May 25, 2023 Agenda Item 7.a.

Affordable Housing Construction Cost Drivers

Subject:

Presentation on Affordable Housing Construction Costs and Drivers of Cost Variations between Jurisdictions and Building Types

Background:

In February 2023, BAHFA staff provided the BAHFA Oversight and ABAG Housing Committees with a presentation on the number of affordable housing developments currently in predevelopment planning stages in the Bay Area (the “Bay Area Pipeline”). Part of the Bay Area Pipeline study was an estimate of average per-unit total development costs (TDC) by county, which varied widely:

County	Total Development Cost
Alameda	$687,673
Contra Costa	$700,216
Marin	$906,860
Napa	$548,573
San Francisco	$816,512
San Mateo	$784,772
Santa Clara	$720,658
Solano	$501,913
Sonoma	$567,224

Committee members requested that staff return with additional information regarding the principal drivers of affordable housing construction costs and explanations for the significant differences in costs between counties.

Key Findings:

Total construction cost is a function of:

- Land
- Materials
- Labor
- "Soft Costs," e.g., architectural/engineering fees, financing expenses, developer fees, impact fees
- Reserves

Obviously, development in jurisdictions with lower land costs have an advantage regarding cost control. But all nine Bay Area counties face similar cost issues with respect to materials, labor, and professional and financing fees. The key factors driving affordable housing costs up throughout the Bay Area include:

1) Materials Cost Inflation: the cost of building materials has increased significantly in recent years, especially for wood, plastics, and composites, such as concrete and cement.
    a) The costs of these items increased 65% between 2010 and 2020, after adjusting for inflation
2) Labor:
    a) Construction Worker Shortage: according to a 2020 Terner Center for Housing Innovation (Terner Center) study, permitted units in California increased 430% between 2009-2018, but the number of construction workers increased only 32%. And the Associated General Contractors of America and Autodesk reported in 2021 that 78% of construction companies are having difficulty hiring workers.
    b) Prevailing Wages: a significant percentage of affordable developments require payment of prevailing wages, as determined by the California Department of Industrial Relations. While this policy is intended to protect workers, Terner Center research indicates requirements associated with prevailing wages add between 10%-35% to total development cost, depending on the jurisdiction, due to the increased need for administrative personnel and the resulting constriction of the

general contractor and subcontractor pool to those willing and able to take on the administrative burden.[1]

3) Financing with Multiple Sources of Funds: most affordable housing developments require at least 4 – and sometimes as many as 10 – funding sources to achieve feasibility. Each source has its own application, program requirements, and timeline. Putting these sources together is time-consuming, complex and expensive.

In addition to these generally applicable cost concerns, location and specific requirements imposed by individual cities and counties on housing development can further exacerbate high cost problems. Examples of these issues include:

1) Dense Urban Infill Sites: Type 1 construction (primarily using concrete and steel) typically associated with these locations is significantly more expensive than Type V wood-framed construction.

2) Suburban Sites Discouraging Density: Jurisdictions that discourage density, either through zoning or per-unit fees, lose the opportunity to achieve economies of scale and reduce costs.

3) Jurisdictions With Heavy Regulatory Burdens: Some jurisdictions also create costly building requirements, e.g.,

   i. Lengthy entitlement processes

   ii. Parking minimums and/or underground parking for developments more than .5 miles from transit

   iii. High per-unit impact fees

   iv. Imposition of non-housing policy goals onto development

Summary:

While the state and many individual jurisdictions have made great progress in creating more streamlined paths for housing development, there remain multiple ways the Bay Area can work to reduce construction costs and thereby build the affordable home its residents need. These include:

1. Further entitlement streamlining efforts

[1] Reid, C. (2020). "The Costs of Affordable Housing Production: Insights from California's 9% Low-Income Housing Tax Credit Program," p. 11. Terner Center for Housing Innovation at UC Berkeley.

2. Prioritizing housing production over other policy goals until housing costs and production targets are met.

3. Supporting new methods and materials that promise a faster development timeline or reduced costs.

Issues:

None

Recommended Action:

Information

Attachment:

A. Presentation

Reviewed:

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