Construction Costs of Affordable Housing

A Joint Statement by the California Tax Credit Allocation Committee,
California Housing Finance Agency, Oregon Housing and Community Services,
and Washington State Housing Finance Commission

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Affordable Housing Costs on Par with Market Rate

Oregon Housing and Community Services, the Washington State Housing Finance Commission, and the California Housing Finance Agency (in partnership with the California Tax Credit Allocation Committee) are housing finance agencies whose financing tools for affordable housing in our respective states include the federal Low-Income Housing Tax Credit (LIHTC).

The housing credit, which harnesses the power of private investment, is our nation's most effective tool for building and preserving affordable apartments—more than 3.2 million nationwide since it was created in 1986 through a bipartisan act of Congress.

For the past few years in our industry, the rising costs of housing construction have led to intensified discussions centering on cost controls and comparisons. Housing finance agencies (HFAs) and our partners are often asked, "why does it cost more to build affordable housing than it does to build market rate?"

The underlying premise of this question is inaccurate, as numerous studies have shown. It does not cost *more* than market rate to construct housing; rather, all types of multifamily construction are expensive and construction costs continue to rise.

- <u>All Construction is Getting More Expensive</u>. HFAs' internal data, along with industry-wide construction data, have shown significant increases each year in construction costs all along the West Coast. These increased costs impact both affordable and market-rate construction.

- <u>Studies Show Construction Costs are Equal</u>. Multiple studies, on both a national and statewide level, have shown that construction costs associated with affordable housing are similar to those costs associated with market rate.

National Reports on Costs

- *Low-Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk*
  Report to the U.S. Senate Committee on the Judiciary
  United States Government Accountability Office ("GAO"), September 2018

  This report studied the 9% LIHTC program in 10 states, including several (such as California and Washington) that include the nation's highest-cost cities. While it recommended that cost oversight by the IRS be strengthened, it also found that construction costs are mostly determined by the size of the project, its location (i.e. an urban and/or high-cost area), and other factors common to all apartment construction.

- *Variation in Development Costs for LIHTC Projects*
Abt Associates (for National Council of State Housing Agencies), August 2018

  This study covered both the 4% and the 9% LIHTC programs nationwide, with at least two projects from each state. An important conclusion: the research demonstrated that housing credit-financed apartments on average cost roughly the same to develop as the typical apartment, even though housing-credit properties face additional regulatory requirements.

State Reports

- *2014 California Affordable Housing Cost Study*
California Department of Housing and Community Development, California Tax Credit Allocation Committee, California Housing Finance Agency, California Debt Limit Allocation Committee – October 2014

  As a part of this cost study, the entities demonstrated—albeit with data limitations—that the costs associated with affordable housing were comparable with those of market-rate housing. See page 45.

- *Affordable Housing Cost Study (Oregon)*
Blue Sky Consulting Group (for Oregon Housing and Community Services Department (OHCS), June 2019

  Using market-rate construction data from RS Means as a proxy due to the unavailability of data from market-rate developers, this analysis of construction costs indicated that "the cost per square foot of the actual affordable projects fell between the low and high estimated market-rate project construction costs" (page 62).

  In addition, OHCS reports annually to the Oregon Legislature on affordable housing construction costs as compared to RS Means data. Both data sources have shown consistent increases in construction costs in recent years.

- *The Cost of Affordable Housing Development in Oregon*
Meyer Memorial Trust, October 2015

  Meyer Memorial Trust convened a Cost Efficiencies Work Group made up of 16 experts from development, construction, finance, and related fields to examine the key factors affecting the cost of developing affordable housing and to identify opportunities to lower those costs. This resulting report includes a thorough comparison of the differing needs, goals, and requirements of affordable and market-rate developers which drive many costs.

- *Analyzing Development Costs for Low-Income Housing (Washington)*
Washington State Joint Legislative Audit and Review Committee, January 2019

  Staff of the Joint Legislative Audit and Review Committee (JLARC) spent about a year examining LIHTC developments in Washington state to identify cost factors and oversight practices. Like other researchers, they were unable to find data on market-rate housing that would allow them to compare costs with affordable/subsidized housing (for which extensive cost information is publicly available). Instead, they gave independent cost estimators the construction specs for six affordable-housing projects that were built in Washington State by for-profits, non-profits and housing authorities. When they compared the estimates to the actual construction costs, the latter were well within the expected range—or lower.

Conclusion

Based on the evidence of the multiple studies cited above, the affordable housing development community is providing for the construction of affordable housing as efficiently and as cost-effectively to the public as the market allows. With this consensus across studies, geographies, and contexts, it should now be clear that when the same housing is built in the same place for the same purpose, the cost is the same regardless of the builder.

HFAs continue to incentivize cost-efficient construction, including exploring cheaper delivery systems such as modular construction, use of public lands, and other options, and we welcome the public's ideas on how to be more efficient. Being good stewards of the trust placed in our agencies to allocate the LIHTC and state resources has always been and will always be our highest priority, as it enables us to fulfill our missions to provide the most affordable housing possible for those most in need.

The Low Income Housing Tax Credit remains the most effective federal resource for creating and preserving affordable apartments within our states and across the nation. Increased investment in this resource—and in the state and local resources that leverage it—is a wise and cost-effective investment in the public good.

Sincerely,

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