

Case Studies: Sacramento

THE HOUSING AFFORDABILITY TOOLKIT

Developed in Partnership with
HR&A Advisors



Sacramento, CA

A lack of new multifamily supply and rising renter incomes have rapidly increased rents. In what was once a relatively affordable market, low- and middle-income renters are increasingly at risk of displacement.

Sacramento demonstrates the risk of restricting development within a market with growing renter demand and rising incomes. Over half of renters are now cost-burdened.

\$55,200

MEDIAN HOUSEHOLD
INCOME

\$40,900

MEDIAN RENTER
HOUSEHOLD INCOME

96,100

TOTAL RENTER
HOUSEHOLDS

42,800

TOTAL MULTIFAMILY
RENTAL UNITS

DRIVERS

Insufficient New Development

Sacramento grew its stock of apartments by only 19% between 2000 and 2016 despite a 24% increase in the number of renter households. While some of this demand was absorbed by single-family units, the apartment vacancy rate remains extremely low. This discrepancy between demand and supply strains

Demand from High-Income Renters

The median renter household income rose 8% from 2000 to 2016, as most new entrants to the market were in higher income brackets.

High Regulatory and Land Costs

Sacramento's already-high land costs rose 16% between 2000 and 2016.

IMPACTS

Rising Rents for Existing Rental Housing

Competition for rental housing has driven rents higher for both new and existing multifamily units. Real rents for units built before 2000 rose by 24% from 2000 to 2016. As a result, the share of occupied rental units priced under \$800 a month has fallen by 19.5 percentage points from 2000 to 2016.

High Rents for New Rental Housing

Sacramento saw a significant increase in rent for new market-rate multifamily development. In 2000, average real rents for new buildings were low, at only \$767 (2016 dollars); by 2016, they had grown by 117% to \$1,662.

Declining Housing Affordability for Low- and Middle-Income Renters

Once an affordable market, Sacramento is now facing intensifying affordability challenges. For middle-income households in particular, the share of cost-burdened households increased from 16% to 43% since 2000. Low- and middle-income renters have been priced out of the city and increasingly locate in areas of the metro surrounding the city.

Relevant Tools

For more information on relevant housing tools, programs, and policies, see the following pages:

- Public Land
- Tax Abatement
- By-Right
- Inclusionary Zoning

Cities/Regions Facing Similar Challenges

Cities/Regions facing similar housing affordability challenges include:

- Long Beach, CA
- Providence, RI
- Orange County, CA
- Long Island, NY

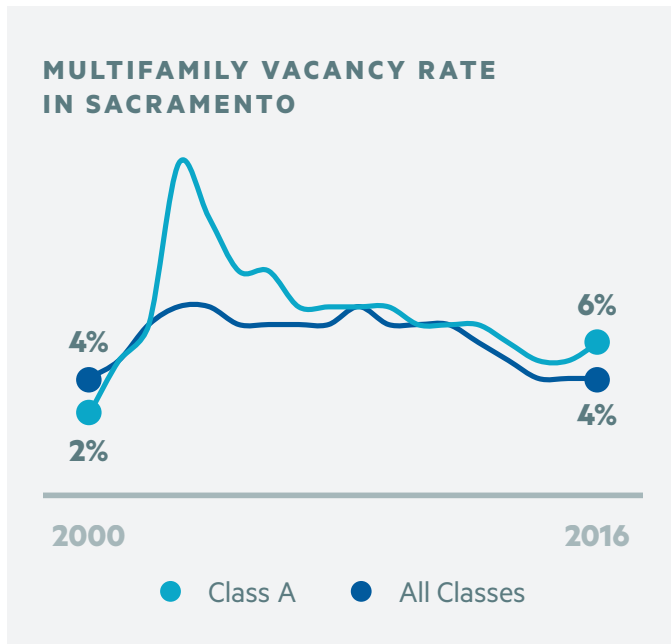
DRIVER

Insufficient Development of New Rental Housing: The pace of multifamily development has not increased despite growing demand.

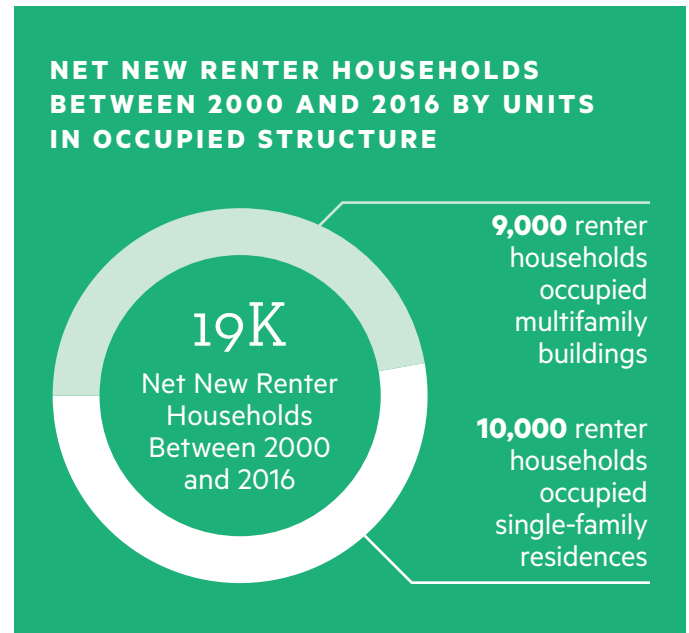
The number of renter households increased by 19,000 between 2000 and 2016. This growth is on par with the national average.

At the same time, Sacramento built very little multifamily housing. New deliveries of multifamily rental housing during this period amounted to only a 19% increase in the stock, compared to an average growth rate of 30% across the nation over the same period.

A striking indicator of the shortage of rental supply is the city’s low multifamily vacancy rate. While the Class A vacancy rate increased slightly from 2000 to 2016, the overall vacancy rate in 2016 was unchanged from 2000.



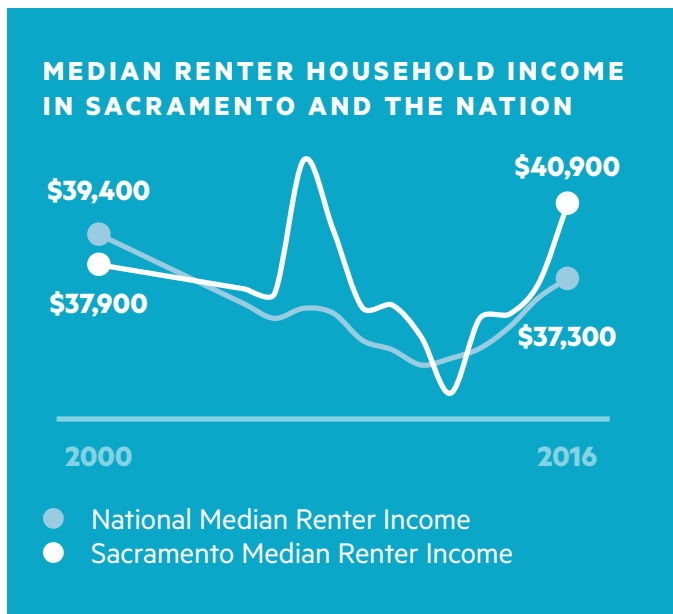
Single-family rental units absorbed much of Sacramento’s renter household growth. Of the 19,000 net new renter households, 10,000 occupied units in single-family buildings. The conversion of large numbers of single-family housing from ownership to rental is likely a strong indicator that there is significant unmet demand for multifamily rental housing.



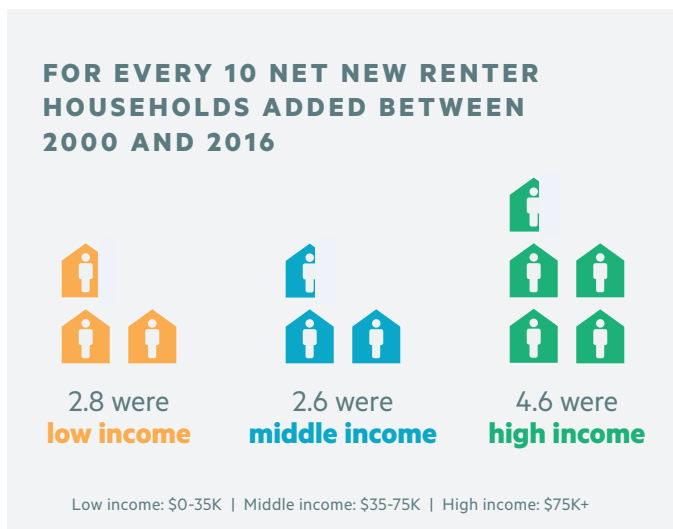
DRIVER

Rising Demand from High-Income Renters: The growth in renters has skewed toward higher-income households, placing upward pressure on rents.

The real median renter income in Sacramento rose by 8% between 2000 and 2016. While Sacramento’s median renter income was lower than the national average in 2000, by 2016 Sacramento’s real median renter income had risen to \$40,900, notably higher than the national average of \$37,000. Median renter income grew rapidly after 2012, driven by an influx of high-income renters.



Sacramento’s growth in renter households was relatively evenly distributed across the income spectrum, with a slight skew toward high-income households. This indicates the availability of rental housing for a wide range of incomes in the city. However, as rents continue to rise, new low- and middle-income renters may be increasingly priced out of the city.

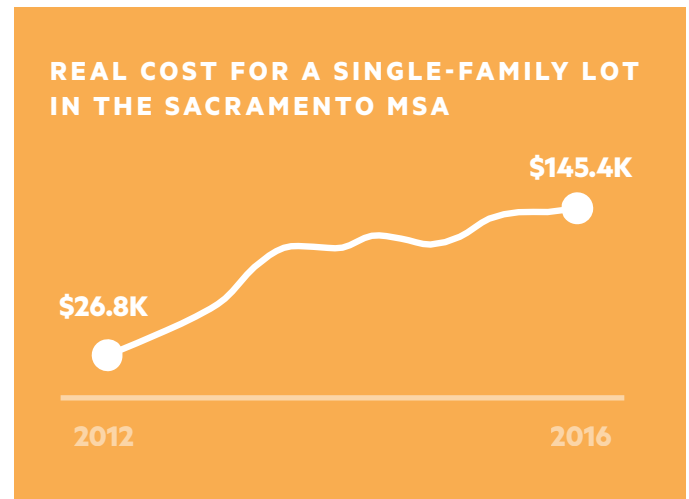


DRIVER

Rising Development Costs: Land use regulations and increases in land costs appear to be significant drivers of rising development costs in the Sacramento area.

When development costs increase, rents must increase to cover the higher costs. Development costs are driven by three main components – land, labor and materials, and regulatory soft costs – all of which are rising in Sacramento.

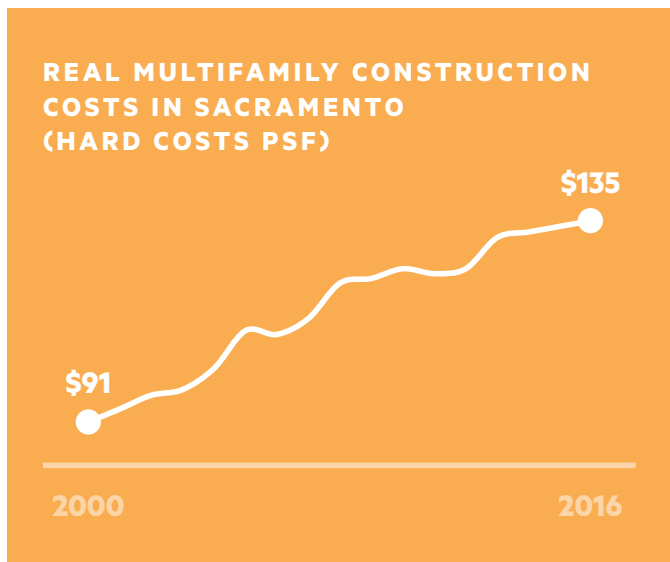
Real land costs increased by 440% between 2012 and 2016.¹ Rapidly increasing land costs indicate a constrained ability to develop. Easily developable land is commanding a premium, resulting in less development overall. Units that do get built must be priced higher to account for high land costs.



¹ Real land costs fell substantially during and immediately after the Great Recession, contributing to the high percentage growth seen in the market between the bottom of the market in 2012 and 2016.

Local regulatory conditions appear to be a major factor contributing to Sacramento's affordability challenges. Policies that reduce the amount of land available for multifamily residential development, extend the development timeline through lengthy permit approval processes, and limit development potential can each result in higher development costs.

In the Sacramento area, real hard costs, or the cost of labor and materials, increased between 2000 and 2016. Real hard costs increased from \$91 PSF to \$135 PSF for multifamily buildings in real terms, amounting to an increase of 48%. Though this is below the average national growth of 57%, the increase is still likely to materially contribute to higher rents.



Rising real land and hard costs are driving Sacramento's rising rents. Land costs, in particular, are leading to rising development costs.

IMPACT

Rising Rents for Existing Rental Housing: Insufficient supply of multifamily housing has increased competition and rents for existing units.

Rents for existing units are increasing at a rate higher than the national rate. Between 2000 and 2016, the real gross median rent for units built before 2000 increased by 24% in Sacramento, compared to 13% in the U.S. overall. This indicates high demand for existing units throughout the market, likely due to insufficient supply of rental housing.

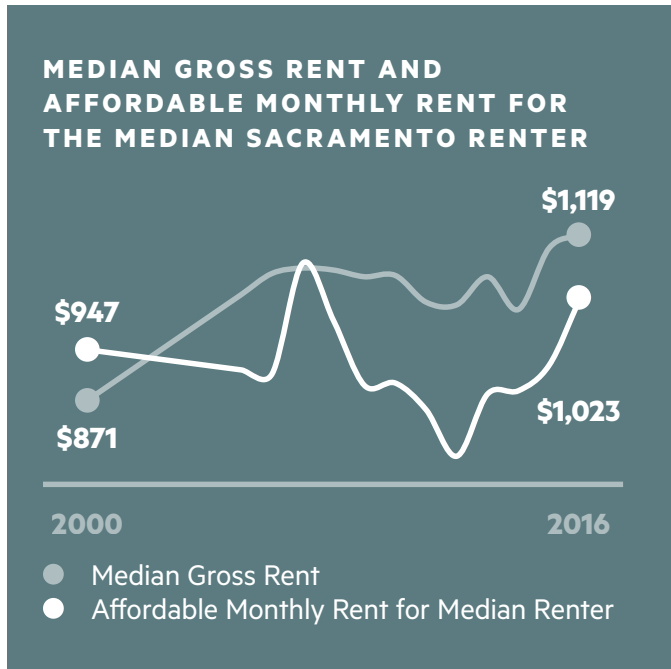
Between 2000 and 2016, the share of occupied rental units priced under \$800 fell substantially – by 19.5 percentage points – far greater than that seen nationally. This trend is a product of rising rents due to demand for existing units and a lack of new supply.

23%

of occupied rental units were priced under \$800 in 2016, **down from 42% in 2000.**

The real gross median rent in Sacramento increased by 28%, from \$871 in 2000 to \$1,119 in 2016. This is greater than the nationwide increase of 17%. Increases in rent are driven by a combination of increasing development costs – particularly land costs – and increasing competition for both new and existing rental units.

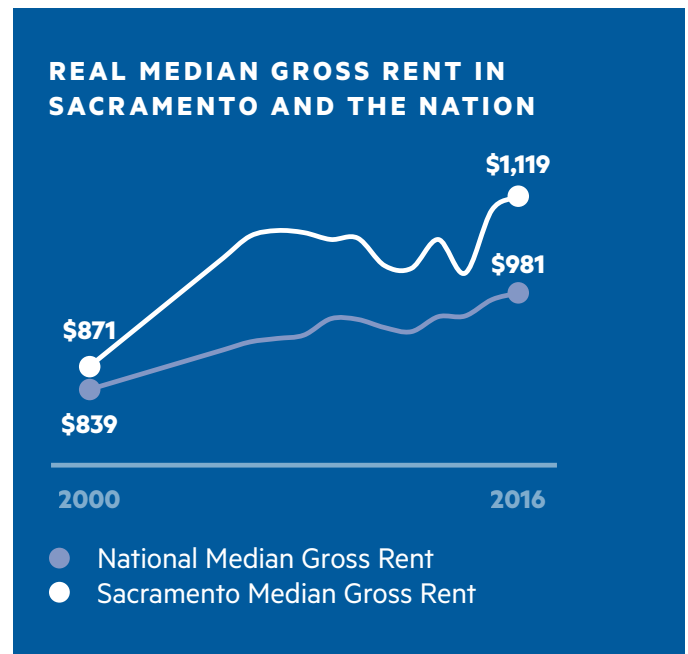
Real median gross rent growth has surpassed median renter income growth. Median rent growth has outpaced increases in the median renter income. In 2000, the median renter was able to afford the median rent. By 2016, the median renter had to pay \$100 more than they could afford without becoming cost-burdened.



IMPACT

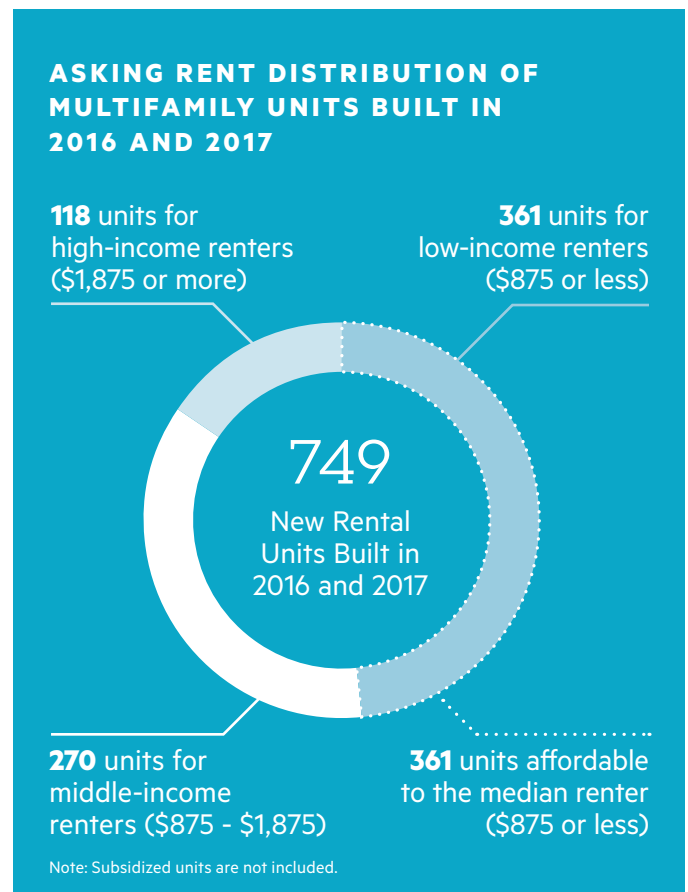
Rapidly Rising Rents for New Rental Units: In addition to rapid rent growth for existing units, the low volume of newly delivered units has resulted in increasingly expensive rents.

The average asking rent for new multifamily units more than doubled between 2000 and 2016. In 2000, the asking rent for a unit in a new building was \$767 in real dollars. In 2016, the rent for a new unit was \$1,662, a 117% rise in real terms. This high rate of growth indicates a dramatic undersupply of new rental housing to meet existing demand.



With few new deliveries to ease the shortage of supply, rents will likely remain elevated.

Sacramento produced only 749 apartments in 2016 and 2017. Just half of the units were affordable to the median renter. The overall lack of development indicates a constrained environment for development.

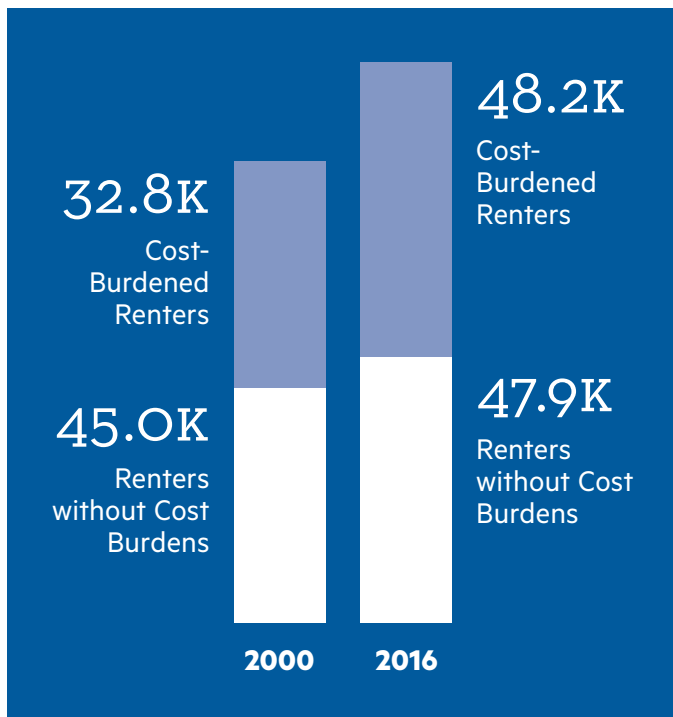


IMPACT

Worsening Housing Affordability for Low- and Middle-Income Renters:

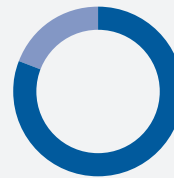
Rent burdens have grown particularly for middle-income households, leading many renter households to move outside of the city.

Almost half of Sacramento’s renters were cost-burdened in 2016. The total share of rent-burdened households increased from 42% to 50% from 2000 to 2016.

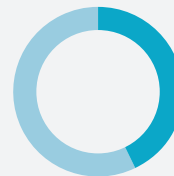


The number of middle-income renters facing significant affordability challenges has more than doubled. Only 16% of middle-income renters were rent-burdened in 2000, compared to 43% by 2016. At the same time, the rent burden for low-income households has remained very high.

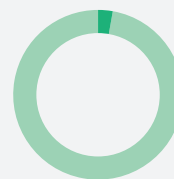
SHARE OF RENT-BURDENED HOUSEHOLDS BY INCOME IN 2016



81% of low-income renters were rent burdened, up from 77% in 2000.



43% of middle-income renters were rent burdened, up from 16% in 2000.



3% of high-income renters were rent burdened, up from 1% in 2000.

Low income: \$0-35K | Middle income: \$35-75K | High income: \$75K+

Low-income renters are largely priced out of the city. Between 2000 and 2016, the number of low-income renters grew 14% in Sacramento and 46% in the surrounding metro area. Low-income renters tended to locate outside the city limits. This has been caused by insufficient housing supply in Sacramento, which drives competition for limited rental housing.

GROWTH IN THE NUMBER OF LOW-INCOME RENTERS

14%

Sacramento

46%

Metro