the DSP area households in this income group have housing costs that are considered affordable (i.e., 30 percent or less of monthly income), meaning that displacement is less of a concern than for the prior income groups under current conditions; however, renter households, in particular, in this income group could be vulnerable to displacement if rental housing rates continue to increase. Because their housing costs tend to be more stable if they stay in their existing homes, owner households tend to be less sensitive to housing market cost increases than renter households.

Moderate Income: Households categorized as moderate-income include those with annual incomes that are equal to more than 80 percent, but not more than 120 percent, of the area median income for the county in which it is located, adjusted for household size. Among moderate-income households in the DSP area, 14.6 percent had housing cost burdens greater than 30 percent of income, while just 3.8 percent had cost burdens greater than 50 percent of income. Owner households with excessive or severe cost burdens accounted for 41.6 percent of all owner households, while renter households with excessive or severe cost burdens accounted for just 10.9 percent of all renter households. The disparity in the incidence of excessive or severe cost burdens between renters and owners may reflect the fact that homeownership starts to become a possibility when households reach moderate income levels; however, as will be discussed later, under current housing market conditions moderate income households will typically have to stretch themselves financially in order to buy their homes. In contrast, moderate-income households can find affordable rental housing options under current market conditions. This information indicates that even if displaced from their current homes, under current market conditions, moderate-income households would likely be able to find suitable replacement housing, although they may be limited to renting.

Above Moderate Income: Households categorized as above moderate-income include those with annual incomes that are equal to greater than 120 percent of the area median income for the county in which the household resides, which is adjusted for household size. Among the above moderate-income households in the DSP area, 4.9 percent had housing cost burdens greater than 30 percent of income, while only 0.5 percent had cost burdens greater than 50 percent of income. Owner households with excessive or severe cost burdens accounted for 16.0 percent of above moderate income owner households, while renter households with excessive or severe cost burdens accounted for only 1.3 percent of renter households in the above moderate income category. As with the moderate-income households, housing displacement concerns are of limited concern, and to a lesser degree. If an above moderate-income household is displaced from its current housing for some reason, they will likely be able to find suitable replacement housing, either to buy or to rent, at an affordable cost.

Table 15: Distribution of Households by Income Category and Housing Cost Burden, DSP area, 2009-2013 (a)

	All Income Levels		Income Category (b): Extremely Low-Income (≤ 30% of HAMFI)		Very Low-Income (> 30% ≤ 50% of HAMFI)		Low-Income (> 50% ≤ 80% of HAMFI)		Moderate-Income (> 80% ≤ 120% of HAMFI)		Above Moderate-Income (> 120% of HAMFI)	
Owner Households	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
With ≤ 30% Housing Cost Burden	1,487	70.6%	33	21.0%	37	48.1%	129	61.1%	243	58.4%	1,044	84.0%
With > 30%, but ≤ 50% Housing Cost Burden	308	14.7%	10	6.4%	10	13.0%	30	14.2%	74	17.8%	184	14.8%
With > 50% Housing Cost Burden	280	13.3%	85	54.1%	30	39.0%	52	24.6%	99	23.8%	14	1.1%
Not Computed (No or Negative Income)	29	1.4%	29	18.5%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Subtotal, Owner Households (c)	**2,105**	**100%**	**157**	**100%**	**77**	**100%**	**211**	**100%**	**417**	**100%**	**1,243**	**100%**
Renter Households												
With ≤ 30% Housing Cost Burden	9,288	58.0%	851	21.2%	416	18.5%	1,542	53.3%	2,735	89.1%	3,745	98.7%
With > 30%, but ≤ 50% Housing Cost Burden	3,114	19.5%	441	11.0%	1,121	50.0%	1,210	41.9%	301	9.8%	40	1.1%
With > 50% Housing Cost Burden	3,420	21.4%	2,533	63.2%	705	31.4%	138	4.8%	34	1.1%	10	0.3%
Not Computed (No or Negative Income)	183	1.1%	183	4.6%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Subtotal, Renter Households (c)	**16,005**	**100%**	**4,008**	**100%**	**2,242**	**100%**	**2,891**	**100%**	**3,071**	**100%**	**3,795**	**100%**
All Households												
With ≤ 30% Housing Cost Burden	10,775	59.5%	884	21.2%	453	19.5%	1,671	53.9%	2,979	85.4%	4,789	95.1%
With > 30%, but ≤ 50% Housing Cost Burden	3,422	18.9%	451	10.8%	1,131	48.8%	1,241	40.0%	375	10.8%	224	4.5%
With > 50% Housing Cost Burden	3,700	20.4%	2,618	62.9%	735	31.7%	190	6.1%	133	3.8%	24	0.5%
Not Computed (No or Negative Income)	212	1.2%	212	5.1%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total, All Households (c)	**18,110**	**100%**	**4,165**	**100%**	**2,319**	**100%**	**3,102**	**100%**	**3,487**	**100%**	**5,037**	**100%**

Notes:

(a) The Sacramento Downtown Area is defined based on 2010 Census Tracts. For a complete listing of the included Census Tracts, please refer to Appendix A.

(b) CHAS data reflect HUD-defined household income limits.

(c) Figures may not sum to totals due to rounding.

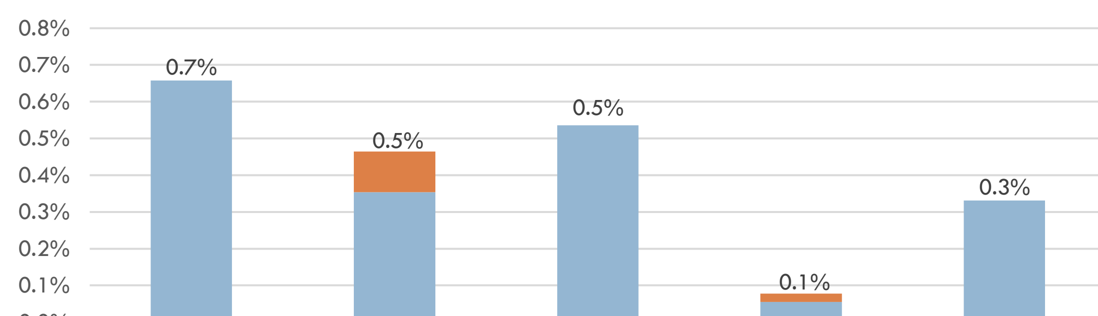
Sources: HUD, 2009-2013 CHAS, 2016; BAE, 2016.

Overcrowding by Income Category and Tenure

Table 16 utilizes the same CHAS database, as seen in the previous section, to identify the number of persons per room amongst DSP area households. Note that for this table, HUD defines the moderate-income category to extend only to 100 percent of median income, as opposed to the more commonly used definition which extends the moderate income range up to 120 percent of the median. According to HUD, a household is considered to be 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. Based on the CHAS data, DSP area households are less susceptible to overcrowding than to the previously noted excessive housing cost burdens. For example, approximately 97.9 percent of all households within the DSP area have less than 1.0 persons per room, and do not experience overcrowding. Renter households are somewhat more likely to experience overcrowding than owner households, at 2.2 percent and 1.1 percent respectively.

Within HUD-defined income categories, the percentage of households experiencing overcrowding range from 3.6 percent in the very low-income category, to just 0.7 percent in the moderate-income category. Of renter-occupied households, the percent of households experiencing overcrowding range from 3.4 percent to 0.6 percent, with the lower-income households somewhat more likely to experience overcrowding, though still experiencing relatively low levels of overcrowding. Within owner-occupied households, roughly 26.0 percent of the very-low income category experiences overcrowding, the highest percent of any income category. While the total number of households within the income category is fairly small, the percent of overcrowded households may indicate some need for large for-sale units affordable to these households. The remaining income categories indicate very low levels of overcrowing.

Figure 22: Overcrowded Households by Income Category and Tenure, 2009-2013



	Extremely Low-Income	Very Low- Income	Low-Income	Moderate- Income	Above Moderate-Income
Owner	0.0%	0.1%	0.0%	0.0%	0.0%
Renter	0.7%	0.4%	0.5%	0.1%	0.3%

Sources: U.S. Department of Housing and Urban Development, Comprehensive Housing Affordability Strategy, 2016, BAE, 2016.

Table 16: Distribution of Households by Income Category and Persons Per Room, DSP area, 2009-2013 (a)

	All Income Levels		**Income Category** (b)											
			Extremely Low-Income (≤ 30% of HAMFI)		Very Low-Income (> 30% ≤ 50% of HAMFI)		Low-Income (> 50% ≤ 80% of HAMFI)		Moderate-Income (> 80% ≤ 100% of HAMFI)		Above Moderate-Income (> 100% of HAMFI)			
Owner Households	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent		
With ≤ 1.0 Persons per Room	2,080	98.9%	165	100.0%	57	74.0%	214	100.0%	213	98.2%	1,430	100.0%		
With > 1.0, but ≤ 1.5 Persons per Room	24	1.1%	0	0.0%	20	26.0%	0	0.0%	4	1.8%	0	0.0%		
With > 1.5 Persons per Room	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%		
Subtotal, Owner Households (c)	**2,104**	**100%**	**165**	**100%**	**77**	**100%**	**214**	**100%**	**217**	**100%**	**1,430**	**100%**		
Renter Households														
With ≤ 1.0 Persons per Room	15,656	97.8%	3,883	97.0%	2,192	97.2%	2,792	96.6%	1,800	99.4%	4,989	98.8%		
With > 1.0, but ≤ 1.5 Persons per Room	187	1.2%	54	1.4%	64	2.8%	39	1.4%	10	0.6%	20	0.4%		
With > 1.5 Persons per Room	163	1.0%	65	1.6%	0	0.0%	58	2.0%	0	0.0%	40	0.8%		
Subtotal, Renter Households (c)	**16,006**	**100%**	**4,002**	**100%**	**2,256**	**100%**	**2,889**	**100%**	**1,810**	**100%**	**5,049**	**100%**		
All Households														
With ≤ 1.0 Persons per Room	17,736	97.9%	4,048	97.1%	2,249	96.4%	3,006	96.9%	2,014	99.3%	6,419	99.1%		
With > 1.0, but ≤ 1.5 Persons per Room	211	1.2%	54	1.3%	84	3.6%	39	1.3%	14	0.7%	20	0.3%		
With > 1.5 Persons per Room	163	0.9%	65	1.6%	0	0.0%	58	1.9%	0	0.0%	40	0.6%		
Total, All Households (c)	**18,110**	**100%**	**4,167**	**100%**	**2,333**	**100%**	**3,103**	**100%**	**2,028**	**100%**	**6,479**	**100%**		

Notes:

(a) The Sacramento Downtown Area is defined based on 2010 Census Tracts. For a complete listing of the included Census Tracts, please refer to Appendix A.

(b) CHAS data reflect HUD-defined household income limits.

(c) Figures may not sum to totals due to rounding.

Sources: HUD, 2009-2013 CHAS, 2016; BAE, 2016.

Home Sales Prices

Table 17 reports both average and median sale prices for residential structures sold in the DSP area over a one-year time period ending on July 1, 2016, by unit type. ListSource, a private real estate transaction data vendor, classified all housing units developed as part of a Planned Unit Development (PUD) within Sacramento County as such, regardless of unit type. BAE staff categorized PUD sale records as either single-family, condominium, or townhome units. For this study, townhome refers to a single-family home on a single lot that shares a common wall with another unit on a separate lot. Sales of units categorized by ListSource as Residential Not Elsewhere Categorized (NEC) were excluded from this study. Units in the NEC category primarily consisted of homes originally constructed as single-family homes that were, at some point in time, converted to multiple units.

According to ListSource there were 276 home sales in the DSP area during the July 2015 to July 2016 time period. The majority of home sales, 46.7 percent, were single-family units. This is notable given that, as discussed previously, single-family homes comprise only 12.5 percent of the DSP area's housing stock. The median sale price for single-family units during this time period was $430,000, with an average sale price of $453,702, and a maximum sale price of $950,000. The average unit size was 1,466 square feet, which equals an average price per square foot of $342.

Condominium sales were the second most frequent unit type sold during the time period, accounting for 26.4 percent of all home sales in the DSP area. The median sale price for condominiums was $369,000, with an average sale price of $426,000 and a maximum sale price of $629,000. The average unit size was 1,067 square feet, which equals an average price per square foot of $414. Townhomes accounted for 4.0 percent of home sales during the time period. The median sale price of all townhome sales was $369,000, with an average sale price of $426,545 and a maximum sale price of $629,000. The average unit size was 1,290 square feet, which equals an average price per square foot of $344.

Data for duplex, triplex and fourplex sales reflect sales of entire buildings rather than sales of individual units. Recognizing that most potential home buyers are not targeting duplex, triplex or fourplex buildings, Table 17 includes data for these complexes in light of the fact that, as discussed previously, two- to four-unit buildings account for the largest proportion of the DSP area housing stock (22.5 percent). Median and average sale prices for these multi-unit structures vary from the high $400,000s to the high $600,000s. The average building size ranged from 2,159 square feet to, 3,265 square feet, equaling an average price per square foot of $231 for duplexes, $215 for triplexes and $203 for fourplexes. Based on the cost per square foot information, these multi-unit buildings represent a relatively affordable supply of housing in the DSP area; however, they do not necessarily represent homeownership opportunities unless a buyer is able to purchase a multi-unit building, live in one unit, and rent the other units to other households.

Overall, the pricing information indicates that higher density housing types are in sufficient demand within the DSP area housing market that they are able to command prices roughly on par with traditional single-family homes, in the case of townhouses, and at a significant premium per square foot in the case of condominiums. This information should encourage developers to increase densities on DSP area residential sites in order to maximize the unit yield on a given piece of land while the higher value per square foot for completed units will help to support the increased construction costs associated with higher density building types.

Table 17: Characteristics of Housing Sales by Type, DSP area, July 2015 to July 2016 (a)

	Property Type (b)					
	Single Family (c)	Duplex Building	Triplex Building	Quadruplex Building	Condominium	Townhome (d)
Number of Sales	129	29	14	20	73	11
Lot Area						
Median Lot Area (Sq. Ft.)	3,049	3,049	4,021	3,200	(e)	976
Average Lot Area (Sq. Ft.)	3,271	4,016	4,456	4,342	(e)	1,144
Living Area						
Median Living Area (Sq. Ft.)	0	2,088	2,752	3,295	1,058	1,119
Average Living Area (Sq. Ft.)	1,466	2,159	2,234	3,265	1,067	1,290
Sale Price						
Maximum	$950,000	$828,500	$1,665,000	$999,000	$1,200,000	$629,000
Minimum	$175,000	$312,500	$395,500	$110,000	$160,000	$325,000
Median	$430,000	$475,000	$575,000	$677,500	$450,000	$369,000
Average	$453,702	$511,503	$665,000	$682,000	$437,879	$426,545
Sale Price Per Sq. Ft.						
Median Price/Sq. Ft. Living Area	$336	$222	$185	$214	$389	$328
Average Price/Sq. Ft. Living Area	$342	$231	$215	$203	$414	$334
Bedrooms						
Median Bedrooms	2.5	4.0	4.5	4.0	1.0	2.0
Average Bedrooms	2.7	3.6	4.1	4.3	1.6	2.2

Notes:

(a) The Sacramento Downtown Area is defined by the Downtown Specific Plan area, as seen in Figure 1.

(b) Excludes sales of units categorized as Residential Not Elsewhere Classified (NEC).

(c) Includes detached single family units in Planned Unit Developments, otherwise categorized by ListSource as PUD.

(d) Consists of attached single family units (not including condominiums) in Planned Unit Developments.

(e) Lot area not recorded for condominium sales.

Sources: ListSource, 2016; BAE, 2016.

In order to assess DSP area home sales information in relation to competing residential areas, Table 18 profiles home sales statistics in the three DSP area ZIP Codes, in addition to various comparison neighborhoods and the broader Sacramento County residential market. While the data indicate similar pricing as that summarized above in Table 17, these data, provided by the Sacramento Association of Realtors (SAR), profile all single-family resales over a six-month period, between February and July of 2016. Based on the SAR data, only one comparison neighborhood had a higher average price per square foot than the DSP area. As shown in the table, homes in East Sacramento, defined by ZIP Code 95819, sold for an average price per square foot of $372, compared to $354 per square foot for the home sales in the DSP area ZIP Codes. Average sales price per square foot in the other comparison neighborhoods ranged from a low of $174 in the Natomas Del Paso Heights area, to $338 in the Land Park/Curtis Park area, with of neighborhoods closer to $200 per square foot. The Oak Park and Tahoe Park neighborhoods had an average price per square foot of $262, while the South Land Park and Greenhaven areas had an average of $210. West Sacramento, arguably one of the areas most likely to compete with housing projects in the DSP area, had an average price per square foot of $198, one of the lowest in the region outside of Natomas/Del Paso Heights, Rancho Cordova, and Elk Grove. Countywide, the average price per square foot was $203.

Figure 23: Median Sale Price by Neighborhood, February 2016 to July 2016

Sources: Sacramento Association of Realtors, 2016, BAE, 2016.

Table 18: Comparison Neighborhood Home Sale Statistics, February to July 2016

Zip Code	Total Sales	Average Living Area (Sq. Ft.)	Average # of Bedrooms	Median Sale Price	Average Sale Price/Sq. Ft.
Sacramento Downtown Area					
95811	9	2,179	3.3	$519,000	$276
95814	6	1,743	2.8	$510,000	$305
95816	87	1,520	2.7	$462,000	$366
Total/Average	**102**	**1,591**	**2.8**	**$476,250**	**$354**
Comparison Neighborhoods (a)					
East Sacramento (95819)					
Total/Average	148	1,548	2.8	$498,500	$372
Oak Park (95817)					
Total/Average	131	1,136	2.6	$295,500	$262
Sacramento Land Park Curtis Park (95818)					
Total/Average	136	1,622	2.9	$490,000	$338
South Land Park Greenhaven (95822 & 95831)					
Total/Average	436	1,630	3.3	$325,000	$210
West Sacramento (95605 & 95691) (a)					
Total/Average	316	1,872	3.5	$350,500	$198
Natomas Del Paso Heights (95833, 95834, 95835, & 95838)					
Total/Average	956	1,735	3.3	$290,200	$174
Sacramento Arden Arcade Creek (95815, 95821, & 95864)					
Total/Average	524	1,629	3.2	$290,000	$210
Rosemont College Greens Mayhew (95826 & 95827)					
Total/Average	318	1,477	3.5	$277,250	$191
Rancho Cordova (95670 & 95742)					
Total/Average	454	1,908	3.5	$332,250	$187
Folsom (95630)					
Total/Average	526	2,209	3.7	$485,000	$238
Elk Grove (95757, 95758, & 95624)					
Total/Average	1,255	2,071	3.7	$360,000	$189
Sacramento County					
All Zip Codes	9,008	1,725	3.3	$314,380	$203

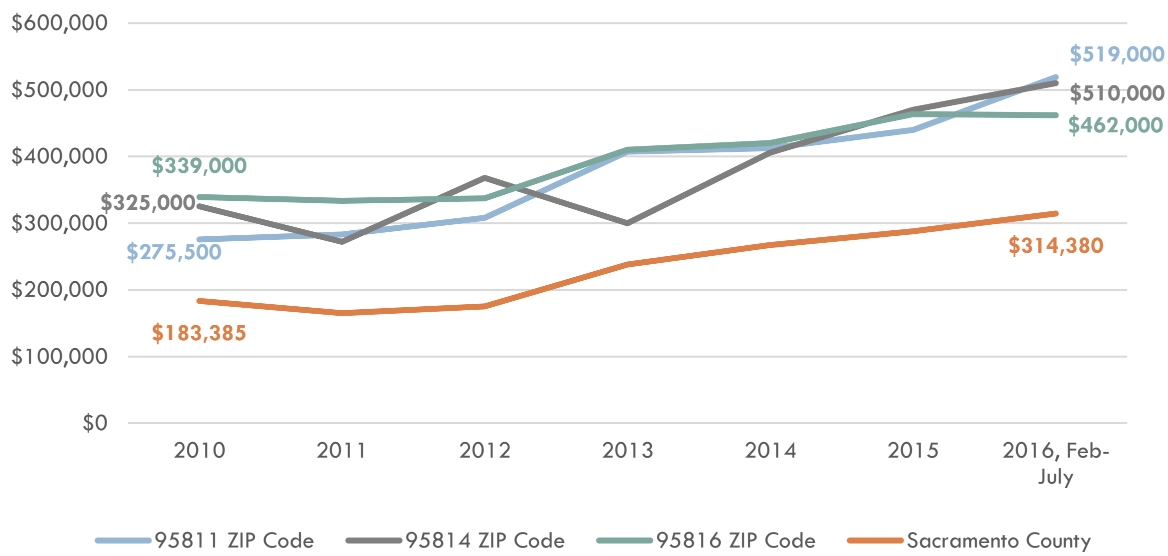
Notes:

(a) The City of West Sacramento is located in Yolo County and therefore excluded from the total Sacramento County statistics.

Sources: Sacramento Association of Realtors, 2016; BAE, 2016.

Analysis of sale price trend data from SAR show that the resale prices for single-family homes in the three DSP area ZIP Codes, as well as countywide, increased dramatically since the year 2010. Figure 25 shows that whereas the median sale price in the DSP area ZIP Codes ranged from $275,000 to $339,000 in 2010, between February and July, 2016, the median sale price increased to between $462,00 and $519,00. This represents an 88.4 percent increase in the median sale price for homes in the 95811 ZIP Code (note; however, that this represents a relatively small number of home sales), a 56.9 percent increase of median sale price for homes in the 95814 ZIP Code, and a 36.6 percent increase of median for homes in the 95816 ZIP Code. Comparatively, the median home sale price countywide increased from $183,385 in 2010, to $314,380 between February and July, 2016, representing a total increase of 71.4 percent.

Figure 24: Historic Home Sale Trends, 2010 to 2016



Sources: Sacramento Association of Realtors, 2016, BAE, 2016.

Acknowledging that data provided by SAR account only for resales of existing housing units, and that data provided by ListSource account for newly constructed units as well as resales and, these data may not be strictly comparable, but they are useful to establish the general context for DSP area housing values, including newly constructed homes. Table 19 summarizes the sale prices of the more recently constructed housing units that are adding to the supply of housing in the DSP area, Table 19 summarizes sales of four of the most recently completed for-sale housing developments in the DSP area. BAE obtained the data presented in Table 19 from interviews with developers, real estate brokers, sales brochures, and City Planning Department documents. The developments summarized in the table include three single-family home developments and one condominium development.

The first for-sale single-family home development summarized is Tapestri Square, which consists of 58 three-story, detached single family homes located on 21st Street between T Street and U Street. Unit sizes range from 1,200 square feet to 2,700 square feet. According to interviews with real estate brokers and project representatives, sales for these units were strong when they entered the market in 2009, but slowed during the Great Recession. With the economic recovery, sales once again increased such that the last unit sold in April, 2016. The homes are customizable, therefore, sale price ranges depend on layout and finishes. The smallest unit, at approximately 1,200 square feet, sold for around the low-$400,000 range and the largest unit, at approximately 2,700 square feet, sold for around the high-$800,000 range,[6] resulting in an average price per square foot of approximately $316. According to ListSource, the average price per square foot for the units most recently sold was approximately $396 to $492, which is significantly higher compared to cost per square foot for all single-family home sales reported in Table 17.

The second for-sale single family home development presented in Table 19 is The Creamery at Alkali Flat, which consists of 122 three-story, detached single-family units on the site of the former Crystal Cream and Butter Factory. According to the project's sales brochure, three different layouts range from 1,745 square feet to 2,305 square feet.[7] The homes are customizable, and therefore base prices range from approximately $499,000 to $569,000, depending on layout and finishes, for an average price per square foot of $264. Of the total units proposed, 35 units are completed or under construction, with 33 closed sales. According to the developer, demand is so strong that the first 30 units sold within a matter of hours after being released in December, 2015.

The final for-sale single-family home development presented is the 2500 R Street project, located on R Street between 25th Street and 26th Street. The project consists of 34, two- to three-story, detached, zero net energy units. Units range from 1,200 square feet to 1,700 square feet. The homes were customizable, therefore sale prices ranged from the mid-$300,000 range to approximately $400,000 for the larger units, with the average price per square foot ranging from $235 to $276. Sales of units began in Fall of 2013, and by August 2014 the project was sold out.

The L Street Lofts, at 1818 L Street, is the only for-sale multifamily development completed in the DSP area since 2008. This development consists of 76 loft style condominiums, ranging from approximately 700 square feet for the smallest units, to approximately 2,200 square feet for the penthouse units. As seen in Table 19, at 700 square feet the smallest units sold for

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[6] Sales price for the Tapestri was provide as a range of low $400,000's for a base size of 1,200 square feet, mid $600,000's for a base size of 2,200 square feet, and high $800,000's for a base size of 2,700 square feet. BAE estimated a range of sale prices for each unit type and use the average of the high and low sale price to calculate average cost per square foot.
[7] The Creamery at Alkali Flats. (2016). Available at: http://livesaccreamery.com/wp-content/uploads/The-Creamery-Brochure.pdf

approximately $400,000, and the largest units, ranging from 1,800 square feet to 2,200 square feet, sold for approximately $1.2 million, resulting in an average price per square foot of approximately $550. Although sale of these units was hindered by the Great Recession, according to interviews with local real estate brokers, current sales exceed expectations such that only two units remain unsold. Although limited to one project, this information indicates that a quality, well-designed, multifamily project in a good location can command price premiums significantly above the DSP area market average prices per square foot. It is worth noting that one broker interviewed for this study cautioned that loft units such as those offered at 1818 L represent a niche product and the ability to sell these types of units depend on the quality of the project and the layout of the units.

Interviews with developers and real estate brokers in the DSP area revealed that overwhelmingly, purchasers of new homes in these four developments tend to be singles, young professionals, retirees, and adults whose children are grown and no longer live at home, otherwise known as “empty nesters”. Those who are not retired predominantly are employed In the DSP area or at Intel in Folsom, or telecommute to the Bay Area. Most notably, interviewees reported that families with children were not buying or expressing interest in these units. Buyers tended to be wealthy and willing to pay a premium for high quality housing In the DSP area. However, interviewees stated that lower priced units in their developments often sold just as quickly as the higher priced units due to the affordability.

Interviewees stated that the “urban experience” is the most significant attribute that draws buyers. This includes proximity to restaurants, bars and entertainment, and the ability to walk to jobs and activities. Another key attractant to buyers is that the units are relatively low maintenance. Most units do not have yards, and homeowner’s associations or property managers maintain common areas. Interviewees referred to this low maintenance lifestyle as “lock-and-leave”, and stated it was highly desirable among retirees, empty nesters and those who travel frequently for work.

Table 19: Comparable Market Rate For-Sale Housing Properties, DSP area

Image	Name/Address	Size (sf) Low	Size (sf) High	Num.	Sale Price Low	Sale Price High	Average $/sf	Parking and Amenities
Single Family Homes								
	**Tapestri Square** (a)		1,200	16	$400,000 -	$433,333	$347	Attached 2-Car
	21st Street		2,200	30	$633,334 -	$666,666	$295	Garage
	Sacramento, CA 95818		2,700	12	$866,667 -	$899,999	$327	
	Average/Total		**2,028**	**58**	**$617,242 -**	**$650,574**	**$316**	
								Attached 2-car
	The Creamery							garage
	10th and D Street							Dog park
	Sacramento, CA 95814	1,745 -	2,305	122	$499,000 -	$569,000	$264	Community gardens
	Average/Total		**2,025**	**122**		**$534,000**	**$264**	
								Attached 1 car
	2500 R Street							garage
	25th Block of R Street	1,200 -	1,300	30	$330,000 -	$360,000	$276	Solar Energy
	Sacramento, CA 95816		1,700	4		$400,000	$235	Zero net energy
	Average/Total		**1,347**	**34**		**$351,471**	**$271**	
Condominiums								
			700	20		$400,000	$571	One dedicated
			950	20		$475,000	$500	parking space in a
			1,100	20		$550,000	$500	garage structure
	L Street Lofts		1,044	4		$620,000	$594	
	1818 L Street		1,500	4		$800,000	$533	
	Sacramento, CA 95811	1,800 -	2,200	4		$1,200,000	$600	
	Average/Total		**1,216**	**72**		**$541,389**	**$532**	

Note:
(a) Sale price provided as a range of low $400,000's, mid $600,000's and high $800,000's. The average of the high and low sale were price used to calculate average $/sf.

Sources: Personal Phone Interviews, 2016; Marketing Material, 2016; Silicon Valley Business Journal, 2016; BAE, 2016.

HCD Income Limits
Table 20 reports the 2016 income limits published by the HCD that apply to households located in Sacramento County, adjusted for household size. The income limits are based on the adjusted median income which equals $76,100 for Sacramento County. The median income is presumed to apply to four-person households. The income limits range from $16,000 for an extremely low-income single-person household to $120,000 for an eight-person household at the moderate-income limit. These income limits can be used to estimate the rents and the home purchase prices that would be affordable to households of different sizes, at different income levels, as discussed below.

Affordable Home Sales Prices 2016
Similar to both HUD and HCD, this study assumes that a household can comfortably spend up to 30 percent of its gross household income on housing-related costs, without incurring excessive housing cost burden. For homeowners, this includes monthly principal and interest payments, mortgage insurance, property taxes and property insurance costs. Mortgage assumptions are based on industry standard loan terms for first-time homebuyers obtaining a mortgage insured by the FHA, and are as follows:

- Down Payment: 3.5 percent
- Annual Interest Rate: 3.25 percent
- Loan Term: 30 years
- Prepaid Mortgage Insurance: 1.75 percent of home value
- Annual Mortgage Insurance: 0.85 percent of loan amount
- Annual Property Tax Rate: 1.25 percent of home value
- Annual Hazard Insurance Rate: 0.42 percent of home value

In the case of a typical three-person household living in Sacramento County, the sale price for a single-family residential unit that could be considered affordable ranges from only $83,195 for an extremely low-income household, to $331,810 for a moderate-income household. Note that the income limits increase or decrease with family size. For example, a unit deemed affordable to a five-person household living in Sacramento County would range from $114,857 for an extremely low-income household, to $398,204 for a moderate-income household. As discussed previously, households in the DSP area tend to be smaller, with the majority of households ranging from one to two persons. For a unit deemed affordable to a one-person household, the affordable sale price in the DSP area ranges from $64,617 for extremely low-income households to $107,588 for very low-income households, $172,205 for low-income households, and $258,146 for moderate-income households. For a unit deemed affordable to a two-person household, the sale price in the DSP area ranges from $73,987 for extremely low-income households, $122,935 for very low-income households, $196,921 for low-income households, and $294,978 for moderate-income households.

Table 20: HCD Income Limits, Fiscal Year 2016

Sacramento County

Median Family Income: **$76,100**

	Number of People Per Household							
Income Level	One	Two	Three	Four	Five	Six	Seven	Eight
Extremely Low-Income (30% MFI)	$16,000	$18,300	$20,600	$24,300	$28,440	$32,580	$36,730	$40,890
Very Low-Income (50% MFI)	$26,650	$30,450	$34,250	$38,050	$41,100	$44,150	$47,200	$50,250
Low-Income (80% MFI)	$42,650	$48,750	$54,850	$60,900	$65,800	$70,650	$75,550	$80,400
Median Income (100% HAMFI)	$53,250	$60,900	$68,500	$76,100	$82,200	$88,300	$94,350	$100,450
Moderate Income (120% MFI)	$63,900	$73,050	$82,150	$91,300	$98,600	$105,900	$113,200	$120,500

Sources: HCD, 2016; BAE, 2016.

Table 21: Affordable For-Sale Housing Prices, Sacramento County, 2016 (Page 1 of 2)

	Household Size				
2015 Income Limits (a)	1-Person	2 -Persons	3-Persons	4-Persons	5-Persons
Extremely Low	$16,000	$18,300	$20,600	$24,300	$28,440
Very Low Income	$26,650	$30,450	$34,250	$38,050	$41,100
Low Income	$42,650	$48,750	$54,850	$60,900	$65,800
Moderate Income	$63,900	$73,050	$82,150	$91,300	$98,600

1-Person Household	**Amount Avail. for Housing**	**Principal & Interest**	**Property Insurance**	**Property Taxes**	**Mortgage Insurance**	**Total Monthly Payment**	**Down-Payment**	**Affordable Home Price**
Extremely Low	$400	$266	$23	$67	$43	$400	$3,392	**$64,617**
Very Low Income	$666	$444	$38	$112	$72	$666	$5,648	**$107,588**
Low Income	$1,066	$710	$61	$179	$116	$1,066	$9,041	**$172,205**
Moderate Income	$1,598	$1,064	$91	$269	$173	$1,598	$13,553	**$258,146**

2-Person Household	**Amount Avail. for Housing**	**Principal & Interest**	**Property Insurance**	**Property Taxes**	**Mortgage Insurance**	**Total Monthly Payment**	**Down-Payment**	**Affordable Home Price**
Extremely Low	$458	$305	$26	$77	$50	$458	$3,884	**$73,987**
Very Low Income	$761	$507	$44	$128	$83	$761	$6,454	**$122,935**
Low Income	$1,219	$812	$70	$205	$132	$1,219	$10,338	**$196,921**
Moderate Income	$1,826	$1,216	$104	$307	$198	$1,826	$15,486	**$294,978**

3-Person Household	**Amount Avail. for Housing**	**Principal & Interest**	**Property Insurance**	**Property Taxes**	**Mortgage Insurance**	**Total Monthly Payment**	**Down-Payment**	**Affordable Home Price**
Extremely Low	$515	$343	$29	$87	$56	$515	$4,368	**$83,195**
Very Low Income	$856	$570	$49	$144	$93	$856	$7,260	**$138,281**
Low Income	$1,371	$913	$78	$231	$149	$1,371	$11,627	**$221,476**
Moderate Income	$2,054	$1,368	$117	$346	$223	$2,054	$17,420	**$331,810**

4-Person Household	**Amount Avail. for Housing**	**Principal & Interest**	**Property Insurance**	**Property Taxes**	**Mortgage Insurance**	**Total Monthly Payment**	**Down-Payment**	**Affordable Home Price**
Extremely Low	$608	$405	$35	$102	$66	$608	$5,156	**$98,218**
Very Low Income	$951	$633	$54	$160	$103	$951	$8,065	**$153,628**
Low Income	$1,523	$1,015	$87	$256	$165	$1,523	$12,917	**$246,031**
Moderate Income	$2,283	$1,521	$131	$384	$248	$2,283	$19,362	**$368,804**

5-Person Household	**Amount Avail. for Housing**	**Principal & Interest**	**Property Insurance**	**Property Taxes**	**Mortgage Insurance**	**Total Monthly Payment**	**Down-Payment**	**Affordable Home Price**
Extremely Low	$711	$474	$41	$120	$77	$711	$6,030	**$114,857**
Very Low Income	$1,028	$685	$59	$173	$111	$1,028	$8,718	**$166,067**
Low Income	$1,645	$1,096	$94	$277	$178	$1,645	$13,951	**$265,739**
Moderate Income	$2,465	$1,642	$141	$415	$267	$2,465	$20,906	**$398,204**

- Continued on next page -

Sources: HCD, 2016; California Department of Insurance, Homeowners Premium Survey, 2016; Bankrate.com, 2016; BAE, 2016.

Table 21: Affordable For-Sale Housing Prices, Sacramento County, 2016 (Page 2 of 2)

Ownership Cost Assumptions		
% of Income for Housing Costs	30%	of gross annual income
Down payment	3.50%	of home value
Annual interest rate	3.25%	fixed
Loan term	30	years
Upfront mortgage insurance	1.75%	of home value
Annual mortgage insurance	0.85%	of mortgage
Annual property tax rate	1.25%	of home value
Annual hazard insurance (b)	0.42%	of home value

Notes:
(a) Income limits are based on the HUD adjusted median family income of $76,100 ($2016).
(b) Based on an average of quoted insurance premiums from the Homeowners Premium Survey, published by the California Department of Insurance, for a home valued at $300,000.

Sources: HCD, 2016; California Department of Insurance, Homeowners Premium Survey, 2016; Bankrate.com, 2016; BAE, 2016.

Based on a comparison with the median sale prices reported in Table 17 it is unlikely that the available market rate, for sale housing is affordable to most low- to extremely low-income households. With median sale prices for single-family, townhome and condominium units ranging from $369,000 to $453,702, the majority of for-sale housing is affordable only for larger, moderate-income households. Similarly, comparison with the sales prices for new, for-sale units reported in Table 19 show that of the units surveyed, 30 units in the 2500 R Street project were potentially affordable for larger, moderate-income households. According to Table 5, 53.1 percent of DSP area households fall within the low- to extremely low-income categories, indicating that more than one-half of households in the DSP area would not be able to purchase market rate housing and would likely consider rental housing as their only viable option for affordable housing. Affordability of rental housing is discussed below.

Apartment Rents and Vacancy Rates 2016

According to data collected from RealAnswers, a private data vendor, there are approximately 1,818 units in the DSP area located in multifamily properties with 50 or more units, as seen in Table 22. As of the second quarter of 2016, the average rent for these units was $1,759 per month, with an average unit size of 815 square feet. This equaled an average rent per square foot of $2.16. The inventory is generally dominated by one- and two-bedroom units, which account for roughly 80 percent of all multifamily units in larger complexes. Of the remaining unit types, studios account for the majority, with 310 total studio units located in larger DSP area complexes. Studio units represent an average size of just 544 square feet and rent for an average of approximately $1,280 per month. On average, the studio units demand the highest rent per square foot, at $2.35. One-bedroom units average approximately 735 square feet, with an average rent of just under $1,700 per month. One-bedroom units also command an above-average rent per square foot, of $2.31, though slightly below the reported studio figures. Two-bedroom units have an average size of 1,061 square feet, and rent for an average of $2,075 per month, indicating an average rent per square foot of just under $2.00. Three-bedroom units demonstrate less robust figures, with an average monthly rental rate registering below the average two-bedroom rate, and yielding the lowest rent per square foot, suggesting that larger households are not generating strong demand for rental housing in the DSP area at this time; however, this represents a relatively small number of units (58) and the average rent figure could easily be skewed if older units predominate in this size category.

Table 22: Rental Housing Market Overview, DSP area, Second Quarter 2016 (a)

Current Market Overview (Q2 2016)

Unit Type	Number of Units	Average Size (Sq. Ft.)	Average Rent	Average Rent/Sq. Ft.
Studio	310	544	$1,279	$2.35
1 Bdrm	928	736	$1,698	$2.31
2 Bdrm	522	1,061	$2,075	$1.96
3 Bdrm	58	1,299	$1,950	$1.50
Total, All Unit Types	**1,818**	**815**	**$1,759**	**$2.16**

Average Vacancy Rate, 2006 to Present

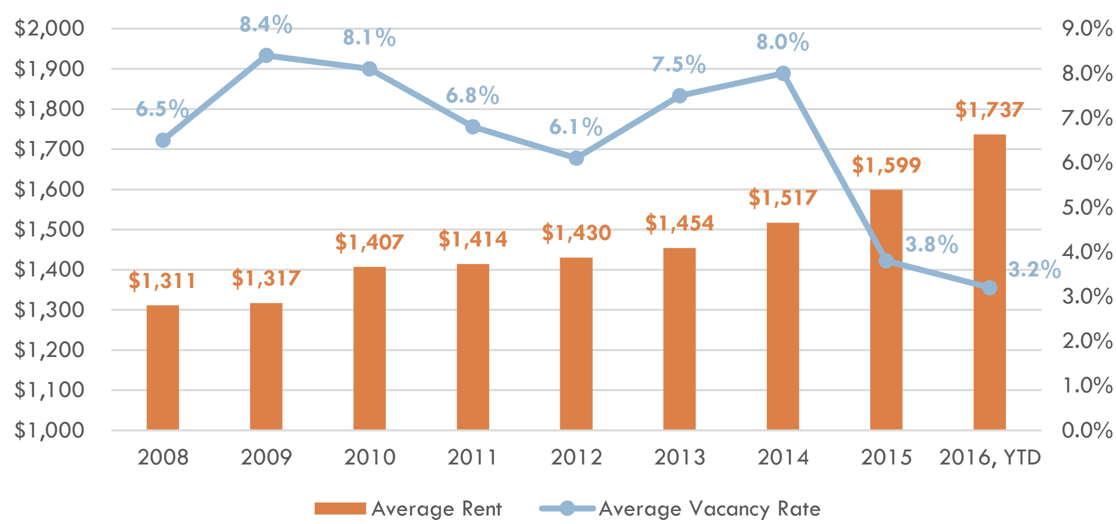
Year	Average Vacancy
2016, YTD	3.2%
2015	3.8%
2014	8.0%
2013	7.5%
2012	6.1%
2011	6.8%
2010	8.1%
2009	8.4%
2008	6.5%
2007	12.5%
2006	17.8%

Note:
(a) Includes data for housing complexes with 50 units or more located in the Downtown Specific Plan area.

Sources: RealAnswers, 2016; BAE, 2016.

Additional data from RealAnswers, presented in Figure 25, indicate that the DSP area multifamily market has steadily improved between 2008 and 2016; however, with this improvement there is an associated loss of affordability. The average rental rate for all DSP area units in structures of 50 or more units in 2008 was $1,311. During the same year, DSP area properties sustained a vacancy rate of 6.5 percent, which increased to 8.4 percent in the following year. In conjunction with the increase in vacancy rate between 2008 and 2009, the rental rates remained fairly constant, recording an average rate of $1,317. Between 2009 and 2012, the vacancy rate steadily improved, dropping to 6.1 percent in 2012. Over the same period, the average DSP area rental rate increased by roughly $115, or 8.6 percent. Between 2012 and 2014, however, vacancy rates steadily increased, reaching 8.0 percent in 2014. Over the same time period, rental rates increased by roughly $90. Since 2014, the DSP area has seen a significant drop in vacancy rates, indicating a jump in demand for DSP area multifamily units. As vacancy rates have fallen, reaching just 3.2 percent in the second quarter of 2016, rental rates have increased significantly. Over the course of the first two quarters of 2016, the average recorded rental rate reached $1,737 per month, which represents an increase of $220, or 14.5 percent, in just two years. Though demand has likely increased for DSP area units, it is worth noting that the recent rental rate increases may be influenced in part by new, relatively expensive rental residential projects coming into the market. According to RealAnswers, the DSP area added 84 units in 2013, with an additional 50 in 2015, and these newer units typically rent at rates considerably above the DSP area averages.

Figure 25: Historic Rent and Vacancy Rate, DSP area, 2008 to 2016 YTD (a)



Sources: RealAnswers, 2016, BAE, 2016.

In order to analyze the characteristics of newly developed multifamily rental housing, Table 23 below contains general statistics for four recently developed projects located in the DSP area. When possible, the data presented in the table represent confirmed rental rates obtained through personal interviews with property managers, though additional sources were also used to obtain complete information. Based on the information collected, the majority of units in the profiled complexes are one- and two-bedroom units, with a small number of studios. The Eviva Midtown project is currently under construction and contains a variety of units of different sizes, though roughly two-thirds of the units consist of less than 850 square feet. The smaller units within Eviva, including studios and one-bedrooms, command rental rates from $1,900 to $2,345 per month, amounting to a range of $2.51 to $3.12 per square foot. The remaining 40 units are two-bedroom units, which collect rents between $2,435 and $3,390 per month. The next project, 16 Powerhouse, consists of 16 one-bedroom units and 34 two-bedroom units ranging in size from 900 to 1,500 square feet. Rental rates for the property range from just under $2,000 to $2,500 for a one-bedroom unit, and between $3,000 and

$4,500 for a two-bedroom unit, though the higher rate represents a limited number of penthouse units located on the top floor of the complex.

The M.A.Y. building, located on K Street, is a unique project in which a historical property was renovated and upgraded to include modern appliances and fixtures. Given the renovation, the development team was bound by the existing structure, thus the small unit sizes (450 to 850 square feet) are attributable to this limitation. Despite the small unit sizes, the anticipated rental rates for units located in the M.A.Y building range from $1,850 to $2,750, implying a range in rent per square foot of $3.24 to $4.11. As noted, this project may not be indicative of the broader development trends in the DSP area, though it may show the demand for higher end rental units targeted at a certain demographic.

Finally, though located on the outskirts of the DSP area, at 31st and S Street, the LINQ Midtown complex is one of the larger recently developed multifamily properties. LINQ Midtown yields somewhat lower rents when compared to the other new rental developments. One-bedroom units located in the complex rent for between $1,730 and $2,280, while two-bedrooms rents for between $2,225 and $2,665 per month. Based on the square footage information, the rent per square foot for one-bedroom units range from $2.27 to $2.87, while two-bedroom units rent for between $2.11 and $2.28 per square foot.

Table 23: Newly Constructed Rental Housing Properties, DSP area, August 2016

Image	Name/Address	Unit Type	Num.	Size (sf)	Rent Low	Rent High	$/sf
		Studio	5	754	$1,900 -	$1,950	$2.51 - $2.58
	Eviva Midtown	1 BR / 1 BTH	73	685-828	$2,140 -	$2,345	$2.83 - $3.12
	1531 N Street	2 BR / 2 BTH	40	1,007-1,212	$2,435 -	$3,390	$2.42 - $2.80
	Sacramento, CA 95814	**Total/Avg.**	**118**	**876**	**$2,230 -**	**$2,683**	**$2.42 - $3.12**
	**16 Powerhouse**	1 BR / 1 BTH	16	900	$1,975 -	$2,500	$2.19 - $2.78
	1606 P Street	2 BR / 2 BTH	34	1,200-1,500	$3,000 -	$4,500	$2.50 - $3.00
	Sacramento, CA 95814	**Total/Avg.**	**50**	**1,164**	**$2,672 -**	**$3,860**	**$2.19 - $3.00**
	**The M.A.Y. Building**						
	1029 K Street	1 BR / 1 BTH	21	450 - 850	$1,850 -	$2,750	$3.24 - $4.11
	Sacramento, CA 95814	**Total/Avg.**	**21**	**450 - 850**	**$1,850 -**	**$2,750**	**$3.24 - $4.11**
		Studio	23	616-684	n.a.	n.a.	n.a.
	LINQ Midtown	1 BR / 1 BTH	120	761-794	$1,730 -	$2,280	$2.27 - $2.87
	3111 S Street	2 BR / 2 BTH	132	1,056-1,171	$2,225 -	$2,665	$2.11 - $2.28
	Sacramento, CA 95816	**Total/Avg.**	**275**	**928**	**$1,989 -**	**$2,482**	**$2.27 - $2.87**

Sources: CADA, 2016; Property Listing Websites, 2016; Personal Phone Interviews, 2016; BAE, 2016.

Based on additional interviews with Sacramento area multifamily developers and property management representatives, a large share of the recently constructed multifamily units are typically studios to two-bedroom units, as is reflected in the previous table. Developers and property managers cited the recent increase in demand from young professionals interested in finding a rental unit in the DSP area. Most indicated that the young professionals typically fall within the late-20s to early-30s age bracket, citing the fact that younger residents in lower paid occupations may not be able to afford the new product, and that the older households, typically with a family, prefer a more suburban living environment. That said, various property managers noted a recent increase in demand from older residents, typically categorized as empty-nesters, who are interested in downsizing and locating in a more urban environment. These trends are generally comparable to the recent demographic trends, discussed above, which indicated that the proportion as well as the absolute numbers of DSP area residents aged 25 to 34, as well those in the 55 to 74 year age brackets increased, while the percent and absolute numbers of residents in all other age categories decreased between 2000 and the 2010-2014 time period. Similarly, the demand for rental units noted by property managers generally corresponds to the for-sale market, with one property manager explicitly stating that many empty-nesters will rent for a few years in order to better assess their interest in the downtown environment before entering the for-sale market.

With regard to the overall demand for rental units, all of the managers of newly developed rental projects noted above indicated solid demand for all unit types, with many stating that vacant units are absorbed within a matter of days, if not hours. Discussions with managers of new rental projects indicate that the majority of renters are interested in the downtown environment, while also interested in living within close proximity to their work location. These interviewees generally stated that many tenants also work in DSP area, with a few that reverse commute to other areas within the Sacramento region. One complex noted that roughly half of their tenants previously lived elsewhere in the region and were interested in locating closer to their place of employment, while also gaining better access to amenities, while the other half of tenants relocated from elsewhere, predominantly for work purposes, and were interested in living in the urban environment while also close to work. With regard to affordability, various property managers indicated that a majority of the new product is targeting higher-income renters, and while this may create some availability of affordable units due to relocation of existing DSP area residents into new, higher end properties, the supply of affordable complexes should keep pace with the high-end development.

Affordable Rental Rates 2016

For renter households, housing costs are assumed to include monthly cash rent, as well as associated utility costs. For the purpose of this analysis, utility costs were derived based on the Sacramento Housing and Redevelopment Agency's (SHRA) 2016 utility allowance for multifamily affordable rental housing tenants who are not in the Housing Choice Voucher Program. Utility allowance estimates assume that all heating, cooking and water heating is done using natural gas. Other electricity usage includes lighting, refrigeration, and other small appliances. The cost of water, sewer and trash collection were assumed to be included in the monthly rent.

Based on current utility allowances, coupled with the HCD income limits discussed above, rental rates that are affordable to extremely low-income households in Sacramento County would range from $345 to $603 per month, depending on household size and unit size. Rents that would be affordable to very low-income households range between $611 to $920 per month. Rents that would be affordable for low-income households range from $1,001 to $1,537 per month. Moderate-income households could reasonably afford monthly rents up to $1,543 to $2,357 per month.

With average monthly rental rates of $1,200 and up, the available market rate multifamily rental housing is unlikely to be affordable to most low- and extremely low-income households. As shown in Table 21, average monthly rents range from $1,279 or a studio to $2,075 for a two-bedroom unit. At these rates, rental housing only begins to be affordable to larger low-income households. Table 5 shows that 57.2 percent of DSP area renter households fall within the low- to extremely low-income levels, indicating that more than half of existing DSP area renter households cannot afford market rate housing the DSP area and must likely rely on historically low rents or subsidized housing in order to avoid over-payment for housing. As with the information regarding housing cost burdens, this information points to as risk of displacement for lower-income renter households, under current market conditions and particularly if rents continue their recent upward trend.

Table 24: Affordable Rents, Sacramento County, 2016

Income Category (a)	Income Limits/Household Size				
	1 Person	2 Person	3 Person	4 Person	5 Person
Median Family Income: $71,500					
Extremely Low Income	$16,000	$18,300	$20,600	$24,300	$28,440
Very Low Income	$26,650	$30,450	$34,250	$38,050	$41,100
Low Income	$42,650	$48,750	$54,850	$60,900	$65,800
Moderate Income	$63,900	$73,050	$82,150	$91,300	$98,600

Affordable Rents (b)	Unit Size			
	Studio	1-Bedroom	2-Bedroom	3-Bedroom
Extremely Low Income				
1-Person	$345	$327		
2-Person		$385	$368	
3-Person			$425	$407
4-Person				$500
5-Person				$603
Very Low Income				
1-Person	$611	$593		
2-Person		$688	$671	
3-Person			$766	$748
4-Person				$843
5-Person				$920
Low Income				
1-Person	$1,011	$993		
2-Person		$1,146	$1,129	
3-Person			$1,281	$1,263
4-Person				$1,415
5-Person				$1,537
Moderate Income				
1-Person	$1,543	$1,525		
2-Person		$1,753	$1,736	
3-Person			$1,964	$1,946
4-Person				$2,175
5-Person				$2,357

Notes:
(a) Income limits are based on the HCD adjusted median family income of $76,100 ($2016).
(b) Affordable rents equal to 30 percent of gross monthly income, minus a utility allowance. The utility allowance is derived based on the 2016 figures published by The Sacramento Housing and Redevelopment Agency. Utility allowance estimates assume that all heating, cooking, and water heating would be done using natural gas. Other electricity usage is also included, accounting for lighting, refrigeration, and small appliances.

Sources: HCD, 2016; Sacramento Housing and Redevelopment Agency, 2016; BAE, 2016.

Retail Market Overview

As discussed previously, residential real estate brokers and developers stated proximity to activities such as shopping and restaurants is a highly desired residential amenity, and has a significant influence on residential demand. Table 25 summarizes some of the key characteristics of the DSP area and City of Sacramento retail markets. According to data from CoStar, the DSP area retail inventory of 4.7 million square feet accounts for approximately 22.5 percent of the citywide total. As of the second quarter of 2016, the market featured approximately 251,444 square feet of vacant space; representing a healthy total retail vacancy rate of 5.4 percent. This is slightly lower than the citywide rate of 6.0 percent. Average asking lease rates in the DSP area market were equal to $1.39 per square foot, triple net. This is slightly higher than the citywide average of $1.37 per square foot. However, average asking rates fell 15.2 percent year over year, representing a much steeper decline than the citywide decline of 2.1 percent. Net absorption figures indicate that between 2010 and 2016, the amount of occupied retail space declined by 664,004 square feet of vacant space, with 20,351 square feet of that decline logged in the first half of 2016. Some of the negative net absorption may have been due to the demolition of the Downtown Plaza in order to construct the Golden 1 Center, a multi-use indoor venue for entertainment and sporting events. The advent of the Golden 1 Center is spurring new retail and restaurants in the around the arena. Although there has been no new retail product delivered since 2015, a number of developments underway in the DSP area are expected to come on-line in the near future, including approximately 350,000 square feet of retail in the Golden 1 Center development, [8] as well as approximately 12 to 15 retail spaces along the 700 block of K Street. [9] The redevelopment of the K Street corridor, corresponding with development of the Golden 1 Center, represents the reuse of some of the City's long-term vacant retail stock, which contributes significantly to the identified decrease in retail vacancy.

[8] Downtown Sacramento Partnership. (2016). Golden 1 Center. Available at: https://downtownsac.org/project/golden-1-center/
[9] Downtown Sacramento Partnership. (2016). 700 Block of K Street. Available at: https://downtownsac.org/project/700-block-of-k-street/

Table 25: Retail Market Overview, DSP area and City of Sacramento, Second Quarter 2016

Retail Market Overview	Sacramento Downtown Area (a)		City of Sacramento	
Summary, Q2 2016				
Inventory	4,690,963	sq. ft.	20,817,315	sq. ft.
Occupied Stock	4,439,519	sq. ft.	19,573,024	sq. ft.
Vacant Stock	251,444	sq. ft.	1,244,291	sq. ft.
Vacancy Rate	5.4%		6.0%	
Inventory (% of City of Sacramento)	22.5%			
Asking Rents (b)				
Avg Asking Rent, NNN, Q2 2015	$1.64	per sq. ft.	$1.40	per sq. ft.
Avg Asking Rent, NNN, Q2 2016	$1.39	per sq. ft.	$1.37	per sq. ft.
% Change	-15.2%		-2.1%	
Net Absorption				
Net Absorption 2010 - 2016	-664,004	sq. ft.	39,201	sq. ft.
Net Absorption, Q1 and Q2 2016	-20,351	sq. ft.	110,238	sq. ft.
New Activity (c)				
New Construction, 2015	0	sq. ft.	11,000	sq. ft.
New Construction, Q1 and Q2 2016	0	sq. ft.	15,000	sq. ft.

Notes:
(a) The Sacramento Downtown Area is defined by the Downtown Specific Plan area, as seen in Figure 1.
(b) Average asking rents reflect a triple net (NNN) lease where the tenant to pays all real estate taxes, building maintenance, and insurance on the property, in addition to rent, utilities, and other expenses.
(c) Reflects new construction based on properties tracked by CoStar.

Sources: CoStar, 2016; BAE, 2016.

Office Market Overview

The DSP area is one of the largest employment centers in the greater Sacramento area. Discussions with developers and residential real estate brokers indicate that many people buying homes in the DSP area are employed there, and that proximity to the workplace was seen as an important amenity for DSP area housing. Table 26 summarizes some of the key characteristics of the DSP area and the City of Sacramento office markets. In total, the City of Sacramento has an inventory of approximately 42.2 million square feet of office space. The DSP area accounts for 57.4 percent of that, with approximately 24.2 million square feet of office space. Office vacancy as of the second quarter of 2016 was at 9.4 percent, which was slightly less than the citywide rate of 10.9 percent. Asking lease rates averaged $2.28 per square foot, which was considerably higher than the citywide average of $1.95 per square foot. According to Cushman & Wakefield, office rents in the DSP area are the highest in the region, and are expected to increase as demand for office space in close proximity to new developments increases.[10] Between 2010 and 2016, the amount of occupied office space declined by about 290,000 square feet. However, during the first half of 2016, the DSP area saw positive net absorption totaling approximately 70,647 square feet.

The existing office employment base provides a large pool of potential DSP area residents, with an improving economy, continued absorption of office space could increase this pool of potential DSP area residents. As noted previously, a relatively small proportion of existing DSP area workers already live in the area. Even if DSP area employment doesn't expand significantly, changing demographics and housing preferences within the existing office-based workforce, along with external factors such as increasing traffic congestion during commute hours, could contribute to increased demand for housing in the DSP area, as workers begin to place more value on proximity to work and amenities in selecting their residence locations.

Table 26: Office Market Overview, DSP area and City of Sacramento, Second Quarter 2016

Office Market Overview	Sacramento Downtown Area (a)		City of Sacramento	
Summary, Q2 2016				
Inventory	24,223,127	sq. ft.	42,181,191	sq. ft.
Occupied Stock	21,948,722	sq. ft.	37,573,135	sq. ft.
Vacant Stock	2,274,405	sq. ft.	4,608,056	sq. ft.
Vacancy Rate	9.4%		10.9%	
Inventory (% of City of Sacramento)	57.4%			
Asking Rents (b)				
Avg Asking Rent, Full Service Gross, Q2 2015	$2.14	per sq. ft.	$1.88	per sq. ft.
Avg Asking Rent, Full Service Gross, Q2 2016	$2.28	per sq. ft.	$1.95	per sq. ft.
% Change	6.5%		3.7%	
Net Absorption				
Net Absorption 2010 - 2016	-289,839	sq. ft.	857,675	sq. ft.
Net Absorption, Q1 and Q2 2016	70,647	sq. ft.	142,370	sq. ft.
New Activity (c)				
New Construction, 2015	950	sq. ft.	950	sq. ft.
New Construction, Q1 and Q2 2016	0	sq. ft.	6,000	sq. ft.

Notes:
(a) The Sacramento Downtown Area is defined by the Downtown Specific Plan area, as seen in Figure 1.
(b) Average asking rents reflect a full service gross lease, where all major expenses, like real estate taxes, building maintenance, insurance, and utilities, are included in the base rental rate.
(c) Reflects new construction based on properties tracked by CoStar.

Sources: CoStar, 2016; BAE, 2016.

[10] Cushman and Wakefield. (2016). Office Snapshot Q2 2016 Sacramento Valley. Available at: http://www.cushmanwakefield.com/en/research-and-insight/unitedstates/sacramento-office-snapshot/

Industrial Market Overview

Table 27 summarizes some of the key characteristics of the DSP area and the City of Sacramento industrial markets. In total, the City of Sacramento has an inventory of approximately 49.4 million square feet of industrial space. Although the DSP area industrial inventory has declined by a substantial 1.7 million square feet since 2007, according to CoStar, the DSP area still accounts for 15.3 percent of the City total, or approximately 7.5 million square feet. The DSP area industrial vacancy rate as of the second quarter of 2016 was 5.5 percent, which was less than the citywide rate of 6.7 percent. The asking lease rate averaged $0.55 per square foot, which was considerably higher than the citywide average of $0.39 per square foot. Between 2010 and 2016, the amount of occupied industrial space declined by about 132,109 square feet. However, during the first half of 2016, the DSP area saw positive net absorption totaling approximately 165,738 square feet. Given the DSP area's relatively low industrial vacancy rate compared to citywide figures, future conversion of industrial space to other land use types should be carefully considered for its impact on displacing DSP area industrial businesses and associated jobs.

Table 27: Industrial Market Overview, DSP area and City of Sacramento, Second Quarter 2016

Industrial Market Overview				
	Sacramento Downtown Area (a)		**City of Sacramento**	
Summary, Q2 2016				
Inventory	7,544,265	sq. ft.	49,397,406	sq. ft.
Occupied Stock	7,127,340	sq. ft.	46,091,680	sq. ft.
Vacant Stock	416,925	sq. ft.	3,305,726	sq. ft.
Vacancy Rate	5.5%		6.7%	
Inventory (% of City of Sacramento)	15.3%			
Asking Rents (b)				
Avg Asking Rent, NNN (per sq. ft.), Q2 2015	$0.51	per sq. ft.	$0.39	per sq. ft.
Avg Asking Rent, NNN (per sq. ft.), Q2 2016	$0.55	per sq. ft.	$0.39	per sq. ft.
% Change	7.8%		0.0%	
Net Absorption				
Net Absorption 2010 - 2016	-132,109	sq. ft.	2,014,086	sq. ft.
Net Absorption, Q1 and Q2 2016	165,738	sq. ft.	538,853	sq. ft.
New Activity (c)				
New Construction, 2015	0	sq. ft.	116,964	sq. ft.
New Construction, Q1 and Q2 2016	0	sq. ft.	0	sq. ft.

Notes:
(a) The Sacramento Downtown Area is defined by the Downtown Specific Plan area, as seen in Figure 1.
(b) Average asking rents reflect a triple net (NNN) lease where the tenant to pays all real estate taxes, building maintenance, and insurance on the property, in addition to rent, utilities, and other expenses.
(c) Reflects new construction based on properties tracked by CoStar.

Sources: CoStar, 2016; BAE, 2016.

Planned and Proposed Residential Real Estate Development

The following subsection begins with a brief description of the City of Sacramento's new Mixed Income Housing Ordinance. It then continues with a listing of the planned and proposed development projects located within the Sacramento DSP area. It also describes some of the characteristics associated with a selection of higher-density residential and mixed use projects planned and proposed for development in areas that are adjacent to the Sacramento DSP area, such as East Sacramento, Oak Park, Curtis Park/Land Park, and West Sacramento.

The Mixed Income Housing Ordinance

In September 2015, the Sacramento City Council replaced Chapter 17.712 of the City Code, and added Section 17.808.260. The changes established what is known as the Mixed Income Housing Ordinance, which requires residential developments under 100 gross acres to pay a housing impact fee, while projects covering 100 gross acres or more must pay a housing impact fee in addition to obtaining approval of a mixed income housing strategy. Fee credits are available to provide recognition of land dedicated to SHRA, construction of affordable dwelling units, or the implementation of other mechanisms that contribute to the provision of affordable housing. For larger projects, the required mixed income housing strategy is intended to ensure that large residential projects provide housing for a variety of household types at a variety of income levels, in accordance with Housing Element policy. The mixed income housing strategy must first be reviewed by the Planning and Design Commission, before moving to the City Council for approval.

Planned and Proposed Projects Located in the DSP Area

Table 28 and Table 29 identify the inventory of residential and residential mixed-use real estate development projects that are currently planned, proposed, or under construction within the DSP area. The data presented here are based on project lists provided by the City of Sacramento.

The DSP area has a large pipeline of projects that are positioned to construct and deliver large numbers of housing units, if demand warrants. As shown in the tables, there are 23 mixed-use residential projects and 16 solely residential projects, totaling 39 residential projects within the DSP area. If all projects are constructed, approximately 13,659 new units will be added to the DSP area. Five projects are currently under construction and will deliver a total of 452 new housing units. More than half of the proposed developments, or 22 projects totaling 5,863 units, are approved but not yet constructed. Another 12 projects totaling 7,344 units have submitted development applications to the City. Of all the planned and proposed projects, only the Twin Rivers Redevelopment Master Plan and the 700 Block Project contain below market rate units; though a mixed income housing strategy for the Railyards development is anticipated to go before the Planning and Review Commission in late 2016.

As summarized in Table 28, nearly all the projects, representing 98.0 percent of all planned or proposed units, are components of a mixed-use project. Fifteen mixed-use projects include rental housing, potentially increasing the rental housing stock by 2,900 units. Another six mixed-use projects include 2,140 units planned as for-sale housing. The newly proposed 19J project will include 173 residential units, with 80 percent being "smart studios," ranging in size from 312 to 480 square feet. Details regarding unit type and affordability of units in the Railyards and Township 9 projects, the two largest mixed-use developments in the DSP area, are not yet available; however, combined these projects propose between 8,129 and 12,129 new units.[11] Both projects are also in the process of developing mixed income housing strategies to comply with the City's mixed income housing ordinance, which is discussed in more detail above. Of the planned or proposed projects that are solely residential, the majority are for single-family units (including townhomes). As shown in Table 29, approximately 234 units are planned or proposed units as single-family, while 68 units are multifamily. Within these strictly residential projects, almost all (269 units) are planned for sale, while the remainder (21 units) are planned for lease.

The majority of planned or proposed residential projects are located in the River District, between the American River and the Sacramento Railyards, or to the west of 10th Street. Projects not located in these two areas tend to be small infill sites scattered throughout the DSP area. See Appendix C for a map of "Central City" development sites.

Select Planned and Proposed Projects Located Outside the DSP Area

Table 30 reports characteristics associated with a selection of residential and mixed-use development projects located in parts of Sacramento and West Sacramento that could potentially compete with projects planned and proposed in the Sacramento DSP area. The listing includes only higher density and mixed use projects; for example, excluding the single-family detached housing projects currently under development in the Southport area of West Sacramento, such as the Promenade, Newport Meadows, Serenity Cove and Liberty Specific Plan projects. For the purposes of this research, BAE identified four projects in Sacramento and West Sacramento that are currently approved and under construction, representing a total of 1,545 units. These include the Mill at Broadway, McKinley Village, and the South Park Neighborhood projects in Sacramento, as well as the West Gateway Place project in West Sacramento. In addition to the projects that are currently under construction, BAE identified seven proposed or approved residential projects. There are two proposed projects in Sacramento, including Oak Park Creatives and the Stockton and T project, with another five located in West Sacramento, including the Bridge District, Alura at Washington Square, the Riveredge Apartments and the 4th Street Subdivision. If developed, these would yield a total of 680 new housing units.

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[11] This assumes that the Railyards project will yield approximately 6,000 housing units, at an average density of roughly 100 dwelling units per acre, under current market conditions. The project may, under future conditions, produce units at maximum densities of up to 450 dwelling units per acre, which could yield up to 10,000 dwelling units per acre. Development beyond 10,000 units would require supplemental analysis under CEQA.

Table 28: Planned and Proposed Mixed-Use Residential Development Projects, DSP area

Project	Location	Sale/ Lease	Market Rate/ Below Market Rate (a)	Single Family	Multifamily	Total New Units	
Application Received							
19J	1827 J Street	Lease	Market Rate	0	173	173	
15Q Mixed Use	1420 Q Street	Lease	Market Rate	0	73	73	
Press Building	1723 20th Street	Lease	Market Rate	0	253	253	
Yamanee	2500 J Street	Sale	Market Rate	0	134	134	
Ice Blocks 2	17th/18th & R Street	Lease	Market Rate	0	148	148	
Railyards	South of Richard Blvd	TBD	TBD	TBD	TBD	6,000	(b)
Twin Rivers Redev. Master Plan	South of Vine Street	Lease	Mixed Income	239	248	487	(c)
Subtotal				**239**	**1,029**	**7,268**	
Approved Project Not Constructed							
K Street Mixed Use	2301 K Street	Lease	Market Rate	0	8	8	
Senior Artist Community	700 16th Street	Lease	Market Rate	0	132	132	
Q and 19th St Mixed Use	1627 19th Street	Lease	Market Rate	0	72	72	
800 K Street	800 K, 801 L	TBD	TBD	0	200	200	
Whole Foods	20th & L	Lease	Market Rate	0	141	141	
1500 S St Mixed Use	1508 S St	Lease	Market Rate	0	76	76	
Aura Condos	NA	Sale	Market Rate	0	283	283	
Remaining Township 9 (d)	North of Richards Blvd.	TBD	TBD	0	TBD	2,129	
Cathedral Square	11th and J Street	Sale	Market Rate	0	242	242	
Entertain. and Sports Cntr Project	J-L St. and 3rd-7th St.	Sale	Market Rate	0	481	481	
Sacramento Commons	5th, 7th, N and P Streets	Lease	Market Rate	0	1,013	1,013	
Metropolitan	n.a.	Sale	Market Rate	0	190	190	
The Towers on Capitol Mall	Capitol/4th	Sale	Market Rate	0	810	810	
Subtotal				**0**	**3,648**	**5,777**	
Approved Projects Under Construction							
700 Block Project	South side of K	Lease	Below Market Rate	0	137	137	
Downtown Plaza Tower	6th and J Street	Lease	Market Rate	0	69	69	
Eviva	16th & N Street	Lease	Market Rate	0	118	118	
Subtotal				**0**	**324**	**324**	
Total Units				**239**	**5,001**	**13,369**	

Notes:

(a) Project contains Below Market Rate units, but not all units are necessarily Below Market Rate.

(b) The 2016 Sacramento Railyards Specific Plan Update assumes that under existing conditions, the Railyards project is likely to result in the production of residential units at an average density of roughly 100 units per acre, but also recognizes that future conditions could justify development up to a maximum density of 450 dwelling units per acre, which could yield up to 10,000 total housing units.

(c) Includes the development of 269 new market rate rental Low Income Housing Tax Credit (LIHTC) units, and the replacement of 218 existing below market rate multifamily housing units. This would include 239 townhomes and 246 apartment and live/work units.

(d) Phase I of project proposes 436 multifamily apartments, which includes 24 live/work units. Phase II details are TBD.

Sources: City of Sacramento, 2016; SHRA, 2016; Sacramento Business Journal, 2016; Downtown Sacramento Partnership, 2016; BAE, 2016.

Table 29: Planned and Proposed Residential Development Projects, DSP area

Project	Location	Sale/ Lease	Market Rate/ Below Market Rate (a)	Single Family	Multifamily	Total New Units
Application Received						
20th Street Townhomes	1928 P Street	Sale	Market Rate	32	0	32
Brownstones at 15th and T	1924 15th Street	Sale	Market Rate	4	0	4
F Street Housing	2010 F Street	Sale	Market Rate	6	0	6
Manor Flats	701 L Street	Sale	Market Rate	0	27	27
Urbane 30	3009 U Street	Sale	Market Rate	7	0	7
Subtotal				**49**	**27**	**76**
Approved Project Not Constructed						
Winn Park Lofts	2813 Q Street	Lease	Market Rate	0	16	16
20th St Apartments	1417 20th Street	Lease	Market Rate	0	5	5
Broadway Redux	1011 Broadway	Sale	Market Rate	0	9	9
California Brownstones	1715 17th Street	Sale	Market Rate	12	0	0
Fast Feet Lofts	1817 T Street	Sale	Market Rate	4	0	4
Mansion Flats Modern	1509 D Street	Sale	Market Rate	8	0	8
Tomato Alley TM	816 T Street	Sale	Market Rate	4	0	4
C Street Lofts	316 14th St	Sale	Market Rate	4	0	4
SoCap Lofts	R Street (6-7th)	Sale	Market Rate	36	0	36
Subtotal				**68**	**30**	**86**
Approved Projects Under Construction						
515 T Street Residential	515 T Street	Sale	Market Rate	0	11	11
Creamery Project	D, E, 10th, and 11th St	Sale	Market Rate	117	0	117
Subtotal				**117**	**11**	**128**
Total Units				**234**	**68**	**290**

Note:
(a) Project contains below market rate units, but not all units are necessarily below market rate.

Sources: City of Sacrmamento, 2016; Sacramento Business Journal, 2016; Downtown Sacrmaento Partnership, 2016; BAE, 2016.

Table 30: Select Planned and Proposed Residential Development Projects, Outside Sacramento DSP Area

Project	Location	City	Single Family	Multifamily	Total Units	Status
Approved Projects Not Constructed						
Oak Park Creatives	3439 Second Avenue	Sacramento	6	0	6	Approved 4/21/2016
Alura at Washington Square	412-420 6th Street	West Sacramento	68	0	68	Approved 4/7/2016
The Bridge District - Phase 2 Apartments	974 Central Street	West Sacramento	0	55	55	Approved 4/22/2016
The Bridge District - Phase 2 Single Family	978 Riverfront Street	West Sacramento	21	0	21	Approved 7/16/2015
Riveredge Apartments	Riverfront St. & Ballpark Dr.	West Sacramento	0	273	273	Approved 12/14/2015
4th Street Subdivision	204 4th Street	West Sacramento	12	10	22	Approved 8/21/2014
Stockton and T	Stockton Blvd and T Street	Sacramento	21	214	235	Approved 6/11/2015
Subtotal, All Approved Not Constructed			**128**	**552**	**680**	
Approved Projects Under Construction						
West Gateway Place	820 Delta Lane	West Sacramento	0	77	77	Expected Late 2016
The Mill at Broadway	439 Tailoff Way	Sacramento	n.a.	n.a.	1,000	Delivered 282 Homes
McKinley Village	3340 McKinley Village Way	Sacramento	312	24	336	Currently For-Sale
Sutter Park Neighborhood	5151 F Street	Sacramento	120	12	132	Demolition Phase
Subtotal, All Under Construction (a)			**432**	**113**	**1,545**	
Total, All Projects (a)			**560**	**665**	**2,225**	

Note:
(a) Unit totals may not sum due to insufficient unit type information.

Sources: City of Sacramento, Community Development Department, 2016; City of West Sacramento, Community Development Department, 2016; Downtown Sacramento Partnership, 2016; Sacramento Business Journal, 2016; BAE, 2016.

LOCAL AND REGIONAL GROWTH PROJECTIONS

As part of the most recent Metropolitan Transportation Plan/Sustainable Communities Strategy (MTP/SCS), the Sacramento Area Council of Governments (SACOG) produced a series of growth projections through 2036, including household population[12], housing units, and employment forecasts. While the data are available at a variety of geographic levels, BAE obtained Traffic Analysis Zone (TAZ)-level data in order to create a geography that more closely conforms to the Sacramento DSP area. For more details regarding the selected TAZs, please see Appendix A.

Population, Household, and Housing Unit Growth Forecasts

Based on the data summarized in Table 31, SACOG anticipates that the DSP area household population will expand by approximately 6,347 residents between 2012 and 2020, at a rate of 2.6 percent per year. By comparison, SACOG expects that the City of Sacramento household population will expand at a rate of 0.9 percent per year, while SACOG projects that the Sacramento-Roseville-Arden-Arcade household population will increase at a rate of 1.1 percent per year. Over the same time frame, SACOG projects the DSP area housing inventory will expand by 3,875 units, at a rate of 2.3 percent per year, slightly slower than the household population growth.

SACOG projects that the housing inventory within the City of Sacramento and Sacramento MSA will expand at slower rates in comparison to their respective household population growth rates. While household projections are not available at the City and MSA level, SACOG projects that the DSP area household growth will keep pace with the household population, indicating no real change with regard to the projected average household size between the 2012 and 2020, meaning that the area would maintain an approximate average household size of 1.6 persons.

Between 2020 and 2036, SACOG projects a significant increase in household population within the DSP area. As seen in Table 31, the household population could be expected increase by roughly 31,200 residents, at a rate of 4.2 percent per year. While the projections also anticipate accelerated growth rates in the City of Sacramento and the Sacramento-Roseville-Arden-Arcade MSA, at 1.6 percent per year and 1.4 percent per year, respectively, the growth rates are significantly below the anticipated DSP area rates. SACOG projects that the housing inventory within the DSP area will expand by approximately 18,534 units between 2020 and 2036, at a rate of 3.7 percent per year. Similar to the anticipated household population growth rates, SACOG's projections indicate that the City of Sacramento and

[12] Household population excludes those living in group quarters, which includes college dormitories, residential treatment centers, skilled nursing facilities, group homes, military barracks, correctional facilities, and workers' dormitories.

Sacramento MSA housing inventories will increase at significantly slower rates as compared to the DSP area, at 1.7 percent per year and 1.4 percent per year, respectively. While the 2012 to 2020 projected household increase kept pace with the household population growth in these areas, the projected household increases between 2020 and 2036 indicate slight increases in the average household size. For example, SACOG expects the total households within the DSP area will increase by roughly 15,836 households, at a rate of 3.6 percent per year. When compared to the anticipated household population growth in the DSP area, the average household size could be expected to increase from 1.61 persons in 2020 to 1.76 in 2036.

Table 31: Household Population, Housing Unit, and Household Growth Projections, 2012-2020-2036

	2012	2020	Avg. Annual Growth (2012-2020)	2036	Avg. Annual Growth (2020-2036)
Sacramento Downtown Area (a)					
Household Population	27,341	33,698	2.6%	64,892	4.2%
Housing Units	19,508	23,383	2.3%	41,917	3.7%
Households	17,098	20,975	2.6%	36,811	3.6%
City of Sacramento					
Household Population	456,653	489,046	0.9%	632,000	1.6%
Housing Units	191,948	202,068	0.6%	264,328	1.7%
Sacramento-Roseville-Arden-Arcade MSA (b)					
Household Population	2,100,709	2,298,391	1.1%	2,857,576	1.4%
Housing Units	841,343	887,602	0.7%	1,107,544	1.4%

Notes:
(a) The Sacramento Downtown Area is defined using SACOG Traffic Analysis Zones (TAZ). For a complete listing of the included TAZs, please refer to Appendix A.
(b) The Sacramento-Roseville-Arden-Arcade Metropolitan Statistical Area (MSA) includes El Dorado, Placer, Sacramento, and Yolo Counties. For the purposes of these projections, the MSA does not include the El Dorado and Placer County portions that fall within the Tahoe Basin.

Sources: SACOG, Draft Modeling Projections for 2012, 2020, and 2036, 2016; BAE, 2016.

Employment Growth Forecast

Understanding that employment growth in the DSP area may create additional housing demand, Table 32 presents the employment growth projections for the DSP area, in addition to the City of Sacramento and the Sacramento-Roseville-Arden-Arcade MSA. According to the SACOG projections, the total employment within the DSP area is anticipated to expand by roughly 22,000 employees between 2012 and 2020, at a rate of 2.8 percent per year. The City of Sacramento and Sacramento MSA, by comparison, are projected to experience employment growth at rates of 1.8 percent per year and 1.9 percent per year, respectively, over the same time period. Between 2020 and 2036, SACOG anticipates that the employment growth rate in the DSP area will slow to 1.2 percent per year, or a total increase of 23,142 employees. By comparison, the SACOG projects that the City of Sacramento will increase at a rate of 1.2 percent per year, while the Sacramento-Roseville-Arden-Arcade MSA employment could be expected to increase at a rate of 1.6 percent per year.

Table 32: Employment Growth Projections, 2012-2020-2036

Total Employment	2012	2020	Avg. Annual Growth (2012-2020)	2036	Avg. Annual Growth (2020-2036)
Sacramento Downtown Area (a)	87,636	109,638	2.8%	132,780	1.2%
City of Sacramento	257,304	297,163	1.8%	360,961	1.2%
Sacramento-Roseville-Arden-Arcade MSA (b)	837,976	976,707	1.9%	1,250,973	1.6%

Notes:
(a) The Sacramento Downtown Area is defined using SACOG Traffic Analysis Zones (TAZ). For a complete listing of the included TAZs, please refer to Appendix A.
(b) The Sacramento-Roseville-Arden-Arcade Metropolitan Statistical Area (MSA) includes El Dorado, Placer, Sacramento, and Yolo Counties. For the purposes of these projections, the MSA does not include the El Dorado and Placer County portions that fall within the Tahoe Basin.

Sources: SACOG, Draft Modeling Projections for 2012, 2020, and 2036, 2016; BAE, 2016.

While employment growth projections by industry are only available for the DSP area, the data may provide additional detail into the various industries of employment that may create additional demand for housing. As seen in Table 33, the SACOG-defined Office industry sector accounted for 48.8 percent of the total DSP area employment in 2012, with Government and Medical comprising the next two largest industries, with 15.1 percent and 13.5 percent of the total, respectively. Projected out to 2020, SACOG expects total employment in the DSP area to increase by 2.8 percent per year. The SACOG-defined industries with the highest anticipated growth rates include the Services industry (6.8 percent per year), Education industry (5.7 percent per year), Office industry (2.8 percent per year), and Government (2.6 percent per year). Given the nature of the industries expecting high growth, it is likely that a large portion of added demand for housing generated by increased employment in the DSP area will come from households with moderate incomes, thus illustrating the need to expand the range of income levels that could be targeted by new residential developments, as compared to recent development trends which provided new housing units primarily for households with above moderate incomes.

As previously noted, SACOG projects that total employment in the DSP area will grow at a slower rate between 2020 and 2036, at 1.2 percent per year, as compared to DSP area employment growth between 2012 and 2020. The sectors that SACOG expects to expand at above-average rates include Education (2.9 percent growth per year), Food Service (1.7 percent per year), Office (1.6 percent per year), and Retail (1.4 percent per year). Similar to the prior years, it is apparent that a portion of the sectors anticipated to expand tend to be those that have a predominance of lower-paid employees. With this in mind, in order to provide housing for future employees, new units built in the DSP area must provide a range of affordability to meet a broad range of income levels.

Table 33: Employment by Industry Growth Projections, DSP area, 2012-2020-2036

	2012		2020		Avg. Annual Growth	2036		Avg. Annual Growth
Industry (b)	Number	Percent	Number	Percent	**(2012-2020)**	Number	Percent	**(2020-2036)**
Education	186	0.2%	291	0.3%	5.7%	463	0.3%	2.9%
Food Service	2,808	3.2%	3,354	3.1%	2.2%	4,371	3.3%	1.7%
Government	13,234	15.1%	16,200	14.8%	2.6%	18,262	13.8%	0.8%
Office	42,790	48.8%	53,218	48.5%	2.8%	68,194	51.4%	1.6%
Other	0	0.0%	0	0.0%	n.a.	0	0.0%	n.a.
Retail	3,834	4.4%	4,475	4.1%	1.9%	5,571	4.2%	1.4%
Services	9,412	10.7%	15,910	14.5%	6.8%	18,460	13.9%	0.9%
Medical	11,826	13.5%	12,692	11.6%	0.9%	14,240	10.7%	0.7%
Industrial	3,546	4.0%	3,498	3.2%	-0.2%	3,220	2.4%	-0.5%
Total, All Industries	**87,636**	**100%**	**109,638**	**100%**	**2.8%**	**132,780**	**100%**	**1.2%**

Notes:

(a) The Sacramento Downtown Area is defined using SACOG Traffic Analysis Zones (TAZ). For a complete listing of the included TAZs, please refer to Appendix A.

(b) For the associated NAICS code definitions of the industries listed above, please see Appendix B.

Sources: SACOG, Draft Modeling Projections for 2012, 2020, and 2036, 2016; BAE, 2016.

PEER CITY CASE STUDIES

The following section summarizes the results of case study research conducted regarding the conditions and trends which contribute to increasing demand for housing in the central city areas of five peer cities, including Denver, Colorado; Long Beach, California; Minneapolis, Minnesota; Nashville, Tennessee; and Portland, Oregon. BAE collected information for each case study through a review of pertinent background materials, including housing studies, downtown or central city plans, and real estate broker reports, among other documents. BAE also conducted interviews with key staff, downtown stakeholders, and other knowledgeable experts in each city, to collect additional information and identify key lessons learned.

The remainder of this section provides a summary of the key findings from the case study research for each of the five peer cities. Some of the common themes include:

- The peer city downtown housing markets emphasize development of smaller studio and one-bedroom multifamily rental units, sized at around 1,000 square feet or less.
- This includes the development of "micro-units" in all five peer cities, which can offer as little as 350 square feet per unit.
- The central city rental offerings in all five peer cities are generally oriented toward the higher-end of the market, providing a stunning array of supplemental amenities ranging from fitness centers, to rooftop decks, to pet grooming services.
- The for-sale market is somewhat dormant in most downtowns, due in part to concerns over liability exposure for construction defects, according to real estate brokers.
- Developers in all five peer cities leverage a robust assortment of cultural, recreational, and entertainment offerings, which contribute to the desirability of central city housing.
- While all five peer cities are working to improve access to public transit, Nashville remains largely auto-dependent. Denver, by comparison, has developed the eighth largest light rail network in the country, which is helping to drive downtown growth.
- The primary driver of central city housing demand is the capture of a share of regional demand growth, which is most closely tied to regional employment growth. Changing consumer preferences and the provision of a more vibrant assortment of downtown amenities mainly help to increase the central city capture rate; though a reputation for urban vibrancy can also induce additional demand, as seen in Portland and Nashville.
- Demand for central city housing primarily originates from among households headed by members of the Millennial and Baby Boom generations.

- All five peer cities utilized public investments in infrastructure, site remediation and preparation, and project subsidies to catalyze development early on, and Tax Increment Financing (TIF) remains an important funding mechanism in most cities.
- All five peer cities have central city plans in place that direct downtown development and coordinate the regulatory framework with broader citywide and regional efforts.
- Portland and Nashville offer two of the more innovative approaches to incentivizing central city housing development, including the use of height and density bonuses and design oriented regulations which de-emphasize, or eliminate, use restrictions.
- Denver offers an example of robust regional cooperation, anchored in the Mile High Compact, which commits jurisdictions throughout the region to cooperate on matters of economic development and infrastructure. Minneapolis offers another example, with a regional tax sharing agreement designed to even out infrastructure spending.
- Two of the peer cities, Portland and Denver, also feature urban growth boundaries, which help to concentrate development pressure within existing urban areas.

For a full-text discussion of each case study, including an overview of the downtown or central city area, summary of existing housing market trends, and a discussion of pertinent housing programs and policies, please refer to Appendix D.

Denver, Colorado

As defined in the Denver Downtown Area Plan, central Denver is located to the south and east of the South Platte River and Interstate 25.[13] The central city area is subdivided into eight sub-districts, including the Commercial Core, the Cultural Core, the Golden Triangle, Auraria, Lower Downtown (LoDo), the Central Platte Valley, the Ballpark, and Arapahoe Square.

Market and Policy Overview

The current housing market in central Denver is generally oriented toward smaller, high-end multifamily apartments, with little for-sale activity. Newer rental housing complexes in the central city typically offer an array of high-quality amenities, ranging from bike storage to pet spas, in addition to proximity to central city entertainment and recreational venues. Like many cities of this type, demand for central city housing derives from more highly educated, higher-income households, headed by members of the Millennial and Baby Boom generations. These households are generally smaller and less likely to include children. Among the key factors driving Denver's successful stimulation and support of downtown housing development is a robust public transportation network, including a highly effective light rail system with multi-modal connectivity. As recognized in Denver's TOD Strategic Plan, Denver is one of only a few communities in the nation to document an increase in market rate pricing for housing located

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[13] MIG. (July 2007). *Denver Downtown Area Plan*. Available at: http://www.downtowndenver.com/wp-content/uploads/2013/05/Denver_Chapter-1_FINAL1.pdf

in proximity to transit stations. In addition, central Denver increasingly offers a walkable urban environment with high quality entertainment venues, including multiple professional sports facilities. These factors complement the region's otherwise robust population and employment growth, supporting the capture of regional housing demand within the central city. However, increasing demand for housing in the central city is driving rapid price increases. Due to the increased value of housing close to transit, lower-income households are increasingly driven into the region's more auto-dependent neighborhoods, often resulting in long commutes and substantial additional transportation costs. According to interview participants, the 1986 and 2007 Downtown Area Plans were crucial to the revitalization of the central city, providing clear and consistent vision for the downtown and its surrounding neighborhoods. However, successful implementation also relied on a robust approach toward regional coordination embodied by the Mile High Compact, which commits each jurisdiction in the region to cooperate on matters of economic development and infrastructure development. Similarly, the citywide Denver Blueprint and regional Metro Vision 2035 plans also include important provisions that complement the objectives and strategies outlined in the downtown plans, including focusing growth into existing urban areas and instituting a regional urban growth boundary.

Implications and Replicability

Key takeaways for Sacramento include the need for broader regional coordination to promote focused central city growth. Implementation of the Mile High Compact allowed the greater Denver area to develop a clear and unified vision for regional growth, including the development of critical infrastructure, such as the Denver International Airport and the regional light rail network. This cooperation has more recently extended to the adoption of the new urban growth boundary, which will further facilitate the concentration of projected future land use demand within existing urban areas. Thought not as far along, the broader Sacramento Region has many similar tools already in place, like the Sacramento Regional Blueprint and the Sustainable Communities Strategy, which are intended to facilitate regional coordination between land use planning and transportation infrastructure investments. Nonetheless, jurisdictions in the Denver metropolitan area have taken this concept one step further, codifying their cooperation and pursing unprecedented public-private partnerships, like the multi-billion dollar comprehensive transit expansion, known as FasTracks.

Transit itself has also played an important role in facilitating housing development in the central city, providing clear value to residents and offering clean and efficient transportation to employment nodes throughout the region, like the Denver Tech Center, among other destinations. Again, while Sacramento has taken important steps to expand its public transit system, including the light rail network and current efforts to establish a downtown streetcar line, Denver has done much more to ensure the utility of transit to a broad spectrum of residents and has successfully demonstrated the value and desirability of high-quality TOD.

Long Beach, California

As defined in the City of Long Beach Downtown Plan, the downtown area extends from the Los Angeles River in the north, to Cerritos Avenue in the south, and from Ocean Boulevard in the west, to Anaheim Street and West 7th Street in the east.[14] Included in this definition are the neighborhoods known as Downtown, East Village, and North Pine. Notably excluded from this planning oriented definition is the Long Beach Waterfront, which includes such major sites as the Long Beach Convention and Entertainment Center, the Office of the Chancellor of the California State University System, and the Aquarium of the Pacific, among other notable entities, sites, and attractions. For the purposes of this analysis, the Waterfront district is considered part of the Long Beach central city area.

Market and Policy Overview

The downtown Long Beach housing market is characterized by smaller studio and 1-bedroom units in high rise multifamily structures with plentiful amenities targeted toward higher income households. Key factors identified by local interviewees associated with the City's efforts to incentivize downtown housing development identified public investment through the Long Beach Redevelopment Agency and the 2012 Downtown Plan as the primary programs and policies responsible for renewing reinvestment in the downtown housing stock. These programs and policies were supported by robust regional employment growth in relatively high paying industries, such as manufacturing, education and health, and professional and business services. Other key supports include easy transit connectivity between Downtown Long Beach and regional employment centers like Downtown Los Angeles, and a shifting preference toward walkable urban living, with access to high quality recreational and entertainment amenities. The Downtown Plan offered explicit land use and design regulations to facilitate dense housing development in the downtown; however, the plan does little to specifically incentivize housing other than generally increasing height and density, lowering parking ratios, and streamlining the entitlement and environmental review processes. Instead, the focus of the Plan was to establish strict design standards and allow the market to dictate the pace of development.

Implications and Replicability

Key takeaways for Sacramento include the key role public investment can play in incentivizing housing. Although Redevelopment Agencies were dissolved under state mandate, Enhanced Infrastructure Financing Districts (EIFDs), signed into law through SB628 in January 2015, offer a new opportunity to utilize Tax Increment Financing to support infrastructure projects, child care facilities, affordable housing, parking facilities, and transit oriented development.[15]

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[14] City of Long Beach. (January 2012). *Downtown Plan.* Available at: http://www.lbds.info/planning/advance_planning/downtown_community_plan/
[15] California Community Economic Development Association. (February 2016). *Enhanced Infrastructure Financing Districts: Resource Guide to EFIDs*. Available at: http://cceda.com/wp-content/uploads/EIFD-Resource-Guide-Feb-20161.pdf

While Long Beach's Downtown Plan outlined specific land use regulations in line with the community's vision, allowing the market to dictate the pace of development, it did little to manage the volume and scope of housing production. Though the Long Beach example highlights the role that regional connectivity and multimodal facilities can play in stimulating central city housing demand, Long Beach benefits from greater proximity to other major regional population centers, such as Downtown Los Angeles.

Minneapolis, Minnesota

As defined in the Intersections Downtown 2025 Plan, central Minneapolis is generally defined to include the area extending from the Plymouth Avenue Bridge, south to Interstate 35 West. It includes a small amount of land located on the east bank of the Mississippi River, including the area between University Avenue and Main Street and the riverfront.[16] The central city also extends westward from the riverfront to Interstate 94 in the west and the combined Interstate 94/35 in the south. The central city area is generally divided into eight different neighborhoods. These include Nicollet Island and the East Bank, Marcy Holmes, North Loop, Loring Park, Elliot Park, Downtown East, the Mill District, and Downtown West.[17]

Market and Policy Overview

Growth throughout the broader region has helped to curb localized movements towards urban blight and suburbanization. This means that while central Minneapolis has required some notable redevelopment to address issues associated with the decline of the historic industrial milling district, socioeconomic conditions within the central city have remained relatively stable, and comparatively prosperous, over the past few decades. With new investments in regional transit and construction of two new professional sports facilities, as well as shifting consumer preferences towards higher-density urban environments, central Minneapolis is experiencing a new era of vibrancy. Today, the central Minneapolis housing market is characterized by higher-end, multifamily apartments. These units are predominately smaller units, with new developments focusing on studios and one-bedrooms, as well as micro units offering as little as 350 square feet of total floor area. The downtown Minneapolis housing market increasingly serves smaller, higher-income households employed in business and professional services, finance, technology, education, and medical services.

In addition to using the Fiscal Disparities tax-base sharing program to facilitate even infrastructure spending throughout the region, which directly benefited the central city by limiting blight pressures, the City of Minneapolis also used several tools to directly promote the development and preservation of housing in the central city. These include additional public investments in infrastructure, as well as direct project subsidies, paid for using a variety of

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[16] City of Minneapolis. (2011). *Intersections Downtown 2025 Plan.* Available at: http://assets.ngin.com/attachments/document/0023/6032/10377_PlanBook_forWeb_opti-1.pdf
[17] City of Minneapolis. (July 2006). *Neighborhoods and Communities*. Available at: http://www.minneapolismn.gov/www/groups/public/@bis/documents/maps/convert_264339.pdf

local, regional, state and federal sources, including both State and federal Historic Preservation Tax Credit programs. The Intersections Downtown 2025 Plan offers a progressive policy framework intended to guide development within the central city area. The plan offers a broad set of goals, including a doubling of the downtown population, transforming the Nicollet Mall area into a dynamic arts and entertainment district, establishing a downtown sports district that includes Target Field and the new U.S. Bank Stadium, continuing to improve the city's transportation options, forging new connections to the University of Minnesota, and creating a compelling downtown experience, among others. While the prior Downtown 2010 plan outlined a similar set of broad goals, implementation was largely achieved using master plans, and small area plans have been largely successful at guiding neighborhood redevelopment by providing clear direction to the development community.

Implications and Replicability

Key takeaways for Sacramento include the way in which regional cooperation on infrastructure spending and affordable housing development, with a focus on equity, can help to limit the emergence of blight conditions, which contribute to white flight and suburbanization. This means that central Minneapolis ultimately did not experience the same levels of disinvestment and urban decay, compared to many other historic downtowns. Thus, central Minneapolis was able to leverage shifting consumer preferences toward higher-density urban environments, without the need for broad swath urban renewal. Using this approach, central Minneapolis has managed to capture more than four percent of the broader regional housing demand over the past decade and a half, which is rivaled only by Portland and Denver, communities which have invested considerably more in regional transit and redevelopment. Nonetheless, some direct investment has been necessary in order to lay the groundwork for the next phase of growth, and to subsidize early phase projects, such as redevelopment of the Mill District and development of the new U.S. Bank Stadium, among other key catalyst projects. To do so, the City leveraged a full portfolio of resources, including State and federal tax credits. Similar resources are available in California, which could contribute to a broad portfolio funding approach for infrastructure development and project specific subsidies within the Sacramento DSP area.

Nashville, Tennessee

As defined in the Downtown Community Plan, the core urban area of the City and County of Nashville spans the Cumberland River and generally extends from Jefferson Street in the north to Interstate 40 in the south, and from Interstate 65 in the west to Interstate 24 in the east. As such, the core downtown area is ringed by interstate highway infrastructure, which facilitates the movement of goods and people into and out of the downtown core. According to the Community Plan, Downtown Nashville is divided into sixteen independent neighborhoods, each with its own character and market niche. Some of the more prominent downtown neighborhoods include the James Robertson neighborhood, which hosts the State Capitol Building; the Core neighborhood, which functions as the Central Business District (CBD); the Upper Broadway, Second and Broadway, and South of Broadway (SoBro) neighborhoods which host the Bridgestone Arena, Music City Center, and Nashville's primary entertainment district; and the Upper Gulch and Gulch neighborhoods, formerly underutilized warehouse districts which are undergoing high-end redevelopment, among others.[18]

Market and Policy Overview

The lack of residential zoning in central Nashville through the mid-1990s resulted in significant pent-up demand for housing, putting Nashville behind the national trend in urban residential development. However, with sustained regional high-wage employment growth, and a robust entertainment, culinary, cultural, and entrepreneurial culture, Nashville has become a destination for households seeking vibrant urban living in the upland South. In recognition of this status, Nashville was recently recognized as one of the top cities for growth and prosperity by the Bookings Institution,[19] one of the "hottest" cities in America in 2016 by *Business Insider*,[20] one of the best places to live by the *U.S. News and World Report*,[21] and one of the top cities for start-up growth and the creative sector by *Smart Asset*.[22] While the robust assortment of urban and cultural amenities is essential to the desirability of central Nashville as a residential destination, Nashville's urban environment lacks many of the traditional hallmarks of urban living, such as a robust public transportation network, as many new developments remain largely auto dependent. Recognizing the market potential of the central city, Nashville's approach toward incentivizing residential development focused on removing restrictions on use (i.e., allowing residential development where it was previously prohibited, but within a flexible/dynamic framework), providing clear guidelines for urban form and design, and offering height bonuses in exchange for a specified menu of community benefits, including affordable housing. While tax increment financing was reportedly used fairly often in the early years of the downtown revitalization effort, improvements in market conditions now allow the private sector to adequately fund necessary improvements, allowing TIF resources to support more recent historic preservation efforts. While the combined city-county government also implemented multiple tax abatement programs, which offered reduced near-term property tax burdens for new developments, such programs are historically underutilized.

Implications and Replicability

Key takeaways for Sacramento include the way in which urban amenities and key cultural assets can drive the capture of housing demand from throughout the metropolitan area, as

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[18] Metropolitan Government of Nashville and Davidson County. (June 22, 2015). *NashvilleNext, Volume III: Community Plans – Downtown*. Available at: http://www.nashville.gov/Portals/0/SiteContent/Planning/docs/CommPlans2015/next-vol3-Downtown.pdf

[19] The Brookings Institution. (January 28, 2016). *Metro Monitor*. Available at: https://www.brookings.edu/research/metro-monitor/#V0G34980

[20] Stranger, M. and Stone, M. (December 4, 2015). "The 13 hottest American cities for 2016." *Business Insider*. Available at: http://www.businessinsider.com/the-13-hottest-us-cities-for-2016-2015-12/#nashville-tennessee-will-become-the-new-center-of-the-auto-and-healthcare-industries-9

[21] U.S. News and World Report. (2016). *Best Places to Live.* Available at: http://realestate.usnews.com/places/tennessee/nashville

[22] Wallace, N. (2016). "The Top Ten Cities for Creatives." SmartAsset. Available at: https://smartasset.com/mortgage/the-top-ten-cities-for-creatives-in-2016

well as the broader region (e.g., the American South or West). For example, many of the articles reviewed for this research highlight new residents who relocated to Nashville from other southern metropolitan areas in order to participate in its urban lifestyle and cultural milieu. Nashville residents have also built relationships with other creative communities throughout the South, including the culinary scene of Charleston, and the craft manufacturers of Appalachia, establishing outlets and adding their own creative spin, helping to make Nashville one of the creative and cultural hotbeds of the American South. This cultural desirability supports additional population growth, though this growth only really functions to complement and enhance the foundational housing demand generated by robust regional employment growth. Therefore, Sacramento should base downtown development expectations on the capture of regional housing growth, using urban amenities and cultural assets to enhance the downtown capture rate and induce supplemental housing demand.

Portland, Oregon

As defined in the Central City 2035 Plan (CC2035), the central city extends from the Freemont Bridge in the north to the Ross Island Bridge in the south, and from Interstate 405 in the west to 12th Avenue, 16th Drive, and Interstate 5 in the east.[23] The central city area is divided into ten distinct sub-districts, including Downtown, the West End, Goose Hollow, The Pearl, Old Town/Chinatown, Lower Albina, Lloyd District, Central Eastside, South Waterfront, and University District/South Downtown. There are two districts that extend beyond the core central city area, including South Waterfront and Goose Hollow. South Waterfront has experienced considerable housing growth in recent years and extends southward, beyond the Ross Island Bridge, as far south as Southwest Hamilton Court. Also, the Goose Hollow neighborhood, which is located south of West Burnside Street as far west as Washington Park, is also notably disconnected from the remainder of the central city area by Interstate 405.

Market and Policy Overview

Up-market apartment complexes primarily comprise the contemporary central Portland housing market. These units are predominantly small in size, with new development focused on providing studio and one-bedroom units, as well as SROs and micro units. The central Portland housing market increasingly serves smaller higher-income households employed in business and professional service industries. A key factor in the City's successful stimulation and support of central city housing development is the regional urban growth boundary, which functions to focus residential development pressure toward infill and redevelopment sites, restricting the potential for suburban greenfield development.   This is coupled with robust employment growth in comparatively high-wage industries – like computer hardware, sports apparel, and healthcare – and a shift in consumer preferences toward walkable urban environments that provide high quality housing options and access to employment

[23] City of Portland. (2016). *Central City 2035: The Central City Districts*. Available at: http://www.portlandoregon.gov/bps/article/581226

opportunities, cultural amenities, entertainment and recreational venues, and diverse transportation options. The tools that the City of Portland used most effectively to incentivize and promote the development of housing in the Central City include a rather complex density bonus program, which is currently under revision, and an Affordable Housing Set Aside Fund, which allocates tax increment revenue to support affordable housing development and preservation in the central city. While the new Central City Plan (CC2035) offers an updated framework for development in the Central City, the provisions remain comparatively high-level and fail to provide much in the way of specific direction to the development community, other than to say that the City supports the provision of high-quality, high-density housing development in the central city area, though sub-district specific policies do provide some additional direction with regard to the preferred design of new projects.

Implications and Replicability

Key takeaways for Sacramento include the need to limit regional urban expansion in order to focus development pressure into desired areas, which can allow the development community to leverage consumer preferences which are shifting toward higher density urban environments. With strong demand, density bonus programs can provide sufficient additional value to offset the cost of providing community benefits and can make the provision of affordable housing economically attractive to developers. However, Portland's initial density bonus program was too broad, with 18 bonus options, many of which were underutilized or went unused entirely. According to the 2015 Density Bonus and Entitlement Transfer Mechanism Update report, focusing the density bonus program will not only simplify the administrative process and provide additional certainty for developers, but will also be done without greatly impacting utilization.[24] Similarly, due to changes in construction type and building code requirements that occur at different project sizes, density bonus programs can be tailored to promote development at certain scales which fit the City's vision for the area, presuming that demand is sufficiently strong to ensure project feasibility. Similar to what the City of Sacramento has experienced with its existing SRO policy, Portland's No Net Loss Policy is effective at guiding public sector investments in regulated affordable housing, but fails to adequately ensure the availability of market rate affordable housing units which are beyond the City's control.

[24] Economic and Planning Systems, Otak. (June 22, 2015). *City of Portland Central City Density Bonus and Entitlement Transfer Mechanism Update*. Available at: https://www.portlandoregon.gov/phb/article/535084

HOUSING DEMAND PROJECTIONS

The following section describes BAE's housing demand projections for the Sacramento DSP area. The demand projections are based on population, household, and housing unit projections published by SACOG, which are summarized in the prior section. These were then modified to represent three alternative scenarios, which represent the range of potential housing demand that may reasonably be captured within the DSP area, under different circumstances, over the next ten to 20 years. The low-end scenario assumes that the DSP area will capture the same proportion of regional housing growth as reported for the period between the 2000 Census and the 2010-2014 ACS. The mid-range scenario assumes that, moving forward, the DSP area will capture a significantly higher proportion of regional housing growth than indicated by the historic trend, which is consistent with SACOG's most recent projections. The high-end scenario assumes that the that projected by DSP area will capture sufficient housing demand to absorb the current pipeline of planned and proposed housing projects. The remainder of this section discusses the methods used to project housing demand within the DSP area through 2026 and 2036 and summarizes the implications of each scenario for achievement of the City's goal of providing 10,000 new places to live within the Sacramento DSP area, within the next ten years.

Baseline SACOG Growth Projections

To begin developing the local housing demand growth projections, BAE first reviewed the current regional and TAZ level household projections published by SACOG. As summarized in Table 34, SACOG anticipates that the pace of household growth in the DSP area will increase from 3.2 percent per year between 2016 and 2026 to 3.6 percent per year from 2026 to 2036. If realized, this would translate into approximately 6,963 new households through 2026 and 10,911 through 2036. What is most notable is that data from the U.S. Census Bureau indicate that the pace of household growth in the DSP area between 2000 and 2010-2014 was only 0.2 percent per year, meaning that SACOG is projecting a considerable acceleration in the growth of the number of DSP area households, compared to the historic trend. Within the broader Sacramento-Roseville-Arden-Arcade MSA, SACOG expects the pace of household growth to increase from 1.3 percent per year between 2016 and 2026, to 1.4 percent per year from 2026 to 2036. This would actually represent a slight reduction from the region's historic growth rate of 1.5 percent per year between 2000 and 2010-2014. As a result, the SACOG projections assume that the DSP area will account for a significantly higher, and increasing, proportion of new regional housing demand, compared to historic trends. For example, between 2000 and 2010-2014, the DSP area absorbed approximately 0.3 percent of regional household growth. According to SACOG, that proportion is likely to increase to 6.4 percent between 2016 and 2026, and to as high as 8.2 percent between 2026 and 2036.

Table 34: Baseline SACOG Growth Projections, 2016-2026-2036 (a)

	2016	2026	Absolute Growth (2016-2026)	Avg. Annual Growth (2016-2026)	2036	Absolute Growth (2026-2023)	Avg. Annual Growth (2026-2036)
Sacramento DSP Area (a)							
Household Population	30,354	43,085	12,731	3.6%	64,892	21,807	4.2%
Households	18,938	25,900	6,963	3.2%	36,811	10,911	3.6%
Housing Units	21,358	29,104	7,746	3.1%	41,917	12,812	3.7%
Sacramento-Roseville-Arden-Arcade MSA (b)							
Household Population	2,197,328	2,493,958	296,630	1.3%	2,857,576	363,618	1.4%
Households	807,841	916,896	109,055	1.3%	1,050,579	133,683	1.4%
Housing Units	864,163	964,433	100,269	1.1%	1,107,544	143,112	1.4%

Notes:
(a) Based on the projections published by SACOG for the period from 2012 to 2036.
(b) The Sacramento DSP Area is defined using SACOG Traffic Analysis Zones (TAZ). For a complete listing of the included TAZs, please refer to Appendix A.
(c) The Sacramento-Roseville-Arden-Arcade Metropolitan Statistical Area (MSA) includes El Dorado, Placer, Sacramento, and Yolo Counties. For the purposes of these projections, the MSA does not include the El Dorado and Placer County portions that fall within the Tahoe Basin.

Sources: SACOG, Draft Modeling Projections for 2012, 2020, and 2036, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; BAE, 2016.

Comparison to Peer City Capture Rates

To put the SACOG projections into perspective, BAE calculated capture rate information for each of the five peer cities discussed in the prior section. As noted previously, BAE collected demographic data using a standardized central city definition for each peer city based on a two-mile radius around each city's central business district. To facilitate comparison with the Sacramento DSP area, BAE normalized the data on a per square mile basis for both the DSP area and the region, then calculated adjusted capture rates. The results of this comparison are summarized in Table 35. According to these data, the historic proportion of regional housing demand captured within central Sacramento was lower than in any of the peer cities reviewed in this analysis. Between the 2000 Census and the 2010-2014 ACS, the Sacramento DSP area captured approximately 0.3 percent of regional household and housing growth. The peer city with the closest comparative capture rates was Long Beach, which captured roughly 0.6 percent of regional household growth and 0.7 percent of regional housing growth; however, these shares were of a much larger metropolitan area. The peer city which captured the highest proportion of regional growth was Portland, which captured roughly 7.7 of regional household growth and 8.3 percent of regional housing growth, within a metropolitan region that is more comparable in size to the Sacramento region.

SACOG's projections assume that Sacramento would move from having the lowest capture rates among the five peer cities, to some of the highest. While the capture rates implicit in the SACOG projections are roughly in line with those achieved in some of the higher-performing central city areas, there may be challenges to capturing that level of housing demand. For example, some of the factors contributing to the high capture rate in Portland include robust growth across a suite of high-paying employment sectors, shifting housing preferences among younger millennial households, a high quality urban environment offering abundant amenities and diverse housing and transportation options, and an urban growth boundary that works to concentrate housing demand with existing urban areas. While there are many parallels that may be drawn between Portland and Sacramento, capturing an equal or greater proportion of regional housing demand may prove quite challenging given Sacramento's historic trends and local context.

Table 35: Proportion of Regional Growth Captured within the Central City

	Capture Rate (a)		
	Population	Households	Housing Units
Denver, CO (b)	2.41%	5.85%	6.04%
Long Beach, CA (b)	-0.74%	0.64%	0.73%
Minneapolis, MN (b)	2.54%	3.46%	4.07%
Nashville, TN (b)	-0.15%	0.95%	2.35%
Portland, OR (b)	5.42%	7.74%	8.33%
Sacramento, CA (c)	-0.04%	0.33%	0.25%

Notes

(a) The capture rate represents the proportion of regional growth that occurred within the central city area. Capture rate values are normalized to account for differences in land area.

(b) The central city area is defined to include the area within a two-mile radius of the central business district.

(c) The central city area of Sacramento is defined to approximate the area covered by the Sacramento Downtown Specific Plan, based on 2000 and 2010 Census Tracts.

Sources: U.S. Census Bureau, Census 2000, Summary File 1, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; BAE, 2016.

Housing Demand Capture Scenarios

To illustrate the impact of assumptions regarding the capture of regional housing demand, BAE developed three alternative scenarios. As noted earlier, the low-end scenario assumes that the DSP area will capture the same proportion of regional housing growth as reported for the period between 2000 and 2010-2014. The mid-range scenario assumes that the DSP area will capture a significantly higher proportion of regional housing growth, as projected by SACOG. Recognizing that the DSP area currently features a significant inventory of new housing units in planned, but not yet constructed, development projects, and recognizing that such proposals are, at least to some degree, an indicator of the anticipated demand for new housing within the DSP area, the high-end scenario assumes that the DSP area will capture housing demand sufficient to fully absorb the current pipeline of planned and proposed housing projects, including a portion of the units proposed for development in the Railyards and Township 9, as indicated by the available information on anticipated phasing. All three scenarios assume the same overall regional household growth, as projected by SACOG.

Table 36: Projected DSP Area Household Growth, 2016-2026-2036

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

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

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

Historic Trend Scenario

As reported in Table 36, above, the DSP area would be expected to capture approximately 0.3 percent of regional household growth, during both projection periods, under the historic trend scenario. If realized, this would equal 354 new households through 2026 and 435 through 2036, for a total of 789 new households over the 20-year period. For the purposes of consistency and comparability between projection scenarios, each scenario applies the same housing vacancy factors of 11.3 percent in 2016, 11.0 percent in 2026, and 12.2 percent in 2036. These are based on the implicit vacancy rates reported in the baseline SACOG growth projections for the DSP area. Using these vacancy factors, household growth under the historic trend scenario would be sufficient to support approximately 321 new units through 2026 and 784 units through 2036, for a total of 1,105 new units over the 20-year period.

SACOG Scenario
The mid-range scenario follows the trend implied in the TAZ level SACOG projections for the DSP area. Based on the SACOG projections, the DSP area would capture approximately 6.4 percent of regional household growth between 2016 and 2026, which would increase to 8.2 percent between 2026 and 2036. If realized, this would equal 6,963 new households through 2026 and 10,911 through 2036, for a total of 17,873 new households over the 20-year period. If realized, this household growth could result in demand sufficient to absorb approximately 7,746 new units in the DSP area through 2026 and 12,812 units through 2036, for a total of 20,559 new units over the 20-year period. While the projections indicate demand sufficient to absorb an average of more than 10,000 new housing units in the DSP area per decade, the projections indicate that demand for downtown housing is likely to increase progressively over the projection period, meaning that housing demand through 2026 may fall short of what would be necessary to absorb the full target of 10,000 new units.

Supply Driven Scenario
Recognizing that the DSP area currently features a significant inventory of new housing units in a variety of planned and proposed projects, the high-end scenario assumes that the DSP area will capture housing demand sufficient to fully absorb the current pipeline of planned and proposed housing projects. This is based on the assumption that, to some degree at least, the volume of planned and proposed new housing development reflects a positive developer outlook, including certain expectations regarding the volume of anticipated future demand for housing in the central city. In addition, 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 actually serve to 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 in the urban core, and would take advantage of the increased interest in the central city area that is created by major new central city investments, such as development of the Golden 1 Center, revitalization of K Street and R Street, and continuing enhancements to the Sacramento Riverfront.

To identify the inventory of new housing units planned and proposed for development over the projection period, BAE reviewed the listings of both mixed use and dedicated residential development projects presented in *Real Estate Market Conditions* section. The unit totals utilized for this scenario include all projects for which the City has received an application, as well as all projects approved for development within the central city, including those that are already under construction. BAE also reviewed the available planning documents for the Railyards and Township 9. According to the Sacramento Railyards Specific Plan,[25] the

[25] AECOM. (September 2, 2016). *Sacramento Railyards Specific Plan.* Available at: http://www.cityofsacramento.org/-/media/Corporate/Files/CDD/Planning/Major-Projects/Railyards---1/Specific-Plan.pdf?la=en

Railyards area is expected to build out over the course of the next 15 to 20 years. BAE subsequently assumed that one half of the planned unit total would be developed through 2026, with the second half developing between 2026 and 2036. Similarly, the Environmental Impact Report (EIR) for Township 9 indicates that the original phasing plan anticipated construction to begin in 2007, with completion anticipated by 2016.[26] [27] While a portion of the units originally planned for Township 9 have already been completed, BAE subsequently assumes that the remaining units will develop through 2026, in alignment with the original phasing plan. If fully developed as proposed, this pipeline of development could result in construction of approximately 10,659 new housing units through 2026. In order to assess the household capture rate necessary to absorb the current pipeline of proposed development, BAE applied the vacancy rate assumptions implicit in the SACOG projections, described above. Based on this conversion, the DSP area would need to capture approximately 8.7 percent of the projected regional household growth through 2026, or around 9,486 new households. If this capture rate is applied to the 2026 to 2036 period, the DSP area could expect to see an additional 11,628 new households. This would translate to around 23,899 new housing units in total, for the 2016 to 2036 time period.

Interpretation of the Capture Scenarios

While the low-end scenario is based on documented historic development trends, within both the DSP area and the region as a whole, the moderate- and high-end scenarios represent significant departures from historic trends. While there is substantial evidence indicating that the DSP area is likely to satisfy a significantly higher proportion of regional housing demand than was achieved over the prior decade, including the induced effects of ongoing housing development and demographic and social factors leading to increased interest in downtown living, there are a number of key conditions that will need to be met in order to achieve the capture rates discussed above.

- The economic fundamentals driving housing demand, both within the DSP area and the broader Sacramento region, must remain sound. Another recession could result in lower regional growth and a lack of feasibility and/or interest in building new downtown housing, particularly costly higher density housing in existing infill areas.

- While the peer city case studies identified a significant shift in demographics and housing preferences as a primary driver of central city housing demand, depth of the higher density urban infill market in Sacramento has yet to be fully demonstrated. This

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[26] EIP Associates. (February 2007). *Township 9 (P06-047): Draft Environmental Impact Report.* Available at: *http://www.cityofsacramento.org/-/media/Corporate/Files/CDD/Planning/Environmental-Impact-Reports/Township-9/Township-9-DEIR-Vol-1.pdf?la=en*
[27] EIP Associates. (July 2007). *Township 9 (P06-047): Final Environmental Impact Report*. Available at: http://www.cityofsacramento.org/-/media/Corporate/Files/CDD/Planning/Environmental-Impact-Reports/Township-9/Township-9-FEIR-Vol-1.pdf?la=en

represents considerable risk, recognizing that this trend represents a shift from historic trends.

- In order to appeal to a broad spectrum of households, developers will need to position new housing development to serve a much broader range of household types and income levels, substantially broadening the appeal beyond the higher-end renter segment that is, broadly speaking, the primary focus of recent DSP area housing development. This will likely need to include additional rental housing options for lower-income households, including both market rate and subsidized options, as well as additional home ownership opportunities at an assortment of different density and affordability levels.

- Residential developments will need to closely coordinate with the City and other central city stakeholders to leverage major public investments, such as the Golden 1 Center, K Street revitalization, R Street redevelopment, Railyards redevelopment riverfront reinvestment, and other related public and private investments, to further catalyze interest in central city living and the "downtown lifestyle."

- The planning and building approval and permitting capacity of the City of Sacramento will need to be able to accommodate a substantial increase in the volume of new development in the DSP area

- The City will also need to be able to maintain the quality of public services, while accommodating substantial changes in service demand resulting from a significant increase in the local resident population.

Housing Demand by Unit Size and Tenure

In addition to estimating the total number of housing units which may be absorbed within the DSP area under each housing demand capture scenario, BAE developed breakdowns of housing units by unit size, tenure, and household income level, which are summarized in Tables 37 through 39 at the end of this section. Key data sources used to allocate projected housing demand in this way include the 2010-2014 ACS Public Use Microdata Sample (PUMS), the 2016 Income Limits from the California Department of Housing and Community Development (HCD), and the Comprehensive Housing Affordability Strategy (CHAS) dataset from the U.S. Department of Housing and Community Development (HUD), among others.

To develop the housing unit demand breakdowns described above, BAE first developed a profile of households in the MSA, by income level and household size. BAE then applied that distribution to the projected DSP area household totals. BAE then converted from household size (measured in persons per household) to unit size (measured in bedrooms per unit), assuming that households would occupy the smallest available housing unit, while avoiding overcrowding (defined as the condition of having more than two-persons per bedroom). For example, one-person households are assumed to occupy studio units, two-person households occupy one-bedroom units, three- and four-person households occupy two-bedroom units, and so on. This method is predicated on the assumption that households will generally choose the housing unit that best suits their physical size requirements, while minimizing cost. However, BAE also acknowledges that many higher income households may prefer to occupy housing units that are larger than would otherwise be necessary to avoid overcrowding; therefore, the distribution may somewhat understate demand for larger housing units, particularly among moderate- and above moderate-income households. In partial acknowledgment of this type of housing preference, the allocation assumes that single-person households in the moderate- and above moderate-income categories would prefer one-bedroom housing units over studios.

To identify the likely distribution of new housing units by tenure, BAE first reviewed the available information regarding housing affordability in the DSP area, which is summarized in the *Real Estate Market Conditions* section. These data indicate that households that fall into the low-, very low-, and extremely low-income categories are unlikely to be able to afford ownership housing at current market rates. The analysis assumes that housing demand in the lower income categories would be satisfied through the provision of new rental housing. Within the moderate- and above moderate-income categories, housing demand is divided between the rental and ownership markets based on the distribution of households by income category and tenure, as reported in HUD's CHAS dataset. The data indicate that approximately 60 percent of moderate-income households and 80 percent of above moderate-income households own their own homes, while the remainder rent. Based on this approach, BAE estimates that, in aggregate (i.e., across all income levels), demand for approximately 60 percent of the new housing in the DSP area will come from households seeking rental housing, while around 40 percent will come from households seeking opportunities for home ownership.

Note that this method assumes that characteristics of new DSP area households will generally mirror the historic characteristics of households throughout the Sacramento region. To the extent that the DSP area does not appeal to a broadly representative spectrum of MSA households, the DSP area housing demand profile may differ from that presented here. However, the breakdowns presented here provide only rough order of magnitude estimates of the different types of households that will demand housing within the DSP area over the projection period. In order to maximize the demand that can be captured, the City and developers will want to tailor the portfolio of new housing projects to appeal to a broad spectrum of household types and income levels.

Housing Demand by Density Type

While the housing demand projections do not specify housing preferences in terms of housing density, some inferences are possible based on household income and tenure. In order to promote affordability at the lower income levels, most of the projected rental housing demand under each scenario is likely to take the form of higher density multifamily apartments. For example, rental units targeted toward lower income households account for approximately 44 percent of the total projected new housing demand through 2026. Rental housing for households in the moderate- and above moderate-income categories, which account for around 15 percent of projected demand, is also likely to take the form of high density multifamily units, although some of this demand may be met through provision of moderate density townhomes and live/work units in locations where lower-density development may be preferable, such as in historic lower density neighborhoods. For higher income households seeking home ownership opportunities, which account for roughly 41 percent of the total projected new housing demand through 2026, preferences may range from high density condominiums through moderate density townhomes and even, in some cases, moderate density small-lot single family housing options, particularly in the mid-town district of the DSP area.

Table 37: New Housing Demand by Tenure, Unit Size, and Income Category, Historic Trend Scenario, 2016-2026-2036 (Page 1 of 2)(a)

New Rental Demand 2016-2026

	Unit Size (Bedrooms) (b)				Total, All Sizes	
Income Category	Studio	One	Two	Three or More	Number	Percent
Extremely Low Income (<=30% AMI)	22	10	10	5	47	14.8%
Very Low Income (31% to 50% AMI)	14	11	10	5	39	12.3%
Low Income (51% to 80% AMI)	16	16	15	7	55	17.2%
Moderate (81% to 120% AMI) (c)	0	14	7	3	23	7.3%
Above Moderate (>120% AMI) (c)	0	13	8	2	24	7.5%
Total Demand, All Incomes (d)	**51**	**65**	**51**	**22**	**189**	**59.1%**

New Rental Demand 2026-2036

	Unit Size (Bedrooms) (b)				Total, All Sizes	
Income Category	Studio	One	Two	Three or More	Number	Percent
Extremely Low Income (<=30% AMI)	53	25	25	12	116	14.8%
Very Low Income (31% to 50% AMI)	33	27	24	13	97	12.3%
Low Income (51% to 80% AMI)	39	40	38	18	135	17.2%
Moderate (81% to 120% AMI) (c)	0	33	17	6	57	7.3%
Above Moderate (>120% AMI) (c)	0	33	20	6	59	7.5%
Total Demand, All Incomes (d)	**125**	**158**	**125**	**55**	**463**	**59.1%**

New Rental Demand 2016-2036

	Unit Size (Bedrooms) (b)				Total, All Sizes	
Income Category	Studio	One	Two	Three or More	Number	Percent
Extremely Low Income (<=30% AMI)	75	35	36	17	164	14.8%
Very Low Income (31% to 50% AMI)	47	37	34	18	136	12.3%
Low Income (51% to 80% AMI)	55	57	53	25	190	17.2%
Moderate (81% to 120% AMI) (c)	0	47	24	9	80	7.3%
Above Moderate (>120% AMI) (c)	0	46	29	8	83	7.5%
Total Demand, All Incomes (d)	**177**	**223**	**176**	**77**	**653**	**59.1%**

Notes:
(a) The distribution of housing units by tenure is based on a comparison between current market rate housing costs and the maximum rental rates and purchase prices that are affordable to households at each income level. For households with incomes sufficient to secure either rental or ownership housing, the propensity to rent versus own is assumed to be equal to the regional distribution of households by income category and tenure.
(b) Assumes occupancy of the smallest available unit, while avoiding overcrowding (i.e., more than two persons per bedroom). For example, one person households occupy studio units, two person households occupy 1-bedroom units, three and four person households occupy 2-bedroom units, and so on. Note that this may underestimate demand for larger units, particularly at higher income levels.
(c) Due to the availability of additional financial resources, single person households in the moderate and above moderate income categories are presumed to prefer one-bedroom units over studios.
(d) The total number of new housing units demanded is equal to the number of new households, plus a vacancy factor of 11-12 percent, based on the implied vacancy rate reported in the baseline SACOG projections

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; U.S. Census Bureau, 2010-2014 American Community Survey, Public Use Microdata Sample, 2016; U.S. Department of Housing and Community Development, 2009-2013 Comprehensive Housing Affordabiltiy Strategy, 2016; CA HCD, Income Limits, 2016; BAE, 2016.

Table 37: New Housing Demand by Tenure, Unit Size, and Income Category, Historic Trend Scenario, 2016-2026-2036 (Page 2 of 2)(a)

New Ownership Demand 2016-2026

	Unit Size (Bedrooms) (b)				Total, All Sizes	
Income Category	Studio	One	Two	Three or More	Number	Percent
Extremely Low Income (<=30% AMI)	0	0	0	0	0	0.0%
Very Low Income (31% to 50% AMI)	0	0	0	0	0	0.0%
Low Income (51% to 80% AMI)	0	0	0	0	0	0.0%
Moderate (81% to 120% AMI) (c)	0	20	11	4	35	10.9%
Above Moderate (>120% AMI) (c)	0	54	33	9	96	30.0%
Total Demand, All Incomes (d)	**0**	**74**	**44**	**13**	**131**	**40.9%**

New Ownership Demand 2026-2036

	Unit Size (Bedrooms) (b)				Total, All Sizes	
Income Category	Studio	One	Two	Three or More	Number	Percent
Extremely Low Income (<=30% AMI)	0	0	0	0	0	0.0%
Very Low Income (31% to 50% AMI)	0	0	0	0	0	0.0%
Low Income (51% to 80% AMI)	0	0	0	0	0	0.0%
Moderate (81% to 120% AMI) (c)	0	50	26	9	85	10.9%
Above Moderate (>120% AMI) (c)	0	131	82	22	235	30.0%
Total Demand, All Incomes (d)	**0**	**181**	**108**	**32**	**321**	**40.9%**

New Ownership Demand 2016-2036

	Unit Size (Bedrooms) (b)				Total, All Sizes	
Income Category	Studio	One	Two	Three or More	Number	Percent
Extremely Low Income (<=30% AMI)	0	0	0	0	0	0.0%
Very Low Income (31% to 50% AMI)	0	0	0	0	0	0.0%
Low Income (51% to 80% AMI)	0	0	0	0	0	0.0%
Moderate (81% to 120% AMI) (c)	0	71	36	13	120	10.9%
Above Moderate (>120% AMI) (c)	0	185	115	32	332	30.0%
Total Demand, All Incomes (d)	**0**	**255**	**152**	**45**	**452**	**40.9%**

Notes:

(a) The distribution of housing units by tenure is based on a comparison between current market rate housing costs and the maximum rental rates and purchase prices that are affordable to households at each income level. For households with incomes sufficient to secure either rental or ownership housing, the propensity to rent versus own is assumed to be equal to the regional distribution of households by income category and tenure.

(b) Assumes occupancy of the smallest available unit, while avoiding overcrowding (i.e., more than two persons per bedroom). For example, one person households occupy studio units, two person households occupy 1-bedroom units, three and four person households occupy 2-bedroom units, and so on. Note that this may underestimate demand for larger units, particularly at higher income levels.

(c) Due to the availability of additional financial resources, single person households in the moderate and above moderate income categories are presumed to prefer one-bedroom units over studios.

(d) The total number of new housing units demanded is equal to the number of new households, plus a vacancy factor of 11-12 percent, based on the implied vacancy rate reported in the baseline SACOG projections

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; U.S. Census Bureau, 2010-2014 American Community Survey, Public Use Microdata Sample, 2016; U.S. Department of Housing and Community Development, 2009-2013 Comprehensive Housing Affordabiltiy Strategy, 2016; CA HCD, Income Limits, 2016; BAE, 2016.

Table 38: New Housing Demand by Tenure, Unit Size, and Income Category, SACOG Scenario, 2016-2026-2036 (Page 1 of 2)(a)

New Rental Demand 2016-2026

	Unit Size (Bedrooms) (a)				Total, All Sizes	
Income Category	Studio	One	Two	Three or More	Number	Percent
Extremely Low Income (<=30% AMI)	527	248	250	122	1,147	14.8%
Very Low Income (31% to 50% AMI)	327	262	238	127	954	12.3%
Low Income (51% to 80% AMI)	386	396	372	177	1,331	17.2%
Moderate (81% to 120% AMI) (b)	0	330	171	62	563	7.3%
Above Moderate (>120% AMI) (b)	0	324	202	55	582	7.5%
Total Demand, All Incomes	**1,240**	**1,560**	**1,233**	**543**	**4,576**	**59.1%**

New Rental Demand 2026-2036

	Unit Size (Bedrooms) (a)				Total, All Sizes	
Income Category	Studio	One	Two	Three or More	Number	Percent
Extremely Low Income (<=30% AMI)	871	409	414	202	1,897	14.8%
Very Low Income (31% to 50% AMI)	541	434	393	209	1,578	12.3%
Low Income (51% to 80% AMI)	638	655	615	292	2,201	17.2%
Moderate (81% to 120% AMI) (b)	0	546	282	103	931	7.3%
Above Moderate (>120% AMI) (b)	0	536	335	92	962	7.5%
Total, All Incomes	**2,050**	**2,581**	**2,040**	**898**	**7,569**	**59.1%**

New Rental Demand 2016-2036

	Unit Size (Bedrooms) (a)				Total, All Sizes	
Income Category	Studio	One	Two	Three or More	Number	Percent
Extremely Low Income (<=30% AMI)	1,398	657	664	325	3,044	14.8%
Very Low Income (31% to 50% AMI)	869	697	631	336	2,532	12.3%
Low Income (51% to 80% AMI)	1,024	1,052	987	469	3,532	17.2%
Moderate (81% to 120% AMI) (b)	0	876	453	165	1,494	7.3%
Above Moderate (>120% AMI) (b)	0	860	537	147	1,543	7.5%
Total, All Incomes	**3,290**	**4,141**	**3,273**	**1,441**	**12,145**	**59.1%**

Notes:

(a) The distribution of housing units by tenure is based on a comparison between current market rate housing costs and the maximum rental rates and purchase prices that are affordable to households at each income level. For households with incomes sufficient to secure either rental or ownership housing, the propensity to rent versus own is assumed to be equal to the regional distribution of households by income category and tenure.

(b) Assumes occupancy of the smallest available unit, while avoiding overcrowding (i.e., more than two persons per bedroom). For example, one person households occupy studio units, two person households occupy 1-bedroom units, three and four person households occupy 2-bedroom units, and so on. Note that this may underestimate demand for larger units, particularly at higher income levels.

(c) Due to the availability of additional financial resources, single person households in the moderate and above moderate income categories are presumed to prefer one-bedroom units over studios.

(d) The total number of new housing units demanded is equal to the number of new households, plus a vacancy factor of 11-12 percent, based on the implied vacancy rate reported in the baseline SACOG projections

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; U.S. Census Bureau, 2010-2014 American Community Survey, Public Use Microdata Sample, 2016; U.S. Department of Housing and Community Development, 2009-2013 Comprehensive Housing Affordabiltiy Strategy, 2016; CA HCD, Income Limits, 2016; BAE, 2016.

Table 38: New Housing Demand by Tenure, Unit Size, and Income Category, SACOG Scenario, 2016-2026-2036 (Page 2 of 2)(a)

New Ownership Demand 2016-2026

	Unit Size (Bedrooms) (a)				Total, All Sizes	
Income Category	Studio	One	Two	Three or More	Number	Percent
Extremely Low Income (<=30% AMI)	0	0	0	0	0	0.0%
Very Low Income (31% to 50% AMI)	0	0	0	0	0	0.0%
Low Income (51% to 80% AMI)	0	0	0	0	0	0.0%
Moderate (81% to 120% AMI) (b)	0	495	256	93	844	10.9%
Above Moderate (>120% AMI) (b)	0	1,296	809	221	2,326	30.0%
Total Demand, All Incomes	**0**	**1,791**	**1,065**	**314**	**3,170**	**40.9%**

New Ownership Demand 2026-2036

	Unit Size (Bedrooms) (a)				Total, All Sizes	
Income Category	Studio	One	Two	Three or More	Number	Percent
Extremely Low Income (<=30% AMI)	0	0	0	0	0	0.0%
Very Low Income (31% to 50% AMI)	0	0	0	0	0	0.0%
Low Income (51% to 80% AMI)	0	0	0	0	0	0.0%
Moderate (81% to 120% AMI) (b)	0	819	423	154	1,396	10.9%
Above Moderate (>120% AMI) (b)	0	2,143	1,338	366	3,847	30.0%
Total, All Incomes	**0**	**2,962**	**1,761**	**520**	**5,244**	**40.9%**

New Ownership Demand 2016-2036

	Unit Size (Bedrooms) (a)				Total, All Sizes	
Income Category	Studio	One	Two	Three or More	Number	Percent
Extremely Low Income (<=30% AMI)	0	0	0	0	0	0.0%
Very Low Income (31% to 50% AMI)	0	0	0	0	0	0.0%
Low Income (51% to 80% AMI)	0	0	0	0	0	0.0%
Moderate (81% to 120% AMI) (b)	0	1,314	679	247	2,240	10.9%
Above Moderate (>120% AMI) (b)	0	3,439	2,147	587	6,174	30.0%
Total, All Incomes	**0**	**4,753**	**2,826**	**834**	**8,414**	**40.9%**

Notes:

(a) The distribution of housing units by tenure is based on a comparison between current market rate housing costs and the maximum rental rates and purchase prices that are affordable to households at each income level. For households with incomes sufficient to secure either rental or ownership housing, the propensity to rent versus own is assumed to be equal to the regional distribution of households by income category and tenure.

(b) Assumes occupancy of the smallest available unit, while avoiding overcrowding (i.e., more than two persons per bedroom). For example, one person households occupy studio units, two person households occupy 1-bedroom units, three and four person households occupy 2-bedroom units, and so on. Note that this may underestimate demand for larger units, particularly at higher income levels.

(c) Due to the availability of additional financial resources, single person households in the moderate and above moderate income categories are presumed to prefer one-bedroom units over studios.

(d) The total number of new housing units demanded is equal to the number of new households, plus a vacancy factor of 11-12 percent, based on the implied vacancy rate reported in the baseline SACOG projections

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; U.S. Census Bureau, 2010-2014 American Community Survey, Public Use Microdata Sample, 2016; U.S. Department of Housing and Community Development, 2009-2013 Comprehensive Housing Affordabiltiy Strategy, 2016; CA HCD, Income Limits, 2016; BAE, 2016.

Table 39: New Housing Demand by Tenure, Unit Size, and Income Category, Supply Driven Scenario, 2016-2026-2036 (Page 1 of 2)(a)

New Rental Demand 2016-2026

Income Category	Studio	One	Two	Three or More	Total, All Sizes Number	Total, All Sizes Percent
Extremely Low Income (<=30% AMI)	725	341	345	168	1,578	14.8%
Very Low Income (31% to 50% AMI)	450	361	327	174	1,313	12.3%
Low Income (51% to 80% AMI)	531	545	512	243	1,831	17.2%
Moderate (81% to 120% AMI) (b)	0	454	235	85	774	7.3%
Above Moderate (>120% AMI) (b)	0	446	278	76	800	7.5%
Total Demand, All Incomes	**1,706**	**2,147**	**1,697**	**747**	**6,297**	**59.1%**

Unit Size (Bedrooms) (a): Studio, One, Two, Three or More

New Rental Demand 2026-2036

Income Category	Studio	One	Two	Three or More	Total, All Sizes Number	Total, All Sizes Percent
Extremely Low Income (<=30% AMI)	900	423	428	209	1,960	14.8%
Very Low Income (31% to 50% AMI)	559	449	407	216	1,631	12.3%
Low Income (51% to 80% AMI)	659	677	636	302	2,275	17.2%
Moderate (81% to 120% AMI) (b)	0	564	292	106	962	7.3%
Above Moderate (>120% AMI) (b)	0	554	346	95	994	7.5%
Total, All Incomes	**2,119**	**2,667**	**2,108**	**928**	**7,822**	**59.1%**

Unit Size (Bedrooms) (a): Studio, One, Two, Three or More

New Rental Demand 2016-2036

Income Category	Studio	One	Two	Three or More	Total, All Sizes Number	Total, All Sizes Percent
Extremely Low Income (<=30% AMI)	1,625	764	772	377	3,538	14.8%
Very Low Income (31% to 50% AMI)	1,010	810	734	390	2,944	12.3%
Low Income (51% to 80% AMI)	1,190	1,223	1,148	545	4,106	17.2%
Moderate (81% to 120% AMI) (b)	0	1,018	526	191	1,736	7.3%
Above Moderate (>120% AMI) (b)	0	999	624	171	1,794	7.5%
Total, All Incomes	**3,825**	**4,814**	**3,805**	**1,675**	**14,118**	**59.1%**

Unit Size (Bedrooms) (a): Studio, One, Two, Three or More

Notes:

(a) The distribution of housing units by tenure is based on a comparison between current market rate housing costs and the maximum rental rates and purchase prices that are affordable to households at each income level. For households with incomes sufficient to secure either rental or ownership housing, the propensity to rent versus own is assumed to be equal to the regional distribution of households by income category and tenure.

(b) Assumes occupancy of the smallest available unit, while avoiding overcrowding (i.e., more than two persons per bedroom). For example, one person households occupy studio units, two person households occupy 1-bedroom units, three and four person households occupy 2-bedroom units, and so on. Note that this may underestimate demand for larger units, particularly at higher income levels.

(c) Due to the availability of additional financial resources, single person households in the moderate and above moderate income categories are presumed to prefer one-bedroom units over studios.

(d) The total number of new housing units demanded is equal to the number of new households, plus a vacancy factor of 11-12 percent, based on the implied vacancy rate reported in the baseline SACOG projections

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; U.S. Census Bureau, 2010-2014 American Community Survey, Public Use Microdata Sample, 2016; U.S. Department of Housing and Community Development, 2009-2013 Comprehensive Housing Affordabiltiy Strategy, 2016; CA HCD, Income Limits, 2016; BAE, 2016.

Table 39: New Housing Demand by Tenure, Unit Size, and Income Category, Supply Driven Scenario, 2016-2026-2036 (Page 2 of 2)(a)

New Ownership Demand 2016-2026

	Unit Size (Bedrooms) (a)				Total, All Sizes	
Income Category	Studio	One	Two	Three or More	Number	Percent
Extremely Low Income (<=30% AMI)	0	0	0	0	0	0.0%
Very Low Income (31% to 50% AMI)	0	0	0	0	0	0.0%
Low Income (51% to 80% AMI)	0	0	0	0	0	0.0%
Moderate (81% to 120% AMI) (b)	0	681	352	128	1,162	10.9%
Above Moderate (>120% AMI) (b)	0	1,783	1,113	305	3,201	30.0%
Total Demand, All Incomes	**0**	**2,464**	**1,465**	**433**	**4,362**	**40.9%**

New Ownership Demand 2026-2036

	Unit Size (Bedrooms) (a)				Total, All Sizes	
Income Category	Studio	One	Two	Three or More	Number	Percent
Extremely Low Income (<=30% AMI)	0	0	0	0	0	0.0%
Very Low Income (31% to 50% AMI)	0	0	0	0	0	0.0%
Low Income (51% to 80% AMI)	0	0	0	0	0	0.0%
Moderate (81% to 120% AMI) (b)	0	846	437	159	1,443	10.9%
Above Moderate (>120% AMI) (b)	0	2,215	1,383	378	3,976	30.0%
Total, All Incomes	**0**	**3,061**	**1,820**	**537**	**5,419**	**40.9%**

New Ownership Demand 2016-2036

	Unit Size (Bedrooms) (a)				Total, All Sizes	
Income Category	Studio	One	Two	Three or More	Number	Percent
Extremely Low Income (<=30% AMI)	0	0	0	0	0	0.0%
Very Low Income (31% to 50% AMI)	0	0	0	0	0	0.0%
Low Income (51% to 80% AMI)	0	0	0	0	0	0.0%
Moderate (81% to 120% AMI) (b)	0	1,528	790	287	2,604	10.9%
Above Moderate (>120% AMI) (b)	0	3,998	2,496	683	7,177	30.0%
Total, All Incomes	**0**	**5,525**	**3,286**	**970**	**9,781**	**40.9%**

Notes:

(a) The distribution of housing units by tenure is based on a comparison between current market rate housing costs and the maximum rental rates and purchase prices that are affordable to households at each income level. For households with incomes sufficient to secure either rental or ownership housing, the propensity to rent versus own is assumed to be equal to the regional distribution of households by income category and tenure.

(b) Assumes occupancy of the smallest available unit, while avoiding overcrowding (i.e., more than two persons per bedroom). For example, one person households occupy studio units, two person households occupy 1-bedroom units, three and four person households occupy 2-bedroom units, and so on. Note that this may underestimate demand for larger units, particularly at higher income levels.

(c) Due to the availability of additional financial resources, single person households in the moderate and above moderate income categories are presumed to prefer one-bedroom units over studios.

(d) The total number of new housing units demanded is equal to the number of new households, plus a vacancy factor of 11-12 percent, based on the implied vacancy rate reported in the baseline SACOG projections

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; U.S. Census Bureau, 2010-2014 American Community Survey, Public Use Microdata Sample, 2016; U.S. Department of Housing and Community Development, 2009-2013 Comprehensive Housing Affordabiltiy Strategy, 2016; CA HCD, Income Limits, 2016; BAE, 2016.

APPENDIX A: STUDY AREA DEFINITIONS

Appendix A-1: DSP area, 2000 Census Tract Definition

2000 Census Tract ID
06067000400
06067000500
06067000600
06067000700
06067000800
06067000900
06067001000
06067001100
06067001200
06067001300
06067001400
06067001900
06067002000
06067002100
06067005300

Source: U.S. Census Bureau, 2000.

Figure A-1: DSP area, 2000 Census Tract Definition

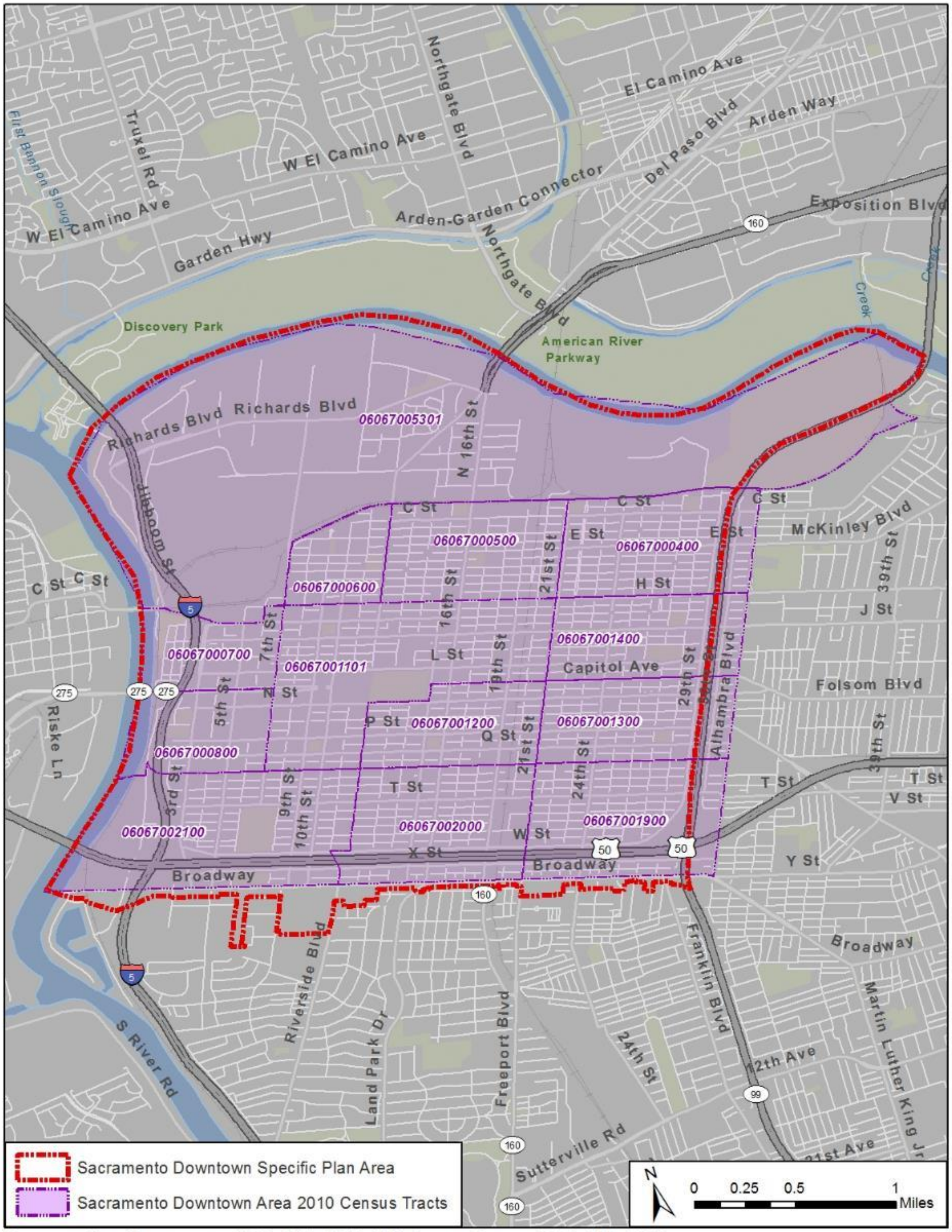
Sources: City of Sacramento, 2016; ESA, 2016; U.S. Census Bureau, 2016; BAE, 2016.

Appendix A-2: DSP area, 2010 Census Tract Definition

2010 Census Tract ID
06067000400
06067000500
06067000600
06067000700
06067000800
06067001101
06067001200
06067001300
06067001400
06067001900
06067002000
06067002100
06067005301

Source: U.S. Census Bureau, 2010.

Figure A-2: DSP area, 2010 Census Tract Definition



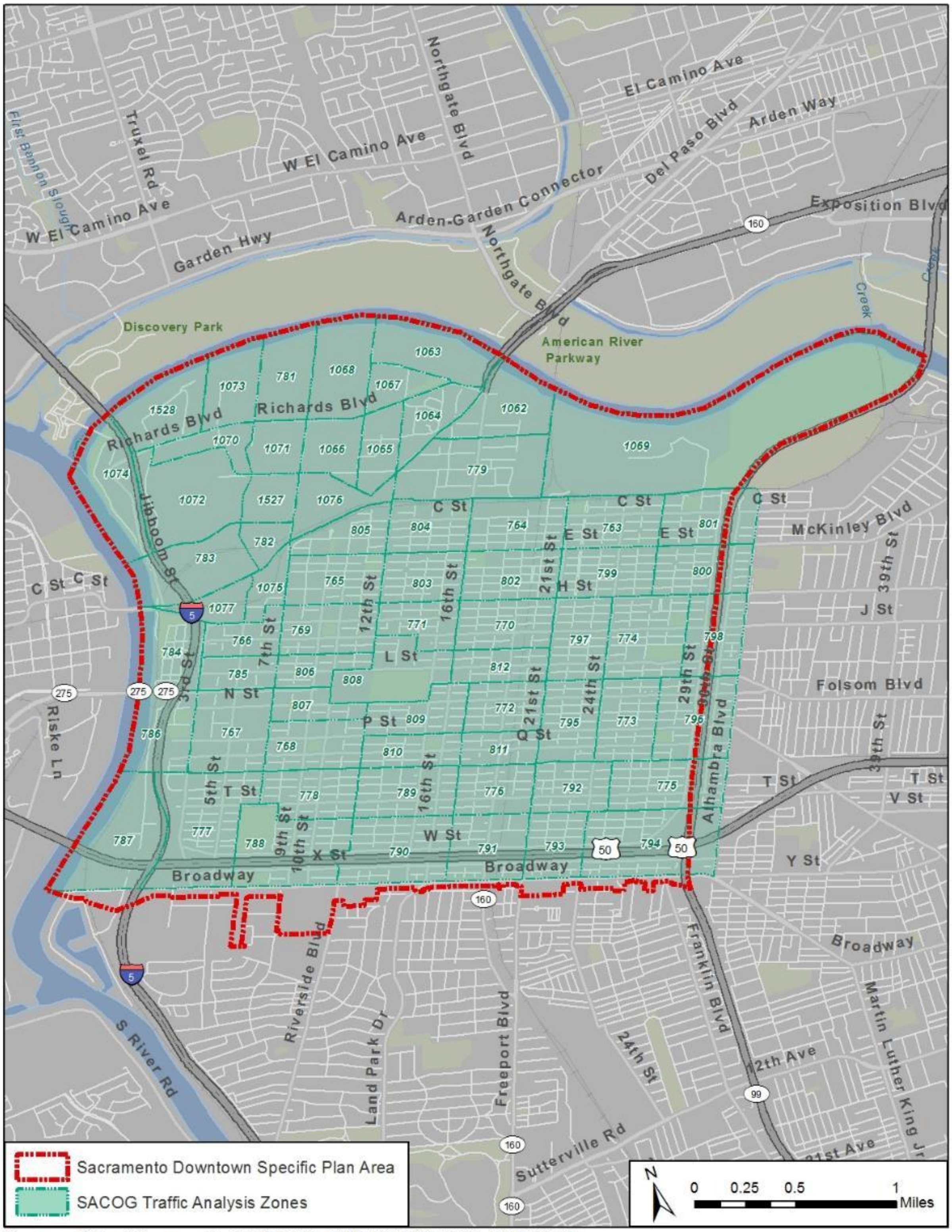
Sources: City of Sacramento, 2016; ESA, 2016; U.S. Census Bureau, 2016; BAE, 2016.

Appendix A-3: DSP area, SACOG TAZ Definition

TAZ ID	TAZ ID (cont.)	TAZ ID (cont.)	TAZ ID (cont.)
763	781	798	1064
764	782	799	1065
765	783	800	1066
766	784	801	1067
767	785	802	1068
768	786	803	1069
769	787	804	1070
770	788	805	1071
771	789	806	1072
772	790	807	1073
773	791	808	1074
774	792	809	1075
775	793	810	1076
776	794	811	1077
777	795	812	1527
778	796	1062	1528
779	797	1063	

Source: SACOG, 2016.

Figure A-3: DSP area, SACOG TAZ Definition



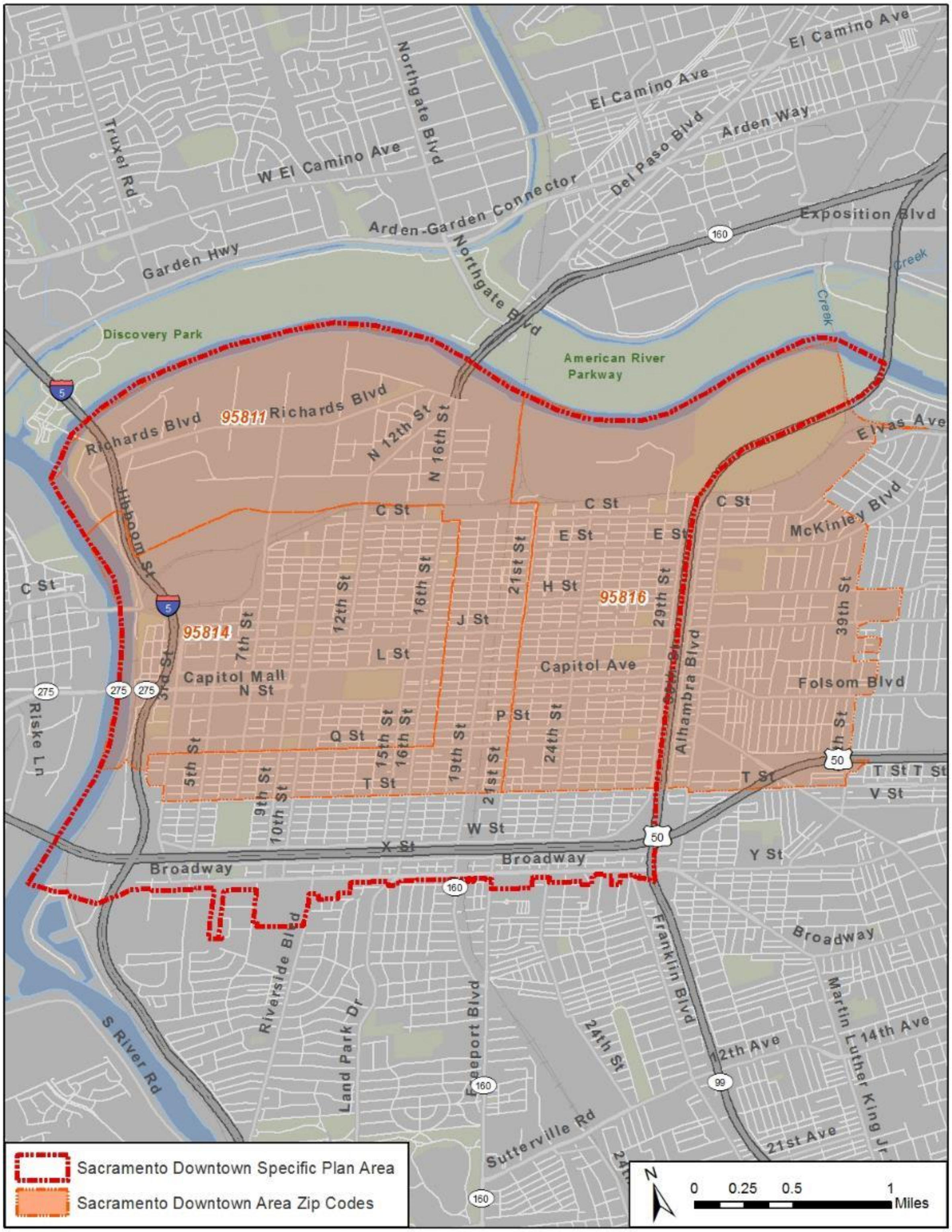
Sources: City of Sacramento, 2016; ESA, 2016; SACOG, 2016; BAE, 2016.

Appendix A-4: DSP area, Zip Code Definition

Zip Codes
95811
95814
95816

Sources: U.S. Postal Service, 2016.

Figure A-4: DSP area, Zip Code Definition



Sources: City of Sacramento, 2016; ESA, 2016; U.S. Postal Service, 2016; BAE, 2016.

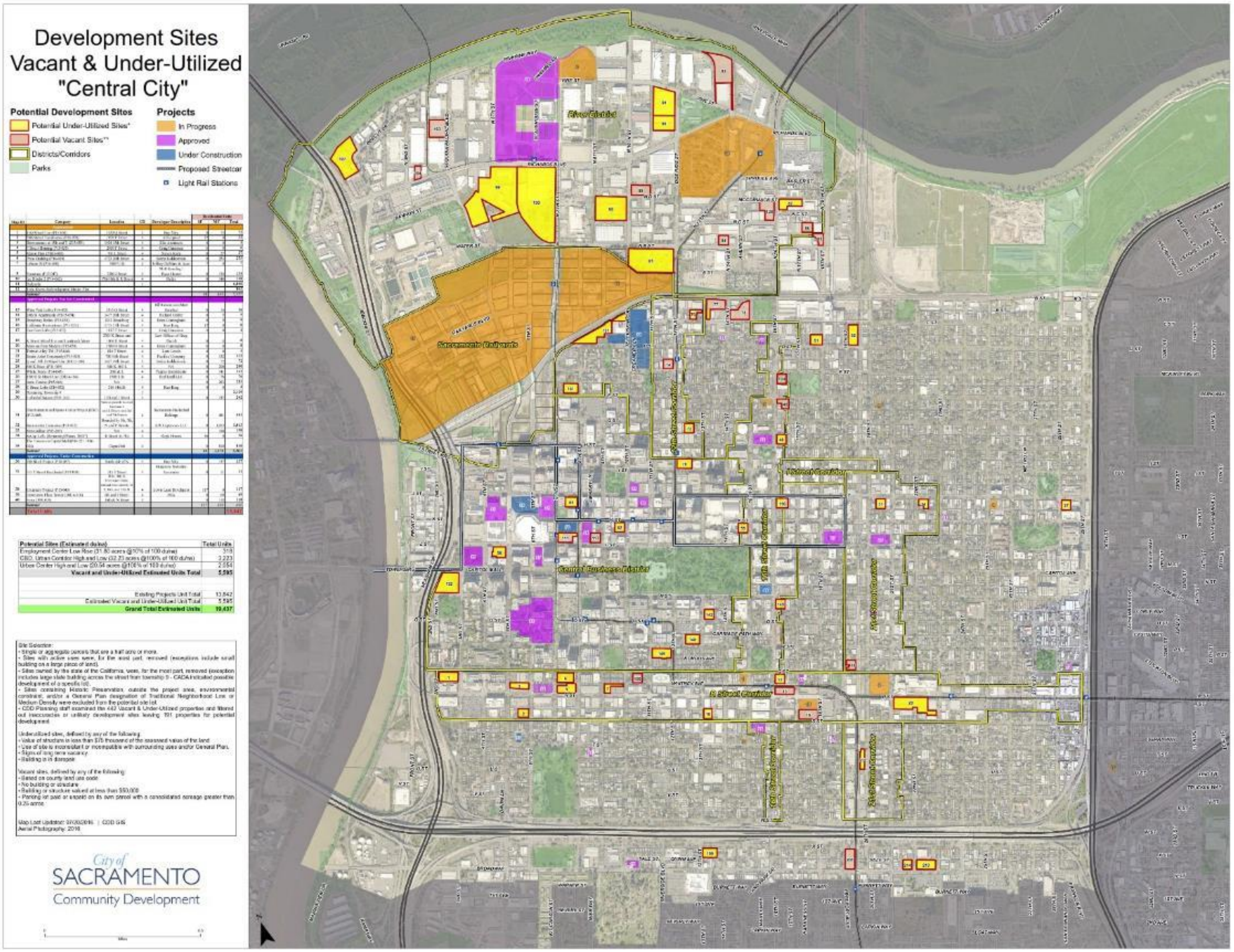
APPENDIX B: SACOG EMPLOYMENT INDUSTRY CROSSWALK

Appendix B: SACOG Employment Industries to NAICS Code Index

SACOG Industry	NAICS Code
Education	NAICS 61 - Education
Food Service	NAICS 722 - Food Serivce and Drinking Places
Government	NAICS 92 - Public Administration
Office	NAICS 55 - Management of Companies and Enterprises
	NAICS 562 - Waste Management and Remediation Services
	NAICS 813 - Religions Grantmaking, Civic, Professional, and Similar Organizations
Other	NAICS 9281 - National Security and International Affairs
Retail	NAICS 44-45 - Retail Trade
Services	NAICS 4911 - Postal Service
	NAICS 6114 - Business Schools and Computer and Management Training
	NAICS 6115 - Technical and Trade Schools
	NAICS 6116 - Other Schools and Instructions
	NAICS 6117 - Educaitonal Support Services
	NAICS 624 - Social Assistance
	NAICS 71 - Arts, Entertainment, and Recreation
	NAICS 721 - Accommodation
	NAICS 81 - Other Services (except Public Administration)
Medical	NAICS 621 - Ambulatory Health Care Services
	NAICS 622 - Hospitals
	NAICS 623 - Nursing and Residential Care Facilities
Industrial	NAICS 11 - Agriculture, Forestry, Fishing, and Hunting
	NAICS 21-23 - Mining, Utilities, and Construciton
	NAICS 31-33 - Manufacturing
	NAICS 42 - Wholesale Trade
	NAICS 48-49 - Transportation and Warehousing
	NAICS 561 - Administrative and Support Services

Sources: SACOG, Draft Modeling Projections for 2012, 2020, and 2036, 2016; BAE, 2016.

APPENDIX C: DOWNTOWN SPECIFIC PLAN DEVELOPMENT SITES



APPENDIX D: PEER CITY CASE STUDY DETAIL

The following provides a full summary of the case study research conducted regarding the conditions and trends which contribute to increasing demand for housing in the central city areas of five peer cities, including Denver, Colorado; Long Beach, California; Minneapolis, Minnesota; Nashville, Tennessee; and Portland, Oregon. BAE collected information for each case study through a review of pertinent background materials, including housing studies, downtown or central city plans, and real estate broker reports, among other documents. BAE also conducted interviews with key staff, downtown stakeholders, and other knowledgeable experts in each city, to collect additional information and identify key lessons learned.

Denver, Colorado

City/Agency Staff Contacts

Brian Phetteplace	Victor Cesar
Downtown Denver Partnership	*Denver Urban Renewal Authority*
Senior Manager of Economic Development	*Redevelopment Specialist*
September 2016	*October 2016*

Defining the Downtown/Central City

As defined in the Denver Downtown Area Plan, central Denver is located to the south and east of the South Platte River and Interstate 25.[28] The central city area is subdivided into eight sub-districts, including the Commercial Core, the Cultural Core, the Golden Triangle, Auraria, Lower Downtown (LoDo), the Central Platte Valley, the Ballpark, and Arapahoe Square.

Community Background/Overview

Originally founded along the banks of Cherry Creek and the South Platte River in 1858, during the Pikes Peak gold rush, Denver developed into an important regional supply and service center for the mining and ranching industries. Located on the edge of the High Plains, on the eastern slope of the southern Rocky Mountains, known as the Front Range, transportation has played an important role in Denver's development history. For example, in the 20 years following the arrival of the first the railroad line in 1870, Denver grew from fewer than 5,000 residents to more than 100,000.[29] [30] As of the early 20th Century, the roots of Denver's economy lay in the processing and distribution of minerals (e.g., gold and silver, and later plutonium and other

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[28] MIG. (July 2007). *Denver Downtown Area Plan*. Available at: http://www.downtowndenver.com/wp-content/uploads/2013/05/Denver_Chapter-1_FINAL1.pdf
[29] City and County of Denver. (2002). *Denver: The Rocky Mountain Metropolis History*. Available at: https://web.archive.org/web/20060608124619/http://www.denvergov.org/AboutDenver/history_timeline_short.asp
[30] *Ibid.*

heavy metals) and livestock products.[31] Due to its comparatively remote location (i.e., high elevation, long distances to either coast) and access to adequate labor and transportation facilities, the Federal government established a number of strategically important facilities, such as the Rocky Mountain Arsenal, which manufactured both conventional and chemical weapons,[32] the Rocky Flats Plant, which manufactured nuclear weapons components,[33] [34] and Buckley Airforce Base, which is now part of Air Force Space Command.[35] During the 1970s, Denver was at the center of a regional energy boom, with companies like Exxon establishing regional or national headquarters in new high-rise office buildings in Denver's central business district and in a new office district known as the Denver Tech Center.[36] However, with the oil crash of the 1980s, Denver entered a long period of economic stagnation.[37] In response to this chaotic history of economic booms and busts, driven by natural resource extraction and Federal spending, the Denver metropolitan region initiated an unprecedented period of regional cooperation in the early 2000s, known as the Mile High Compact, which prohibits inter-jurisdictional competition for economic development (e.g., jobs and businesses) and commits them to collective investments in regional transportation and infrastructure improvements.[38] Under this framework, Denver developed the eighth largest regional light rail network in the nation, a system with downtown Denver at its center, focused on transit-oriented development and inter-modal connectivity. Today, Denver is cited as the nation's best place to live, according to the U.S News and world Report,[39] the second best city for attracting Millennials, according to the Brookings Institution,[40] [41] and the second best city for launching a startup, according to Forbes.[42] [43]

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[31] *Ibid.*
[32] Rocky Mountain Arsenal. (n.a.). *A Brief History of Rocky Mountain Arsenal*. Available at: http://www.rma.army.mil/files/7214/1021/2431/A_Brief_History_of_Rocky_Mountain_Arsenal.pdf
[33] State of Colorado. (n.a.). *What is the history of Ricky Flats?* Available at: https://www.colorado.gov/pacific/sites/default/files/HM_sf-rocky-flats-exposures-study-history-of-site.pdf
[34] Aguilar, J. (May 19, 2016). "$375M settlement reached in homeowner lawsuit against Rocky Flats." *The Denver Post.* Available at: http://www.denverpost.com/2016/05/19/375m-settlement-reached-in-homeowner-lawsuit-against-rocky-flats/
[35] Buckley Air Force Base. (December 14, 2011). *Buckley Air Force Base Heritage.* Available at: http://www.buckley.af.mil/About-Us/Fact-Sheets/Display/Article/322400/buckley-air-force-base-heritage
[36] City and County of Denver. (2002). *Denver: The Rocky Mountain Metropolis History*. Available at: https://web.archive.org/web/20060608124619/http://www.denvergov.org/AboutDenver/history_timeline_short.asp
[37] *Ibid.*
[38] Denver Regional Council of Governments. (n.a.). *Mile High Compact*. Available at: https://drcog.org/sites/drcog/files/resources/MHC%20signature%20page%208.5%20x%2011_0.pdf
[39] U.S. News and World Report. (3016). *Best Place to Live*. Available at: http://realestate.usnews.com/places/rankings-best-places-to-live
[40] Frey, W. (October 28, 2011). "Young Adults Choose 'Cool Cities' During Recession." *Brookings*. Available at: https://www.brookings.edu/blog/up-front/2011/10/28/young-adults-choose-cool-cities-during-recession/
[41] Frey, W. (November 14, 2013). "Greatest Metropolitan Net Migration Gains, 2009-2012: Seniors and Millenials." *Brookings*. Available at: https://www.brookings.edu/wp-content/uploads/2016/06/FreyTable1a.pdf
[42] Post, T. (March 13, 2014). "The Best Places to Launch a Startup in 2014." *Forbes*. Available at: http://www.forbes.com/sites/tompost/2014/03/13/the-best-places-to-launch-a-startup-in-2014/#51e3162a359c
[43] Dill, K. (January 12, 2016). "The Best Cities for Young entrepreneurs." *Forbes.* Available at: http://www.forbes.com/sites/kathryndill/2016/01/12/the-best-cities-for-young-entrepreneurs/#18b3192a35ea

Residential Demand Drivers

Contemporary residential development trends in central Denver are driven by two decades of relatively consistent regional employment and household growth. This is complemented by Downtown's reputation for vibrant, walkable districts, residential amenities, and relative affordability compared to other dominant population centers in the American West (e.g., Seattle and the San Francisco Bay Area Area). Central city housing demand is also partially driven by more than 54,000 students who attend one of the five public or not-for-profit education institutions located in the central city, with another 10,000 students attending various trade schools and private for-profit educational institutions that have classroom space downtown.[44] Interview participants indicated that while population and employment growth are the primary drivers of regional housing demand, the factors that compel households to choose the central city over more suburban locations are the walkable access to amenities and ability to forgo automobile ownership in favor of biking, walking and public transit. Supporting this is an array of public transportation initiatives, such as the transformation of Union Station into a regional multi-modal transit hub, serving light rail, commuter and intercity rail, bus routes, and bicycle and pedestrian pathways. Also important to the renewed desirability of the central city are myriad redevelopment projects, which seek to transform formerly underutilized sites, such as the rail yard in the Central Platte Valley and the derelict Arapaho Neighborhood, into vibrant residential mixed-use neighborhoods. Combined, these initiatives and redevelopment projects signal to prospective residents and developers that the community is committed to investing in desirable amenities and infrastructure, while broader regional economic cooperation, including high-profile corporate relocations and expansions, hint at sustained future economic growth.

Residential Development Trends

From the 1960s to the 1990s, Downtown Denver experienced population losses, as housing preference shifted towards suburban lifestyles and the City's Urban Renewal Agency demolished substandard housing within the central city. The origins of a turnaround began with adoption of the 1986 Downtown Area Plan, which initiated a phase of reinvestment in public infrastructure, brownfield remediation, and historic preservation and reuse.[45] Throughout the late-1980s and 90s, Denver reconnected the central city to the surrounding neighborhoods and constructed new civic amenities, including the Convention Center and sports facilities. Between 1986 and 2005, the central city attracted more than $7.6 billion in investment, including $5.6 billion in public funds, with 30 percent applied to construction of entertainment venues and attractions, 24 percent to housing, and 11 percent to transportation, among other spending categories.[46]

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[44] Downtown Denver Partnership. (2016). *State of Downtown Denver 2016*, p. 13. Available at: http://www.downtowndenver.com/wp-content/uploads/2016/05/State-of-Downtown-Denver-FINAL-web-and-email.pdf

[45] City and County of Denver. (June 2006). *Downtown Denver Area Plan Phase I Report: Existing Conditions Assessment*. Available at: https://www.denvergov.org/Portals/646/documents/planning/Plans/plans_pre_2013/downtown/Downtown%20Area%20Plan%20C_Exisitng%20Conditions%20Assessment.pdf

[46] NAIOP Colorado. (March 14, 2006). *What's Up in Downtown*. Available at: http://www.naiop-colorado.org/portals/1/pdfs/pres_downtown_0306.pdf

According to the U.S. Census Bureau, the Denver central city area captured roughly six percent of the total regional housing growth between 2000 and 2010-2014, including seven percent of the region's attached single-family development (e.g., townhomes) and 14 percent of the region's multifamily development. Note that these figures do not include the 1,901 units constructed in 2015, or the 4,592 units planned or under construction in 2016.[47]

Housing Type and Size

Reflecting high land value and cost of production, new construction in Downtown Denver is predominately characterized by mid- to high-rise multifamily projects, positioned at the higher end of the market. Interview participants indicated that the current market is trending toward smaller units developed at a higher price per square foot, in developments that include amenities such as bike storage and repair stations, dog washing stations or dog spas, roof top pools and terraces, and communal outdoor cooking facilities. Studios and one-bedroom units ranging from 700 square feet to 800 square feet dominate the market, with a more limited supply of two-bedroom units topping out at around 1,500 square feet. Several large scale micro-unit projects with units generally ranging from 300 to 350 square feet are also proposed throughout Downtown. However, due to neighborhood concerns over a city policy that waives parking requirements for development located on parcels that are 6,250 square feet or less in mixed use zones, the City Council established a moratorium on small lot micro-unit developments in 2016.[48] While interview participants indicated that, prior to the recession, condominium development dominated the market, multifamily rental projects have dominated have been more common over the past five years, reflecting a dormant condominium market. One possible explanation for this shift in unit type is the state mandated Construction Defect Action Reform Act, which allows homeowners in attached unit buildings (such as condominiums or Townhomes) to sue for construction defects.[49] A recent study by the Denver Metro Area Housing Authority found that costs related to construction defect legislation added $15,000 or more per condominium unit.[50]

Rental Market Condition

The current strength of the Denver multifamily residential real-estate market is primarily due to rising for-sale prices, an influx of Millennials, and strong employment growth in sectors whose

[47] Downtown Denver Partnership. (2016). *State of Downtown Denver 2016*, p. 8. Available at: http://www.downtowndenver.com/wp-content/uploads/2016/05/State-of-Downtown-Denver-FINAL-web-and-email.pdf

[48] Murray, J. (August 22, 2016). "Denver City Council Oks Moratoriums on Small-Lot Parking Exemptions, Some Garden-Court Row Homes." *The Denver Post*. Available at: http://www.denverpost.com/2016/08/22/denver-city-council-decides-tonight-on-development-quote-unquote-scourges/

[49] The Downtown Denver Partnership. (2012). *The Downtown Area Plan: 5 Years Later*. Available at: *http://www.downtowndenver.com/wp-content/uploads/2013/06/2012+DDLP+Report+Final.pdf*

[50] Colorado Legislative Council Staff. (April 17, 2015). *Construction Defect Laws and Issues*. Available at: https://www.colorado.gov/pacific/sites/default/files/Interested%20Persons%20Memo%20on%20Construction%20Defects%20Issues33115115550_1.pdf

workforce primarily consists of renters (e.g., retail, education and healthcare).[51] Due to the construction of roughly 20,000 rental units regionwide since 2012,[52] Denver's residential rental market remains relatively balanced, with a 5.0 percent vacancy rate.[53] However, this rate fails to reflect the more than 11,000 units that are projected for completion by the end of 2016, which will likely result in a temporary increase in vacancy rates. Brokers report that monthly rents in the Downtown exceed those throughout the region, with the CBD averaging $1,821 a month,[54] compared to $1,360 per month region wide.[55] Rents in the Downtown are also increasing at a faster rate year-over-year, with an 8.9 percent increase in the Downtown, compared to 6.5 percent region wide.[56] Taking into account the vacancy rate, record high absorption rates, and a regional pipeline of 46,000 units either planned or under construction,[57] brokers anticipate that asking rents will actually level off in the coming year.[58]

For-Sale Market Conditions

The rate of homeownership in the Denver region steadily decreased from approximately 73.0 percent 2005 to the current rate 62.9 percent.[59] Brokers indicate rising sale prices throughout the region are increasing pressure on the rental market, as a more affordable alternative to home ownership. According to the *State of Downtown Denver 2016* report published by the Downtown Denver Partnership, the average asking price was $513,790 ($418 per square foot) in Downtown Denver, $414,144 ($362 per square foot) in neighborhoods surrounding Downtown, and $351,619 ($216 per square foot) metro Denver as a whole, indicating a premium related to Downtown proximity.[60] This differential also reflects the significant additional cost associated with higher density, infill development and the high-end nature of

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[51] Marcus and Millichap. (2016). *Multifamily Research Market Report Denver Metro Area Third Quarter 2016*. Available at: http://www.marcusmillichap.com/research/researchreports/reports/2016/09/13/denver-apartment-research-report

[52] *Ibid*.

[53] JLL. (2016). *Metro Denver Apartment Market Report*. Available at: http://www.jlldenvermultifamily.com/uploads/4/2/3/1/42313061/q2_2016_metro_denver_apartment_market_report_intl_email.pdf

[54] JLL. (2016). *Metro Denver Apartment Market Report*. Available at: http://www.jlldenvermultifamily.com/uploads/4/2/3/1/42313061/q2_2016_metro_denver_apartment_market_report_intl_email.pdfl

[55] Marcus and Millichap. (2016). *Multifamily Research Market Report Denver Metro Area Third Quarter 2016*. Available at: http://www.marcusmillichap.com/research/researchreports/reports/2016/09/13/denver-apartment-research-report

[56] *Ibid.*

[57] Yardi Matrix. (2016). *Denver's Growth Conundrum Multifamily Spring Report 2016*. Available at: https://www.yardimatrix.com/Media/Contact-Signup/Form/ReportDownloads?fcurl=%2fMedia%2fDownloads%2fFile%2f88-Denver-Spring2016Outlook

[58] Colliers International. (2016). *Metro Denver Multifamily Q2 2016*. Available at: http://www.colliers.com/-/media/files/marketresearch/unitedstates/markets/denver/market%20reports/2q2016multifamily.pdf

[59] JLL. (2016). *Metro Denver Apartment Market Report*. Available at: http://www.jlldenvermultifamily.com/uploads/4/2/3/1/42313061/q2_2016_metro_denver_apartment_market_report_intl_email.pdfl

[60] Downtown Denver Partnership. (2016). *State of Downtown Denver 2016*. Available at: http://www.downtowndenver.com/wp-content/uploads/2016/05/State-of-Downtown-Denver-FINAL-web-and-email.pdf

current product deliveries. The price differential also reflects the lack of new for-sale units constructed Downtown since the recession.

Gentrification and Displacement

Although developers constructed more than 25,000 new housing units near Denver's light rail lines over the past 15 years,[61] the cost and pricing dynamics discussed above mean that the majority of those units are oriented toward the luxury market. While the housing crisis and global recession improved affordability in the region, including in the Downtown, tightening of mortgage lending practices and other issues that arose during the recession also drove an increase in demand for central city rental housing. While increasing costs driven by the flow of higher income households into the central city made the cost of suburban housing comparatively attractive, additional transportation costs are proving difficult to absorb for many lower-income households. Research also indicates that rental rates and for-sale prices for housing go up with greater proximity to light rail, indicating that lower-income households are feeling financial pressure from multiple angles.[62] The City-County government adopted an inclusionary housing ordinance in 2002 that required multifamily developments with 30 units or more to set aside ten percent of the units for moderate-income households. The government then updated the code in 2014, dividing the city into three different zones and imposing different in-lieu fee and incentive amounts, depending on the comparative pricing within a given district.[63] For example, in areas with the highest median for-sale home prices, the in-lieu fee amount is equal to 70 percent of the sale price, while in low cost areas the in-lieu fee amount is equal to only 25 percent of the sale price.

Housing Initiatives and Programs

The remainder of this section includes a brief overview of a number of key local and regional policies and programs that influence the comparative desirability of central Denver as a destination for the development of new affordable and market rate housing.

1986 Downtown Denver Plan

In 1986, as Denver was entering a period of economic decline, the City and County of Denver adopted the first Downtown Denver Plan, which acted as the long-term vision for guiding land use, urban design, historic preservation, transportation and other policies related to urban form and land use in the central city. The 1986 plan established a framework for Downtown Denver's urban revitalization by envisioning and facilitating implementation of major projects, such as the

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[61] Thompson, J. (November 24, 2014). "Gentrification comes to Denver." *High Country Times*. Available at: http://www.hcn.org/articles/denver-is-gentrifying

[62] City and County of Denver. (May 2016). *Gentrification Study: Mitigating Involuntary Displacement.* Available at: http://www.denvergov.org/content/dam/denvergov/Portals/690/Reports%20and%20Studies/GENT%20STUDY%20051816.pdf

[63] Armbrister, M. (August 27, 2014). "Denver City Council Passes Inclusionary-Housing Changes." *Denver Business Journal.* Available at: http://www.bizjournals.com/denver/blog/real_deals/2014/08/with-mayors-signature-inclusionary-housing-changes.html?page=all

conversion of the Central Platte Valley from a derelict rail yard and superfund site into an evolving residential mixed-use neighborhood, the creation of a multi-modal network and regional transit system centered on downtown, designation of historic preservation districts, establishment of Urban Renewal Areas allowing the use of public financing to redevelop blighted properties into successful mixed-use districts, and the development of downtown housing.[64] [65] The 1986 plan projected the development of between 9,200 and 15,300 new housing units during the planning period. Between 1986 and 2006, more than 12,000 new units were constructed in to the downtown.[66] However, much of this housing occurred in neighborhoods not anticipated by the Plan. For example, the Plan anticipated new housing in neighborhoods adjacent to the central business district. By 2006, developers had constructed more than 1,200 units within the central business district, in addition to those constructed in adjacent neighborhoods.[67] According to the *Downtown Denver Area Plan Existing Conditions Report* prepared for the Area Plan update in 2006, the 1986 plan successfully established downtown Denver as the center of the metropolitan region. While the plan overestimated the growth potential of the office and retail sectors, it considerably underestimated the development potential of the housing and entertainment sectors.[68]

2007 Denver Downtown Area Plan

In 2007, the City and County of Denver adopted an updated version of the 1986 Downtown Denver Plan, recognizing that conditions within and around Downtown had changed. For example, since 1986 changes not envisioned by the original plan came to fruition, such as housing in the CBD, growth of dining and entertainment, and development of sports and cultural venues such as Coors Field, Pepsi Center, INVESCO Field at Mile High, and expansion of the Colorado Convention Center. As with the 1986 plan, the 2007 Plan established land use, urban design, historic preservation, and transportation and infrastructure polices and regulations intended to support the role of Downtown as a residential neighborhood, as well as a regional hub for commerce and culture. The 2007 Plan identifies the five overarching goals of making Downtown Denver a prosperous, walkable, diverse, distinctive and green place. These five goals are supported by 19 strategies, each of which have their own policies, projects or programs for implementation. Among the policies, projects and programs, the Plan seeks to better connect bicycle and pedestrian networks to adjacent neighborhoods, add 18,000 housing units suitable

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[64] City and County of Denver. (2007). *Denver Downtown Area Plan*. Available at: https://www.denvergov.org/content/dam/denvergov/Portals/646/documents/planning/Plans/Denver_Downtown_Area_Plan.pdf

[65] City and County of Denver. (June 2006). *Downtown Denver Area Plan Phase I Report: Existing Conditions Assessment*. Available at: https://www.denvergov.org/Portals/646/documents/planning/Plans/plans_pre_2013/downtown/Downtown%20Area%20Plan%20C_Exisitng%20Conditions%20Assessment.pdf

[66] City and County of Denver. (June 2006). *Downtown Denver Area Plan Phase I Report: Existing Conditions Assessment*. Available at: https://www.denvergov.org/Portals/646/documents/planning/Plans/plans_pre_2013/downtown/Downtown%20Area%20Plan%20C_Exisitng%20Conditions%20Assessment.pdf

[67] Ibid.

[68] Ibid.

for a broad array of household types and income levels, strengthen downtown schools, and provide amenities desirable to an array of downtown residents and visitors.[69] The 2007 Plan also identifies and outlines development of seven “transformative projects” that are deemed critical to achieving these goals. For example, the plan calls for redevelopment of Arapahoe Square into a new residential mixed use neighborhood. Arapahoe Square is seen as Downtown Denver’s most underutilized area. Located just north of the commercial core, the neighborhood features many of the city’s social services and is characterized by vacant parcels, surface parking lots, and historic structures. Key recommendations for redeveloping the neighborhood include, preparing a small area plan, encouraging redevelopment of the surface parking lots and other underutilized properties, identifying redevelopment opportunities adjacent to light rail, implementing pedestrian and landscaping improvements, and considering conversion of selected one-way streets to two-way streets. In August 2016, the City Council adopted new zoning and design review systems for Arapahoe Square to implement the Plan’s vision for the neighborhood.

Denver Blueprint and MetroVision 2035

Successful implementation of the Downtown Area Plans relies at least somewhat upon the successful implementation the Denver Blueprint and the regional Metro Vision 2035 plan. The Denver Blueprint was adopted in 2002 and functions as an integrated land use and transportation plan for the combined City and County of Denver. Key components of the Denver Blueprint include the funneling of development into “areas of change,” which benefit from new investment and an injection of new residents and business activity.[70] Some of these areas include the downtown, the Gateway area, the Lowry and Stapleton neighborhoods, and areas along transit lines. By comparison, the Blueprint sought to limit the growth potential in “areas of stability,” which include the previously built-out residential neighborhoods.[71] This was done by maintaining stable land use regulations and establishing new provisions intended to preserve community character. Lastly, the Blueprint also established standards for development of multi-modal streets (i.e., including public transport, pedestrians, bicycles, and private vehicles). These elements complement the broader regional vision established through the Denver Regional Council of Governments, which updated the regional plan in 2011, known as Metro Vision 2035. Metro Vision 2035 establishes a number of regional policies that directly influence the viability of Denver’s central city revitalization efforts including, but not limited to, increasing urban density by ten percent, locating 50 percent of new housing in urban centers, lowering greenhouse gas emissions by 60 percent, and reducing vehicle miles traveled by ten percent.[72]

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[69] City and County of Denver. (2007). *Denver Downtown Area Plan*. Available at: https://www.denvergov.org/content/dam/denvergov/Portals/646/documents/planning/Plans/Denver_Downtown_Area_Plan.pdf

[70] City and County of Denver. (2002). *Blueprint Denver: An Integrated Land Use and Transportation Plan*. Available at: https://www.denvergov.org/content/dam/denvergov/Portals/646/documents/planning/blueprint denver/BlueprintDenver.pdf

[71] *Ibid.*

[72] Denver Regional Council of Governments. (n.a.). *Metro Vision 2035 Plan.* Available at: https://drcog.org/sites/drcog/files/resources/2011%20MV%202035%20Plan%20revision%202016%20v1.pdf

One way that Metro Vision 2035 is working to achieve these goals was to establish a regional growth boundary, which restricts outward urban expansion.[73]

Transit Oriented Development Strategic Plan

Recognizing the importance of transit oriented development (TOD) to Denver's long-term development strategy, the joint City-County Government adopted the first TOD Strategic Plan in 2006 and adopted an updated plan in 2014.[74] The plan recognizes that multiple governmental entities have policies, goals, and strategic initiatives related to TOD. It does not intend to supersede those plans and agreements, but rather intends to fold those policy frameworks into a concise, yet comprehensive, work program to "eliminate or reduce barriers to TOD, create realistic funding plans, and direct growth and investment to rail stations with the best opportunity for development in the next [five] or [six] years."[75] As such, the TOD Strategic Plan is intended for near-term implementation. It summarizes a variety of TOD principles and outlines a TOD typology specific to the Denver context. The TOD Strategic Plan also evaluates individual station sites, outlining the actions that should be taken in the near-term to either prepare the site for future development or to catalyze that development and ensure its feasibility. The plan also outlines a set of citywide policy recommendations intended to promote compatibility with the other plans, policies, and strategic initiatives already in place.

Denver Urban Renewal Authority

The City and County of Denver established the Denver Urban Renewal Authority (DURA) in 1958 to assist with the redevelopment of blighted properties by providing financial assistance throughout the city, including for projects involving historic preservation, brownfield redevelopment, infill redevelopment, neighborhoods revitalization, single-family home rehabilitation, and emergency home repair. DURA currently manages a portfolio of $340 million in tax increment bond revenue and, upon buildout, will have leveraged approximately $8.0 billion in private capital.[76] The Redevelopment Department oversees DURA's urban renewal activities, and manages 21 urban renewal areas that capture a mix of tax increment revenue from property tax, sales tax and lodging tax, with property taxes being the dominant revenue source.[77] The use of TIF enabled the City to incentivize and target development envisioned in the Downtown Plan when the market could not do so otherwise. DURA provided financial assistance to a multitude of projects considered catalysts for private investment, including the relocation of the historic amusement park known as Elitch Gardens, the construction of the Pepsi Center, construction of retail and entertainment centers such as the Denver Pavilions and

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[73] *Ibid.*

[74] City and County of Denver. (2014). *Transit Oriented Denver: Transit Oriented Development Strategic Plan.* Available at: https://www.denvergov.org/Portals/193/documents/DLP/TOD_Plan/TOD_Strategic_Plan_FINAL.pdf

[75] *Ibid.*

[76] Denver Urban Renewal Authority. (2016). "Financial Information." Available at: http://www.renewdenver.org/about-dura/financial-information.html

[77] Denver Urban Renewal Authority. (2008). *50 Years of Revitalizing Denver.* Available at: http://www.renewdenver.org/assets/files/50thAnniversaryReport.pdf

the Recreational Equipment Inc. (R.E.I.) flagship store, and the addition of numerous housing units downtown. Between 1986 and the mid 2000's, DURA facilitated development of approximately 2,278 market rate and 271 affordable multifamily units in the downtown area.[78] DURA's efforts have also focused on the Arapahoe Square and Five Points neighborhoods to the northwest of the central business district, with an increased emphasis on affordable housing.

Implications and Replicability

The current housing market in central Denver is generally oriented toward smaller, high-end multifamily apartments, with little for-sale activity. Newer rental housing complexes in the central city typically offer an array of high-quality amenities, ranging from bike storage to pet spas, in addition to proximity to central city entertainment and recreational venues. Like many cities of this type, demand for central city housing derives from more highly educated, higher-income households, headed by members of the Millennial and Baby Boom generations. These households are generally smaller and less likely to include children. Among the key factors driving Denver's successful stimulation and support of downtown housing development is a robust public transportation network, including a highly effective light rail system with multi-modal connectivity. As recognized in Denver's TOD Strategic Plan, Denver is one of a number of communities in the nation that has documented an increase in market rate pricing for housing located in proximity to transit stations. In addition, central Denver increasingly offers a walkable urban environment with high quality entertainment venues, including multiple professional sports facilities. These factors complement the region's otherwise robust population and employment growth, supporting the capture of regional housing demand within the central city. However, increasing demand for housing in the central city is driving rapid price increases. Due to the increased value of housing close to transit, lower-income households are increasingly driven into the region's more auto-dependent neighborhoods, often resulting in long commutes and substantial additional transportation costs. According to interview participants, the 1986 and 2007 Downtown Area Plans were crucial to the revitalization of the central city, providing clear and consistent vision for the downtown and its surrounding neighborhoods. However, successful implementation also relied on a robust approach toward regional coordination embodied by the Mile High Compact, which commits each jurisdiction in the region to cooperate on matters of economic development and infrastructure development. Similarly, the citywide Denver Blueprint and regional Metro Vision 2035 plans also include important provisions that complement the objectives and strategies outlined in the downtown plans, including focusing growth into existing urban areas and instituting a regional urban growth boundary.

Key takeaways for Sacramento include the need for broader regional coordination to promote focused central city growth. Implementation of the Mile High Compact allowed the greater Denver area to develop a clear and unified vision for regional growth, including the

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[78] Denver Urban Renewal Authority. (2016). "DURA Redevelopment Projects." Available at: http://www.renewdenver.org/redevelopment/dura-redevelopment-projects/

development of critical infrastructure, such as the Denver International Airport and the regional light rail network. This cooperation has more recently extended to the adoption of the new urban growth boundary, which will further facilitate the concentration of projected future land use demand within existing urban areas. Thought not as far along, the broader Sacramento Region has many similar tools already in place, like the Sacramento Regional Blueprint and the Sustainable Communities Strategy, which are intended to facilitate regional coordination between land use planning and transportation infrastructure investments. Nonetheless, jurisdictions in the Denver metropolitan area have taken this concept one step further, codifying their cooperation and pursing unprecedented public-private partnerships, like the multi-billion dollar comprehensive transit expansion, known as FasTracks.

Transit itself has also played an important role in facilitating housing development in the central city, providing clear value to residents and offering clean and efficient transportation to employment nodes throughout the region, like the Denver Tech Center, among other destinations. Again, while Sacramento has taken important steps to expand its public transit system, including the light rail network and current efforts to establish a downtown streetcar line, Denver has done much more to ensure the utility of transit to a broad spectrum of residents and has successfully demonstrated the value and desirability of high-quality TOD.

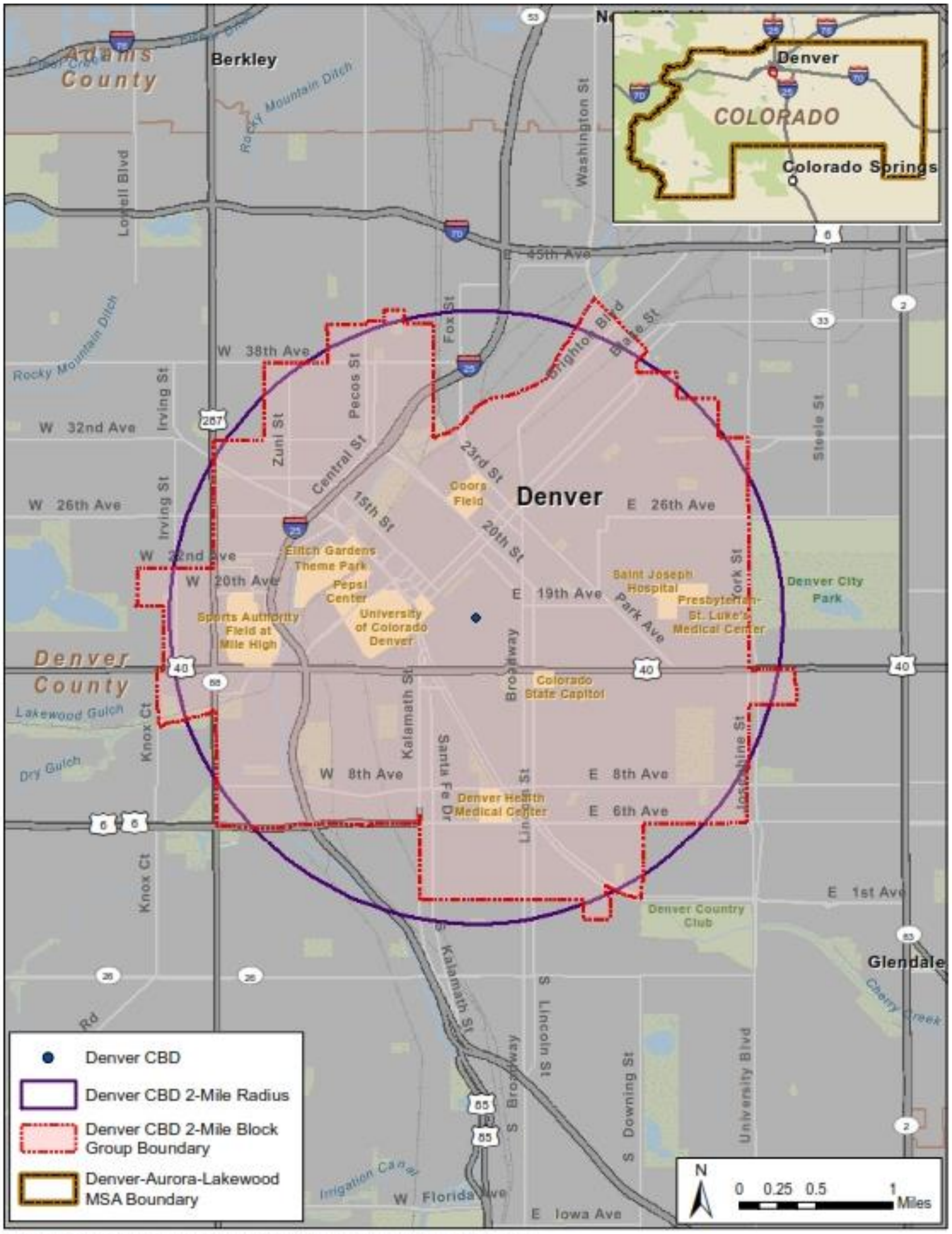
Table D1: Community Overview for Denver, Colorado, 2000,2010-2014

	Downtown Denver, CO (a)		**Historic**	**Denver-Aurora-Lakewood, CO Metro Area**		**Historic**	**Downtown Growth as %**
	2000	2010-2014	**Change**	2000	2010-2014	**Change**	**of MSA Growth**
Demographics							
Population	90,336	101,319	10,983	2,196,028	2,651,392	455,364	2.4%
Households	45,111	54,896	9,785	857,859	1,025,246	167,387	5.8%
Avg. Household Size	1.93	1.78	-0.15	2.53	2.55	0.02	
Renter Households	72.3%	68.7%	-3.6%	32.9%	36.4%	3.5%	5.6%
Family Households	32.0%	26.8%	-5.2%	64.3%	63.1%	-1.2%	0.3%
w/ Children Under 18	*17.2%*	*11.7%*	-5.5%	*34.8%*	*32.6%*	-2.3%	*-3.8%*
Median Household Income (b)	$29,584	$48,479	18,895	$51,850	$64,206	12,356	
Median Age	31.4	32.0	0.6	33.3	36.0	2.7	
Householder Only	*38.2*	*36.6*	-1.6	*43.4*	*47.7*	4.4	
Bachelor's Degree or Higher (c)	34.6%	54.8%	20.3%	34.2%	39.8%	5.6%	
Housing							
Housing units	48,925	60,740	11,815	896,874	1,092,649	195,775	6.0%
Single-Family Detached	*18.1%*	*15.5%*	-2.6%	*60.3%*	*59.7%*	-0.5%	*0.5%*
Single-Family Attached	*6.8%*	*7.3%*	0.5%	*7.7%*	*7.6%*	0.0%	*7.7%*
Multifamily	*74.9%*	*77.0%*	2.0%	*29.6%*	*30.9%*	1.3%	*14.0%*
Other	*0.1%*	*0.2%*	0.1%	*2.5%*	*1.8%*	-0.7%	*-1.7%*
Median Year Built		1963			1980		
Median Rental Rate	$534	$864	$330	$702	$998	$296	
Median Sale Price (d)	$124,950 - $301,192	$169,925 - $444,350	$44,975 $143,158	$165,400 - $186,667	$250,438 - $280,985	$85,038 $94,318	
MSA Median Income as % of Median Home Sale Price (e)	24.3%	20.9%	-3.4%	29.5%	24.2%	-5.3%	
Economy							
Jobs, All Industries (f)	189,847	208,463	18,616	1,171,534	1,342,839	171,305	10.9%
Ratio of Jobs/Housing	*3.9*	*3.4*	-0.4	*1.3*	*1.2*	-0.1	
Resident Workforce	48,508	54,991	6,483	1,145,109	1,294,359	149,250	4.3%
Incommuter Rate	*90.6%*	*90.9%*	0.4%	*12.2%*	*15.3%*	3.1%	
Outcommuter Rate	*63.1%*	*65.6%*	2.5%	*10.2%*	*12.2%*	1.9%	

Notes:
(a) The Downtown region is defined as a 2-mile radius from the Central Business District.
(b) Incomes reported in the 2000 Census are not inflation adjusted.
(c) Includes residents 25 years or older.
(d) Represents the range of monthly median sale prices for all ZIP Codes within the study areas for 2000 and 2014, as reported by Zillow.
(e) Calculated using the Median MSA household income divided by the midpoint of the median sale price reported for each region.
(f) Represents all jobs reported in 2002 and 2014, as reported by the Longitudinal Employer-Household Dynamics program.

Sources: U.S. Census Bureau, Census 2000, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; U.S. Census Bureau, LEHD Origin-Destination Employment Statistics, 2016; Zillow, 2016; BAE, 2016.

Figure D1: Central City Area, Denver, Colorado



Sources: City of Denver, 2016; U.S. Census Bureau, 2016; BAE, 2016.

Long Beach, California

City/Agency Staff Contacts

Carrie Thai
Development Services
Current Planner
September 2016

Defining the Downtown/Central City

As defined in the City of Long Beach Downtown Plan, the downtown area extends from the Los Angeles River in the north, to Cerritos Avenue in the south, and from Ocean Boulevard in the west, to Anaheim Street and West 7th Street in the east.[79] Included in this definition are the neighborhoods known as Downtown, East Village, and North Pine. Notably excluded from this planning oriented definition is the Long Beach Waterfront, which includes such major sites as the Long Beach Convention and Entertainment Center, the Office of the Chancellor of the California State University System, and the Aquarium of the Pacific, among other notable entities, sites, and attractions. For the purposes of this analysis, the Waterfront district is considered part of the Long Beach central city area.

Community Background/Overview

Incorporated in 1887, Long Beach was originally an agricultural community, which developed into a regional seaside resort due to its position on the Pacific Ocean, just 22 miles south of downtown Los Angeles. In the early 1900s, the Pacific Electric Red Car system developed into one of the largest electric light rail systems in the world, providing a valued public transportation option from Long Beach to the city centers of Los Angeles and San Bernardino, with connectivity throughout Los Angeles County, Orange County, San Bernardino County, and Riverside County.[80] With the discovery of oil on Signal Hill in 1921, and development of the Long Beach and Wilmington Oil Fields, Long Beach became a major oil producer, with numerous wells still in production, both underground and off-shore.[81] Though originally founded in 1911, the development of the oil fields prompted rapid expansion of the Port of Long Beach.[82] [83] The port also played an important role in U.S. naval defense in both World Wars. From 1932, the Port of Long Beach functioned as the home port for the U.S. Pacific

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[79] City of Long Beach. (January 2012). *Downtown Plan.* Available at: http://www.lbds.info/planning/advance_planning/downtown_community_plan/
[80] Los Angeles County Metropolitan Transportation Authority. (2016). *Los Angeles Transit History.* Available at: https://www.metro.net/about/library/about/home/los-angeles-transit-history/
[81] Schmitt, R., Dugan, J. and Adamson, M. (2003). *Industrial Activity and Its Socioeconomic Impacts: Oil and Three Coastal California Counties.* U.C. Santa Barbara: Santa Barbara, CA. Available at: http://www.coastalresearchcenter.ucsb.edu/cmi/files/2002-049.pdf
[82] Van Dyke, J. (2011). "Port History: From Swamp to International Trade Hub." *Gazettes*. Available at: http://www.gazettes.com/news/port-history-from-swamp-to-international-trade-hub/article_6eb83792-9b8c-11e0-8839-001cc4c03286.html
[83] Port of Long Beach. (2016). *History: 1890 – 2010*. Available at: http://polb.com/about/history/default.asp

Fleet.[84] Established in 1940, the Long Beach Naval Shipyard was located on Terminal Island, though this facility was closed in 1997 by the Defense Base Closure and Realignment Commission (BRAC).[85] Due largely to the presence of the port facilities, Long Beach also developed a significant commercial and industrial sector, featuring manufacturing facilities for StarKist and Pan Pacific (1920-1995),[86] Ford Motor Company (1930 to 1958), and McDonnell Douglas/Boeing (1941 to 2015),[87] [88] among others. The City also features California State University, Long Beach, the third largest campus in California State University (CSU) system,[89] which was established in 1949 to serve the greater Orange County and southern Los Angeles County area.

Through the mid-1900s, downtown Long Beach developed as an important recreational and commercial center. In the 1930s, after a magnitude 6.2 earthquake, much of the downtown core was rebuilt in an Art Deco style, which was typical of the era.[90] The Downtown Long Beach Association (DLBA) was also founded during this time and provided a cooperative advertising campaign. In the 1940s, the major local draw was the Pike Amusement Center on the Long Beach Waterfront, which attracted an average of 50,000 visitors over peak weekend periods. However, by the 1960s, with regional suburbanization, many downtown department stores and retail anchors had closed, many of which were replaced by adult theaters, bars, and other entertainment venues that appealed to off-duty servicemen. The Long Beach Redevelopment Agency was also established during this period. By the 1970s, conditions were beginning to improve. For example, the City had purchased the Queen Mary as a visitor attraction and hotel, recruited the IndyCar Grand Prix, and successfully facilitated the development of the Long Beach Plaza Mall, the Promenade, and the Long Beach Convention and Entertainment Center. The 1980s saw the construction of the first high-rise hotel, office, and condominium projects in Long Beach, which were concentrated along Ocean Boulevard. Now, with the effects of the Great Recession passing, central Long Beach is experiencing renewed vibrancy, with a new restaurant district emerging along Pine Avenue and an arts district in the East Village neighborhood. The introduction of the Blue Line by the Metropolitan Transit Authority once again reconnected Downtown Long Beach with Downtown Los Angeles,[91] opening up Long Beach as a destination for high-quality, beachfront living, with unfettered access to regional employment centers, as well as the headquarters of major

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[84] *Ibid.*
[85] *Ibid.*
[86] Grobaty, T. (2014). "Long Beach: a history of hard workers making big important things." *Press-Telegram*. Available at: http://www.presstelegram.com/business/20140112/long-beach-a-history-of-hard-workers-making-big-important-things
[87] *Ibid.*
[88] Weikel, D. (2015). "Last Boeing C-17 build in Long Beach takes flight." *Los Angeles Times*. Available at: http://www.latimes.com/local/lanow/la-me-ln-last-boeing-c-17-takes-flight-as-california-aerospace-era-ends-20151129-story.html
[89] California State University. (May 10, 2016). *Analytic Studies: CSU Enrollment Summary, Fall 2015*. Available at: http://www.calstate.edu/as/stat_reports/2015-2016/rf15_01.htm
[90] Downtown Long Beach Alliance. (2016). *History*. Available at: http://www.downtownlongbeach.org/history
[91] Los Angeles County Metropolitan Transportation Authority. (2016). *Los Angeles Transit History.* Available at: https://www.metro.net/about/library/about/home/los-angeles-transit-history/

manufacturers like Gulfstream Aerospace and Epson America, as well as healthcare companies like SCAN Health Plan and Molina Healthcare, among others.

Residential Demand Drivers

New development in Downtown Long Beach is driven by a number of key factors.[92] According to interview participants, these include the desirability of Downtown Long Beach as a residential destination, mostly for Millennials and young professionals seeking an urban lifestyle and access to high-quality amenities, as well as robust employment growth in relatively high wage sectors, coupled with the City's beach-front location, multimodal transportation network, and burgeoning cultural, entertainment and hospitality sector (e.g., restaurants, shopping, and art galleries).[93] Robust economic growth, particularly in complex manufacturing and engineering-based fields, is making Long Beach an attractive destination for well-educated and higher income households, who are increasingly younger and with fewer members (i.e., higher propensity towards single- and two-person households).[94] Long Beach added jobs at a faster pace than the MSA between 2002 and 2014; however, according to the Downtown Long Beach Association, more than 80 percent of existing downtown residents work outside downtown,[95] highlighting the historic importance of regional employment opportunities and regional connectivity. Downtown Long Beach benefits from its position on the Los Angeles Metro Blue Line, part of a regional light rail network first opened in 1990, which carries approximately 31,000 riders per day from Long Beach to Downtown Los Angles and elsewhere in the broader metropolitan region.[96] The area also benefits from recent development successes, such as the Current tower, at Ocean and Alamitos, and the Edison, at 1st and Long Beach Boulevard, which offer luxury high-rise residential options, with ocean views, within walking distance of the beach. Complementing these newer Class A residential offerings, portions of the Downtown, and most of the surrounding neighborhoods, offer a variety of Class B and C residential options, predominantly in older single-family neighborhoods.[97] In addition to a robust commercial environment and entertainment district, the Downtown benefits from an assortment of local placemaking initiatives, such as The Loop and the Beach Streets events series. The comparatively small blocks and cohesiveness encourage pedestrian activity and allow the downtown area to benefit more directly from various multimodal transportation improvements.[98] For example, Long Beach features over 120 miles of bike paths, including 40 miles dedicated exclusively to pedestrians and cyclists, and is listed by Walk Score as one of the top ten most walkable cities in the United States.[99] Ongoing public investment in bicycle

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[92] Downtown Long Beach Associates. (2016). *Downtown Long Beach 2016 Economic Profile*. Available at: http://downtownlongbeach.org/Uploads/2016-Economic-Profile_FINAL-WEB2-o_KOKTvn.pdf

[93] Strategic Economics. (2009). *Downtown Long Beach Market Study.* Long Beach Redevelopment Agency: Long Beach, CA. Available at: http://www.longbeachrda.org/civica/filebank/blobdload.asp?BlobID=2579

[94] *Ibid.*

[95] Downtown Long Beach Associates. (2016). *Downtown Long Beach 2016 Economic Profile*. Available at: http://downtownlongbeach.org/Uploads/2016-Economic-Profile_FINAL-WEB2-o_KOKTvn.pdf

[96] *Ibid.*

[97] Thai, C., personal communication, September 2016.

[98] Strategic Economics. (2009). *Downtown Long Beach Market Study.* Long Beach Redevelopment Agency: Long Beach, CA. Available at: http://www.longbeachrda.org/civica/filebank/blobdload.asp?BlobID=2579

[99] Downtown Long Beach Associates. (2016). *Downtown Long Beach 2016 Economic Profile*. Available at: http://downtownlongbeach.org/Uploads/2016-Economic-Profile_FINAL-WEB2-o_KOKTvn.pdf

and pedestrian infrastructure as well as a forthcoming civic center, and the recent addition of a bike share program signal to prospective developers and residents that Long Beach is committed to providing desirable amenities for both current and future residents.

Residential Development Trends

Prior to the onset of the Great Recession in 2007/2008, Long Beach was in the throes of the second largest residential building boom since 1940. More than 80 percent of the building permits issued since 2000 were for multifamily housing units, with 61 percent located in the central city.[100] Along Ocean Boulevard and the waterfront, development primarily consisted of mid- to high-rise luxury condominiums, while development in the Downtown was characterized by more affordable low-rise multifamily rental housing. Current development trends generally follow the same pattern, though with infill development sites becoming more scarce, higher density development is progressing into the core Downtown area. According to the Census Bureau, between 2000 and 2010-2014, Downtown Long Beach captured approximately 0.7 percent of housing growth in the Los Angeles-Long Beach-Anaheim, CA MSA, and approximately one percent of the region's multifamily construction. Note that these figures do not include more the 408 units that came online in 2016, located in the downtown. City staff estimated that currently, approximately 60.0 percent of new development or pipeline projects has occurred on land formerly owned by the Redevelopment Agency.

<u>Housing Type and Size</u>

Long Beach is predominately characterized by luxury mid- to high-rise multifamily development.[101] Corresponding with smaller than average household sizes, newer units in the downtown are skewed toward smaller studio and one-bedroom units, with a few developments featuring two-bedroom penthouse units. However, interview participants indicated that current market rents are too low to justify development of two-bedroom units. Most developments are luxury-oriented and include amenities such as private balconies, pools, gyms, and private open space. According to interview participants, unit type and size is driven by the market. Since the recession, fewer than 500 rental units have come online, mostly targeting wealthy, older adults and retirees. There are also approximately 878 units currently planned or proposed for development, though local real estate brokers indicate that pre-leasing for these projects has been successful, with demand sufficient to justify initiation of later additional planned phases.[102]

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[100] Strategic Economics. (April 17, 2009). *Downtown Long Beach Market Study*. Available at: http://www.longbeachrda.org/civica/filebank/blobdload.asp?BlobID=2579

[101] Mehlinger, Samantha. (February 14, 2016). "Demand is Growing Across the Board in Long Beach Real Estate Markets: An Overview and Update on Residential, Office, Industrial and Retail." *Long Beach Business Journal.* Available at: http://www.lbbizjournal.com/single-post/2016/02/15/Demand-Is-Growing-Across-The-Board-In-Long-Beach-Real-Estate-Markets-An-Overview-And-Updates-On-Residential-Office-Industrial-And-Retail

[102] Downtown Long Beach Associates. (2016). *Downtown Long Beach 2016 Economic Profile*. Available at: http://downtownlongbeach.org/Uploads/2016-Economic-Profile_FINAL-WEB2-o_KOKTvn.pdf

Rental Market Conditions

The multifamily residential market remains tight in Downtown Long Beach, with occupancy around 97.0 percent, up ten percentage points since 2015.[103] According to real estate brokers, the primary strength of the Long Beach rental market is rooted in the limited supply of both rental and for-sale housing units, compared to increasing demand, which is driving up rental rates.[104] As of the third quarter of 2016, the average effective residential rental rate in Long Beach was $1,667, which was up 6.1 percent year over year. Overall, rental rates have increased 26 percent since 2010, with a range of per square foot rents between $0.99 and $4.34. As noted earlier, there are 878 new units planned for delivery in the next three years. As the region continues to experience population and employment growth, this limited expansion of the existing rental supply is unlikely to significantly impact vacancy. Also, brokers indicated that potential interest rate increases are likely to slow multifamily development further.[105]

For Sale Market Conditions

The for-sale market also features limited inventory and increasing demand from new residents as older Millennials seek to purchase homes.[106] According to local real estate brokers, there were 486 single-family homes on the market in the central city at the end of 2015, whereas four years prior there were more than 1,000, and historically there were more than 2,000 on average. At the current rate of demand, Long Beach has just over one months' supply of for-sale housing, where a six-month inventory is considered normal. Some industry professionals speculate that homeowners, particularly Baby Boomers, are holding properties because they question whether or not the market has reached its peak, or they want to trade up or downsize and cannot yet afford to do so.[107] This is at least partly because housing in Long Beach is relatively affordable compared to elsewhere in the greater Los Angeles region. According to Trulia, between 2000 and 2010-2014 the median sale price in Long Beach was between $243,550 and $301,450 compared to $476,000 to $532,800 in the MSA.[108] Between 2014 and 2015, the median home sale price in Long Beach was $458,500, up 11.0 percent year

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[103] Marcus and Millichap. (2016). *Multifamily Research Market Report Los Angeles County, Third Quarter 2016*. Available at: https://www.marcusmillichap.com/

[104] Mehlinger, S. (February 15, 2016). "Tight Inventory, High Demand Persist in Local Residential Market." *Long Beach Business Journal.* Available at: http://www.lbbizjournal.com/single-post/2016/02/15/Demand-Is-Growing-Across-The-Board-In-Long-Beach-Real-Estate-Markets-An-Overview-And-Updates-On-Residential-Office-Industrial-And-Retail

[105] *Ibid.*

[106] Mehlinger, Samantha. (February 14, 2016). "Demand is Growing Across the Board in Long Beach Real Estate Markets: An Overview and Update on Residential, Office, Industrial and Retail." *Long Beach Business Journal.* Available at: http://www.lbbizjournal.com/single-post/2016/02/15/Demand-Is-Growing-Across-The-Board-In-Long-Beach-Real-Estate-Markets-An-Overview-And-Updates-On-Residential-Office-Industrial-And-Retail

[107] Mehlinger, Samantha. (February 14, 2016). "Demand is Growing Across the Board in Long Beach Real Estate Markets: An Overview and Update on Residential, Office, Industrial and Retail." *Long Beach Business Journal.* Available at: http://www.lbbizjournal.com/single-post/2016/02/15/Demand-Is-Growing-Across-The-Board-In-Long-Beach-Real-Estate-Markets-An-Overview-And-Updates-On-Residential-Office-Industrial-And-Retail

[108] Trulia. *Real Estate Data for Long Beach*. Accessed October 10, 2016. Available at: https://www.trulia.com/real_estate/Long_Beach-California/market-trends/

over year. Estimates as of October, 2016 put the median sale price at $500,500, with the most affordable homes in the downtown, and increasing in price further from downtown.[109] Exceptions to this include waterfront development and portions of downtown previously within the redevelopment area, including multifamily for-sale properties in the CityPlace and Promenade developments.

Gentrification and Displacement

While Long Beach has long been an affordable option for housing in comparison to the remainder of the Los Angeles region, housing prices are increasing while the median income remains well below the regionwide median. According to the real estate brokers interviewed for this research, rents for all types of multifamily housing units are increasing, with units built in the 1980s commanding the highest increases.[110] Because of their older age and lack of amenities, these properties are typically rented at market rates, but are considered affordable to most moderate-income and some low-income households. However, rental rates for these units are expected to increase at least 5.0 percent during 2016, as demand remains high, and interest rates and available inventory remain low.[111]

Housing Initiatives and Programs

The remainder of this section includes a brief overview of a number of key local and regional policies and programs that influence the comparative desirability of the Downtown and Waterfront area of Long Beach as a destination for the development of new affordable and market rate housing.

Long Beach Redevelopment Agency

At the time of the state mandated dissolution in 2012, Long Beach Redevelopment Agency (LBRDA) had overseen seven redevelopment areas, three of which were within the downtown. The mission of the LBRDA was to create a better Long Beach by enhancing quality of life, improving blighted areas, revitalizing neighborhoods, promoting economic development, creating jobs, providing affordable housing, and encouraging citizen participation.[112] The first downtown redevelopment district was established in 1975 and covered the waterfront, civic center, and historic business district. Originally, efforts in the district focused on revitalizing commercial and visitor oriented development; however, by 1986 the focus shifted to

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[109] Trulia. *Real Estate Data for Long Beach*. Accessed October 10, 2016. Available at: https://www.trulia.com/real_estate/Long_Beach-California/market-trends/

[110] Marcus and Millichap. (2016). "Multifamily Research Market Report Los Angeles County Third Quarter 2016." Available at: https://www.marcusmillichap.com/-/media/files/research/research%20reports/local%20apartments/2016/3q/los%20angeles%20lar%203q16.pdf

[111] Mehlinger, Samantha. "Tight Inventory, High Demand Persist in Local Residential Market." *Long Beach Business Journal.* Available at: http://www.lbbizjournal.com/single-post/2016/02/15/Demand-Is-Growing-Across-The-Board-In-Long-Beach-Real-Estate-Markets-An-Overview-And-Updates-On-Residential-Office-Industrial-And-Retail

[112] Long Beach Redevelopment Agency. (2007). *2007 Year End Project Report.* Available at: http://www.longbeachrda.org/civica/filebank/blobdload.asp?BlobID=2353

encouraging mixed-use and residential projects.[113] Interview participants reported that housing development did not gain traction until the housing boom of the early 2000s. In 2007, the LBRDA subsidized the development of approximately 601 market rate and 26 rent restricted affordable units in the Downtown Project Area.[114] The majority of these units were located in the Promenade and CityPlace developments, both of which are mixed-use commercial and residential developments that revitalized entire city blocks and were essential to spurring further investment downtown. At the time of dissolution in 2012, the LBRDA's single fiscal year expenditures between the two downtown RDA districts totaled $24 million.

Downtown Plan 2012

Recognizing the competitive disadvantages imposed on historic downtowns by contemporary trends in the retailing industry (i.e., regional malls, internet retailing, etc.), the City made the strategic decision to encourage higher density residential development as a means to revitalize the downtown commercial district. The Downton Plan, adopted in 2012, established land use regulations and high quality, context sensitive design standards, to enhance the city's role as an employment and cultural center, encourage dense mixed-use and residential development, preserve historic buildings, promote alternative transportation methods and improve mobility, and create an inviting pedestrian environment.[115] The Downtown Plan reduced parking ratios for residential development to 1.25 parking spaces per unit, increased maximum density to a Floor Area Ratio of 8.0 and increased maximum height up to 240 feet in in the central business district, and between 80 feet and 150 feet in areas bordering the central business district. The Plan allows for additional height up to 500 feet and FAR up to 11.0 in the central business district in exchange for meeting sustainability targets, such as providing LEED certification, provision of public space, and rehabilitation of historic buildings. The Plan also included a Program Environmental Impact Report (PEIR) to streamline development by reducing the time and cost of securing entitlements through streamlined processing under the California Environmental Quality Act (CEQA). Interviews indicate that the intention of the Downtown Plan was to allow for denser development, set strict design review standards to ensure quality development, and then allow the market to dictate the pace and volume. The Plan anticipated 5,000 new housing units. Since it was implemented, developers have completed 622 new residential units, with 2,500 more residential units entitled.[116]

Implications and Replicability

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[113] Long Beach Redevelopment Agency. (2016). *Downtown Project Area*. Available at: http://www.longbeachrda.org/projects/downtown/default.asp

[114] Long Beach Redevelopment Agency. (2007). *2007 Year End Project Report.* Available at: http://www.longbeachrda.org/civica/filebank/blobdload.asp?BlobID=2353

[115] The City of Long Beach. (January 2012). *City of Long Beach Downtown Plan*. Available at: http://www.lbds.info/civica/filebank/blobdload.asp?BlobID=3707

[116]Downtown Long Beach Associates. (2016). *Downtown Long Beach 2016 Economic Profile*. Available at: http://downtownlongbeach.org/Uploads/2016-Economic-Profile_FINAL-WEB2-o_KOKTvn.pdf

The downtown Long Beach housing market is characterized by smaller studio and 1-bedroom units in high rise multifamily structures with plentiful amenities targeted toward higher income households. Key factors identified by local interviewees associated with the City's efforts to incentivize downtown housing development identified public investment through the Long Beach Redevelopment Agency and the 2012 Downtown Plan as the primary programs and policies responsible for renewing reinvestment in downtown housing. These programs and policies were supported by robust regional employment growth in relatively high paying industries, such as manufacturing, education and health, and professional and business services. Other key supports include easy transit connectivity between Downtown Long Beach and regional employment centers like Downtown Los Angeles, and a shifting preference toward walkable urban living, with access to high quality recreational and entertainment amenities. The Downtown Plan offered explicit land use and design regulations to facilitate dense housing development in the downtown; however, the plan does little to specifically incentivize housing other than generally increasing allowable height and density, lowering parking ratios, and streamlining the entitlement and environmental review processes. Instead, the focus of the Plan was to establish strict design standards and allow the market to dictate the pace of development.

Key takeaways for Sacramento include the key role public investment can play in incentivizing housing. Although Redevelopment Agencies were dissolved under state mandate, Enhanced Infrastructure Financing Districts (EIFDs), signed into law through SB628 in January 2015, offer a new opportunity to utilize Tax Increment Financing to support infrastructure projects, child care facilities, affordable housing, parking facilities, and transit oriented development.[117] While Long Beach's Downtown Plan outlined specific land use regulations in line with the community's vision, allowing the market to dictate the pace of development, it did little to manage the volume and scope of housing production. Though the Long Beach example highlights the role that regional connectivity and multimodal facilities can play in stimulating central city housing demand, Long Beach benefits from greater proximity to other major regional population centers, such as Downtown Los Angeles.

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[117] California Community Economic Development Association. (February 2016). *Enhanced Infrastructure Financing Districts: Resource Guide to EFIDs*. Available at: http://cceda.com/wp-content/uploads/EIFD-Resource-Guide-Feb-20161.pdf

Table D2: Community Overview for Long Beach, California, 2000,2010-2014

	Downtown Long Beach, CA (a)		**Historic**	**Los Angeles-Long Beach-Anaheim, CA MSA**		**Historic**	**Downtown Growth as %**
	2000	2010-2014	**Change**	2000	2010-2014	**Change**	**of MSA Growth**
Demographics							
Population	167,165	162,012	-5,153	12,365,627	13,060,534	694,907	-0.7%
Households	56,191	57,313	1,122	4,069,061	4,244,676	175,615	0.6%
Avg. Household Size	2.92	2.78	-0.13	2.99	3.03	0.04	
Renter Households	81.5%	80.1%	-1.4%	49.0%	50.8%	1.8%	0.1%
Family Households	57.6%	55.0%	-2.6%	68.9%	68.2%	-0.7%	-0.9%
w/ Children Under 18	*42.4%*	*34.9%*	-7.5%	*40.5%*	*35.8%*	-4.7%	*3.0%*
Median Household Income (b)	$24,429	$37,642	13,213	$46,136	$60,337	14,201	
Median Age	26.7	30.8	4.2	31.6	35.6	4.0	
Householder Only	*39.4*	*42.9*	3.5	*45.1*	*49.1*	4.0	
Bachelor's Degree or Higher (c)	14.3%	22.1%	7.8%	26.3%	31.7%	5.4%	
Housing							
Housing units	60,421	62,456	2,035	4,240,393	4,520,541	280,148	0.7%
Single-Family Detached	*15.2%*	*16.0%*	0.8%	*49.1%*	*50.0%*	0.8%	*0.5%*
Single-Family Attached	*5.1%*	*4.9%*	-0.2%	*8.6%*	*7.9%*	-0.8%	*0.0%*
Multifamily	*79.4%*	*78.7%*	-0.7%	*40.1%*	*40.3%*	0.2%	*1.0%*
Other	*0.3%*	*0.4%*	0.1%	*2.1%*	*1.9%*	-0.2%	*-1.2%*
Median Year Built		1958			1966		
Median Rental Rate	$561	$942	$380	$742	$1,284	$542	
Median Sale Price (d)	$75,000 - $124,025	$243,550 - $301,450	$168,550 $177,425	n.a. - n.a.	$476,000 - $523,800	n.a. n.a.	
MSA Median Income as % of Median Home Sale Price (e)	46.4%	22.1%	-24.2%	n.a.	12.1%	n.a.	
Economy							
Jobs, All Industries (f)	45,524	59,312	13,788	5,276,011	5,903,874	627,863	2.2%
Ratio of Jobs/Housing	*0.8*	*0.9*	0.2	*1.2*	*1.3*	0.1	
Resident Workforce	54,963	57,757	2,794	5,001,924	5,497,076	495,152	0.6%
Incommuter Rate	*86.0%*	*88.3%*	2.3%	*13.7%*	*17.8%*	4.1%	
Outcommuter Rate	*88.4%*	*88.0%*	-0.4%	*8.9%*	*11.7%*	2.8%	

Notes:

(a) The Downtown region is defined as a 2-mile radius from the Central Business District.

(b) Incomes reported in the 2000 Census are not inflation adjusted.

(c) Includes residents 25 years or older.

(d) Represents the range of monthly median sale prices for all ZIP Codes within the study areas for 2000 and 2014, as reported by Zillow.

(e) Calculated using the Median MSA household income divided by the midpoint of the median sale price reported for each region.

(f) Represents all jobs reported in 2002 and 2014, as reported by the Longitudinal Employer-Household Dynamics program.

Sources: U.S. Census Bureau, Census 2000, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; U.S. Census Bureau, LEHD Origin-Destination Employment Statistics, 2016; Zillow, 2016; BAE, 2016.

Figure D2: Central City Area, Long Beach, California

Sources: City of Long Beach, 2016; U.S. Census Bureau, 2016; BAE, 2016.

Minneapolis, Minnesota

City/Agency Staff Contacts

Beth Elliot
Planning and Economic Development
Principal City Planner for Downtown
October 2016

Angie Skildum
Planning and Economic Development
Manager of Residential Finance
October 2016

Defining the Downtown/Central City

As defined in the Intersections Downtown 2025 Plan, central Minneapolis is generally defined to include the area extending from the Plymouth Avenue Bridge, south to Interstate 35 West. It includes a small amount of land located on the east bank of the Mississippi River, including the area between University Avenue and Main Street and the riverfront.[118] The central city also extends westward from the riverfront to Interstate 94 in the west and the combined Interstate 94/35 in the south. The central city area is generally divided into eight different neighborhoods. These include Nicollet Island and the East Bank, Marcy Holmes, North Loop, Loring Park, Elliot Park, Downtown East, the Mill District, and Downtown West.[119]

Community Background/Overview

Founded in 1849 at the confluence of the Mississippi River and the Minnesota Rivers, Minneapolis quickly established itself as a distribution center for timber and agricultural products. Powered by hydroelectricity from St. Anthony Falls, the only major waterfall along the Mississippi River, Minneapolis became the world's largest producer of milled flour, eventually giving rise to companies like General Mills and Pillsbury. While Minneapolis was established near the falls, nearby St. Paul was founded at Lambert's Landing, the northernmost point on the Mississippi River where river boats could be unloaded. The economic power of the milling industry spurred development of support industries, including commercial banks, international law firms, government institutions, and railroads. By the 1930's, the flour industry had declined due to soil depletion and the rise of steam and electric power in other regions, as well as increased competition from Buffalo, New York. Following World War II, the city's economy shifted toward the manufacturing and distribution of farm machinery and electronics. While Minneapolis experienced many of the same trends toward greater suburbanization and declines in manufacturing experienced by many other larger rust-belt communities in the 1960s through the 1980s, the city's position as the only major population and business center between Chicago and Seattle resulted in a surprising resilience to economic decline. With the mill district largely abandoned, the City used urban renewal to remove blighted properties, and the Minneapolis

[118] City of Minneapolis. (2011). *Intersections Downtown 2025 Plan.* Available at: http://assets.ngin.com/attachments/document/0023/6032/10377_PlanBook_forWeb_opti-1.pdf
[119] City of Minneapolis. (July 2006). *Neighborhoods and Communities*. Available at: http://www.minneapolismn.gov/www/groups/public/@bis/documents/maps/convert_264339.pdf

Park and Recreation Board subsequently acquired most of the riverfront land and built trails, which spurred private development, including central city housing. In 2004, Minneapolis established the first METRO light rail line, with the Northstar commuter rail line opening in 2009. The City also recently completed replacement of the aging Metrodome facility with the new U.S. Bank Stadium, deemed ready to host the Vikings football team in June 2016. While the Minneapolis economy is no longer tied to the milling industry, the city features a diversity of business activities, including headquarters for 19 Fortune 500 companies, many of them founded in the region. While other cities benefit from close proximity to other large markets, Minneapolis and St. Paul benefit from being the largest urban center within the broader mid-western region, effectively turning many of the smaller cities of Iowa, Nebraska, North and South Dakota, and Montana into satellite communities.[120] According to The Atlantic, "no place mixes affordability, opportunity, and wealth" quite like the Twin-Cities of Minneapolis and St. Paul.[121] His bold statement is based on findings indicating that the Minneapolis-St. Paul metropolitan area is currently one of only three large metropolitan areas in the nation where at least 50 percent of the housing stock is affordable to young, middle-class families. Notably, the metropolitan area also features one of the highest median household incomes, one of the highest college-graduation rates, one of the highest employment rates for residents between 18 and 34, and one of the lowest poverty rates. The local perception is that, due to the city's less than exciting reputation, compared to San Francisco or Los Angeles, it can be hard to get people to move to Minneapolis, though due to the high quality of life and relative affordability, it can be near impossible to get them to leave.[122]

Residential Demand Drivers

As in other peer cities, central city housing demand in Minneapolis is largely driven by steady employment growth throughout the region, and among companies headquartered within the central business district. Unemployment in the region remains low, while demand for workers is rising, resulting in increasing wages and a need to draw in workers from outside the area, generating new housing demand. [123] Notably, Wells Fargo recently announced that it will relocate 5,000 workers to its two downtown office towers. Similarly, the new U.S. Bank Stadium opened in July, which will generate a sizable employment impact due to Vikings football games and the hosting of the ESPN X Games in 2017 and the Super Bowl in 2018, among other special events. Because these facilities are located on the transit line, the housing demand impacts may disperse beyond the downtown core to other areas located along light rail. Redevelopment in many of the neighborhoods surrounding the central business district is also signaling

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[120] Thompson, D. (March 2015). "The Miracle of Minneapolis." *The Atlantic.* Available at: http://www.theatlantic.com/magazine/archive/2015/03/the-miracle-of-minneapolis/384975/
[121] *Ibid.*
[122] *Ibid.*
[123] Marcus and Millichap. (2016). *Multifamily Research Market Report Minneapolis-St. Paul Metro Area Third Quarter 2016*. Available at: https://www.marcusmillichap.com/research/researchreports/reports/2016/09/13/minneapolis-st-paul-apartment-research-report

reinvestment and gentrification, which is generating considerable interest among households headed by members of the Millennial and Baby Boom generations. These demand drivers, combined with relatively low vacancy, will likely drive new housing starts through 2017. Minneapolis also benefits from a comparatively low cost of living (even in the central city), median household income above the national average, and a reputation as one of the most educated regions in the country, due to the presence of the University of Minnesota and University of St. Thomas. Ongoing initiatives, such as the expansion of the METRO Green and Blue light rail lines, continued redevelopment of the Riverfront mill district, and construction of two professional sports stadiums signal to residents and investors that Minneapolis is committed to investing in desirable amenities, while steady employment gains indicated that the region's historically strong economic growth is likely to continue through the long-term.

Residential Development Trends

Following three decades of population decline, Downtown's population began increasing in the 1980s at a faster pace than the citywide trend. Between 1980 and 1990, Downtown's population increased 13.6 percent, while the citywide population decreased by 0.7 percent. Major factors influencing the suburban to urban shift were the proximity to retail, entertainment, and cultural activities, the University of Minnesota, and easy accessibility to downtown employment. Between 1985 and 1995, downtown absorbed an average of 275 units of market-rate housing for every one million square feet of office space.[124] Until 2000, the downtown core captured the majority of development activity; however, since 2000, development expanded into adjacent neighborhoods, such as the North Loop, a former industrial sub-district along the Riverfront.[125] Prior to the recession, the residential market was dominated by new condominium development and adaptive reuse of existing structures; however, the recession significantly impacted both the rental and for-sale residential markets, as multifamily construction came to a halt and foreclosures increased dramatically.[126] [127] Since the end of the recession, multifamily rentals have dominated, while development interest expanded to the East Downtown District, and the University District, across the river near the University of Minnesota, as well as to more suburban locations. Census Bureau data indicate that, between 2000 and 2010-2014, central Minneapolis captured 4.1 percent of the region's housing growth, including 14.7 percent of the new multifamily units, 1.6 percent of new single-family detached housing, and 1.2 percent of single-family attached housing. Note that these figures do not include the more than 8,400

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[124] City of Minneapolis. (1995). *Minneapolis Downtown 2010*. Available at: http://www.ci.minneapolis.mn.us/www/groups/public/@cped/documents/webcontent/convert_259042.pdf

[125] City of Minneapolis. (May 15, 2015). *East Downtown Market Study: Navigating Through Rapid Neighborhood Transformation*. Available at: http://www.minneapolismn.gov/www/groups/public/@cped/documents/webcontent/wcms1p-142883.pdf

[126] Gilyard, B. (May 23, 2016). "Are Condos Making a Comeback in Downtown Minneapolis?." *MinnPost*. Available at: https://www.minnpost.com/twin-cities-business/2016/05/are-condos-making-comeback-downtown-minneapolis

[127] City of Minneapolis. (2016*). City of Minneapolis Foreclosure Response Housing Investment Analysis: 2008-2014.* Available at: http://www.minneapolismn.gov/www/groups/public/documents/report/wcms1p-151426.pdf

units added to the region between 2015 and mid-year 2016, one quarter of which were in the Minneapolis Downtown and University submarkets.[128]

Housing Type and Size

New residential construction in downtown Minneapolis is predominately characterized by mid- to high-rise multifamily rental projects at the higher-end of the market, and feature amenities such as pools, open space, ground floor retail, dog washing stations and grooming services, workout facilities, and outdoor cooking space. Developers indicate that financing for attached for-sale units, such as townhomes and condominiums, is increasingly difficult to secure due to 10-year liability exposure for construction defects, causing a deficit of for-sale units downtown.[129] [130] Currently, one self-financed developer is constructing condominiums in Downtown Minneapolis.[131] Corresponding with below average household sizes, multifamily housing development in Downtown Minneapolis is focused on smaller studios and one-bedroom units, including “micro-units” as small as 350 square feet.

Rental Market Conditions

The surge in the rental market since the end of the recession is due to regional employment growth, increased household formation, a lack of available for-sale units, and a growing preference among Millennials and Baby Boomers for amenity rich, low maintenance, and flexible living offered by rental units. However, apartment construction is slowing, and brokers speculate that the downtown rental market is reaching short-term saturation. [132] This is reflected in a Downtown/University submarket vacancy rate of 4.3 percent, compared to the regional rate of 2.4 percent.[133] The higher downtown vacancy rate is partially explained by the completion of more than 2,000 new units since 2015. Brokers report that units constructed after 2010 had a 10.8 percent vacancy rate in June 2016.[134] Competition with out-of-state investors, coupled with higher vacancy, is restraining rent growth and profit margins, causing

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[128] Ibid.

[129] Gilyard, B. (May 23, 2016). “Are Condos Making a Comeback in Downtown Minneapolis?” *MinnPost*. Available at: https://www.minnpost.com/twin-cities-business/2016/05/are-condos-making-comeback-downtown-minneapolis

[130] Callaghan, P. *(September 4, 2015).* “Why Developers in Minneapolis Love Apartment Complexes (and Hate Condos).” *MinnPost*. Available at: https://www.minnpost.com/politics-policy/2015/09/why-developers-minneapolis-love-apartment-complexes-and-hate-condos

[131] *Ibid.*

[132] Ibid.

[133] Marcus and Millichap. (2016). *Multifamily Research Market Report Minneapolis-St. Paul Metro Area Third Quarter 2016*. Available at: https://www.marcusmillichap.com/research/researchreports/reports/2016/09/13/minneapolis-st-paul-apartment-research-report

[134] Ibid.

investors to be more selective and, therefore, limiting the capital pipeline.[135] [136] Instead, investor activity is shifting toward renovation of older, existing properties in more suburban locations.[137] [138] Brokers report that in June 2016, the average effective rent for units constructed post-2010 was $1,764 per month, representing a 2.5 percent increase over June 2015, compared to the regional average of $1,141, which experienced an increase of 5.9 percent.[139]

For-Sale Market Conditions

Due to declining homeownership rates among baby boomers, and continued preference among Millennials to rent, brokers anticipate regional homeownership will continue to decline.[140] The sale price required to support condominium construction exceeds the amount Baby Boomers are willing to invest long-term, compared to more desirable locations, such as Florida or Arizona.[141] These factors, in combination with limited new downtown for-sale construction, makes renting a more affordable option for those who desire luxury amenities in downtown neighborhoods.[142] According to the Census Bureau, median downtown sale prices range from $160,000 to $301,450 which, at the higher end, is considerably more expensive than the regional median price range of $197,097 to $217,353, indicating a premium for proximity to Downtown. This price differential reflects the significant costs associated with infill development, the high-end nature of product deliveries, and lack of for-sale units downtown.

Gentrification and Displacement

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135 Colliers International. (2016). *Research and Forecast Report Minneapolis-St. Paul: Apartment Fall 2016*. Available at: http://www.colliers.com/-/media/files/united%20states/markets/minnesota/market%20reports/q2%202016/apartment_fall_2016.pdf?la=en-us

136 Marcus and Millichap. (2016). *Multifamily Research Market Report Minneapolis-St. Paul Metro Area Third Quarter 2016*. Available at: https://www.marcusmillichap.com/research/researchreports/reports/2016/09/13/minneapolis-st-paul-apartment-research-report

137 Ibid

138 Colliers International. (2016). *Research and Forecast Report Minneapolis-St. Paul: Apartment Fall 2016*. Available at: http://www.colliers.com/-/media/files/united%20states/markets/minnesota/market%20reports/q2%202016/apartment_fall_2016.pdf?la=en-us

139 Marcus and Millichap. (2016). *Multifamily Research Market Report Minneapolis-St. Paul Metro Area Third Quarter 2016*. Available at: https://www.marcusmillichap.com/research/researchreports/reports/2016/09/13/minneapolis-st-paul-apartment-research-report

140 Colliers International. (2016). *Research and Forecast Report Minneapolis-St. Paul: Apartment Fall 2016*. Available at: http://www.colliers.com/-/media/files/united%20states/markets/minnesota/market%20reports/q2%202016/apartment_fall_2016.pdf?la=en-us

141 Callaghan, Peter. (September 4, 2015). "Why Developers in Minneapolis Love Apartment Complexes (and Hate Condos)." *MinnPost*. Available at: https://www.minnpost.com/politics-policy/2015/09/why-developers-minneapolis-love-apartment-complexes-and-hate-condos

142 Marcus and Millichap. (2016). *Multifamily Research Market Report Minneapolis-St. Paul Metro Area Third Quarter 2016*. Available at: https://www.marcusmillichap.com/research/researchreports/reports/2016/09/13/minneapolis-st-paul-apartment-research-report

While interview participants indicate that an influx of higher-earning residents is driving the market for luxury rental units, Census Bureau data indicate that median household income in downtown increased at only a marginally faster rate than in the region as a whole. According to the Census Bureau, in 2010-2014, the nominal median income for central city households was $33,791, representing a 28.6 percent increase over 2000. This is compared to the regional median of $68,019, which represents an increase of 25.1 percent over 2000. Compared to other cities such as Denver, whose downtown median income increased 63.0 percent compared to the region's 23.8 percent, downtown Minneapolis' gains are much more modest. Despite these modest gains, the majority of new residential projects are marketed as luxury units, which are largely unaffordable to lower-income households and seniors, [143] while smaller unit sizes often preclude occupancy by families with children. While new units are targeting higher income earners, rental rates in older existing apartment buildings are increasing faster than among newer unit types. Therefore, while loss of affordability and displacement potential are somewhat less concerning in central Minneapolis, increasing rental rates are likely to result in the displacement of at least some lower-income households.

Housing Initiatives and Programs

The remainder of this section includes a brief overview of several key local and regional policies and programs that influence the comparative desirability of central Minneapolis as a destination for the development of new affordable and market rate housing.

Minneapolis Downtown 2010 Plan

Adopted by the City Council in 1996 as the 15-year vision for downtown development, the Minneapolis Downtown 2010 plan outlined a series of high-level goals and policies which sought to enhance the Downtown core's role as the region's retail and cultural center, based on changes in land use, and investments in open space and transportation. The Plan highlighted the role enhanced public transit plays in bringing employees and shoppers to the Downtown. The Plan anticipated downtown would add between 2,500 and 3,000 housing units, and envisioned medium- to high-density housing development in the existing downtown core and adjacent neighborhoods, and the creation of a new mixed-use residential neighborhood in the Riverfront District that would provide a variety of housing options and neighborhood amenities.[144] While the Plan defined provision of housing opportunities for all income levels as a goal, it also highlighted a focus on the growing empty nester market. Since the adoption of the Downtown 2010 Plan, approximately 1,790 housing units were constructed in the Mill District neighborhood of the Riverfront District,[145] and two light rail lines and one Bus Rapid

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[143] City of Minneapolis. (May 15, 2015). *East Downtown Market Study: Navigating Through Rapid Neighborhood Transformation*. Available at:
http://www.minneapolismn.gov/www/groups/public/@cped/documents/webcontent/wcms1p-142883.pdf
[144] City of Minneapolis. (1995). *Minneapolis Downtown 2010*. Available at:
http://www.ci.minneapolis.mn.us/www/groups/public/@cped/documents/webcontent/convert_259042.pdf
[145] Mill District Neighborhood Association. (2016). "Welcome to the Mill District". Available at:
http://milldistrict.org/mill-district-home/

Transit Line now serve the downtown, with more light rail lines and extensions planned. However, the city did not anticipate significant housing development in the central business district, or that the North Loop neighborhood, the former warehouse district north of Downtown, would become the fastest growing neighborhood in Minneapolis.[146] In 2011, the Minneapolis Downtown Council, the business association for Minneapolis' Central Business District, reinforced the Downtown 2010 vision through the publication of the Intersections Downtown 2025 Plan, which functions as an update to the City-adopted Downtown 2010 plan, as a means to guide the Council's efforts in the coming years. Overlapping themes included the importance of a high-quality pedestrian environment, historic preservation, importance of public transit, enhanced retail and entertainment opportunities, and the need for additional housing, among others.[147]

<u>Master Plans and Small Area Plans</u>

While the Minneapolis Downtown 2010 Plan outlined general goals and polices to achieve its vision, neighborhood and district master plans adopted between 1997 and 2013 provided direction regarding the urban form and character of each neighborhood. Generally, each master plan provides specific direction regarding issues such as land use, circulation, public improvements, parking, and connectivity to surrounding neighborhoods, and develops unique urban design concepts for each issue. In some cases, multiple concepts are defined based on potential changes to the area. For example, the Historic Mill District Master Plan established an urban design concept for a mixed-use residential neighborhood, and another concept for a mixed use-neighborhood with a professional baseball stadium.[148] [149] Each plan defines specific urban design guidelines, which provide a framework for building placement, configuration, height, density, materials, and façade treatments (such as windows, storefronts and awnings), based on land use and location within the neighborhood. The plans also identify priority project areas, to focus specific initiatives with the greatest potential for immediate implementation.

<u>Public Investment</u>

Interview respondents indicated that public investment in Downtown incentivizes housing to a greater degree than any other policy or project. Leveraging a variety of local, regional, state, and federal funding sources, projects such as the transformation of the Riverfront District from an underutilized post-industrial zone into a vibrant residential-mixed use neighborhood, completion of two light rail lines, development of two professional sports stadiums, and multimodal infrastructure improvements, signaled to developers that the City is committed to achieving the

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[146] North Loop Neighborhood Association. (2016). "About the North Loop". Available at: http://northloop.org/about/

[147] Minneapolis Downtown Council. (2011). *Intersections: Downtown 2025 Plan*. Available at: http://assets.ngin.com/attachments/document/0023/6032/10377_PlanBook_forWeb_opti-1.pdf

[148] Urban Design Associates. (1998). *Historic Mills District Master Plan*. Available at: http://www.minneapolismn.gov/www/groups/public/@cped/documents/webcontent/convert_267857.pdf

[149] Urban Design Associates. (2001). *Update to the Historic Mills District Master Plan*. Available at: http://www.minneapolismn.gov/www/groups/public/@cped/documents/webcontent/convert_269588.pdf

vision outlined in the Downtown 2010 plan and neighborhood master plans. The impact of public investment is especially evident in East Downtown, which includes the Riverfront and Mill Distract. In addition to the establishment of light rail service, public investment assisted with development of a new professional football stadium and adjacent park, the Hennepin County Medical Center outpatient center, and reconstruction of Washington Avenue as a multimodal corridor. These projects raised the profile of the neighborhood in recent years, attracting private development activity, as well as employers such as Wells Fargo, which announced recently that the company plans to develop two office towers, relocating 5,000 employees downtown.[150] Interview participants highlighted the use of federal and state historic preservation tax credits in aiding in the adaptive reuse of historic buildings into housing. When used in combination, the state and federal programs can provide up to 40.0 percent tax credit for qualified historic rehabilitations.[151]

Central City Parking

The City offers numerous parking options, including six parking lots, 16 parking structures and approximately 7,000 metered parking spaces, the majority of which are located Downtown.[152] [153] The City offers hourly, daily, monthly, monthly reserved and event parking rates, that vary by location. The City also offers Critical Parking Area permits, which allow residents in areas detrimentally impacted by parking, to park in designated Critical Parking Areas during posted times.[154] Examples of existing Critical Parking Areas include neighborhoods near professional sports stadiums, and near the University of Minnesota. In 2013, the City also implemented a curbside car-sharing pilot program, which allowed participating car-share companies to utilize public on-street parking spaces when not in use. The objectives of this project were to provide mobility options, reduce amount of land needed for parking, reduce vehicle miles traveled and congestion, and promote transportation alternatives by increasing visibility of car-share vehicles, which were previously relegated to enclosed parking garages.[155] [156]

Fiscal Disparities Tax-Base Sharing Program

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[150] City of Minneapolis. (May 15, 2015). *East Downtown Market Study: Navigating Through Rapid Neighborhood Transformation*. Available at: http://www.minneapolismn.gov/www/groups/public/@cped/documents/webcontent/wcms1p-142883.pdf
[151] Minnesota Historical Society. (2016). "MN Historic Structure Rehabilitation State Tax Credits." Available at: http://www.mnhs.org/shpo/grants/mnhistoricstructurerehabilitationstatetaxcredit.php
[152] City of Minneapolis. (2016). "Parking Ramps and Rates." Available at: http://www.ci.minneapolis.mn.us/parking/ramps/index.htm
[153] City of Minneapolis. (2016). "Parking Metered Spaces." Available at:
[154] City of Minneapolis. (2016). "What are Critical Parking Areas?" Available at: http://www.ci.minneapolis.mn.us/parking/critical/parking_critical_about-the-program
[155] City of Minneapolis. (2016). *Car Share Pilot Program Summary Report.* Available at: http://www.minneapolismn.gov/www/groups/public/@clerk/documents/webcontent/wcmsp-172021.pdf
[156] Roper, E. (May 10, 2013). "City Approves Bringing Car Sharing to the Streets." *Star Tribune*. Available at: http://www.ci.minneapolis.mn.us/parking/meters/index.htm

Another important factor that contributed to the ability to incentivize housing development in the central city was the reality that socioeconomic conditions had not eroded quite so much in recent decades in Minneapolis, compared to many other similarly sized cities. Sources attribute this, at least in part, to regional efforts to facilitate the equitable distribution of public tax revenue, which allowed communities throughout the greater Minneapolis-St. Paul metropolitan area to maintain stable levels of infrastructure investment.[157] Through the regional Fiscal Disparity tax base sharing program, local taxing jurisdictions contribute 40 percent of the growth in commercial, industrial, and public utility property tax revenues (over the base year 1971) to a regionwide fund, which is then distributed based on local population and per capita property values in comparison to the regional average per capita property value.[158] [159] Communities with below-average per capita property values receive a somewhat larger share of the region-wide tax base, allowing those communities to invest more heavily in public services and infrastructure than might otherwise be possible. This means that, since its inception, the region has largely prevented increasing disparities in service provision and facilities between communities within the region.

Implications and Replicability

Growth throughout the broader region has helped to curb localized movements towards urban blight and suburbanization. This means that while central Minneapolis has required some notable redevelopment to address issues associated with the decline of the historic industrial milling district, socioeconomic conditions within the central city have remained relatively stable, and comparatively prosperous, over the past few decades. With new investments in regional transit and construction of two new professional sports facilities, as well as shifting consumer preferences towards higher density urban environments, central Minneapolis is experiencing a new era of vibrancy. Today, the central Minneapolis housing market is characterized by higher-end, multifamily apartments. These units are predominately smaller units, with new developments focusing on studios and one-bedrooms, as well as micro units offering as little as 350 square feet of total floor area. The downtown Minneapolis housing market increasingly serves smaller, higher-income households employed in business and professional services, finance, technology, education, and medical services.

In addition to using the Fiscal Disparities tax-base sharing program to facilitate equitable infrastructure spending throughout the region, which directly benefited the central city by limiting blight pressures, the City of Minneapolis also used several tools to directly promote the development and preservation of housing in the central city. These include additional public investments in infrastructure, as well as direct project subsidies, paid for using a variety of

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[157] Thompson, D. (March 2015). "The Miracle of Minneapolis." *Available at:* http://www.theatlantic.com/magazine/archive/2015/03/the-miracle-of-minneapolis/384975/
[158] League of Minnesota Cities. (August 2016). *Fiscal Disparities 101.* Available at: http://www.lmc.org/media/document/1/fd101.pdf?inline=true
[159] TischlerBise. (February 2012). *Study of the Metropolitan Area Fiscal Disparities Program.* Available at: http://www.revenue.state.mn.us/propertytax/reports/fiscal-disparities-study-full-report.pdf

local, regional, state and federal sources, including both State and federal Historic Preservation Tax Credit programs. The Intersections Downtown 2025 Plan offers a progressive policy framework intended to guide development within the central city area. The plan offers a broad set of goals, including a doubling of the downtown population, transforming the Nicollet Mall area into a dynamic arts and entertainment district, establishing a downtown sports district that includes Target Field and the new U.S. Bank Stadium, continuing to improve the city's transportation options, forging new connections to the University of Minnesota, and creating a compelling downtown experience, among others. While the prior Downtown 2010 plan outlined a similar set of broad goals, implementation was largely achieved using master plans, and small area plans have been largely successful at guiding neighborhood redevelopment by providing clear direction to the development community.

Key takeaways for Sacramento include the way in which regional cooperation on infrastructure spending and affordable housing development, with a focus on equity, can help to limit the emergence of blight conditions, which contribute to white flight and suburbanization. This means that central Minneapolis ultimately did not experience the same levels of disinvestment and urban decay, compared to many other historic downtowns. Thus, central Minneapolis was able to leverage shifting consumer preferences toward higher-density urban environments, without the need for broad swath urban renewal. Using this approach, central Minneapolis has managed to capture more than four percent of the broader regional housing demand over the past decade and a half, which is rivaled only by Portland and Denver among the peer cities identified for this study, communities which have invested considerably more in regional transit and redevelopment. Nonetheless, some direct investment has been necessary in order to lay the groundwork for the next phase of growth, and to subsidize early phase projects, such as redevelopment of the Mill District and development of the new U.S. Bank Stadium, among other key catalyst projects. To do so, the City leveraged a full portfolio of resources, including State and federal tax credits. Similar resources are available in California, which could contribute to a broad portfolio funding approach for infrastructure development and project specific subsidies within the Sacramento DSP area.

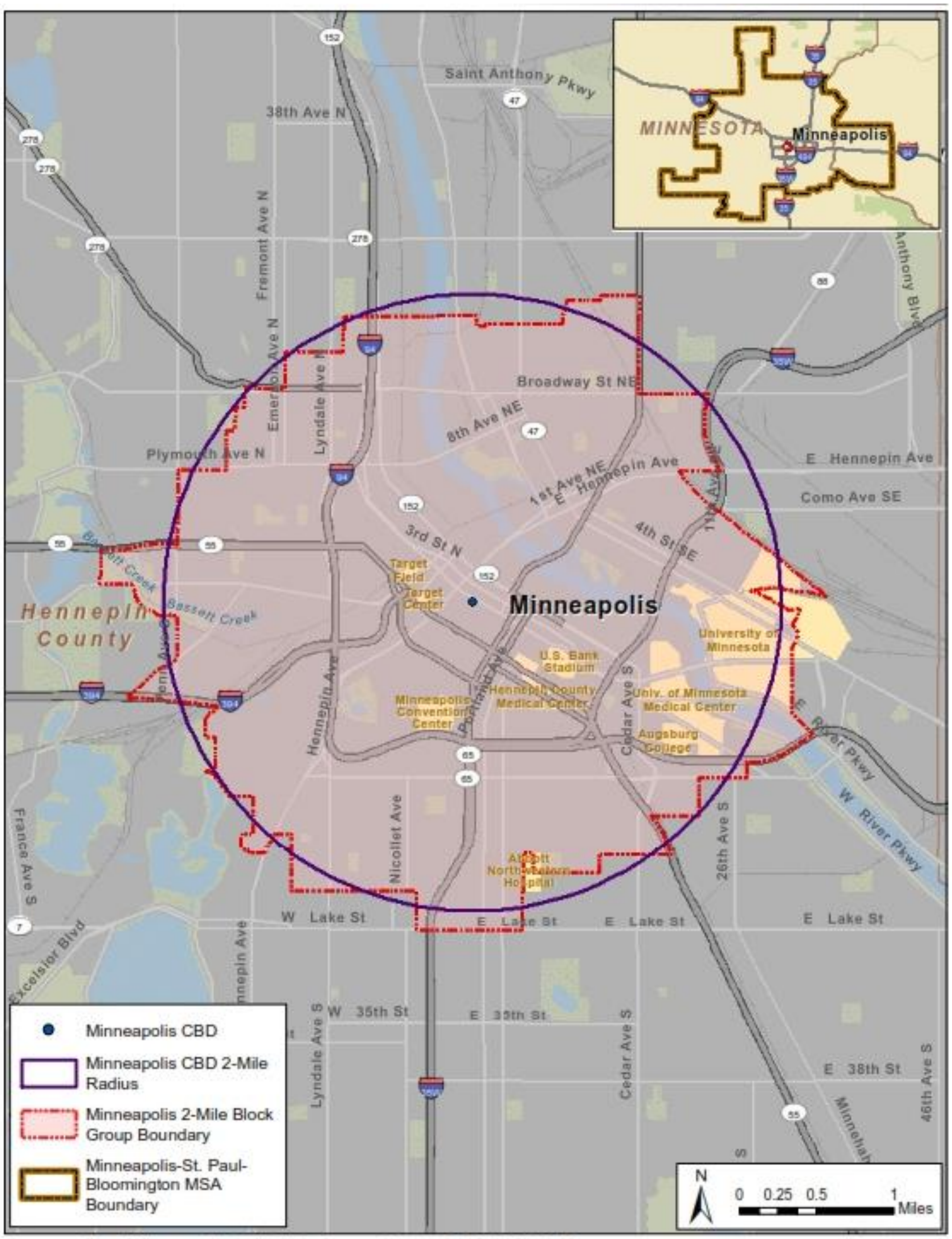
Table D3: Community Overview for Minneapolis, Minnesota, 2000,2010-2014

	Downtown Minneapolis, MN (a) 2000	2010-2014	Historic Change	Minneapolis-St. Paul-Bloomington, MN-WI Metro Area 2000	2010-2014	Historic Change	Downtown Growth as % of MSA Growth
Demographics							
Population	110,833	120,813	9,980	3,031,918	3,424,786	392,868	2.5%
Households	49,586	55,206	5,620	1,160,655	1,323,355	162,700	3.5%
Avg. Household Size	1.96	1.92	-0.04	2.56	2.54	-0.02	
Renter Households	80.0%	75.6%	-4.4%	27.4%	29.6%	2.2%	2.8%
Family Households	30.6%	31.3%	0.7%	65.6%	64.8%	-0.8%	2.2%
w/ Children Under 18	*16.9%*	*16.3%*	-0.7%	*35.4%*	*32.7%*	-2.7%	*2.7%*
Median Household Income (b)	$26,283	$33,791	7,508	$54,375	$68,019	13,644	
Median Age	27.6	28.2	0.6	33.3	36.4	3.1	
Householder Only	*36.0*	*37.8*	1.8	*43.6*	*49.1*	5.5	
Bachelor's Degree or Higher (c)	34.2%	43.8%	9.6%	36.9%	39.0%	2.1%	
Housing							
Housing units	52,358	60,631	8,273	1,197,124	1,400,446	203,322	4.1%
Single-Family Detached	*10.4%*	*11.9%*	1.4%	*62.6%*	*61.2%*	-1.4%	*1.6%*
Single-Family Attached	*3.6%*	*4.3%*	0.7%	*7.7%*	*10.8%*	3.1%	*1.2%*
Multifamily	*85.8%*	*83.7%*	-2.1%	*27.5%*	*26.3%*	-1.2%	*14.7%*
Other	*0.2%*	*0.2%*	0.0%	*2.2%*	*1.7%*	-0.5%	*0.3%*
Median Year Built		1964			1977		
Median Rental Rate	$529	$725	$196	$637	$916	$279	
Median Sale Price (d)	$97,692 - $191,923	$160,769 - $301,450	$63,077 $109,527	$139,150 - $155,575	$197,098 - $217,353	$57,948 $61,778	
MSA Median Income as % of Median Home Sale Price (e)	37.5%	29.4%	-8.1%	36.9%	32.8%	-4.1%	
Economy							
Jobs, All Industries (f)	207,842	239,000	31,158	1,671,633	1,815,073	143,440	21.7%
Ratio of Jobs/Housing	*4.0*	*3.9*	0.0	*1.4*	*1.3*	-0.1	
Resident Workforce	48,640	52,660	4,020	1,623,950	1,780,356	156,406	2.6%
Incommuter Rate	*91.0%*	*91.7%*	0.7%	*8.2%*	*8.5%*	0.3%	
Outcommuter Rate	*61.5%*	*62.2%*	0.7%	*5.5%*	*6.7%*	1.2%	

Notes:
(a) The Downtown region is defined as a 2-mile radius from the Central Business District.
(b) Incomes reported in the 2000 Census are not inflation adjusted.
(c) Includes residents 25 years or older.
(d) Represents the range of monthly median sale prices for all ZIP Codes within the study areas for 2000 and 2014, as reported by Zillow.
(e) Calculated using the Median MSA household income divided by the midpoint of the median sale price reported for each region.
(f) Represents all jobs reported in 2002 and 2014, as reported by the Longitudinal Employer-Household Dynamics program.

Sources: U.S. Census Bureau, Census 2000, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; U.S. Census Bureau, LEHD Origin-Destination Employment Statistics, 2016; Zillow, 2016; BAE, 2016.

Figure D3: Central City Area, Minneapolis, Minnesota



Sources: City of Minneapolis, 2016; U.S. Census Bureau, 2016; BAE, 2016.

Nashville, Tennessee

City/Agency Staff Contacts

Tamara Dickson
Nashville Downtown Partnership
Vice President, Economic Development
September 2016

Matt Wiltshire
Economic and Community Development
Director
October 2016

Bert Mathews
The Mathews Company
President
October 2016

Benton Smothers
Metropolitan Development and Housing
Urban Development Manager
October 2016

Defining the Downtown/Central City

As defined in the Downtown Community Plan, the core urban area of the City and County of Nashville spans the Cumberland River and generally extends from Jefferson Street in the north to Interstate 40 in the south, and from Interstate 65 in the west to Interstate 24 in the east. As such, the core downtown area is ringed by interstate highway infrastructure, which facilitates the movement of goods and people into and out of the downtown core. According to the Community Plan, Downtown Nashville is divided into 16 independent neighborhoods, each with its own character and market niche. Some of the more prominent downtown neighborhoods include the James Robertson neighborhood, which hosts the State Capitol Building; the Core neighborhood, which functions as the Central Business District (CBD); the Upper Broadway, Second and Broadway, and South of Broadway (SoBro) neighborhoods which host the Bridgestone Arena, Music City Center, and Nashville's primary entertainment district; and the Upper Gulch and Gulch neighborhoods, formerly underutilized warehouse districts which are undergoing high-end redevelopment, among others.[160]

Community Background/Overview

While Nashville is most well known as the center of the national country music industry, Nashville also features robust manufacturing and professional service sectors, and is emerging as a regional leader for entrepreneurship, fashion, design, and cuisine within the Upland South. Founded in the late 1700s along the Cumberland River, the city grew as a strategic transportation node, with goods traveling upstream from New Orleans, then overland by various routes, such as the Natchez Trace.[161] Nashville became the first state capital to fall

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[160] Metropolitan Government of Nashville and Davidson County. (June 22, 2015). *NashvilleNext, Volume III: Community Plans – Downtown*. Available at: http://www.nashville.gov/Portals/0/SiteContent/Planning/docs/CommPlans2015/next-vol3-Downtown.pdf
[161] Nashville Civic Design Center. (n.a.). *Nashville Historical Research: Urban Design Policy Brief.* Available at: http://www.civicdesigncenter.org/

to Union troops during the American Civil War. The taking of Nashville gave the Union control of important factories, as well as access to the Louisville and Nashville Railroad (L&N) and the Nashville and Chattanooga Railway (N&C). Following the war, the L&N and N&C helped to turn Nashville into a "commercial emporium [for] trade between the Midwest and the Gulf States of the South."[162] This resulted in the rapid expansion of local industry, with the manufacturing of textiles, tobacco, lumber, grains, and produce. This also spurred an expansion of the professional services and finance sectors. Establishment of streetcars in the late 19th Century, initiated the first wave of suburbanization. With central city urban renewal, which occurred intermittently from the 1930s through the 1970s, Nashville's civic leaders redeveloped Capitol Hill, reorganized the downtown street grid, and extended the interstate highway system through the central city.[163] The City also modified the zoning code to prohibit residential development in the downtown, which was not allowed again until 1994.[164] [165] In 1963, in response to rapid urbanization of the area surrounding Nashville, the City of Nashville and Davidson County consolidated to create a joint metropolitan city-county government. While the downtown commercial district remains a dominant economic engine for Middle Tennessee, recent efforts to make the Downtown Code less restrictive on use type and building height have facilitated rapid reinvestment in the downtown area, including rehabilitation of existing historic structures and construction of numerous new mixed-use and residential buildings.[166] [167] Nashville is now leveraging this activity to create lively, welcoming neighborhoods that integrate the downtown's historic commercial and office-based uses, with high end residential, entertainment venues, and visitor serving uses. Recent planning efforts, like the Downtown Living Initiative and the SoBro Charrette, have succeeded at developing a dynamic vision for Nashville's historic neighborhoods and auto-oriented commercial corridors. Nashville has also received accolades related to the strength of the housing market,[168] [169] [170] including being ranked by Freddie Mac as having one of the strongest markets in the nation.[171]

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[162] *Ibid.*
[163] Metropolitan Government of Nashville and Davidson County. (June 22, 2015). *NashvilleNext, Volume III: Community Plans – Downtown*. Available at: http://www.nashville.gov/Portals/0/SiteContent/Planning/docs/CommPlans2015/next-vol3-Downtown.pdf
[164] *Ibid.*
[165] Jackson, C. (November 4, 2016). "City Living Comes to Downtown Nashville." *The Wall Street Journal*. Available at: http://www.wsj.com/articles/city-living-comes-to-downtown-nashville-1415294010
[166] Dickson, T., personal communication, July 2016.
[167] Urban Design Associates. (January 2013). *South of Broadway Strategic Master Plan.* Available at: http://www.nashville.gov/Portals/0/SiteContent/Planning/docs/subarea9/SoBroMasterPlanFinal.pdf
[168] Kotkin, J. (May 10, 2016). "The Best Cities for Jobs 2016." *Forbes*. Available at: http://www.forbes.com/sites/joelkotkin/2016/05/10/the-best-cities-for-jobs-2016/#2d20505f6e40
[169] The Brookings Institution. (January 28, 2016). *Metro Monitor*. Available at: https://www.brookings.edu/research/metro-monitor/#V0G34980
[170] Stranger, M. and Stone, M. (December 4, 2015). "The 13 hottest American cities for 2016." *Business Insider*. Available at: http://www.businessinsider.com/the-13-hottest-us-cities-for-2016-2015-12/#nashville-tennessee-will-become-the-new-center-of-the-auto-and-healthcare-industries-9
[171] Freddie Mac. (June 2016). *99 of 100 Housing Metros Improve Year Over Year.* Available at: http://freddiemac.mwnewsroom.com/press-releases/99-of-top-100-housing-metros-improve-year-over-yea-otcqb-fmcc-1266623

Residential Demand Drivers

According to local real estate brokers, the comparatively strong residential demand evident in the Nashville market is primarily driven by robust employment growth throughout the greater Nashville metropolitan area. While the entertainment industry remains the mainstay of the local economy, contributing roughly $10 billion annually, the greater metropolitan area also features a robust healthcare sector, producing roughly $38.8 billion in gross domestic product.[172] The region also features major manufacturing facilities affiliated with Nissan and General Motors, with the broader automotive industry supporting more than 30,000 jobs throughout the region.[173] In addition, central Nashville is also the focus of considerable new entrepreneurial activity, with investors contributing more than $280 million to area startups in 2015, part of more than $1.0 billion invested statewide since 2012.[174] As an increasingly popular cultural destination, central Nashville boasts a growing assortment of high quality recreational and entertainment amenities, including world famous live music venues, large event venues like the Music City Center and Bridgestone Arena, a high quality retail environment, and a growing culinary scene,[175] including well known restaurants like Husk Nashville. This dynamic array of amenities is driving considerable residential demand. According to the Nashville Downtown Partnership's 2016 Downtown Residential Survey, the availability of an "urban experience" was cited as the most important factor in creating a positive downtown living experience, for the ninth year in a row.[176] The survey also indicates that downtown residents are generally younger (under 35), higher income (63 percent earn $100,000 per year or more), and are more likely to be single than married. Thirty percent of downtown residents relocated from outside the state, while around 34 percent relocated from outside the city, and the remaining 28 percent relocated from elsewhere in Nashville.

Residential Development Trends

Downtown Nashville is experiencing robust housing growth, with a total of ten residential projects currently under construction, with a total anticipated yield of 2,697 units through 2018. This includes 928 units in five projects expected to be completed by year-end 2016.[177] There are also 13 additional proposed residential projects that, if fully developed as anticipated, could deliver as many as 3,700 new housing units through 2019.[178] By comparison, Yardi Matrix indicates there were approximately 3,300 new units delivered

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[172] Yardi Matrix. (2016). *Music City's Diverse Economy: Multifamily Sumer Report 2016*. Available at: https://www.yardimatrix.com/

[173] Madlom, K. (2014). "Auto Industry Thrives in Nashville Region." *Business Climate*. Available at: http://www.businessclimate.com/auto-industry-thrives-nashville-region/

[174] Yardi Matrix. (2016). *Music City's Diverse Economy: Multifamily Sumer Report 2016*. Available at: https://www.yardimatrix.com/

[175] Dickson, T., personal communication, July 2016.

[176] Nashville Downtown Partnership. (July 2016). *Residential Report*. Available at: http://www.nashvilledowntown.com/_files/docs/2016-residential-report---final.pdf

[177] *Ibid.*

[178] *Ibid.*

throughout the region in 2015, with some 13,400 units currently under construction.[179] According to Census Bureau estimates, the central city area captured around 2.3 percent of the new housing growth that occurred within the broader Nashville-Davidson-Murfreesboro-Franklin MSA between 2000 and 2010-2014, including nearly 12 percent of the region's multifamily housing development.[180]

Housing Type and Size

According to the Nashville Downtown Partnership, the rental market accounts for approximately half of all downtown housing, which is concentrated in 33 large multifamily properties.[181] The multifamily condominium market accounts for an additional 47 percent of the market, again concentrated in 43 larger mid- to high-rise buildings. Single-family units comprise only around four percent of the housing stock. Real estate brokers indicate that the majority of the downtown housing stock, including newer units, are primarily one- and two-bedroom apartments targeted more toward the middle-market, with the market being somewhat undersupplied in terms of larger, high-end multifamily condominium and apartment units that are more appealing to older, higher income households.[182]

Rental Market Conditions

Multiple sources indicate that Nashville is likely to remain one of the strongest multifamily rental markets in the nation, for at least the next few years.[183] [184] [185] The average vacancy rate in the rental market has remained at less than five percent since 2010,[186] with substantial new product deliveries being absorbed fairly readily by an undersupplied market. With consistently low vacancy rates, property managers and leasing agents are documenting consistent rate increases for downtown properties, with average rents ranging from $655 to $1,500 for studio units, $755 to $2,060 for one-bedrooms, $955 to $3,399 for two-bedrooms, and $1,425 to $3,700 for three-bedrooms. Likely associated with wage stagnation among local entertainment and service workers, studio apartments are the only unit type that did not experience robust rent increases, with the high-end rates capped at around $1,500. The income-restricted housing stock is relatively small within the downtown, accounting for

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179 Yardi Matrix. (2016). *Music City's Diverse Economy: Multifamily Sumer Report 2016*. Available at: https://www.yardimatrix.com/

180 Note that, for the purposes of collecting Census data, the central city area is approximated based on a two-mile radius from the central business district.

181 Nashville Downtown Partnership. (July 2016). *Residential Report*. Available at: http://www.nashvilledowntown.com/_files/docs/2016-residential-report---final.pdf

182 *Ibid.*

183 Nashville Downtown Partnership. (July 2016). *Residential Report*. Available at: http://www.nashvilledowntown.com/_files/docs/2016-residential-report---final.pdf

184 Colliers International. (2016). *Research and Forecast Report: Nashville's Multifamily Market Continues to Perform, 1Q 2016.* Available at: http://www.colliers.com/en-us/nashville/insights

185 Yardi Matrix. (2016). *Music City's Diverse Economy: Multifamily Sumer Report 2016*. Available at: https://www.yardimatrix.com/

186 Nashville Downtown Partnership. (July 2016). *Residential Report*. Available at: http://www.nashvilledowntown.com/_files/docs/2016-residential-report---final.pdf

only around 255 units, or around 10 percent of the rental market. These units range in size from 500 to 1,316 square feet.

For-Sale Market Conditions

The for-sale market in downtown Nashville is mostly concentrated in newer mid- to high-rise condominium developments, with around 2,358 units in 43 major properties. According to the Nashville Downtown Partnership, there were only 78 resale units available in the downtown in July of 2016, with 32 already under contract.[187] This represents an inventory sufficient to accommodate less than three months of demand, where six months would be considered normal, indicating a general undersupply of for-sale housing. A review of pricing at four currently selling condominium projects indicated per square foot sales prices ranging from $436 to $511, and a weighted average of $471, with all four properties experiencing strong price appreciation since 2010. Although the market remains strong in the for-sale market, the strong rental market is also driving a shadow rental market for individually-owned condominium units within the central city; though most condominium projects limit, and strictly monitor, the proportion of units that are not owner-occupied.

Gentrification and Displacement

While the delivery of new residential inventory is expected to result in modest increases in residential vacancy, particularly in the rental market, downtown Nashville is likely to continue experiencing robust rental housing demand, translating to sustained low vacancy rates over the long-term and continued price increases. However, because the majority of the new inventory is focused on smaller rental units, rather than larger luxury units, the housing market remains relatively affordable to most middle income households. Nevertheless, sustained rapid increases in residential rental rates is creating affordability problems for lower-wage workers, particularly those employed in the hospitality and entertainment sectors.[188] [189]

Housing Initiatives and Programs

The remainder of this section includes a brief overview of a number of key local and regional policies and programs that influence the comparative desirability of central Nashville as a location for the development of new affordable and market rate housing.

Nashville Downtown Living Initiative

The most recent efforts to incentivize housing in central Nashville were initiated in 2003, with the establishment of the Nashville Downtown Living Initiative. While the initiative built upon goals previously established under the General Plan *Concept 2010*, the initiative provided a

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187 *Ibid.*

188 Yardi Matrix. (2016). *Music City's Diverse Economy: Multifamily Sumer Report 2016*. Available at: https://www.yardimatrix.com/

189 White, A. (March 2015). "Everybody knows Nashville is hurting for affordable housing. What are we going to do about it?" *Nashville Scene*. Available at: http://www.nashvillescene.com/news/article/13058272/everybody-knows-nashville-is-hurting-for-affordable-housing-what-are-we-gonna-do-about-it

more detailed, though still high-level, framework for establishing the pre-conditions for renewed housing development in downtown Nashville. Most of the key principles are based on a report published by the Brookings Institution on Urban and Metropolitan Policy titled "Ten Steps to Living Downtown."[190] Some of the key concepts that may be of interest in the Sacramento context include:

- **Downtown must be legible** – The downtown area must be clearly delineated and distinguishable from surrounding neighborhoods.
- **Downtown must be accessible** – The better the access points, the more attractive the downtown is to prospective residents.
- **Downtown must have new and improved regional amenities** – If regional amenities are located within, or close to, the downtown, large numbers of visitors will be exposed to the downtown's diverse residential, entertainment, and recreational options.
- **Downtown must be clean and safe** – Many downtowns have a reputation for being dirty, deteriorating and unsafe, which keeps prospective visitors and residents away.
- **Down must preserve and reuse old buildings** - Preserving the historic character helps to distinguish the downtown from suburban residential developments.
- **Regulations must be streamlined and support residential growth** – Policies and regulations should be reviewed and adjusted to promote housing in the urban center.
- **The edge of downtown should be surrounded by viable neighborhoods** – Like with the reuse of empty buildings, the vibrancy of adjacent neighborhoods is important for the downtown.

Nashville Downtown Community Plan

In 2015, the Metropolitan Government of Nashville and Davidson County adopted an updated Downtown Community Plan, one of 14 community plans adopted as a component of the NashvilleNext Comprehensive Plan. The Downtown Community Plan was first adopted in 1991, and has since undergone numerous revisions. The 2015 Downtown Community Plan outlines community character policies to preserve and enhance the character of each of downtown's 16 neighborhoods, enhance public transit and multimodal infrastructure, and enhance centers and corridors to provide desired retail and services.[191] The Downtown Community Plan focuses heavily on design standards, and must be considered in conjunction with the Downton Code and Community Character Manual, which defines the Downtown Community Plan's Community Character Policies in more detail. While the Plan does identify the need for a variety of housing

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[190] Metro Council. (August 2003). *Nashville Downtown Living Initiative.* Available at: http://www.nashvilledowntown.com/_files/docs/downtownlivinginitiative.pdf

[191] Metropolitan Government of Nashville and Davidson County. (June 22, 2015). *NashvilleNext, Volume III: Community Plans – Downtown*. Available at: http://www.nashville.gov/Portals/0/SiteContent/Planning/docs/CommPlans2015/next-vol3-Downtown.pdf

types, particularly "missing middle" housing,[192] it does not explicitly identify policies intended to promote and manage housing development. Instead, the Plan identifies neighborhood specific height and contextual design standards for all buildings, regardless of use. In all neighborhoods in the downtown, a minimum of three stories is required and maximum height and mass is determined by neighborhood and community context. For example, the urban core generally has a minimum of height of 25 feet at the street and no maximum height; however, step backs are required at varying heights depending on a building's location along the block.

Downtown Zoning Code

Prior to the 2010 update, the Downtown Code was considerably more restrictive of use and height, such that most new downtown development required rezoning or variances.[193] Similar to a form-based code, the updated Downtown Code focuses less on regulating use, and more on design and context.[194] With the exception of heavy industrial and automotive uses, most uses – such as residential, retail, office, restaurants, accessory dwelling units, medical and educational facilities – are allowed by-right within the downtown. Rather, the updated Downtown Zoning Code focuses on regulations pertaining to mass,[195] bulk,[196] and the design of buildings, with specific standards for each of the 16 downtown neighborhoods, including setback, façade width, minimum building depth, minimum and maximum height, and step-back regulations. The updated code also removed minimum parking requirements in the downtown.

Height Bonus Program

In addition to removing restrictions on use, the Downtown Code also offers an optional height bonus, in exchange for identified community benefits, such as providing LEED certification, preservation of historic structures, public-access open space, and the use of pervious surfaces. While the updated code removed all mandatory parking requirements, the code offers height bonuses for providing both surface and structured parking options, including that which is dedicated for use by residents only. Developers can also receive a height bonus in exchange for providing income restricted housing. In all cases, the height bonus is calculated as a percentage of the maximum allowable height, ranging up to 40 percent. In the case of the affordable housing height bonus, 25 percent of the resulting units must be income-restricted at 100 percent of the area median income (AMI) or less, with another 25 percent income-restricted at 120 percent of AMI or less. Multiple bonuses may be applied to a single project, as long as the total height does not exceed the total bonus height limits. The available bonus options and

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[192] Defined as the range of multi-unit and clustered housing types, such as "plex" units, bungalow courts, townhouses, live/work units, and courtyard apartments, which are compatible with single-family uses, but provide easier entry to the housing market than single family home ownership.

[193] Getahn, R. (June 24, 2014). "One Reason Why Downtown Nashville is Booming Again." *The Tennessean*. Available at: http://www.tennessean.com/story/money/real-estate/2014/06/23/former-metro-planner-turns-guidelines-reality/11279727/

[194] Metropolitan Government of Nashville and Davidson County. (February 2, 2010). *Nashville Downtown Code*. Available at: http://www.nashville.gov/Portals/0/SiteContent/Planning/docs/dtc/DTC_150819.pdf

[195] "Mass" refers to the arrangement of the building façade.

[196] "Bulk" refers to the visual perception of size and closeness of a building to a person on the street.

allowable bonus height vary by neighborhood. For example, in The Gulch, up to 21 additional stories are permitted, whereas in Rutledge Hill only three additional stories are permitted.

Metropolitan Development and Housing Authority

The Metropolitan Development and Housing Authority (MDHA), established by the Nashville City Council in 1938, manages nine active redevelopment districts, five of which are in the downtown, and manages state and federal affordable housing resources.[197] The Urban Development Department of MDHA oversees the redevelopment districts by assisting private developers with tax increment loans and by managing and financing public improvements.[198] The structure of the MDHA tax increment financing (TIF) program differs from many other jurisdictions in that MDHA targets specific development projects, and can only collect TIF revenues from individual properties that receive public subsidies, as opposed to collecting TIF on all properties in the redevelopment district.[199] MDHA also requires that developers guarantee a certain amount of TIF revenue, such that if TIF revenues are insufficient to cover the applicable debt service costs, then the developer is responsible for filling the gap. The Metropolitan Council establishes total maximum debt capacity each district may undertake. TIF expenditures are limited to land acquisition, site clearance, and off-site improvements, such as infrastructure and utility improvement, and generally are not more than ten to 15 percent of the development cost. Although, technically, all development within a district is eligible to receive TIF, each district has a list of development priorities that assists the MDHA in evaluating TIF applications. To be considered for TIF, developers must demonstrate a project is not feasible without public subsidy and that the project contributes to the priorities of the district.

Payment In Lieu of Taxes

The MDHA also administers a Payment In lieu of Taxes (PILOT) program on behalf of the Industrial Development Board (IDB). PILOT is a tax abatement program that freezes ad valorem property taxes for seven years at the pre-development assessment level to allow the project time to stabilize.[200] While the program was available to all properties in the central business district, it was intended to incentivize housing development in portions of downtown outside redevelopment areas, which were therefore not eligible for TIF. Since 2003, only one developer used the PILOT program to convert a historic bank and warehouse building into 166 upscale apartments. Feedback from the development community indicated that the application and approval process was too lengthy, and that the abatement period was too short. Interview participants stated that a ten- to 15-year abatement would make the program

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[197] Metropolitan Development and Housing Agency. (2016). *History.* Available at: http://www.nashville-mdha.org/

[198] Metropolitan Government of Nashville and Davidson County. (June 22, 2015). *NashvilleNext Plan*. Available at: http://www.nashville.gov/Portals/0/SiteContent/Planning/docs/NashvilleNext/PlanVolumes/next-volume1_2.pdf

[199] Metropolitan Government of Nashville and Davidson County. (2014). *Nashville Redevelopment Districts and Tax Increment Financing*. Available at: http://www.nashville-mdha.org/wp-content/uploads/2015/02/tif-policy.pdf

[200] Metropolitan Government of Nashville and Davidson County. (2003). *Ordinance No. BL2003-1533*. Available at: https://www.nashville.gov/mc/ordinances/term_1999_2003/bl2003_1533.htm

financially worthwhile.[201] As of July 2016, Nashville Mayor Megan Barry outlined the parameters of a new proposed program that would function in a similar way, but emphasize affordable housing. Rather than freezing assessed value, the new program will provide developers with a grant equal to 50 percent of the property tax increase resulting from development, calculated based on the difference between the market rate price and the income-restricted price of new housing units.[202] In return, the developer will set aside housing units for households with incomes equal to, or less than, 30 percent of the area median. The program is proposed for a 24-month test period, with the value of the fiscal year 2017-2018 pilot program grants capped at $2.0 million.

Implications and Replicability

The lack of residential zoning in central Nashville through the mid-1990s resulted in significant pent-up demand for housing, putting Nashville behind the national trend in urban residential development. However, with sustained regional high-wage employment growth, and a robust entertainment, culinary, cultural, and entrepreneurial culture, Nashville has become a destination for households seeking vibrant urban living in the upland South. In recognition of this status, Nashville was recently recognized as one of the top cities for growth and prosperity by the Bookings Institution,[203] one of the "hottest" cities in America in 2016 by *Business Insider*,[204] one of the best places to live by the *U.S. News and World Report*,[205] and one of the top cities for start-up growth and the creative sector by *Smart Asset*.[206] While the robust assortment of urban and cultural amenities is essential to the desirability of central Nashville as a residential destination, Nashville's urban environment lacks many of the traditional hallmarks of urban living, such as a robust public transportation network, and many new developments remain largely auto dependent. Recognizing the market potential of the central city, Nashville's approach toward incentivizing residential development focused on removing restrictions on use (i.e., allowing residential development where it was previously prohibited, but within a flexible/dynamic framework), providing clear guidelines for urban form and design, and offering height bonuses in exchange for a specified menu of community benefits, including affordable housing. While tax increment financing was reportedly used fairly often in the early years of the downtown revitalization effort, improvements in market conditions now allow the private sector to adequately fund necessary improvements, allowing TIF resources to

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[201] T. Dickson, personal communication, July 2016.
[202] Metro Government of Nashville and Davidson County. (July 12, 2016). *Mayor Barry Announces Affordable Housing Incentive Pilot Program.* Available at: https://www.nashville.gov/News-Media/News-Article/ID/5461/Mayor-Barry-Announces-Affordable-Housing-Incentive-Pilot-Program.aspx
[203] The Brookings Institution. (January 28, 2016). *Metro Monitor*. Available at: https://www.brookings.edu/research/metro-monitor/#V0G34980
[204] Stranger, M. and Stone, M. (December 4, 2015). "The 13 hottest American cities for 2016." *Business Insider*. Available at: http://www.businessinsider.com/the-13-hottest-us-cities-for-2016-2015-12/#nashville-tennessee-will-become-the-new-center-of-the-auto-and-healthcare-industries-9
[205] U.S. News and World Report. (2016). *Best Places to Live.* Available at: http://realestate.usnews.com/places/tennessee/nashville
[206] Wallace, N. (2016). "The Top Ten Cities for Creatives." SmartAsset. Available at: https://smartasset.com/mortgage/the-top-ten-cities-for-creatives-in-2016

support more recent historic preservation efforts. While the combined city-county government also implemented multiple tax abatement programs, which offered reduced near-term property tax burdens for new developments, such programs are historically underutilized.

Key takeaways for Sacramento include the way in which urban amenities and key cultural assets can drive the capture of housing demand from throughout the metropolitan area, as well as the broader region (e.g., the American South or West). For example, many of the articles reviewed for this research highlight new residents who relocated to Nashville from other southern metropolitan areas in order to participate in its urban lifestyle and cultural milieu. Nashville residents have also built relationships with other creative communities throughout the South, including the culinary scene of Charleston, and the craft manufacturers of Appalachia, establishing outlets and adding their own creative spin, helping to make Nashville one of the creative and cultural hotbeds of the American South. This cultural desirability supports additional population growth, though this growth primarily functions to complement and enhance the foundational housing demand generated by robust regional employment growth. Therefore, Sacramento should base downtown development expectations on the capture of regional housing growth, using urban amenities and cultural assets to enhance the downtown capture rate and induce supplemental housing demand.

Table D4: Community Overview for Nashville, Tennessee, 2000,2010-2014

	Downtown Nashville, TN (a)		Nashville-Davidson-Murfreesboro-Franklin, TN Metro Area		Downtown Growth as %
	2000	2010-2014	2000	2010-2014	of MSA Growth
Demographics					
Population	46,861	46,342	1,381,287	1,730,515	-0.1%
Households	16,431	17,544	536,666	654,063	0.9%
Avg. Household Size	2.38	2.19	2.50	2.59	
Renter Households	74.2%	72.2%	33.0%	34.2%	1.0%
Family Households	54.3%	45.6%	67.7%	66.1%	-1.4%
w/ Children Under 18	*36.3%*	*26.1%*	*35.5%*	*33.0%*	*-5.4%*
Median Household Income (b)	$18,574	$26,567	$43,445	$52,805	
Median Age	26.2	27.0	33.7	36.1	
Householder Only	*41.8*	*41.1*	*45.1*	*48.4*	
Bachelor's Degree or Higher (c)	14.2%	30.3%	25.0%	31.3%	
Housing					
Housing units	18,355	21,718	571,945	715,164	2.3%
Single-Family Detached	*33.5%*	*29.3%*	*64.3%*	*66.0%*	*0.2%*
Single-Family Attached	*5.3%*	*5.3%*	*4.3%*	*5.3%*	*1.3%*
Multifamily	*60.8%*	*64.9%*	*24.7%*	*23.3%*	*11.6%*
Other	*0.4%*	*0.6%*	*6.8%*	*5.5%*	*15.3%*
Median Year Built		1969		1985	
Median Rental Rate	$398	$572	$600	$855	
Median Sale Price (d)	$32,059 - $125,000	$129,850 - $359,596	$113,835 - $125,620	$174,085 - $196,825	
MSA Median Income as % of Median Home Sale Price (e)	55.3%	21.6%	36.3%	28.5%	
Economy					
Jobs, All Industries (f)	121,414	114,901	733,253	870,478	-4.7%
Ratio of Jobs/Housing	*6.6*	*5.3*	*1.3*	*1.2*	
Resident Workforce	16,931	21,057	672,915	807,864	3.1%
Incommuter Rate	*95.9%*	*95.2%*	*16.7%*	*19.7%*	
Outcommuter Rate	*70.4%*	*74.0%*	*9.2%*	*13.4%*	

Notes:

(a) The Downtown region is defined as a 2-mile radius from the Central Business District.

(b) Incomes reported in the 2000 Census are not inflation adjusted.

(c) Includes residents 25 years or older.

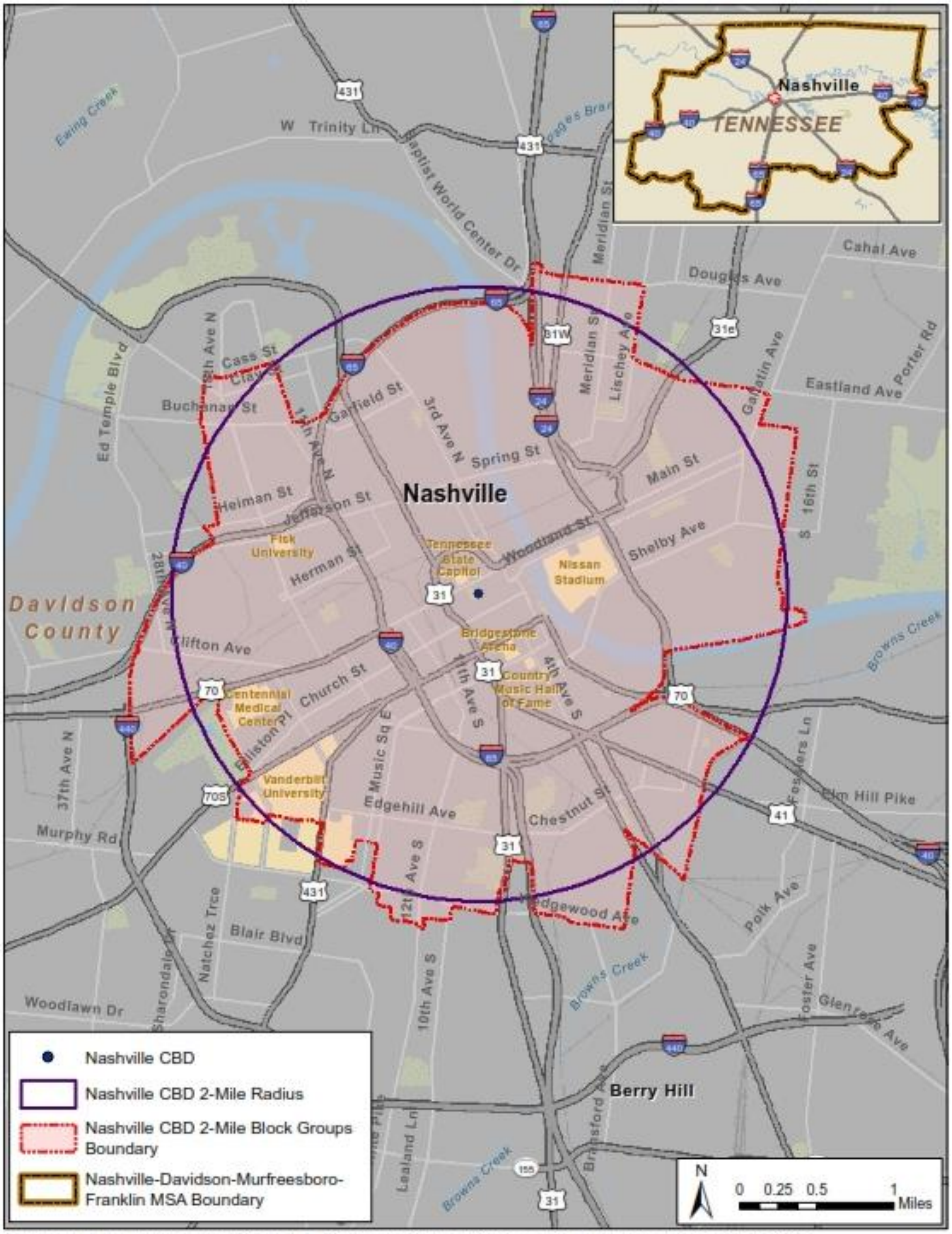
(d) Represents the range of monthly median sale prices for all ZIP Codes within the study areas for 2000 and 2014, as reported by Zillow.

(e) Calculated using the Median MSA household income divided by the midpoint of the median sale price reported for each region.

(f) Represents all jobs reported in 2002 and 2014, as reported by the Longitudinal Employer-Household Dynamics program.

Sources: U.S. Census Bureau, Census 2000, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; U.S. Census Bureau, LEHD Origin-Destination Employment Statistics, 2016; Zillow, 2016; BAE, 2016.

Figure D4: Central City Area, Nashville, Tennessee



Sources: Metro Government of Nashville & Davidson County, 2016; U.S. Census Bureau, 2016; BAE, 2016.

Portland, Oregon

Interview Participants

Tyler Bump
Planning and Sustainability
Economic Development Planner
September 2016

Lisa Abauf
Portland Development Commission
Central City Manager
September 2016

Dory Van Bockel
Portland Housing Bureau
Housing Program Coordinator
September 2016

Defining the Downtown/Central City

As defined in the Central City 2035 Plan (CC2035), the central city extends from the Freemont Bridge in the north to the Ross Island Bridge in the south, and from Interstate 405 in the west to 12th Avenue, 16th Drive, and Interstate 5 in the east.[207] The central city area is divided into ten distinct sub-districts, including Downtown, the West End, Goose Hollow, The Pearl, Old Town/Chinatown, Lower Albina, Lloyd District, Central Eastside, South Waterfront, and University District/South Downtown. There are two districts that extend beyond the core central city area, including South Waterfront and Goose Hollow. South Waterfront has experienced considerable housing growth in recent years and extends southward, beyond the Ross Island Bridge, as far south as Southwest Hamilton Court. Also, the Goose Hollow neighborhood, which is located south of West Burnside Street as far west as Washington Park, is also notably disconnected from the remainder of the central city area by Interstate 405.

Community Background/Overview

Experiencing robust employment and population growth, Portland has emerged as a leading destination for Millennial households and is lauded as one of the most livable cities in America. Originally founded in 1851 at the confluence of the Columbia and Willamette Rivers, Portland developed as the dominant maritime port city of the Pacific Northwest until the 1890s, when Seattle's deep-water port was connected to the mainland via heavy rail. Driven by growth in the regional timber industry and by the export of agricultural goods from the Tualatin Valley, Portland experienced a rapid population expansion, which continued into the early 20th Century. During the Second World War, Portland was the site of significant industrial development, with the Kaiser Shipyards securing a contract to build Liberty Ships and escort aircraft. Another significant population expansion accompanied this industrial growth,

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[207] City of Portland. (2016). *Central City 2035: The Central City Districts*. Available at: http://www.portlandoregon.gov/bps/article/581226

resulting from significant labor recruitment activities. Through the 1960s and 70s, Portland gained an iconic cultural status with the evolution of hippie and youth counterculture, which continues to influence Portland's desirability as a residential destination. With the national slowdown in the housing market in the late 1970s and 80s, demand for cut timber declined considerably, which significantly impacted Portland's industrial standing. Then, during the 1990s, Portland experienced tremendous economic growth and industrial diversification, including the expansion of companies such as Intel, Nike, Daimler, Boeing, Columbia Sportswear, Tektronix, Xerox, and WaferTech, among others.

Residential Demand Drivers

Recent development trends in Portland originate from the robust population growth experienced in the region over the past half-decade following the end of the recession. With the region's dominant employers positioned for rapid expansion, including national leaders in the computer hardware, sportswear, and healthcare sectors, Portland benefits from a strong reputation for cultural vibrancy, urban walkability and a well-designed public transportation system, a focus on environmental sustainability, and a relatively affordable rental and for-sale housing stock compared to other comparable markets (e.g., the San Francisco Bay Area and Seattle). These factors are driving an influx of comparatively well-educated and higher income workers into the greater Portland area, in addition to workers coming out of Portland State University and Oregon Health and Science University who increasingly choose to stay in the area. Interview participants indicated that a desire for high quality amenities (e.g., upscale shopping, dining, leisure, and entertainment) and an urban lifestyle (e.g., higher density housing, walkability/bike-ability, proximity to amenities and employment, etc.) has driven many of these new residents to seek housing opportunities in the Central City. Ongoing initiatives such as expansion of the MAX Light Rail Line and the Portland Streetcar system, as well as the Innovation Quadrant and the Gateway Green projects, continue to signal to prospective residents that Portland is committed to continued investment in desirable amenities and public services/infrastructure, while robust productivity gains and corporate expansions signal continued economic growth.

Residential Development Trends

With outward expansion constrained by the regional Urban Growth Boundary (UGB) established in the late-1970s, and with development in UGB expansion areas complicated by challenges of governance, planning, public support, infrastructure financing, service provision, and land assembly, both policy makers and private industry representatives are focusing contemporary development activity into existing infill and redevelopment areas,[208] [209] including within central Portland. According to Census Bureau estimates, the Central City

[208] Metro Council. (2015). *2014 Urban Growth Report*. Available at: http://www.oregonmetro.gov/sites/default/files/20151026-Final-UGR.pdf
[209] Metro Council. (2016). *Opportunities and Challenges for Equitable Housing*. Available at: http://www.oregonmetro.gov/sites/default/files/EquitableHousingReport-20160122.pdf

captured approximately 8.3 percent of the new housing growth that occurred within the Portland-Vancouver-Hillsboro Metropolitan Statistical Area (MSA) between 2000 and 2010-2014, including nearly one quarter of the region's multifamily housing development. Note that these figures do not include upwards of 10,200 new multifamily housing units built within the region in 2015 and 2016, which are predominantly concentrated in the Central City.[210]

Housing Type and Size

Reflecting the high costs of production, new construction in central Portland is predominantly characterized by relatively large mid- to high-rise multifamily projects, which benefit from economies of scale and are positioned at the higher-end of the market, featuring amenities such as pools, gyms, rooftop decks, wine cellars, and yoga studios.[211] [212] Developers indicate that financing is more difficult to secure for the less common housing types, such as townhomes, duplexes, and other medium density housing types, due to limited demand and comparatively high per unit costs.[213] Corresponding with below average household sizes, multifamily housing development in the Central City is focused on smaller units, including predominantly studio and one-bedroom offerings, with an average size of 720 square feet.[214] This also includes projects marketed as offering "micro units," such as those currently being constructed by Koz Development.

Rental Market Conditions

The current strength of the multifamily residential real estate market in Portland is primarily due to the pent up housing demand from the recession, when the region's population continued to grow, while housing production declined. Therefore, despite robust housing growth, which has just recently reached pre-recession levels, the region still features a significant shortage among all housing types. This is reflected in vacancy rates which continue to decline. With multifamily vacancy currently estimated at around 3.0 percent, the projected delivery of at least 6,500 new units through 2016 is projected to increase vacancy by only one-half percentage point, which is expected to decline as the new properties lease up. With sub-optimal vacancy (i.e., below 5.0 percent) and robust household growth, brokers anticipate significant housing price appreciation in both the rental and for-sale markets. Brokers report the average multifamily rental rate in the region at $1,200 per month, representing a 13.2 percent increase over 2015. This equals an average gross rent of $1.38 per square foot.

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[210] Marcus and Millichap. (2016). *Multifamily Research Market Report Portland Metro Area, Third Quarter 2016*.
[211] Metro Council. (2016). *Opportunities and Challenges for Equitable Housing*. Available at: http://www.oregonmetro.gov/sites/default/files/EquitableHousingReport-20160122.pdf
[212] Marcus and Millichap. (2016). *Multifamily Research Market Report*. Available at: http://www.marcusmillichap.com/research/researchreports/reports/2016/09/13/portland-apartment-research-report
[213] Metro Council. (2016). *Portland's Housing Challenge: 4 Thoughts to Ponder*. Available at: http://www.oregonmetro.gov/news/portlands-housing-challenge-4-charts-ponder
[214] For example, Koz Development, known for developing market-rate affordable micro units and student housing, has three projects currently underway in Portland, including Yamhill, SW 4th, and 16th and Marshall, which if completed, will produce 270 new micro units ranging in size from studios to two-bedrooms.

Properties in the Central City feature the highest rents, at $1,500 per month, but experienced below average rent appreciation, with an increase of only 11.8 percent over 2015. This is due to the addition of new inventory in the Central City, compared to lower density areas along the major transportation corridors, which are also experiencing significant housing demand.

For-Sale Market Conditions

Unlike most communities across the country, the rate of homeownership increased in central Portland and in the MSA more broadly since 2000. Sources indicate that the region experienced a home price inversion between the urban core and surrounding suburban jurisdictions during this period, with for-sale housing prices increasing much more rapidly in the Central City compared to other surrounding communities, some of which experienced real declines in for-sale residential property values. The current median sale price in central Portland ranges from $272,941 to $495,350, depending on the ZIP Code, which is considerably higher than the regional median, which ranges from $250,750 to $281,015. This differential reflects the significant additional cost associated with development of higher density for-sale housing product types, as well as the upscale nature of most of the current product deliveries in the Central City. However, the increasing homeownership rate in the Central City indicates that income growth among Central City households was sufficient to offset rising housing costs for some households.

Gentrification and Displacement

Though the median household income in central Portland remains below the regionwide value, an influx of smaller, comparatively higher income households with greater disposable income has driven up housing costs in the Central City. Illustrating this change, Census data indicate that the median nominal household income increased by more than 50 percent between 2000 and 2010-2014, compared to a gain of just under 25 percent for the region as a whole. Additional analysis provided in the 2014 Urban Growth Report published by the Metro Council indicates that while median family incomes increased in nominal terms in most central Portland neighborhoods (i.e., Northwest, Northeast, Southeast Portland, as well as Lake Oswego and West Linn), incomes have stagnated or declined in most outlying communities (i.e., East Portland, Gresham, Cornelius, and Aloha). This is described as evidence of an outmigration of lower-income family households from central Portland into the outlying areas, in some cases, manifesting in the concentration of lower-income households in neighborhoods that lack adequate services and facilities, such as sidewalks and transit.

Housing Initiatives and Programs

The remainder of this section includes a brief overview of a number of key local and regional policies and programs that influence the comparative desirability of central Portland as a destination for the development of new affordable and market rate housing.

Regional Urban Growth Boundary

Under the land use regulation system enacted by Senate Bill 100 in 1973, each urban area in Oregon is required to define an Urban Growth Boundary (UGB).[215] The UGB for the greater Portland area was defined in 1979 by the Columbia Region Association of Governments, the predecessor to the Metro Council. The Portland area UGB includes 25 cities and more than 60 special districts within Clackamas, Multnomah, and Washington Counties. Under Oregon State law, the UGB is required to maintain a 20-year supply of land to accommodate future residential development. The regional planning agency must review the adequacy of the existing land inventory every six years. Since its establishment in 1979, the UGB has expanded by more than 30,000 acres.[216] Between 1998 and 2012, more than 90 percent of the new residential development occurred within the original 1979 UGB boundary. An estimated 58 percent of the new residential development inside the 1979 UGB was done through redevelopment and infill, with 42 percent occurring on vacant sites. During the period from 2007 to 2012, the region saw levels of redevelopment and infill activity that exceeded historic rates. Development has been slow in most of the UGB expansion areas, due to complex questions of governance, planning, annexation, infrastructure financing, service provision and land assembly. According to the 2040 Growth Concept for the region, the majority of region's future growth is expected to occur within infill and redevelopment areas with access to infrastructure and transportation.

Portland Central City Plan

The City of Portland is currently in the process of updating the original 1988 Central City Plan. CC2035 is the first in a series of anticipated amendments to the Portland Comprehensive Plan. As with the 1988 Central City Plan, CC2035 will establish a revised set of land use policies, design standards, and other related regulations intended to enhance the role of the Central City as a hub for regional economic and cultural activity, coordinate transportation infrastructure, and support the development of complete neighborhoods in each of the ten sub-districts located within the Central City. Among the goals and policies outlined in the draft February 2016 CC2035, the City seeks to promote a dense mixed-use residential environment, with an affordable housing supply that supports racial and economic diversity and provides access to necessary human and health services. The draft policies subsequently promote the development of a diverse housing stock that accommodates a broad range of needs, preferences, and household financial capacities. It encourages the preservation of affordable housing, both market rate and regulated, through continuation of the City's existing No Net Loss policy, while supporting additional public investment in affordable and transitional housing. The draft plan also includes policies that are tailored to individual districts.

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[215] Oregon Legislative Assembly. (1973). *Senate Bill 100*. Available at: https://www.oregon.gov/LCD/docs/bills/sb100.pdf

[216] Metro. (2015). *2014 Urban Growth Report*. Available at: http://www.oregonmetro.gov/sites/default/files/20151026-Final-UGR.pdf

Portland Development Commission

The Portland Development Commission (PDC) was established by voter approval in 1958 and has managed programs in 25 distinct urban renewal areas (URAs), with 11 currently in place throughout the City, including seven in the Central City area. At the time the PDC was created, central Portland was predominantly lower-income and suffering from considerable disinvestment. At the outset, the PDC used a variety of assistance programs to incentivize the construction and/or rehabilitation of Central City housing, focusing on market rate housing targeted towards middle- and upper-income households, as well as deed restricted affordable housing and single-room occupancy (SRO) hotel projects. Between 1988 and 1994, the PDC facilitated the development or rehabilitation of 888 market rate housing units and 1,907 affordable and SRO housing units. Market rate projects were primarily supported through the use of tax abatements, though the affordable and SRO projects frequently utilized State or federal grant and loan funds, as well as tax credits. In 2006, the City Council adopted Resolution No. 305853,[217] requiring 30 percent of the tax increment revenue from all URAs to be directed to an Affordable Housing Set Aside Fund intended to ensure the predictable and adequate funding for housing targeted toward households earning 80 percent or less of the regional Median Family Income (MFI). Within the first five years, the set-aside fund accrued more than $152 million in assets and contributed capital resources for key projects across nine strategic urban renewal areas. In 2011, the City reviewed the Tax Increment Financing Set Aside for Affordable Housing Policy and recommended changes, including increasing the income threshold to 100 percent of the MFI.[218]

Portland Housing Bureau

While the PDC continues to direct economic development and commercial revitalization efforts throughout the City, efforts directed toward the development and rehabilitation of market rate and affordable housing were assumed in 2009 by a newly established Portland Housing Bureau (PHB).[219] The PHB similarly assumed the housing responsibilities of the City's Bureau of Housing and Community Development (BHCD). The purpose of the PHB is to promote greater coordination between housing rehabilitation, finance, and development activities undertaken based on the PDC's urban renewal authority, including the Affordable Housing Set Aside Fund, with the City's other housing policies, programs, and funding streams, including federal grant funds from the Department of Housing and Urban Development (HUD). The agency's primary funding source for housing development and rehabilitation is the Affordable Housing Set Aside Fund, which provided more than $107 million to ten different projects since 2010, supporting

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[217] City of Portland. (2006). *Resolution No. 305853*. Available at: https://www.portlandoregon.gov/phb/article/305853

[218] City of Portland. (2011). Set Aside Ordinance Packet. Available at: http://efiles.portlandoregon.gov/webdrawer/rec/4592422/view/TIF%20Set%20Aside%20Ordinance%20Packet%202011%20Policy%20Review.PDF

[219] Portland Development Commission. (2014). *Report Number 14-31: Authorizing Intergovernmental Agreements with the Portland Housing Bureau to Provide Housing Programs and Support Services to the Portland Housing Bureau.* Available at: http://www.pdc.us/Libraries/Board_Reports/Report_14-31_pdf.sflb.ashx

the development of 1,067 new regulated housing units targeted towards households earning 100 percent or less of the MFI.[220] In addition to providing necessary funding for Central City housing projects, the PHB also oversees implementation of two other important policy tools, including Portland's No Net Loss Policy and the Floor Area Ratio (FAR) Density Bonus program.

No Net Loss Policy

The Central City No Net Loss policy was adopted in 2001 under Resolution No. 36021.[221] It mandates that the City must maintain a minimum number of housing units that are affordable to households earning 60 percent or less of the MFI, through either preservation or replacement. The threshold is benchmarked to the 2002 Central City housing inventory, which identified 8,286 units that matched these criteria. According to the 2015 State of Housing in Portland report, the City is not currently in compliance with the No Net Loss policy, with a recent survey identifying 6,551 "rent-regulated" housing units and 267 market-rate housing units with rents that would be affordable to households earning 60 percent or less of the current regional MFI. While this represents an increase of 647 regulated units since 2008, it also represents a considerable loss of 2,629 market rate affordable housing units in the Central City.

Density and Height Bonus Programs

Within the Central City, the PHB also operates two incentive programs to encourage developers to voluntarily provide affordable housing in exchange for certain entitlements, such as increases in the allowable net FAR and/or building height. Under the current 1988 Central City Plan, the PHB offers 18 bonus options and six FAR transfer options. Note that density bonuses are also available in cases where the developer provides community amenities other than affordable housing, including retail, daycare centers, rooftop gardens, open space, below-grade parking, and bicycle parking, among others. Some bonuses are used quite frequently, such as the residential and bike locker bonus options, while others are used infrequently, if at all. Ahead of the Central City Plan update, the City commissioned a review of the PHB bonus programs.[222] Key findings from the 2015 study include:

- Bonuses offer sufficient value to make provision of affordable housing economically attractive for developers;
- More subsidy is required per unit as income of the household served decreases;

[220] Portland Housing Bureau. (2014). *FY 2013-2014 TIF Set Aside Spending Report*. Available at: https://www.portlandoregon.gov/phb/article/510208

[221] City of Portland. (2003). *Resolution No. 36021*. Available at: http://www.pdc.us/Libraries/Document_Library/PDC_Resolution_36021-CC_Housing_Inventory_pdf.sflb.ashx

[222] Economic and Planning Systems, Inc. (2015). *City of Portland Central City Density Bonus and Entitlement Transfer Mechanism Update*. Available at: https://www.portlandoregon.gov/phb/article/535084

- Project size and building type impact the attractiveness of bonus options, with mid-sized buildings in the 4:1 and 6:1 entitlement areas being the most attractive.[223]

In addition, the study recommends updating the bonus and entitlement transfer program to:

- Simplify the system, reduce the number of options, and prioritize options that better support the production and preservation of affordable housing;
- Allow three compliance options, including construction of affordable housing on-site, in-lieu payment to a public benefit fund, or a combination approach;
- Require that units be affordable at 80 percent MFI for a minimum of 60 years;
- Increase the in-lieu payment amount to incentivize on-site construction;
- Retain the 3:1 cap on bonus FAR that can be used on a single site;[224]
- Use FAR transfers to encourage preservation and open space development; and
- Conduct periodic updates of the bonus program pricing structure.

Implications and Replicability

Up-market apartment complexes primarily comprise the contemporary central Portland housing market. These units are predominantly small in size, with new development focused on providing studio and one-bedroom units, as well as SROs and micro units. The central Portland housing market increasingly serves smaller higher-income households employed in business and professional service industries. A key factor in the City's successful stimulation and support of Central City housing development is the regional urban growth boundary, which functions to focus residential development pressure toward infill and redevelopment sites, restricting the potential for suburban greenfield development. This is coupled with robust employment growth in comparatively high-wage industries – like computer hardware, sports apparel, and healthcare – and a shift in consumer preferences toward walkable urban environments that provide high quality housing options and access to employment opportunities, cultural amenities, entertainment and recreational venues, and diverse transportation options. The tools that the City of Portland used most effectively to incentivize and promote the development of housing in the Central City include a rather complex density bonus program, which is currently under revision, and an Affordable Housing Set Aside Fund, which allocates tax increment revenue to support affordable housing development and preservation in the central city. While the new Central City Plan (CC2035) offers an updated framework for development in the Central City, the provisions remain comparatively high-level

[223] FAR reflects the relationship of floor area (total square feet) to site area (amount of land). This volume can be shaped to create taller, narrower buildings or lower, wider buildings. FAR scales to the site, so a 4:1 FAR for a 20,000 square foot site would allow 80,000 square foot building, whereas a 4:1 FAR for a 40,000 square foot site would allow for 160,000 square foot building.

[224] Please refer to footnote 16.

and fail to provide much in the way of specific direction to the development community, other than to say that the City supports the provision of high-quality, high-density housing development in the Central City area, though sub-district specific policies do provide some additional direction with regard to the preferred design of new projects.

Key takeaways for Sacramento include the need to limit regional urban expansion in order to focus development pressure into desired areas, which can allow the development community to leverage consumer preferences which are shifting toward higher density urban environments. With strong demand, density bonus programs can provide sufficient additional value to offset the cost of providing community benefits and can make the provision of affordable housing economically feasible for developers. However, Portland's initial density bonus program was too broad, with 18 bonus options, many of which were underutilized or went unused entirely. According to the 2015 Density Bonus and Entitlement Transfer Mechanism Update report, focusing the density bonus program will not only simplify the administrative process and provide additional certainty for developers, but will also be done without greatly impacting utilization.[225] Similarly, due to changes in construction type and building code requirements that occur at different project sizes, density bonus programs can be tailored to promote development at certain scales which fit the City's vision for the area, presuming that demand is sufficiently strong to ensure project feasibility. Similar to what the City of Sacramento has experienced with its existing SRO policy, Portland's No Net Loss Policy is effective at guiding public sector investments in regulated affordable housing, but fails to adequately ensure the availability of market rate affordable housing units which are beyond the City's control.

[225] Economic and Planning Systems, Otak. (June 22, 2015). *City of Portland Central City Density Bonus and Entitlement Transfer Mechanism Update*. Available at: https://www.portlandoregon.gov/phb/article/535084

Table D5: Community Overview for Portland, Oregon, 2000,2010-2014

	Downtown Portland, OR (a)		Portland-Vancouver-Hillsboro, OR-WA Metro Area		Downtown Growth as % of MSA Growth
	2000	2010-2014	2000	2010-2014	
Demographics					
Population	70,618	90,155	1,927,881	2,288,796	5.4%
Households	40,749	51,006	745,531	878,078	7.7%
Avg. Household Size	1.62	1.69	2.54	2.56	
Renter Households	75.4%	71.4%	37.1%	39.1%	8.5%
Family Households	25.3%	27.5%	65.1%	63.7%	5.0%
w/ Children Under 18	*9.6%*	*9.1%*	*34.2%*	*31.3%*	*3.8%*
Median Household Income (b)	$30,617	$46,058	$47,168	$58,832	
Median Age	33.7	33.9	33.8	37.3	
Householder Only	*39.1*	*40.1*	*45.6*	*49.2*	
Bachelor's Degree or Higher (c)	49.0%	62.5%	28.8%	34.9%	
Housing					
Housing units	44,160	56,073	790,876	933,888	8.3%
Single-Family Detached	*19.2%*	*16.4%*	*62.6%*	*61.8%*	*0.9%*
Single-Family Attached	*2.6%*	*3.4%*	*3.4%*	*5.2%*	*3.5%*
Multifamily	*78.1%*	*79.9%*	*28.5%*	*28.6%*	*24.6%*
Other	*0.1%*	*0.2%*	*5.5%*	*4.3%*	*-3.1%*
Median Year Built		1960		1979	
Median Rental Rate	$573	$883	$671	$968	
Median Sale Price (d)	$133,400 - $305,375	$272,941 - $495,350	$154,585 - $163,500	$250,750 - $281,015	
MSA Median Income as % of Median Home Sale Price (e)	21.5%	15.3%	29.7%	22.1%	
Economy					
Jobs, All Industries (f)	179,945	206,009	917,477	1,071,652	16.9%
Ratio of Jobs/Housing	*4.1*	*3.7*	*1.2*	*1.1*	
Resident Workforce	33,964	44,270	897,774	1,048,138	6.9%
Incommuter Rate	*91.0%*	*90.4%*	*9.5%*	*13.0%*	
Outcommuter Rate	*52.2%*	*55.2%*	*7.5%*	*11.1%*	

Notes:
(a) The Dow ntow n region is defined as a 2-mile radius from the Central Business District.
(b) Incomes reported in the 2000 Census are not inflation adjusted.
(c) Includes residents 25 years or older.
(d) Represents the range of monthly median sale prices for all ZIP Codes w ithin the study areas for 2000 and 2014, as reported by Zillow .
(e) Calculated using the Median MSA household income divided by the midpoint of the median sale price reported for each region.
(f) Represents all jobs reported in 2002 and 2014, as reported by the Longitudinal Employer-Household Dynamics program.

Sources: U.S. Census Bureau, Census 2000, 2016; U.S. Census Bureau, 2010-2014 American Community Survey, 2016; U.S. Census Bureau, LEHD Origin-Destination Employment Statistics, 2016; Zillow , 2016; BAE, 2016.

Figure D5: Central City Area, Portland, Oregon

Sources: City of Portland, 2016; U.S. Census Bureau, 2016; BAE, 2016.