NCSHA

National Council of State Housing Agencies

Development Costs and Cost Drivers in the Housing Credit Program

Executive Summary

The National Council of State Housing Agencies (NCSHA) represents the agencies that administer the Low Income Housing Tax Credit (Housing Credit) program in every state. The Housing Credit is the most important public policy that directly supports the development of desperately needed rental apartments lower-income households can afford. New research by Abt Associates, along with additional analysis by NCSHA, shows that Housing Credit-financed apartments on average cost roughly the same to develop as the typical apartment, even as Housing Credit properties must by law meet many requirements that typical apartment buildings do not.

Background: The Importance of the Housing Credit

Since its creation more than 30 years ago, the Housing Credit has become our nation's most successful tool for building and preserving affordable rental housing, creating opportunities for millions of families and individuals who otherwise would pay an excessive portion of their income for housing, live in substandard or overcrowded conditions, or experience homelessness.

In devolving administration of this critical program to states, Congress placed significant responsibilities on them to use this resource wisely. State Housing Credit agencies take their stewardship of the program very seriously, as is consistent with their missions to provide affordable housing for the residents of their states.

The Housing Credit is ever more important as housing affordability challenges are worsening. According to Harvard University's Joint Center for Housing Studies, nearly 20 million renter households pay 30 percent or more of their incomes for rent, and 11 million pay more than half their incomes for their housing.[1] The National Low Income Housing Coalition reports that, for every 100 extremely low-income renters, only 35 rental units were affordable and available in 2016 — a national deficit of more than 7 million units.[2]

In this environment, it is no surprise most state Housing Credit agencies face far greater demand for Housing Credits than they have available. As a result, every agency shares the goal of maximizing the number of families they can serve through the program, while also deploying Housing Credits to finance affordable housing in opportunity-rich areas, serve households with special needs, and ensure the long-term physical sustainability of properties.

The primary factors that drive the development costs of all apartment projects, including Housing Credit properties — costs of land, labor, and materials — are driven by market forces, not state agency administration. Local regulations that increase costs, such as zoning, fees, and lengthy approval periods, are also beyond state agency control. Nevertheless, state Housing Credit agencies implement an array of policies that require and encourage developers to deliver Housing Credit properties on a cost-effective basis.

New Research on Housing Credit Development Costs

In a study commissioned by NCSHA, Abt Associates analyzed a nationwide database of more than 2,500 Housing Credit properties containing more than 160,000 units, over a multi-year period, and found the following about Housing Credit total development costs (TDCs):

- The median TDC per unit, inclusive of *soft costs* (e.g., fees for contractors, architects, and other professionals) and land costs, between 2011 and 2016 was $164,757, adjusted for construction cost inflation.
- The mean TDC per unit, inclusive of soft costs and land costs, between 2011 and 2016 was $182,498, adjusted for construction cost inflation.

These figures reflect TDCs for newly constructed buildings as well as rehabilitations of existing properties.

Housing Credit Development Costs Compared to All Apartments

According to data provided to NCSHA by Dodge Data and Analytics, *construction costs* — not including soft costs and land — for *all newly constructed apartments* averaged approximately $151,000 per unit between 2011 and 2016.[3]

According to Fannie Mae, *soft costs* account for an average of 25 percent of overall apartment development costs.[4] While *land prices* vary widely, and national data is difficult to obtain, anecdotal evidence suggests they may account for 5 to 10 percent, on average, of TDC.

Adjusting the $151,000 per-unit construction costs by 30 to 35 percent to account for soft costs and land costs yields an average TDC for multifamily apartments overall of roughly $196,000 to $204,000 per unit between 2011 and 2016. Abt Associates found the average Housing Credit cost per unit for new construction, including soft costs and land, was approximately $209,000 during that period.

The slightly higher costs suggested for new construction of Housing Credit developments are likely explained by financing requirements on them that generally do not apply to market-rate apartment developments, such as the need for higher upfront operating reserves and funding to cover the developer's services. Market-rate apartments can generate capital to pay these costs by charging higher rents. Housing Credit properties cannot: They must by law serve low-income households at restricted rents for several decades.

Recent Growth in Housing Credit Development Costs Compared to All Apartments
With respect to development cost growth, the Abt Associates analysis suggests that Housing Credit TDCs during the study period grew at roughly the same average rate as overall apartment development costs, based on the RS Means Historical Cost Index: roughly eight percent.

However, other analysis of overall construction cost growth during the time period studied indicate overall apartment development costs rose much more than Housing Credit development costs. For example, a 2017 report from Fannie Mae indicated overall apartment construction costs had risen 10 to 30 percent between 2011 and 2016.[5]

Conclusion
New research demonstrates that Housing Credit-financed apartments on average cost roughly the same to develop as the typical apartment, even as Housing Credit properties must by law meet many requirements that typical apartment buildings do not.

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[1] Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing 2018," 2018.
[2] National Low Income Housing Coalition, "Out of Reach: The High Cost of Housing," 2018.
[3] Report by Dodge Data and Analytics, "Historical Starts Information: Multifamily Starts — US Summary, Annual Totals," August 2018.
[4] Fannie Mae, "Fannie Mae Multifamily Market Commentary," March 2017.
[5] Fannie Mae, "Fannie Mae Multifamily Market Commentary," March 2017.