

At a Glance:

In January 2014, Enterprise and the ULI-Terwilliger Center for Housing released *Bending the Cost Curve: Solutions to Expand the Supply of Affordable Rentals*. The report identified numerous cost drivers and included specific recommendations for improving cost-effectiveness without sacrificing quality or resident opportunity.

The research team has continued to collect information on challenges and best practices. This *Policy Focus* issue brief highlights progress in three areas: *Measurement and Analysis*; *Comprehensive Planning*; and *Implementing Innovation*.

Bending the Cost Curve Findings

What are the drivers of cost?

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

What are the drivers of cost?

- Promote cost-effectiveness through consolidation, coordination, & simplification.
- Remove barriers to reducing construction costs & delays.
- Facilitate a more efficient deal assembly & development timeline.
- Improve the flexibility of existing sources of financing & create new financial products to better meet needs.
- Support the development & dissemination of information & best practices.

Cost-effectiveness in the affordable rental housing delivery system has become even more important in recent years, as housing insecurity grows but many resources for affordable housing stagnate or decline.¹ To confront these dual trends, Enterprise and the Urban Land Institute – Terwilliger Center for Housing have engaged in an ongoing research initiative that included the release of our *Bending the Cost Curve: Solutions to Expand the Supply of Affordable Rentals* report last January. The report identified numerous cost drivers and included specific recommendations for improving cost-effectiveness without sacrificing quality or resident opportunity.

Since the release of *Bending the Cost Curve*, the research team has continued collecting information on challenges and best practices. We found both interest in and action to address this topic remains strong, independent of this initiative. The team has also engaged with practitioners to assist in implementing cost-control measures and spurring innovation.

This *Policy Focus* issue brief will highlight three notable efforts to address development costs in the affordable rental housing delivery system:

- **Measurement and analysis:** Using data to identify priorities for cost control in California.
- **Comprehensive planning:** Developing a long-term, multifaceted approach to lowering costs and meeting housing needs in Boston.
- **Implementing innovation:** In partnership with the *Bending the Cost Curve* research team, using a competitive process to identify and put into practice new cost-saving ideas in Minnesota.

These are just a few of the many examples of progress throughout the country. The *Bending the Cost Curve* research team will continue to work with practitioners to identify and disseminate best practices and support implementation.

¹ According to the most recent data, more than one-third of U.S. households spend more than 30 percent of income on housing, driven largely by continued weakness in employment and stagnant incomes. The problem is both broad and deep, with a significant portion of the last decade's growth in cost-burden among households spending more than 50 percent of their income on housing (5.8 million households). Joint Center for Housing Studies, "The State of the Nation's Housing 2014," Cambridge, Mass.: Harvard University, June 2014, http://www.jchs.harvard.edu/research/state_nations_housing.

Measurement and analysis: Using data to identify priorities for cost control in California

There are range of cost drivers in the affordable housing delivery system. Many of these drivers are influenced by state policies, local/regional housing markets and/or the type of housing being produced. Effective interventions therefore require an analysis that identifies the challenges and priorities within the relevant development context.

In October, the four California state agencies with jurisdiction over affordable housing policy released *Affordable Housing Cost Study: Analysis of the Factors That Influence the Cost of Building Multi-Family Affordable Housing in California*.² The authors completed a statistical analysis of 400 Low-Income Housing Tax Credit (Housing Credit) developments in the state that were approved from 2001–2011 and placed-in-service no later than 2012. In addition, the research included a detailed discussion and review of literature on the importance of affordable housing to a range of issues, including education, health, the economy and the environment.

While the findings in this regression analysis cannot be extrapolated to the rest of the country, the *Affordable Housing Cost Study* does provide some illustrative data on the drivers of cost, many of which we also identified in *Bending the Cost Curve* (cost data excludes land costs):

• Project Scale

- Scale matters, both in terms of achieving overall affordable housing supply goals and in reducing per-unit costs. Each 10 percent increase in the number of apartments reduces per-unit costs by 1.7 percent.³ However, a higher number of apartments does not translate to lower costs in every case. There was a 10 percent premium associated with developments with four or more stories,⁴ which may correlate with developers having to switch from wood-frame to steel construction. That being said, the exclusion of land costs from this analysis may hide per-unit cost savings for taller buildings with more apartments, as these may be more likely to be built in denser, urbanized areas with higher land costs.

• Project Design and Construction

- Reinforcing what was repeatedly heard during *Bending the Cost Curve* research interviews, there was a 6 percent premium associated with developments that had underground or podium parking.⁵
- There may be savings from vertical integration within the development team, as having an on-staff general contractor was associated with lower costs.⁶

• Finance and Underwriting

- Both anecdotal and some statistical evidence identified during the *Bending the Cost Curve* research process indicated that having multiple financial sources added to development costs, both direct and indirect. However, the California study did not find costs related to the number and type of funding sources to be statistically significant.⁷ Regardless of the extent to which financial layering adds cost, efforts that reduce overlap and duplication could still result in greater efficiency.

2 California Department of Housing and Community Development, California Tax Credit Allocation Committee, California Housing Finance Agency and California Debt Limit Allocation Committee, "Affordable Housing Cost Study: Analysis of the Factors That Influence the Cost of Building Multi-Family Affordable Housing in California," California, October 2014, <http://www.hcd.ca.gov/hpd/docs/FinalAffordableHousingCostStudyReportwithcover2.pdf>.

3 California Dept. of Housing & Community Development et al., 35.

4 California Dept. of Housing & Community Development et al., 44.

5 California Dept. of Housing & Community Development et al., 44.

6 California Dept. of Housing & Community Development et al., 35.

7 California Dept. of Housing & Community Development et al., 41.

• Program & Investor Requirements; State & Local Regulation

- The study found a 7 percent increase in costs associated with local design and review requirements.⁸
- While it has long been hypothesized that local opposition – including but not limited to NIMBY (Not-in-My-Backyard) disputes – can add time and cost to a development, that effect has been difficult to quantify. This study was able to estimate costs associated with this challenge, finding that community opposition is associated with a 5 percent increase in costs.⁹

The relationships between multiple factors can be complex. While parking can be characterized as a construction cost, overall parking space counts are often mandated by program and investor requirements or local regulation. Vertical integration can be inhibited by government procurement regulations that prevent developers from assembling a full team early in the process. Finally, community opposition can have an impact on the number of apartments, the number of parking spaces, and the design elements of a structure. This interrelation calls for an integrated approach to the issue of cost-effectiveness, as this study's authors acknowledge:

“The factors influencing costs are multifaceted, with no single factor explaining all or even most of the cost of developing affordable housing. Therefore, any approach to lowering costs must look across multiple factors, rather than focusing on a single issue. Next, each of the actors in the development process – local communities, developers, state and federal agencies – plays a role in influencing how much a project will cost to develop.”¹⁰

Comprehensive planning: Developing a long-term, multifaceted approach to lowering costs and meeting housing needs in Boston

The city of Boston has set out to implement this type of integrated approach to meet its affordable housing needs. Boston already benefits from a number of statewide innovations that contribute to the goal of more cost-effective affordable housing development, including the [MassDocs consolidated loan document system](#), the [One-Stop Low Income Housing Tax Credit application](#) and [One-Source financing](#), among other innovations. Yet while these statewide policies are important, real estate development is inherently local. Boston is currently experiencing high demand for housing, which is putting pressure on the existing supply, driving up costs and putting pressure on low- and moderate-income households:

- Rents are rising at an annual rate of 13.2 percent since 2010, compared to income increases of 2.4 percent per year.¹¹
- In six of Boston's 15 neighborhoods, the share of low-income households is declining, while the share of more affluent households is rising. In an additional five neighborhoods, both low- and middle-income households have declining shares of the population.¹²
- At the same time, the cost of development is rising. Typical multifamily development costs (not specific to affordable housing development) often exceed \$400,000 per unit,¹³ and the amount of per-unit subsidy needed for affordable developments has increased from 2010-2014.¹⁴

8 California Dept. of Housing & Community Development et al., 34.

9 The report authors used a proxy definition of having four or more community meetings to indicate community opposition; California Dept. of Housing & Community Development et al., 34.

10 California Dept. of Housing & Community Development et al., 47.

11 City of Boston, “Housing a Changing City: Boston 2030,” Boston: City of Boston, October 2014, <http://www.cityofboston.gov/dnd/boston2030.asp>, 47.

12 City of Boston, 16.

13 City of Boston, 49.

14 City of Boston, 28.

New Boston Mayor Martin J. Walsh has identified housing supply and costs as a crucial challenge for his administration and has set up a Housing Transition Team and Housing Advisory Task Force, consisting of representatives from the public, private, financial, development and philanthropic sectors. These groups contributed to the development of *Housing a Changing City: Boston 2030* (*Boston 2030*), a comprehensive assessment of current and future housing needs and potential affordable housing strategies. Specifically, the report included:

- A deep analysis of fundamental supply and demand dynamics, including the downstream impacts of a lack of senior and student housing.
- A complete analysis of demographic trends and housing needs moving forward through 2030, projecting population growth of 20 percent.¹⁵ There is projected workforce growth of 26,600 households between 2010 and 2030, with 10,500 of these households expected to be middle income.¹⁶
- Goals, strategies and financial projections for meeting the housing needs of Boston's current and future residents. The plan sets a goal of 53,000 new housing units (a 20 percent increase in housing stock),¹⁷ 13,500 of which are intended to be privately-produced middle-income units.¹⁸ The incremental cost of addressing these needs is estimated to be \$20 million annually, for a total city housing budget of \$51 million.¹⁹

Though the report addresses significantly more issues than just those related to cost-effectiveness, this topic is specifically addressed utilizing a number of different interventions (using the *Bending the Cost Curve* recommendation framework):

Boston 2030 states that the city will work to **remove barriers to reducing construction costs and delays** in the following ways:

- Revising and consolidating design requirements without compromising habitability or accessibility.²⁰ This initiative has already been put into effect. The city, the state Department of Housing and Community Development, the Massachusetts Housing Partnership and MassHousing recently released the *Multifamily New Construction Design Requirements and Guidelines*, applying to developments within Boston.²¹
- Supporting new technologies to reduce construction costs.²²
- Partnering with developers to structure reasonable-priced developments.²³
- Collaborating with the building trades to reduce the construction costs of producing middle-income housing, with options that include applying residential construction rates to affordable and workforce housing projects.²⁴

15 City of Boston, 1.

16 City of Boston, 48.

17 City of Boston, 4.

18 City of Boston, 5.

19 City of Boston, 113.

20 City of Boston, 31.

21 For more information on the City of Boston's Design Requirements and Guidelines, visit: https://dnd.cityofboston.gov/portal/v1/contentRepository/Public/dnd%20pdfs/HousingDevelopment/14-1_Design_StandardsFinalAugust2014.pdf.

22 City of Boston, 31.

23 City of Boston, 31.

24 City of Boston, 55.

- Exploring reform of parking standards to accommodate non-automobile centric development.²⁵
- Promoting innovation by creating a Housing Innovation Lab. The lab will link innovations developed in the region’s academic institutions to practice and will focus on deploying real and practical solutions to address housing needs. It will explore all facets of housing challenges, including innovations to lower the cost of housing, creating greater accessibility through improved design or using housing policy as a tool for reducing crime.²⁶

The city will also work to **facilitate a more efficient deal assembly and development timeline** by:

- Studying best practices and potentially eliminating zoning barriers to the development of “in-law” apartments²⁷ and supporting the development of mixed-tenure, mixed-income housing.²⁸
- Addressing supply constraints in the following ways:
 - Doubling the pace of middle-income housing production, creating 20,000 new units of housing affordable to Boston’s middle class workforce and increasing the pace of production to over 800 units per year.²⁹
 - Producing new dormitories to free up 5,000 units currently utilized by students.³⁰
 - Creating 4,000 middle-income assisted units via the Inclusionary Development Policy or units subsidized in mixed-income developments.³¹
 - Encouraging private developers to create housing that is affordable to the middle class by allowing significant density in areas affordable to these households.³²
 - Streamlining the permitting processes to help small builders develop affordable homes on privately-owned vacant parcels.³³
- Launching a residential zoning reform process to create more as-of-right support for housing production citywide, particularly around transit nodes and on vacant lots.³⁴
- Improving the permitting process to unlock greater housing production through tools and practices, such as a universal online application/tracking portal; concurrent zoning relief and design review guidance; reviewing smaller projects through a separate forum; and strengthening city performance management and accountability.³⁵
- Committing to complete transparency and creating an online resource for resident and community engagement.³⁶

25 City of Boston, 106.

26 City of Boston, 125.

27 City of Boston, 69.

28 City of Boston, 55.

29 City of Boston, 49.

30 City of Boston, 54.

31 City of Boston, 54.

32 City of Boston, 55.

33 City of Boston, 56.

34 City of Boston, 122.

35 City of Boston, 122-126.

36 City of Boston, 123.

Improving and aligning incentives is also an important component of *Boston 2030*. The city plans to:

- Prioritize cost-efficient, high-quality developments when selecting projects for city and state funding programs and encourage developers to design and build to specific price points.³⁷
- Encourage private developers to create middle-class housing by providing property tax incentives for middle-income housing.³⁸

Financing availability dictates what is built. The *Boston 2030* plan sets a goal of retaining at least 97 percent of Boston's 30,435 privately-owned affordable apartments.³⁹ To accomplish this, the city will work to **improve the flexibility of existing sources of financing and create new financial products and policies to better meet needs** by:

- Utilizing the existing Chapter 40T program, which requires public notice before sale and institutes a right of first refusal to preserve affordability.⁴⁰
- Considering out-of-round funding access for the preservation of privately-owned affordable properties.⁴¹
- Creating a new Acquisition/Conversion Program that will make it easier to acquire existing rental properties and convert them into permanent affordable housing. Aimed at creating mixed-income developments, the program would provide access to privately-funded acquisition capital, provide project-based rental assistance for a percentage of the apartments, offer expedited access to 4 percent Housing Credits and offer out-of-round gap funding from city/state resources.⁴²
- Developing a new financing model that supports the creation of new, low-income rental housing and does not depend on 9 percent Housing Credits. This model would be developed with state cooperation and targeted at most cost-efficient projects. It is anticipated that the program would utilize 4 percent Housing Credits, state Housing Credits and city/state gap sources.⁴³

Implementation of the policy proposals included in *Boston 2030* will require strong partnerships with multiple levels of government and throughout the affordable housing delivery system. There is also a recognition that meeting the city of Boston's goals will be more difficult to achieve if other municipalities in Greater Boston do not act to support affordable housing. To illustrate, if all municipalities in the region complied with Massachusetts' Chapter 40B affordable housing law (which sets a goal of 10 percent affordability goal for Massachusetts municipalities), there would be 11,500 more apartments in the region. There would be 56,700 additional apartments if the full region achieved Boston's rate of 19 percent.⁴⁴ Therefore, the city has stated that it will work with housing advocates and other municipalities to increase the supply of affordable housing in the Greater Boston region.⁴⁵

Boston 2030 is an ambitious plan designed to address costs in a comprehensive manner. That being said, there is a significant amount of work that will need to be done to accomplish its goals

37 City of Boston, 31.

38 City of Boston, 55.

39 City of Boston, 42.

40 City of Boston, 40 & 44.

41 City of Boston, 44.

42 City of Boston, 31.

43 City of Boston, 32.

44 City of Boston, 29.

45 City of Boston, 7.

Implementing innovation: Using a competitive process to identify and put into practice new cost-saving ideas in Minnesota

The best practices exhibited in Boston's broad-based planning process are complemented by the lessons learned from the targeted implementation activities undertaken in the state of Minnesota. Minnesota is another high-capacity state with a history of innovation in its affordable housing delivery system. It has consolidated various public and philanthropic funding sources into a single competitive process. It has also utilized a data-backed approach to incorporating cost-effectiveness benchmarks and incentives into its Housing Credit allocation competition.

Over the course of the last year, leadership in the state's affordable housing community has also **supported the development, implementation and dissemination of best practices**, in the form of the [Minnesota Challenge to Lower the Cost of Affordable Housing](#) (MN Challenge). The MN Challenge is an idea competition co-sponsored by the Minnesota Housing Finance Agency (MN Housing), the McKnight Foundation, Urban Land Institute of Minnesota (ULI-MN)/Regional Council of Mayors (RCM) and Enterprise. The goal of the MN Challenge is to "support innovative problem solving from interdisciplinary teams of housing professionals resulting in a systematic concept that lowers the cost of developing affordable housing in Minnesota."

The MN Challenge was launched in January 2014, in coordination with the release of *Bending the Cost Curve*. The competition was divided into two phases, with participants initially asked to develop brief descriptions of an innovative, cost-saving concept. An interdisciplinary jury selected three top finalists, each of which received a small grant to conduct more due diligence on their proposal. The winner received financial resources and implementation support from MN Housing and the McKnight Foundation.

In June, the sponsors announced that the [University of Minnesota Center for Urban and Regional Affairs](#) (CURA) was the MN Challenge winner for its proposal to "Address State and Local Regulatory Cost Drivers." CURA will identify barriers to cost-effectiveness in the regulatory framework, identify best practices and tailor recommendations to specific communities, and provide technical assistance to a select group of communities. The team will also work to incorporate cost-saving techniques into regional policies and practices. Streamlining local policies and eliminating barriers is particularly timely given the build-out of the Twin Cities rail transit network and an increased focus in competitive federal transportation funding programs on the [preservation and creation of affordable housing near transit](#).

Encouragingly, the conversations and efforts spurred by the MN Challenge have extended beyond the framework of the competition itself. MN Housing and the McKnight Foundation are working with local, state and national partners to conduct due diligence and potentially implement several innovative measures already in place elsewhere, including a Minnesota version of MassDocs and a proposal to insure or guarantee reserves that is similar to the [Massachusetts Housing Reserve Assurance Program](#).

Next Steps in Bending the Cost Curve

The preceding examples do not constitute an exhaustive list of the innovative cost-saving work being conducted throughout the country. Many other jurisdictions are at various stages of implementing their own innovative programs and policies. Moving forward, the *Bending the Cost Curve* research team will continue to identify and disseminate best practices and work to support stakeholders throughout the affordable housing delivery system in these efforts.

To share challenges and best practices or request more information, please contact Michael A. Spotts, Enterprise senior analyst – project manager at 202.649.3902 and mspotts@enterprisecommunity.org.