Lowering the Cost of Developing and Preserving Affordable Rental Housing

Observations and Best Practices

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Urban Land Institute
Terwilliger Center for Housing

Enterprise®

Initiative Overview and Update

- Collaboration w/ Terwilliger Center and Enterprise
- Phase I: Roundtables with over 100 key stakeholders in:
    - Chicago, Denver, Los Angeles, NYC, San Francisco
- Preliminary market research in 20+ cities
    - Site visit to Minneapolis and St. Paul
- Release dates
    - Issue brief – November 2013
    - National report – December 2013
    - Additional case studies to follow

Challenge: Understanding costs and putting them in context

- Critiques of industry generally reference Total Development Costs (TDCs)
    - TDCs can be effective in assessing broader trends or individual project
    - Less effective when making project-to-project comparisons
- When discussing costs, context is crucial

What are the common cost drivers for affordable housing preservation and development?

- Project scale
- Project design and construction
- Finance and underwriting
- Program and investor requirements
- State and local regulations and fees

Project Scale: Addressing barriers to optimizing the number of units in a project

- Additional units can defray fixed costs and make project more economical on per-unit basis
- Barriers to building at scale:
  - Lack of demand
  - Inadequate funding
  - Needs of target population
  - Density limits
  - Design requirements (size, amenities, etc.)

Design and Construction: Financial and policy framework has a significant impact on soft and hard costs.

- What are the barriers to reducing design and construction costs?
  - Site selection
  - Community opposition
  - Regulations preventing innovative techniques
  - Labor and wage requirements
- Elements to consider moving forward
  - Upfront vs. lifecycle costs
  - Customization vs. replication and standardization

Finance and Underwriting: Complexity, duplication and conflicting goals drive costs

- Affordable housing has an entirely different set of investors from market rate deals, with different motivations
- Multiple goals per investor x multiple investors per deal
- Complexity = Time = $

Finance and Underwriting: Capital availability dictates what gets built

- A lack of capital limits certain project/deal structures
  - Project-based, rather than entity-level finance
  - Acquisition of buildings needing little-to-no rehabilitation
  - Smaller multifamily properties
  - Mixed-income projects
  - Non-traditional construction techniques

- These projects are possible, but deviation from standard products adds complexity
  - Once again, complexity = time = $

Finance and Underwriting: The various funding sources influence the structure of affordable housing deals

- The structure and/or characteristics of the deal can drive costs
  - Type of contract, fees, method of Tax Credit allocation, impact of risk on underwriting and capital reserves

- "Layered finance" plays a significant role
  - Additional paperwork, fees, due diligence expenses
  - Compliance requirements
  - Longer timelines
  - Reduced competition

Program and Investor Requirements: Processes, rules and incentives can create additional costs

- Funding programs/investors requirements can limit flexibility
  - Design and construction standards
  - Rehabilitation minimums

- The methods in which funding is awarded/allocated can increase time, complexity and costs
  - Drawn out or staggered funding application processes and competitions
  - Frequency and timing of QAP changes

Program and Investor Requirements: Processes, rules and incentive can create additional costs

- Requirements/incentives to meet other social/policy goals
  - Site-specific incentives
  - Green building/energy efficiency
  - Commercial space
  - Community engagement
  - Match/leverage
  - Amenities

Program and Investor Requirements: Cost control measures can be counterproductive

- Well-designed measures can effectively counter other incentives that drive costs and spur innovation

- Poorly-designed measures can have significant negative impacts
  - Create “floors” instead of “ceilings”
  - Facilitate a “race to the bottom” in quality
  - Shut out specific markets and project types

State and Local Regulations and Fees: Local development context can create barriers to efficient development

- Taxes, entitlements, fees and approvals can be used to manage growth and fund infrastructure maintenance

- Poor design can reduce efficiency or stop project from being built
  - Excessive impact fees and infrastructure development requirements
  - Narrow limits on by-right development
  - Extended or unpredictable zoning, permitting and entitlement process
  - Community opposition

State and Local Regulations and Fees: Local development context can create barriers to efficient development

- Regulatory framework can influence project type, as well as design and construction costs
  - Parking minimums
  - Density, height and unit size requirements
  - Bans on project types
  - Building codes and rehabilitation standards
  - Role of public sector in site selection process
  - Qualified contractor rules
  - Procurement preferences
  - Wage rate regulations

Best Practices: Highlighting innovations from around the country

- MassDocs loan document system (Massachusetts)
  - Combines legal paperwork/processing for all subordinate financing

- King County "First Look" policy (King County, WA)
  - Disposition process for public land includes affordable housing preference

Best Practices: Highlighting innovations from around the country

- Enterprise/Deutsche Bank Lowering Cost Competition Winners
  - Multifamily prefabrication and lifecycle underwriting (Portland, ME)
  - Accessory Dwelling Units (Austin, TX)

- HFA incentives for cost control
  - Line-item cost standards
  - Segmented QAP competitions
  - “Blind bid” competitions

Stay Connected

Mike Spotts
Senior Policy Analyst
Enterprise Community Partners
202-649-3902
mspotts@enterprisecommunity.org

Molly Simpson
Program Manager
ULI Terwilliger Center for Housing
202-624-7138
molly.simpson@uli.org

For more information:

http://www.uli.org/research/centers-initiatives/terwilliger-center-for-housing/research/cost-of-rental-housing/