

## **RESOLUTION NO. 2016-0391**

Adopted by the Sacramento City Council

November 10, 2016

### **RESCINDING THE SACRAMENTO RAILYARDS INCLUSIONARY HOUSING PLAN AND APPROVING THE SACRAMENTO RAILYARDS MIXED INCOME HOUSING STRATEGY FOR THE SACRAMENTO RAILYARDS (P15-040)**

#### **BACKGROUND**

- A. On October 22, 2015, March 24, 2016, May 12, 2106, June 30, 2016, August 11, 2016, September 8, 2016, September 22, 2106, and October 6, 2016, the City Planning and Design Commission participated in public hearings on the Sacramento Railyard project.
- B. On October 24, 2016, the City Planning and Design Commission conducted a public hearing on the Sacramento Railyards project, and forwarded to the City Council a recommendation to approve the Sacramento Railyards mixed income housing strategy set forth in Exhibit A.
- C. On November 10, 2016, the City Council conducted a public hearing that was noticed in accordance with Sacramento City Code sections 17.812.010 and 17.812.030 at which it received and considered evidence concerning the Sacramento Railyards project.

#### **BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:**

- Section 1. Based on the verbal and documentary evidence received at the hearing held on November 10, 2016, the City Council finds that the Sacramento Railyards mixed income housing strategy:
  - 1. Is consistent with the goals, policies, and other provisions of the general plan and its housing element;
  - 2. Promotes the public health, safety, convenience, and welfare of the city; and
  - 3. Demonstrates how the Sacramento Railyards project provides housing for a variety of incomes and family types consistent with the general plan housing element policy.

- Section 2. The City Council hereby rescinds the Sacramento Railyards inclusionary housing plan by rescinding Resolution 2007-911.
- Section 3. The City Council hereby approves the Sacramento Railyards mixed income housing strategy set forth in Exhibit A.
- Section 4. Exhibit A is part of this Resolution.

**Table of Contents:**

Exhibit A – Sacramento Railyards Mixed Income Housing Strategy

Adopted by the City of Sacramento City Council on November 10, 2016, by the following vote:

Ayes: Members Ashby, Guerra, Hansen, Harris, Jennings, and Schenirer

Noes: None

Abstain: None

Absent: Members Carr, Warren, and Mayor Johnson

Attest:

**Shirley Concolino**

Digitally signed by Shirley Concolino  
DN: cn=Shirley Concolino, o=City of Sacramento, ou=City  
Clerk, email=sconcolino@cityofsacramento.org, c=US  
Date: 2016.12.16 13:16:17 -08'00'

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Shirley Concolino, City Clerk

**MIXED INCOME HOUSING STRATEGY**  
**Downtown Railyards Venture, LLC**

**INTRODUCTION**

Downtown Railyard Venture, LLC (“Developer”), is the owner of certain real property in the City of Sacramento known as the Sacramento Railyards (“Railyards”), an approximately 220-acre site immediately north of downtown Sacramento. Railyards is generally bounded by the Sacramento River to the west, North B Street to the north, the Alkali Flat neighborhood to the east, and the existing downtown area to the south (I Street).

The Developer proposes to develop a mixed-use, master planned community consisting of commercial and residential land uses. The project concept plan and land use breakdown contained in the 2016 Specific Plan for Railyards totals 6,000 to 10,000 residential units; 3.271 to 4.371 million square feet of non-residential uses; 771,405 square feet of flexible mixed-use space; 485,390 square feet of historic and cultural space; a 1.228 million square foot medical campus; 1,100-room hotel; and approximately 30 acres of open space. (These totals do not include TC and M-2 land areas.) Railyards represents a true mixed-use community on the basis of significant employment-generating land uses integrated with housing.

The vision for the Railyards project is an inclusive, sustainable and vibrant community. Key design principles are intended to provide for a walkable and bike-friendly urban core in close proximity to services, amenities and employment, capitalizing on the project’s transit proximity and physical proximity to downtown. These design principles improve overall affordability by reducing costs of transit and lowering energy costs. Estimated residential densities, ranging from a projected low of 60 units to a permitted maximum zoning density of 450 units per acre, will assist in generating a diverse housing stock, ranging from affordable units to executive housing with a significant pool of workforce housing. Affordability will be improved by the estimated rental housing balance (estimated at between 70%-85% of total units built) and cost savings from the design elements inherent in the Railyards Specific Plan.

Railyards is subject to the requirements of the Mixed Income Housing Ordinance, City of Sacramento City Code Chapter 17.712, adopted September 1, 2015. The Mixed Income Housing Ordinance requires that proposed residential projects in excess of 100 gross acres obtain City Council approval of a “mixed income housing strategy” that demonstrates how the project provides housing for a variety of incomes and household types consistent with Housing Element policy.

This Mixed Income Housing Strategy for Railyards acknowledges the benefits of diversity as well as project attributes that will contribute to provision of a variety of housing.

Integrating a variety of housing will benefit the sustainability and success of Railyards over its multi-year build-out, as well as the greater community. Specifically:

- Diversity of housing (with respect to product and price point) increases absorption in large planned developments such as Railyards by attracting multiple resident segments.
- Diversity of housing provides the flexibility to respond to fluctuating market conditions.

- Diversity of housing, including that targeted to residents with incomes at or below 60% AMI, expands the financing options beyond conventional financing (LIHTC, bonds, HOME, CDBG etc.).
- Diversity accommodates the housing needs of different generations and households: empty nesters, singles, professional couples, families and executives.
- Providing housing for a mix of incomes will allow families to stay in their community, even as children grow up and form their own households and as parents age and want to downsize.
- Varying mix and rent levels will support residents who may eventually graduate into larger units (i.e., laddering demand).
- Diversity of housing expands the tax base, supports local commerce, and encourages community safety and engagement.

Both by virtue of location and its truly mixed-use development plan, Railyards comprises many elements that have proven critical to successful mixed income housing elsewhere in the state and country. Railyards has been designed to capitalize on its “location efficient” and mixed-use advantages:

- **Infill urban location** (a key factor in attracting Millennials, Gen X, move-downs and other market segments that represent its core market).
- **transit proximity** (bus, light rail, Amtrak), which drives down commute costs, raising disposable income and residential buying power.
- **walkability** (external and internal). Railyards is proximate to Downtown employment and shopping, entertainment and cultural attractions, and will have internal walkability and connectivity with future employers and attractions within Railyards itself (notably Kaiser Hospital, County Courthouse, Innovation Center businesses, Historic District, MLS Stadium).
- **on-site amenities**, notably extensive shared common spaces (Great Lawn, Urban Lounge shade plaza/outdoor dining, community gardens, playground, and stadium promenade), Historic District, future Major League Soccer stadium, and shopping (which is expected to include a grocery store).
- **worker-job nexus**, which benefits employers as well as employees. Housing proximity reduces the need for employers to raise wage levels to offset commuting, and can reduce the costs of recruitment and training.

## I. Mixed Income Housing Strategy Overview

The strategy to provide an appropriate mixed income housing ratio for Railyards is multi-pronged by necessity. “Central City” development costs and relative price point for ownership and rental prototypes are the highest among the eight residential “prototypes” developed by Keyser Marston’s nexus analysis, which underlies the Mixed Income Housing Ordinance.

This will require that all available tactics be utilized to meet the objectives laid out in the City Housing Element.

Railyards’ Mixed Income Housing Strategy is premised on a multi-faceted approach that is broken down into the following five components:

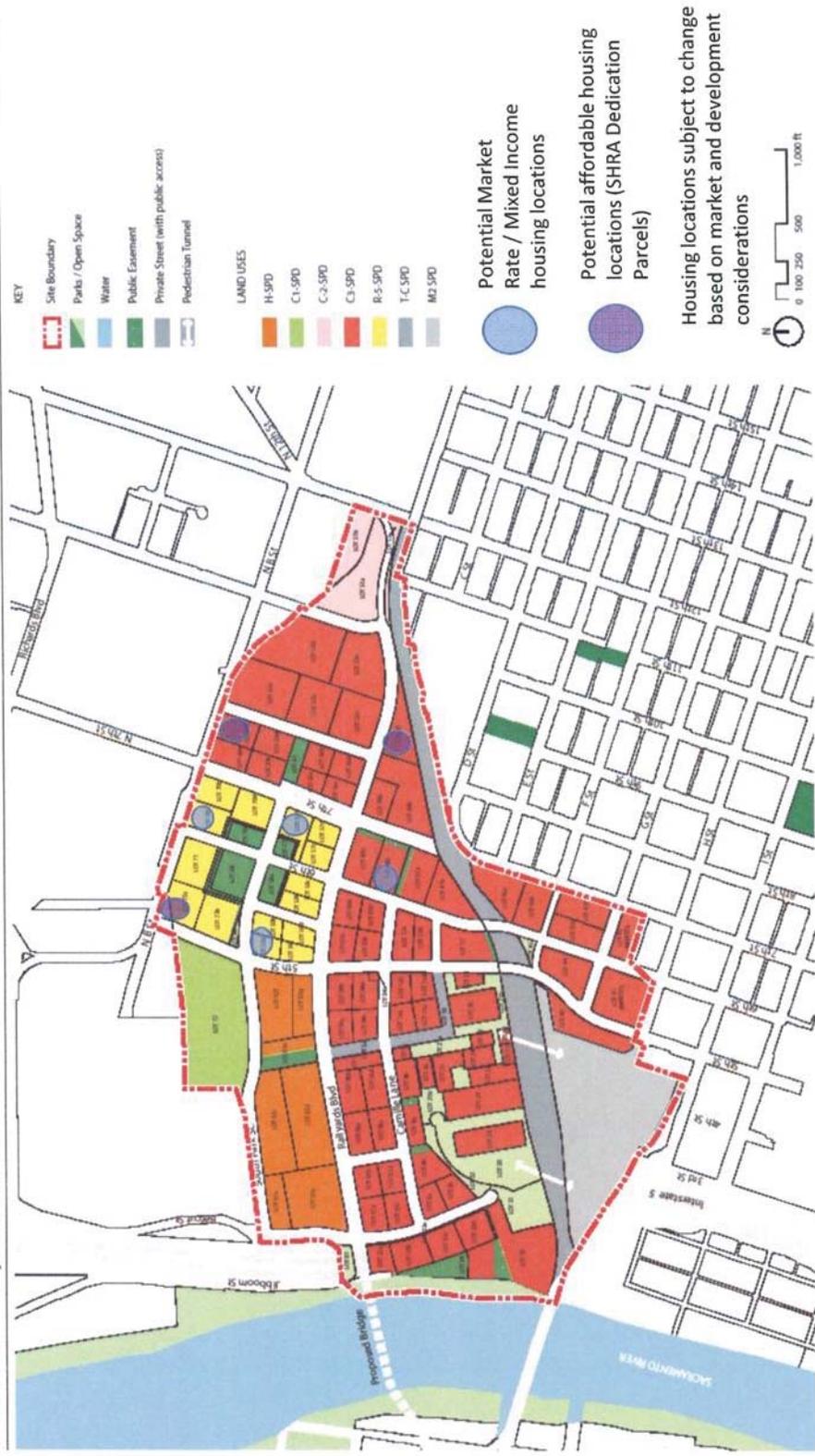
1. Provision of affordable units (40% to 60% AMI): Affordable housing refers to housing affordable to households with 40% - 60% of median income applicable to Sacramento County, adjusted for household size as published and annually updated by the United States Department of Housing and Urban Development pursuant to Section 8 of the United States Housing Act of 1937. Affordable housing is provided in support of several City of Sacramento Housing Element Goals and Policies:
  - Goal H-1.2: Housing Diversity. Provide a variety of quality housing types to encourage neighborhood stability. This goal is specifically advanced via adherence to the following policies:
    - Policy H-1.2.1: Variety of Housing. The City shall encourage the development and revitalization of neighborhoods that include a variety of housing tenure, size and types, such as second units, carriage homes, lofts, live-work spaces, cottages, and manufactured / modular housing.
    - Policy H-1.2.2: Compatibility with Single Family Neighborhoods. The City shall encourage a variety of housing types and sizes to diversify, yet maintain compatibility with, single family neighborhoods.
    - Policy H-1.2.4: Mix of Uses. The City shall actively support and encourage mixed use retail, employment, and residential development around existing and future transit stations, centers and corridors.
  - Goal H-1.3: Balanced Communities. Promote racial, economic, and demographic integration in new and existing neighborhoods. This goal is specifically advanced via adherence to the following policies:
    - Policy H-1.3.1: Social Equity. The City shall encourage economic and racial integration, fair housing opportunity and the elimination of discrimination.
    - Policy H-1.3.2: Economic Integration. The City shall consider the economic integration of neighborhoods when financing new multifamily affordable housing projects.
    - Policy H-1.3.4: A Range of Housing Opportunities. The City shall encourage a range of housing opportunities for all segments of the community.
    - Policy H-1.3.5: Housing Type Distribution. The City shall promote an equitable distribution of housing types for all income groups throughout the city and promote mixed income neighborhoods rather than creating concentrations of below market rate housing in certain areas.
  - Goal H-2.2: Development. Assist in creating housing to meet current and future needs. The project shall utilize financial tools made available by the city pursuant to the following policies:

- Policy H-2.2.2: Financial Tools to diversity Residential Infill Development. To the extent resources are available, the City shall use financial tools to diversity market developments with affordable units, especially in infill areas.
      - Policy H-2.2.3: Offsetting Development Costs for Affordable Housing. The city shall defer fees to Certificate of Occupancy to help offset development costs for affordable housing and will offer other financial incentives including, but not limited to, water development fee waivers and sewer credits.
      - Policy H-2.2.4: Funding for Affordable Housing. The City shall pursue and maximize the use of all appropriate state, federal, local and private funding for the development, preservation, and rehabilitation of housing affordable for extremely low, very low, low, and moderate income households, while maintaining economic competitiveness in the region.
      - Policy H-2.2.5: Review and Reduce Fees for Affordable Housing. The City shall work with affordable housing developers as well as other agencies and districts to review and reduce applicable processing and development impact fees for very low and low income housing units.
2. Workforce Housing facilitated by the Railyards Specific Plan design elements such as access to transit and a walkable environment in proximity to employment. The development of moderate income housing is supportive of the following City of Sacramento Housing Element Goals and Policies:
- Goal H-1.2: Housing Diversity. Provide a variety of quality housing types to encourage neighborhood stability. This goal is specifically advanced via adherence to the following policies:
    - Policy H-1.2.1: Variety of Housing. The City shall encourage the development and revitalization of neighborhoods that include a variety of housing tenure, size and types, such as second units, carriage homes, lofts, live-work spaces, cottages, and manufactured / modular housing.
    - Policy H-1.2.2: Compatibility with Single Family Neighborhoods. The City shall encourage a variety of housing types and sizes to diversity, yet maintain compatibility with, single family neighborhoods.
    - Policy H-1.2.4: Mix of Uses. The City shall actively support and encourage mixed use retail, employment, and residential development around existing and future transit stations, centers and corridors.
  - Goal H-1.3: Balanced Communities. Promote racial, economic, and demographic integration in new and existing neighborhoods. This goal is specifically advanced via adherence to the following policies:
    - Policy H-1.3.1: Social Equity. The City shall encourage economic and racial integration, fair housing opportunity, and the elimination of discrimination.
    - Policy H-1.3.2: Economic Integration. The City shall consider the economic integration of neighborhoods when financing new multifamily affordable housing projects.
    - Policy H-1.3.4: A Range of Housing Opportunities. The City shall encourage a range of housing opportunities for all segments of the community.
    - Policy H-1.3.5: Housing Type Distribution. The City shall promote an equitable distribution of housing types for all income groups throughout the city and promote mixed income neighborhoods rather than creating concentrations of below market rate housing in certain areas.

3. Product type variation by tenure (ownership as well as rental housing). This strategy is supportive of the following City of Sacramento Housing Element Goals and Policies:
  - Goal H-1.2: Housing Diversity. Provide a variety of quality housing types to encourage neighborhood stability. This goal is specifically advanced via adherence to the following policies:
    - Policy H-1.2.1: Variety of Housing. The City shall encourage the development and revitalization of neighborhoods that include a variety of housing tenure, size and types, such as second units, carriage homes, lofts, live-work spaces, cottages, and manufactured / modular housing.
    - Policy H-1.2.2: Compatibility with Single Family Neighborhoods. The City shall encourage a variety of housing types and sizes to diversity, yet maintain compatibility with, single family neighborhoods.
    - Policy H-1.2.4: Mix of Uses. The City shall actively support and encourage mixed use retail, employment, and residential development around existing and future transit stations, centers and corridors.
  - Goal H-1.3: Balanced Communities. Promote racial, economic, and demographic integration in new and existing neighborhoods. This goal is specifically advanced via adherence to the following policies:
    - Policy H-1.3.4: A Range of Housing Opportunities. The City shall encourage a range of housing opportunities for all segments of the community.
    - Policy H-1.3.5: Housing Type Distribution. The City shall promote an equitable distribution of housing types for all income groups throughout the city and promote mixed income neighborhoods rather than creating concentrations of below market rate housing in certain areas.
  - Goal H-6: Homeownership. Provide ownership opportunities and preserve housing for Sacramento’s modest income workers. This goal is specifically advanced via adherence to the following policies:
    - Policy H-6.1: Promoting Homeownership in Distressed Areas. The City shall promote homeownership opportunities in areas with a significantly high proportion of rental housing, and areas distressed by foreclosures.
    - Policy H-6.3: Affordable Housing types. The City shall promote modest income homeownership opportunities through alternative construction methods and ownership models, employer assisted housing and amendments to the Mixed Income Housing Ordinance.
4. Product innovations, as supported by the nature of this mixed-use, transit-oriented development [TOD] to provide sustainable and cost efficient development. A discussion of creative methods to help achieve affordability are outlined in the Product Innovations Section below. Product innovation is supportive of the following City of Sacramento Housing Element Goals and Policies:
  - Goal H-1.1: Sustainable Communities. Develop and rehabilitate housing and neighborhoods to be environmentally sustainable. This goal is advanced via adherence to the following policy:
    - Policy H-1.1.1: Sustainable Housing Practices. The City shall promote sustainable housing practices that incorporate a “whole system” approach to siting, designing and constructing housing that is integrated into the building site, consume less energy, water and other resources, and are healthier, safer, more comfortable, and durable.

5. Projected Buildout. Provides a descriptions of the types of housing expected to be incorporated in the project along with the projected resultant build out. The 6,000 to 10,000 residential units in Railyards will be located in two land use zones (C3-SPD and R5-SPD), dispersed throughout the master plan, as shown in the following map. These flexible, versatile land use designations will accommodate a range of residential product varied by internal location, with the potential for integrated retail. Until final mapping is complete exact locations of specific housing projects cannot be identified but potential locations for affordable projects are depicted on the map below. The identified locations, with “blue spots” showing forecasted Developer-developed mixed income/affordable units projects, and “purple spots” showing potential Dedicate Parcel(s) (see section II below) for third party builder construction, are estimated based upon anticipated growth patterns within the Railyards facilitated through the zoning. These project locations are subject to change, based on infrastructure requirements, land use approvals, development costs, development of mixed income housing projects rather than dedicated affordable projects, and other unforeseen factors. Production of new housing is a key theme and priority of the City Housing Element and the Railyards plan aligns with several of the goals in that plan, as outlined above. The Railyards housing strategy addresses components of each of these goals and will contribute significantly to the success of the Sacramento City Housing Element.

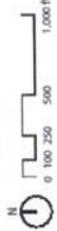
Land Use - Option 1 (No Berm)



- KEY**
- Site Boundary
  - Parks / Open Space
  - Water
  - Public Easement
  - Private Street (with public access)
  - Pedestrian Tunnel

- LAND USES**
- H-SPD
  - CL-SPD
  - C-2-SPD
  - C3-SPD
  - R-5-SPD
  - T-C-SPD
  - M3-SPD

- Potential Market Rate / Mixed Income housing locations
- Potential affordable housing locations (SHRA Dedication Parcels)
- Housing locations subject to change based on market and development considerations



SACRAMENTO RAILYARDS

DATE: 10 May 2016

DRAWING TITLE: Land Use - Option 1 (No Berm)

AECOM

## **II. Affordable Units**

A very low income household means a household whose income does not exceed fifty percent (50%) of area median income (AMI) applicable to Sacramento County, adjusted for household size as published and annually updated by the United States Department of Housing and Urban Development pursuant to Section 8 of the United States Housing Act of 1937. Very low income rent means a monthly rent not in excess of one-twelfth of thirty percent (30%) of fifty percent (50%) of the annual median income, including utility allowance.

A low income household means a household whose income does not exceed sixty percent (60%) of AMI applicable to Sacramento County, adjusted for household size as published and annually updated by the United States Department of Housing and Urban Development pursuant to Section 8 of the United States Housing Act of 1937. Low income rent means a monthly rent not in excess of one-twelfth of thirty percent (30%) of sixty percent (60%) of the annual median income, including utility allowance.

While the City of Sacramento Mixed Income Housing Ordinance does not mandate a specified amount of affordable units within a project with the density of the Railyards, in addition to the development of Workforce Housing described in section III below, this Mixed Income Housing Strategy provides for 600 affordable units be constructed by Developer and/or by third party developers on dedicated parcels. All affordable units shall be affordable to households with incomes that range from 40% - 60% of AMI applicable to Sacramento County, adjusted for household size as published and annually updated by the United States Department of Housing and Urban Development pursuant to Section 8 of the United States Housing Act of 1937, or lower.

Upon Developer's completion of the initial 300 affordable units as part of the first 3,000 housing units constructed at the Railyards, the remaining affordable units shall be satisfied by either (i) Developer's development of an additional 300 units as part of the following 5,000 housing units constructed at the Railyards, or (ii) land dedication by Developer as approved by the City and Sacramento Housing and Redevelopment Agency (SHRA) to support development of not less than 300 units to be built by a third party developer(s) ("Dedicate Parcel(s)"), or (iii) a combination of the approaches in subsection (i) and (ii) above (see Table 1 below). The initial 300 Developer-developed affordable units are anticipated to be constructed by the end of 2021 subject to this Mixed Income Housing Strategy in satisfaction of Department of Housing and Community Development requirements, with the balance of the affordable units to be constructed (within mixed income neighborhoods) based upon market demand, resulting absorption and related development factors for similar projects. Each Dedicated Parcel shall be a minimum of one (1) net buildable acre and shall, post dedication, be restricted for affordable units only. The proposed location of each Dedicated Parcel and allocated affordable units shall be approved by the City, SHRA and Developer. Based on current City housing policy, a maximum of 150 affordable units per acre is permitted and higher densities for all residential units within the Railyard are encouraged (not less than 100 affordable units per acre shall be used for the above referenced allocation). Prior to the City and SHRA approving and accepting ownership of a Dedicated Parcel, Developer, at its cost, shall deliver to the City and SHRA a feasibility assessment, including environmental considerations, for each such parcel. Following dedication, the actual number of affordable units subsequently built by a third party developer(s) on a Dedicated Parcel(s) shall be subject to the discretion of the City and SHRA and is not subject to or controlled by this Mixed Income Housing Strategy. Each Dedicated Parcel is subject to compliance with this Mixed Income Housing Strategy and consistency with the guidelines prepared pursuant to Section 17.712.090 of the City Code. Subject to the foregoing, each dedication shall occur

only after the recordation of a subdivision map(s) by Developer, which may occur over time on a phased basis to create each legal parcel (and the satisfaction of the allocated City-approved map conditions by Developer), in exchange for applicable fee credits.

Development of affordable units is reliant on financial assistance, utilizing resources available now and new sources, including low income tax credits and other mechanisms. With the loss of redevelopment funds in California, the development of additional affordable units will require alternative financing mechanisms and public assistance. City and SHRA shall prioritize opportunities for and shall reasonably cooperate with Developer in procuring available grants and assistance with obtaining other public financing (federal, state and municipal) for development of the affordable units and associated infrastructure. Development of affordable units is forecasted to be concurrent to the development of market rate units in the project and, except as provided herein, may be included in mixed income housing projects throughout the development. The satisfaction of certain criteria applicable to the development of affordable units and/or dedication of Dedicated Parcel(s) as conditions to specified development rights of Developer are provided in the Development Agreement entered into by the City and Developer. The development of affordable units is forecasted to occur as set forth on Table 1.

Table 1

Phase	Housing Units Per Phase	Affordable Units Developed (at 40% to 60% AMI) or land dedicated	Commulative Housing Units Developed
1	3,000	300 units	3,000
2	1,500	100 units and/or land dedication	4,500
3	1,500	100 units and/or land dedication	6,000
4	2,000	100 units and/or land dedication	8,000
5	2,000		10,000

Representative unit mix and affordability breakdown are shown below in Table 2. Requirements related to tax credit financing or other financing sources may impose modifications to specific affordability and/or unit types. The current unit mix and affordability has 77% of affordable units at or below 50% AMI (Very Low Income).

Table 2

Representative Unit Mix and Affordability Breakdown					
Railyards Maximum Potential Affordable Units					
	Very Low Income	Very Low Income	Low Income		
Type	40% AMI	50% AMI	60% AMI	Total	%
1BR	18	229	75	322	54%
2BR	14	94	39	147	25%

3BR	8	96	27	131	22%
Total	40	419	140	600	
%	7%	70%	23%		100%
% at/below 50% AMI		77%			

Based on 2016 income limits for projects placed in service after March 28, 2016, affordable units in Railyards will serve households with maximum incomes between \$19,440 (1 person at 40% AMI) and \$48,360 (6 persons at 60% AMI).

As presently anticipated, unit mix is to include 1BR, 2BR and 3BR rental units, though studio units are also possible depending on the project requirements. This unit mix is subject to change. For example, recent market studies reflect a relative low demand for 3BR units. If necessary, a reduction of 3BR units would be offset by an increase of other unit types. Gross rents by unit type, again as of 2016 limits, range from \$521 to \$1,083 per month – deeply discounted in comparison to market rents that characterize the Central City submarket.

Affordable units in Railyards:

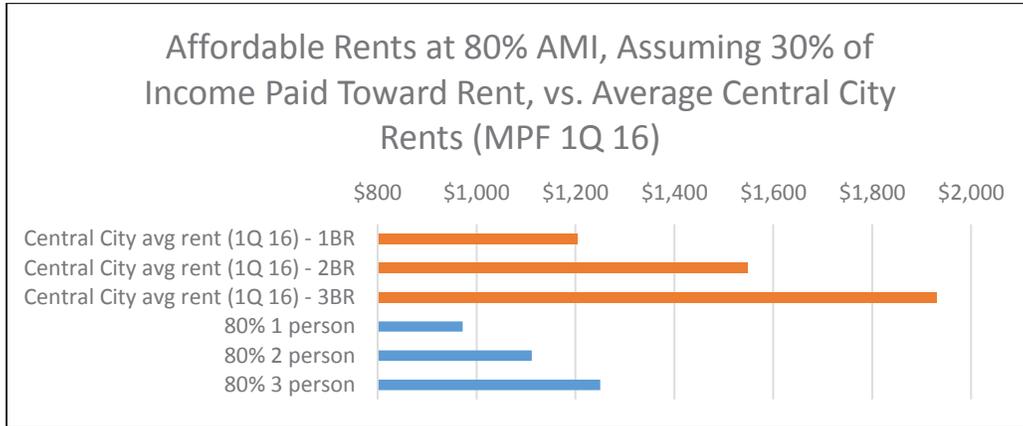
- will be located in proximity to transit, particularly either planned or existing light rail and streetcar terminals;
- may be developed in conjunction with market rate units as a component of a larger project; and
- will provide a minimum of no less than 30 years affordability restriction (as required pursuant to Section 17.712.030D. of the Mixed Income Housing Ordinance) from the date of Certificate of Occupancy.

As per the City of Sacramento Housing Element Goal H-2.2, and various policies thereunder, the Developer will request that the City and housing agency provide financial assistance whenever possible to assist with development of affordable units. The construction of affordable units requires additional financial assistance in order to be feasible. Under the current Mixed Income Housing Ordinance, housing fees for residential development in Railyards will be \$0.00 due to density. In the event of changes to fee structures, in order to mitigate the cost of development of affordable units, Developer may request, pursuant to Section 17.712.030 of the Mixed Income Housing Ordinance, fee waivers or that fees collected in the project are utilized to offset the cost for construction of affordable dwelling units, or other mechanisms that lead to the provision of affordable housing within the Project. In the event housing impact fees are levied pursuant to the Public Facilities Finance Plan for the Railyards, those proceeds shall be reinvested in Railyards for the purpose of assisting with construction of affordable or workforce housing as defined in this strategy, infrastructure that supports housing development or other purposes defined in the Finance Plan.

### III. Workforce Housing

Construction costs in the Railyards’ urban location make traditional units difficult to achieve at a price point that is affordable for households with incomes at 80% AMI to 120% of AMI. This is especially true for the smaller households (1 to 3 persons) that characterize the urban core submarket. For example,

under the assumption that rents equate to no more than 30% of income, rents affordable to those with incomes at 80% AMI are far lower than the average price of existing apartment units in the Central City submarket (prior to any consideration of new construction).<sup>1</sup>



Due to the high cost of construction, in order to meet housing demand for households approaching the region’s median household income, additional considerations are necessary. This housing segment benefits the middle class and this middle income stratum of the market has been the least served. Construction of housing that is attainable for households at or near the median income is consistent with a variety of goals and policies spelled out in the City of Sacramento Housing Element, and will require assistance from the City in keeping with Goal H-2.3 and the various policies thereunder.

In order to accommodate this need, the Railyards Specific Plan and design guidelines for Railyards will provide for the following benefits to reduce the cost per residential unit:

- Higher density development: This amortizes the fixed costs for land and project entitlement, while providing better economies of scale for marketing, and amenities.
- Smaller and more efficient unit design: This reduces the actual development cost on a per unit basis, providing an affordable alternative to suburban development.
- Access to transit: Proximity to transit allows for a reduced cost of living as vehicle miles traveled are reduced or eliminated. Transportation is the second largest expense for U.S. households, behind only housing outlay. U.S. Department of Transportation data shows that the average American household spends 19% of income on transportation, rising to 25% in “auto dependent” suburbs. In “location efficient environments” [those with public transit and walkability], the average spent on transportation falls to 9%. This increases disposable income to 59%, expanding housing choices.<sup>2</sup>

<sup>1</sup> MPF Research, 1Q 2016, “Central Sacramento” submarket

<sup>2</sup> [http://www.fhwa.dot.gov/livability/fact\\_sheets/transandhousing.cfm](http://www.fhwa.dot.gov/livability/fact_sheets/transandhousing.cfm)

- Access to amenities: Proximity to parks and other recreational opportunities improves the desirability of living in the urban area while reducing the cost of developing a project with redundant features of this type.
- Developer may request that housing projects utilize shared or public parking garages to meet development requirements rather than rely fully on self-parking strategies.

In order to encourage housing production, the City will develop materials to help developers in the Railyards have a predictable development experience. Specifically, the City will develop a Railyards Specific Plan and an associated EIR Conformity Checklist that would provide a list of items that each subsequent proposed project would use to demonstrate conformity with not only the Railyards Specific Plan, but also with measures required by the EIR. This checklist is anticipated to be also used by City Planning staff as a way to document whether subsequent proposed projects within the Railyards meet all of the policy requirements of the Railyards Specific Plan as well as the environmental measures required by the EIR.

#### **IV. Product Type Variation by Tenure (Ownership and Rental)**

Ownership housing at the densities reflective of this urban in-fill location – i.e., attached mid- and high-rise condos – represents a small share of the Sacramento housing market. (Attached housing of all types/densities accounted for just 11% of total sales in the City of Sacramento over the past 20 years, based on public records compiled by Zonda.)

In addition to the comparatively shallow market for high-density attached product, sales prices have yet to regain pre-recession peaks. Rents, in comparison, underwent much less downturn (increasing an average of 4.7% annually over the past five years), and rental increases are anticipated to remain in the 4%+ ranges over the next five-year cycle.

Modest income homeownership is a theme and priority program for the City Housing Element. Railyards has the locational qualities to support ownership housing, particularly once key amenities have been built. While this may include executive for-sale product on the waterfront it may also include mid-rise product compatible with various locations in the C3-SPD and R5-SPD zones, which will house all planned residential product in Railyards.

Ownership product is expected to account for approximately 15% - 30% of total residential units in Railyards, with timing dependent on market recovery as well as development of place-making elements on site.

The consumer groups expected to account for the majority of future residential sales activity at Railyards are as follows:

- Professional singles and couples employed in the Downtown area with the attraction of a potentially walkable commute to work and convenient access to an expanding base of services and amenities planned for Downtown Sacramento – new sports arena and entertainment complex, new shops and restaurants, new art galleries and museums, etc.
- Professional singles and couples that commute to out-of-area employment centers – San Francisco (via motorcoach service or Amtrak to BART), Oakland, San Jose, Auburn, etc.—

attracted by walking distance to the existing Amtrak station and the multi-modal transportation center planned along the southern edge of Railyards.

- Empty-nesters downsizing from large, maintenance-intensive homes and yards. One or both members of the household are likely employed in the Downtown area and/or attracted to the expanding base of Downtown amenities and services.
- Retirees downsizing from large, maintenance-intensive homes and yards. While these individuals are no longer tied to a workplace location, the expanding base of services and amenities being established in the Downtown area will be a draw. The prospect of expected travel opportunities will also have these buyers targeting housing projects offering the ability to “lock and leave.”

#### **V. Product Innovation**

Over the life of the Railyards development the housing market will undergo various changes, unforeseen today, based on changes in technology, demographics and personal lifestyle choices. Areas where product innovation is expected to have a near term impact are as follows:

- **Micro units and other product lines to broaden affordability**

Railyards contains many of the elements that correlate to successful development of micro units. Typically sized under 350 square feet, but with a fully functional and ADA-compliant kitchen and bathroom, micro units utilize highly efficient unit design and distinctive common amenities to compensate for the compact living area. Micro units are typically priced at rents 20% to 30% less than conventional studios, significantly expanding affordability. Higher price per square foot (typically +25%) offsets more expensive construction costs per square foot and slightly higher operating costs associated with micro units. Micro units are expected to be located within ¼ mile of a transit station.



Figure 1 Sample Micro Unit Floorplans

The top appeal for micro unit is reduced price relative to other rental options. Highly desirable locations (“authentic, urban/urbanizing, walkable, and trendy”)<sup>3</sup> and privacy (living alone rather than with roommates) are also strong attractants. Nearly a quarter of renters in conventional apartments would be “interested or very interested” in renting a micro unit, based on a 2014 ULI survey.

The target market for micro units – predominantly young professionals, typically under 30 years old – is an exceptionally close fit to the demographic profile of urban core Sacramento residents. In addition, the future Kaiser Hospital and Innovation Center both pose the potential to generate demand from nurses, interns and residents and young “creatives.” Micro units may also attract some couples and roommates; some older, single, move-downs; and pied-a-terre users.

Micro units and other product lines with the potential to deepen affordability and/or expand the prospective resident base for Railyards will be explored during the project’s estimated 20-year build-out.

- **Design Efficiencies**

Intentional, creative solutions to reduce parking in this walkable, TOD setting represents a significant potential mechanism to help broaden affordability.

The podium or wrap parking structures that typify mid- and high-density development impose a high project cost. The Nelson\Nygaard parking study conducted for the City of Sacramento in

<sup>3</sup> ULI, The Macro View on Micro Units, 2014

2012 estimated the cost of constructing one parking stall at up to \$25,000, in 2012 dollars.<sup>4</sup> The City of Sacramento revised Parking Code adopted in December 30, 2012 recognized this market reality, eliminating required parking in the Central Business and Arts & Entertainment District (0 spaces) and reducing the parking minimum to 0.5 space per unit in the Urban District, in order to promote new housing development.

Mechanisms to reduce parking stalls without impacting marketability include the following:

- Promotion of “active transportation” will be achieved in Railyards by incorporation of pedestrian-friendly walkways (with safe crossings and good lighting), bike lanes, and building layouts.
- Services such as a bicycle-sharing program are expected to be utilized.
- Promotion of car sharing (e.g., auto rental services that substitute for private car ownership, such as Zipcar, Turo, Car2go).

Unbundling parking from the rent shifts the cost to households with cars, rather than amortizing the cost of parking spaces over all residents. Savings for car-free households make housing significantly more affordable for residents who can use public transportation (or walk/bicycle).

A combination of these approaches may enable some future residents to shed cars, thereby reducing market-required parking for some household types and passing through cost savings to residents.

- **Sustainability**

Sustainability and green development is listed as a theme and priority program of the City Housing Element, listed as Goal H-1.1 in the City Housing Element. It is also a core principle to the Railyards’ vision. The urban location in proximity to transit provides the opportunity to create a green community with reduced impacts on the environment compared to other comparable-sized communities. Sustainability is a critical concept to improving the mixed income housing ratio due to the reduction in energy consumption and costs related to transportation for residents within the community. The Railyards development will include the following features:

- Close proximity to transit, which will reduce commute times and costs.
- Highly walkable environment, which will further reduce transit costs, improve the efficiency and livability of the environment.
- Amenities in close proximity, including parks, trails, schools, medical services, libraries, shopping and entertainment.

The features above result in a significant reduction in greenhouse gas emissions compared to comparable sized developments. Affordability is improved by reductions in transportation costs and improvements in energy efficiency. Additional financial benefits achieved include reduced health care costs, higher property values and greater productivity.

## **VI. Projected Buildout**

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<sup>4</sup> The 2015 Carl Walker Parking Structure Cost Outlook calculates the national median cost per stall for parking structures that are not fully subterranean at \$18,599 -- excluding the cost of land and soft costs (typically +15% to 25%). (<http://www.carlwalker.com/wp-content/uploads/2015/07/Carl-Walker-2015-Cost-Article.pdf>)

The infill location, with proximity to transit, employment and amenities reduces costs of living in the Railyards. Based on DOT data referenced above, this allows up to a 10% increase in disposable income. The following projections assume that the percentage of income spent on rent will range from 30% - 40%. Based on the strategies identified above the projected residential development of Railyards is expected to include the following:

- **Affordable Housing** –As outlined above, 600 affordable units will be developed concurrently with market rate units as described above.
- **Micro Units and Studio Units** – Per the Context Study, the unit mix in the downtown market is heavily weighted toward smaller floor plans. One reason for the prevalence of smaller units is that constructing smaller units, with more density, allows for better economies of scale. As discussed above, Micro Units are a continuation of this trend. While this product type is untested in Sacramento, it is expected that there will be some demand for this type of housing in the market. This will particularly hold true around mass transit and within amenitized walkable communities. Studios currently account for 9% of the representative market comparables in the Context Study. The projection for the Railyards is that the combination of Micro Units and Studios will account for a larger percentage of housing units than in the existing market, ranging from 10% - 15% of the total housing units. Market rents for studios currently average approximately \$1,450 per unit, with expectations that Micro Units will range up to 20% below that cost. Assuming rent payments constituting 30% - 40% of income, the household income levels necessary to afford this rent range from \$34,800 - \$58,000.
- **One bedroom units** – Per the Context Study, one bedroom units are the largest single unit type in the downtown market. These units account for 58% of the representative market comparables in the study. The demand for one bedroom units is driven by the same factors as studio units discussed above. While costs per square foot are higher for the smaller units, the nominal cost of the rent is more affordable to individuals and couples. One bedroom units are expected to represent the major component of rental housing in the Railyards, ranging from 50% - 65% of the total units. Market rents for one bedroom units in comparable projects currently average approximately \$1,700 per unit. The household income levels necessary to afford this rent range from \$51,000 - \$68,000 annually.
- **Two bedroom and larger units** – Two bedroom units are expected to represent a substantial component of the units in the Railyards. Per the Context Study, two bedroom units represent 33% of the representative market comparables. Accommodating a family or shared household (roommates), multi-bedroom units increase affordability by potentially sharing the costs of the unit among a larger number of people. The expectation for the Railyards is that two bedroom and larger units will represent 20% - 40% of the total units. Rents for two bedroom units in the Context Study average approximately \$2,250 per unit. The household income needed to afford this rent ranges from \$67,500- \$90,000 annually.
- **For Sale Housing** - In addition to the various rental unit types listed above, Railyards will also accommodate for sale housing. Due to the required density within the Railyards, For Sale housing is expected to be attached, condominium style units. Per the Context Study, sales prices of For

Sale projects in and around the downtown market range from \$340K - \$540K for homes ranging from 964 – 2,305 square feet, or \$267-\$299 per square foot. This is currently less than projected costs for high density development in the Railyards, and a significant increase in valuation will be required to activate For Sale Housing product. For Sale Housing is projected to range from 15% - 30% of the units in the Railyards.

**VII. Density Summary Matrix**

The following tables provide a recap of the range of possibilities that result from this strategy. Income ranges are based on the rent ranges reflected in the Context Study rather than average rent rates reflected above. Estimated ranges of income are based on a range of 30%-40% of household income, taking into account the transportation savings discussed above, as estimated by the Department of Transportation, which allows up to a 10% increase in disposable income. The number of affordable units are adjusted under each scenario to reflect a range proportionate to the total number of units developed.

Projected Build out									
6,000 Residential Unit Scenario									
	Estimated Household Size	Percent of Total		Range of Units		Current Price Range (\$)		Estimated Range of Income (\$)	
Affordable Housing	1 - 6		8.33%		500	486	1,083	19,440 (VLI)	48,360 (LI)
Micro and Studio Units	1 - 2	5.00%	- 15.0%	300	900	1,157	1,467	34,704	58,680
One Bedroom Units	1 - 3	45.00%	- 65.0%	2,700	3,900	1,380	2,400	41,400	96,000
Two Bedroom + Units	1 - 4	25.00%	- 40.0%	1,500	2,400	2,045	4,300	61,350	172,000
For Sale Housing	1 - 6	15.00%	- 30.0%	900	1,800	340,000	540,000	55,000	172,000

Projected Build out									
10,000 Residential Unit Scenario									
	Estimated Household Size	Percent of Total		Range of Units		Current Price Range (\$)		Estimated Range of Income (\$)	
Affordable Housing	1 - 6		- 6.00%		600	486	1,083	19,440 (VLI)	48,360 (LI)
Micro and Studio Units	1 - 2	5.00%	- 15.0%	500	1,500	1,157	1,467	34,704	58,680
One Bedroom Units	1 - 3	45.00%	- 65.0%	4,500	6,500	1,380	2,400	41,400	96,000
Two Bedroom + Units	1 - 4	25.00%	- 40.0%	2,500	4,000	2,045	4,300	61,350	172,000
For Sale Housing	1 - 6	15.00%	- 30.0%	1,500	3,000	340,000	540,000	55,000	172,000

Other than for income restricted units, it is assumed that upper ranges of income will be potentially much higher than the median due to the influx of employment to the downtown market, driven by the development of the Railyards and other surrounding projects.

A reference to current median household income levels based on household size is shown below for comparison purposes.

Maximum Income Limits (2016) as provided by SHRA						
Affordability	Household Size (number of persons)					
	1	2	3	4	5	6
40.0% of AMI	\$21,320	\$24,360	\$27,400	\$30,440	\$32,880	\$35,320
50.0% of AMI	\$26,650	\$30,450	\$34,250	\$38,050	\$41,100	\$44,150
60.0% of AMI	\$31,980	\$36,540	\$41,100	\$45,660	\$49,320	\$52,980
100.0% of AMI	\$53,250	\$60,900	\$68,500	\$76,100	\$82,200	\$88,300