

Analyzing Development Costs for Low-Income Housing

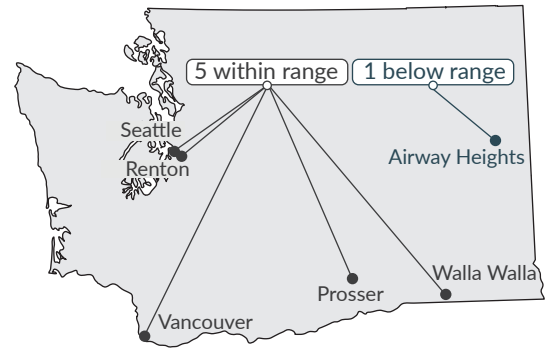
Why this study: In 2017, the Legislature directed JLARC to analyze the costs of developing low-income housing and compare them with market-rate costs. Comparable market-rate data was not available, so JLARC staff analyzed development costs for state low-income housing development programs.

The two largest state housing development programs are the:

- Low-Income Housing Tax Credit Program, administered by the Washington State Housing Finance Commission
- Housing Trust Fund, administered by the Department of Commerce

Six case studies found development costs were within or below estimates from independent experts

Independent cost estimators calculated retrospective estimates for six Low-Income Housing Tax Credit (LIHTC) projects. Actual costs were within or below the estimated cost ranges.



Housing Finance Commission has opportunities to lower costs by examining for-profit developer participation

Statistical analysis of 241 projects built from 2009-2016 found that projects have higher or lower costs depending on the **developer type** and **vertical integration**.

↓ ↑ — Impact on development cost

For-profit	↓	Housing authority	↑
Vertically integrated	↓	Nonprofit	↑

Current Housing Finance Commission (Commission) policies favor nonprofits and housing authorities for certain projects.

DEFINITIONS

Developers can be nonprofits, housing authorities, or for-profit entities.

Vertically integrated developers serve as their own general contractor or have a shared interest with the project's general contractor.

Commerce should collect development cost data to improve cost controls

Commerce lacks data to monitor final development costs. This limits the ability to evaluate development costs of Housing Trust Fund projects and report costs to the Legislature.

In 2012, to increase Housing Trust Fund cost effectiveness, Commerce recommended evaluating development costs over time. Without collecting development cost data, this recommendation cannot be implemented.

Legislative Auditor recommends

1. The Housing Finance Commission should identify and evaluate options for increasing the participation of for-profit developers in the tax credit program.
2. Commerce should collect final development cost data from projects it funds.
3. Commerce and the Commission should report low-income development cost data to the Legislature annually.

The complete report is on the JLARC website.

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