Development Costs in the Low Income Housing Tax Credit Program

Housing Credit: Overview

- Signed into law by President Reagan as part of the Tax Reform Act of 1986
- Has become the nation's most successful tool for building and preserving affordable rental housing
- Provides an incentive for private-sector investment — a model public-private partnership with investors assuming the risk
- Has financed roughly 3 million apartments
- Houses low-income families, seniors, veterans, and those with special needs
- Creates opportunities for millions of families and individuals who otherwise would pay an excessive portion of their income for housing, live in substandard and overcrowded conditions, or experience homelessness

Housing Credit: Overview

- An important contributor to the nation’s infrastructure and economic well-being
- State administered with limited federal bureaucracy
- A proven track record that has earned it decades of bipartisan support
- NCSHA advocates for the Housing Credit to be strengthened and expanded in response to the increasing affordable housing challenges in every state

Housing Credit: Outcomes

Housing stability:

- Contributes to better health
- Improves children's school performance
- Helps people gain and keep employment
- Promotes economic mobility
- Results in numerous indirect cost savings for federal, state, and local governments

Data Source

GAO

- Cost certification data from 12 Housing Credit agencies in 10 states:
  - State agencies: AZ, CA, FL, GA, IL, NY, OH, PA, TX, and WA
  - Local agencies: New York City and Chicago
- All allocating agencies' most recent Qualified Allocation Plans as of 2017

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- Cost certification data from 14 of the largest Housing Credit syndicators with projects located nationwide

Study Period, Geographic Coverage

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2011 – 2015

- All projects allocated Credits in the 10 selected states

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2011 – 2016

- Nationwide
- At least 2 projects from every state
- At least 25 projects in each of 35 states

Sample Size

GAO

- 1,849 projects
- Includes only projects financed with 9 percent Credits during the study period

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- 2,547 projects
- Includes 47 percent of projects financed with 9 percent Credits during the study period
- Includes 20 percent of projects financed with 4 percent Credits during the study period

Total Development Cost Per Unit

GAO	ABT ASSOCIATES
Median: $204,000	Median: $164,757
Mean: $222,809	Mean: $182,498

Adjusted Cost During Study Period

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New Construction:

- 7 percent increase
- 4 percent decrease net of CA projects

Rehabilitation:

- 26 percent decrease
- 13 percent increase net of NY projects

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- 8 percent increase overall

Land Costs

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- Roughly 5 percent of total development cost
- 12 percent of total development cost in CA

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- 17 percent for the sub-sample representing 44 percent of projects in the data set that specified land costs

Soft Costs

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- 30 percent
- Consistent across the 12 allocating agencies

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- 25 – 30 percent
- Broadly consistent across states and between new construction and rehabilitation[1]

[1] NCSHA analysis. Source: Fannie Mae, “Fannie Mae Multifamily Market Commentary,” March 2017.

Drivers of Development Costs

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- Urban projects are more expensive than non-urban
- Smaller projects (fewer than 37 units) are more expensive than larger projects (100+ units)

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"Highly Significant" drivers of higher cost:

- Locations in higher-cost regions
- States with higher construction costs
- Urban areas
- Difficult development areas
- Qualified census tracts

Drivers of Development Costs

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- Projects developed by nonprofit sponsors cost more than those developed by others
- Projects serving seniors cost less than those that do not

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Also “Highly Significant” is the degree to which:

- New projects cost more than rehabilitations
- Smaller projects cost more than larger projects

Market Context: Cost Comparison

According Dodge Data and Analytics, the average total development cost (TDC) per unit for multifamily new construction — **not including soft costs or land** — was $151,000 (2011 – 2016).

Adjusting the Dodge data for common estimates of soft costs and land yields a mean TDC between $196,000 and $204,000.

Abt's findings indicate the mean TDC for new construction of a Housing Credit unit was $209,000 over that time period. This includes costs that do not generally apply to market-rate properties, such as reserves and developer fees.

Thus, Housing Credit development costs are generally consistent with overall apartment development costs.

Source: Historical Starts Information: Multifamily Starts US Summary, Annual Totals, Dodge Data and Analytics, August 2018

Market Context: Cost Growth Comparison

Abt finds that Housing Credit developments costs generally grew in line with the average growth of all construction costs nationwide between 2011 and 2016, which was **about eight percent** over that period according to the RS Means Historical Cost Index.

A 2017 study by Fannie Mae found that overall apartment costs have risen **between 10 percent and 30 percent**, depending on the number of stories, over the past five years.

Source: Fannie Mae Multifamily Market Commentary (March 2017)

Market Context: Tradeoffs

The Abt findings illustrate the important tradeoffs involved in developing affordable housing across the United States:

- While it may be more expensive to build in high-cost areas, housing needs exist in high-cost as well as low-cost communities.
- While rehabilitating an existing building may be less expensive than new construction, suitable properties for redevelopment are not available everywhere — and new construction is a cost-effective approach in some situations.
- Smaller units cost less to build but are not appropriate for all households, and smaller projects cost more to build per-unit, but larger projects are not desirable in all locations.

About NCSHA

The National Council of State Housing Agencies is a nonprofit, nonpartisan organization created by the nation's state Housing Finance Agencies (HFAs) more than 40 years ago.

NCSHA advances the agencies' shared policy priorities with Congress and federal agencies; produces and disseminates educational, training, and best practice information for agency staff; and promotes HFA leadership and innovation in meeting their states' housing needs.

NCSHA's vision: An affordably housed nation

Learn more: **www.ncsha.org**