Construction Cost Drivers
BAHFA Advisory Committee
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Bay Area Housing Finance Authority

ASSOCIATION OF BAY AREA GOVERNMENTS
METROPOLITAN TRANSPORTATION COMMISSION

LIHTC Total Development Cost Per Unit

County	Enterprise Pipeline - 2022	LIHTC Placed-In-Service 2018-2022	Number Projects	Projects Awarded LIHTC 2021-2022	Number Projects
	TDC Per Unit	TDC Per Unit		TDC Per Unit	
Alameda	$687,673	$721,437	21	$701,044	14
Contra Costa	$700,216	$440,860	9	$601,525	12
San Francisco	$816,512	$860,776	14	$900,572	10
San Mateo	$784,772	$847,285	4	$599,841	7
Santa Clara	$720,658	$596,839	12	$735,809	29
Napa	$548,573	-	0	$543,213	3
Marin	$906,860	-	0	$715,637	3
Solano	$501,913	-	0	$487,243	5
Sonoma	$567,224	-	0	$565,618	13
BAY AREA	-	**$695,333**	60	**$678,560**	96
STATEWIDE	-	-	-	**$547,969**	433

Projects include New Construction and Acquisition/Rehab Developments in all three data sources.

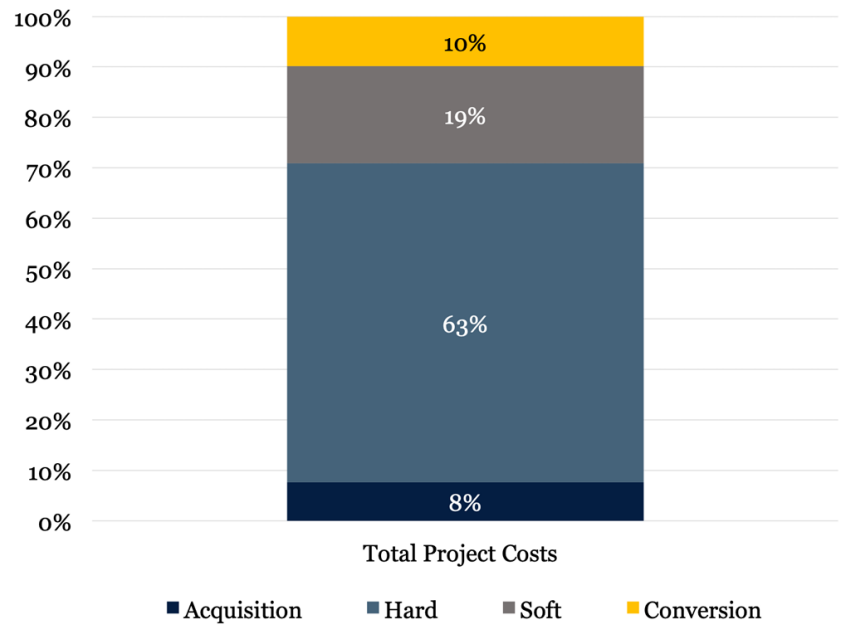
Enterprise's Pipeline data includes applicants only, while Placed-in-Service and LIHTC Awards are awarded projects which skew towards lower development costs.

All values are adjusted for inflation using CPI.

Types of Construction Costs

1. Acquisition Costs (8%)
   - Land and Closing costs
2. “Hard” Construction Costs (63%)
   - Materials, structures, and labor
3. “Soft” Costs (19%)
   - Legal and professional fees
   - Financing and closing costs
   - Developer fees
4. Conversion Costs (10%)
   - Title fees and operating reserves

Figure 1: Total Development Costs for Multifamily Projects in California (Completed 2010-2019)



Source: Raetz, H. et al. (2020). “The Hard Costs of Construction: Recent Trends in Labor and Materials Costs for Apartment Buildings in California.” Terner Center for Housing Innovation

Drivers of "Hard" Costs: Materials & Labor

- **Materials**: Since 2010, wood, plastics, and composites rose by 110%, finishes rose by 65%
- **Wages**:
  - Prevailing wage administrative requirements add 10-35% to cost
    - Requires payroll certification and Dept. of Industrial Relations registration; payments often delayed, so GC has to "float"
    - GC and subcontractor pools are reduced
    - Actual worker wages over time are flat
- **Workforce Shortage**: From 2009 to 2018:
  - Permitted units increased more than 430%
  - Construction worker count increased by 32%

Drivers of "Hard" Costs: Building Type & Location

- **Larger Developments Can Achieve Efficiencies of Scale, *but***
  - Many jurisdictions prohibit larger, denser affordable development
  - High-Density Urban Infill Projects Cost More:
    - Type I projects (5-7 stories, steel, and concrete,) cost $65 more per sq ft than Type V (wood frame over concrete platform)
- **City Design & Fee Requirements Can Add Significant Costs**
  - Underground parking or parking minimum outside of .5 mi from transit
  - High per-unit impact fees

Drivers of "Soft" Construction Costs

- **Multiple Funding Sources** are necessary for feasibility
  - 80% of 9% LIHTC projects included 4-8 funding sources (2008-2019)
    - Every new funding source = unique application and program requirements, time delays, added complexity, additional legal fees
- **Regulatory Burden** increases time delays, uncertainty and cost, e.g.
  - Lengthy entitlement processes (zoning changes, variances, conditional use applications)
  - Discretionary, separate, and/or detailed architectural review

Higher Bay Area Construction Costs

Figure 8: Construction Costs Per Square Foot, Statewide and Bay Area Weighted Averages (2008-2018)

Statewide cost increase between 2014 and 2016 driven primarily by materials cost increases.
Source: Raetz, H. et al. (2020). Terner Center for Housing Innovation.

Policy Choices to Lower Construction Costs

Multiple Actions Necessary to Reduce Costs

- **Streamline** entitlements and funding application processes
- **Reduce Regulatory Burdens** – prioritize housing goals over non-housing policies until housing targets are met
- **Support Innovative Construction** methods and materials
- **Grow the Construction Workforce** through training and reduction of bureaucratic barriers, e.g., prevailing wage reporting obstacles and added costs

833 Bryant Case Study

Four Main Cost Efficiencies

- **Upfront commitment** to defined and ambitious cost and timeline goals
- **Deployed unrestricted capital** to fund construction
- **Streamlined** ministerial approval process under SB 35
- **Innovative Construction** using off-site construction allowing for both site work and modular construction to shorten the development timeline

Results:

TDC per unit of $377K, $265K (41%) lower than the median TDC per unit of $642K for 25 PSH projects in SF

Development timeline was 41% shorter, from entitlement to Placed-In-Service

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Thank You.

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