Density and Affordability

With the adoption of the 2030 General Plan, the City formalized their commitment to promoting compact, dense, infill development patterns. While dense development supports sustainability, smart growth and other larger goals, it can create conflicts with goals to create affordable housing. Dense development often costs more to construct and has more complex infrastructure needs than suburban development does. In addition, dense for-sale development is often built as condominiums, which include homeowners association (HOA) fees that can greatly impact the affordable sales price. These challenges and others complicate the applicability of inclusionary requirements to dense developments

What is dense development?

Density does not have a singular definition, and is very relative to the surrounding land uses and existing developments. In a more suburban area, a project built at 30 dwelling units per acre (du/a) might be considered dense, whereas in the central city, densities of over 100 dwelling units per acre may be appropriate. Dense development is also used to increase the capacity of existing areas, around transit stations and other infill/redevelopment opportunities.

In some instances, density may be equated with affordability; the more units in the same space should equal less costs per unit, since the fixed costs of development (land, infrastructure, permits, financing, etc.) can be spread over more units. The State of California makes this association through the Housing Element process; jurisdictions must set aside land for future housing development, and the State requires higher density land for affordable housing requirements. However, the paradox with this relationship is that once density reaches such levels – such as those seen in high rise developments – more restrictive building codes are triggered (concrete and steel framing, fire sprinklers, elevators, etc.), adding substantial costs to construction. In addition, land in areas that support high density development, such as downtown, is usually much more expensive than in suburban areas, negating the “spreading” of costs that is often assumed to be a cost saver in dense development.

What are the challenges of affordability in dense development?

The challenges of marrying density and affordability are many. Most significant are those dense, stand alone for-sale developments whose only current compliance option is incorporating inclusionary within the development project. To highlight the challenges, the following details the approximate costs of a dense, infill development in Sacramento from the Bay Area Economics analysis.

Cost to Develop	$478,185
Monthly Estimated HOA Dues	$300
<u>80% (Low Income) Feasibility:</u>	
Affordable Monthly Payment	$1,528
Supportable Debt (with HOA dues)	$183,425
Difference (from cost)	**$294,760**

With a relatively modest HOA fee of $300, the gap between development costs and affordability at low income (80% AMI) is still almost $300,000. In many dense homeownership products, HOA fees are much higher than $300 a month. In addition increasing HOE fees over time create long term instability for the lower income buyers.

In addition to these challenges related to costs a single dense development cannot opt to partner with an affordable rental developer on another site and is unable to access affordable financing such as tax credits.

Recognizing that affordable opportunities are still desirable, more creative approaches or alternatives are called for. While staff has some suggestions, dense homeownership developments remain one of the biggest challenges when applying inclusionary to some infill areas of the city.