

ARTICLE 5

GUAC IS EXTRA – THE CITY IS
OUR AMENITY

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One prominent rental property in San Francisco boasts 30,000 square feet of amenities, including three landscaped outdoor terraces, two different solariums, a fitness center, a “pet spaw,” and mailroom with cold storage for perishable deliveries. There is also a 60-foot outdoor pool and a staffed on-site spa (this one is for humans rather than pets). With a 1-bedroom unit renting for around \$4000 a month at the time of writing, this property is well out of reach of those making a median income of around \$61K in the Bay Area.

In recent years, many apartment complexes have tried to woo potential tenants through the inclusion of high-end amenities. These amenities are often very expensive and, in the case of workforce housing, completely unnecessary. Unfortunately, this has led to a market in which many middle-income single professionals simply cannot afford a one-bedroom unit in the Bay Area. So why have we seen this trend toward more amenities?

In recent years, many apartment complexes have tried to woo potential tenants through the inclusion of high-end amenities. These amenities are often very expensive and, in the case of workforce housing, completely unnecessary.

The driving factors of over-amenitized complexes come from two sources: the desire to justify higher rents, and policy pressure from planners. With housing as expensive as it is in the California market and particularly in the Bay Area, developers and property managers are often pressed to justify and demand higher rents through

the provision of extravagant amenities. It has become an arms race of sorts; complexes must continuously one-up one another to stay competitive in the amenity market. On top of this, planners require of projects often arbitrary open space requirements that reduce project efficiencies, increase construction and design costs, and often lead to private open spaces available only to tenants rather than the public at large. Extra, non-housing housing costs ultimately amount to an undue tax on the basic human right to shelter.

A TAX ON SHELTER

Many amenities are effectively non-housing housing costs. They are extras; parts of a housing development that contribute nothing to the provision of actual habitable units. In a tight, high-cost housing market like the Bay Area, such extraneous costs are an undue tax on residents desperately in need of attainable housing, as the costs associated with amenities are ultimately reflected in their rent.

Compulsory non-housing housing costs act as a regressive assessment on a basic human need: shelter. Although our society has long ago done away with taxes on other basic needs such as food and utilities, we still tax housing in a way that disproportionately burdens lower-income residents. This comes directly in the form of property taxes and indirectly through the required provision of amenities.

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Our society has effectively determined a way to distinguish between basic human needs and luxuries for the purposes of taxation. Most groceries are not subject to sales tax, while food served in a restaurant is taxed. The distinction lies in that groceries are considered a basic human need, while restaurants provide the extra nonessential service of the “dining experience.” Similarly, while it should be acceptable to tax luxury housing for providing an extra non-essential “living experience”, middle-income housing provides the basic service of shelter and thus should be exempt from any costs not directly related to providing that service.

Housing affordability requires de-taxation and de-amenitization: there is no need to provide extraneous amenities or require extra costs in housing destined to be affordable to the average middle-income resident. Of the two, amenities are a more tangible extra cost for residents. Admittedly, there is not much our company can do as a housing developer to directly reform U.S. tax policy. However, we can create efficient, attainable housing models made to be affordable by design.

As amenities are extras, tenants should have the option of paying for amenities rather than having them bundled into the cost of the unit. Another way to frame the idea is a food analogy: amenities in buildings should be like guacamole in a burrito in that their inclusion costs extra. You can buy a simple burrito to satisfy your hunger, and if you want something extra, you can opt for the guac.

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For those seeking an affordable place to live, amenities are an afterthought, especially

when it is so difficult to find an affordable place to simply put one’s head down at night. In a naturally affordable complex, tenants who value a particular amenity (be it a gym or a dog park) should be able to find it in the immediate surrounds of the complex and, as necessary, pay for it outside of the cost of their rent at their discretion.

When programming market-rate housing for middle-income individuals, the apartment’s location is its greatest physical amenity. Well-retailed, walkable, and transit-adjacent communities are often stocked with amenities vastly superior to the amenities any apartment complex can provide. By placing a priority on locating the property in an amenity-rich neighborhood, the desirability and marketability of the property is effectively maintained without the developer needing to sacrifice rentable square footage efficiency. For a well-sited, urban property, the city is a great amenity.

THE PROBLEM OF OVER-AMENITIZING

In competitive housing markets, it is easy for developers to get carried away with including amenities in their properties. After all, amenities are often seen as an effective way to stand out from the competition and retain tenants.

Housing marketable to those making less than \$100K a year, however, must be as pure to the core objective of providing quality, well-located housing as possible. As a result, any amenities that the market does not demand but planners require only add to the cost of housing and lowers the value of the space for the target tenant. If low rent is a desirable quality, compulsory amenities diminish the quality of the product.

As a resident-value driven product type, urban workforce housing effectively balances the need for amenities by embracing the

community around it. This provides residents with more choice in amenities, supports local businesses, and encourages street life. By relying on its location as an amenity, urban workforce housing effectively enables residents to enjoy high-quality amenities in the form of the community they live in.

By prioritizing a good location over the provision of on-site amenities, properties in our portfolio do more than just lower the price of the unit: they offer tenants the freedom to choose what they spend their money on. Living in a small unit with few amenities is not a limitation if the home is close to all the choice of activities that the city has to offer.

LOCATION, LOCATION, LOCATION

Many walkable, dense neighborhoods already possess many of the most desirable qualities any in-house amenity would seek to offer. For a property to be able to consider its location an amenity, the surroundings must meet certain criteria.

First, proximity to a variety of food opportunities is crucial. Restaurants, grocery stores, bars and weekly farmers markets are all desirable community amenities.

Entertainment and recreation are provided by other valuable community amenities available in most dense urban areas. Parks provide a place for residents to exercise pets and relax on warm days, while a nearby theater or bowling alley can give residents an opportunity to spend an evening with friends.

Finally, micro mobility rental and infrastructure, mass transit, and neighborhood walkability all provide easy access to even more that the city has to offer. Ease of transportation allows for quick and easy access to employment opportunities. Cities provide a variety of jobs and a diversity of people that allow the urban workforce

to build its own wealth and make valuable social connections. This demographic has an improved quality of life and better prospects for the future when it can live in proximity to urban opportunity and transportation choices.

More than anything else, a well-located apartment provides residents with convenience, which is something highly valued by the urban workforce. With the ease and speed of accessing all the community has to offer, the old adage that the three most important things in real estate are location, location, location continues to ring true. Indeed, workforce housing's greatest physical amenity is its location.

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PRICE AS AN AMENITY

While location is a prime feature, price is the greatest overall amenity for urban workforce housing because it enables a small house, big life lifestyle for those with a limited income. Paying less for rent increases one's discretionary income and gives one the freedom of where they devote their money to make their lives better. If choice is freedom, these small apartments enable a lifestyle with a high degree of freedom.

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Relying on the broader market to provide amenities produces a tremendous amount of value for residents. Instead of paying for the operation and upkeep of property-level amenities through their rent, residents only pay for the amenities that they use as they

use them. Middle-income individuals who frequent the gym can choose to pay for a membership at a high-quality gym down the street, instead of subsidizing the use of an on-property gym that may be insufficient for their routine.

Providing fewer on-site amenities while ensuring a high-quality location is one of the best generators of value in an urban workforce housing property. Enabling lower rents empowers residents to use their discretionary incomes on what they truly value rather than what the operator believes that the average person would want.

MORE AMENITIES FOR MORE PEOPLE

Properly locating a property is the best way to ensure that tenants can access the greatest variety of community amenities, and in many cases ensures that tenants can access even niche amenities. While an individual building may not support a tennis court, a local club that caters to the greater community very well may.

The best way to appeal to the most tenants is to locate a property in an area with the greatest variety of community opportunities, not jam the property with amenities. Tenants will value the choice and opportunity to pursue their own tastes in amenities, while still only paying for what they personally value. With a well-located property, the opportunity for finding the right amenity for every taste is easily within reach.

CONCLUSION

In the case of urban workforce housing, excess amenities reduce tenant value. Middle-income individuals in high-value urban markets place a higher priority on the value they get out of their low rent and prime location than the amenities the property provides.

Rather than focus on the provision of a variety of amenities, urban workforce housing benefits from considering its location in well-served, walkable neighborhoods an amenity. By providing tenants with a choice in community amenities, urban workforce housing effectively retains value for tenants and helps support local businesses.

Community amenities are an excellent way for urbanites to share in the urban experience. In the next section, we will take a deeper look at how current trends and changes in technology have made sharing resources a booming industry in the contemporary urban economy.

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