

Rental Outcomes

The City's current Inclusionary Ordinance has resulted in high production and deep affordability primarily through multifamily rental housing. This outcome is primarily driven by economics, especially given the requirements of affordable housing financing. Another driving factor, however, is underlying land use patterns in community plans that purposefully planned for the inclusion of multifamily housing. Given these economic and planning conditions, master developers have successfully partnered with experienced affordable developers to meet their inclusionary obligation. While rental housing can be viewed as a community asset, it can also present challenges – challenges associated with size, dense living, neighborhood compatibility, and management. Affordable development may bring additional challenges, but also comes with oversight not found in unregulated multi-family housing: oversight of maintenance and other management practices such as tenant services.

What we Know

- By 2007, 76% of constructed or approved inclusionary units were rental, predominantly multi-family.
- Size and income mix within affordable rental developments are influenced primarily by affordable financing but also by underlying land use designations. Most state and federal affordable housing resources reward a greater percentage of affordable units and deeper affordability. With today's relatively low market rents, it requires more public funds to include market rate units.
- Similar income mixes are reflected in inclusionary developments and non-inclusionary affordable developments since 2001. A greater percentage of non-inclusionary multi-family developments were 100% affordable.

	New MF Inclusionary	New MF Non-Inclusionary
Total Units	2,247	3,746
Total Affordable Units	1,750	2,845
% Affordable	77.8%	75.9%
100% affordable developments	5 out of 12	20 out of 30
% Developments at 100% affordable	42%	67%

- None of the rental inclusionary sites required a re-zone from single family to multi-family densities. In other words, inclusionary policies did not influence the amount of multi-family zoned land.

How Affordable Rental Development is Financed

Affordable financing is complex, relying on a combination of debt and equity sources to fund capital costs and on-going operations. Affordable funding sources finance the affordable portion of a project; unregulated market units in a mixed income project must pay for themselves and carry debt.

	Mortgage Revenue Bonds (MRB)	Low Income Housing Tax Credits (LIHTC)	State Multi-Family Housing Program (MHP)	Local Financing
Source	Tax exempt, private activity bonds	Private investors	State bond proceeds	Federal = grants Local = property taxes & developer impact fees
Fund Type	Debt	Equity	Deferred Debt	Debt (ability to defer)
Affordability	20% at VLI	All units between ELI and LI	35% at ELI	Varies by source, generally VLI & LI
Access	Generally least competitive	Extremely competitive	Extremely competitive	Limited, used to leverage other sources
Notes	Partnered with 4% (non competitive) LIHTC	Competition favors infill areas	Competition favors deeply affordable units	

Note: funding sources can be layered; when they are, the most onerous requirements apply.

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How Affordable Rental Development is Managed

The City Council approves the management, operations, and maintenance requirements for SHRA-financed developments, including inclusionary developments. Full information can be found in the Multifamily Lending and Mortgage Revenue Bond Policies, but several requirements are highlighted below.

1. New construction projects are limited to 200 units and all projects must meet design review.
2. Space must be provided for resident services; a minimum of 15 to 20 hours of resident services is required, as appropriate for the population (senior, family, etc.).
3. On-site offices and live-in management is required for properties over 50 units.
4. A written comprehensive management plan is required and must be approved by SHRA. SHRA reserves the right to approve/disapprove the property management company.
5. Security patrols are required.
6. SHRA conducts annually reviews, physically inspecting units and ensuring compliance with all requirements.

<http://www.shra.org/Content/Housing/HousingDevelopment/MRB/SHRAMultifamilyLendingPolicies.pdf>

Modifying Rental Outcomes

Whether affordable housing is viewed as an asset or community liability is dependent on several factors, including physical appearance, design, amenities, quality of planning related to density (e.g., traffic, compatible neighboring uses), as well as individual values and perceptions.

Preference for mixed-income apartments.

Apartments housing families with varying incomes is generally viewed as preferable. The financial feasibility of mixed-income developments has varied historically depending on rental market conditions. If the development can charge market rents that are substantially higher than the regulated affordable rents, the project may pencil, benefiting from favorable affordable financing yet able to carry sufficient debt on the market units. Two examples of successful mixed income projects in Sacramento demonstrate this.

	Year	Income Mix	Highest Affordable Rent	Highest "Market" Rent	Difference
21 st and L Street	2003	26% affordable 74% market	\$956	\$1,550	63%
The Lofts at Natomas	2002	20% affordable 80% market	\$822	\$1,192	45%
Current Market (2 BR) ¹	2009	N/A	\$982	\$990	0.8%

¹ From the REIS 1st Quarter 2009 Metro Trend report for Sacramento.

When mixed income projects were financially feasible, market rents were markedly higher than affordable rents (in these examples, 45% and 64% higher). However in recent years, affordable rents approximate market rents. When market rents are closer to affordable rents, as in today's market, affordable financing is far more beneficial than any debt that the market units can carry. 100 percent affordable projects are more competitive for affordable funding sources, require less local "gap" financing and are more feasible.

Of note: if mixed income developments were feasible, meeting an inclusionary obligation this way would result in significantly more rental product and rental units to achieve the same percentage of inclusionary.

Preference for smaller apartments. Land use, project economies of scale and affordable financing generally drive the size of developments. Land uses, especially in new growth areas, generally support the development of larger apartments, with multi-family zoned parcels of 7 to 10 acres common. Many development costs (financing, architecture, engineering, legal costs, etc.) are fixed regardless of project size. In addition, smaller projects are not as efficient to operate as larger complexes. Accordingly, smaller apartments (under 100 units) cannot reap the same economies of

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scale that larger apartments can, resulting in a need for more per unit subsidy. The state and federal funding programs give a competitive edge to larger developments over a smaller, more expensive project. SHRA currently funds new construction of 200 units or fewer. While smaller apartments have appeal, imposing requirements for smaller apartments through the inclusionary ordinance would necessitate new approaches in land use configuration as well as state and federal financing programs and levels of local subsidies.

Preference for more intensive resident services. Apartment living environments can benefit from the availability of community amenities and services. SHRA currently requires more intensive resident services than any of the state or federal funding sources. While valuable, these additional services add to the overall cost of the project and the amount of local subsidy. Given limited resources, the benefits of additional project-based services, which would require additional local investment, would need to be weighed against a reduction of overall production of affordable housing. Other approaches to make the current services more meaningful might include partnering with other community and neighborhoods service providers. A mutual effort on the part of SHRA, the developer and the surrounding community, such as through schools, clubs and mentoring programs could not only bring enriched services to residents but would help residents to feel a part of the neighborhood.

Overall, mandating any of these three outcomes through the inclusionary ordinance would require substantially more local intervention and funding as well as addressing factors external to the ordinance (land uses, financing programs, etc.). To the extent that the City takes on a more directive role in the design, financing and operations of the affordable units, the inclusionary program would transition from a "market driven" program, to a "local driven" program, more similar to redevelopment, preservation, supportive housing and other deeply targeted and intensive programs.