



Implementing the 2025 Blueprint: Housing Product Type Policy Discussion

August 2024 LUNR

2025 Blueprint

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graph TD; A[2025 Blueprint] --- B[Land Use]; A --- C[Transportation]; B --- D[Policies, Programs, and Investments]; C --- D;
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Land Use

Transportation

Policies,
Programs, and
Investments

Where Are We Going



BLUEPRINT

*Land use and Transportation
decisions and milestones schedule*

2024

BOARD



**Inputs into the
Draft Scenario**
Principles and
themes from public
engagement AND
regional housing
demand and
preferences analysis



**Financial
Constraints of
the Plan**



**Option 3: Complete
Communities**
Draft land use scenario
with transportation
and GHG performance
implications



**Adopt Land Use
Scenario**



Adopt Final Scenario
Adopt combined final
land use scenario and
transportation project list



STAFF

Land Use Assumptions
Staff Engagement

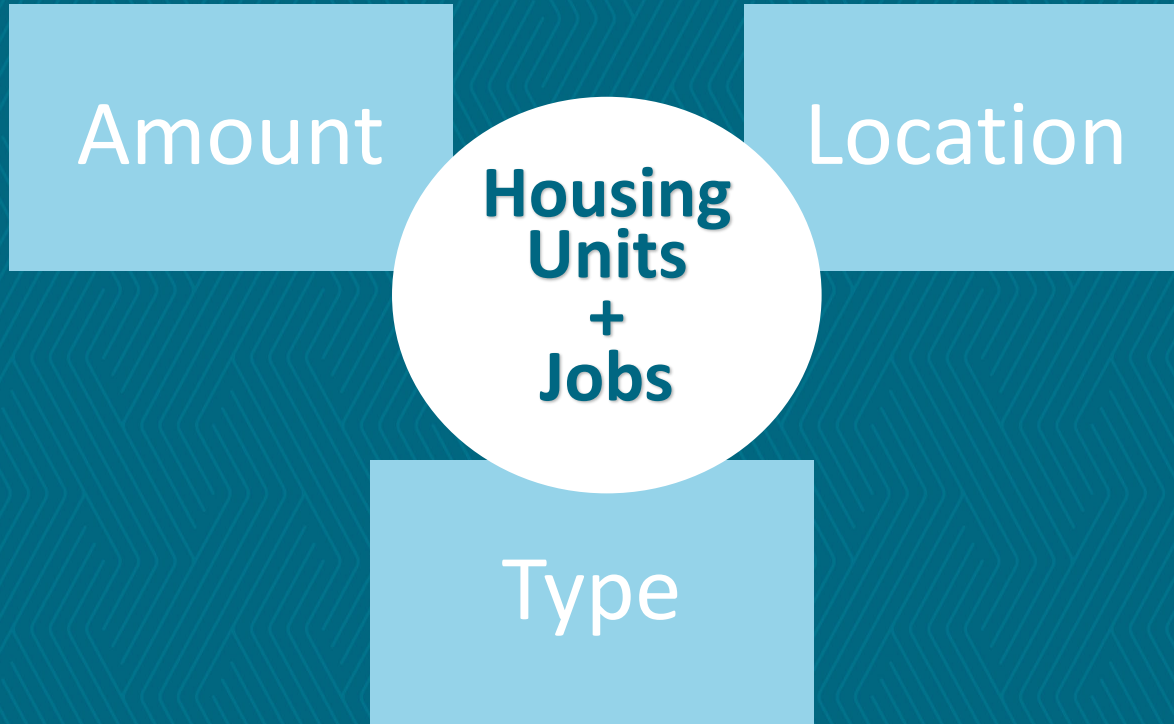
Transportation Project Sponsor Engagement
(Phase 1)

Land Use Policy Development

Transportation Project
Sponsor Engagement
(Phase 2)

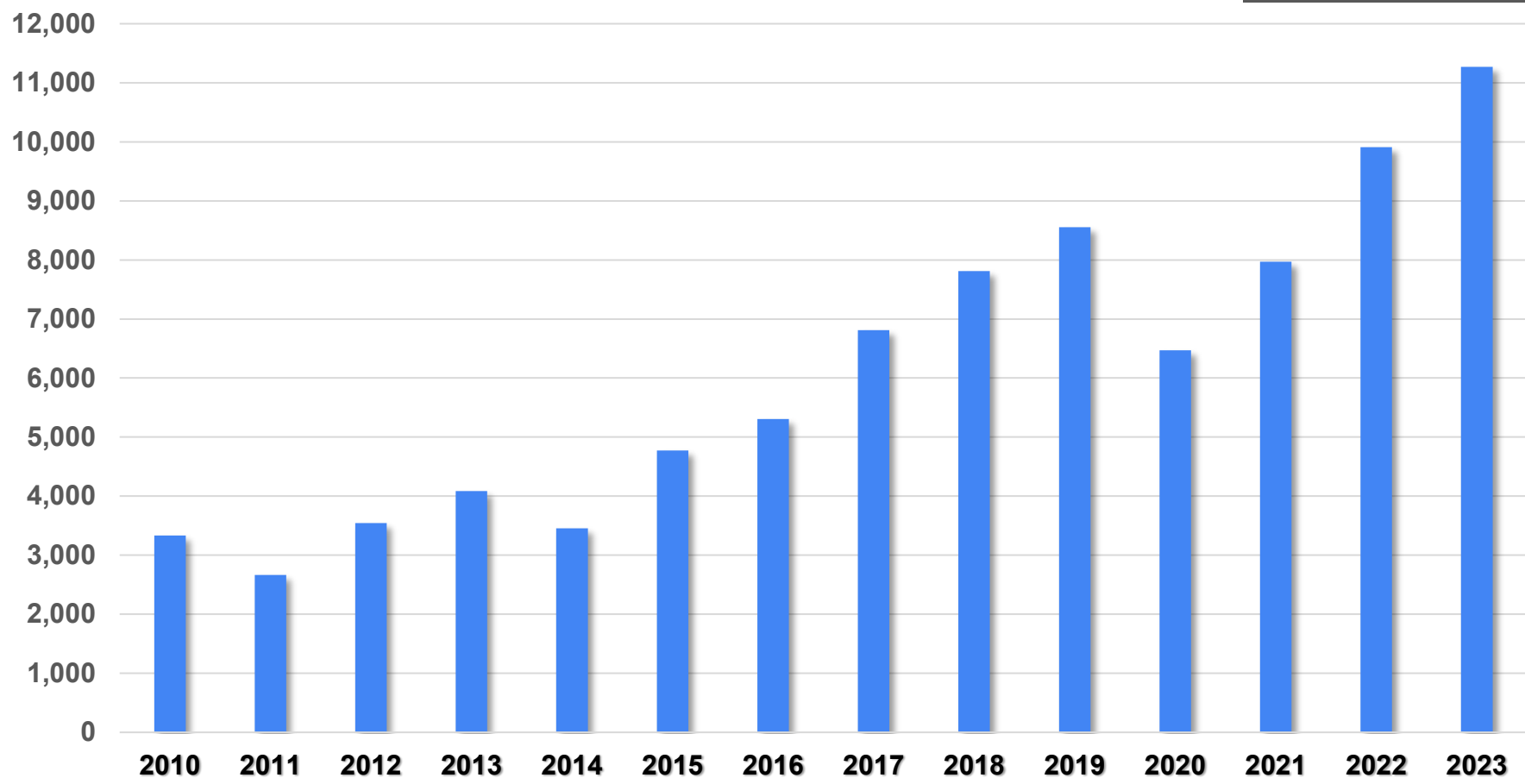
Transportation Policy
Development

Adopted Land Use Components



SACOG Completed Housing Permits

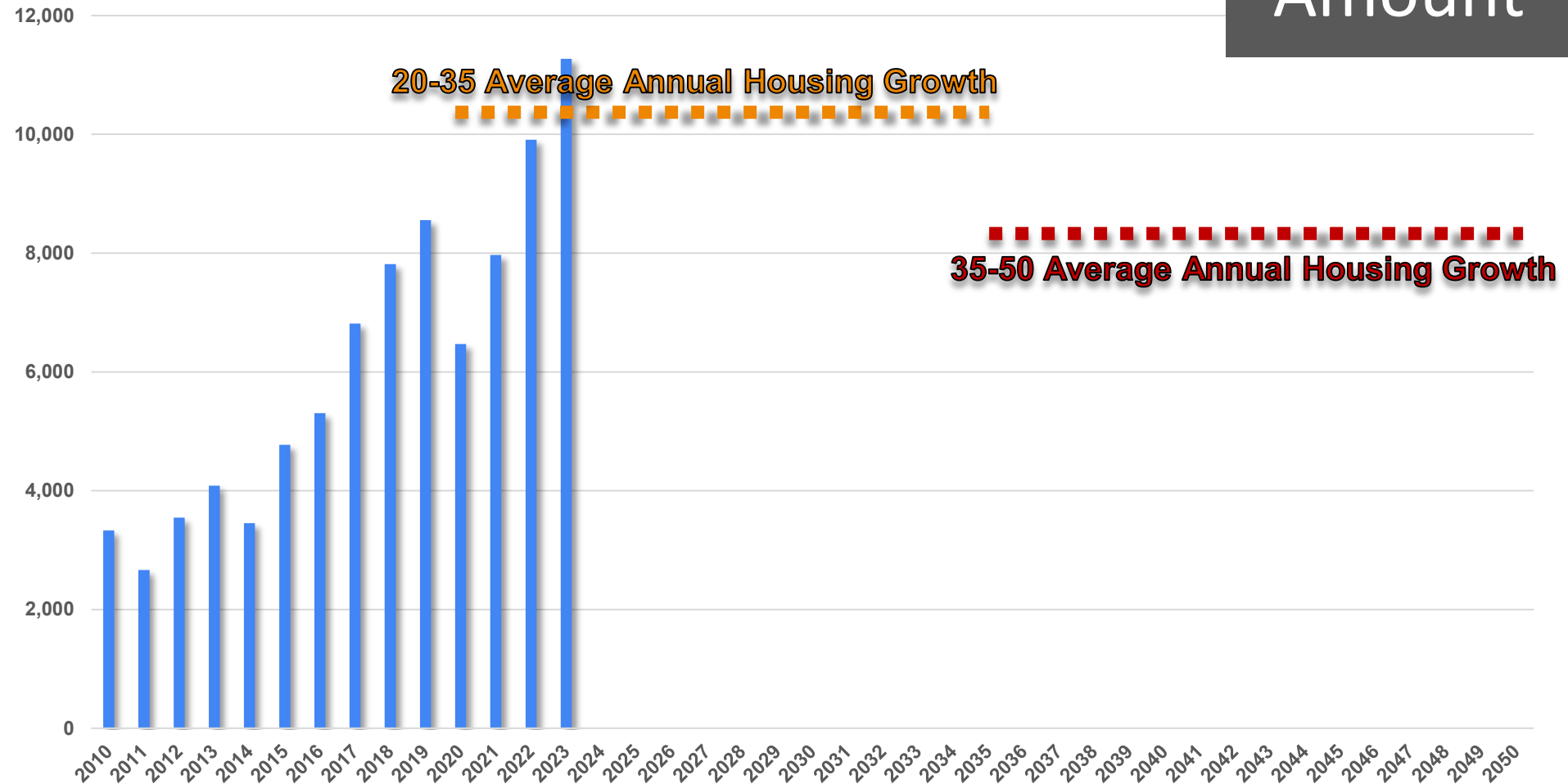
Amount



Amount

20-35 Average Annual Housing Growth

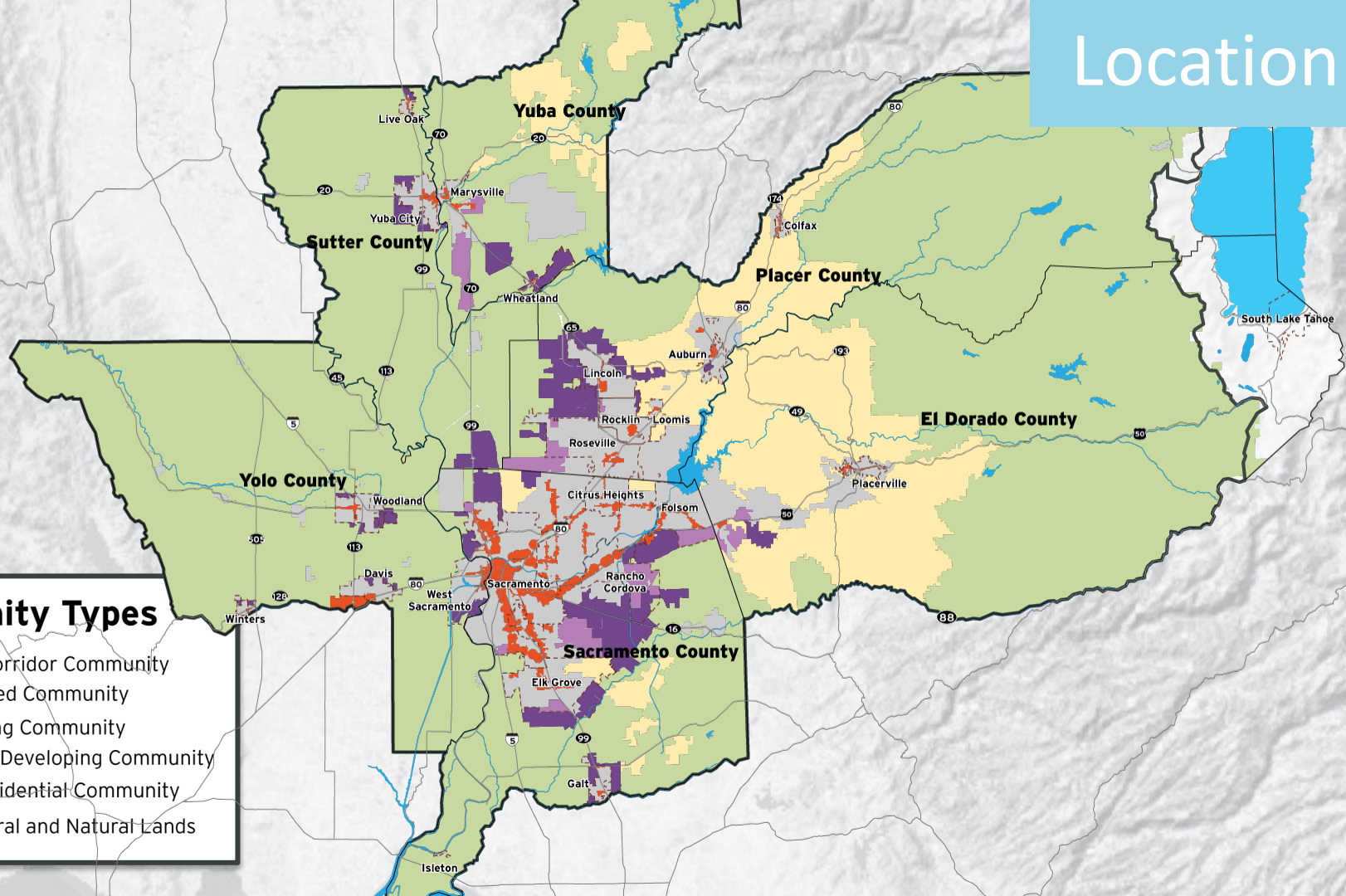
35-50 Average Annual Housing Growth



Location

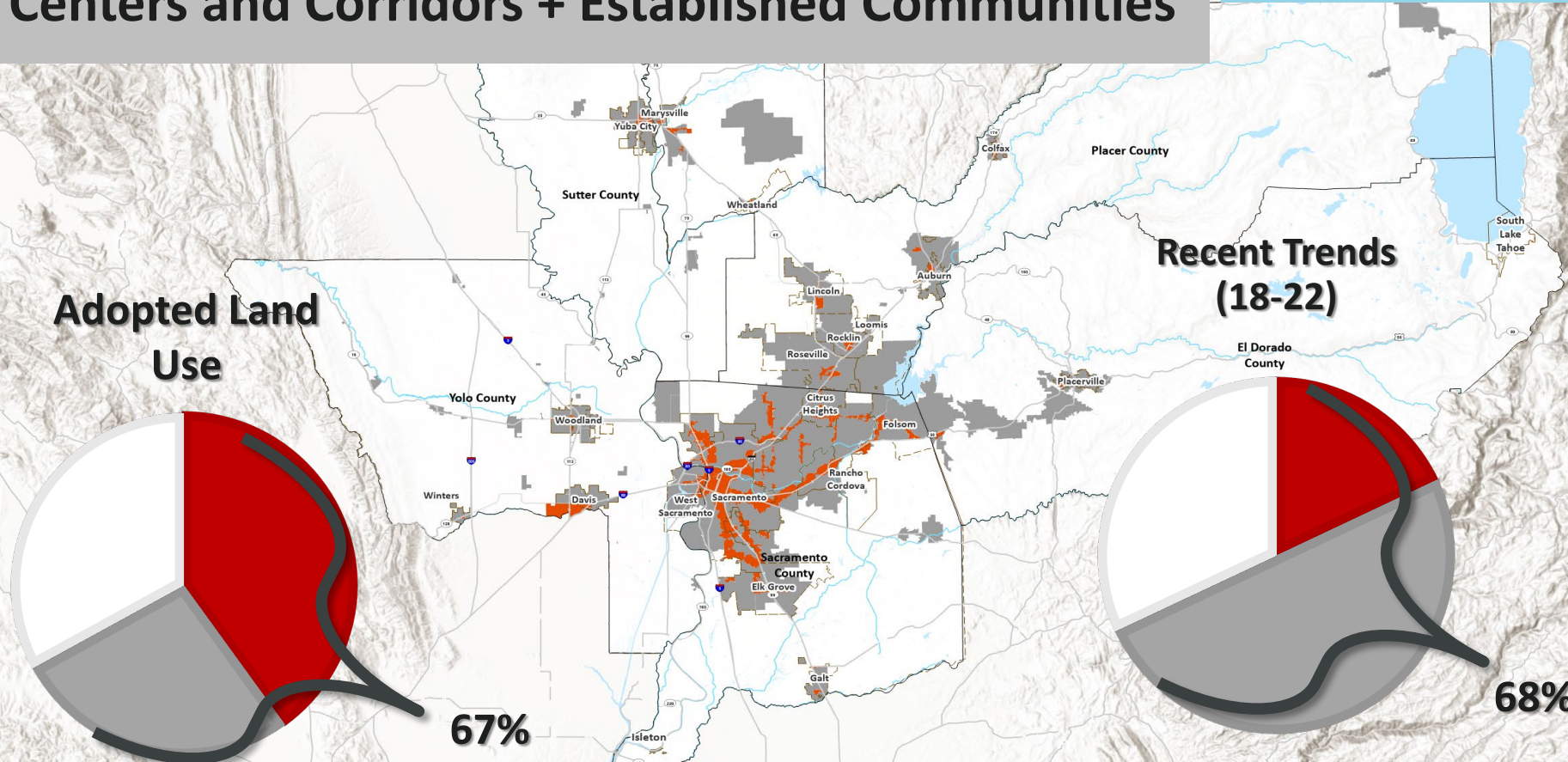
Community Types

- Center/Corridor Community
- Established Community
- Developing Community
- Potential Developing Community
- Rural Residential Community
- Agricultural and Natural Lands



Adopted Land Use Assumptions Housing Growth in Centers and Corridors + Established Communities

Location





Attached

(Townhomes, Duplexes, Fourplexes, Larger apartments)

Type



Small Lot Single Family

(Single Family Homes on less than 5,500 sqft lots)



Large Lot Single Family

(Single Family Homes on more than 5,500 sqft lots)

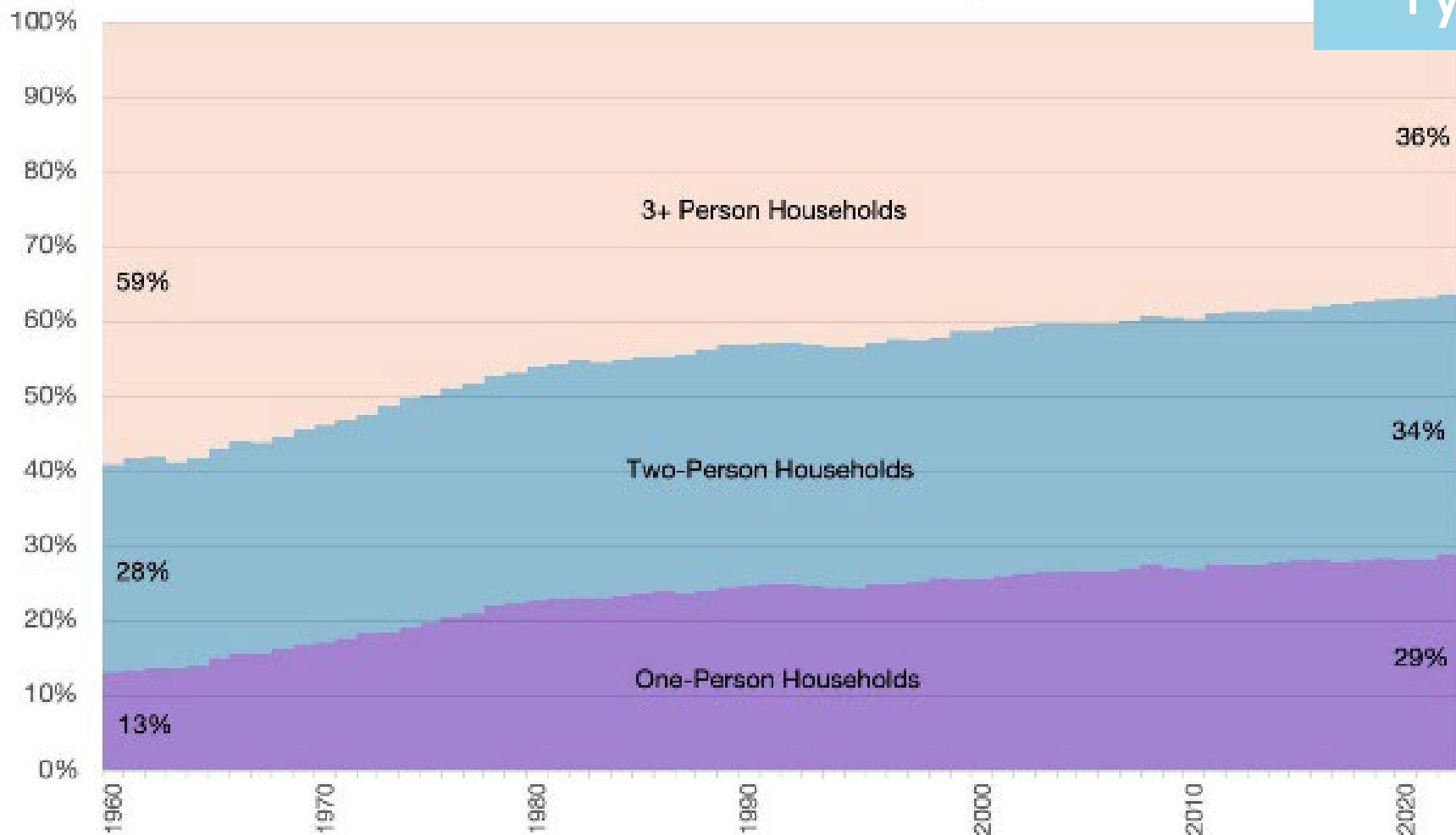


Rural Residential

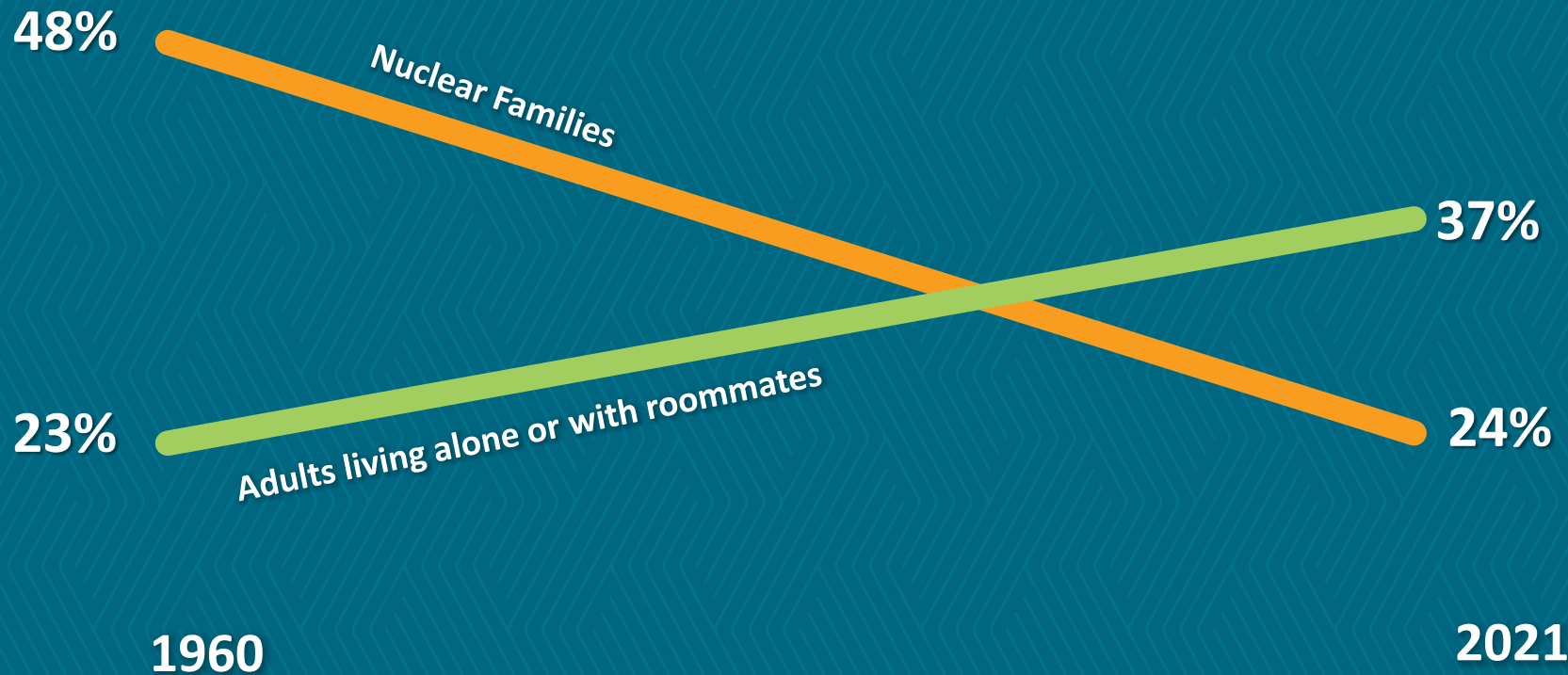
(Single Family Homes on more than 1 acre lots)

Distribution of US Households by Size

Type



SACOG Household Composition Has Changed



Household Income by Housing Type



Single Family
\$124,910



Small Scale Multifamily
\$61,955



Townhomes
\$83,586

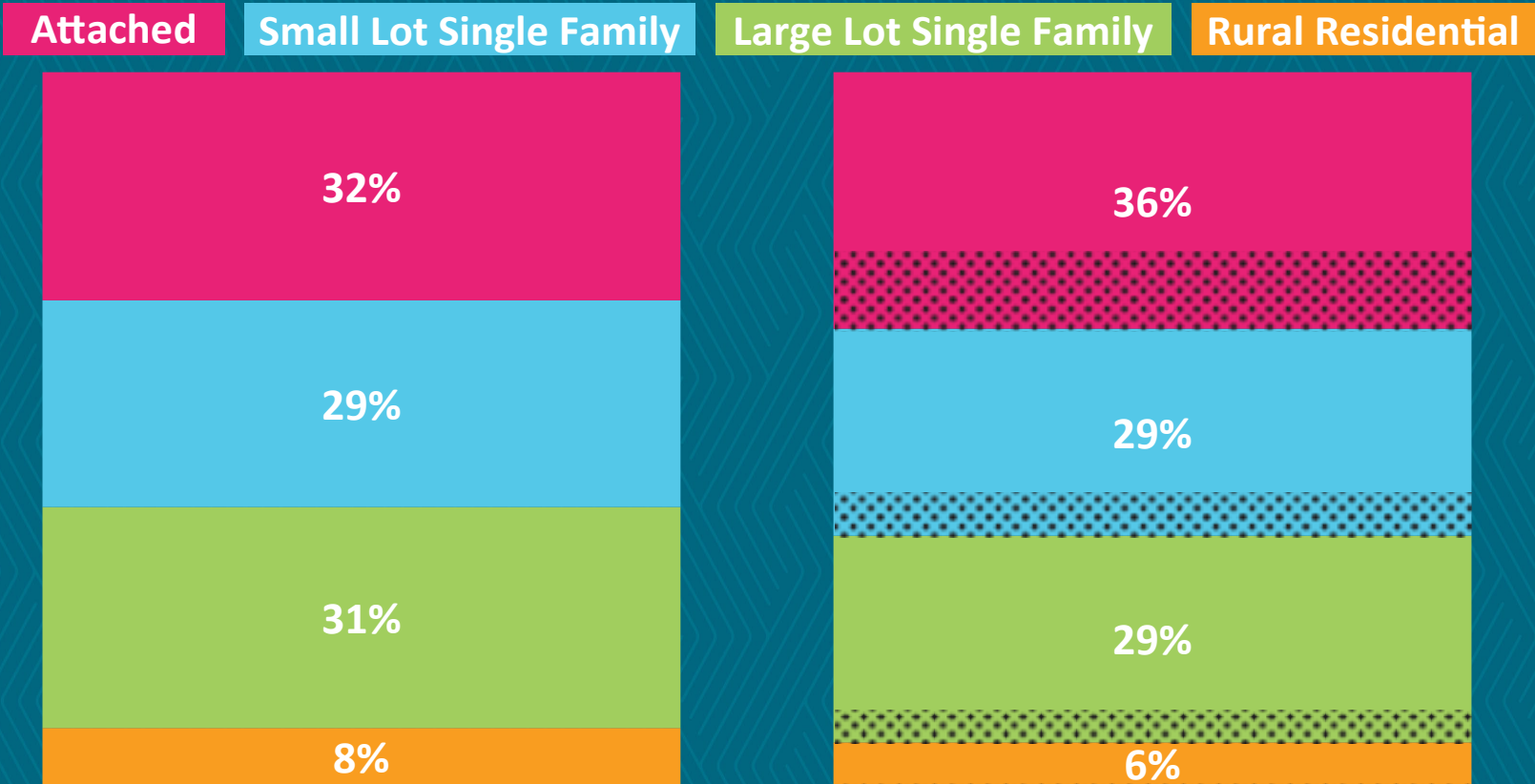


Larger Multifamily
\$55,384

*SACOG region average household income by units in structure from 2019 PUMS Data

End State 2050 Housing Product Type

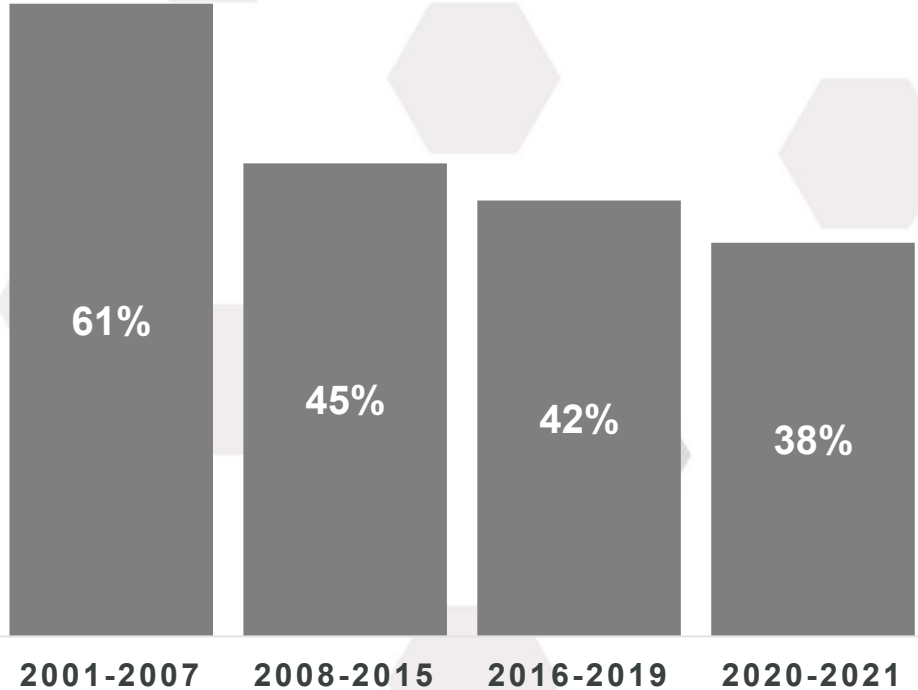
Type



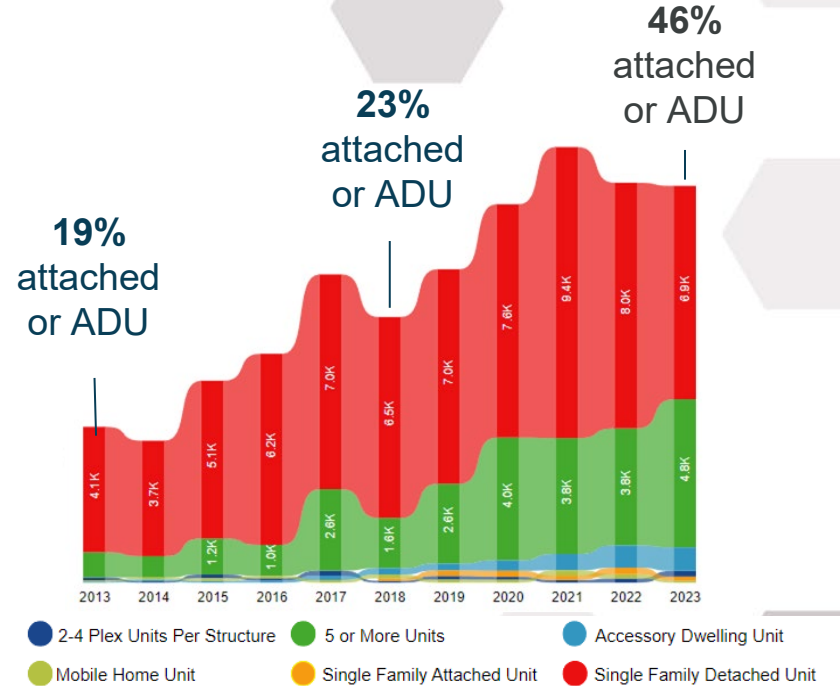
Existing (2020)

Adopted Land Use Assumptions: 2050 End State

Large Lot Single Family Units As Proportion of Total Units



Permitted Housing Units By Type



SACOG's Housing Product Type Preference and Demand Project

LUNR Committee - August 2024



What is the Housing Preferences Project?



REAL ESTATE + DEVELOPMENT
ZONING + DEVELOPMENT CODE
HOUSING POLICY + PLANNING
ENGAGEMENT

Project Components:

- ✓ Market Research Presentation
(LUNR, February 2024)
- ✓ Developer Focus Groups
(May 2024)
- ✓ Adopted Land Use Assumptions
Implementation Presentation (LUNR,
Today)

Part 1

What the Data Says: What happens if we don't sustain a shift toward more housing production, particularly of attached housing?

Triple Bottom Line: Why attached housing matters

EQUITY

More housing options for lower income households in desirable, high opportunity neighborhoods.



ENVIRONMENT

Denser development pattern reduces pollution by promoting shorter vehicle trips and more trips using active transit modes.

ECONOMY

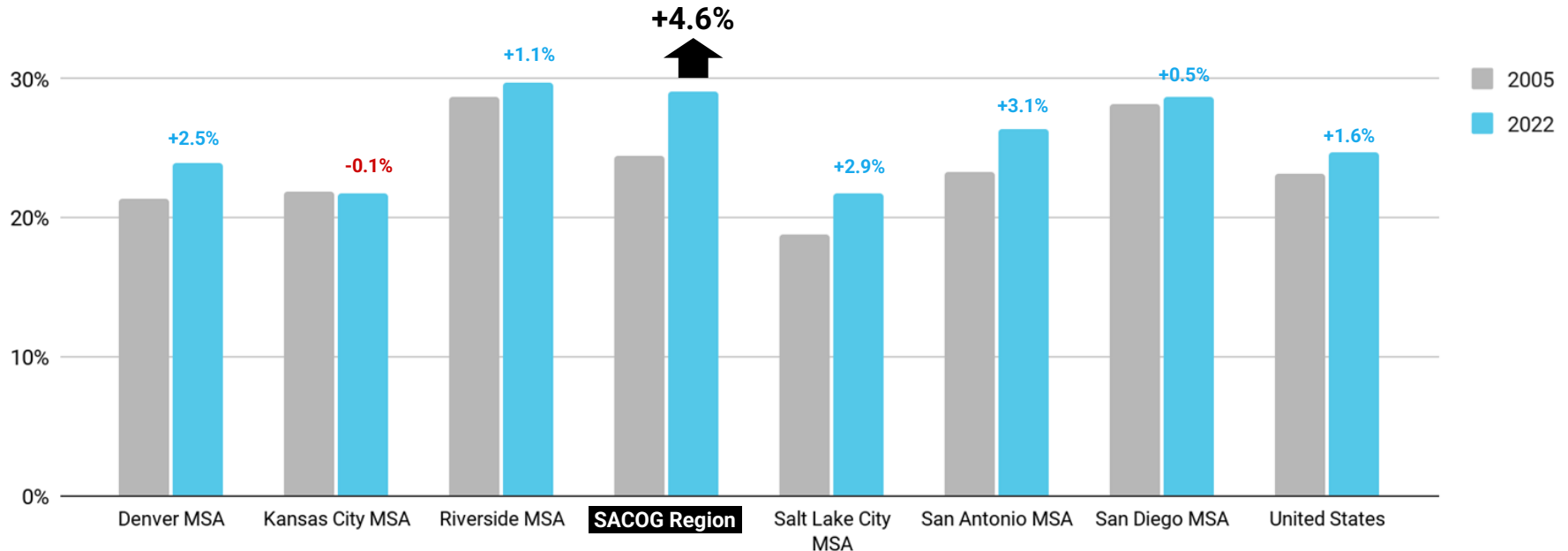
Support local economy by improving housing affordability and lowering transportation costs, growing households' discretionary income.



Without policy changes, trends like the SACOG region's severe renter cost burden going up 3 times more than it did nationwide, will persist.

**SACOG
Region**

Percent of Renters Severely Cost Burdened (50%+ Income Spent on Housing)

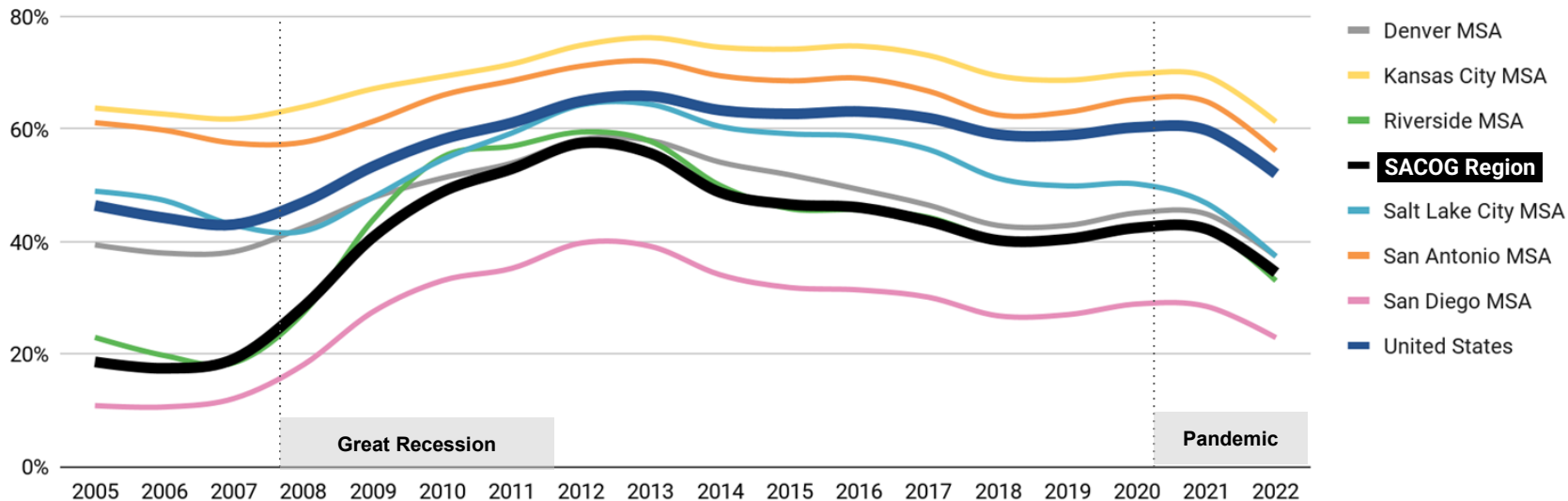




Without policy changes, expect the percent of the SACOG region's households that can afford a new mortgage to be far lower than it is nationwide

**SACOG
Region**

Percent of households that can afford to pay a newly issued mortgage on median home - 2-year rolling average



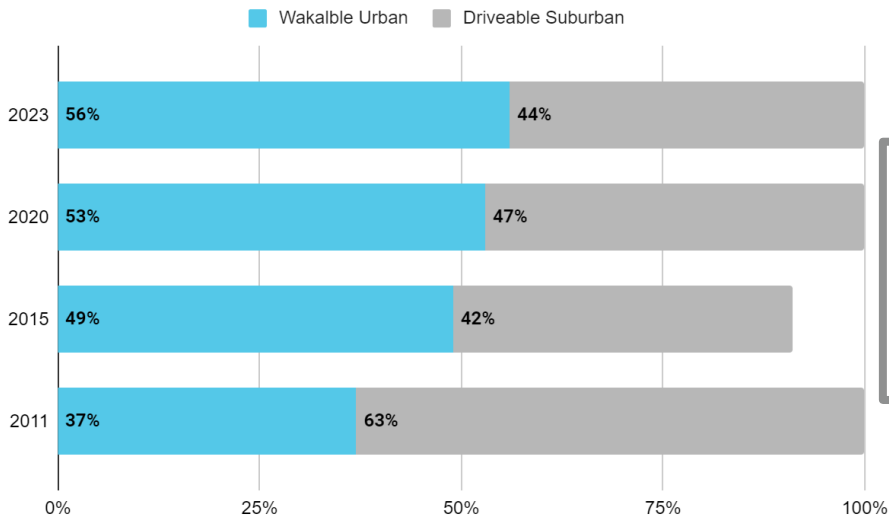
Source: Zillow Home Value Index; US Census ACS 1-Year Estimates (B19001; B19013)



Without policy changes, expect that development in the SACOG region won't meet the trend of growing demand for walkable areas.

National
Survey

Select the community where you would prefer to live:



Smaller lots
and it is
easy to walk
to schools,
stores, and
restaurants

Larger lots
and you
**have to
drive** to get
to schools,
stores, and
restaurants

69% of Gen Z respondents
said they preferred
apartments or townhomes
in walkable places over
detached single family
homes in less walkable
places. So, **we should**
expect the trend on the left
to continue into the future.

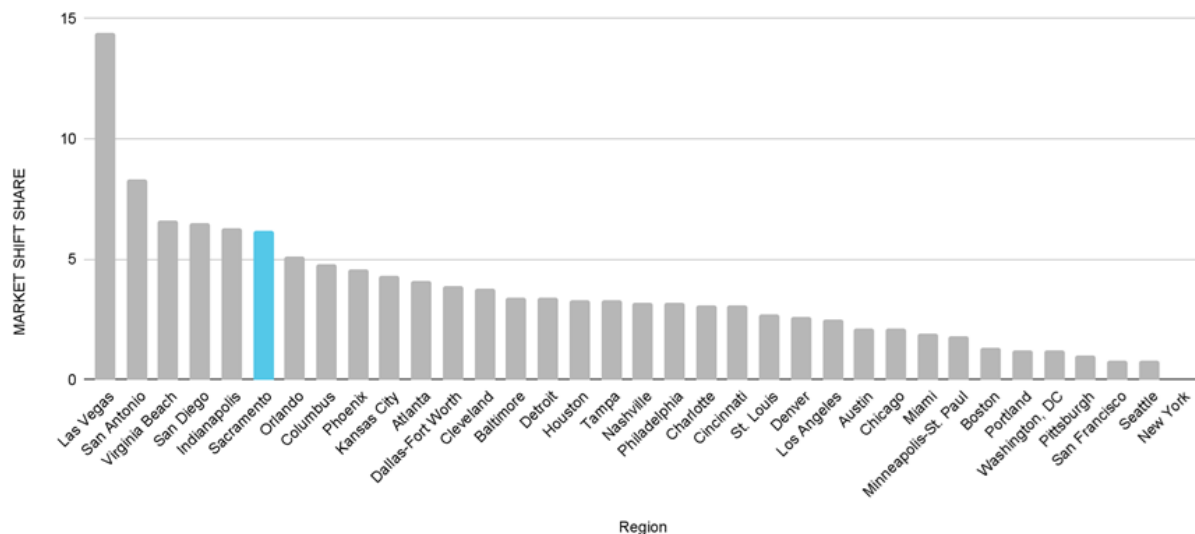


Without policy changes, expect that development in the SACOG region won't meet the trend of growing demand for walkable areas.

Sacramento
MSA

Walkable Urbanism "Shift Share" (2017-2021)

Measures how much developers & consumers are focusing on walkable areas relative to a region's status quo



From 2017-21, absorption shifted to the Sacramento region's walkable neighborhoods. Walkable areas had 6 times more office & multifamily absorption than what would have happened if absorption mirrored the existing inventory's level of walkability.



Part 2

Quick Refresh from April:

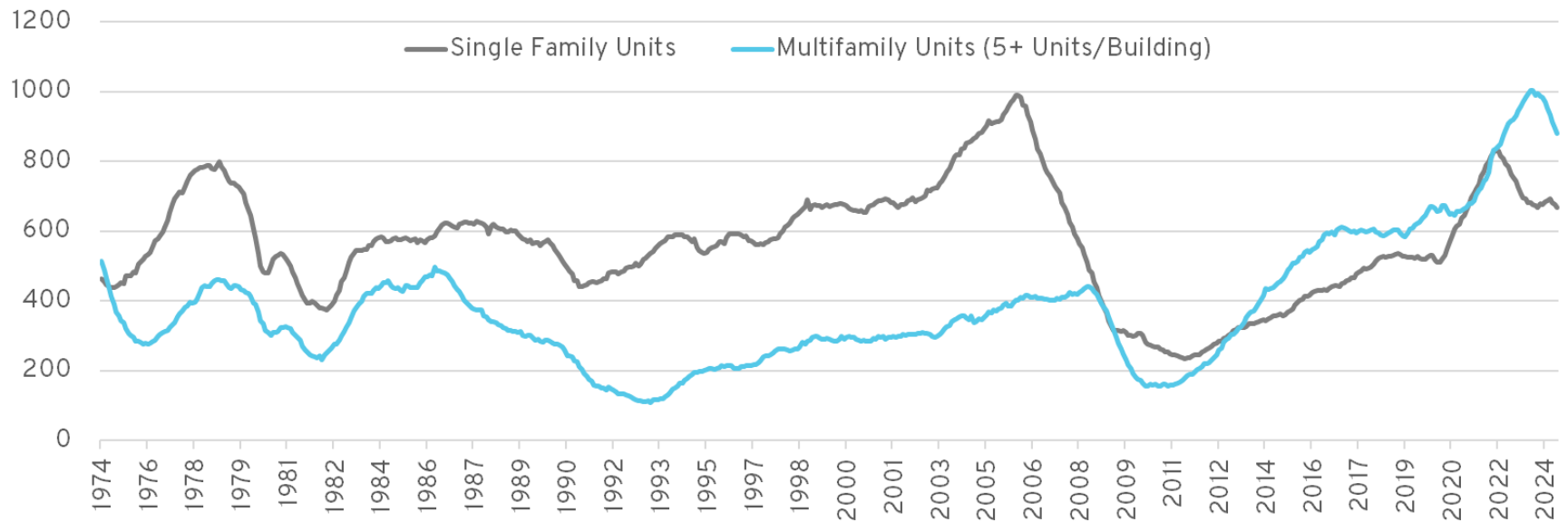
Takeaways from prior
presentation to LUNR



**Nationally, single family dominated construction for three decades.
But after the Great Recession, multifamily became more common.**

**National
Data**

Housing Units Under Construction by Type

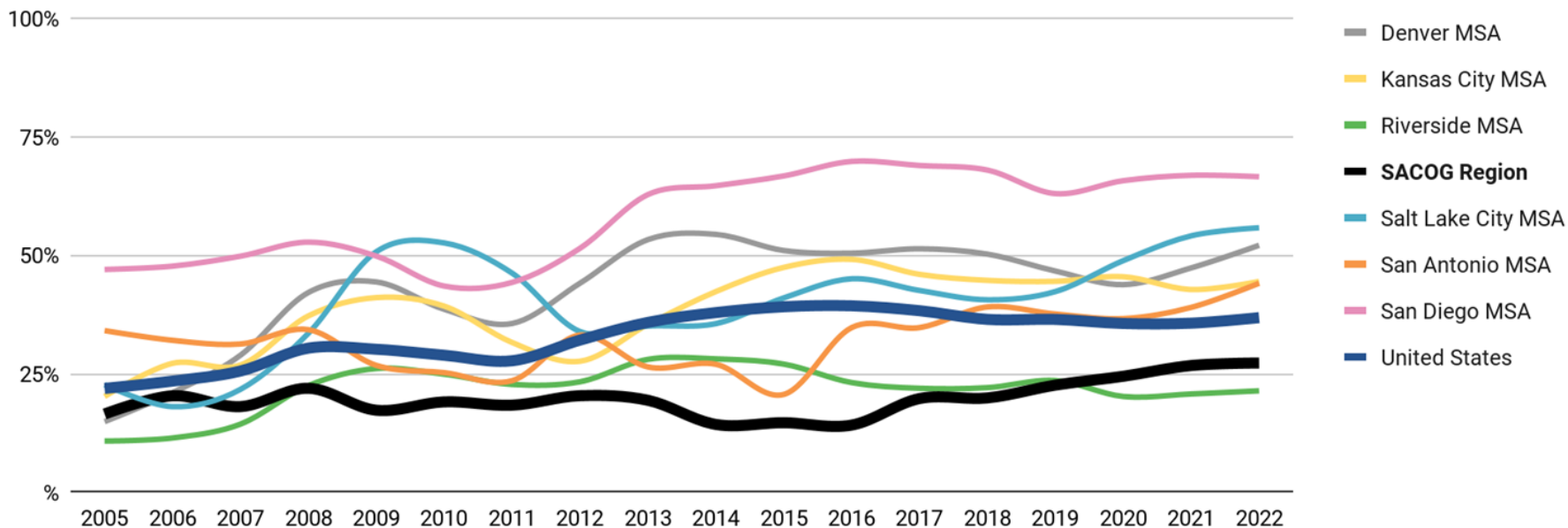




SACOG Region consistently permitted among the lowest shares of multifamily housing since the Great Recession compared to peers

SACOG
Region

Multifamily housing permits as a percent of all permits - 3-year rolling average



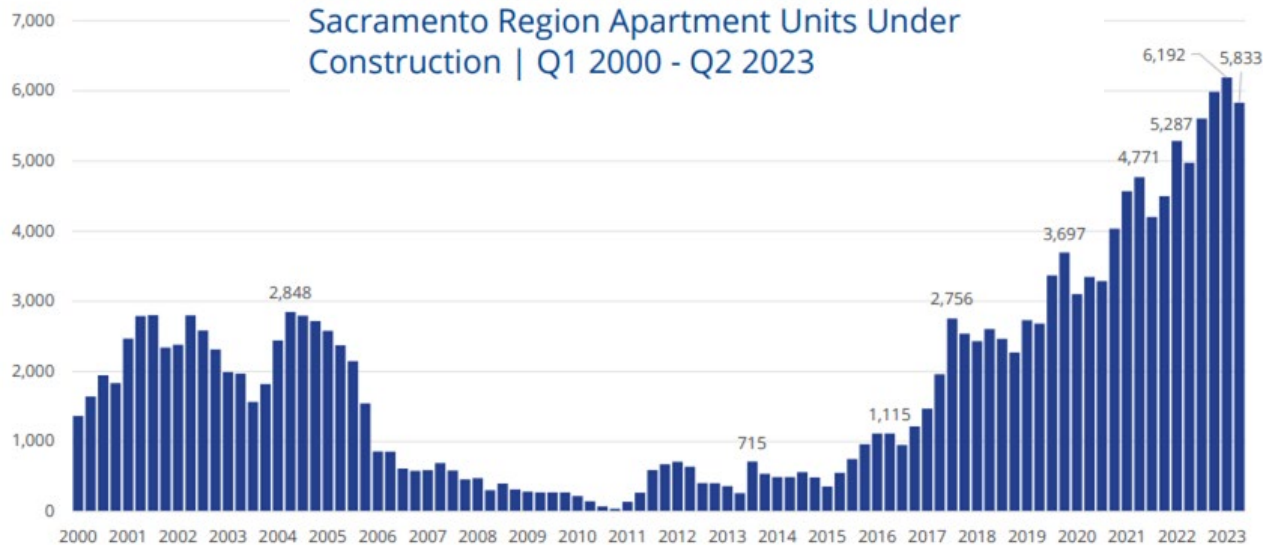
Source: HUD State of the Cities Data Systems Permit Data - 2005-2022



That has been changing. SACOG Region's multifamily construction has grown significantly since 2017.

**SACOG
Region**

Construction Activity



Source: RealPage, Inc.

Includes all 5+ unit market-rate apartment properties

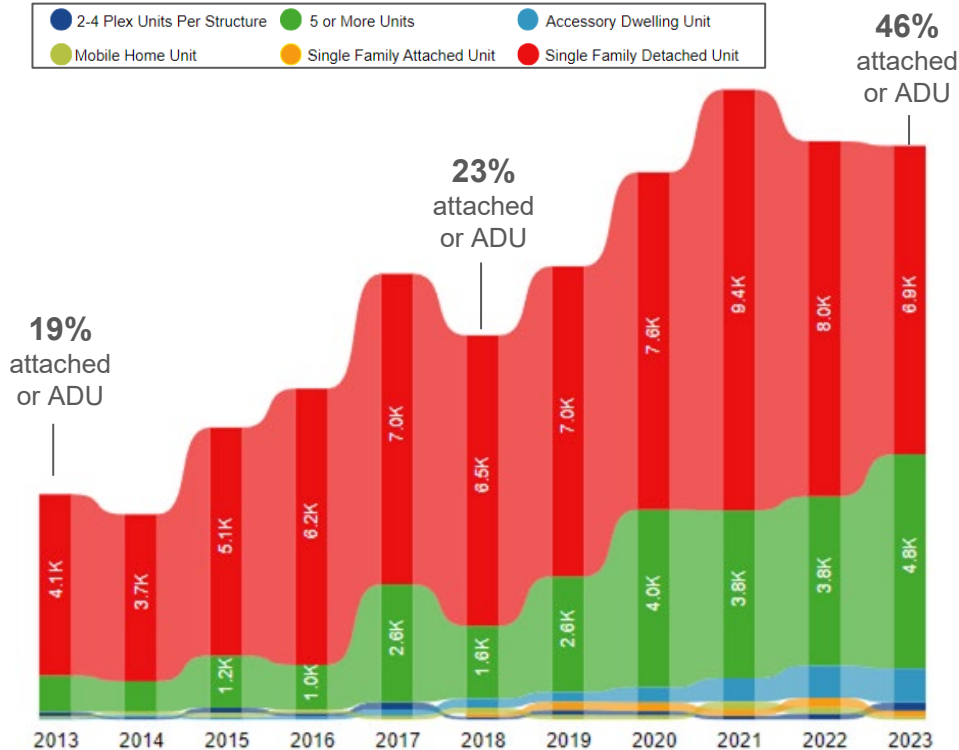
Multifamily construction activity is continuing at a near record pace. The SACOG Region's 17.2% year-over-year increase in units under construction is more than double the national average rate of growth.



Multifamily and attached has also grown as a share of construction

SACOG
Region

New units permitted by type



If recent trends continue, the region's attached housing share will gradually increase from 32% today toward the 36% target for 2050, as laid out in the 2025 Blueprint's Adopted Land Use Assumptions.

Sources: SACOG Blueprint Adopted Land Use Assumptions & HCD Annual Progress Report Data for SACOG Region



Key questions for Blueprint implementation answered in this presentation

1

What happens if we don't shift our approach?

REVIEW MARKET DATA

How has the housing shortage impacted affordability? What do people really want?

2

How do we implement the Adopted Land Use Assumptions and build on SACOG's recent trend of building more attached housing?

DEVELOPER FEEDBACK

What factors influence attached housing production in the SACOG region?

POLICY SUGGESTIONS

What are some potential solutions and policies to improve attached housing production?

Part 3

What We Heard From Developers:

Local and national forces present headwinds for attached-housing development. Better market conditions and local policy can help alleviate them.



Higher construction & capital costs present headwinds for attached housing growth. Single family more resilient due to less rate sensitivity.

**National
Data**

1 Capital & construction costs have skyrocketed

High capital costs hurt multifamily more than single family because some buyers aren't deterred by rates.

2 High financial risks, low feasibility

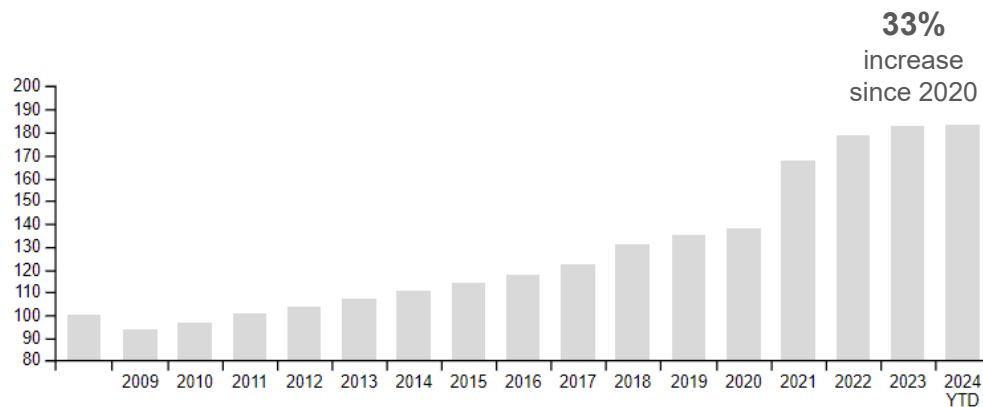
Multifamily development faces risks like CEQA and construction defect liability.

3 Rents out of sync with increasing development costs.

Math works in some submarkets, not everywhere.

Overall Construction Cost Index Q1 2024

(JANUARY 2009 = 100)



Source: Mortenson National Construction Cost Index ([Mortenson.com/cost-index](https://mortenson.com/cost-index))



The SACOG region has unique challenges attracting investors and construction workers, and addressing infrastructure backlogs.

1

Infill infrastructure solutions needed

Some cities have had a “first mover” – private or public – that invests in critical infrastructure in central areas. SACOG less so.

2

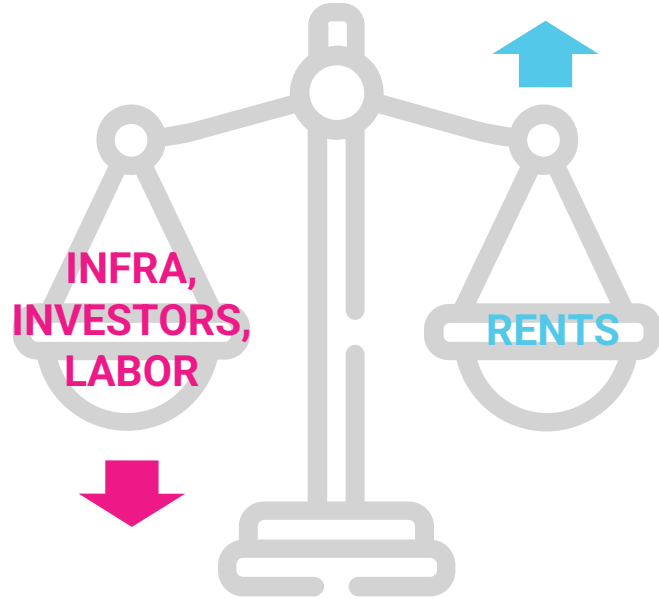
Higher investor returns needed

Not superstar market. Higher margins needed to attract capital.

3

Construction labor uniquely expensive

Labor serves Bay Area demand at high wages out of line with rents.



These cost factors weigh down projects, discouraging construction until rents rise



The SACOG region has a deep well of available greenfield land, often within Specific Plans entitled long ago for large quantities of detached single family

1 Plenty of entitled greenfields

Many were entitled decades ago, focus on outdated product types but can build out without much friction

2 Specific Plan areas prioritize single family before multifamily

Specific Plans build single family first to create bonding capacity for infrastructure to support more intensive uses

3 Not enough viable infill sites

Developers reported not enough sites with size and zoning to make medium/high density residential feasible
– in addition to the many approval process difficulties.



Three example Specific Plans, over 4,000 acres entitled for mostly detached single family



The SACOG region's single-family ecosystem is well established, and shifting to multifamily & attached seen as a departure, new, and risky.

1 SACOG attracts single family buyers from Bay Area

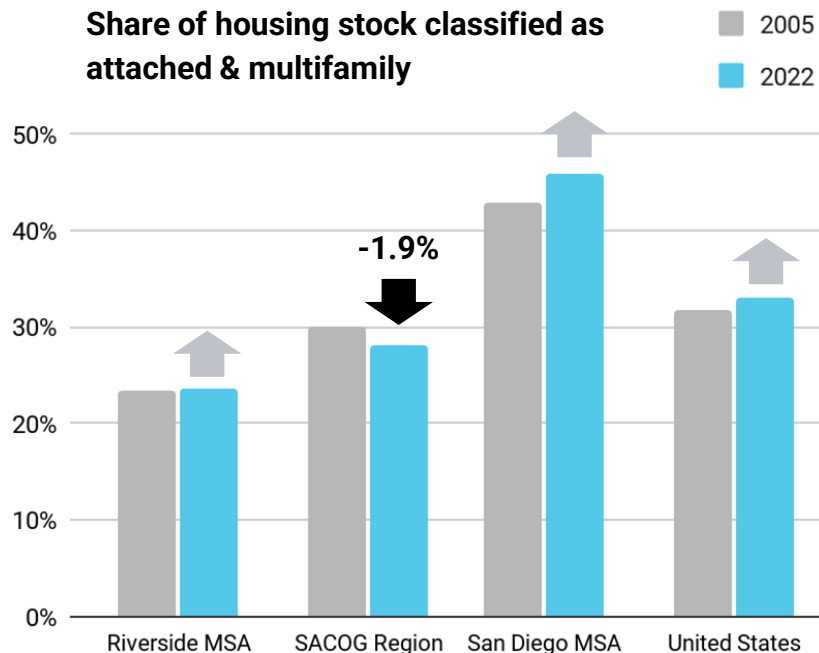
This is affordability driven, and affordability is deteriorating.

2 Investors comfortable with single family

Banks, investors, developers allegedly view single family as lower risk, since it can be incremental and is well understood.

3 Innovation so far has focused on detached single family

Developers open to denser products still want to avoid rezonings & environmental review, shift to smaller single family or single-family rentals rather than to attached.



Source: US Census ACS 1-Year Estimates (B25024)



Part 4

Policy Solutions for Jurisdictions:

What policy changes would improve attached housing production?



Invest in the public realm to attract development in infill areas

1 Fill infrastructure gaps preventing development in walkable areas

Green-Means-Go offers patient capital help for infrastructure. Likewise, consider extra support for developers that act as “first movers” investing in district infrastructure.

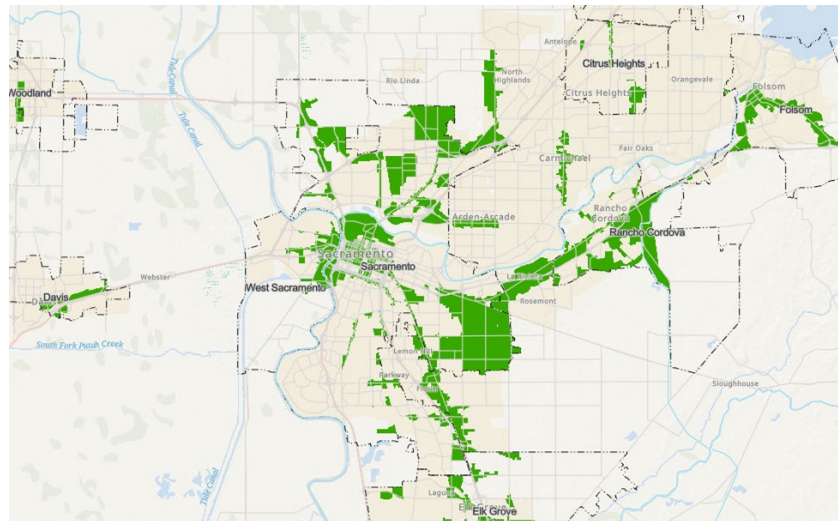
2 Invest in an attractive public realm

Continue work to add amenities and make are shared space attractive and safe. Continue to invest in shelter, services, and supportive housing to reduce unsheltered homelessness.



**GREEN
MEANS GO**

*Over \$34M Awarded
in Early Activation,
Planning, and
Capital Categories*





Manage the development cost and risk factors you can, and join SACOG in advocating for state and federal actions to address the rest.

1 More policy carrots and fewer sticks, more flexibility and options

Carefully weigh policies tradeoffs that increase costs and risks to the development and holding of multifamily projects.

2 Implement impact fees formulas that don't penalize attached & multifamily

Scaling by the square foot, as in AB 602 is an example. SACOG is working with special districts on this too.

3 Allow more small apartments in high demand places

- Change zoning to allow small apartments where prices are high and many people want to live
- Reduce regulations inhibiting small apartments like setbacks and dimensional standards

4 Support cost-saving building code changes

- Fire and egress requirements aligned with peers, rest of world (e.g. sprinklers, stairs)
- Access deeper construction labor pool and grow small developer ecosystem by lowering regulatory barriers to work

5 Support attached ownership options

- Enable lot splitting for fee-simple sales, ministerial approvals for subdivisions (SB 684)
- Support construction defect liability and condo deposit reforms (SB 1462, SB 1470).



Adopt speedy and predictable permitting and approval processes

1 Faster, less discretionary permitting

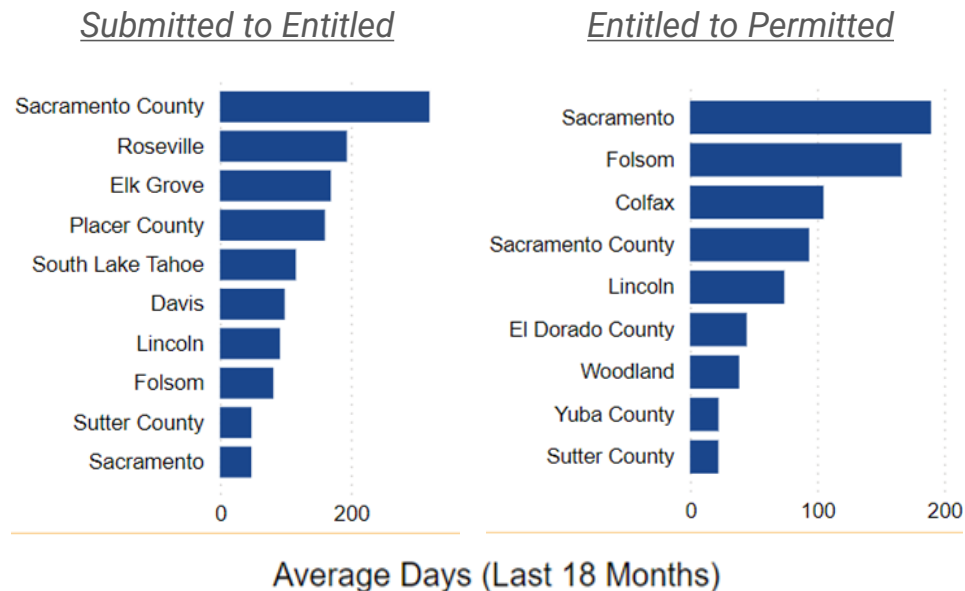
- Elevate to discretionary review less often
- Set ambitious timelines for permit processing
- Support statewide “shot clocks” for approvals
- Explore “use it or lose it” policies to incentivize building

2 Support developers who would pivot

Change standards to allow developers to pivot denser

3 Support statewide CEQA reforms

Don't penalize developers with CEQA for seeking obvious improvements to outdated plans.



Source: HCD Annual Progress Report Data for SACOG Region



Encourage fellow jurisdictions to earn an HCD pro-housing designation

1 Benefits

- Prohousing Incentive Program (PIP)
- Priority and points toward funding applications

2 Requirements

- Achieve compliance with state housing laws, initiatives
- Demonstrate pro-housing policies that accelerate production

3 Designated Local Jurisdictions

- | | |
|------------------|---------------------|
| • Citrus Heights | • Sacramento City |
| • Placer County | • Sacramento County |
| • Rancho Cordova | • West Sacramento |
| • Roseville | • Yuba County |





Questions?

SACOG Housing Preferences Project

LUNR Committee - August 2024

