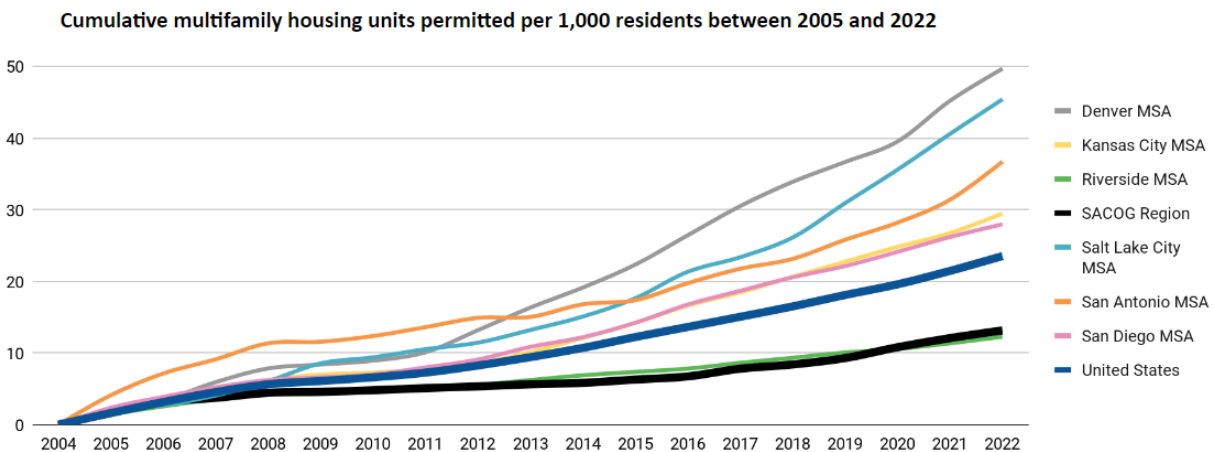


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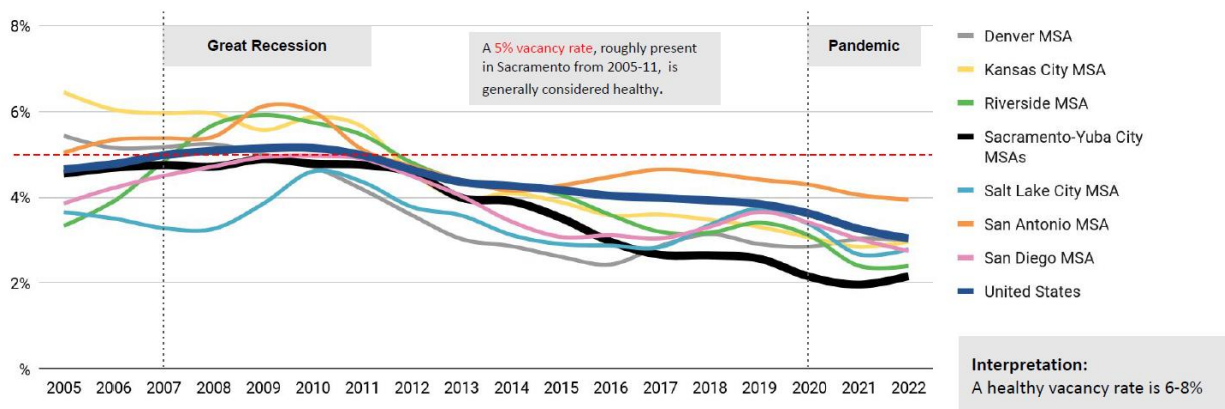
Sacramento Area Council of Governments

An Acute Shortage of More Affordable Housing Production

Much like the rest of California, the Sacramento region has seen steep increases in the cost of housing. With higher housing and transportation costs, but stagnant wages, Sacramento households are feeling the pressure. The primary catalyst for these trends is a failure to build enough housing to keep up with demand. In particular, the region has struggled to build smaller and more attached housing products in infill and established communities. Nationwide, multifamily housing permits rose from less than 25% of housing permits in 2005 to nearly 40% in 2022. While this trend toward more multifamily and attached housing production took hold nationwide, the SACOG region itself was slow to experience it. Multifamily permitting generally declined during the first half of the 2010s. Between 2008 and 2018, the SACOG region’s share of permitted housing classified as multifamily was less than not only the nation as a whole, but also peer regions with similar economies and populations. As a result, between 2005 and 2022, the SACOG region cumulatively permitted about *half* as many multifamily units per resident as the nation as a whole and roughly a *quarter* as many as its peer Denver.

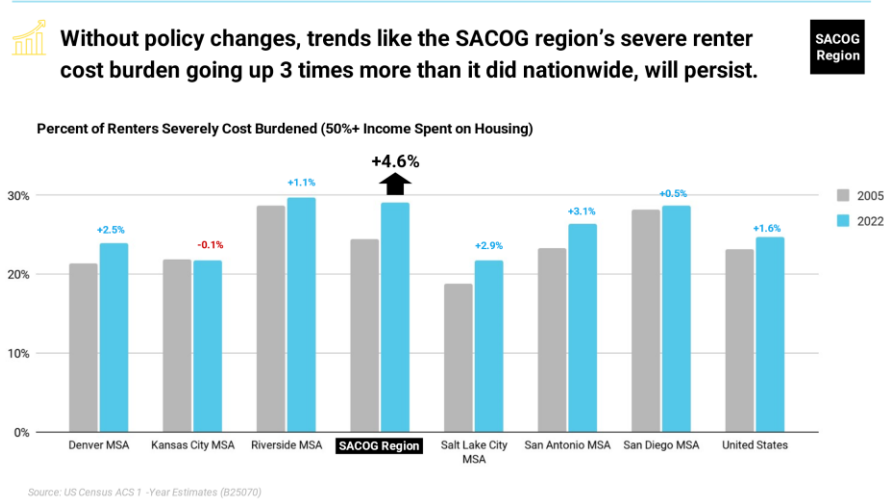


One outcome of this chronic underproduction of more affordable housing types has been a steep decline in residential vacancy rates, where the SACOG region has gone from “middle of the pack” to the lowest among peers for more than half a decade.



When a region cannot produce enough apartments, missing middle, and smaller starter homes, more people compete for fewer available units and prices go up. Unfortunately for the SACOG

region, this has resulted in the worst increase in severe renter cost burden of our regional peers, triple the US increase.



Quantifying Our Need

Every 8 years, SACOG undergoes a regional housing needs allocation (RHNA) process to ensure cities and counties are planning for enough housing to accommodate all economic segments of the community. In the 2021-2029 RHNA Plan, the regional housing need was for 153,512 new housing units, which is close to double the annual production the region has seen over the last five years. As part of the plan, SACOG will distribute these units, including a breakdown of units into four different income categories, to each of its local governments, who then are legally responsible for demonstrating how they can accommodate their allocations in their zoning. Roughly 41% of the total units are needed for households who make less than 80% of area median income with another 18% targeted at households making between 80-120% of area median income. If they cannot accommodate that need through existing zoning, they must then rezone to create more capacity until they can.

One of the key objectives for the methodology by which SACOG distributes the units by income category is to affirmatively further fair housing (AFFH). As such, SACOG conducted an AFFH adjustment factor that sought to open up high opportunity areas, as defined in the State Housing Opportunity Maps, to all economic segments of the community by encouraging jurisdictions with higher than average proportions of homes in high opportunity areas to zone for more affordable housing types.

In its review and certification of SACOG’s methodology, the State Department of Housing and Community Development related that it “applauds the inclusion of the affirmatively furthering fair housing adjustment factor in the methodology,” noting that “the top seven jurisdictions with the most homes in High Opportunity areas receives the top seven largest shares of lower income RHNA thus encouraging more affordable homes in higher resourced areas and increasing housing access to these communities for lower income households.”

The higher the allowed density in the local zoning, the more likely it is to be able to accommodate affordable housing. While needs of households making more than 100% of area median income can likely be met through single family zoned sites on larger lots, more affordable units need to be accommodated on sites zoned for higher densities (typically 20 or 30 units per acre). As part of the RHNA process, 12 of the 28 jurisdictions in the region pursued housing element programs to relax zoning standards to strategically allow for higher densities, many of which explicitly as a means of affirmatively furthering fair housing.

Underlying Causes

While the RHNA Plan quantifies our need, it doesn't help identify the underlying causes of the shortage. Simply put, we need to produce more housing choice, including apartments, condominiums, townhomes, and single-family detached homes on smaller lots sizes. This issue is of special concern for the people with very low-, low-, and moderate-income. For many of these people, finding housing closer to their jobs and destinations is challenging. By providing more housing and a variety of types, more people will have a choice in where they live. So what are the underlying causes of this mismatch between our supply, which overwhelmingly favors large-lot single family, and demand, which is spread across both single family and smaller lot, walkable neighborhoods with shorter commutes?

The causes are nuanced and include both things local governments control (regulatory environment and infrastructure) and things local governments have less control over (market conditions, labor shortages, construction costs). SACOG has spent the last decade evaluating the unique challenges the region's collective jurisdictions face in planning and approving housing. . Reevaluating and updating our outdated policies is needed to minimize governmental barriers to building the homes this region needs, particularly the small lot and attached homes that we are lacking today.

SACOG's Role in Facilitating Policy Changes Facilitating More Affordable Housing

While the State of California is, fairly, maligned for its housing policy and severe underproduction of housing, the Sacramento region has taken the crisis head on, consistently leading the state in housing policy innovation and population growth. The origins of this statewide leadership stem from the SACOG Blueprint, which was a smart growth vision for the region that integrates land use and transportation planning to curb sprawl, cut down on vehicle emissions and congestion, provide more housing options and improve the quality of life for residents of the region.

Since its adoption in 2005, the Blueprint has been SACOG's north star, guiding virtually all planning efforts we undertake. Through the Blueprint, and the four updates to our long-range plan since, it has become abundantly clear that the only way that the SACOG region will be successful in achieving our climate, affordability, and equity goals is through a fundamental shift in our built environment towards smaller, more affordable housing in existing communities near jobs and services. To this end, SACOG and the local governments within have taken significant strides to clear the regulatory runway for more of these housing types.

SACOG has provided substantial resources and technical assistance to support regulatory changes that facilitate more affordable housing types in infill areas in recent years. These efforts

are all housed under the umbrella of Green Means Go, which is SACOG’s Blueprint implementation pilot aimed to remove barriers to affordable housing production across the region. The technical assistance component of Green Means Go began with the adoption of the [Housing Policy Toolkit](#) in 2020, which was menu of policy options and best practices for removing barriers to new housing in infill areas. It provided “a roadmap to allow for more affordable housing product choices to be built in more locations, using a simple, non-discretionary approval process with streamlined environmental review and reasonable fees.” Many of these policies were then synthesized in 2021 into a regional housing initiative called [Mind the Gap](#), which was specifically oriented around six umbrella policy moves, each with several specific actions local governments were encouraged to take:

1. *Facilitate Missing Middle.* Missing middle is cheaper to produce than larger apartment buildings, tends to become naturally affordable rental housing as it ages, provides sufficient density to support the shops, restaurants, and transit that are associated with walkable neighborhoods, and usually fits in with the look and feel of a single family neighborhood.
2. *Strategically Allow for Higher Density Housing.* Subsidized affordable housing typically requires significantly higher densities and there is a lack of viable sites zoned at these densities across the region.
3. *Transition from Discretionary to By-Right Development Review.* Longer, more difficult paths to approval can dramatically add to the cost of building housing and can sometimes lead to nothing being built at all. Adding time and risk to a development costs money, which then gets passed on to the price of the housing and discourages housing development at all levels.
4. *Reduce Government-Mandated Parking Requirements.* Parking requirements can add significant cost and make some housing projects infeasible. A requirement of two parking spaces per unit can directly add \$80,000 to the price of building a home in the SACOG region. One of the most effective ways local agencies can reduce the cost to produce housing is to reduce or remove parking requirements.
5. *Incentivize Accessory Dwelling Units.* ADUs are an effective way to provide more affordable housing in infill communities without changing the existing fabric of residential neighborhoods. They are inherently less expensive homes that can meet the needs of low- to moderate-income families without the need for public subsidy.
6. *Reduce Displacement: Protect Tenants and Fund Subsidized Affordable Housing*

SACOG then coordinated or directly funded these policy changes, as well as catalytic infrastructure projects supporting these policy changes, at the local level through the Green Means Go Program, including \$11 million in direct funding in the last 2 years. Some of the more noteworthy local policy efforts coming out of this program include:

- The City of Sacramento, the largest city in the Sacramento region, has positioned itself as perhaps the national leader in housing policy with the adoption of the [2040 General Plan](#) in February 2024. There is not another city in the country that has enacted the scope and scale of the policy reforms that were included as part of this plan. The plan removes all unit caps and density-based maximums citywide, instead regulating all new development based on floor area ratio. This move included at least a maximum FAR of 1.0 across the city and upped the FAR to 2.0 within a half mile of transit. This effectively allows by right for 6-12 plexes on existing single family lots across the city and substantially more

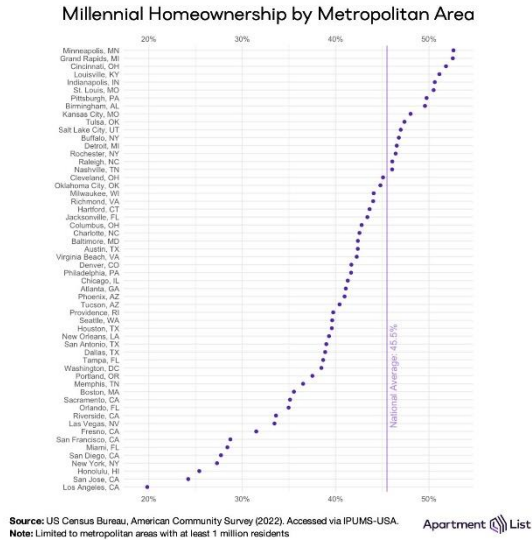
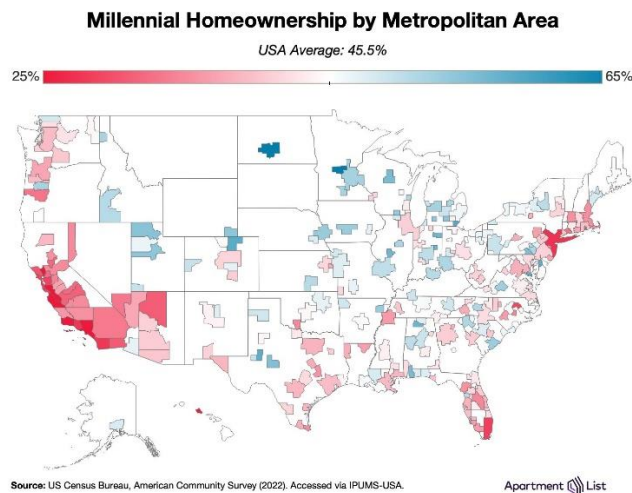
permissive projects in centers and corridors. The plan also eliminated parking requirements citywide, reduced minimum lot sizes to 1,200 square feet, and created a ministerial/by right approval process for all infill multifamily housing.

- City of Folsom's [2035 General Plan and Folsom Plan Area Specific Plan Amendments](#), which increase housing capacity for up to 6,046 new multifamily and mixed use housing units near light rail, along the primary commercial corridor of Bidwell, and in the Folsom Plan Area.
- City of Roseville's [commercial corridors project](#), which created three new specific plans to allow for significant new multifamily housing along Douglas-Harding, Douglas-Sunrise, and Atlantic Streets. As a part of this effort, new projects would be allowed by right, reduced parking standards, and flexibility in design standards.
- City of Davis's [Downtown Davis Specific Plan](#), which created a true form based code for the 32-block area that has resulted over 1,000 new proposed mixed use and multifamily units in the two years since adoption.
- Sacramento County's commitment to [multiple actions](#) that implement by right development of housing and infill projects to the highest extent practicable, particularly along commercial and mixed-use corridors, and updating/revising/eliminating development and design standards in order to facilitate and maximize housing and infill development.

What Is Missing? Affordable Homeownership Opportunities

While SACOG has facilitated dramatic progress in the housing policy space more generally, there are still key challenges and barriers to producing more affordable homeownership opportunities. Less than one-third of households are able to afford the mortgage for the median-priced home in the Sacramento Region 2022, down from over half of households after the Recession. The SACOG region's new for-sale homes are typically larger single family homes on sizable lots in greenfield areas that were typically entitled long ago, when consumer preferences were different and the affordability crunch had not yet impacted the size of new homes that the region's residents could afford. Over the past few decades, the number of new homes that are smaller than 1,400 square feet has decreased steadily. In 2020, less than ten percent of all new homes built in California were smaller than 1,400 square feet. According to the Federal Reserve Bank of St. Louis, the average square footage of new construction for sale homes is 2,413 in the Western Region and have been over 2,000 square feet since 1988.

This has had disastrous effects on millennial homeownership in the SACOG region. Millennial and Gen Z rates of homeownership are significantly behind previous generations at the same age. The Sacramento region's millennial homeownership rate is at 35%, well below the national average of 45%. This has led to young people forming households at lower rates, with a 8% decline in ages 25-34 from 2005 to 2022, compared to a 3% reduction nationally.



Given these troubling statistics, regulatory reform is needed to target more affordable homeownership opportunities. Specifically, we need more small lot and attached for-sale options in walkable neighborhoods near jobs and services. This is a housing product that is not being produced in the SACOG region currently and is the target of this grant application.

There are five specific policy challenges to producing these types of units in the Sacramento Region:

1. *Restrictions Related to the Subdivision of Parcels.* In California, the creation and improvement of subdivisions and lot splits are subject to the Subdivision Map Act, which frequently results in lengthy approval times and litigation risk under the California Environmental Quality Act (CEQA). Local reforms are needed to change the approach to subdivisions, including ministerial approvals of lot splits for starter homes, environmental streamlining to circumvent the application of CEQA, and the potential for separate conveyance of ADUs as condos.
2. *Coordinating Infrastructure.* Fee simple lot splits require specific coordination of infrastructure, as each new parcel may have a separate tie in to underground infrastructure and other services. These infrastructure service providers and local departments may not necessarily be aligned, which sometimes results in delays and unexpected lump sum costs late into construction. Coordination among the various infrastructure players is needed to create more development certainty for starter home builders.
3. *Zoning and Form Standards.* There are several zoning and form-based standards that are holding back more affordable homeownership opportunities, chief among them minimum lot sizes. Many jurisdictions in the SACOG region employ minimum lot sizes of over 5,000 sqft, which mandate a less efficient use of expensive land, which forces developers to prioritize higher single family home square footages to cover the land costs. Reducing minimum lot sizes to 1,200 sqft, as shown empirically in Houston, has the potential to significantly unlock for sale products that are more affordable to households making less than 100% of area median income.

4. *Lack of Capacity.* There are limited sites left within the existing urban footprint of the region where new, large single family for-sale developments make sense. Instead new single family for-sale developments are predominantly build in outlying greenfield master plans requiring long-commutes and worse access to opportunity. This has resulted in a consolidation of the for-sale homebuilding industry into fewer builders oriented around larger master planned projects. Proliferation of smaller, more affordable, infill subdivisions and condos will require fostering a new class of smaller builders that don't exist today.
5. *Condo Defect Liability.* SACOG conducted a series of developer focus groups in 2024 and one of the consistent findings was that for sale multifamily and townhome projects are significantly held back by condo defect liability laws, which are intended to protect home buyers from bearing the cost of fixing defects in newly built homes. However, the scope of California's construction defect liability laws pose a significant disincentive for developers and contractors to build new condominiums. This is backed up by emerging research from the Turner Center titled "[Construction Defect Liability in California: How Reform Could Increase Affordable Homeownership Opportunities.](#)" It's also explicitly highlighted in the 2024 Downtown Sacramento Housing Strategy, which says "changes to the way condominiums are regulated are needed, with the biggest barrier being the 10-year system around construction defects and the resulting liability insurance requirements." While changes to State law are not explicitly addressed in this Grant proposal, there are opportunities to participate in a new pilot program seeking common sense reforms to make it easier to build multifamily condos, which some jurisdictions in the region are exploring.