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The High Cost of Housing Development in California

SPUR Digital Discourse, June 4, 2020

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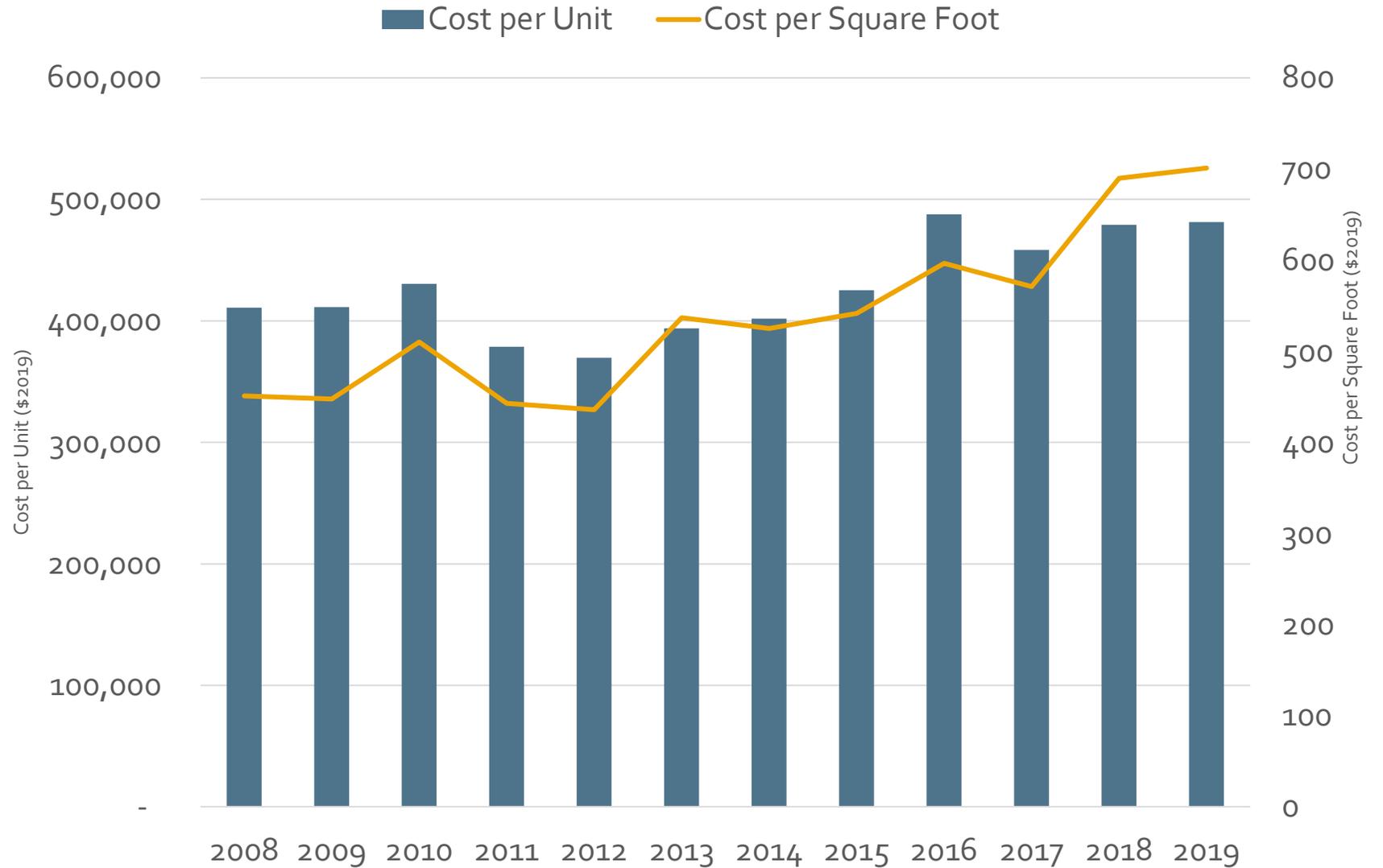
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Introduction

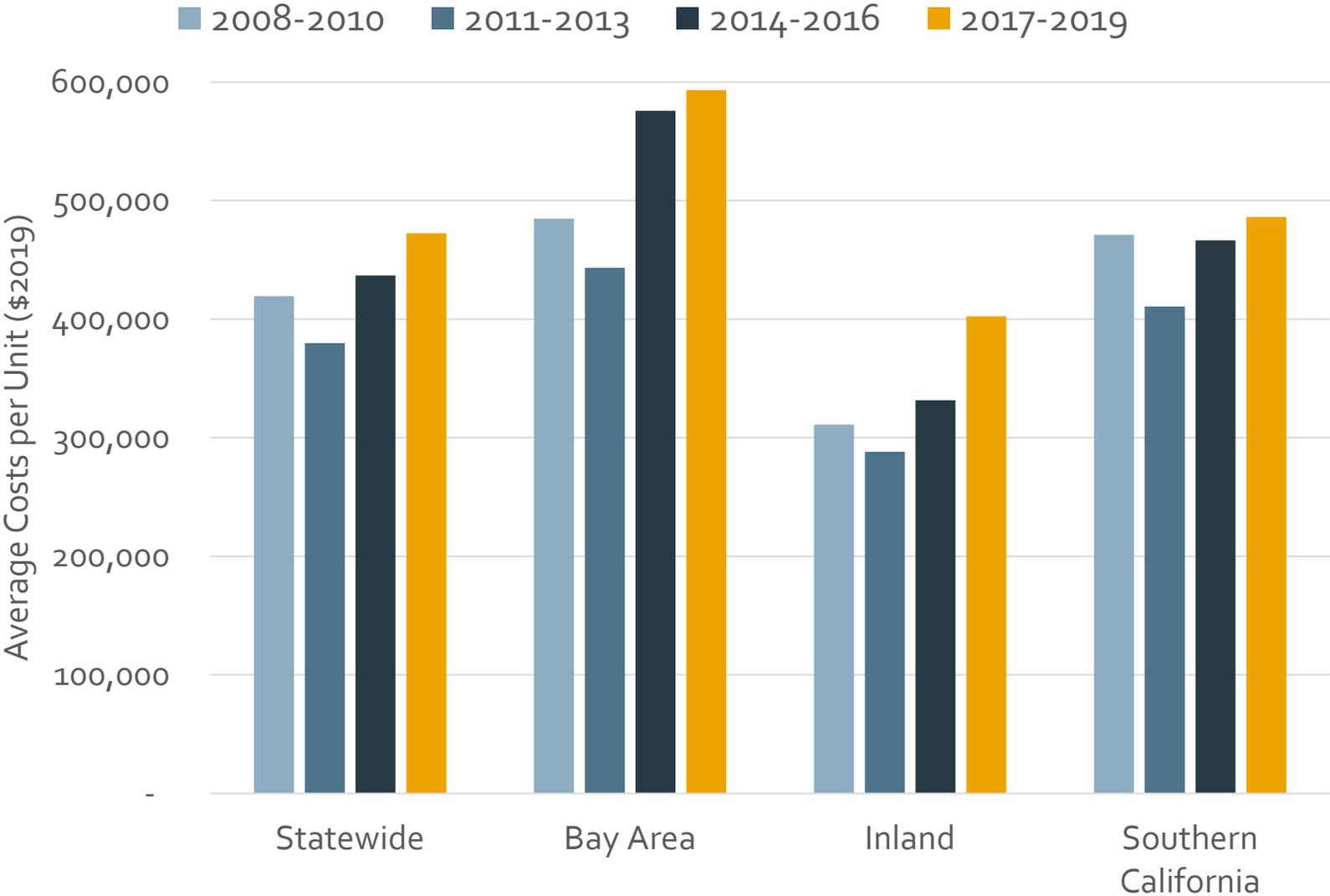
- The rising cost of housing development in California works directly against the state's affordability and equity objectives
- Data on the cost drivers are hard to come by, and the nature of development makes it difficult to do "apples-to-apples" comparisons
- Turner Center: Cost of Building series
- Key finding: there isn't a magic bullet – drivers are complex
 - Some are shaped by larger market forces outside of CA's control
 - Some are shaped by critical policy priorities, e.g., environmental sustainability, living wages, access to opportunity
 - But – some are solvable: lengthy entitlements (and design revisions), excessive impact fees, funding fragmentation

Costs of Development Have Risen Steadily Since 2012/2013

LIHTC 9% projects give us one window into these rising costs.

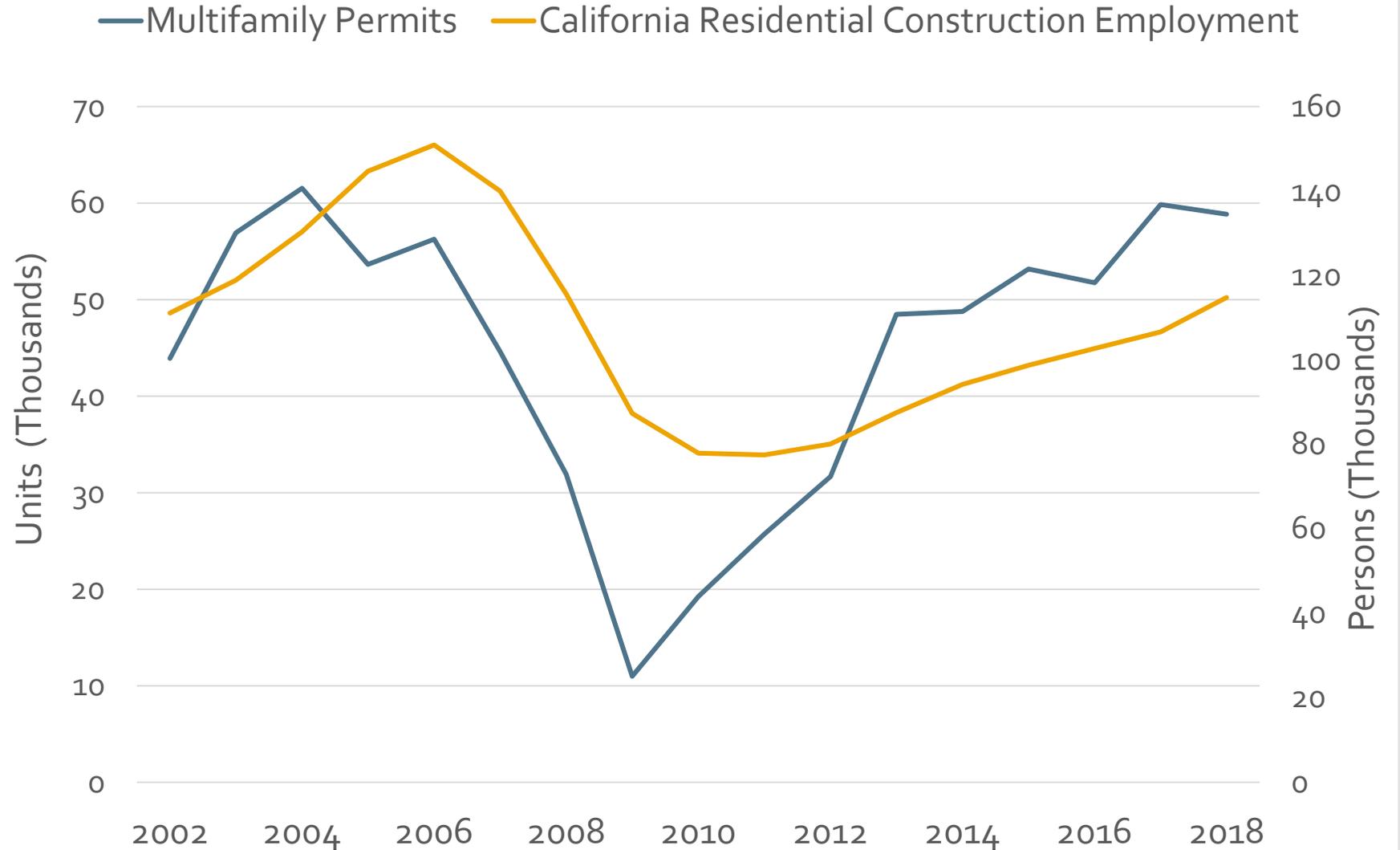


Bay Area Costs are Highest in State



Key Drivers: Labor Market Constraints

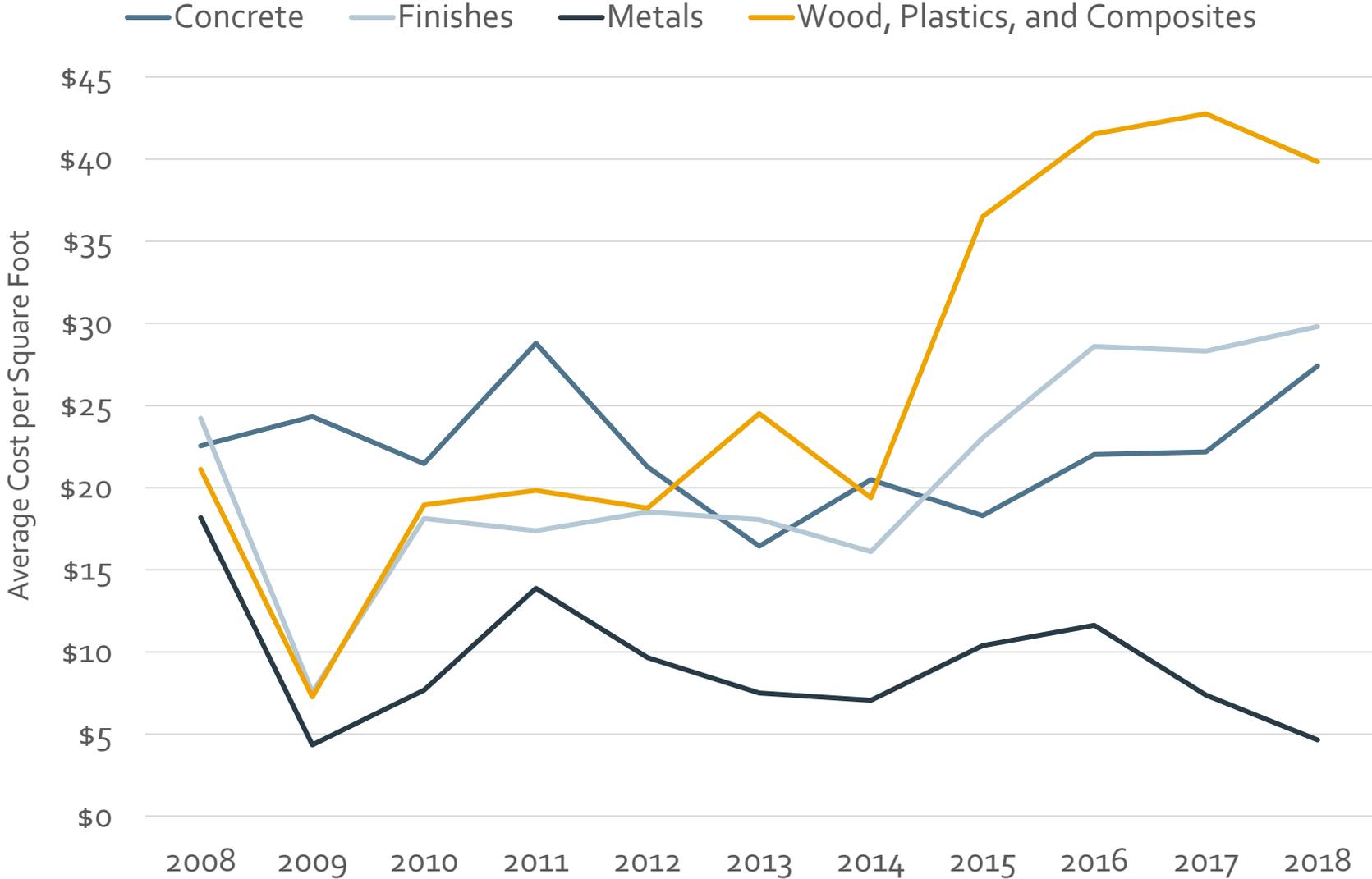
Mismatch between supply of construction labor (particularly experienced/skilled workers) and demand

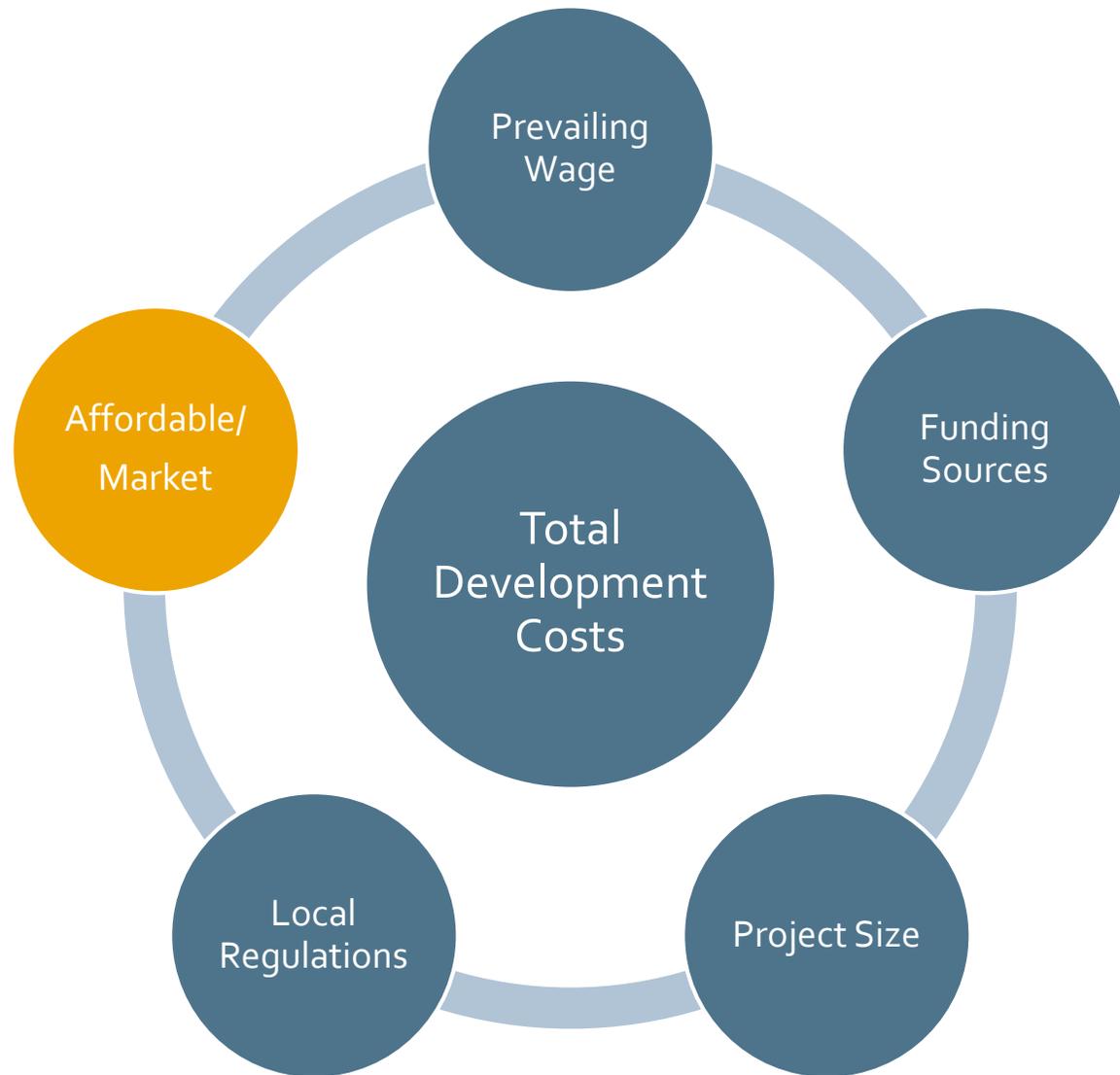


Sources: State of California Department of Finance, Construction Permits, Annual data, from 1975, Residential (units and valuation). Retrieved from: http://www.dof.ca.gov/Forecasting/Economics/Indicators/Construction_Permits/; Federal Reserve Bank of St. Louis and U.S. Bureau of Labor Statistics, All Employees: Construction: Residential Building Construction in California [SMUo6000002023610001A]. Retrieved from: FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/SMUo6000002023610001A>. January 9, 2020.

Key Drivers: Materials

With the exception of metals, materials have become more expensive since 2016





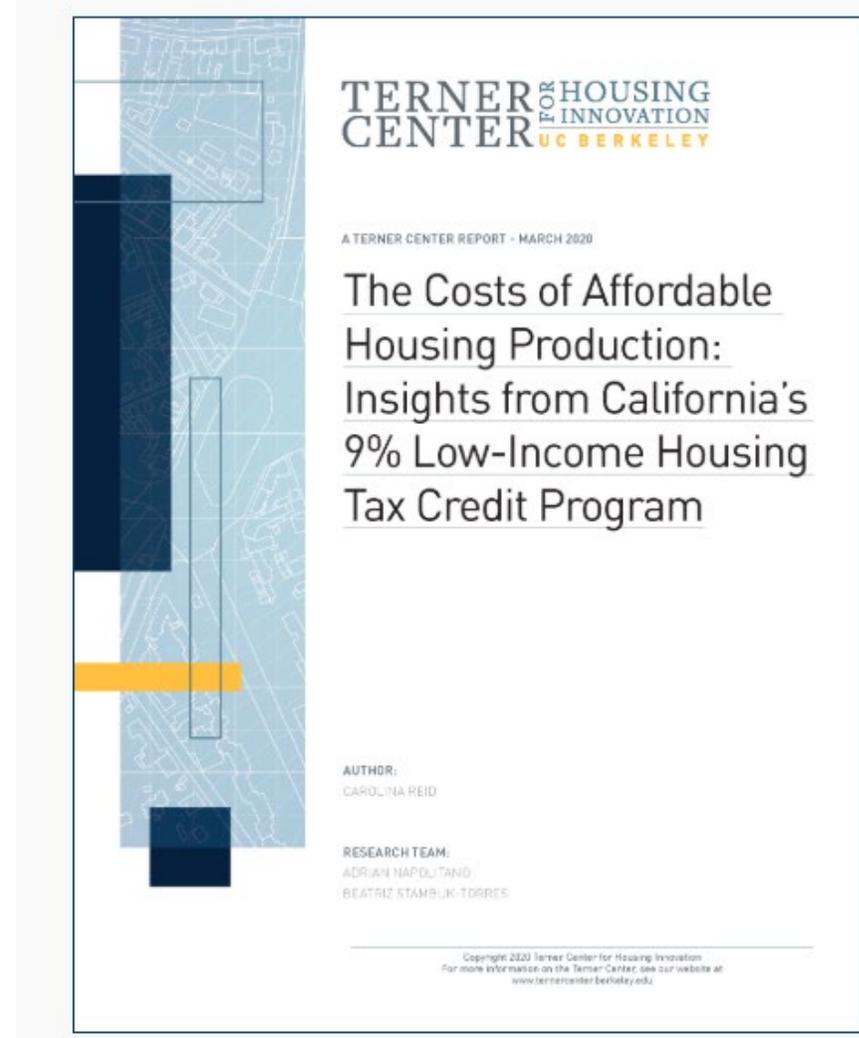
Key Drivers: Model Results

- Although evidence isn't conclusive, affordable housing appears to cost more than market-rate housing to build
- Models help us to explain why, and allow us to compare "apples to apples" projects
 - Project size
 - Prevailing wage (and local hire requirements)
 - Funding complexity
 - Environmental sustainability requirements
 - Local requirements (e.g. parking, impact fees)

Recommendations

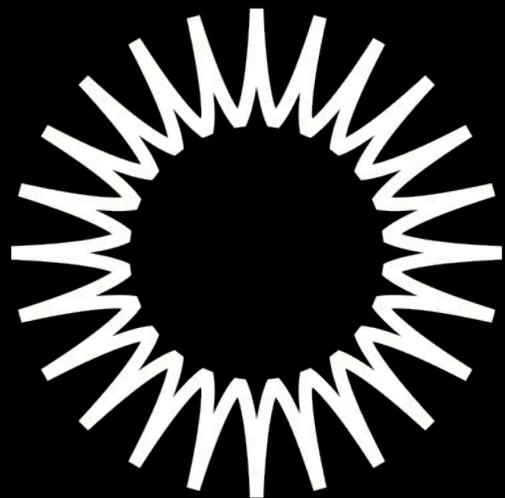
- Better data collection and transparency
- The state should review building code and environmental regulations, and assess the relative costs and benefits of additional regulations against the need for more housing (life cycle accounting, distributing costs across all housing, not just new housing)
- Continue to build on and strengthen the state's Regional Housing Needs Allocation (RHNA) process to ensure that all jurisdictions are expediting the approval of their fair share of housing for low-income households (limit "bells and whistles" required of affordable housing, development fees)
- Review and reform the system for determining 9% LIHTC application points and the eligible basis for new projects in the Qualified Allocation Plan (QAP).
- The state should streamline funding and better target its resources to reach households at all AMI levels

Complete Studies





THANK YOU!



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