Lowering the Cost of Developing and Preserving Affordable Rental Housing

Observations and Best Practices

St. Paul, MN I September 25, 2013
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
Affordable housing has an entirely different set of investors from market rate deals, with different motivations. Multiple goals per investor multiplied by multiple investors per deal leads to complexity, which equates to time and costs.
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/