Cost Containment Report
2022

MINNESOTA HOUSING

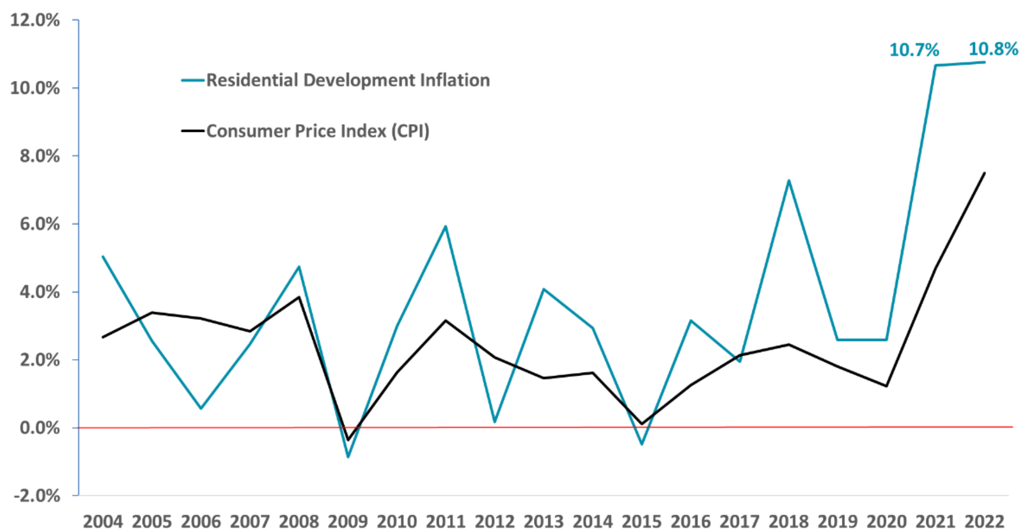
OVERVIEW AND CONTEXT

Containing the cost of housing development is a critical issue in Minnesota. In 2021, about 591,000 Minnesota households were cost burdened by spending more than 30 percent of their income on housing.[1] To address the shortage of housing that is affordable, we need to build and preserve more affordable homes across the state, especially for households with lower incomes, which is challenging.

- Current development resources for affordable housing are not scaled to meet the need. Currently, about 5% of new rental construction is underwritten to be affordable to households with incomes at or below 50% of the area median income, while the share needs to be 49% if the rents of new units are to match the incomes of renters.[2]

- Housing development costs have risen rapidly, over 10% each of the last two years.[3] See Figure 1.

Figure 1: Inflation 2004 to 2022



In addition, effective cost containment is nuanced and involves policy tradeoffs. For example:

[1] Minnesota Housing analysis of data from the U.S. Census Bureau's American Community Survey (2021, 1-year sample).
[2] Minnesota Housing analysis based on data from the Metropolitan Council (2016-2020 construction) and of HUD's 2015-19 CHAS (Comprehensive Housing Affordability Strategy) data.
[3] Minnesota Housing analysis based on data from the Bureau of Labor Statistics' Producer Price Index for residential construction goods, the Minnesota Department of Employment and Economic Development's weekly wage data for the multifamily housing construction sector, and CoStar data about acquisition costs in Minnesota.

- Using lower-quality materials and less efficient systems will reduce upfront costs, but they can also increase ongoing maintenance, repair and utility costs, which may not be cost-effective in the long run.
- Using lower-quality materials and more basic designs for a building's exterior will also reduce costs, but they will also make it more challenging to fit affordable housing in the surrounding neighborhood, particularly higher-income communities, which can lead to community opposition and increase costs related to delays, re-design and projects not moving forward.
- Siting developments in less expensive locations can save money, but it can also reduce tenants' access to jobs, services, amenities, safe neighborhoods, public transportation, good schools and other benefits.

We based our 2020-2023 Strategic Plan on the principle that housing is the foundation for success, providing individuals, families and communities the opportunity to thrive. To achieve this outcome for as many lower-income households as possible, our goal is to finance high-quality, durable, location-efficient housing that provides access to jobs, transit and other amenities and is built at reasonable costs. We are balancing the goal of cost containment with other policy objectives.

Overall, as the following assessment shows, for projects financed by the agency, there has been relatively consistent total development costs (TDC) even when we have focused on policy objectives that can increase development costs, including supportive housing for people experiencing homelessness and people with disabilities, energy-efficient and healthy homes, and locations that provide access to jobs, transit and other amenities. As cost pressures escalate and are exacerbated by supply chain issues, we will continue to identify and pursue additional strategies to contain and reduce costs, including encouraging different types of construction methods.

This report is broken into two sections – the first addresses multifamily costs, and the second addresses single family costs.

MULTIFAMILY COSTS

In a typical year, we distribute $150 million to $200 million for multifamily development.[4] We work to allocate these funds efficiently and effectively to address the significant shortage of rental housing that is affordable, particularly for those with the lowest incomes. The first part of

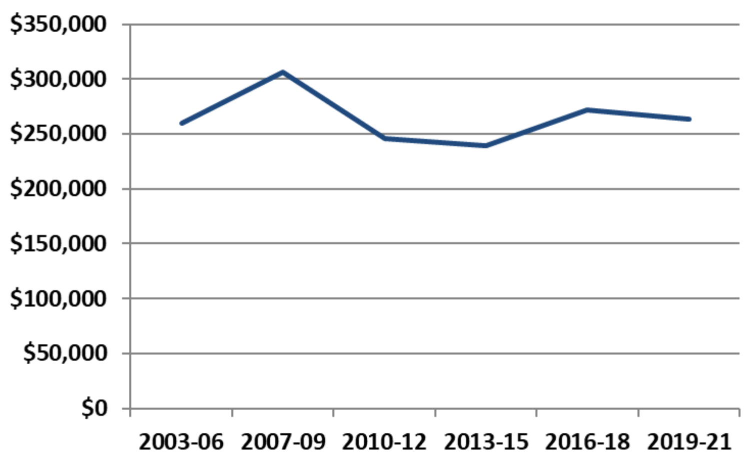
[4] This includes syndication proceeds from 9% housing tax credits.

this Multifamily section provides an overview of our results, and the second part outlines our strategies for achieving those results and pursuing additional cost containment.

Overview of Multifamily Costs

Overall, the average TDC per unit for the housing we have financed has been around $265,000 (in 2022 dollars) for the last decade and a half, after adjusting for inflation in residential development. The data in Figure 2 applies to all types of developments, including new construction, rehabilitation, metro area, Greater Minnesota, tax credit, non-tax credit, workforce housing and supportive housing. The trend line is influenced not only by the underlying cost trends but also by the mix of projects in a given year.[5] For example, a larger share of resources going to new construction with tax credits in the metro area will increase average costs, while a larger share going to rehabilitation without tax credits in Greater Minnesota will decrease average costs.

Figure 2: Average TDC per Unit 2003 to 2022 – All Types of Developments (Adjusted for Residential Development Inflation, 2022 Dollars)



To control for the mix of projects in the trend line, Figure 3 shows average TDC per unit just for new construction projects with tax credits in the metro area. Again, average costs are relatively constant, but at a slightly higher level, around $340,000.

[5] To increase the comparability of the data, we excluded developments with a TDC per unit that were less than $40,000, which took out rehabilitation projects with a more limited scope of work and added consistency to the level of rehabilitation being assessed. We also excluded developments with an overall acquisition cost of less than $10,000, which excludes projects with no acquisition or heavily subsidized acquisition.

Figure 3: TDC per Unit 2003 to 2021 – New Construction with Tax Credits in the Metro Area (Adjusted for Residential Development Inflation, 2022 Dollars)

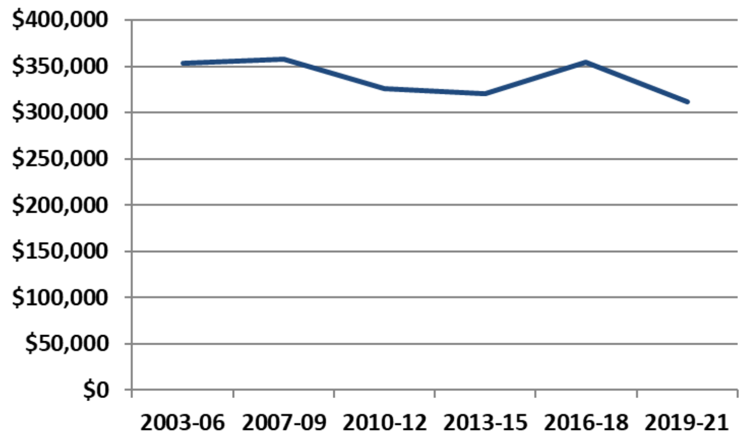
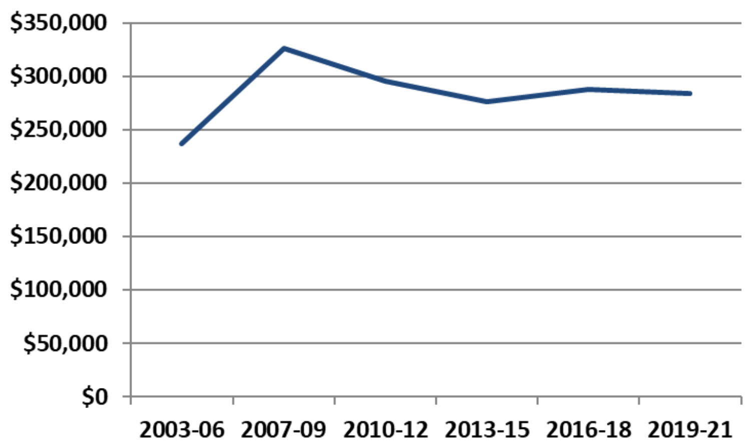


Figure 4 shows the equivalent graph for Greater Minnesota, with lower costs ($275,000) but similar cost containment.

Figure 4: TDC per Unit 2003 to 2021 – New Construction with Tax Credits in Greater MN (Adjusted for Residential Development Inflation, 2022 Dollars)



Most importantly, we have contained costs while new policy objectives and policy changes have put upward pressure on costs.

- In 2003, we added a selection and funding priority for supportive housing for people experiencing homelessness, which is generally a more costly type of development.
- In 2007, we added our Green Communities Overlay, which requires our developments to have energy-efficient and healthy-home features.

- In the last several years, we strengthened our location efficiency priority by making it more geographically precise and increasing the points it receives in the selection process. Housing that is in a walkable neighborhood and near transit, jobs and other amenities can be more expensive.

- More projects are now requiring prevailing wages.

While these policy changes have occurred, we also added cost containment provisions.

- In 2006, we first developed and started using our predictive cost model, which compares a development's proposed costs with the costs that we would expect for that development based on the Agency's experience with similar projects and industry-wide standards. This process flags high-cost developments and helps maintain costs at a reasonable level.

- With the Qualified Allocation Plan (QAP) for the 2014 Low-Income Housing Tax Credits (LIHTC), we added a selection criterion to incentivize minimizing costs by giving a preference to the 50 percent of tax credit applications with the lowest TDC per unit, taking into account unit sizes, location and type of activity (new construction versus rehabilitation). With the 2022-2023 QAP, we removed this scoring criterion. We were concerned that the points were a disincentive to use innovative energy efficiency/conservation efforts, which can add to upfront development costs but provide long-term benefits and savings. The scoring also became complicated by the fact that some state requirements, such as prevailing wage, increase costs and apply to most tax credit developments but not all. Finally, the criterion did not appear to have a substantial impact on costs, which did not go down after it was put in place, and we were effectively containing costs prior to it being added. We will continue to monitor costs to see if removing this selection criterion has an impact on the costs going forward.

- In 2014, we also launched the Minnesota Challenge to Lower the Cost of Affordable Housing, which was initiated as an idea competition to identify and address system-level factors (such as land use policies or design standards) that increase costs for all developments. Since this initial competition, we have carried out several activities to address these systemic-cost drivers.

- In 2019 through 2021, we participated in and co-sponsored the Construction Revolution, which is an initiative to increase innovation in residential construction techniques with a focus on modular and offsite construction.

More information on these initiatives is provided in the report's next section.

To contain costs, it is important to understand the factors that drive costs. Table 1 provides a break-out of costs by project type, location and cost component.

- New construction with tax credits in the Twin Cities metro area is the most expensive type of project, while rehabilitation without tax credits in Greater Minnesota is the least expensive.

- Not surprisingly, construction accounts for the clear majority of costs in new construction projects, while construction and acquisition costs are both key cost drivers of rehabilitation projects. Addressing these costs will have the largest impact in reducing or containing TDCs.

- While soft costs (non-construction/non-acquisition costs) account for a smaller share of TDC (14 percent to 24 percent), they should be a focus of cost containment strategies. Reducing construction costs can affect the quality, durability and energy efficiency of the housing, and reducing acquisition costs can affect location efficiency. While soft costs are a necessary component of a housing development, eliminating inefficiencies in these costs will not affect the quality of the housing. The complexity of financing affordable housing adds to the soft costs.

- Low-Income Housing Tax Credits (LIHTC) appear to add about seven percentage points to the share of TDC attributable to soft costs, likely due to the added complexity and cost of putting together and financing a tax credit deal. For developments without tax credits, soft costs account for 14 to 17 percent of TDC. That percentage jumps to 21 to 24 percent for developments with tax credits.

Table 1: Share of TDC by Project and Credit Type and Location for Developments Completed between 2003 and 2021 (Adjusted for Residential Development Inflation, 2022 Dollars)

			Average TDC per Unit	Share of TDC			N
				Construction	Acquisition	Soft	
New Const.	LIHTC	Metro	$339,000	69%	7%	24%	105
New Const.	No-LIHTC	Metro	$276,000	73%	10%	17%	21
New Const.	LIHTC	Greater MN	$276,000	74%	5%	21%	72
New Const.	No-LIHTC	Greater MN	$245,000	78%	7%	15%	17
Rehab	LIHTC	Metro	$274,000	36%	41%	23%	46
Rehab	No-LIHTC	Metro	$175,000	39%	47%	14%	31
Rehab	LIHTC	Greater MN	$167,000	42%	37%	21%	43
Rehab	No-LIHTC	Greater MN	$123,000	43%	41%	17%	25

Strategies for Containing and Reducing Multifamily Costs

As mentioned earlier, we have taken a three-pronged approach to containing costs up to this point.

1. Assess Cost Reasonableness.

2. Incent Cost Containment and Reductions in the Selection of Projects for Housing Tax Credits, which was removed from the 2022-2023 QAP.

3. Address Systemic Cost Drivers.

Strategy 1: Assess Cost Reasonableness

Minnesota Housing assesses each development for cost reasonableness. An important tool for identifying high-cost developments is our predictive cost model. The model predicts a development's TDC per unit based on its characteristics. To develop the parameters for the model, we run a multivariate regression analysis on the inflation-adjusted costs and characteristics of the developments that the Agency financed between 2003 and 2021. The analysis uses the historical data to assess the effect that each of the following factors simultaneously has on TDC per unit:

- Activity Type:
  - New Construction
  - Extensive Rehabilitation[6]
  - More Limited Rehabilitation
  - Combination of New Construction and Rehabilitation
  - Conversion/Adaptive-Reuse
- Building Type:
  - Walkup
  - Elevator
  - Townhome
  - Single Family Home/Duplex
- Number of Stories
- Unit Size – based on average number of bedrooms per unit in the development
- Gross Square Footage
- Location:
  - Minneapolis or Saint Paul

[6] This involves more extensive work on the interior, exterior, electrical and mechanical systems of a property. "Extensive" versus "more limited" is determined by staff using internal definitions.

    - Suburbs in Twin Cities Seven-County Metro Area
    - Greater Minnesota – Large City[7]
    - Greater Minnesota – Regional Job Center[8]
    - Greater Minnesota – Rural
- Year Built
- Underground Garage
- Acquisition:
    - Land
    - Structure
    - None
- Financing:
    - Tax Credits
    - Number of Funding Sources
- Special Costs:
    - Historic Preservation
    - Environmental Abatement
    - Supportive Housing
    - Prevailing Wages

We apply the model's cost parameters for these factors to a proposed development to predict its costs. The model is also benchmarked against industry-wide cost data to ensure that our costs are in line with the industry. With different development characteristics, the predicted total development costs for new construction can vary from $220,000 to $585,000 per unit (in 2024 dollars, when 2022 selections will most likely draw funds).

Overall, the model explains a sizable portion (57% to 74%) of the variation in the costs for developments that we financed between 2003 and 2021, which is a robust result.[9] For comparison, Abt Associates (a national consulting firm) released in August 2018 a cost analysis of housing tax credit developments from across the county, and their regression models

[7] The large cities are Duluth, Rochester, St. Cloud, Moorhead and Mankato, and include a five-mile commute shed around the cities.
[8] There are 51 regional job centers, which are the top 15 percent of cities and townships in number of jobs. They include: Albert Lea, Albertville, Alexandria, Austin, Baxter, Bemidji, Brainerd, Buffalo, Cambridge, Cloquet, Cold Spring, Crookston, Detroit Lakes, Elk River, Fairmont, Faribault, Fergus Falls, Goodview, Grand Rapids, Hibbing, Hutchinson, International Falls, La Prairie, Little Falls, Marshall, Montevideo, Monticello, Morris, North Mankato, Northfield, Onamia, Owatonna, Park Rapids, Perham, Pipestone, Red Wing, Roseau, Saint Michael, Saint Peter, Sartell, Sauk Rapids, Thief Rivers Falls, Virginia, Waite Park, Waseca, Willmar, Windom, Worthington and Wyoming. These areas also include a five-mile commute shed around the cities.
[9] The model explains about 73% of the variation in construction costs and about 56% of the variation in soft costs.

explained 52 to 54 percent of the variation in the national data.[10] Similarly, the U.S. Government Accountability Office (GAO) released in September 2018 another cost analysis of tax credit developments, and their regression models explained 63 to 65 percent of the variation in their national data.[11] Besides the statistical rigor, the model has proven very effective over the last decade and a half in objectively and systematically flagging developments with high costs. Each year, we revise and enhance the model based on the previous year's results and staff feedback.

Over time, we have tested models that predict costs on a per-unit and a per-square-foot basis. Based on our testing, the per-unit models have explained a larger share of the variation. We believe this has occurred for two reasons. First, some costs are clearly tied to the unit and do not increase with the size of the units. For example, apartments regardless of unit size have one kitchen (unless single-room-occupancy). Second, and most importantly, the per-unit model that we use includes a cost factor that accounts for unit size. Developments with larger units and more bedrooms have higher predicted costs.

Under current practice, when staff recommend to the Board developments for funding, they identify the developments with a proposed cost that is more than 25 percent higher than the model's predicted cost, and the Board can decide to grant a waiver allowing the higher cost. For the higher-cost projects that staff recommends for funding, staff needs to explain why the proposed costs are reasonable even though they are above the 25 percent threshold. There are a wide range of valid reasons why the costs could be reasonable. For example, a housing development and site may be critical to meet a local housing need, but the site requires an unusually large amount of environmental remediation.

While the predictive cost model is a useful tool to identify high-cost developments, it is not the only way that Agency staff review cost reasonableness. The professional judgment and expertise of our underwriting and architectural staff also play a critical role in the assessment of cost reasonableness. Even if a project has costs that are within the 25 percent predictive cost model threshold, staff can still question costs if they seem high given the context of the development. Our staff has extensive experience reviewing funding applications and development costs. Each year, they typically evaluate 75 or more applications.

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[10] Abt Associates, *Variation in Development Costs for LIHTC Projects* (prepared for the National Council of State Housing Agencies, August 30, 2018). The adjusted R-Squared values shown in the appendix varied from 0.5222 to 0.5433.

[11] U.S. Government Accountability Office (GAO), *Low-Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessments and Fraud Risk*, (September 2018, GAO-18-637). The adjusted R-Squared values shown in Appendix II varied from 0.626 to 0.648.

Strategy 2: Incent Cost Containment and Reductions in the Selection of Projects for Low-Income Housing Tax Credits

For the Qualified Allocation Plans (QAPs) for 2014 through 2021 Low-Income Housing Tax Credits, we added a cost criterion for selecting developments that receive the credits. The 50 percent of tax credit applications with the lowest TDC per unit were eligible to receive six points in the selection process. We controlled for activity-type and location cost differences by dividing the applications into four groups.

1. New Construction in the Twin Cities metro area
2. New Construction in Greater Minnesota
3. Rehabilitation in the Twin Cities metro area
4. Rehabilitation in Greater Minnesota

Within each of the four groups, the applications with the lowest costs were eligible for the points. As a result, projects only competed with similar projects for the points. When comparing costs and awarding points, we also adjusted the costs to account for unit size differences. Projects with predominantly smaller units (efficiencies and one bedroom) had their costs adjusted upward when making comparisons; projects with predominantly large units (three or more bedrooms) had their costs adjusted downward.[12] This leveled the playing field when comparing costs.

As explained earlier, we eliminated these cost containment points with the 2022-2023 QAP.

Strategy 3: Address Systemic Cost Drivers

The first two strategies address costs that are specific to individual developments. Systemic cost drivers outside the control of developers are critical issues that also need to be addressed. These cost drivers range from local policies and regulations that increase the cost of housing (such as maximum densities), to the cash reserves that funders and investors may require for affordable housing developments, to the complexity of assembling the multiple sources of funding that make an affordable housing deal work.

In January 2014, Enterprise Community Partners and the Urban Land Institute's (ULI's) Terwilliger Center for Housing released a report on best practices from across the country to address these systemic cost drivers.[13] Overall, the report finds that containing and reducing

[12] To be classified as a development with small units, 75 percent or more of the units have to be efficiencies or have one bedroom. To be classified as a development with large units, 50 percent or more of the units have to have three or more bedrooms.
[13] Enterprise Community Partners and Urban Land Institute's Terwilliger Center for Housing*, Bending the Cost Curve on Affordable Rental Development: Understanding the Drivers of Costs* (January 2014).

costs in a prudent and effective way does not involve a single magic bullet. Rather, housing costs are driven by dozens of small inefficiencies. As one of the lead authors described it, “death by a thousand cuts.”[14]

To take on these cost drivers, we partnered with the McKnight Foundation, Enterprise, and ULI/Regional Conference of Mayors to create an initiative for Minnesota to implement these types of practices, which became the MN Challenge to Lower the Cost of Affordable Housing. It began in the winter of 2014 as an idea competition. We asked the development community to create cross-discipline teams (developers, funders, attorneys, local officials, housing advocates, etc.) and develop and submit ideas to address these systemic cost drivers. From the 12 submissions, we selected one to receive $70,000 for implementation.[15]

The winning idea was submitted by the Center for Urban and Region Affairs at the University of Minnesota, the Housing Justice Center, and Becker Consulting. Their proposal addressed the issue of local practices and policies that add to the cost of affordable housing, including fees, land-use and zoning policies, approval processes, and others. These cost drivers have been identified and known for years. The value of this idea was identifying and implementing best practices to address them, which included providing technical assistance to communities to pursue the practices and encouraging regional organizations to incorporate the implementation strategies into their policies and guidelines, including the Metropolitan Council’s Planning Handbook and Housing Performance Scores and ULI’s Tool Box for local communities.

As part of our overall cost containment strategy, we have initiated several initiatives that address systemic cost drivers.

- **2014 – Minnesota Housing’s Multifamily Remodel Project.** We carried out a project for our Multifamily Division to redesign and streamline its application and funding processes – everything from proposal inception through application, selection, underwriting, closing, construction management and lease up. The purpose of the remodel is to reduce the time it takes a development to move from concept to occupancy. A key finding from the Enterprise/ULI report identified complexity, uncertainty and delays in the funding process as cost drivers. The project has achieved positive outcomes. For example, we created a customized online portal to receive funding applications for the multifamily consolidated RFP, eliminating paper applications.

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[14] Michael Spotts, Enterprise Community Partner, presentation to the Affordable Housing Investors Council (AHIC), Portland Oregon, October 9, 2014.
[15] The initiative was jointly funded by the McKnight Foundation and Minnesota Housing.

- **2015 – MinnDocs – Consolidated Legal Documents**. Most affordable housing projects have multiple deferred loan funding sources, each with their own set of legal documents and attorneys, which add unnecessary costs. The Enterprise/ULI report highlighted Massachusetts' practice that consolidates legal documents for all subordinate debt into a single set. The development community in Minnesota was intrigued, and we took initial steps to pursue the concept. The complexity of making this work turned out not to be worth the limited cost savings that would result.

- **2016 - Minnesota Housing's Design and Construction Standards.** As part of our annual preparation for the consolidated RFP, we review these standards. During 2016, we specifically reviewed the standards with an emphasis on cost containment. We focused on reducing life-cycle costs (which includes ongoing maintenance, repair and utility costs), not just upfront development costs. Specifically, we surveyed architects, general contractors and developers who work on the developments that we finance about the standards and costs. We received 66 responses. Based on the feedback, we made several design changes that should reduce costs. For example, we clarified that a separate dining room is not required in units with two or more bedrooms but that a dining area (or eat-in kitchen) is sufficient. Each of the changes to the standards will unlikely result in significant savings, but they are more examples of small savings that can lead to larger savings when combined with each other over time.

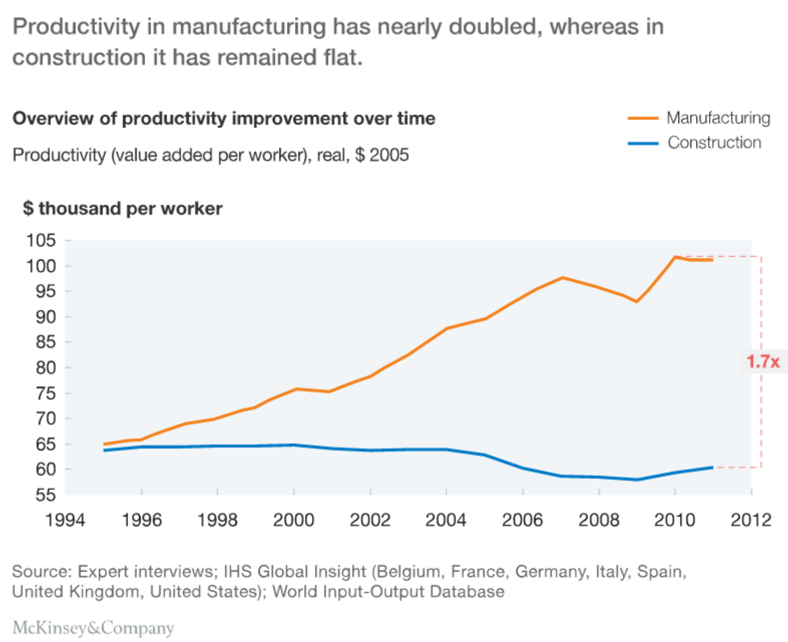
- **2017 – Developer Fees.** These fees compensate developers for the time, compliance requirements and risks associated with developing affordable housing and can account for a substantial portion of a development's soft costs. The maximum developer fee that Minnesota Housing allows is 15 percent of TDC for the first 50 units and 8 percent for additional units. In 2017, we assessed our fees and found that they are consistent with other states and that the average fee taken by our developers is 7 percent of TDC, well below our maximum. Given our overall cost containment incentives, it appears that developers are typically taking the minimum fee that still allows the deal to work for them. If developers take a higher fee, their applications will be less competitive in a highly competitive process, particularly for 9% tax credits. Based on this analysis, we decided not to adjust our developer fee structure at that time, but it is an area that we will continue to assess given the size of these costs.

- **2018 – Housing Task Force.** Minnesota Housing was a lead sponsor of Governor Dayton's Task Force, providing much of the staff support. The cost of developing housing was a primary issue addressed by the Task Force, which made several cost-related recommendations, including:

- Position Minnesota as a national leader in the advancement of housing innovation and technology, which should increase the efficiency and productivity of developing housing and reduce the costs.
- Grow the pool of talent in Minnesota's building trades to enable the sector to meet current and future demand, which should address the current shortage of skilled labor.
- Create a statewide review panel to evaluate regulations related to building standards, land use and environmental stewardship for their impact on housing affordability.

While these actions are largely outside the scope of our work, they would directly impact the cost of the housing that we finance.

- **2019 through 2022 – Off-site Construction and Other Innovative Techniques.** In 2019, we helped organize and co-sponsor the Construction Revolution Summit, which pursued the innovation and technology recommendation from the Housing Task Force. The summit brought together construction industry leaders to discuss barriers and opportunities to advancing off-site construction (including modular and panelized). Housing construction is ripe for a major systemic change but has struggled to takeoff in the United States. Unlike other industries, construction has not experienced meaningful productivity increases over the last few decades. We are largely building homes the same way we did 50 years ago.



Without productivity gains, reducing the cost of housing construction will remain elusive. Some estimates suggest that off-site construction could reduce costs by as much as 20%.

The action plan that came out of the Construction Revolution Summit called for, among other things: (1) establishing learning opportunities on how to develop housing using modular construction, and (2) having public funders finance some developments using off-site construction as a pilot.

- In the winter of 2021, the Construction Revolution team provided a course on using modular construction, bringing together developers, architects, general contractors, and others from the industry. One of Minnesota Housing’s architects participated.

- In our scoring for the 2021 and 2022 consolidated RFPs, we have added a selection preference for developments that use innovative construction techniques (including off-site construction) and have to potential to reduce construction costs by at least 10% and construction time by at least 20%. It is too early to evaluate the success of this selection preference.

SINGLE-FAMILY COSTS

We typically distribute around $10 million for single-family development through our Community Homeownership Impact Fund. The level of cost data that we collect is currently less than what we collect and analyze for multifamily developments, but evaluating costs and cost containment are a part of our selection process.

Overview of Single-Family Costs

The total development costs for the single-family projects that we have financed are reasonable and consistent with industry benchmarks for moderately-sized, average-class homes. Table 2 shows the median cost per home by location and activity for developments that we have financed over the last ten years.

Table 2: Impact Fund – Median TDC by Location and Project Type, Loans Closed from October 1, 2012 through March 30, 2022 (2024 dollars, which is when we expect 2022 selections to start construction)

Location	New Construction	Acquisition/Rehab/ Resale
Greater Minnesota	$259,000	$218,000
Metro	$443,000	$348,000

Excludes projects by Habitat for Humanity and Community Land Trusts

The median costs in Table 2 are generally consistent with industry standards. Table 3 shows the industry-wide costs for building new, average-class homes of varying sizes in the Twin Cities metro area (derived from RSMeans data). The median cost of the homes that we finance in the metro area ($443,000) is in line with industry cost benchmarks for a 1,600 to 2,100 square-foot home ($386,000 to $454,000).

Table 3: Estimated Total Development Costs in Twin Cities Metro, Two Story Home, Unfinished Basement, Average Class, Wood Siding, 2-Bathrooms, and Garage (2024 dollars, which is when we expect 2022 selections to start construction)

	1,100 Sqft	1,600 Sqft	2,100 Sqft	2,600 Sqft
Total Development Costs	$319,000	$386,000	$454,000	$522,000

Source: Minnesota Housing analysis based on construction cost data from RSMeans, *Residential Cost Data, 2022*. The estimates include construction, land and soft costs.

Strategies for Containing and Reducing Single-Family Costs

Since 2015, we have focused on becoming more systematic and objective in our assessment of single-family development costs. We initially compared a project's proposed costs with the median and the 80th percentile cost home that we have financed in the past. While this approach was valuable as an initial assessment, it has deficiencies. It does not account for cost differences resulting from home sizes, garages, number of bathrooms, varying land costs, and other factors. For the 2022 RFP selections, we have developed a predictive model for new construction projects, which is largely based on the RSMeans data, which will allow for a more nuanced assessment of the proposed costs.

CONCLUSION

For a decade and a half, we have worked to contain upfront development costs while adding new priorities that can increase costs. Given the shortage of affordable housing, limited resources, and the need to do more, cost containment will remain a critical issue. While many of the cost drivers are outside the direct control of the agency or driven by the market, we will continue to pursue multiple strategies in the affordable housing development process.

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