Proposed Final Report

Analyzing Development Costs for Low-Income Housing

January 2019

Development costs for a sample of projects are consistent with independent estimates.

Commerce can improve cost controls, and the Housing Finance Commission has opportunities to lower costs by examining for-profit developer participation.

Amanda Eadrick and Aaron Cavin

WASHINGTON
JLARC

In 2017, the Legislature directed JLARC to compare development of low-income housing and market-rate housing.

JLARC review:

- Compared the processes of developing housing.

- Analyzed development cost data for low-income housing projects.

Low-income housing developers have a more complicated and restrictive process

Low-Income	Market-Rate
Several funders	Fewer funders
Possible wage and contracting requirements	No additional requirements
Rental restrictions	No restrictions
Sale restrictions	No restrictions

Two main programs finance low-income housing development

Department of Commerce	Housing Finance Commission	
Housing Trust Fund	9% Low-Income Housing Tax Credit (LIHTC)	Bond and 4% LIHTC
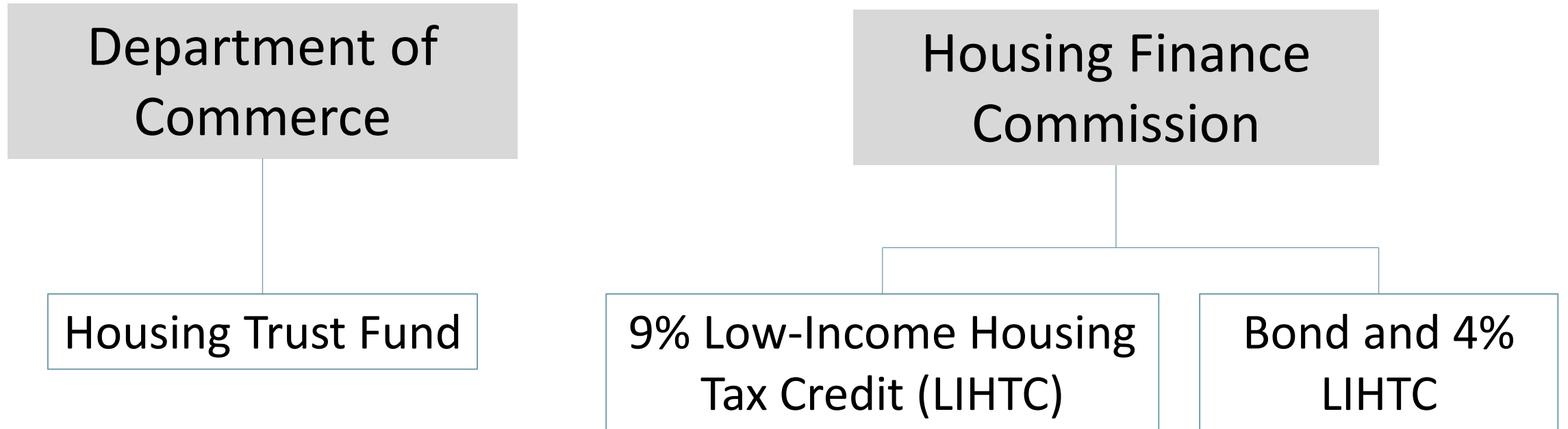
Are agencies controlling and reporting costs?

Housing Finance Commission follows best practices.

Commerce does not track final development costs.

Development cost data not reported.

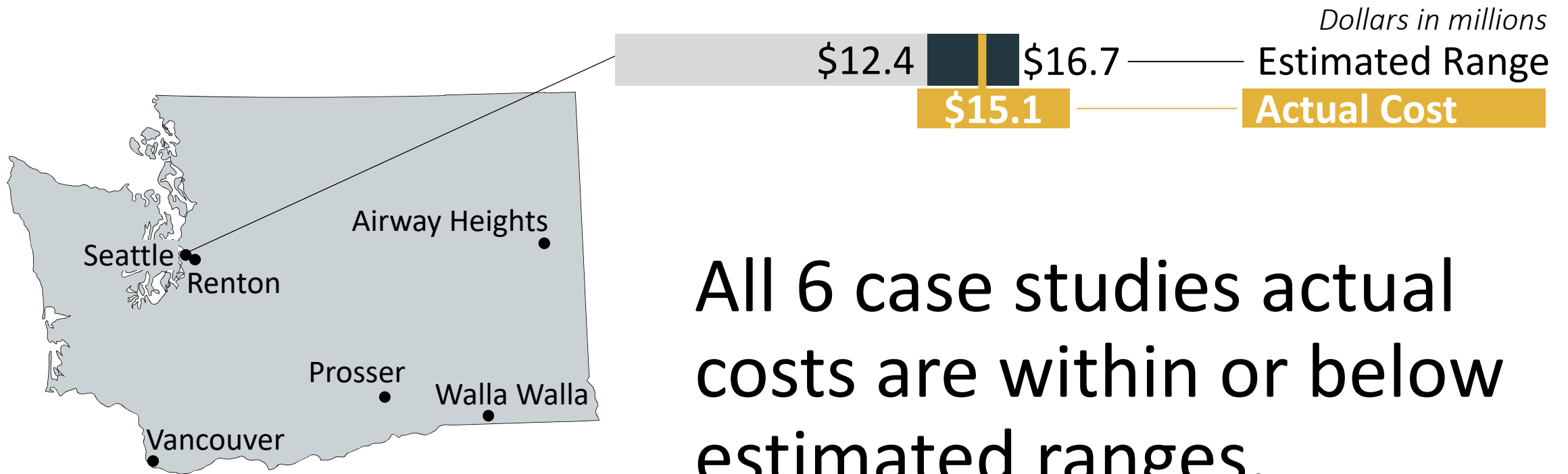# Legislative Auditor Recommendations

Commerce should **collect final development cost data** from Housing Trust Fund recipients to improve cost controls.

Commerce and the Housing Finance Commission should **report development cost data** to the Legislature annually.
- Commerce and the Commission should coordinate to identify metrics.
- Data should include development cost per unit for each project.

Did actual low-income housing development costs fall within estimated ranges?

Dollars in millions

$12.4 ▮▮ $16.7 ———— Estimated Range

$15.1 ———— Actual Cost

Seattle
Renton
Airway Heights
Prosser
Walla Walla
Vancouver

All 6 case studies actual costs are within or below estimated ranges.

What are cost drivers of low-income housing?

King County	⬆	
Higher area rent	⬆	Location
Higher area poverty	⬆	
Older housing stock	⬆	
More units per project	⬇	
More bedrooms per unit	⬇	Project characteristics
New construction	⬆	
Vertically integrated	⬇	Developer Type
For-profit	⬇	

For-profit developers associated with lower development costs

For-profit ⊕ example

Development that costs:
$100K/bedroom If developed by a for-profit

Predicted to cost:	
$115K/bedroom If developed by a nonprofit	**$128K/bedroom** If developed by a housing authority

For-profit developers less prevalent in 9% program

Bond/4% Tax Credits

Nonprofit	36 projects
Housing Authority	38
For-Profit	44

9% Tax Credits

Nonprofit	79 projects
Housing Authority	32
For-Profit	12

For-profit developers have not received the 9% tax credit since 2013.

Commission policies favor nonprofits and housing authorities for 9% tax credits

9% tax credits

- Highly competitive.
- Reserved for projects that house people with lowest income and highest need.
- Scoring criteria favors nonprofits and housing authorities.
  - For-profits may get points if they co-own a project with a nonprofit or housing authority.

Co-ownership has not occurred.

Legislative Auditor Recommendation

> The Housing Finance Commission should **identify and evaluate options for increasing the involvement of for-profit developers** in the 9% tax credit program and report their findings to the Legislature.

- There are a variety of options the Commission could evaluate for increasing participation.

- Lessons learned from for-profit developer participation in the bond/4% tax credit may apply to the 9% tax credit.

Legislative Auditor Recommendations

1 Housing Finance Commission should **identify and evaluate options for increasing the involvement of for-profit developers** and report findings.

Commission concurs

2 Department of Commerce should **collect final development cost data** from Housing Trust Fund recipients to improve cost controls.

Commerce concurs

3 Both Commerce and the Commission should **report development cost data** to the Legislature annually.

Agencies concur

WASHINGTON JLARC

Full Report

http://leg.wa.gov/jlarc/reports/2018/LIH/pf/default.html

Contact Us

Research Analysts

Amanda Eadrick	Aaron Cavin
(360) 786-5174	(360) 786-5194
amanda.eadrick@leg.wa.gov	aaron.cavin@leg.wa.gov
Geoff Cunningham	**Eric Whitaker**
(360) 786-5183	(360) 786-5618
geoffrey.cunningham@leg.wa.gov	eric.whitaker@leg.wa.gov
Pete van Moorsel	
(360) 786-5185	
pete.vanmoorsel@leg.wa.gov	

Eric Thomas   **Project Coordinator**

(360) 786-5182
eric.thomas@leg.wa.gov