The Cost of Affordable Housing:
What Drives It and How to Address It

bae urban economics

April 14, 2025

Commissioned by the San Diego Housing Commission

April 14, 2025

Lisa Jones
President & Chief Executive Officer
San Diego Housing Commission
1122 Broadway
San Diego, CA
92101

Dear Ms. Jones:

We are pleased to submit **The Cost of Affordable Housing: What Drives It and How to Address It**, a study undertaken in collaboration between SDHC and BAE Urban Economics. To better understand the factors driving up the cost of affordable housing in San Diego and identify potential solutions, SDHC partnered with BAE to conduct this comprehensive analysis. This study analyzes Low-Income Housing Tax Credit (LIHTC) application and Placed in Service (PIS) data for projects in San Diego and its peer cities. We look forward to reviewing the findings together and discussing the next steps for SDHC.

Sincerely,

Jacob Richey
Senior Associate, BAE Urban Economics

Table of Contents,

List of Tables

List of Figures

EXECUTIVE SUMMARY

Like many cities across the country and in California, the City of San Diego is experiencing a shortage of rental housing affordable for households with lower incomes. Higher costs for producing affordable housing affect how many units of this essential type of housing can be produced to meet the city's housing needs, especially as available financing is limited. The San Diego Housing Commission (SDHC) engaged with BAE to conduct a comprehensive study to identify factors that drive escalating costs associated with producing affordable housing in San Diego.

Market-rate development costs are not included in this study because private developers are not obligated to reveal their cost details, unlike affordable housing developers.

Identifying and better understanding what specific factors may be driving up development costs is crucial for devising effective strategies to enhance affordable housing production. This study delves deeply into quantifying and analyzing multiple cost drivers—including unexpected expenses such as loan interest from construction delays—and identifying possible barriers that hinder the efficient delivery of affordable housing units.

Purpose and Objectives

The primary goal of this study is to analyze the numerous elements that contribute to the rising costs of affordable housing development. By creating a detailed index of recent affordable housing developments, the study seeks to pinpoint the main drivers of cost increases.

This study focuses in particular on cost increases that occur during the development process—which this study considers as starting from the date of the submission of the Low-Income Housing Tax Credit (LIHTC) application to the date when the project is occupied and placed into service. The study highlights these cost factors and proposes innovative solutions. It also compares San Diego's trends with those in peer cities. Ultimately, the goal is for the findings to inform policy recommendations aimed at removing obstacles to affordable housing production in the San Diego market.

By integrating quantitative data analysis with qualitative insights from industry professionals, as part of an outreach effort, this study aims to provide a holistic understanding of the cost dynamics in affordable housing development. The findings are intended to inform actionable recommendations to foster an environment conducive to the efficient production of affordable housing.

Reasons for High-Cost Projects and Budget Overruns

Several of the reasons for high development costs are related to a project's status as an affordable housing development. Many of these common factors were cited for projects with higher construction costs in San Diego LIHTC projects[1]:

- **Financing and Timeline.** Affordable housing development rents are restricted to remain affordable for households with low income, which limits the ability to generate cash flow from rental revenue during the life of the project. As a result, developers need to apply for multiple, often complex funding sources suitable for affordable housing development. This process extends the project's timeline, resulting in increased costs during that period. For example, the longer timeline raises costs through higher holding expenses (such as insurance and taxes) for the developer to retain ownership of the property while securing financing. Additionally, as construction costs rise, additional funds may be needed due to the time spent securing land while multiple competitive funding sources are applied for. In comparison, financing for market-rate developers is typically less complex; they often apply for one loan and can then move forward, meaning less time is spent gathering funding sources.

- **Location and Construction Type.** Affordable housing projects are often situated on challenging urban infill sites because market-rate developers are less interested in them due to higher costs to develop, resulting in less competition for the site. These urban infill sites necessitate more costly podium construction (wood frame built upon concrete ground floor) and may also require environmental remediation. Podium and Type I construction types[2] (fire-resistant construction that typically involves concrete and steel) are cited as significant cost drivers. Some projects, especially in urban infill areas, also require complex foundation work or multistory parking structures to meet local requirements, further increasing expenses.

- **Non-housing Objectives.** Affordable housing projects are often required to address issues beyond housing, like creating living wage jobs through prevailing wage / public labor agreement requirements, enhancing public spaces with off-site improvements, or building structured parking as a requirement for receiving land near a transit stop (e.g. the Skyline project in Rancho Bernardo) in order to receive funding from state and local governmental lenders. Additionally, as a result of public policy, affordable housing projects developed with LIHTC financing in California frequently face

[1] Based on high-cost justifications provided by City of San Diego LIHTC projects with development costs per unit more than $650,000 in application year 2023.
[2] Type I construction refers to fire-resistive construction, typically involving non-combustible materials such as concrete and steel, used for high-rise buildings. This is usually the most expensive type of construction. Podium construction usually refers to structures with a Type I concrete ground floor and/or subterranean floor(s) with several stories of wood frame construction above.

environmental requirements that exceed minimum standards in statewide building codes. CTCAC regulations allow developers to claim more tax credits when they incorporate green building measures such as all-electric design and renewable energy integration.[3]. Local jurisdictions often impose stringent environmental standards specifically for affordable projects—for example, the City of Berkeley mandates that larger projects in its downtown achieve LEED Gold or GreenPoint Rated Silver certification[4]. Market-rate projects are rarely incentivized or required to incorporate the same level of sustainability standards that affordable housing developments must meet, creating an additional cost burden unique to the affordable sector.

- **Prevailing Wage and Project Labor Agreements (PLAs):** Requirements to pay prevailing wages and adhere to Project Labor Agreements, while providing the benefits of living wage jobs, increase labor costs substantially, impacting overall construction expenses.

Additional factors contribute to higher costs for both affordable and market-rate developments:

- **Land Acquisition and Site Preparation.** In high-cost areas such as San Diego, the cost of land acquisition and initial site improvements (such as demolishing existing structures or relocating tenants) further contributes to the per-unit costs. This impact is pronounced where land values are high or where existing structures require abatement.

- **Off-site Requirements**. Projects in master-planned communities or areas requiring infrastructure upgrades often incur high off-site costs for community improvements like roads, utilities, and landscaping, which significantly add to overall project expenses. Stringent parking requirements can also significantly increase the cost to develop affordable housing.

- **Inflation and Common Cost Increases.** Other factors, including inflation in materials, labor, and insurance, have an impact on both affordable housing and market-rate projects. Inflation in construction materials, insurance premiums, and general cost increases in the construction market have significantly impacted project budgets, adding to the high per-unit costs.

[3] California Code of Regulations Title 4, Division 17, Chapter 1
[4] Berkeley Municipal Code 23.204.130

BAE conducted a comprehensive analysis of affordable housing project budgets and construction cost documents, comparing the budgets submitted during the application phase with those provided upon being placed in service. For more details regarding high-cost projects, refer to the Project Deep Dives section.

Common factors cited for budget overruns in San Diego LIHTC projects with elevated costs include the following:

- **Pandemic-related labor and material delays,** extending construction timelines and leading to increased construction interest.
- **Pandemic-related labor and material inflation,** leading to higher-than-expected project costs.
- **Unexpected design adjustments** and additional construction or architecture fees.
- **Rising insurance costs,** property taxes, and compliance with updated code requirements, adding substantial layers to the budget.

To identify the contributing factors for budget overruns, BAE compared the application phase budget to the budget provided in the placed-in-service package. Contributing factors are based on reasons provided by developers of the projects in the City of San Diego with the top 5 highest cost overruns found in greater detail in the Cost Overrun Deep Dives section.

Summary of Recommendations to Policymakers

Two significant categories are important to consider in addressing the cost of developing affordable housing: containing development costs and possible funding mechanisms to expand opportunities for funding. The recommendations outlined below are intended to prompt further exploration and analysis. A comprehensive set of recommendations can be found in the Recommendations for Policymakers section.

- Containing Development Costs:
    - **Land acquisition**. Beyond making land available to affordable housing through the Surplus Land Act, policymakers and other stakeholders in San Diego could also explore acquiring land or partnering with private individuals to deed-restrict land proactively for affordable housing production.

    - **Streamlining processes.** Consider opportunities to identify and implement additional practices to streamline processes. Affordable housing developers report a high level of satisfaction with affordable housing policy already enacted by the City of San Diego. The City of San Diego is actively working to make constructing affordable housing easier with regulations designed to streamline approvals and increase overall flexibility for developers[5]. Central to this effort are expedited permitting options, such as the "Affordable Housing Permit Now" program[6], which provides dedicated city staff support and faster review timelines for qualifying projects. Eligible projects, including 100 percent affordable housing and emergency shelters, can expect project reviews within 30 business days. The program assigns a dedicated Development Project Manager to facilitate the process and ensure adherence to these timelines, with a goal of final signoffs and permit issuance within five business days after all reviews are complete.

    - **Regulatory waivers.** Developers also benefit from significant cost-saving measures like the elimination of minimum parking requirements in transit priority areas and waivers for certain development impact fees and permits. Furthermore, the City enhances project adaptability through extended permit validity periods, allowances for shared parking, regulatory deviations, and incentives like its density bonus program to facilitate more housing production. Additional opportunities for further regulatory relief could be considered.

    - **Cost-saving strategies.** Vertical integration of in-house general contracting and design functions, standardization of materials and designs, and the production

[6] City of San Diego Executive Order No. 2023-1

of a specification book that outlines those standardized designs are among the strategies that could be considered. A leadership role would be necessary to organize the affordable development community to address these strategies.

- **Off-site costs.** Consider minimizing general off-site costs for improvements outside the project area. Projects in master-planned communities or areas requiring infrastructure upgrades often incur high off-site costs for community improvements like roads, utilities, and landscaping, which significantly add to overall project expenses.

- **Microunit development.** Consider continuing encouragement of microunit development in dense urban neighborhoods. This strategy has the potential to significantly reduce the per-unit cost of residential development while maximizing land use efficiency. In 2018, the City of San Diego implemented a Micro-unit Density Bonus[7] program as part of broader changes to their Density Bonus regulations. This policy aims to incentivize the development of smaller, more affordable housing units by allowing developments within a half-mile radius of a major transit stop to increase their project's density by up to 100 percent if they include microunits. To qualify, the average unit size must be no more than 600 square feet. This bonus applies to various types of affordable housing developments, including mixed-income, senior housing, and housing for specific vulnerable populations, to boost housing supply near transit hubs.

- **Utilities inspections.** Consider lobbying or pursuing state legislation to prioritize scheduling utilities inspections and other services for affordable housing developments. Nearly all interviewees for this study suggested that difficulties in receiving critical inspections from utilities companies contribute to project delays, which delays project timelines, and therefore increases construction interest expenses.

- Financing Mechanisms
  - **Tax Reduction Incentives.** Under a real estate tax reduction program, a project's real estate taxes are reduced or eliminated if they meet certain affordability requirements, lowering operating expenses and increasing net operating income (NOI)[8]. This enables projects to achieve a better debt service coverage ratio (DSCR)[9], allowing them to secure more financing and reducing

[7] San Diego Municipal Code Section 143.0720
[8] Total income less operating expenses and adjustments but before mortgage payments, tenant improvements, replacement reserves and leasing commissions. (CoStar Glossary)
[9] Equal to net operating income (NOI) divided by total debt service. DSCR is one measure of how easily the NOI a property generates can cover its debt obligations. A DSCR less than 1.0 means that there is insufficient cash flow by the property to cover debt payments. (CoStar Glossary)

the funding gap for affordable housing developments. While most affordable housing developments in California benefit from current exemptions, there are opportunities to expand exemptions to a greater number of projects that produce affordable units. Such an effort, even if targeting City of San Diego projects, may require advocating at the state level.

- **Tax Increment Financing (TIF) districts.** Consider establishing TIF districts, specifically through the creation of Community Revitalization and Investment Authorities (CRIAs) and Affordable Housing Authorities (AHAs). This will provide a sustainable funding source for affordable housing and infrastructure.

- **Bond measure.** An affordable housing bond measure for voter consideration and approval could create a consistent source of affordable housing bond financing. The complexity of affordable housing financing is often cited as a key cost driver and constraint on production. A stable and reliable source of financing for affordable housing in San Diego would both simplify the capital stack for affordable housing projects and reduce the time and effort associated with securing multiple financing sources, thus lowering development costs. In 2020, City of San Diego Measure A, which would have created a $900 million source of housing bonds, received 57.6 percent of the vote, but failed to achieve a two-thirds supermajority[10]. In 2024, California voters did not approve Proposition 5, which would have lowered the requirement to raise affordable housing bonds to 55.0 percent of voters[11]. While pursuing housing bonds is possible, policymakers should take into account the challenge of achieving a two-thirds supermajority.
    - An example of a successfully approved housing bond measure is Los Angeles' Proposition HHH, which was meant to increase permanent supportive housing. Voters in the City of Los Angeles approved the $1.2 billion bond in 2016, garnering 77 percent of the vote.

[10] https://ballotpedia.org/San_Diego,_California,_Measure_A,_Housing_Bond_Issue_(November_2020)
[11] https://ballotpedia.org/California_Proposition_5_Lower_Supermajority_Requirement_to_55%25_for_Local_Bond Measures_to_Fund_Housing_and_Public_Infrastructure_Amendment_(2024)

STUDY STRUCTURE

To ensure a thorough analysis, the study utilizes a robust dataset compiled from various sources. This includes 391 Low-Income Housing Tax Credit (LIHTC) application workbooks and 171 Placed-in-Service (PIS) workbooks obtained from the California Treasurer's Office through public records requests, as well as 52 application workbooks and 26 PIS workbooks from the Washington State Housing Finance Commission (WSHFC). Of the California projects, 65 applications workbooks and 30 PIS workbooks are San Diego projects. The application workbooks provide estimated costs and project details submitted before construction begins, while the PIS workbooks offer certified final costs after project completion. Additionally, interviews were conducted with eight developers and two consultants to gain firsthand insights into the challenges and incentives within San Diego's affordable housing development community.

Key Areas of Analysis

1. **Development Community Interviews**
   Recognizing the value of industry insight, BAE gathered feedback from developers and consultants to understand the economic decision-making processes that affect affordable housing production. Their perspectives shed light on the practical challenges and incentives that influence project costs and timelines.

2. **Development Budget Breakout**
   Focusing on typical LIHTC-funded applications, new construction projects, and acquisition/rehabilitation projects, this section breaks down residential development costs into specific budget categories as outlined in the California Tax Credit Allocation Committee (CTCAC) applications.

3. **Peer City Analysis**
   This section covers a variety of topics related to differences in development costs across multiple cities as well as land, labor, and materials factors that may influence hard costs[12] and acquisition costs.

4. **Project Deep Dives**
   This section details deep-dive analysis, including budget breakouts, into specific residential development projects, focusing on the reasons behind high costs and cost

[12] Construction hard costs refer to the direct expenses related to the physical construction of the property, such as materials and labor, while soft costs encompass the indirect expenses like architectural fees, permits, and project management.

overruns. It highlights the importance of using detailed project budgets and application attachments to pinpoint significant cost drivers.

5. Permanent Financing Analysis
   This section describes the "capital stack"—the combination of permanent financing sources used in affordable housing projects. It shows how projects with varying characteristics combine funding.

6. Tax Credit Application Overview
   This section examines high-level differences in project development costs per unit and per square foot across various attributes such as tax credit type (4 percent vs. 9 percent LIHTC) and construction type.

7. Cost Overrun Analysis
   This section compares the final residential development costs of 171 PIS projects, including the 30 San Diego-based projects, to their initial budgeted amounts. Projects are categorized based on their cost overrun levels, allowing us to scrutinize those with significant overruns and explore common themes contributing to these discrepancies.

8. Literature Review
   Throughout the study, quantitative insights are informed by relevant literature and news sources.

9. Recommendations for Policymakers
   This section includes a more detailed version of recommendations provided in the Executive Summary.

CONCEPTUAL UNDERSTANDING OF DEVELOPMENT COST DRIVERS

This section of the study discusses how broad market factors—especially the inflation of labor and materials costs—influences the cost of residential development and provides a conceptual framework for understanding the weight of construction cost categories and the degree to which they can be influenced. This section helps answer the question:

At a high-level, what drives development costs and to what extent can policymakers influence cost categories?

Affordable Housing Residential Development Costs in the Construction Industry-Wide Context

The California Construction Cost Index (CCCI), published by the California Tax Credit Allocation Committee (CTCAC) using data from Engineering News Record (ENR), tracks the movement of average monthly construction costs in California across all product types. The CCCI is based on ENR's Building Cost Index (BCI), specifically focusing on the two California cities in the 20-city index—Los Angeles and San Francisco—which are meant to represent trends in the state as a whole. San Diego is not one of the cities included in the 20-city index.

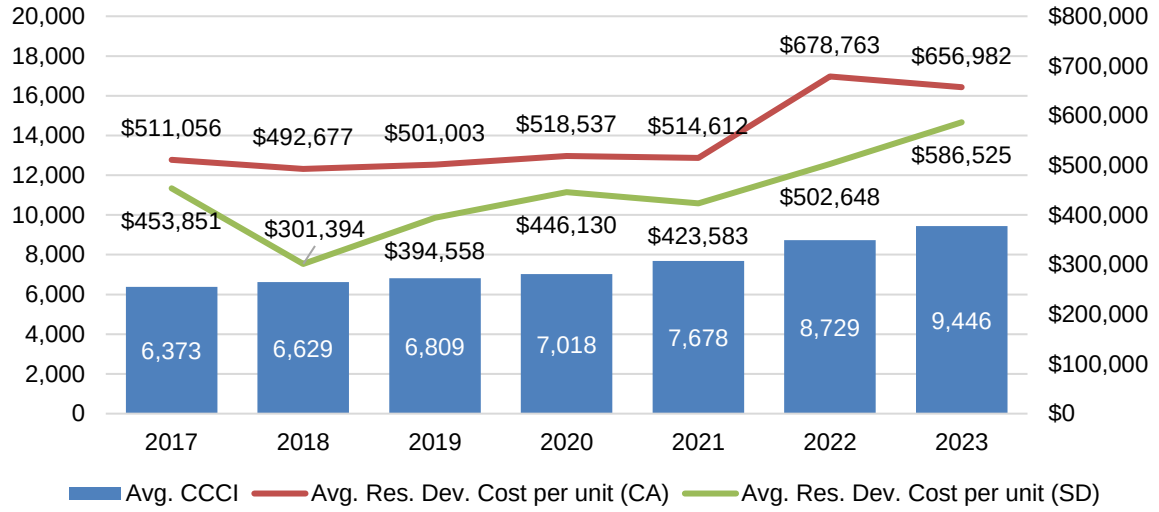
An index number represents the change in a particular variable over time, relative to a base year. It does not reflect a specific cost or value, but rather indicates the relative movement or trend. For instance, in the context of the CCCI, the index number shows how much construction costs have increased or decreased compared to the base year. This helps to understand whether costs are rising or falling and by how much, offering a clear picture of the economic trend in the construction industry.

Shown below in Figure 1, overlaying the average residential development cost per unit for California cities in the study dataset (Los Angeles, San Francisco, San Jose, and Sacramento) and for the City of San Diego shows that, on a per-unit basis, *most of the rise in affordable housing development costs may be explained by construction industry-wide materials and labor inflation*. In fact, based on the CCCI, the construction industry between 2017 and 2023 saw a compound annual growth rate (CAGR)[13] of 5.8 percent, while both San Diego and California as a whole saw a CAGR of 3.7 percent[14].

[13] CAGR is the measure of an investment's annual growth rate over time, with the effect of compounding considered. It is often used to measure and compare the past performance of investments or to project their expected future returns. (Corporate Finance Institute)

[14] These represent rounded figures. At 3.73 percent, the San Diego figure is slightly higher than the California city average of 3.65 percent.

Figure 1: Avg. California Construction Cost Index (CCCI) vs. Avg. Residential Development Cost per Square Foot, San Diego and California, 2017 - 2023



Source: California Construction Cost Index, 2024; California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024
Note: CCCI per year is calculated by averaging monthly CCCI figures.

Note: California is representative of all non-San Diego California cities included in the dataset, including Los Angeles, San Francisco, San Jose, and Sacramento.

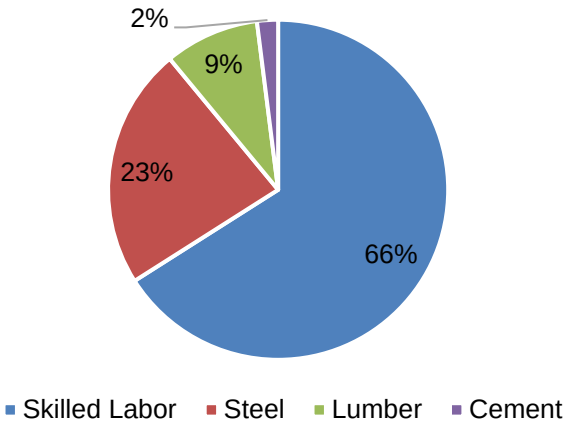
ENR's Building Cost Index (BCI) is a widely recognized metric that tracks changes in construction costs over time, specifically for building structures. Figure 2 breaks down the BCI by its components. BCI measures the cost of a hypothetical set of labor and materials compared to a base year. The labor component includes wages and benefits for skilled workers like bricklayers, carpenters, and ironworkers, averaged across 20 U.S. cities. The materials component covers essential construction items such as structural steel, cement, and lumber, with prices also averaged from these cities.

The BCI is an effective proxy for construction costs because it reflects the price movements of key labor and materials essential to most construction projects. By weighing these components to mirror typical construction cost distributions, it provides a balanced view of market trends. Consistently sourcing data from the same suppliers and averaging prices across multiple cities ensures the BCI reliably indicates cost escalations, helping contractors, developers, and planners anticipate budget needs and adjust to market fluctuations. ENR's indices are so widely accepted that they form the basis for California's CCCI and are often referenced by cities for purposes such as the escalation of development impact fees.

Hard construction costs are predominantly driven by labor and material expenses—the very factors detailed in ENR's BCI. This is verified by both budget data and by developer interviews. These costs are subject to market fluctuations such as wage rates, labor availability, and prices for essential materials like steel, cement, and lumber. Because these elements are

influenced by broader economic conditions beyond local or organizational control, bond issuers have limited ability to impact them through policy changes. This means that while certain strategies can help manage some expenses, especially in the land and acquisition and soft cost categories, significant portions of construction costs remain outside the influence of bond issuers, constraining the extent to which they can contain overall project costs.

Figure 2: Building Cost Index (BCI) Category Weights



Source: Engineering and News Report, 2024

Figure 3 presents a conceptual diagram of the cost components of residential development and illustrates the extent to which SDHC and its partners can influence residential development costs, based on data, developer community interviews, and policy research as qualitatively assessed by BAE. Cost categories are loosely based on cost groupings found in CTCAC applications.

Land and acquisition costs are an important component of development cost, on average representing 5 percent of residential development cost for new construction projects in San Diego and 65 percent of development cost for acquisition and rehabilitation projects. This category primarily includes the purchase of land and acquisition costs such as off-site costs and existing improvements. BAE considers this category to be potentially highly influenced by policy decisions, as it is common practice for public agencies to assist LIHTC projects with favorable ground leases, or to potentially increase acquisition costs by imposing off-site requirements. Factors outside the control of developers and SDHC include market land dynamics that influence the price and availability of land.

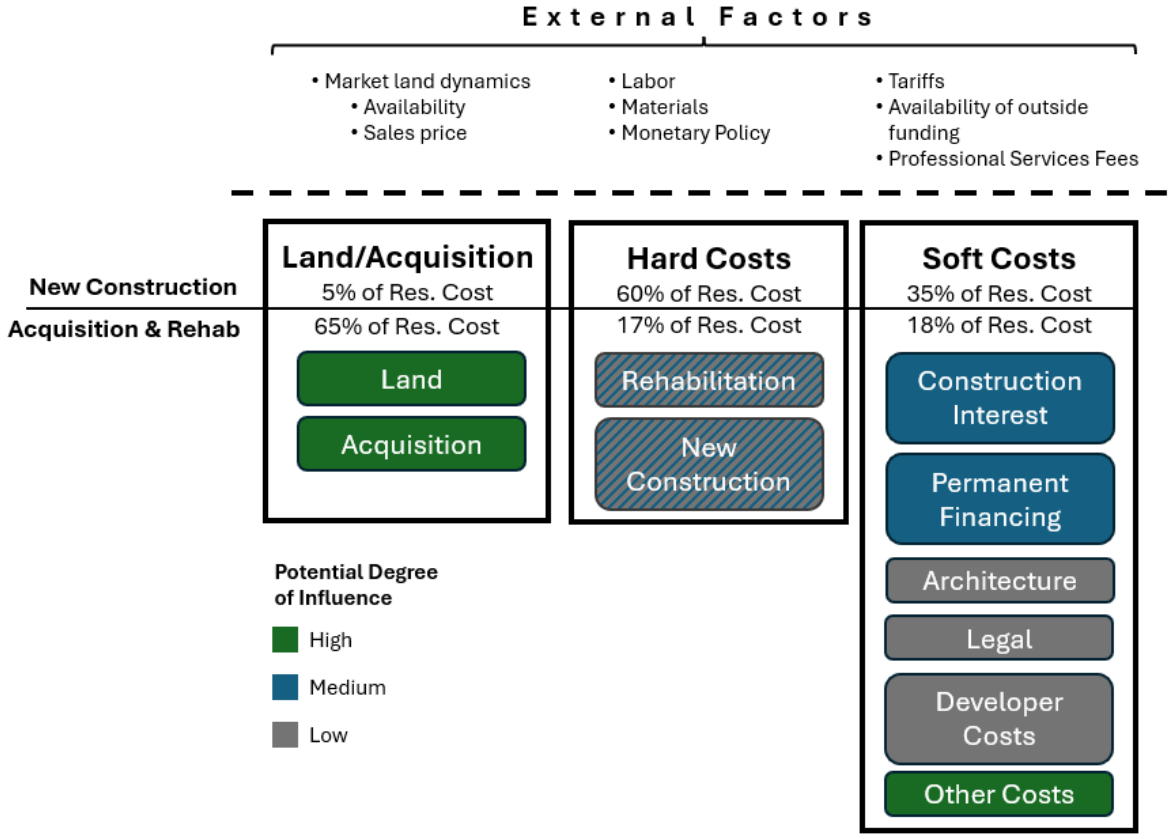
Hard costs are the most important component of development costs, constituting 60 percent of total residential development costs for new construction and 17 percent for acquisition and rehabilitation projects. This category includes the labor and materials required to build a project. For new construction projects, hard costs appear under the “new construction”

category, and for acquisition and rehabilitation projects, hard costs appear under the "rehabilitation" category. BAE considers hard costs to be a category under which SDHC may have a low to medium degree of influence, as labor and materials are strongly influenced by factors outside of SDHC's or developers' control, such as local market availability, wage negotiations, and even geopolitical factors such as tariffs. While prevailing wage and PLA requirements have a direct impact on development costs, policymakers ultimately balance the benefits and drawbacks. On the one hand, such requirements promote a living wage and opportunities for quality employment, promise a high level of construction quality, and provide potential training opportunities for those interested in construction trades. Paying for such skilled labor does, however, result in higher construction costs; according to a previous BAE study[15] and to the developers interviewed, prevailing wage requirements can increase hard costs anywhere from 19.5 percent to 30 percent.

Soft costs represent a significant 35 percent of new construction residential development cost and 18 percent of acquisition and rehabilitation projects and include categories such as construction interest, permanent financing, architecture, legal, developer fees, and other costs. Factors outside of the development that affect soft costs include monetary policy, which determines the cost of debt financing, availability of outside funding, and professional services fees for architects and lawyers. The other cost category includes potentially high-influence components such as local development impact fees and permitting fees. For projects utilizing SDHC financing, the potential degree of influence is higher, as funding terms are set by SDHC. However, most projects will utilize a multitude of sources over which SDHC has limited or no control.

[15] Prevailing Wage and Skilled and Trained Workforce Cost/Benefit Analysis, Prepared for the City of Burbank, April 2024

Figure 3: Cost Components of Residential Development



Source: BAE, 2024
Note: Cost breakdowns based on 2023 application budgets for City of San Diego projects.

DEVELOPMENT COMMUNITY INTERVIEWS

The following section describes efforts to gather input about the affordable housing development environment in San Diego from the development community, primarily from developers but also from consultants. Feedback gathered from the local development community is crucial to understanding the unique challenges and incentives that drive the economic decision-making that determines affordable housing production. In total, BAE interviewed eight housing developers and two consultants. Findings from this section help answer the following question:

What can on-the-ground affordable housing development experience teach us about the causes of high development costs and how to contain them?

Contributors to Higher Development Costs

Developers cited the rising costs of affordable housing construction as a continuing challenge, with labor and materials being a significant driver of high construction costs. Multiple developers cited the high cost of labor as a significant factor, due in part to an overall construction labor shortage. Developers report that costs are particularly high for projects that are subject to prevailing wage requirements, which encompass the majority of affordable housing developments. Prevailing wages are required for projects that receive some of the most common sources of public funding for affordable housing development and for projects that apply for streamlined approvals under state laws such as SB 35. Developers estimated that prevailing wage requirements add up to 30 percent to construction costs. Developers also reported that costs are even higher for projects with Project Labor Agreements (PLAs), with one developer estimating that PLAs add approximately 10 percent to costs on top of the cost of prevailing wage.

Inflation has driven up material prices. Some developers reported that price escalation has slowed somewhat, while other developers reported that the cost of some materials like concrete and lumber have begun to decrease. One developer reported that materials costs have increased over recent years in part due to the use of more resilient materials and the incorporation of energy-efficient features in new projects when compared to projects built previously, increasing upfront costs but improving project longevity and providing other benefits. Some developers also cited off-site requirements, such as extensive utilities and roadwork, as a factor for high development costs for affordable projects, particularly for projects that are on land donated by a public agency or receive local funds.

Parking costs also remain a key driver of high project costs. While parking requirements have been reduced in many cases, many developers feel that parking is still necessary for residents as well as staff and case managers, particularly for large family housing developments and projects outside of more urban transit-oriented development (TOD) areas.

In addition to the hard costs described above, many developers cited various soft costs as drivers of high development costs. Many developers emphasized substantial increases in insurance costs, with one developer stating that the cost of builders' risk coverage has increased from approximately $400,000 per project to up to $1 million per project over the past couple of years. Increases in construction loan interest rates have also been a source of high costs and cost overruns, with many construction loans having variable interest rates. Other costs that have increased in recent years include utility costs and payroll. Fees charged by local agencies were also cited as a source of high development costs. Multiple developers also cited impact fees and processing fees as significant costs.

Developer Cost-Control Strategies

Developers have employed several strategies to manage rising costs. Vertical integration, where development and construction are handled within the same organization, has proven to be a helpful method for controlling costs and ensuring efficiency. The in-house construction approach has allowed some developers to better manage costs and timelines by integrating general contractors early in the process to identify cost-saving opportunities during the design phase. Similarly, some developers have managed costs by maintaining close coordination with the general contractor throughout the development process to control cost overruns and discuss options for value engineering. Some developers highlighted the importance of having a high enough contingency budget and accurate cost escalators built into their financial models.

Developers also reported using a range of cost-saving design approaches and construction methods. These include avoiding underground parking or podium parking, using efficient building designs such double-loaded corridors, and developing standardized design specifications to streamline projects and reduce variability in materials and design. Standardized design specifications are sometimes contained in a company "spec book" that can be referred to during construction.

Some developers reported benefits from off-site fabrication of some building components, though most reported that more comprehensive modular construction is either too risky or not cost-effective at this time.

To address high insurance costs, interviewees reported that some developers are considering moving away from wood-frame construction to 100 percent cement to lower insurance costs, while some organizations are considering a self-insuring model.

Project Completion Delays

Developers cited a range of factors that can lead to construction delays. Multiple developers citied delays related to elevators, particularly elevator switchgears. Some developers reported longer review and inspection times in jurisdictions throughout the state. Labor shortages also contribute to delays, as general contractors and subcontractors often struggle to provide the

necessary manpower. One developer stated that PLA requirements can potentially add processes that delay projects. Weather can also be a factor, with particularly rainy periods causing construction delays. Multiple developers noted delays due to issues with scheduling appointments for utility services and recommended that utilities companies prioritize affordable housing developments. To mitigate some of these risks, developers emphasized the importance of ordering key items like elevators well in advance and maintaining strong relationships with inspectors.

Benefits and Drawbacks of Modular Construction

Some interviewees have explored modular construction as a way to reduce costs, though results have been mixed. Some developers report that the use of modular construction can shorten the construction timeframe, which reduces the cost of construction loan interest. Issues with modular projects included difficulties with assembling units on-site, complications with transferring insurance coverage and liability when units are delivered, and damage to units during transit. One developer stated that modular construction requires an initial upfront investment early in the development process, when investment is riskier. However, one developer noted that off-site construction of modular units is not subject to prevailing wage, and therefore modular construction can make sense for projects in Northern California with prevailing wage requirements. This developer did not believe that modular construction makes sense in Southern California markets, where labor costs are slightly lower than in Northern California. Some developers stated that modular construction works best for permanent supportive housing and senior projects, due to the smaller unit sizes in these projects. Overall, many developers reported that they do not necessarily see an opportunity for cost savings from modular construction.

The San Diego Development Environment

The San Diego affordable housing market continues to face challenges with high land and labor costs, similar to other coastal California cities. Many developers reported that San Diego has a shortage of local funding sources for affordable housing development, with less local funding than other regions such as Los Angeles, the San Francisco Bay Area, and the greater Seattle area, exacerbating challenges associated with high development costs.

However, multiple developers described San Diego as proactive and sophisticated in supporting housing development and as a leader in streamlining the permitting process for affordable housing. Nonetheless, one developer noted that there are still some procedural hurdles, such as the uncertainty around whether a project qualifies for ministerial review. One developer reported that San Diego has helped to reduce construction costs by redoing the City's impact fees.

Opportunities for Local Agencies to Reduce Development Costs

Developers cited a range of strategies that local agencies can implement to help in reducing affordable housing development costs in San Diego. Multiple interviewees highlighted the

benefits of fast-tracking approvals for affordable housing developments. For example, one developer reported that Sacramento has been effective in implementing fast-tracking for 100 percent affordable housing projects, committing to reviewing and responding to building permit submissions for eligible projects within 10 days, thereby significantly reducing the time required to secure building permits. Other strategies that developers mentioned include zoning and land use changes, working directly with nonprofit affordable housing developers, providing land donations and fee waivers, front-loading local gap fund contributions to allow developers to reduce construction loan interest, and avoiding requirements for off-site contributions or other contributions not related to the project. One developer noted that California jurisdictions tend to have more off-site development requirements than jurisdictions in other regions, such as the Seattle region. However, most developers noted that San Diego has already done substantial work to make permitting for affordable housing projects more seamless.

General Development Activity

Many developers reported an increase in affordable housing development activity in recent years, though some reported a relatively consistent pace of development or a decrease in activity. For those that reported an increase in activity, factors supporting the increase included an increase in the availability of funding, particularly for Permanent Supportive Housing (PSH) through programs like the State of California Department of Housing and Community Development's (HCD) Homekey and Super Notice of Funding Availability (NOFA), as well as business decisions within specific companies. While COVID-19 caused some disruptions, affordable housing development activity has remained strong. Some developers, however, expect a plateau in activity due to uncertainties in state budgets and funding. One developer reported that affordable housing production has decreased slightly, though to a lesser extent than market-rate housing. Other developers also reported a decrease in market-rate construction activity.

Summary of Findings

The overall environment for affordable housing development remains challenging due to rising costs, particularly in materials, labor, and insurance. While construction costs have increased across development types, affordable housing developments often face unique financial challenges due to factors that do not apply to a typical market-rate project, such as prevailing wage requirements and off-site requirements that are attached to projects in exchange for land donations. Developers have generally found that the City of San Diego is supportive of affordable housing development, though a shortage of public gap funds for affordable housing in the San Diego region presents hurdles for affordable housing developments.

The affordable housing sector remains resilient, with developers actively seeking innovative solutions to manage costs and meet the growing demand for affordable housing. Developers are increasingly relying on vertical integration and early involvement of general contractors to control costs and streamline project timelines. Other strategies that have proven effective

include value engineering and developing standardized plans and materials. While some developers have been successful using prefabricated building components, most do not foresee cost savings from more comprehensive modular construction.

Local jurisdictions can have a role in helping to address high construction costs for affordable housing projects. Actions that local agencies can take include continuing to streamline approval processes, reducing fees, reducing or eliminating off-site requirements, and identifying additional sources of local gap funds.

DEVELOPMENT BUDGET BREAKOUT

This section breaks out the residential development cost for the typical LIHTC-funded application, for the typical new construction project, and for the typical acquisition/rehabilitation project. The budget categories are based on those available in CTCAC LIHTC applications. This section helps answer the question:

How do cost categories contribute to total residential development costs?

Typical Project Development Budgets

Table 1 breaks out residential development costs by summary categories found in CTCAC applications. Each high-level category shown below will include multiple line items. For example, the "**Total New Construction Costs**" category includes the following line items:

- Site Work
- Structures
- General Requirements
- Contractor Overhead
- Contractor Profit
- Prevailing Wages
- General Liability Insurance

The average residential cost for 2023 City of San Diego projects is $67.8 million. "**Total New Construction Costs**" is by far the single largest contributor to project costs, with $26.3 million constituting 38.7 percent of total residential development costs. Throughout the study, commercial costs are not included. The second largest is "**Land Cost/Acquisition Cost,**" with its $17.8 million constituting 26.2 percent of residential project costs. It includes the following line items:

- Land Cost or Value
- Demolition
- Legal
- Land Lease Rent Prepayment
- Existing Improvements Cost or Value
- Off-Site Improvements
- Predevelopment Interest/Holding Cost
- Assumed, Accrued Interest on Existing Debt (Rehab/Acquisitions)
- Excess Purchase Price Over Appraisal/Other

Together, new construction costs and land/acquisition costs make up nearly two-thirds (65.0 percent) of the residential development cost of a typical project. Other significant categories include "Developer Costs," which make up $5.9 million (8.7 percent) of Total Residential

Development Costs, and "Construction Interest and Fees," which make up $4.9 million (7.3 percent) of Total Residential Development Costs.

The category attribution of costs varies widely between new construction projects and acquisition and rehabilitation projects. For example, the "Land Cost/Acquisition Cost" category makes up $39.3 million (64.6 percent) of Acquisition/Rehabilitation residential project costs, while the same category only constitutes $3.5 million (4.8 percent) of the New Construction budget. Similarly, New Construction projects see "Total New Construction Costs" make up $43.8 million (60.4 percent) of the Total Residential Development Costs, while Acquisition and Rehab projects see negligible amounts of new construction costs.

Acquisition/Rehabilitation projects see "Rehabilitation Costs" at $10.1 million (16.6 percent), while New Construction projects spend virtually no budget on the same category. Together, Land Cost/Acquisition Cost and Rehabilitation Costs make up 81.3 percent of Acquisition and Rehabilitation project residential costs. Acquisition and Rehabilitation projects, with their shorter construction timelines, see lower costs in the "Construction Interest & Fees," "Contingency Costs," and "Architecture Costs" categories and higher costs in the "Relocation Costs" category.

Table 1: Application Residential Development Budget Breakout, New Construction vs. Acquisition and Rehab, San Diego, Application Year 2023

	New Construction		Acquisition and Rehab		All Projects	
Land Cost / Acquisition Cost	$3,464,382	4.8%	$39,256,718	64.6%	$17,784,946	26.2%
Total New Construction Costs	$43,806,471	60.4%	$9,075	0.0%	$26,283,883	38.7%
Rehabilitation Costs	$382,730	0.5%	$10,116,790	16.6%	$4,276,354	6.3%
Relocation Expenses	$187,920	0.3%	$362,500	0.6%	$257,752	0.4%
Architecture Costs	$1,603,386	2.2%	$333,000	0.5%	$1,095,231	1.6%
Survey & Engineering Costs	$595,311	0.8%	$81,667	0.1%	$389,853	0.6%
Appraisal Costs	$0	0.0%	$0	0.0%	$0	0.0%
Appraisal Contingency Cost	$0	0.0%	$0	0.0%	$0	0.0%
Construction Interest & Fees	$6,565,836	9.0%	$2,509,643	4.1%	$4,943,359	7.3%
Permanent Financing Costs	$540,862	0.7%	$258,967	0.4%	$428,104	0.6%
Legal and Consulting Costs	$334,963	0.5%	$241,000	0.4%	$297,378	0.4%
Contingency Cost	$3,233,240	4.5%	$1,214,892	2.0%	$2,425,901	3.6%
Reserve Costs	$824,126	1.1%	$1,080,909	1.8%	$926,839	1.4%
Other Costs	$4,137,694	5.7%	$844,718	1.4%	$2,820,504	4.2%
Developer Costs	$6,884,142	9.5%	$4,451,970	7.3%	$5,911,273	8.7%
Total Project Costs	**$72,561,062**	**100.0%**	**$60,761,849**	**100.0%**	**$67,841,377**	**100.0%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Special Topics

Commercial vs. Residential Development Costs

While this study focuses on residential projects, particularly because the "Post-Award Cost Changes" tab (the basis for application vs. PIS cost change analysis) in CTCAC LIHTC applications only includes residential costs, it is important to note that nine of 65 (13.8 percent) San Diego LIHTC projects included some commercial component as part of their total project cost. As shown in Table 2, of those nine projects with a commercial cost component, the typical $73.4 million project saw commercial costs comprise $1.9 million of total costs (2.6 percent).

Table 2: Residential vs. Commercial Project Costs, All Projects with >$0 Commercial Cost, San Diego, All Years

Residential	$70,501,937	97.4%
Commercial	$ 1,851,332	2.6%
	$72,353,270	**100.0%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

The Role of Off-site Improvements Costs

Off-site improvement costs in an LIHTC project refer to expenses incurred for infrastructure enhancements, such as road construction, utility installation, and public landscaping. These costs are categorized into two types:

1. General Off-Site Costs: These are expenses related to infrastructure improvements that benefit the broader community or multiple developments, not just the specific LIHTC project site. Since these improvements serve a larger population, their costs are typically not included in the project's eligible basis for tax credit calculations. Examples include:
    a. Extending public utilities (water, sewer, electricity) beyond the project's immediate vicinity.
    b. Constructing or upgrading public roads and transportation systems serving a wider area.
    c. Developing public amenities like parks or community centers accessible to the general public.

2. Project-Specific Off-Site Costs: These expenses are directly tied to the needs of the LIHTC development and are essential for its functionality. Examples include:
    a. Connecting the project to existing utility lines (water, sewer, electricity) located just outside the property boundary.

b. Installing curbs, gutters, and sidewalks immediately bordering the property.
c. Making road improvements directly adjacent to the development to ensure proper access.

As shown in Table 3 below, the majority—156 out of 289 new construction projects (54.0 percent) with relevant data—have a budget for off-site improvements. Projects in Los Angeles are most likely to have some budget set aside for off-site costs (60.5 percent), while San Francisco is the least likely (41.0 percent). Sacramento (52.4 percent), San Jose (50.0 percent), and San Diego (46.8 percent) see project applications where half set aside funding for off-site improvements.

Table 3: Proportion of New Construction Projects with Off-site Improvements Expenses by City, New Construction Projects

City	With Off-site	All NC Projects	% Off-site
Los Angeles	92	152	60.5%
San Diego	22	47	46.8%
San Francisco	16	39	41.0%
San Jose	15	30	50.0%
Sacramento	11	21	52.4%
All New Construction	**156**	**289**	**54.0%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024
Note: Seattle excluded because offsite costs are not broken out in the Sources and Use tab of the application.

Table 4 illustrates that off-site improvement costs differ by city, with the City of San Diego having the highest costs at $1.8 million per project, comprising 3.7% of the total residential development budget. Sacramento sees the second highest budget of off-site costs, with $1.2 million constituting an average of 2.4 percent of total residential development costs. San Francisco projects see an average of $1.2 million per project, or 1.4 percent of total residential development costs. Los Angeles and San Jose projects see a particularly low average off-site budget, at $407,427 (0.9 percent) and $660,575 (0.9 percent), respectively.

The project with the highest proportion of off-site costs in the City of San Diego was Fairbanks Terrace II, with off-site expenses accounting for 13.9 percent of the project's total residential cost. In Sacramento, the project with the highest proportion of off-site expenses was Twin Rivers Block B and E, at 6.7 percent. In San Francisco, Sunnydale HOPE SF Block 6 saw the highest proportion at 7.2 percent. In Los Angeles, Parque Vista Apartments saw the highest proportion at 10.2 percent, while in San Jose the project with the highest proportion of off-site costs was the Immanuel-Sobrato Community, at 2.7 percent of total.

Table 4: Avg. Off-site Improvement Costs by City, New Construction Application Projects with Off-site Improvement Expenses >$0

City	Avg. Off-Site Cost	Avg. Res. Dev. Cost	Off-site % of Total	Max % Off-site
San Diego	$1,797,172	$49,035,405	3.7%	13.9%
Sacramento	$1,241,786	$50,772,688	2.4%	6.7%
San Francisco	$1,194,611	$87,978,250	1.4%	7.2%
Los Angeles	$407,427	$43,765,263	0.9%	10.2%
San Jose	$660,575	$77,198,841	0.9%	2.7%
All New Construction	**$767,328**	**$52,752,034**	**1.5%**	

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024
Note: Seattle excluded because offsite costs are not broken out in the Sources and Use tab of the application.

As shown in Table 5, BAE qualitatively assessed the eight projects in the City of San Diego within the application dataset that saw off-site costs of $1 million or greater. Per CTCAC Regulation 10322(h)(11), LIHTC applicants in California must include a design description of the project, costly structural elements, and a list of off-site costs broken into general off-site costs and project-specific costs. However, the depth and quality of such information varies greatly between projects.

Nevertheless, there appears to be an association between projects that exist as part of a master plan and the presence of off-site costs. It could be that, when an affordable housing development is located within a master-planned community, the affordable housing development is expected to pay for general improvements, such as streets and landscaping, whose benefits extend to the surrounding area and are not project-specific.

While BAE does not have access to specific development agreements or detailed project-specific financing information beyond TCAC application data, some indirect evidence includes the master developer Lennar's donation of land to the Aquila Apartments project, which may have included off-site requirements. For this project, only $450,000 was dedicated to project-specific off-site costs. The remaining $5.5 million was used to pay for community-wide improvements, including dry utilities, creek improvements, and traffic improvements.

Another notable case was the Iris at San Ysidro, which included $5 million in off-site costs to be used toward improvements related to the Palm Avenue Revitalization Plan. After an evaluation by Caltrans and the City of San Diego, it was decided that $5 million of Infrastructure Infill Grant (IIG) funds be used for the general off-site improvements.

The Civita II project stands out as having the highest proportion of off-site costs compared to any other project in this study's dataset, at 13.7 percent. Little detail is provided in the

application's attachment 12 document[16], but it was financed through a Master Development Improvement Note.

The Valencia Pointe project's developer referred to off-site requirements as "substantial" due to factors such as mandatory street widening and mass grading efforts that are relatively substantial, including retaining walls. The widening of streets in this project necessitated the relocation of high voltage transmission lines for SDGE.

Table 5: San Diego Projects with Off-site Costs >$1 Million

Project App. #	Project Name		Off-site Costs Project	Off-site Costs General	Res. Dev. Cost	Off-site % Res. Cost	Note
23-463	Harrington Heights		$1,277,680	$0	$139,500,530	0.9%	
17-822	Civita II Family	(a)	$0	$14,150,000	$103,406,760	13.7%	Part of master plan.
21-513	Aquila Apartments		$450,000	$5,500,000	$76,231,379	7.8%	Part of master plan.
23-485	Iris at San Ysidro		$692,990	$5,000,000	$67,893,282	8.4%	Palm Ave. improvements.
20-431	Valencia Pointe		$2,500,000	$0	$49,293,906	5.1%	
21-119	Nestor Senior Village	(d)	$580,446	$554,099	$31,478,890	3.6%	
21-765	Merge 56 Affordable	(c)	$1,235,000	$0	$30,522,852	4.0%	Part of master plan.
20-441	Fairbanks Terrace II	(b)	$1,521,373	$0	$10,942,063	13.9%	Part of master plan.

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Notes:
(a) Project does not describe off-site requirements in attachment 12. It is assumed off-site costs are general because they are financed by a Master Development Improvement Note.
(b) Project does not describe off-site requirements in attachment 12. It is assumed off-site costs are project-specific because they are included in eligible basis.
(c) Project does not describe off-site requirements in detail in attachment 12. It is assumed off-site costs are project-specific because they are included in eligible basis.
(d) Based on ineligible off-site costs outlined in Final Tiebreaker tab in CTCAC LIHTC application workbook.

The Rising Cost of Insurance

Members of the development community have noted that builder's risk insurance, which covers construction sites damage or loss from events like fire, theft, and natural disasters, has been increasing in recent times. As shown in Table 6, as a budgeted item for projects in the application phase from 2016 to 2023, projects from 2016 to 2020 saw builder's risk insurance typically make up 0.5 percent of the total residential development budget, which increased by 76.9 percent to 0.8 percent of total budget for projects from 2021 to 2023. While the total proportion of the budget is still less than 1 percent, the increase is still noticeable.

[16] Attachment 12 must be included as part of a project's LIHTC application to TCAC. The attachment, entitled "Construction and Design Description" include a narrative description of a project's construction and design, including construction type, complex or costly requirements, and an explanation of any required demolition and off-site improvements, among other topics.

Table 6: Builder's Risk Insurance as Percentage of Residential Development Cost by Year, All Cities

Year	Builder's Risk Insurance Cost	Avg. Res. Dev. Cost	Insurance % of Total
2016	$184,093	$36,560,586	0.5%
2017	$191,168	$45,458,464	0.4%
2018	$232,213	$44,833,566	0.5%
2019	$185,379	$55,538,679	0.3%
2020	$247,781	$47,384,127	0.5%
2021	$395,036	$47,891,605	0.8%
2022	$601,615	$67,698,490	0.9%
2023	$511,748	$72,657,718	0.7%

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

PEER CITY ANALYSIS

This section covers a variety of topics related to differences in development costs across multiple cities as well as land, labor, and materials factors that may influence hard costs and acquisition costs. This section helps answer the question:

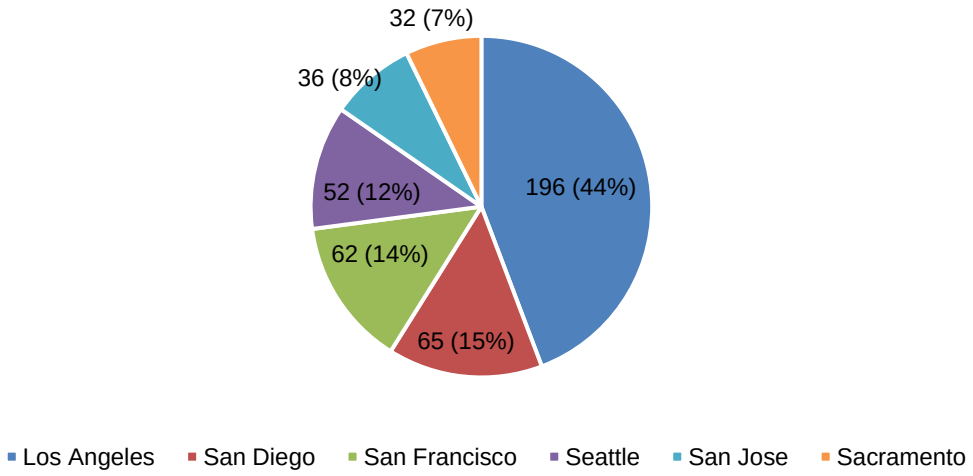
How does San Diego compare to other cities in terms of cost and what factors could be driving those differences?

City Application Distribution

This study observes data for projects in five California cities—Los Angeles, San Diego, San Francisco, San Jose, and Sacramento—as well as Seattle, Washington. The following data describe the distribution of such projects, as well as residential development costs.

Figure 4 shows the distribution of application projects by city. Los Angeles is by far the most active affordable housing development environment, with 44 percent of all projects, or 196 projects of 443, located in the city. San Diego sees the second highest number of applicants, with 65 in total (15 percent). San Francisco has the third highest number of applicants, with 62 in total (14 percent), followed by Seattle (52 projects or 12 percent), San Jose (36 projects 8 percent), and Sacramento (32 units or 7 percent).

Figure 4: Distribution of Projects by City, Application Data



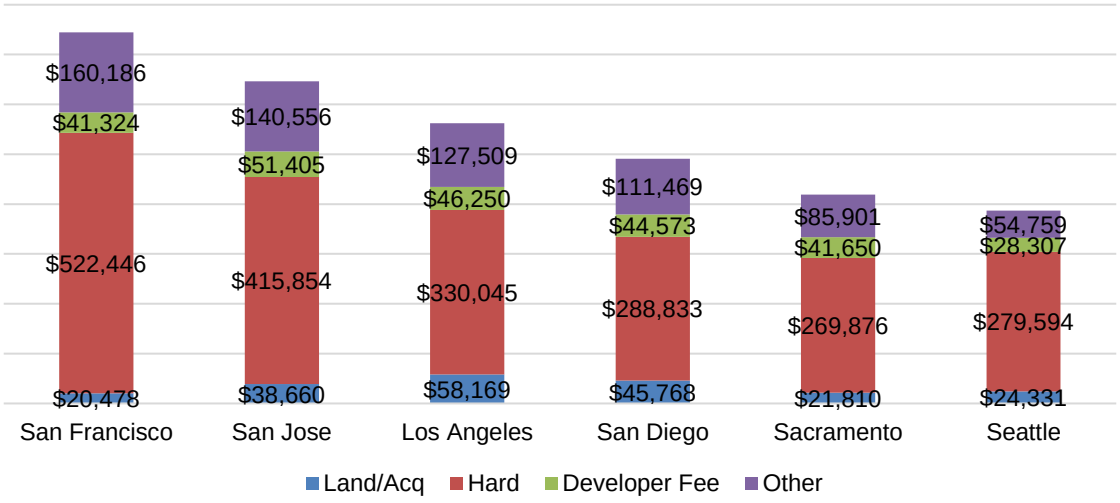
Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Application Budget Breakdown by City

Figure 5 shows the total residential development cost breakdown per unit by city for new construction projects. Per-unit residential development costs vary widely, from a low of

$386,990 per unit for Seattle to a high of $744,434 per unit in San Francisco across all application years. Northern California, including San Francisco and San Jose, tends to see far higher hard costs per unit when compared with other cities. San Diego, Sacramento, and Seattle all saw similar per-unit hard costs, while Los Angeles was somewhere in between. Notably, Seattle saw much lower costs per unit in the other category, including financing and soft costs, which contributes to its comparative lower cost of development.

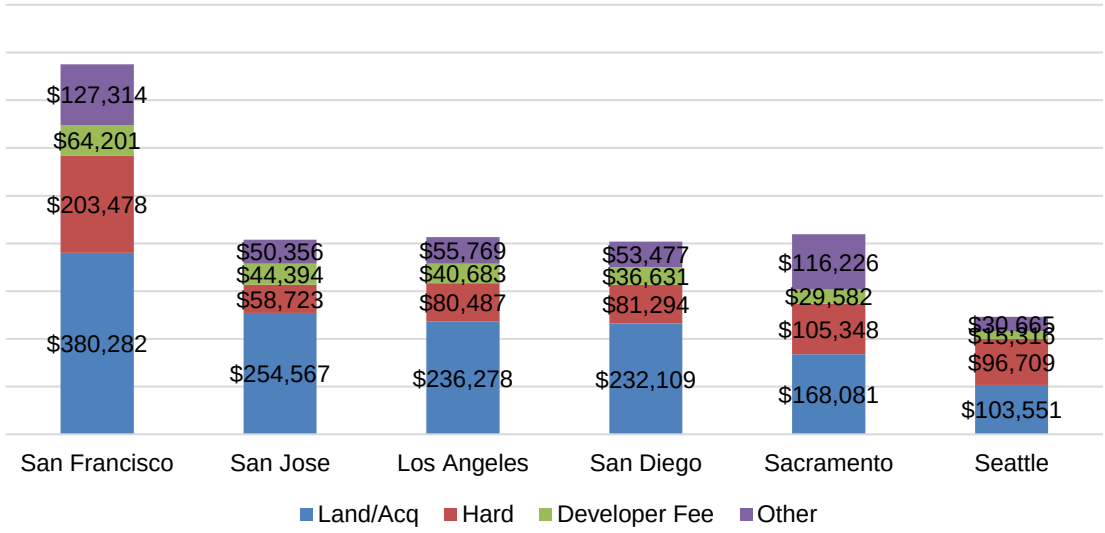
Figure 5: Total Residential Development Cost per Unit by City, New Construction, All Years



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 6 shows the total residential development cost breakdown per unit by city for acquisition and rehabilitation projects. Per-unit residential development costs vary widely, from a low of $246,241 per unit for Seattle to a high of $775,276 per unit in San Francisco across all application years. San Francisco costs are much higher than any other city—just the portion of development costs dedicated to land and acquisition are more per unit than the entire residential development cost per unit of any other city. This is likely due to the high value of land in the city, which is discussed later in the section. Projects in all other California cities see a roughly equal per-unit cost in the low $400,000s across all application years. Seattle sees a much lower residential development cost at $246,241 per unit. This is due to lower land and acquisition costs in the city compared to other cities.

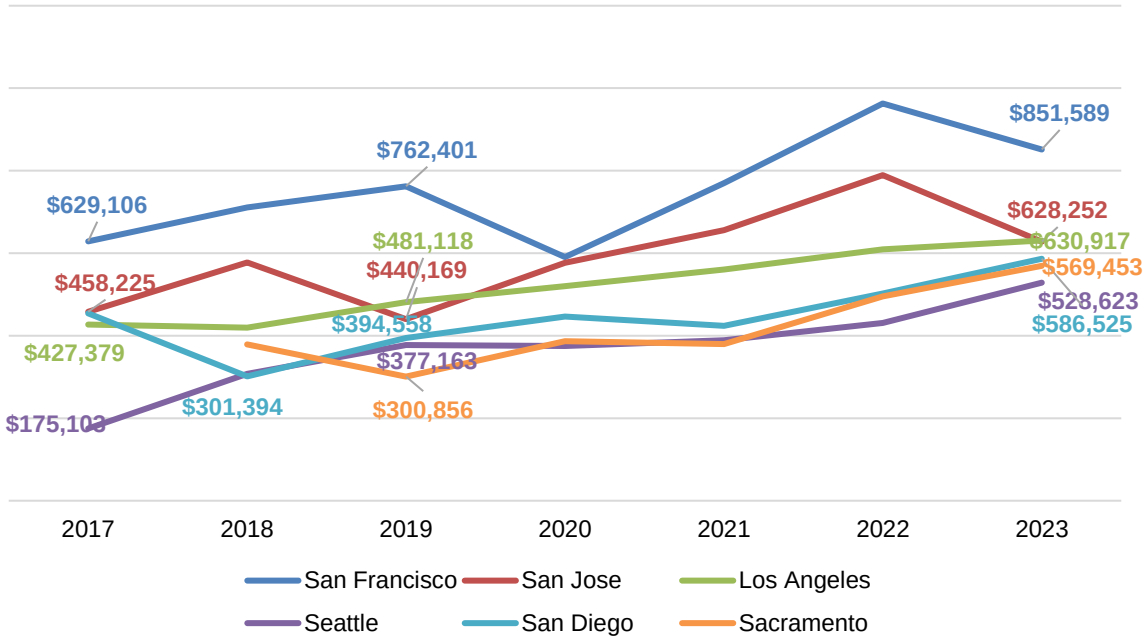
Figure 6: Total Residential Development Cost per Unit by City, New Construction, All Years



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 7 shows the residential development cost per unit by year from application years 2017 to 2023 by city. From 2019 to 2023, San Francisco saw per-unit residential development costs increase 11.7 percent from $762,401 to $851,589. San Jose saw per-unit residential development costs increase 42.7 percent from $440,169 to $628,252. Los Angeles saw per-unit residential development costs increase 31.1 percent from $481,118 to $630,917. Seattle saw per-unit residential development costs increase 40.2 percent from $377,163 to $528,623. The City of San Diego saw per-unit residential development costs increase 48.7 percent from $394,558 to $586,525. Sacramento saw per-unit residential development costs increase 89.3 percent from $300,856 to $569,453. It appears most cities are converging to a similar residential cost of development, except San Francisco, which remains more costly than other cities.

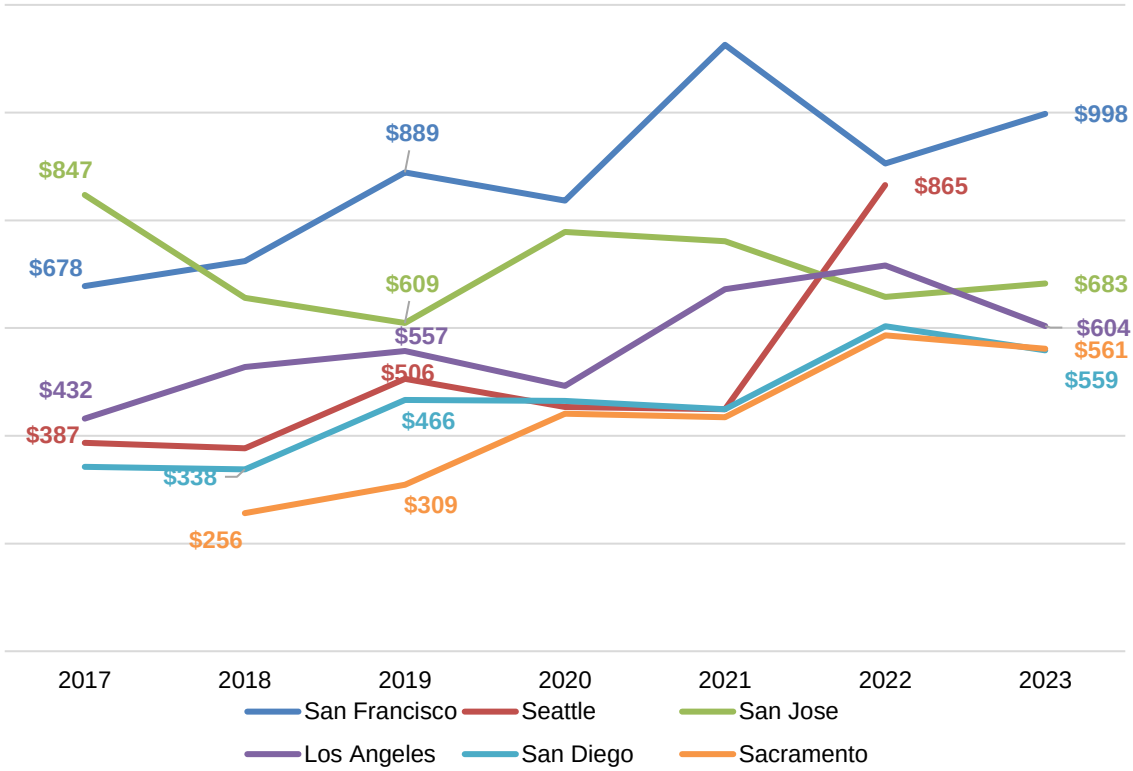
Figure 7: Total Residential Development Cost per Unit by City by Year, 2017-2023



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 8 shows the residential development cost per square foot by year from application years 2017 to 2023 by city. From 2019 to 2023, San Francisco saw residential development costs per square foot increase 12.2 percent from $889 to $998. Seattle saw residential development costs per square foot increase 71.1 percent from $506 to $865. San Jose saw residential development costs per square foot increase 12.0 percent from $609 to $683. Los Angeles saw residential development costs per square foot increase 8.3 percent from $557 to $604. The City of San Diego saw residential development costs per square foot increase by 19.8 percent from $466 to $559. Sacramento saw residential development costs per square foot increase 81.5 percent from $309 to $561. It appears most cities are converging to a similar residential cost of development, except San Francisco, which remains more costly than other cities.

Figure 8: Total Residential Development Cost per Unit by City by Year, 2017-2023



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Cost of Labor and Materials

Table 7 shows the RS Means Location Factors for various cities, which indicate the relative cost of construction in each city compared to the national average. The factors can give a general sense of how labor and materials, major drivers of cost, differ between cities. A factor of "1" represents the national average, so a higher factor indicates that construction costs are above average, while a factor below "1" (not shown here) would indicate below-average costs. It shows that the City of San Diego is somewhat more expensive than nationwide averages, and that San Francisco and San Jose are significantly more expensive locations for construction.

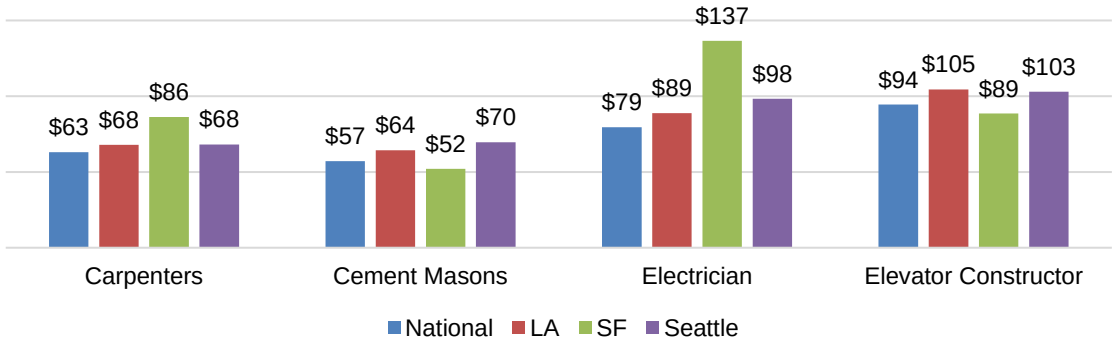
Table 7: RS Means Location Factors, 2023

City	Factor
San Francisco	1.29
San Jose	1.26
Sacramento	1.16
Los Angeles	1.14
San Diego	1.13
Seattle	1.05
National	1

Source: RS Means, 2023

Figure 9, sourced from Engineering News-Record (ENR), illustrates wage differences (including fringe benefits) for key construction trades across various cities, emphasizing the variability in labor costs within the construction industry. San Francisco consistently has the highest wages across all trades, particularly for electricians. Seattle and Los Angeles also have above-average wages but generally fall below San Francisco's rates. The national average is lower than the city-specific rates, showing that labor costs in these cities exceed the national standard, contributing to higher construction costs overall. Wages for specialized trades, such as electricians and elevator constructors, exhibit the most variability, highlighting regional disparities in labor costs for these skills. San Diego data was not available, as San Diego is not included in ENR's list of 20 cities throughout the US that is used to index construction costs. The data shows wages vary considerably between markets.

Figure 9: Construction Trade Wages by City, October 2024

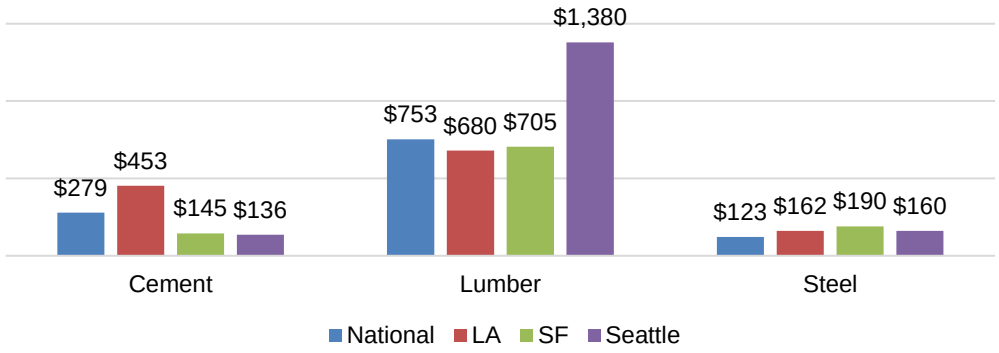


Source: ENR, 2024
Note: Include fringe benefits

Figure 10 compares the prices of key construction materials—cement, lumber, and steel—across various cities, showing substantial cost differences. Seattle has the highest lumber prices by far, reaching $1,380 per 1,000 board feet (MBF) for 2-by-4 lumber, almost double the national average, indicating significant regional demand or supply chain constraints. San Francisco and Los Angeles have lower lumber prices than Seattle but still exceed the national average, with San Francisco slightly higher than Los Angeles. Cement prices are considerably

higher in Los Angeles and San Francisco compared to the national average, with Seattle's cement cost also above average but lower than the California cities. For steel, San Francisco shows the highest price, followed by Los Angeles and Seattle, all above the national average. These regional variations in material costs contribute to the overall higher construction costs in these cities compared to national benchmarks, influenced by factors such as transportation costs, local demand, and market conditions. As construction material price data also is sourced from ENR, San Diego-specific data is not available.

Figure 10: Construction Material Prices, October 2024



Source: ENR, 2024
Notes:
(a) Cement is represented in price per short ton of Portland Cement.
(b) Lumber is represented in price per million board feet (MBF) of 2X4.
(c) Steel is represented in price per hundredweight of standard shape I-beam.

Land Costs

Table 8 highlights the sale price per acre for land intended for apartment or multifamily development in six cities from November 2021 to October 2024. San Francisco leads with a median of $25.7 million and an average of $27.9 million per acre, followed by Seattle with a median of $13.2 million and an average of $16.6 million. Los Angeles, with 223 properties sold, shows a median price of $7.5 million and an average of $9.2 million. San Diego, San Jose, and Sacramento have lower prices, with Sacramento at the lowest, averaging $1.9 million per acre. Land costs are a major driver of acquisition expenses in development, impacting overall project feasibility, particularly in high-cost markets like San Francisco. High land prices require more financing and can make affordable housing challenging without subsidies, whereas lower land costs, as seen in Sacramento, support more viable development and affordability.

Table 8: Sale Price per Acre for Land Sold with Intended Apartment/Multifamily Purpose, Nov. 2021 to Oct. 2024

City	Median	Average	Properties Sold
San Francisco	$25,738,871	$27,884,545	6
Seattle	$13,192,803	$16,645,973	48
Los Angeles	$7,451,036	$9,156,938	223
San Diego	$6,762,292	$8,230,189	53
San Jose	$3,616,340	$3,930,607	17
Sacramento	$749,414	$1,851,136	37

Source: CoStar, 2024; BAE, 2024.

PROJECT DEEP DIVES

In addition to analyzing high-level trends in cost variations, BAE conducted an in-depth examination of specific projects' circumstances and budgets. This was done to identify the factors contributing to high-cost projects and significant cost overruns. To do so, BAE utilized both attachment 12 of the project's LIHTC application and the project budget. Attachment 12 must be included as part of a project's LIHTC application to CTCAC. The attachment, entitled "Construction and Design Description," includes a narrative description of a project's construction and design, including construction type, complex or costly requirements, and an explanation of any required demolition and off-site improvements, among other topics. For the cost overrun section, BAE compared the application phase budget to the budget provided in the placed-in-service package. This section helps answer the question:

What is driving high residential development costs and cost overruns for specific projects?

High-Cost San Diego Project Deep Dives

Since at least 2023, CTCAC has issued guidance that all 9 percent projects, for the sake of transparency, should provide a brief explanation in application attachment 12 justifying per-unit development costs higher than $650,000. Using this same principle, BAE has identified five projects in the City of San Diego with development costs greater than $650,000 per unit. Table 9 below briefly summarizes projects in application year 2023 that meet this criterion and the reasons for their high-cost status. Project budgets may have increased since the application period; the figures provided represent cost at the time of application submittal.

Table 9: LIHTC Projects with Development Costs per unit >$650,000, San Diego, 2023

Project App #	Project Name	Res. Cost per Unit	TDC per Unit	High Cost Justification
23-648	Humble Heart	$913,365	$927,415	Podium construction is more expensive than all wood-frame.
23-538	Horton House	$787,614	$787,614	No reason is provided, although the developer mentions extensive renvoation requirements.
23-563	Cuatro at City Heights	$781,050	$813,746	Scattered site and infill, remediation, and soil and health plan requirements.
23-445	RB Transit Village	$727,227	$771,331	Transit parking requirements per MTS DDA. Expansive common open space. High accessibility and energy standards. Prevailing wage and PLA .
23-485	Iris at San Ysidro	$678,933	$678,933	Howard Land Park and HAWK Crosswalk improvements. Demolition costs. Relocation costs.

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Humble Heart (23-648)

Source: 23-648 Attachment 12, CTCAC, 2024

Project Information:

- 72 affordable rental housing units and one manager's unit
- Neighborhood: City Heights
- Developer: Wakeland Housing and Development Corporation (nonprofit)
- Target Population: Large Family
- 4 percent LIHTC
- Podium construction
- Ground-floor commercial space
- Preservation of historic façade
- Construction began Mid-2024
- Residential Development Cost per Unit: $913,365

Reasons for High Cost

The developer cited the cost of podium construction as the reason for the high cost of development. It is possible that incorporation of the existing façade into the building also contributes to the high cost. Without a deeper look into labor and materials details, including bid competitiveness, quotes for construction materials, and general contractor estimates, it is difficult to assess the exact reason for the project's high cost.

Table 10 shows the per-unit comparison by application budget cost categories for the Humble Heart project versus all nine 2023 City of San Diego new construction projects. Analyzing projects at the per-unit level against a benchmark allows us to pinpoint the cost categories most responsible for differences in cost. Notably, total new residential development costs for the project, at $564,559 per unit, are 54.5 percent higher than the benchmark. The hard development costs account for most of the difference between the project and the benchmark.

Table 10: Humble Heart Residential Cost per Unit vs. 2023 New Construction San Diego Average

	Project	Avg. 2023 NC	Difference #	Difference %
Land Cost / Acquisition Cost	$4,721	$28,897	($24,176)	-83.7%
Total New Construction Costs	$564,559	$365,392	$199,167	54.5%
Rehabilitation Costs	$0	$3,192	($3,192)	-100.0%
Relocation Expenses	$0	$1,567	($1,567)	-100.0%
Architecture Costs	$13,354	$13,374	($20)	-0.1%
Survey & Engineering Costs	$9,752	$4,966	$4,787	96.4%
Appraisal Costs	$0	$0	$0	
Appraisal Contingency Cost	$0	$0	$0	
Construction Interest & Fees	$103,569	$54,766	$48,803	89.1%
Permanent Financing Costs	$1,720	$4,511	($2,791)	-61.9%
Legal and Consulting Costs	$2,023	$2,794	($771)	-27.6%
Contingency Cost	$59,996	$26,969	$33,027	122.5%
Reserve Costs	$5,309	$6,874	($1,565)	-22.8%
Other Costs	$37,750	$34,513	$3,237	9.4%
Developer Costs	$110,611	$57,421	$53,190	92.6%
	$913,365	**$605,236**	**$308,129**	**50.9%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Horton House (23-538)

Source: Google Maps, 2024

Project Information:

- 150 affordable housing units and three managers' units
- Neighborhood: Marina District/Gaslamp Quarter
- Developer: San Diego Interfaith Housing Foundation (nonprofit)
- Target Population: At-Risk
- Acquisition and rehabilitation project
- Renovation of an existing Type I residential tower
- 4 percent LIHTC
- Construction began in Late 2023/Early 2024

- Residential Development Cost per Unit: $787,614

Reasons for High Cost

The developer does not provide a specific reason for the high per-unit cost in attachment 12, but it may be related to the project's Type I construction type and the cost of acquiring land and improvements in such an area with presumed high land values.

Table 11 shows the per-unit comparison by application budget cost categories for the Horton House project versus all six 2023 City of San Diego Acquisition and Rehabilitation projects. The budget benchmarking confirms our hypothesis—the cost of acquiring the existing property is particularly high, with the project's per-unit land and acquisition cost reaching $519,935 per unit, 44.8 percent higher than the $359,138 benchmark. The cost of rehabilitation, possibly due to the complexities of renovating a Type I legacy tower, are also somewhat higher than the benchmark, at $114,806 per unit, 24.1 percent higher than the benchmark of $92,532 per unit. These two categories account for most of the cost difference between the benchmark and the project.

Table 11: Horton House Residential Cost per Unit vs. 2023 Acquisition and Rehabilitation San Diego Average

	Project	Avg. 2023 Acq/Rehab	Difference #	Difference %
Land Cost / Acquisition Cost	$519,935	$359,138	$160,796	44.8%
Rehabilitation Costs	$114,806	$92,532	$22,274	24.1%
Relocation Expenses	$2,614	$3,316	($701)	-21.1%
Architecture Costs	$817	$3,046	($2,229)	-73.2%
Survey & Engineering Costs	$163	$747	($584)	-78.1%
Appraisal Costs	$0	$0	$0	
Appraisal Contingency Cost	$0	$0	$0	
Construction Interest & Fees	$41,345	$22,954	$18,391	80.1%
Permanent Financing Costs	$2,863	$2,369	$494	20.9%
Legal and Consulting Costs	$1,029	$2,204	($1,175)	-53.3%
Contingency Cost	$11,726	$11,112	$614	5.5%
Reserve Costs	$14,390	$9,886	$4,504	45.6%
Other Costs	$5,377	$7,726	($2,349)	-30.4%
Developer Costs	$72,549	$40,719	$31,830	78.2%
	$787,614	**$555,749**	**$231,866**	**41.7%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Cuatro at City Heights (23-563)

Source: Studio E Architects, 2024

Project Information:

- 115 affordable housing units and two manager's units
- Neighborhood: City Heights
- Developer: Wakeland Housing and Development Corporation (nonprofit)
- Target Population: Large Family
- New construction across four scattered sites
- Type V wood-frame construction
- 4 percent LIHTC
- Construction began April 2024
- Residential Development Cost per Unit: $781,050

Reasons for High Cost

The developer justifies the high costs due to the scattered site nature of the project and the urban infill locations of all four parcels. Parcels 1 and 2 require vapor barriers and sub-slab venting systems, as well as a Soil Management Plan and a Community Health and Safety Plan. Parcel 4 also has residual contaminated soil that needs remediation as part of the construction.

Table 12 reveals that new construction costs per unit, at $474,353, are 29.8 percent higher than the all-new construction benchmark of $365,392. Many new construction projects receive land donations. This is not the case with the Cuatro project, which sees land cost and acquisition at $60,071 per unit, more than double the average benchmark figure of $28,897. However, it is important to note that the project received $4 million in a loan from the City of San Diego to purchase land. Construction interest and fees, at $86,474, are 57.9 percent higher than the benchmark of $54,766—a higher proportion than the average new construction project.

Table 12: Cuatro at City Heights Residential Cost per Unit vs. 2023 New Construction San Diego Average

	Project	Avg. 2023 NC	Difference #	Difference %
Land Cost / Acquisition Cost	$60,071	$28,897	$31,174	107.9%
Total New Construction Costs	$474,353	$365,392	$108,960	29.8%
Rehabilitation Costs	$0	$3,192	($3,192)	-100.0%
Relocation Expenses	$0	$1,567	($1,567)	-100.0%
Architecture Costs	$17,954	$13,374	$4,580	34.2%
Survey & Engineering Costs	$3,513	$4,966	($1,453)	-29.3%
Appraisal Costs	$0	$0	$0	
Appraisal Contingency Cost	$0	$0	$0	
Construction Interest & Fees	$86,474	$54,766	$31,708	57.9%
Permanent Financing Costs	$840	$4,511	($3,671)	-81.4%
Legal and Consulting Costs	$2,256	$2,794	($538)	-19.3%
Contingency Cost	$25,725	$26,969	($1,244)	-4.6%
Reserve Costs	$4,967	$6,874	($1,907)	-27.7%
Other Costs	$33,295	$34,513	($1,218)	-3.5%
Developer Costs	$71,603	$57,421	$14,182	24.7%
	$781,050	**$605,236**	**$175,814**	**29.0%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Skyline (f.k.a Rancho Bernardo Transit Village) (23-445)

Source: MTS, 2024

Project Information:

- 99 affordable housing units and one manager's unit
- Neighborhood: Rancho Bernardo
- Developers: Affirmed Housing (for-profit) and Compass for Affordable Housing (nonprofit)
- Target Population: Large Family

- New construction
- Podium construction
- 4 percent LIHTC
- Construction began November 2023
- Residential Development Cost per Unit: $727,227

Reasons for High Cost

Affirmed Housing gives the most detailed justification of high cost. The developer justifies the high per-unit costs based on several factors related to the project's specific requirements and constraints. Under a Disposition and Development Agreement (DDA) with the Metropolitan Transit System (MTS), the developer will redevelop a parking lot currently used by transit riders, exceeding parking requirements by providing 201 spaces, with at least 85 of these spaces designated as replacement parking for MTS. This necessitates a two-story concrete Type I structure for parking below five stories of residential Type III construction.

Additionally, the project will include a 14,000-square-foot commercial office space shell due to mixed-use zoning requirements, and a large third-floor amenity area to meet open space requirements, both of which add costs. Rising costs in construction materials and insurance, along with the requirement to pay prevailing wages and adhere to a Project Labor Agreement, further increase expenses. The project also incorporates ADA-accessible and adaptable features and high energy standards, which add to the overall budget.

Table 13 shows that that new construction costs per unit, at $482,809, are 32.1 percent higher than the benchmark of $365,392. This alone accounts for most of the difference between the project and the benchmark.

Table 13: Skyline (f.k.a Rancho Bernardo Transit Village) Residential Cost per Unit vs. 2023 New Construction San Diego Average

	Project	Avg. 2023 NC	Difference #	Difference %
Land Cost / Acquisition Cost	$1,310	$28,897	($27,587)	-95.5%
Total New Construction Costs	$482,809	$365,392	$117,417	32.1%
Rehabilitation Costs	$0	$3,192	($3,192)	-100.0%
Relocation Expenses	$0	$1,567	($1,567)	-100.0%
Architecture Costs	$15,350	$13,374	$1,976	14.8%
Survey & Engineering Costs	$8,000	$4,966	$3,034	61.1%
Appraisal Costs	$0	$0	$0	
Appraisal Contingency Cost	$0	$0	$0	
Construction Interest & Fees	$56,711	$54,766	$1,945	3.6%
Permanent Financing Costs	$17,969	$4,511	$13,457	298.3%
Legal and Consulting Costs	$3,350	$2,794	$556	19.9%
Contingency Cost	$38,380	$26,969	$11,412	42.3%
Reserve Costs	$4,930	$6,874	($1,944)	-28.3%
Other Costs	$34,618	$34,513	$105	0.3%
Developer Costs	$63,800	$57,421	$6,379	11.1%
	$727,227	**$605,236**	**$121,991**	**20.2%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Iris at San Ysidro (23-485)

Source: Studio E Architects, 2024

Project Information

- 99 affordable units, including one manager's unit
- Neighborhood: San Ysidro
- Developer: National Community Renaissance of California (nonprofit)
- Target Population: Large Family
- New construction
- Type V
- 4 percent LIHTC

- Construction began August 2023
- Residential Development Cost per Unit: $678,933

Reasons for High Cost

The developer in this case also provides detailed reasons for the project's high cost. They justify the high per-unit cost, exceeding $650,000, due to specific site-related requirements and improvements. The Howard Land Park and HAWK Crosswalk improvements add $50,000 per unit. Demolition and abatement costs for removing two deteriorating single-family homes and a storage building increase costs by $3,841 per unit. Additionally, relocating tenants from two occupied units raises the cost per unit by $1,138.50. Together, these factors add $54,980 per unit. Without these unusual circumstances, the total development cost per unit would be $623,953. This is the only developer to emphasize that, if these extenuating requirements were not part of the project, the project would not be considered high-cost.

Table 14 reveals that land and acquisition costs, which include off-site costs, are almost solely responsible for the project's high-cost status, with a per-unit cost of $130,455, 3.5 times the benchmark of $28,897. Notably, new construction costs are on par with the benchmark.

Table 14: Iris Residential Cost per Unit vs. 2023 New Construction San Diego Average

	Project	Avg. 2023 NC	Difference #	Difference %
Land Cost / Acquisition Cost	$130,455	$28,897	$101,558	351.5%
Total New Construction Costs	$361,600	$365,392	($3,793)	-1.0%
Rehabilitation Costs	$0	$3,192	($3,192)	-100.0%
Relocation Expenses	$0	$1,567	($1,567)	-100.0%
Architecture Costs	$7,500	$13,374	($5,874)	-43.9%
Survey & Engineering Costs	$7,450	$4,966	$2,484	50.0%
Appraisal Costs	$0	$0	$0	
Appraisal Contingency Cost	$0	$0	$0	
Construction Interest & Fees	$38,657	$54,766	($16,109)	-29.4%
Permanent Financing Costs	$1,106	$4,511	($3,405)	-75.5%
Legal and Consulting Costs	$3,450	$2,794	$656	23.5%
Contingency Cost	$23,770	$26,969	($3,198)	-11.9%
Reserve Costs	$7,552	$6,874	$678	9.9%
Other Costs	$29,393	$34,513	($5,119)	-14.8%
Developer Costs	$68,000	$57,421	$10,579	18.4%
	$678,933	**$605,236**	**$73,697**	**12.2%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Cost Overrun Deep Dives

Table 15 presents the percent change in project residential development costs by percentile. The 90th percentile saw the largest increase at 16.1 percent, followed by the 75th percentile with an 8.3 percent increase. The median cost change was 2.7 percent. On the lower end, the 25th percentile experienced a decrease of 1.4 percent, while the 10th percentile had the most significant cost reduction at 5.6 percent. This table highlights a broad range of cost changes, showing that while there are more projects that experience an increase in development costs, there are also some that experience a decrease.

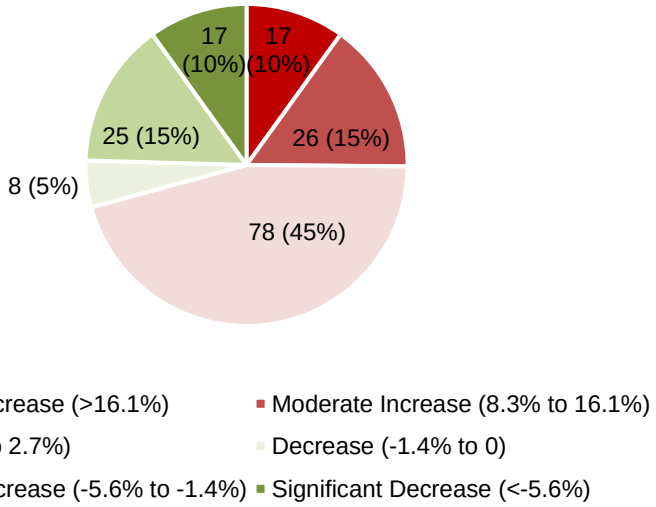
Table 15: Percent Change in Project Residential Development Cost by Percentile

Percentile	% Change
90th	16.1%
75th	8.3%
Median	2.7%
25th	-1.4%
10th	-5.6%

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024
Note: Cost overrun breakout based on California cities only.

Figure 11, informed by the statistical analysis above, categorizes PIS projects into cost overrun categories. The largest portion, representing 45 percent (78 projects), experienced a moderate increase in cost (0 to 2.7 percent). This is followed by 15 percent (26 projects) showing a significant increase of over 16.1 percent, and another 15 percent (26 projects) with a moderate increase of 8.3 percent to 16.1 percent. A smaller segment, 10 percent (17 projects), saw a significant decrease of more than 5.6 percent, while another 10 percent (17 projects) experienced a moderate decrease (-5.6 percent to -1.4 percent). Finally, 5 percent (8 projects) had a decrease in costs ranging from -1.4 percent to 0. This chart shows that most projects experienced a moderate increase in costs, with fewer projects seeing significant increases or decreases.

Figure 11: All PIS Projects by Cost Overrun Categorization



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Table 16 breaks out cost overrun categories by city. Notably, Los Angeles accounts for nearly all projects with a significant cost increase, with its 15 projects constituting 88.2 percent of the category. The remaining two projects with significant cost increases were found in the City of San Diego. San Jose (57.1 percent), San Francisco (43.2 percent), and Sacramento (44.4 percent) all saw a relatively high proportion of projects with cost decreases. The "Increase" category was still the most common, with the category representing a plurality of projects in all cities, except in San Jose, where the "Significant Decrease" category was most common.

Table 16: All Projects by Cost Overrun Categorization

	Los Angeles		Sacramento		San Diego		San Francisco		San Jose		All PIS	
Cost Increase Category	#	%	#	%	#	%	#	%	#	%	#	%
Significant Increase (>16.1%)	15	18.5%	0	0.0%	2	6.7%	0	0.0%	0	0.0%	17	9.9%
Moderate Increase (8.3% - 16.1%)	14	17.3%	2	22.2%	5	16.7%	3	8.1%	2	14.3%	26	15.2%
Increase (0 - 8.3%)	38	46.9%	3	33.3%	15	50.0%	18	48.6%	4	28.6%	78	45.6%
Decrease (-1.4% - 0)	2	2.5%	1	11.1%	3	10.0%	2	5.4%	0	0.0%	8	4.7%
Moderate Decrease (-5.6% - 1.4%)	9	11.1%	2	22.2%	3	10.0%	8	21.6%	3	21.4%	25	14.6%
Significant Decrease (<-5.6%)	3	3.7%	1	11.1%	2	6.7%	6	16.2%	5	35.7%	17	9.9%
Total	**81**	**100.0%**	**9**	**100.0%**	**30**	**100.0%**	**37**	**100.0%**	**14**	**100.0%**	**171**	**100.0%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Top 5 Highest Cost Increase PIS Projects – San Diego

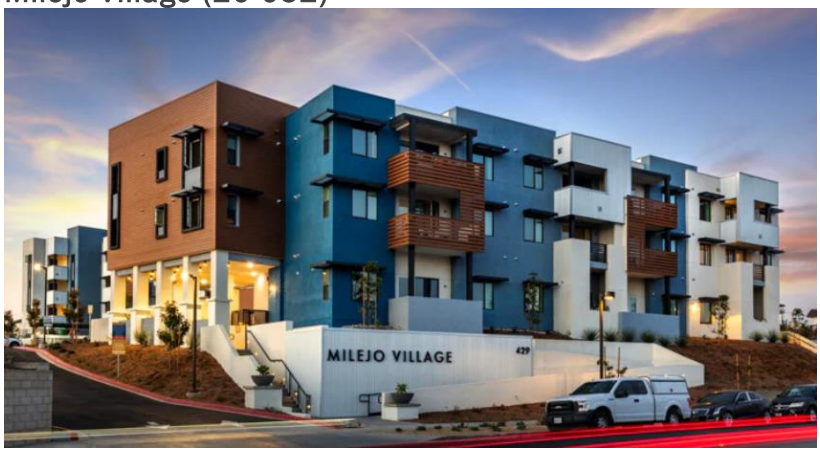
Table 17 below provides a concise summary of the five projects in the City of San Diego with the highest cost overruns, detailing the reasons for the cost increases from application to service implementation.

Table 17: Top 5 Cost Overrun Project Justification Summary, San Diego

Project App #	Project Name	App Cost	PIS Cost	% Inc.	Cost Overrun Justification
20-052	Milejo Village	$32.5M	$38.7M	19%	Increases in hard costs from labor and material shortages caused by the COVID-19 pandemic, along with extended construction timelines that led to higher construction fees and interest.
19-487	Saint Teresa of Calcutta Villa	$32.4M	$37.6M	16%	Cost overruns were primarily driven by a sharp increase in the developer fee, which rose disproportionately to overall costs, and higher new construction costs due to design adjustments.
19-557	Harris Family Senior Residence	$31.4M	$36.3M	15%	Increased new construction costs, higher construction interest and fees from rising interest rates, and a significant rise in architecture fees, though no specific reasons were provided for the construction and architecture cost increases.
18-619	Hillside Views	$82.6M	$92.5M	12%	Near sevenfold increase in construction fees and interest due to unaccounted-for financing elements, a 12-month delay from electrical issues, and re-categorization of financial costs. Rehabilitation costs also rose significantly due to an extensive and unforeseen electrical wiring upgrade to meet code and investor requirements.
20-634	The Helm	$36.4M	$40.1M	10%	Increased new construction expenses, higher-than-anticipated interest rates and property taxes, increased insurance costs, and overall elevated construction costs.

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Milejo Village (20-052)



Source: Jamboree Housing, 2024

Project Information:

- 64 affordable units and one manager's unit
- Neighborhood: San Ysidro
- Developer: Jamboree Housing Corporation (nonprofit)
- Target Population: Special Needs (Permanent Supportive Housing)
- New construction
- Type V construction
- LEED certified
- 9 percent LIHTC
- Construction began December 2020
- Placed in service July 2023
- 19.0 percent increase in residential development cost

Reason for Cost Increase

As shown in Table 18, the initial budget was $32.5 million, which increased 19.0 percent to $38.7 million. Two principal categories were responsible for the $6.2 million increase. The most significant was the project's hard cost, which increased 49.7 percent from $16.0 million to $23.7 million. According to the developer, the project closed at the start of the COVID-19 pandemic, leading to "severe cost increases, labor shortages, material shortages [which] led to huge cost overruns." Following the project's extended construction timeline, construction fees and interest increased $1.66 million, from $1.3 million to $3.0 million.

Table 18: Milejo Village vs. Actual Residential Development Costs

	Budget		Actual		Change $	Change %
Land Cost / Acquisition Cost	$2,650,000	8.1%	$2,618,604	6.8%	($31,396)	-1.2%
Relocation Expenses	$175,500	0.5%	$87,647	0.2%	($87,853)	-50.1%
Total New Construction Costs	$15,957,083	49.1%	$23,720,458	61.3%	$7,763,375	48.7%
Architecture Costs	$1,100,000	3.4%	$1,082,819	2.8%	($17,181)	-1.6%
Survey & Engineering Costs	$275,000	0.8%	$603,692	1.6%	$328,692	119.5%
Appraisal Costs	$0	0.0%	$0	0.0%	$0	
Appraisal Contingency Cost	$0	0.0%	$0	0.0%	$0	
Construction Interest & Fees	$1,300,255	4.0%	$2,959,681	7.6%	$1,659,426	127.6%
Permanent Financing Costs	$107,949	0.3%	$24,000	0.1%	($83,949)	-77.8%
Legal and Consulting Costs	$200,000	0.6%	$164,427	0.4%	($35,573)	-17.8%
Contingency Cost	$1,916,693	5.9%	$0	0.0%	($1,916,693)	-100.0%
Reserve Costs	$4,765,918	14.7%	$3,800,845	9.8%	($965,073)	-20.2%
Other Costs	$2,678,540	8.2%	$2,247,591	5.8%	($430,949)	-16.1%
Developer Costs	$1,400,000	4.3%	$1,400,000	3.6%	$0	0.0%
Total Project Costs	**$32,526,938**	**100.0%**	**$38,709,764**	**100.0%**	**$6,182,826**	**19.0%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Saint Teresa of Calcutta Villa (14th & Commercial CIC-VHHP, LP) (19-487)

Source: Chelsea Investment Corporation, 2024

Project Information:

- 80 affordable housing units and one manager's unit
  - Part of a larger multi-phase project
- Neighborhood: East Village
- Developers: Chelsea Investment Corporation (for-profit) and Father Joe's Villages (nonprofit)
- Target Population: Special Needs
- Mixed-use, new construction
- Podium construction
- Amenities: Community rooms on each floor, open courtyard and terrace, children's playground, and community garden
- 4 percent LIHTC
- Construction began January 2020
- Placed in service December 2021

- 16.3 percent increase in residential development cost

Reason for Cost Increase

As shown in Table 19, the initial budget was $32.4 million, which increased 16.3 percent to $37.6 million. The largest contributor to the project's rising cost was the developer fee, which increased 177 percent from $1.4 million to $3.9 million. While it is expected that the developer fee increases in proportion to development cost, the developer fee's proportion of overall development costs increased from 4.3 percent to 10.3 percent. A reason was not provided in the post-award cost changes section of the PIS workbook. Total new construction costs increased 8.5 percent from $19.8 million to $21.5 million, with the developer citing design adjustments as the cause.

Table 19: Saint Teresa of Calcutta Budget vs. Actual Residential Development Costs

	Budget		Actual		Change	
					$	%
Land Cost / Acquisition Cost	$4,903,784	15.2%	$5,189,746	13.8%	$285,962	5.8%
Predev. Interest/Holding Cost	$234,257	0.7%	$252,650	0.7%	$18,393	7.9%
Rehabilitation Costs	$0	0.0%	$0	0.0%	$0	
Relocation Expenses	$0	0.0%	$0	0.0%	$0	
Total New Construction Costs	$19,820,613	61.2%	$21,498,989	57.1%	$1,678,376	8.5%
Architecture Costs	$654,492	2.0%	$791,699	2.1%	$137,207	21.0%
Survey & Engineering Costs	$292,738	0.9%	$823,256	2.2%	$530,518	181.2%
Appraisal Costs	$0	0.0%	$0	0.0%	$0	
Appraisal Contingency Cost	$0	0.0%	$0	0.0%	$0	
Construction Interest & Fees	$2,180,099	6.7%	$2,984,635	7.9%	$804,536	36.9%
Permanent Financing Costs	$14,243	0.0%	$0	0.0%	($14,243)	-100.0%
Legal and Consulting Costs	$60,700	0.2%	$182,691	0.5%	$121,991	201.0%
Contingency Cost	$1,160,237	3.6%	$0	0.0%	($1,160,237)	-100.0%
Reserve Costs	$376,200	1.2%	$434,544	1.2%	$58,344	15.5%
Other Costs	$1,270,762	3.9%	$1,598,996	4.2%	$328,234	25.8%
Developer Costs	$1,400,000	4.3%	$3,882,085	10.3%	$2,482,085	177.3%
Total Project Costs	**$32,368,126**	**100.0%**	**$37,639,291**	**100.0%**	**$5,271,165**	**16.3%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Harris Family Senior Residence (19-557)

Source: Studio E Apartments, 2024

Project Information:

- 192 affordable housing units and three managers' units
- Neighborhood: City Heights
- Developers: Chelsea Investment Corporation (for-profit) and Serving Seniors (nonprofit)
- Target Population: Senior
- New construction
- Type III over Type I building
- Amenities: Community room, community garden, outdoor barbecue, and picnic area
- 4 percent LIHTC
- Construction began May 2020
- Placed in service September 2022
- 15.4 percent increase in residential development cost

Reason for Cost Increase

As shown in Table 20, the initial budget was $31.4 million, which increased 15.4 percent to $36.3 million. New construction costs increased 18.4 percent, from $19.0 million to $22.4 million. The developer did not cite a specific reason for the cost increase. Construction interest and fees increased 34.3 percent from $2.6 million to $3.4 million due to rising interest rates. Architecture fees, notably, increased 74.9 percent, from $1.2 million to $2.0 million. The developer did not provide an explanation for the increase in the post-award project cost changes section of the PIS workbook.

Table 20: Harris Family Senior Residence vs. Actual Residential Development Costs

	Budget		Actual		Change $	Change %
Land Cost / Acquisition Cost	$82,010	0.3%	$150,882	0.4%	$68,872	84.0%
Predev. Interest/Holding Cost	$0	0.0%	$112,348	0.3%	$112,348	
Rehabilitation Costs	$0	0.0%	$0	0.0%	$0	
Relocation Expenses	$0	0.0%	$0	0.0%	$0	
Total New Construction Costs	$18,959,252	60.3%	$22,449,729	61.8%	$3,490,477	18.4%
Architecture Costs	$1,122,960	3.6%	$1,964,428	5.4%	$841,468	74.9%
Survey & Engineering Costs	$176,370	0.6%	$244,005	0.7%	$67,635	38.3%
Appraisal Costs	$0	0.0%	$0	0.0%	$0	
Appraisal Contingency Cost	$0	0.0%	$0	0.0%	$0	
Construction Interest & Fees	$2,562,617	8.1%	$3,441,104	9.5%	$878,487	34.3%
Permanent Financing Costs	$67,500	0.2%	$65,807	0.2%	($1,693)	-2.5%
Legal and Consulting Costs	$387,500	1.2%	$335,559	0.9%	($51,941)	-13.4%
Contingency Cost	$1,106,758	3.5%	$0	0.0%	($1,106,758)	-100.0%
Reserve Costs	$327,727	1.0%	$366,719	1.0%	$38,992	11.9%
Other Costs	$2,767,010	8.8%	$2,758,548	7.6%	($8,462)	-0.3%
Developer Costs	$3,892,963	12.4%	$4,414,226	12.2%	$521,263	13.4%
Total Project Costs	**$31,452,668**	**100.0%**	**$36,303,355**	**100.0%**	**$4,850,687**	**15.4%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Hillside Views (18-619)

Source: Apartments.com, 2024

Project Information:

- 297 affordable housing units and three managers' units
- Neighborhood: Oak Park
- Developer: Metropolitan Area Advisory Committee on Anti-Poverty of San Diego County, Inc. (MAAC) (nonprofit)
- Target Population: Large Family
- Acquisition and rehabilitation project
- 4 percent LIHTC
- Construction began October 2018
- Placed in service October 2019
- 11.9 percent increase in residential development cost

Reason for Cost Increase

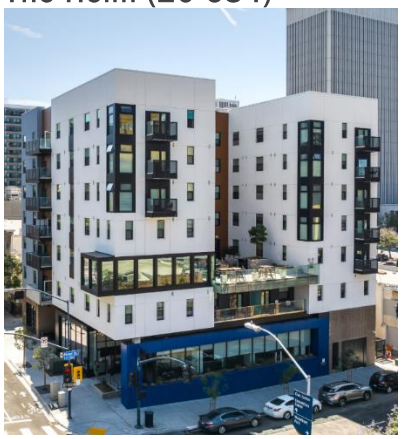
As shown in Table 21, the initial budget was $82.6 million, which increased 11.9 percent to $92.5 million. Construction fees and interest account for most of the increase, with the original $1.1 million budget increasing nearly sevenfold to $8.4 million. Reasons cited include financing oversight in the original application, not originally accounting for seller carryback and a short-term equity bridge loan, a 12-month construction delay due to electrical issues, and adjustments in how certain financial costs were categorized (particularly loan interest) to better reflect the reality of the project's financing. Rehabilitation costs accounted for much of the remaining increase, with the initial $15.5 million budget increasing 37.7 percent to $21.3 million. The developer cited specific electrical issues—"During the renovation, the project needed to update all electrical wiring from the transformer to each of the 38 buildings, requiring extensive trenching and demolition of existing wire and installation of new wire. The existing wiring could only support 50 Amp panels and the investor and building code required 100 Amp panels to be installed. Adding this additional scope significantly increased the cost to rehabilitate the building that was unknown at application."

Table 21: Hillside Views Budget vs. Actual Residential Development Costs

	Budget		Actual		Change	
					$	%
Land Cost / Acquisition Cost	$48,400,000	58.5%	$48,400,000	52.3%	$0	0.0%
Predev. Interest/Holding Cost	$0	0.0%	$0	0.0%	$0	
Rehabilitation Costs	$15,487,743	18.7%	$21,325,403	23.1%	$5,837,660	37.7%
Relocation Expenses	$900,000	1.1%	$1,030,858	1.1%	$130,858	14.5%
Total New Construction Costs	$0	0.0%	$0	0.0%	$0	
Architecture Costs	$350,000	0.4%	$562,327	0.6%	$212,327	60.7%
Survey & Engineering Costs	$0	0.0%	$150,337	0.2%	$150,337	
Appraisal Costs	$20,000	0.0%	$11,300	0.0%	($8,700)	-43.5%
Appraisal Contingency Cost	$2,388,309	2.9%	$0	0.0%	($2,388,309)	-100.0%
Construction Interest & Fees	$1,061,789	1.3%	$8,440,393	9.1%	$7,378,604	694.9%
Permanent Financing Costs	$2,088,507	2.5%	$282,011	0.3%	($1,806,496)	-86.5%
Legal and Consulting Costs	$555,000	0.7%	$577,398	0.6%	$22,398	4.0%
Contingency Cost	$0	0.0%	$0	0.0%	$0	
Reserve Costs	$1,130,725	1.4%	$940,134	1.0%	($190,591)	-16.9%
Other Costs	$926,966	1.1%	$1,211,281	1.3%	$284,315	30.7%
Developer Costs	$9,365,342	11.3%	$9,567,393	10.3%	$202,051	2.2%
Total Project Costs	**$82,674,381**	**100.0%**	**$92,498,835**	**100.0%**	**$9,824,454**	**11.9%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

The Helm (20-634)



Source: Affirmed Housing, 2024

Project Information:

- 76 affordable housing units and one manager's unit
- Neighborhood: Cortez Hill
- Developers: Affirmed Housing (for-profit) and Nexus for Affordable Housing (nonprofit)
- Target Population: Non-Targeted
- New construction
- Five stories of Type IIIA over two stories of Type IA construction
- Construction began March 2021
- Placed in service March 2023
- 9.9 percent increase in residential development cost

Reason for Cost Increase

As shown in Table 22, the initial budget was $36.4 million, which increased 9.9 percent to $40.1 million. The two categories primarily responsible for the increase were new construction, which increased from $19.7 million to $22.7 million, and construction interest, which increased from $1.6 million to $3.9 million. The developer cited factors such as higher-than-expected interest rates, higher-than-expected property tax, an upward trend in insurance, and generally higher construction costs.

Table 22: The Helm vs. Actual Residential Development Costs

	Budget		Actual		Change	
					$	%
Land Cost / Acquisition Cost	$3,750,000	10.3%	$3,962,489	9.9%	$212,489	5.7%
Predev. Interest/Holding Cost	$429,097	1.2%	$746,148	1.9%	$317,051	73.9%
Rehabilitation Costs	$0	0.0%	$0	0.0%	$0	
Relocation Expenses	$65,000	0.2%	$26,489	0.1%	($38,511)	-59.2%
Total New Construction Costs	$19,695,000	54.0%	$22,659,024	56.6%	$2,964,024	15.0%
Architecture Costs	$1,153,540	3.2%	$1,423,960	3.6%	$270,420	23.4%
Survey & Engineering Costs	$378,300	1.0%	$380,344	0.9%	$2,044	0.5%
Appraisal Costs	$0	0.0%	$0	0.0%	$0	
Appraisal Contingency Cost	$0	0.0%	$0	0.0%	$0	
Construction Interest & Fees	$1,568,000	4.3%	$3,903,342	9.7%	$2,335,342	148.9%
Permanent Financing Costs	$788,860	2.2%	$176,580	0.4%	($612,280)	-77.6%
Legal and Consulting Costs	$187,500	0.5%	$135,088	0.3%	($52,412)	-28.0%
Contingency Cost	$2,063,325	5.7%	$0	0.0%	($2,063,325)	-100.0%
Reserve Costs	$250,000	0.7%	$379,766	0.9%	$129,766	51.9%
Other Costs	$2,473,776	6.8%	$2,628,845	6.6%	$155,069	6.3%
Developer Costs	$3,642,359	10.0%	$3,642,359	9.1%	$0	0.0%
Total Project Costs	**$36,444,757**	**100.0%**	**$40,064,434**	**100.0%**	**$3,619,677**	**9.9%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

PERMANENT FINANCING ANALYSIS

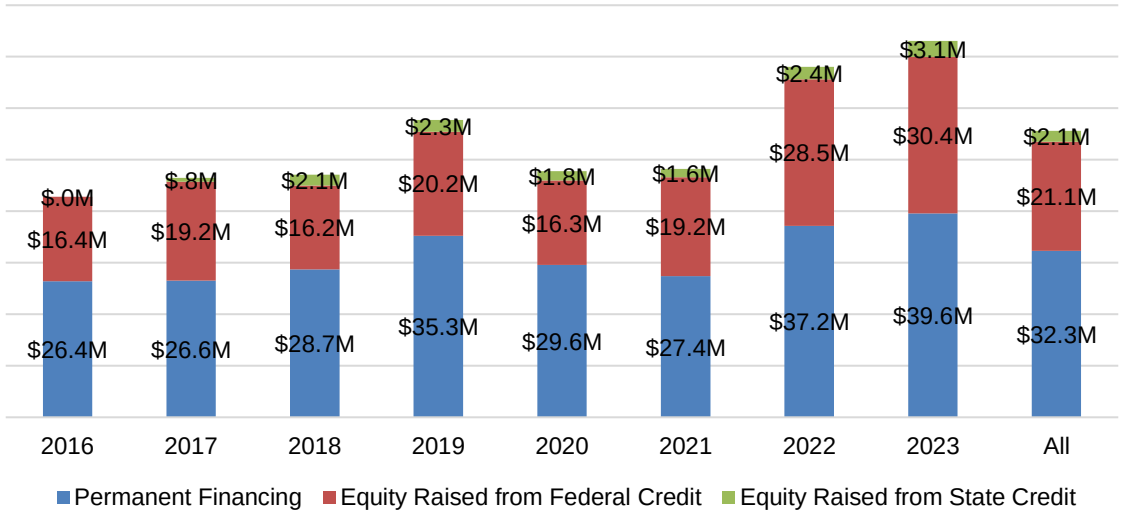
This section describes the "capital stack," which refers to the combination of various permanent financing sources used to finance affordable housing projects. In the context of LIHTC projects, the capital stack typically includes equity from the sale of tax credits, tax-exempt bonds, and other permanent financing sources, sometimes referred to as "gap funding." Tax-exempt bonds are often heavily relied upon with the 4 percent LIHTC, with a requirement that 50 percent of aggregate basis be covered by tax-exempt bond financing. This section can help answer the question:

How does the capital stack vary across cities?

Capital Stack Structure

Figure 12 shows the capital stack for the average application project by year from 2016 to 2023. LIHTCs as a proportion of permanent financing have remained relatively stable, even as overall development costs have increased. For application year 2016 projects, 38.3 percent of financing came from equity raised from federal credits, and the remainder—61.7 percent—came from other permanent sources (gap funding). By 2023, 41.6 of financing came from equity raised from federal credit, while 4.3 percent came from equity raised state credits, with the remaining coming from gap funding sources (54.1 percent). With the introduction of state LIHTCs, gap funding as a proportion of total permanent financing has decreased by 12.3 percent.

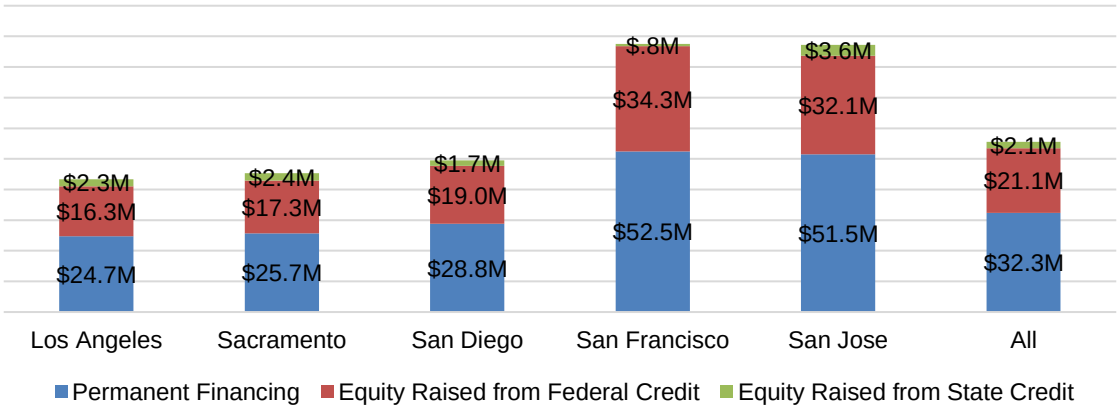
Figure 12: Capital Stack for Average Project by Year, Applications, 2016-2023, All Application Projects



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 13 shows the capital stack for the average application project by year by city. The ratio of LIHTCs to gap funding is consistent across different cities, with approximately 60 percent allocated to gap funding and 40 percent to LIHTCs in each city. San Francisco stands out in the low proportion of state LIHTCs as a funding source (0.8 percent) compared to the 3.9 percent average.

Figure 13: Capital Stack for Average Project by City, All Application Projects

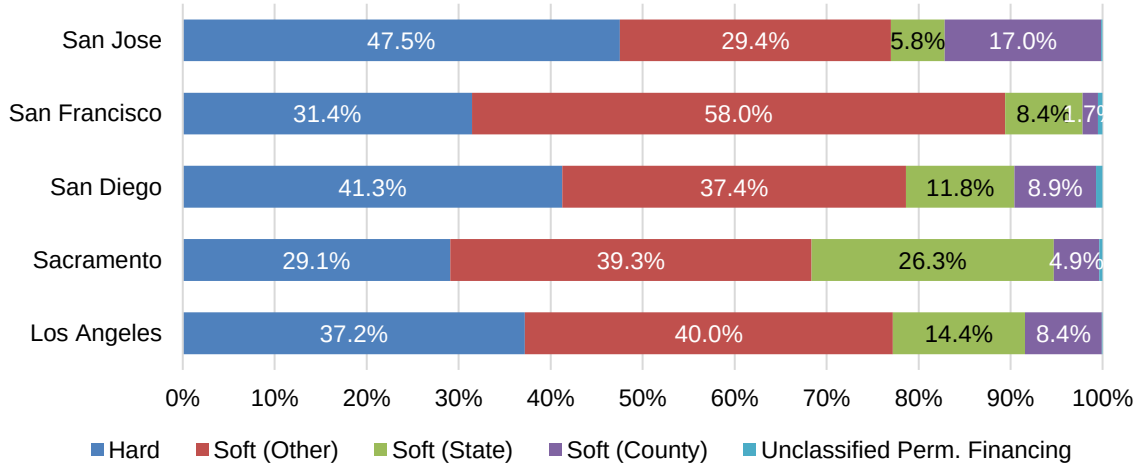


Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Permanent Sources

Figure 14 breaks down permanent funding source by category and by city. Notably, San Francisco projects see a very high proportion of permanent financing coming from the "Soft (Other)" category. This may be due to substantial funding provided through San Francisco's Mayor's Office of Housing and Community Development, which is categorized as "Soft (Other)". Sacramento sees a high proportion of state funding, which may be due to the city's proximity to state institutions, including the state's Department of Housing and Community Development. San Jose sees a high proportion of County funding, which may be due to funding provided through county affordable housing bonds. It is important to note that San Francisco, Los Angeles, and San Jose have access to voter-approved bond funds in some form, while Sacramento and San Diego currently do not.

Figure 14: Permanent Funding Source Type by City, All Application Projects



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024
Note: Funding sources are categorized using an AI model. Inaccuracies may be present.

TAX CREDIT APPLICATION DATA OVERVIEW

This section of the study discusses high-level differences in project development cost per unit and total project cost per square foot by various attributes, such as tax credit type (4 percent LIHTC vs. 9 percent LIHTC), construction type, and more. Data utilized in this section were sourced from 391 LIHTC application workbooks provided by the California Treasurer's Office via public records request, with a specific focus on 65 projects in the City of San Diego. LIHTC application workbooks are submitted before the beginning of a project's construction period, and contain key information such as estimated costs, sources and uses, and other key information related to the project.

Analyzing the cost data included in the tax credit application allows for a descriptive analysis of cost variations among different project types. Although this analysis may *suggest* potential reasons for these cost differences, it cannot definitively establish those reasons. Additionally, it should be noted that the 65 City of San Diego projects represent a relatively small sample size, which may result in significant fluctuations in the data. Cost differences between categories could be attributable to the unique characteristics of a limited number of projects. Findings from this section help answer the question:

How do costs vary between projects with different characteristics?

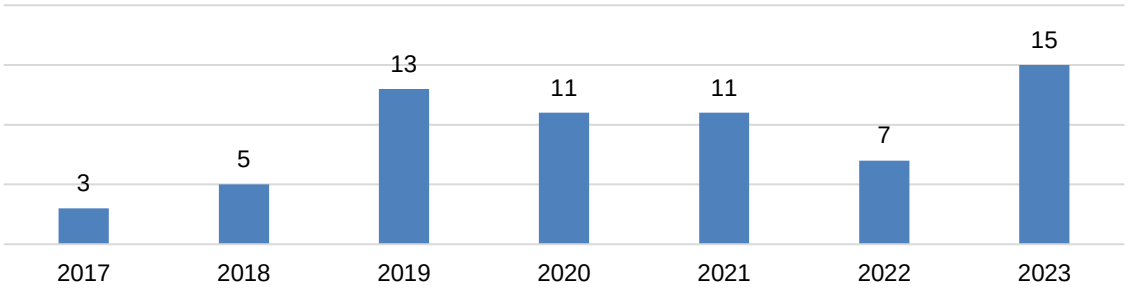
Application Year

Affordable housing developments applying for LIHTCs must apply for a given annual funding cycle, or "application year." The following data describe the distribution of such projects, as well as per-unit and per-square-foot costs for residential development.

Figure 15 shows the distribution of projects by application year for the City of San Diego. The 65 applications are distributed from 2017 to 2023, with 2023 as the year with the greatest proportion of application projects, 15 in total, followed by 2019 with 13 projects. Projects that began or were completed between 2020 and 2023 are included, as well as those that applied earlier but were finalized within this period, based on either the placed-in-service date or permit research indicating a significant project permit was closed out during the period.

That means that (a) the project submitted an application between 2020 and 2023 and the project was completed, (b) the project submitted an application between 2020 and 2023 and the project is still under construction, or (c) the project was completed between 2020 and 2023, but submitted an application in previous years as far back as 2017.

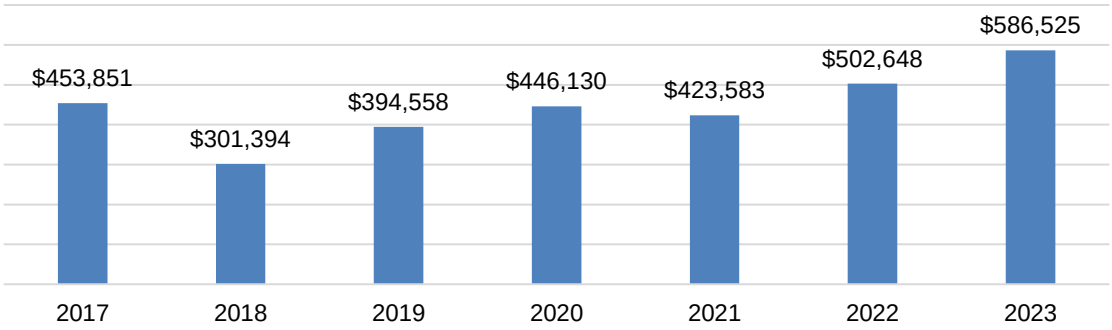
Figure 15: Distribution of Projects by Application Year, San Diego



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 16 shows the total residential development cost per unit by application year for City of San Diego projects. As shown in the table, residential development costs per unit have seen a CAGR of 10.5 percent from 2019 to 2023, starting at $394,558 per unit in 2019 and ending at $586,525 per unit in 2023. Data for 2017 and 2018 are shown, but CAGR is calculated from 2019 to 2023 due to the comparatively few number of projects in 2017 and 2018. Additionally, 2018 costs may appear low because of the high proportion of wood-framed projects in that year, compared to future years, which show a greater mix of construction types. It is important to note that these are average figures, and several projects will be substantially more expensive or less expensive per unit for any given year.

Figure 16: Total Residential Development Cost per Unit by Application Year, San Diego

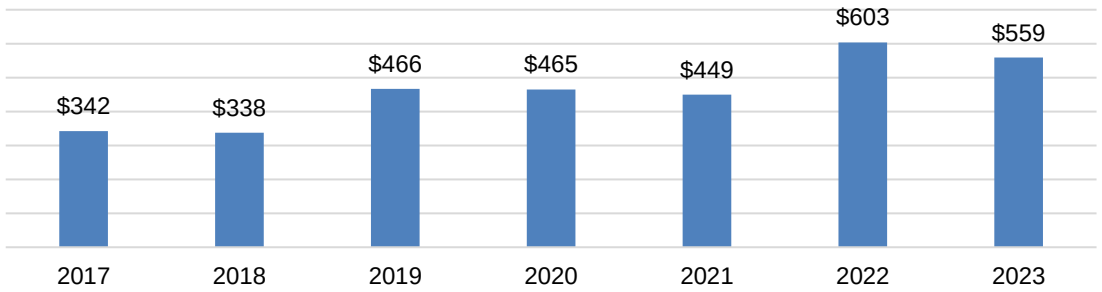


Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 17 shows the total residential development cost per square foot by application year for City of San Diego projects. Analyzing per-square-foot costs can help account for differences in unit size across projects and years. As shown in the table, residential development costs per unit have seen a CAGR of 4.6 percent from 2019 to 2023, starting at $338 per square foot in 2019 and ending at $559 per unit in 2023. Adjusting for variations in unit sizes shows that

while costs have been increasing year to year, they have not necessarily been increasing at the same rate as the per-unit cost. The per-square-foot residential cost decreased in 2023, but this may be due to the higher proportion of large family projects that year, which tend to have lower costs per square foot and higher per-unit costs.

Figure 17: Total Residential Development Cost per Square Foot by Application Year, San Diego



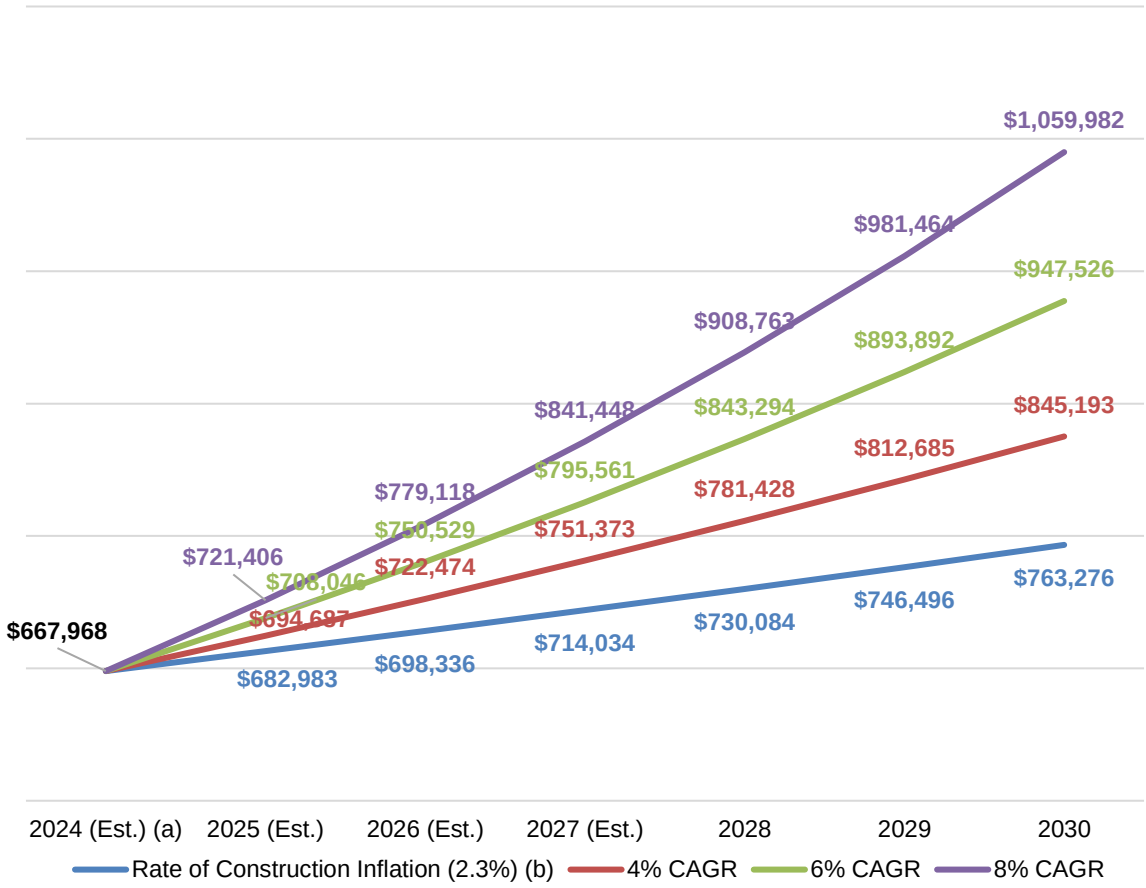
Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 18 shows potential per-unit cost scenarios for residential new construction development in the City of San Diego from 2024 to 2030. While future development costs cannot be accurately predicted, multiple growth scenarios can be calculated to help policymakers prepare for rising development costs. While the pandemic era saw substantial construction inflation, inflation has now slowed, with the CCCI currently tracking for a 2.3 percent CAGR in 2024.

If residential development costs increase at the current rate of construction inflation in California, the average per-unit cost would increase from $667,968 per unit in 2024 to $763,276 per unit by 2030. Under the highest growth scenario applying an 8.0 percent CAGR, the average per-unit residential cost in the City of San Diego would rise to $1,059,982 per unit. Once again, it is important to note that this figure represents an average, such that some projects will, by definition, be more expensive and some will be less expensive. It is not an unreasonable assumption that within the near future one can expect to see project development costs approaching or exceeding $1 million per unit, or that some projects will remain at or below $600,000 per unit. For context, between 2017 and 2020, the average yearly construction index growth rate was 2.9 percent per year. Between 2021 and 2023, the average growth rate was 10.4 percent per year, but is now tracking at a much lower 2.3 percent CAGR in 2024. For costs to approach the high growth rate scenario, construction inflation levels would need to return to years of sustained elevation. While not shown in the figure, residential new construction development costs in the City of San Diego increased by 6.7 percent from application year 2023 to application year 2024. If residential development

costs were to increase at a rate of 6 percent per year, by 2027, average per unit residential development costs would reach $947,526.

Figure 18: Average New Construction Residential Development Cost Per Unit Growth Scenarios, San Diego, 2024 - 2030



Source: California Construction Cost Index, 2024; California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Notes:
(a) The 2024 per unit residential development cost includes 11 application year 2024 City of San Diego new construction LIHTC projects and four application year 2023 projects for which BAE received updated closing cost budgets. The methodology for calculating 2024 cost figures differs from that used in the rest of the study.
(b) The rate of construction inflation is based on the California Construction Cost Index.
(c) Cost projections do not suggest the likelihood of or guarantee that construction costs will reach stated levels at the stated times.

Tax Credit Type

Projects seeking LIHTCs either apply for 4 percent tax credits or 9 percent tax credits, depending on project needs and the specifics of the capital stack. The tax credit types have the following characteristics. The following section describes the distribution of such projects, as well as per-unit and per-square-foot costs for residential development.

4 percent Tax Credits:

- 4 percent of eligible basis[17] is given to the project in the form of tax credits, which are then sold to investors to raise equity for the project. They are distributed annually over 10 years, resulting in 40 percent% of eligible basis covered by tax credit.
- Always paired with tax-exempt bonds.
- Theoretically, they are not competitive and are more accessible than 9 percent tax credits, but in practice, due to the competitiveness of acquiring the required bond funding, this is no longer the case.

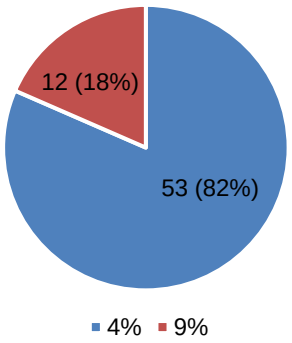
9 percent Tax Credits:

- 9 percent of eligible basis is given to the project in the form of tax credits, which are then sold to investors to raise equity for the project. They are distributed annually over 10 years, resulting in 99 percent of eligible basis covered by tax credit.
- More competitive due to the higher value of the credit, resulting in more equity for the project.

Figure 19 shows the distribution of projects by tax credit type in the City of San Diego. Of the 65 applications analyzed between 2017 and 2023, 53 (81.5 percent) are 4 percent projects, with the remaining 12 (18.5 percent) being 9 percent projects.

[17] Per IRC section 42(d), eligible basis refers to the total cost of building or renovating low-income housing, excluding the cost of land and other ineligible expenses, such as offsite improvements, marketing, and some financing fees.

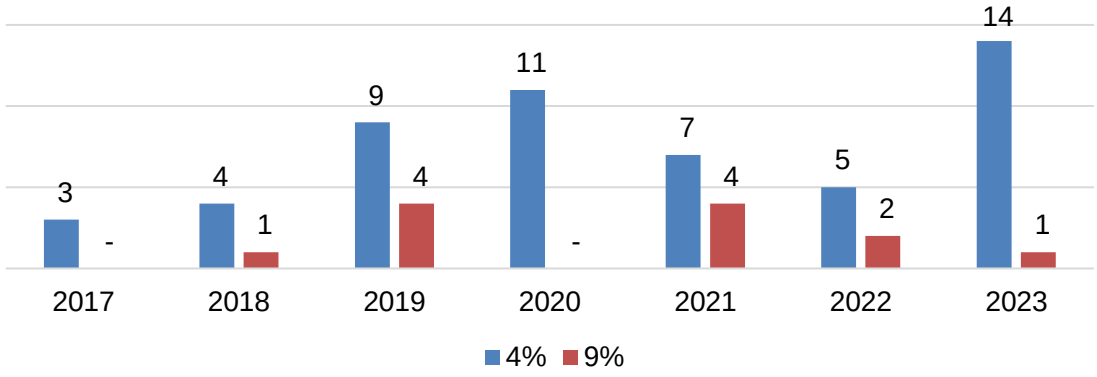
Figure 19: Distribution of Projects by Tax Credit Type, San Diego, All Years



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 20 shows the distribution of projects by tax credit type and application year. Of the application data that was received, 4 percent applications were consistently received each year. The year with the highest proportion of 9 percent applications was 2021, with four of 11 applications that year (36.4 percent). In 2023, just one of 15 applications was a 9 percent project.

Figure 20: Projects by Application Year and Tax Credit Type, San Diego, All Years



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 21 shows the total residential development cost per unit by tax credit type. Differences between 4 percent per-unit costs and 9 percent per-unit costs are minimal---$480,715 per unit for 4 percent application projects and $458,061 per unit for 9 percent application projects, 4.9 percent higher than residential costs for 4 percent projects.

Figure 21: Total Residential Development Cost per Unit by Tax Credit Type, San Diego, All Years

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 22 shows the Total Residential Development Cost per square foot by tax credit type. Differences between 4 percent per-square-foot costs and 9 percent per-square-foot costs are more pronounced, with 9 percent projects seeing a 26.5 percent higher per-square-foot residential development cost ($591 per square foot) compared to 4 percent projects ($472 per square foot). The higher cost for 9 percent projects is notable because a higher proportion of 9 percent tax credit projects are found in earlier application years, when one would expect lower development costs. As established previously, the special needs target population, which also includes permanent supportive housing, is the costliest project type by target population per square foot and in the City of San Diego. All special needs projects, and seven out of 12 projects with 9 percent tax credits, target the special needs population.

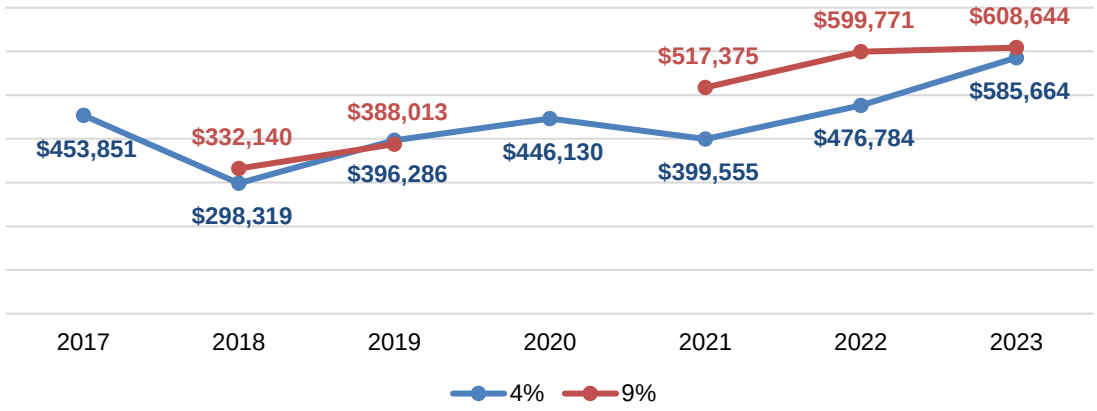
Figure 22: Total Residential Development Cost per Square Foot by Tax Credit Type, San Diego, All Years

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 23 shows the annual trend in residential development cost per unit by tax credit type. The years 2017 and 2018 have a small sample size and reflect the averages of a small

number of projects. Looking at 4 percent tax credit projects, the average residential development cost per unit was $396,286 in 2019, increasing by 47.8 percent to $608,644 in 2023. For 9 percent tax credit projects, the average residential cost per unit was $388,013 in 2019, increasing by 56.9 percent to $608,644 in 2023.

Figure 23: Total Residential Development Cost per Unit by Tax Credit Type by Year, San Diego, 2017-2023

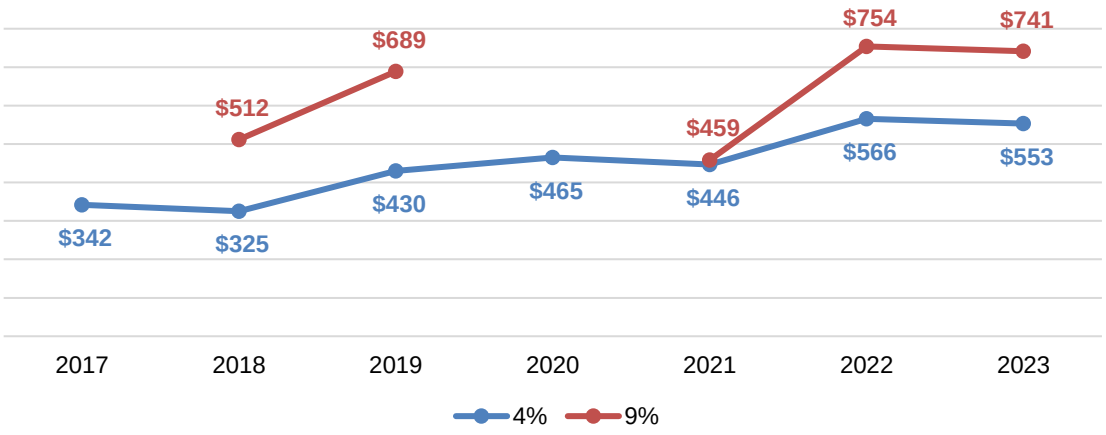


Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Note: Blank years indicate that there is no applicable project information for the given category. If the project was not completed between 2020 and 2023 or did not apply for tax credits between 2020 and 2023, or was located outside of the City of San Diego, it would not be included. Additionally, the study only includes projects for which CTCAC provided data.

Figure 24 shows the annual trend in residential development cost per square foot by tax credit type. The years 2017 and 2018 have a small sample size and reflect the averages of a small number of projects. Looking at 9 percent tax credit projects, the average residential development cost per square foot was $689 in 2019, increasing by 7.5 percent to $741 in 2023. For 4 percent tax credit projects, the average residential cost per square foot was $430 in 2019, increasing by 28.6 percent to $553 in 2023.

Figure 24: Total Residential Development Cost per Square Foot by Tax Credit Type by Year, San Diego, 2017-2023



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Note: Blank years indicate that there is no applicable project information for the given category. If the project was not completed between 2020 and 2023 or did not apply for tax credits between 2020 and 2023, or was located outside of the City of San Diego, it would not be included. Additionally, the study only includes projects for which CTCAC provided data.

Target Population

Project applicants choose a specific target population to build housing suited to the needs of their future tenants. Target populations, sometimes referred to as "housing type" in LIHTC applications, can include the following categories:

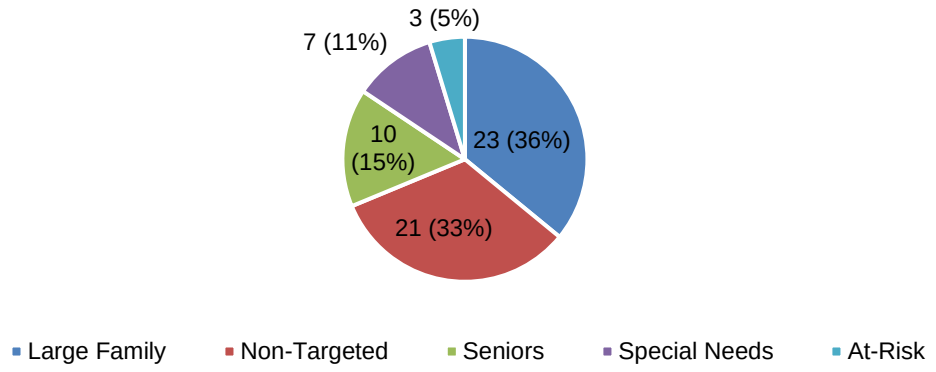
- **Seniors**: Housing designed for older adults, typically aged 55 and older, providing amenities and services suited to their needs, such as accessibility features, medical support, and community activities.
- **At-Risk**: Refers to affordable housing units that are in danger of losing their affordability status. The "at-risk" designation means that without action (such as renewing agreements, finding new subsidies, or other interventions), these affordable units could be lost, further exacerbating housing crises by reducing the stock of available low-income housing.
- **Large Family**: Housing that accommodates families with multiple children, featuring larger unit sizes with multiple bedrooms and common areas to support family life.
- **Special Needs**: Housing tailored for individuals with physical, mental, or developmental disabilities, often including specialized facilities, accessible design, and support services to enhance their quality of life.
    - Permanent supportive housing (PSH) for individuals at risk of or experiencing homelessness is included in this category.

- **Non-targeted**: General affordable housing that does not focus on a specific demographic, offering residential units to a broad range of low- to moderate-income individuals and families.

The following section describes the distribution of projects in the City of San Diego by target population, as well as per-unit and per-square-foot costs for residential development.

Figure 25 shows the distribution of application projects by target population. Large family, captures the largest share of application projects with 23 projects (36 percent), followed by non-targeted with 21 projects (33 percent), seniors with 10 projects (15 percent), and special needs with seven projects (11 percent). At-risk projects were relatively rare with only three examples (3 percent).

Figure 25: Distribution of Projects by Target Population, Application Data



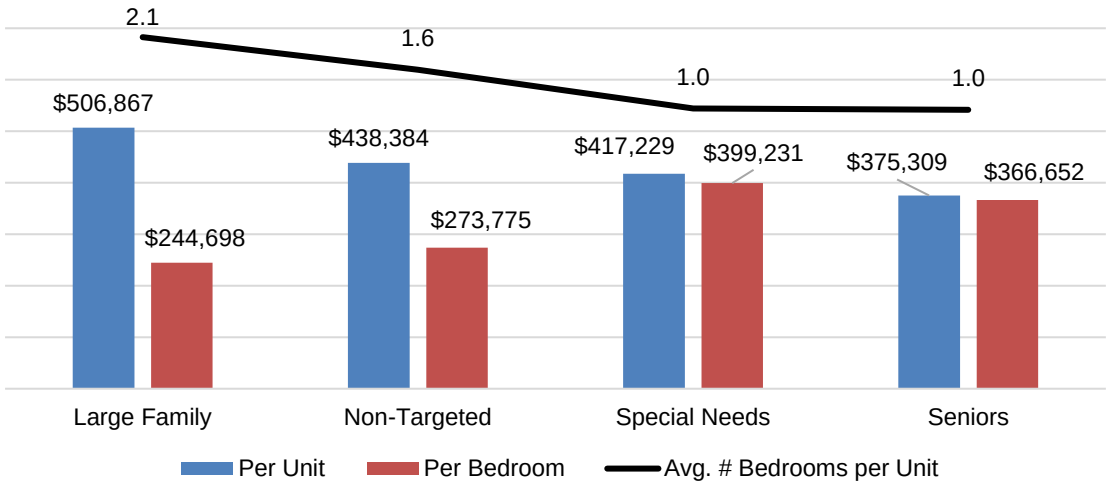
Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 26 shows the total residential development cost per unit by target population, as well as the per-bedroom cost and average number of bedrooms per unit. Large family projects see the highest per-unit cost at $506,867 per unit, 35.1 percent higher than the $467,638 per-unit cost for non-targeted projects. Special needs projects see a per-unit cost of $417,229, followed by senior projects at $375,309 per unit.

The higher per-unit cost of large family housing can largely be attributed to the higher number of bedrooms per unit, which is 2.1 for large family projects, more than twice as many bedrooms per unit when compared to special needs and senior projects. Non-targeted units have an average of 1.6 bedrooms per unit. On a per-bedroom basis, large family units are the least expensive to construct, at $244,698 per bedroom, followed by non-targeted at $273,775 per bedroom, special needs at $399,231 per bedroom, and $366,652 per

bedroom for seniors. Reasons for lower costs for additional bedrooms are provided in the next figure.

Figure 26: Total Residential Development Cost per Unit, per Bedroom, and Average Number of Bedrooms per Unit by Target Population, San Diego

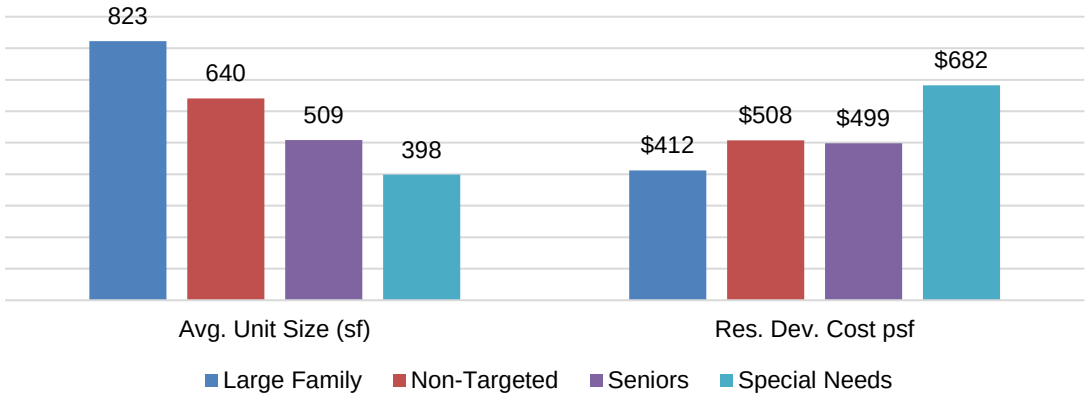


Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024
Note: At-Risk excluded due to low sample size

Figure 27 below shows average unit size (sf) by target population, revealing a key relationship between average unit size and cost per square foot that is not apparent when looking at cost-per-unit figures. As shown below, there is an inverse relationship between average unit size and cost per square foot. Large family units see the lowest residential development cost at $412 per square foot, but the highest average unit size at 823 square feet. Non-targeted units see an average unit size of 640 square feet and a residential development cost of $508 per square foot. Senior units see an average unit size of 509 square feet and a residential development cost of $499 per square foot. Special needs units see an average unit size of 509 square feet and a residential development cost of $499 per square foot.

The inverse relationship is based on the principle that the most expensive components to build, including basic mechanical, electrical, plumbing systems, the kitchen, and bathrooms, must be constructed for units regardless of their size. Each additional square foot of construction will be less costly because the components required for constructing additional bedrooms are not as expensive as those mentioned above—one kitchen or one bathroom can support multiple bedrooms.

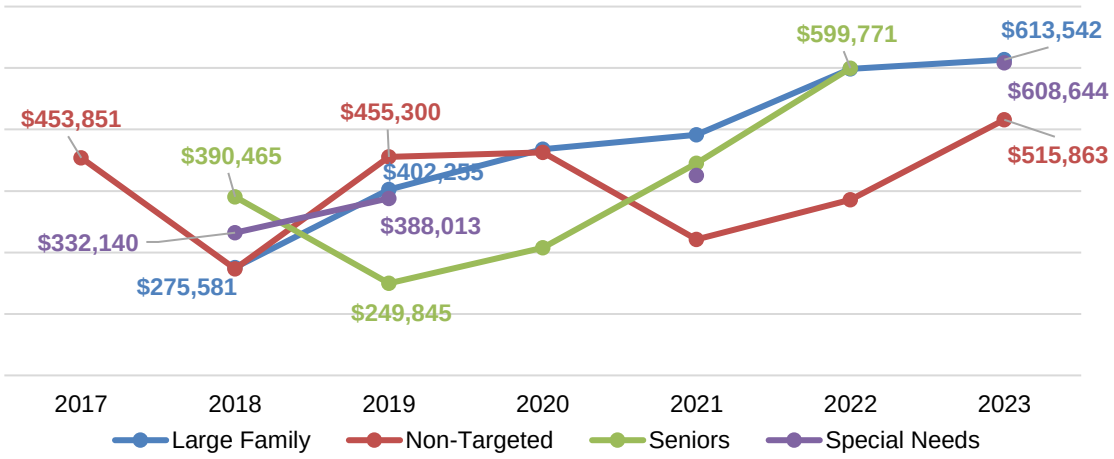
Figure 27: Target Population by Average Unit Size (sf), Application Projects



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024
Note: At-Risk excluded due to low sample size

Figure 28 below shows the trend in total residential development cost per unit by target population. The years 2017 and 2018 have a small sample size and reflect the averages of a small number of projects. Looking at large family projects, the average residential development cost per unit was $402,255 in 2019, increasing by 52.5 percent to $613,542 per unit in 2023. Non-targeted projects saw a per-unit residential development cost of $455,300, which rose by 13.3 percent to $515,863 per unit by 2023. Senior projects saw a per-unit residential development cost of $249,845, which rose by 140 percent to $599,771 per unit by 2022. Special needs projects saw a per-unit residential development cost of $332,140, which rose by 88.9 percent to $608,644 per unit by 2023. Please keep in mind the small number of projects within each category can cause volatility in the data.

Figure 28: Total Residential Development Cost per Square Foot by Tax Credit Type by Target Population, San Diego, 2017-2023

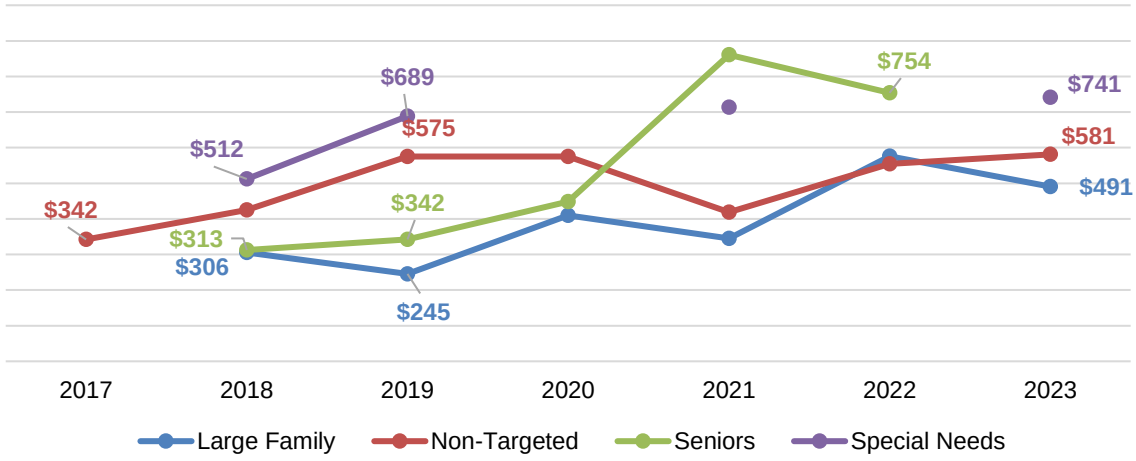


Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Note: Blank years indicate that there is no applicable project information for the given category. If the project was not completed between 2020 and 2023 or did not apply for tax credits between 2020 and 2023, or was located outside of the City of San Diego, it would not be included. Additionally, the study only includes projects for which CTCAC provided data.

Figure 29 below shows the yearly trend in total residential development cost per unit by target population. The years 2017 and 2018 have a small sample size and reflect the averages of a small number of projects. When isolating large family projects, the average residential development cost was $306 per square foot in 2019, increasing by 60.5 percent to $491 per square foot in 2023. Non-targeted projects saw a residential development cost of $575 per square foot in 2019, rising 10.4 percent to $581 per square foot by 2023. Senior projects saw a residential development cost of $342 per square foot in 2019, which rose by 120 percent to $754 per square foot by 2022. Special needs projects saw a residential development cost of $512 per square foot, which rose by 44.7 percent to $741 per square foot by 2023. Please keep in mind the small number of projects within each category can cause volatility in the data.

Figure 29: Total Residential Development Cost per Square Foot by Target Population, San Diego, 2017-2023



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Note: Blank years indicate that there is no applicable project information for the given category. If the project was not completed between 2020 and 2023 or did not apply for tax credits between 2020 and 2023, or was located outside of the City of San Diego, it would not be included. Additionally, the study only includes projects for which CTCAC provided data.

Construction Type

Project applicants choose a specific construction type that suits site and financial constraints. The construction methods are categorized into five primary types:

- **Type I**: Fire-resistive construction, typically involving non-combustible materials such as concrete and steel, used for high-rise buildings. This is usually the most expensive type of construction.
    - Podium construction, here referred to as "Type I Hybrid," usually refers to structures with a Type I concrete ground floor and/or subterranean floor(s) with several stories of Type III, IV, or V construction above.
- **Type II**: Non-combustible construction, similar to Type I but with less stringent fire-resistance ratings, often used in commercial buildings.
- **Type III**: Ordinary construction, featuring non-combustible exterior walls and a wooden interior structure, common in both commercial and residential buildings.
- **Type IV**: Heavy timber construction, utilizing large wooden beams and columns.
- **Type V**: Wood-frame construction, the most common type for residential buildings, with both interior and exterior walls made of wood.

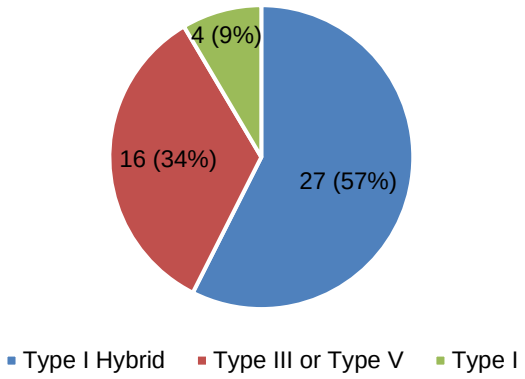
The following data describe the distribution of such projects, as well as per-unit and per-square-foot residential development costs. Analyzing construction costs per square foot by construction type (e.g., Type I vs. podium) is more accurate for new construction projects than

for rehabilitation projects, because new builds adhere closely to standardized construction types, whereas rehabilitations involve unique variables that can significantly alter costs. Therefore, this section will focus on new construction projects in the City of San Diego only.

For simplicity, this analysis includes three construction categories—the concrete and steel Type I, the combined all-wood frame category (Type III and Type V), and the wood frame over concrete podium category (Type I Hybrid).

Figure 30 shows the distribution of new construction projects by construction type. A majority of projects—27 out of 47 projects (57 percent) for which construction type data is available—are podium structures (Type I Hybrid). The next most common construction type is wood frame (including both Type III and Type V), with 16 projects (34 percent), followed by Type I with four projects (9 percent).

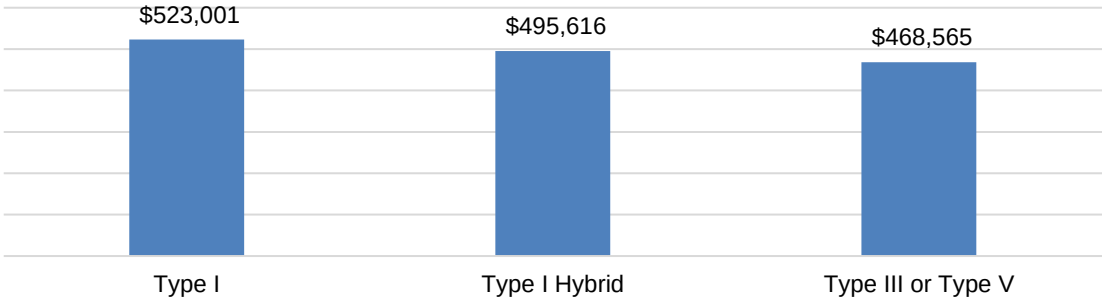
Figure 30: Distribution of Projects by Construction Type, Application Data



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 31 shows the residential development cost per unit by construction type. Type I construction has proved to be the costliest type per unit, at $523,001, followed by podium construction at $495,616 per unit, and wood frame at $468,565 per unit.

Figure 31: Total Residential Development Cost per Unit by Construction Type

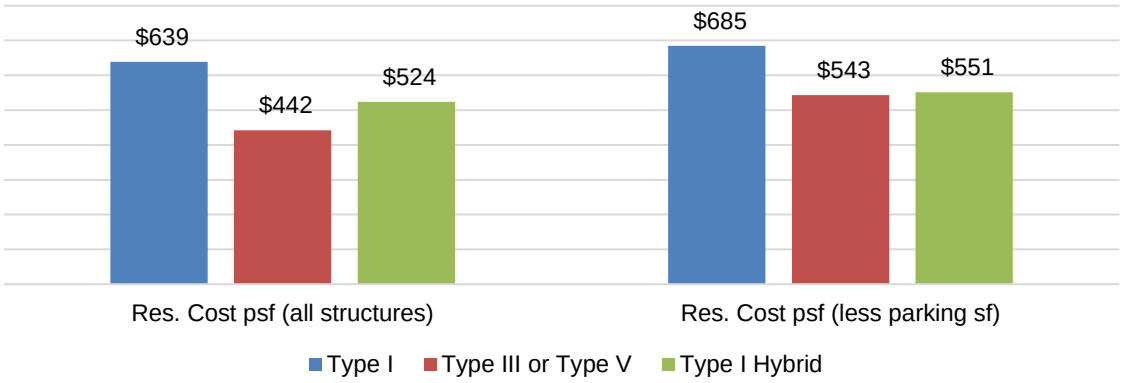


Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 32 displays the total residential development cost per square foot by construction type, broken down by total project square footage as well as project square footage less parking. It is important to note that, despite significant differences in parking costs versus residential construction costs, application data from CTCAC do not distinguish between the two. For example, BAE has used a per-stall podium parking cost as high as $45,000 in pro forma work. While we cannot remove parking costs from the total development costs, comparing the project's cost per square foot, excluding parking square footage, still offers useful insights. This method emphasizes the cost intensity of residential construction by focusing on the square footage that directly pertains to residential use. Although this approach may inflate the cost per square foot figure due to the inclusion of parking costs in the numerator, it enables a more focused comparison of construction costs by type, highlighting differences that might be less apparent when parking areas are included.

Looking at the total residential cost per square foot for all structures, Type I construction sees the highest cost at $639 per square foot, 44.6 percent higher than the wood-frame figure of $442 per square foot, and 21.9 percent higher than the podium figure of $524 per square foot. After removing parking square footage, while Type I's elevated cost at $685 per square foot, remains, podium costs ($543 per square foot), and wood-frame costs ($551 per square foot), are nearly equal.

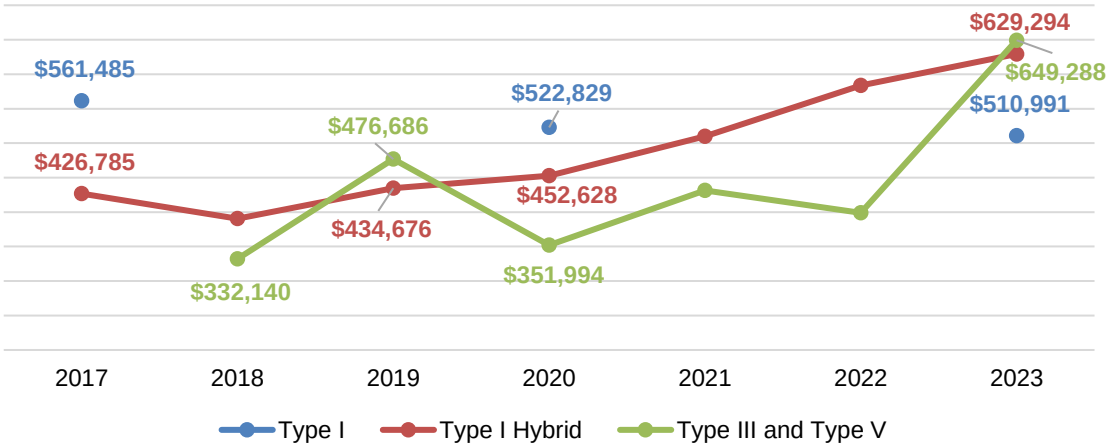
Figure 32: Total Residential Development Cost per Square Foot by Construction Type



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 33 below shows the annual trend in residential development costs per unit by construction type. The years 2017 and 2018 have a small sample size and reflect the averages of a small number of projects. The relatively rare Type I saw an average per-unit cost of $561,485 in 2017, falling 9.0 percent to $510,991 per unit in 2023. It is important to note that an overall trend in Type I costs cannot be assessed with the small sample size of four projects. Podium construction saw a residential developer cost per unit of $434,676 in 2019, rising by 44.8 percent to $629,294 per unit by 2023. Wood-frame construction saw a residential development cost of $476,686 per unit in 2019, rising by 36.2 percent to $649,288 per unit in 2023.

Figure 33: Total Residential Development Cost per Unit by Construction Type, San Diego, 2017-2023

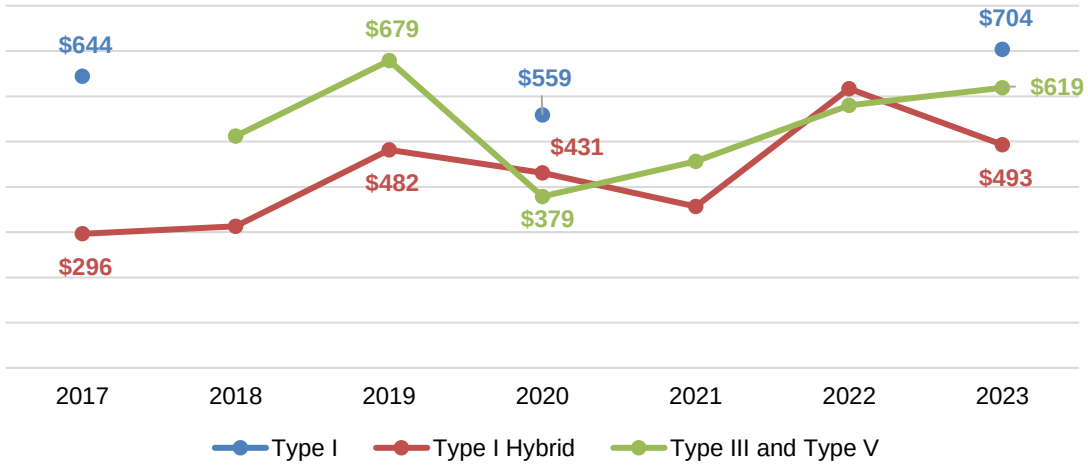


Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Note: Blank years indicate that there is no applicable project information for the given category. If the project was not completed between 2020 and 2023 or did not apply for tax credits between 2020 and 2023, or was located outside of the City of San Diego, it would not be included. Additionally, the study only includes projects for which CTCAC provided data.

Figure 34 below shows the annual trend in residential development costs per square foot by construction type. The years 2017 and 2018 have a small sample size and reflect the averages of a small number of projects. Type I saw an average per square foot cost of $644 in 2017, rising 9.3 percent to $704 per square foot in 2023. It is important to note that an overall trend in Type I costs cannot be assessed with the small sample size of four projects. Podium construction saw a residential developer cost of $482 per square foot in 2019, rising by 2.3 percent to $493 per unit by 2023. Wood-frame construction saw a residential development cost of $679 per square foot in 2019, falling by 8.8 percent to $619 in 2023.

Figure 34: Total Residential Development Cost per Square Foot by Construction Type, San Diego, 2017-2023



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

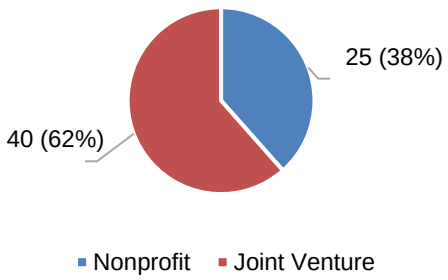
Note: Blank years indicate that there is no applicable project information for the given category. If the project was not completed between 2020 and 2023 or did not apply for tax credits between 2020 and 2023, or was located outside of the City of San Diego, it would not be included. Additionally, the study only includes projects for which CTCAC provided data.

Ownership Type

Affordable housing projects have unique ownership structures that fall into three categories: nonprofit, for profit, and joint venture. Joint venture projects can be a combination of nonprofit and for-profit entities but usually include a partnership between at least one nonprofit and one for-profit entity. The following data describe the distribution of such projects, as well as per-unit and per-square-foot residential development costs for both application data and PIS data.

Figure 35 shows the distribution of projects by ownership type, with the majority of projects (40 of 65, or 62 percent) in the joint venture category. The remaining 25 projects (38 percent) are in the nonprofit category.

Figure 35: Distribution of Projects by Ownership Type, Application Data



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

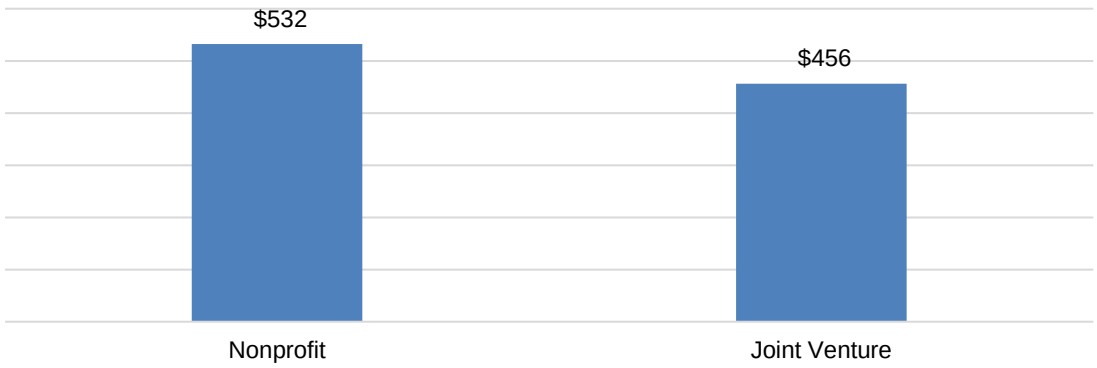
Figure 36 shows total residential development cost per unit by ownership type. Nonprofit application projects are $502,460 per unit on average, which is 13.8 percent higher than the joint venture figure of $441,721 per unit. The reason behind the increased cost per unit for nonprofit developers is unclear. For example, there is not necessarily a higher proportion of high-cost construction types or target population projects for nonprofit developers.

Figure 36: Average Total Residential Development Cost per Unit by Ownership Type

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 37 shows total residential development cost per square foot by ownership type. The cost differences persist, with nonprofit ownership type projects seeing a $532 per-square-foot cost, 16.7 percent higher than the $456 per-square-foot figure for joint venture projects.

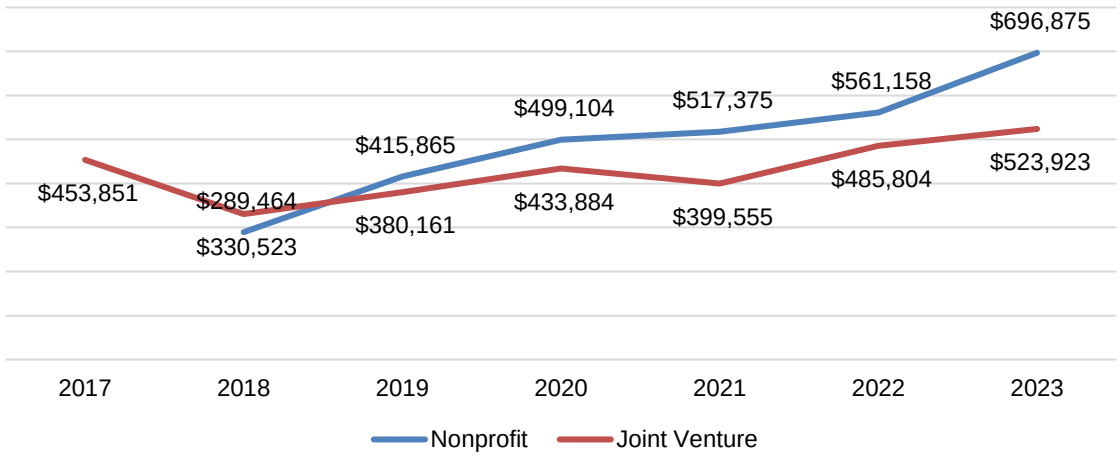
Figure 37: Total Residential Development Cost per Square Foot by Ownership Type



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 38 below shows the annual trend in residential development costs per unit by construction type. The years 2017 and 2018 have a small sample size and reflect the averages of a small number of projects. Nonprofit projects saw a residential development cost of $415,865 per unit in 2019, which rose 67.6 percent to $696,875 per unit in 2023. Joint venture projects saw a residential development cost of $380,523 per unit in 2019, which rose 37.8 percent to $523,923 per unit in 2023.

Figure 38: Total Residential Development Cost per Unit by Ownership Type, 2017-2023



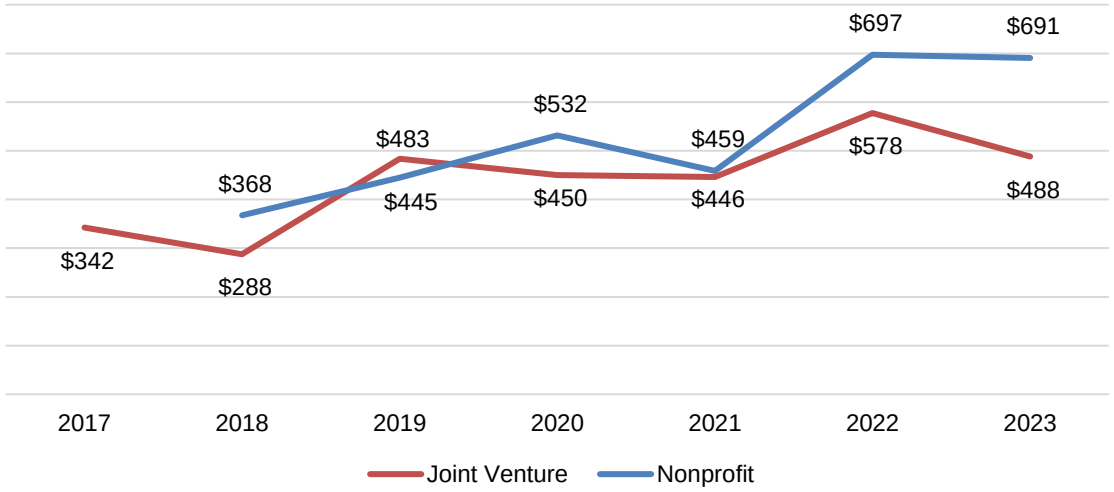
Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Note: Blank years indicate that there is no applicable project information for the given category. If the project was not completed between 2020 and 2023 or did not apply for tax credits between 2020 and 2023, or was located outside of the City of San Diego, it would not be included. Additionally, the study only includes projects for which CTCAC provided data.

Figure 39 below shows the annual trend in residential development costs per square foot by construction type. The years 2017 and 2018 have a small sample size and reflect the averages of a small number of projects.

Nonprofit projects saw a residential development cost of $445 per square foot in 2019, which rose 55.2 percent to $691 per square foot in 2023. Joint venture projects saw a residential development cost of $483 per square foot in 2019, which rose 1.0 percent to $488 in 2023.

Figure 39: Total Residential Development Cost per Square Foot by Ownership Type, 2017-2023



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Note: Blank years indicate that there is no applicable project information for the given category. If the project was not completed between 2020 and 2023 or did not apply for tax credits between 2020 and 2023, or was located outside of the City of San Diego, it would not be included. Additionally, the study only includes projects for which CTCAC provided data.

Application Type

Projects will fall into the following categories or "application types" depending on the needs of the project. These include:

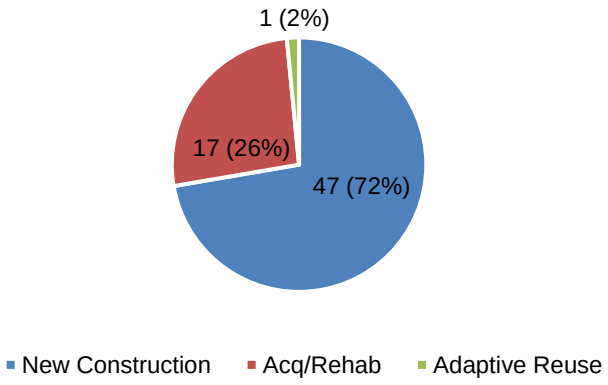
- **New Construction**: This category involves building new affordable housing units from the ground up. It typically includes all stages of development, from planning and design to construction and finishing.
- **Acquisition and Rehabilitation**: This involves purchasing existing properties and renovating them to meet current housing standards. The goal is to preserve existing housing stock and upgrade its quality.

- **Adaptive Reuse**: This category transforms non-residential buildings, such as old factories or warehouses, into affordable housing units. It repurposes structures that are no longer in use for their original purpose.
- **Rehabilitation Only**: This involves refurbishing existing residential properties to improve living conditions without changing the original structure or purpose of the building. It focuses solely on upgrading and repairing existing housing units.

The following data describe the distribution of such projects, as well as per-unit and per-square-foot residential development costs.

Figure 40 shows the distribution of projects by application type. Nearly three quarters (72 percent), or 47 out of 65 projects, were new construction, followed by acquisition and rehabilitation, with 17 projects (26 percent). Adaptive reuse projects were rare with one project.

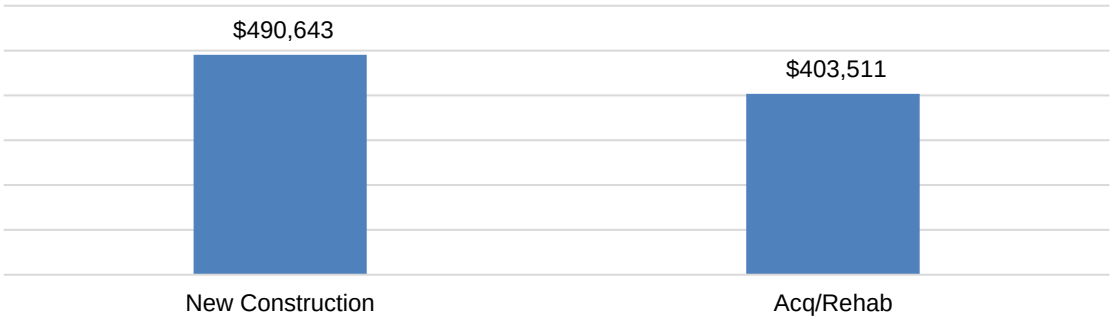
Figure 40: Distribution of Projects by Application Type, Application Data



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 41 shows total residential development cost per unit by application type. New construction projects see the highest per-unit cost at $490,643, which is 17.8 percent higher than the acquisition and rehabilitation figure of $403,511 per unit.

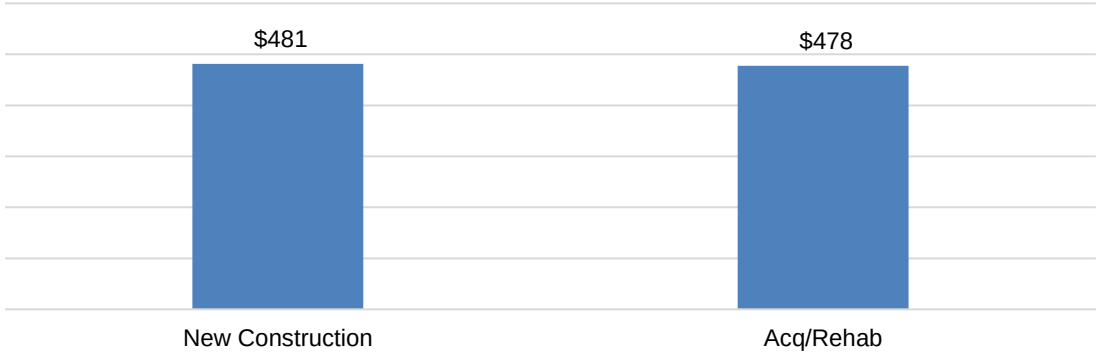
Figure 41: Average Total Residential Development Cost per Unit by Application Type



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 42 shows total residential development cost per square foot by application type. Cost differentials between application types decrease on a per-square-foot basis when compared to a per-unit basis. New construction saw an average residential cost per square foot of $481, just 0.7 percent higher than the acquisition and rehabilitation figure of $478 per square foot.

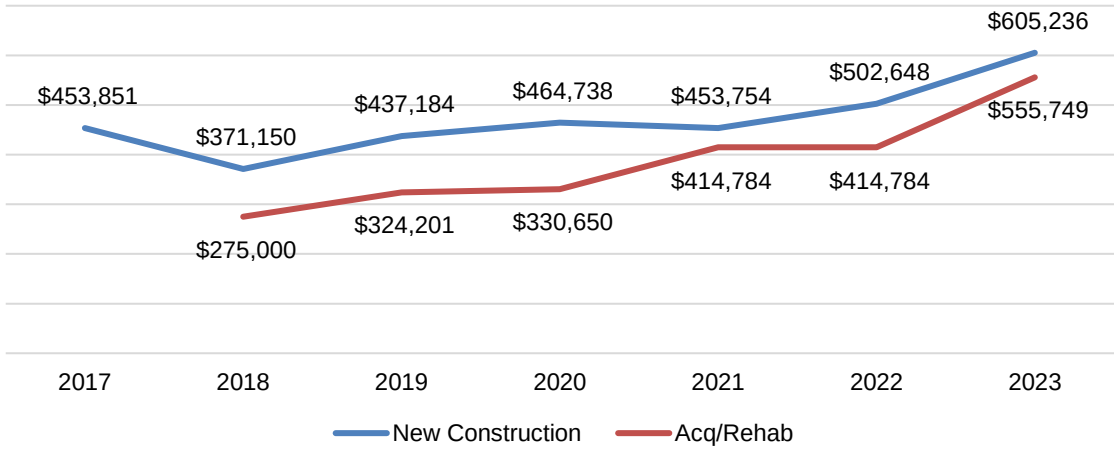
Figure 42: Total Residential Development Cost per Square Foot by Application Type



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Figure 43 below shows the annual trend in residential development costs per unit by application type. The years 2017 and 2018 have a small sample size and reflect the averages of a small number of projects. New construction projects saw a residential development cost of $437,184 per unit in 2019, which rose 38.4 percent to $605,236 per unit in 2023. Joint venture projects saw a residential cost of $324,201 per unit in 2019, rising 71.4 percent to $555,749 per unit in 2023.

Figure 43: Total Residential Development Cost per Square Foot by Application Type, 2017-2023

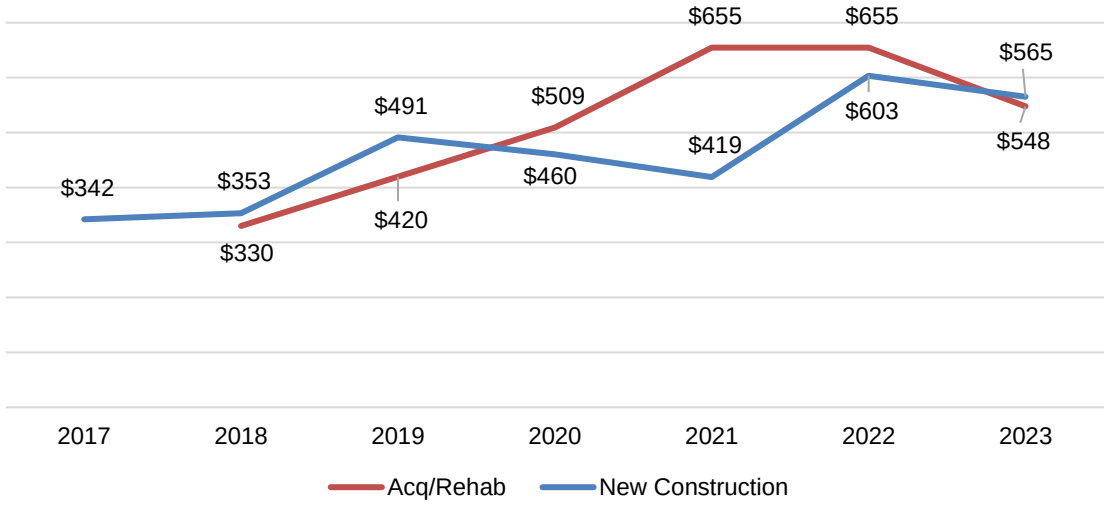


Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Note: Blank years indicate that there is no applicable project information for the given category. If the project was not completed between 2020 and 2023 or did not apply for tax credits between 2020 and 2023, or was located outside of the City of San Diego, it would not be included. Additionally, the study only includes projects for which CTCAC provided data.

Figure 44 below shows the annual trend in residential development costs per square foot by application type. The years 2017 and 2018 have a small sample size and reflect the averages of a small number of projects. New construction projects saw a residential development cost of $491 per square foot in 2019, which rose 15.1 percent to $565 per square foot in 2023. Acquisition and rehabilitation projects saw a residential cost of $420 per square foot in 2019, which rose 10.4 percent to $548 per square foot in 2023.

Figure 44: Total Residential Development Cost per Square Foot by Application Type, 2017-2023



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Note: Blank years indicate that there is no applicable project information for the given category. If the project was not completed between 2020 and 2023 or did not apply for tax credits between 2020 and 2023, or was located outside of the City of San Diego, it would not be included. Additionally, the study only includes projects for which CTCAC provided data.

COST OVERRUN ANALYSIS

This section compares the final residential development cost for 30 Placed-in-Service (PIS) projects in the City of San Diego compared to the initial budgeted development found in the projects' application budget, looking at various project attributes. While the Project Deep Dives section focuses on project-specific cost overrun causes, this section focuses on high-level differences between project categories. This section can help answer the question:

How do differences in project type affect budget cost overruns?

As shown in Figure 45, the average residential development budget in the City of San Diego across all application years was $42.2 million dollars, which increased 3.3 percent to $43.6 million by the time the project is completed and placed into service. This shows that while some projects may see higher or lower cost changes, the typical project's budget generally reflects the final cost of the project.

Figure 45: Avg. Residential Development Cost Change, San Diego

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Average Cost Increase Development Breakout

Table 23 compares the initial budget and final actual cost expenditures of new construction projects in the City of San Diego for all application years. While the total residential development cost increased by 3.5 percent, individual changes in cost categories varied widely. The single category that contributed most to increases in cost was the "Total New Construction Costs" category, which includes labor and materials. The typical project saw new construction costs increase from $26.3 million to $28.6 million, an 8.6 percent increase. The "Construction Interest & Fees" category contributed the second most, an increase of 21.8 percent from $2.8 million to $3.5 million. Survey and Engineering costs saw a notable increase, more than doubling from $322,569 to $678,497.

Table 23: Avg. Residential Development Cost Breakout, Budget vs. Actual, New Construction PIS Projects

	Budget		Actual		Change $	Change %
Land Cost / Acquisition Cost	$5,919,322	12.8%	$5,526,358	11.5%	($392,964)	-6.6%
Rehabilitation Costs	$0	0.0%	$0	0.0%	$0	
Relocation Expenses	$100,428	0.2%	$93,810	0.2%	($6,618)	-6.6%
Total New Construction Costs	$26,297,280	56.7%	$28,556,724	59.4%	$2,259,444	8.6%
Architecture Costs	$947,412	2.0%	$1,147,871	2.4%	$200,460	21.2%
Survey & Engineering Costs	$322,032	0.7%	$678,497	1.4%	$356,465	110.7%
Appraisal Costs	$2,000	0.0%	$2,413	0.0%	$413	20.7%
Appraisal Contingency Cost	$335,569	0.7%	$0	0.0%	($335,569)	-100.0%
Construction Interest & Fees	$2,838,966	6.1%	$3,456,636	7.2%	$617,670	21.8%
Permanent Financing Costs	$158,663	0.3%	$117,270	0.2%	($41,393)	-26.1%
Legal and Consulting Costs	$207,430	0.4%	$177,437	0.4%	($29,993)	-14.5%
Contingency Cost	$1,312,252	2.8%	$0	0.0%	($1,312,252)	-100.0%
Reserve Costs	$719,174	1.5%	$761,485	1.6%	$42,311	5.9%
Other Costs	$2,788,529	6.0%	$2,840,138	5.9%	$51,609	1.9%
Developer Costs	$4,299,219	9.3%	$4,366,711	9.1%	$67,491	1.6%
Total Project Costs	**$46,405,856**	**100.0%**	**$48,043,697**	**100.0%**	**$1,637,841**	**3.5%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Table 24 compares the initial budget and final actual cost expenditures of acquisition and rehabilitation projects in the City of San Diego. While the total residential development cost increased 3.2 percent, individual changes in cost categories varied widely. The single category that contributed most to increases in cost was the “Rehabilitation Costs” category, which includes labor and materials. The typical project saw rehabilitation costs increase from $6.8 million to $8 million, a 17.9 percent increase. The "Construction Interest & Fees" category increased 63.4 percent, from $1.2 million to $1.9 million. Relocation expenses rose 33.7 percent, from $442,174 to $591,261.

Table 24: Avg. Residential Development Cost Breakout, Budget vs. Actual, Acquisition and Rehabilitation PIS Projects

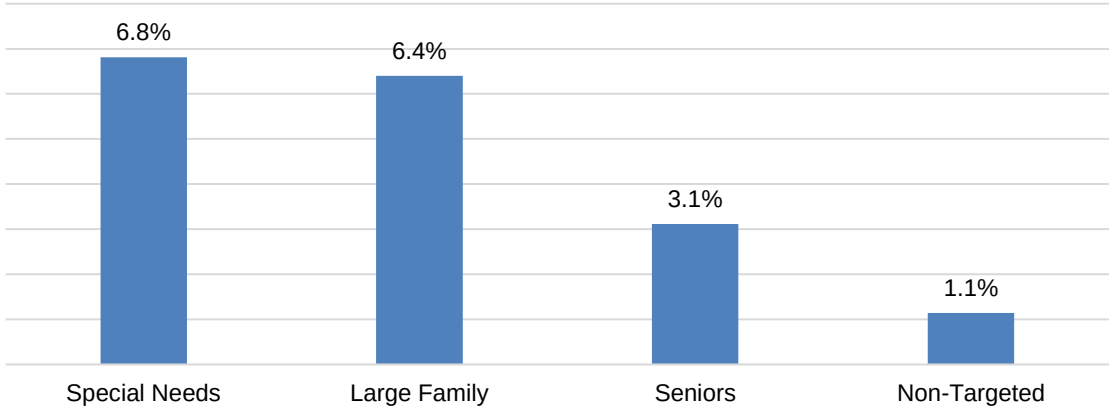
	Budget		Actual		Change $	Change %
Land Cost / Acquisition Cost	$17,034,056	53.1%	$17,010,867	51.4%	($23,189)	-0.1%
Rehabilitation Costs	$6,765,233	21.1%	$7,977,949	24.1%	$1,212,716	17.9%
Relocation Expenses	$442,174	1.4%	$591,261	1.8%	$149,087	33.7%
Total New Construction Costs	$0	0.0%	$0	0.0%	$0	
Architecture Costs	$298,144	0.9%	$251,362	0.8%	($46,782)	-15.7%
Survey & Engineering Costs	$46,126	0.1%	$81,986	0.2%	$35,860	77.7%
Appraisal Costs	$4,444	0.0%	$3,972	0.0%	($472)	-10.6%
Appraisal Contingency Cost	$346,960	1.1%	$0	0.0%	($346,960)	-100.0%
Construction Interest & Fees	$1,178,032	3.7%	$1,925,179	5.8%	$747,147	63.4%
Permanent Financing Costs	$281,950	0.9%	$145,755	0.4%	($136,196)	-48.3%
Legal and Consulting Costs	$215,348	0.7%	$127,708	0.4%	($87,640)	-40.7%
Contingency Cost	$545,952	1.7%	$0	0.0%	($545,952)	-100.0%
Reserve Costs	$694,786	2.2%	$647,564	2.0%	($47,222)	-6.8%
Other Costs	$556,506	1.7%	$581,485	1.8%	$24,979	4.5%
Developer Costs	$3,634,332	11.3%	$3,597,014	10.9%	($37,318)	-1.0%
Total Project Costs	**$32,053,489**	**100.0%**	**$33,067,915**	**100.0%**	**$1,014,426**	**3.2%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Target Population

Figure 46 illustrates the average residential development cost change by target population in the City of San Diego. Development cost increased the most for housing for Special Needs populations, with an increase of 6.8 percent, followed by Large Family housing at 6.4 percent. Senior housing showed a more modest cost increase of 3.1 percent, while Non-Targeted housing experienced the smallest change at 1.1 percent. These data highlight that housing for vulnerable or specialized groups has seen a more substantial rise in development costs compared to general housing.

Figure 46: Avg. Residential Development Cost Change by Target Population, San Diego

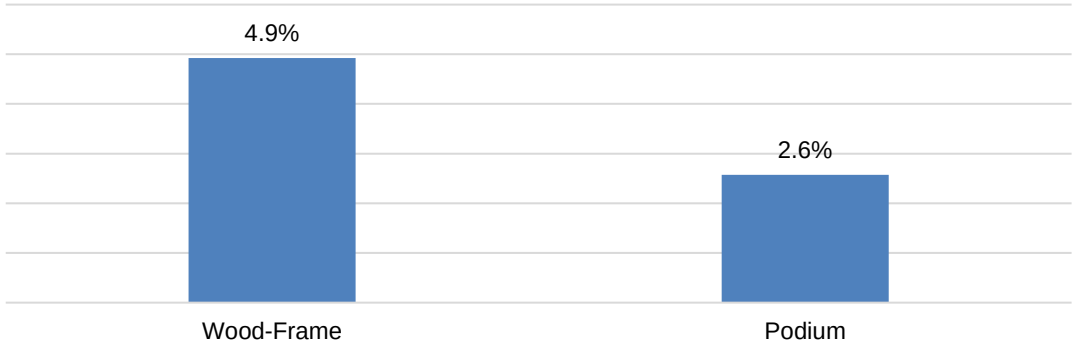


Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Construction Type

Figure 47 shows the average residential development cost change for new construction projects in the City of San Diego, broken down by construction type. Wood-frame construction has experienced a higher cost increase of 4.9 percent, compared to podium construction, which has seen a cost rise of 2.8 percent. This suggests that wood-frame construction projects have been more impacted by cost escalations than podium-style projects.

Figure 47: Avg. Residential Development Cost Change by Construction Type, New Construction Projects, San Diego



Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Tax Credit Type

Figure 48 presents the average residential development cost change in the City of San Diego, categorized by tax credit type. Developments utilizing the 9 percent tax credit have seen a significantly higher cost increase of 6.8 percent compared to those using the 4 percent tax

credit, which experienced a 2.8 percent increase. This may be due to the higher proportion of special needs projects present in the pool of 9 percent tax credit projects.

Figure 48: Avg. Residential Development Cost Change by Tax Credit Type, San Diego

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

LITERATURE REVIEW

This section covers a variety of topics related to affordable housing production and related policies, including recent events, unique financing methods, and research surrounding affordable housing production. This section can help answer the question:

<u>According to research and policies, what factors are currently influencing affordable housing production?</u>

Innovative Financing Topics

Housing Bond Ballot Initiatives

Jurisdictions in California pursue housing bond initiatives as a method to fund affordable housing because these bonds provide a substantial, reliable source of capital that can be used for housing development. They are an attractive option because they provide large-scale funds necessary to develop a critical mass of units in a high-cost environment and provide local control and flexibility in disbursement of funds.

California's Proposition 13, passed in 1978, limited the way local special taxes, like those used to pay off special-purpose bonds such as affordable housing bonds, could be spent. A two-thirds supermajority of voters would be required for approval of housing bonds. While Proposition 39 in 2000 lowered the threshold to 55 percent voter approval for school bonds, affordable housing bonds still must meet the onerous supermajority requirement. Proposition 5, on the ballot in 2024, would have reduced the threshold to 55 percent voter approval for affordable housing bonds. However, the measure failed.[18] In an environment constrained by the supermajority requirement, SDHC may want to consider other financing options in which issuing bonds does not depend on such a high standard for approval.

The following is a list of major affordable housing bond initiatives that have passed and are still active:

- **San Francisco Proposition A**: This proposition was passed in 2019 with a $600 million bond.[19]
- **Los Angeles Measure HHH:** This proposition was passed in 2016 with a $1.2 billion bond.[20]

[18] https://calmatters.org/politics/elections/2024/10/prop-5-california-bonds/
[19] https://www.sf.gov/reports/april-2024/affordable-housing-general-obligation-bond-reports#:~:text=On%20November%205%2C%202019%2C%20over,low%2C%20and%20middle%20income%20households.
[20] https://controller.lacity.gov/audits/problems-and-progress-of-prop-hhh

- **Santa Clara County Measure A:** This proposition was passed in 2016 with a $950 million bond. San Jose is in Santa Clara County.[21]

The following major affordable housing bond initiatives failed due to the supermajority voter approval requirement:

- **San Diego Measure A:** Despite garnering 57.6 percent of the vote, this $900 million initiative failed to pass.[22] If the 55 percent threshold were enacted at the time, the measure would have passed.
- **San Jose Measure V**: Despite garnering 64 percent of the vote, this $450 million initiative failed to pass.[23] If the 55 percent threshold were enacted at the time, the measure would have passed.

Reduction of Real Estate Tax Liability

Several jurisdictions across the country adopt policies to reduce real estate tax liability for developers of affordable housing and mixed-income housing. Real estate taxes refer to property tax and other related fees a multifamily operator pays. With a lower real estate tax operating expense, net operating income (NOI) for projects increases, as well as the debt service coverage ratio (DSCR), allowing a project to raise a greater amount of debt, thereby decreasing the funding gap. In addition, if any portion of real estate tax is capitalized, as sometimes happens during the construction phase, lower real estate taxes would also lower the overall development budget. While lowering a development's real estate tax liability is not necessarily a funding source itself, such a strategy increases a project's feasibility if the project is due to pay substantial real estate taxes.

Payment in Lieu of Taxes (PILOT)

A Payment in Lieu of Taxes (PILOT) is an agreement where a property owner pays a reduced tax bill, typically in exchange for providing a public benefit or meeting specific objectives that align with the local government's priorities, such as affordable housing. PILOT agreements are typically project-specific negotiations. While in most contexts nationwide, PILOTs are used as an incentive to build affordable housing, PILOTs in California have a more complex history.

California Welfare Exemption

Under California Revenue and Taxation Code Section 214(g)[24], for housing developments operated by a nonprofit legal entity, the proportion of units that are income-restricted are exempt from real estate taxes no matter the jurisdiction. This is known as the Welfare Exemption and means that most California LIHTC projects benefit from a reduction in real

[21] https://osh.sccgov.org/2016-measure-affordable-housing-bond
[22] https://www.kpbs.org/news/politics/2020/11/03/election-2020-san-diego-measure-a
[23] https://norcalpublicmedia.org/2023081490562/news-feed/making-borrowing-easier-amendment-to-state-constitution-could-unlock-billions-for-housing
[24] https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=RTC&sectionNum=214.

estate taxes. The state policy aimed to exempt affordable housing projects from real estate taxes, thereby incentivizing the development of affordable units. However, local jurisdictions began to cite a project's tax-exempt status under the Welfare Exemption as a justification to exact fees on affordable housing projects under PILOT agreements. Rather than providing real estate tax reductions in exchange for the creation of affordable units, fees were imposed on projects that already qualified for a tax exemption. This added a burden to the viability of affordable housing developments. In response, in 2014, California Governor Jerry Brown signed into law SB 1203 and AB 1760[25], which ban PILOT agreements between local governments and projects using the Welfare Exemption.

New York's 421-a Program

The 421-a tax incentive was a real estate tax exemption program for the construction of new housing, which has recently been replaced by the 485-x tax incentive[26]. Both "421-a" and "485-x" refer to sections of the New York State Real Property Tax Law. Established in 1971, the incentive has experienced multiple closures, reopenings, and reorganizations. The period of 2010 to 2020 saw multiple sub-programs. The first sub-program, 421-a (15), applied to projects that began construction before December 2015. The second, 421-a (17), extended the exemption period for properties that commenced construction before 2008 and already qualified for earlier versions of the program. According to the NYU Furman Center, the majority (68 percent) of multifamily units constructed in New York City between 2010 and 2020 were built using the 421-a exemption, while 21 percent used a separate property tax relief program, and the remaining 10 percent did not use any program.

The period of 2016 to 2021 saw the presence of just one program—421-a (16). The third sub-program, the 421-a (16) "Affordable New York" program, was available to developers of new housing projects who have not previously participated in the program or who started construction between January 2016 and June 2022. While the program was originally due to expire in 2022, in April 2024, New York Governor Kathy Hochul extended the project completion deadline for 421-a (16) from June 2026 to June 2031 for projects that submit a Letter of Intent no later than September 2024.

After years of disagreement between real estate developers and construction labor unions[27] regarding construction wages for future program renewals, an agreement was reached. The New York State Real Property Tax Law Section 485-x was adopted by the New York State Legislature in April 2024, and in December 2024, the New York City Department of Housing Preservation and Development (HPD) adopted new rules to implement the program, which are in effect as of January 2025. In exchange for permanently income-restricting units, developers are able to seek exemption from paying real estate tax during the construction period and then

[25] https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201320140AB1760
[26] https://www.nyc.gov/site/hpd/services-and-information/tax-incentives-485-x.page
[27] https://www.cityandstateny.com/policy/2024/01/hochuls-placeholder-housing-developer-tax-break/393400/

for potentially decades of operation. Table 25 summarizes the requirements for seeking an exemption. Wage rates for Large and Very Large projects are specifically set in the law, vary by zone, and escalate yearly, although developers may agree to a PLA as an alternative means of compliance. HPD verifies program compliance through a certification process, including payroll records. While the legislation allowing for the program was achieved at the state level, the law is currently written in such a way that the program is applicable only in New York City. In addition to 485-x, a similar program known as 467-m[28] was enacted which encourages the production of affordable housing from commercial conversions.

Table 25: Summary of Section 485-x Rules

	Multifamily Project Size			
	Very Large	**Large**	**Modest**	**Small**
Units	150 units+	100+ units	6 to 99 units	6 to 10 units
Geography	Designated zones	Anywhere in NYC	Anywhere in NYC	Outside Manhattan
Pct. of Tax Exempt	100%	100%	100%	100%
Exemption Period	40 years	35 years	25 years	10 years
Pct. Affordable	25% of units	25% of units	20% of units	None (a)
Affordability	60% of AMI	80% of AMI	80% of AMI	N/A
Prevailing Wage	Required	Required	Not required	Not required

Source: New York City Department of Housing Preservation and Development, 2024

Notes:
(a) The small category requires that 50 percent of units be stabilized.
(b) Affordability represents the weighted average of affordability restrictions.
(c) All categories are exempt from construction period tax.
(d) This table represents a summary and not the entirety of the program's rules.
(e) Ownership requirements are not shown.

Comparing California's Welfare Exemption to New York's 421-a Program

New York's historic 421-a tax incentive, now the 485-x tax incentive, has no equivalent in California. Under 485-x, as long as a project meets the requirements outlined in Table 25, the entire project is real estate tax-exempt, both affordable units and market-rate units. In addition to 485-x, nonprofit affordable housing developers have access to the 420-c tax incentive[29], which has similar requirements and provides similar benefits as the California Welfare Exemption. One key difference between the California Welfare Exemption and 420-c, however, is that PILOT agreements are explicitly allowed under 420-c. In summary, New York City offers more substantial real estate tax incentives compared to those currently available in California jurisdictions. It is important to note that 420-c is available to all eligible housing developments in the state of New York, while 485-x is available only to New York City-based housing developments.

"421-a Tax Incentive Program." Furman Center for Real Estate and Urban Policy, furmancenter.org/coredata/directory/entry/421-a-tax-incentive-program

[28] https://www.nyc.gov/site/hpd/services-and-information/tax-incentives-467-m.page
[29] https://www.nyc.gov/site/hpd/services-and-information/tax-incentives-420-c.page

Tax Increment Financing (TIFs)

Tax Increment Financing (TIF) is a funding mechanism that captures the increase in property tax revenue generated by rising property values in a designated area to finance improvements within that area, making it useful for building housing by providing a long-term funding source to support infrastructure and development costs. A specific tax district with set boundaries is established to fund the TIF. Such districts would work to increase the amount of funding sources available to developers.

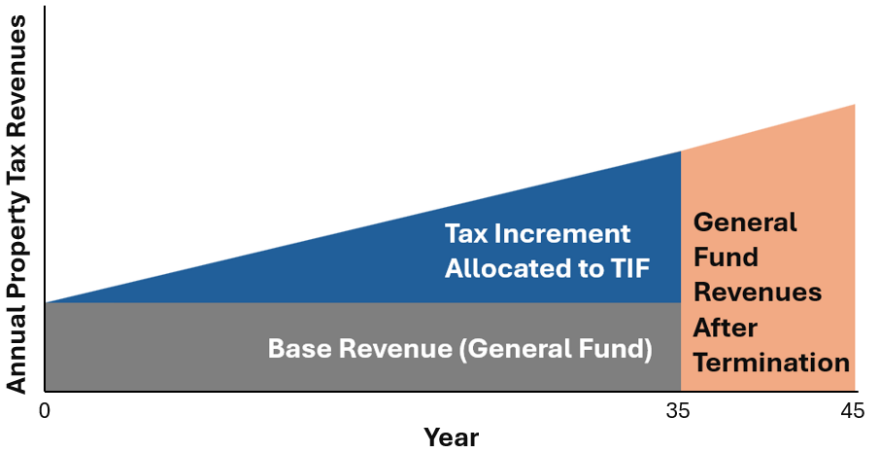
Figure 49 illustrates how a Tax Increment Financing (TIF) district would work:

- **Base Revenue (Grey Area):** The base property tax revenue is the amount that goes to the general fund from the district before any tax increment is captured by the district. This base revenue remains constant over time, as it represents the original level of tax revenue before development or property value growth.

- **TIF allocated to district (Blue Area):** As property values in the district increase (often due to development or improvements financed by the district), the property tax revenues above the base level increase as well. This growth in property tax revenue, known as the tax increment, is allocated to the district to fund further infrastructure or community improvements within the district. Over time, as property values continue to rise, the tax increment grows, providing more funding for district projects.

- **General Fund Revenues After District Termination (Orange Area):** After the district reaches the end of its term (typically up to 45 years), the district is terminated. At this point, all property tax revenue, including the increased tax increment, is redirected back to the general fund. This allows the general fund to benefit from the growth in property tax revenue that was initially used to fund district improvements.

Figure 49: Tax Increment Financing (TIF) Conceptual Graph



Source: Report on the Use of Tax Increment Financing, California Governor's Office of Planning and Research, 2024

In California, two types of TIF structures are particularly suited for funding affordable housing development, although their use is in its infancy in the state: the Community Revitalization and Investment Authority (CRIA) and the Affordable Housing Authority (AHA). San Diego would be one of the first cities in the state to utilize such tools. Both were created in the wake of the dissolution of redevelopment agencies in the 2010s, as alternative financing mechanisms for community investment.

- CRIA: A CRIA is aimed at revitalizing economically disadvantaged areas, using tax increment financing (TIF) to fund affordable housing, infrastructure, and community improvements. It can be established by cities or counties and is targeted at areas that meet specific economic criteria (e.g., high poverty, unemployment). CRIAs emphasize broader community revitalization, including but not limited to housing.

- AHA: An AHA is specifically focused on funding and developing affordable housing within its jurisdiction. It also uses TIF, but its funds are restricted to affordable housing projects and directly related infrastructure. An AHA can be established by a city or county that declares a need for affordable housing due to insufficient supply, and it often targets specific housing projects rather than general community improvements.

The creation of such entities is highly complex and outside the scope of this study. However, the City of San Diego has previously explored CRIAs in a Feasibility Study issued as a report to the City Council (16-101). The study found that the creation of a CRIA would involve upfront and operating costs and recommended alternatives. However, the study is several years old and was not necessarily focused on the critical need for housing funding sources.

Governor's Office of Planning and Research. Report on the Use of Tax Increment Financing. 29 Dec. 2020.
California Association for Local Economic Development. FAQs on California's New Tax Increment Financing Tools. 2017.

Land Banks

The California Surplus Land Act (SLA) requires public agencies to prioritize affordable housing when disposing of surplus land—land they own but no longer need for their operations. Before selling or leasing surplus land, cities and other public agencies must offer it to affordable housing developers, giving them the first chance to purchase or lease the property. The law mandates that any housing developed on this land must include at least 25 percent affordable units, and agencies are required to follow a notification process to ensure qualified developers have the opportunity to bid. The California Department of Housing and Community Development (HCD) oversees compliance, adding a layer of state oversight that enforces these requirements. SDHC might want to consider an additional land pipeline.

While, traditionally, land used for affordable housing development was already in the possession of government agencies, SDHC may want to consider the establishment of a land bank with a philanthropic pipeline or other funding sources to proactively acquire land. This initiative would enable a larger number of projects to become viable, thereby boosting the supply of affordable housing. An alternative option would be to partner with a nonprofit Community Land Trust (CLT).

One recent example of such an initiative is the Los Angeles County Land Bank Pilot program, started in May 2024. In June 2022, the county board directed the Chief Executive Office (CEO) to develop a land bank pilot program using $50 million in American Rescue Plan Act (ARPA) funds to create 300-700 affordable housing units for vulnerable residents and those experiencing homelessness, especially in areas near the Los Angeles River affected by gentrification and displacement. This program aims to prevent real estate speculation and support those most impacted by the pandemic. The CEO will acquire 5-15 properties, ensuring they are suitable for affordable housing and have affordability covenants for low-income households. The land bank will collaborate with Board offices, local communities, LA Metro, and neighboring jurisdictions for property selection, due diligence, and community buy-in to secure safe, affordable housing and reduce COVID-19 transmission risks among populations experiencing homelessness.

California Department of Housing and Community Development. Updated Surplus Land Act Guidelines. 2024.

"2022-0422 - Land Bank Pilot Partnership with Los Angeles County Motion." LA Metro Board Report, Regular Board Meeting, 23 June 2022.

Los Angeles County Chief Executive Office. "CEO AH County Land Bank." ARP Tracking, Los Angeles County, https://arptracking.ceo.lacounty.gov/Public/Project/1896/CEOAHCountyLandBank. Accessed 12 Nov. 2024.

Mello-Roos

The Mello-Roos Community Facilities Act of 1982 established Community Facilities Districts (CFDs) as a financing tool for local governments, created in response to California's Proposition 13 (1978), which limited property tax rates. Unlike typical property taxes, Mello-

Roos taxes are not based on property value, allowing local governments to fund public improvements and services beyond Proposition 13's constraints. Instead, these taxes apply equally and uniformly within the district, typically as a lien on the property, often collected alongside standard property taxes and subject to similar penalties for late payments.

The tax revenue from CFDs primarily funds new infrastructure and services to support developing communities. These may include essential facilities like roads, utilities, parks, schools, and public safety services. Additionally, CFDs can finance a wide range of services associated with growth, such as police and fire protection, library services, parks, and flood protection. Improvements must have a projected useful life of at least five years, which allows CFDs to fund durable projects, including school buildings, water pipelines, and open spaces.

Mello-Roos financing can be advantageous in the affordable housing space because it can be used to pay for general off-site infrastructure costs without requiring those costs to be capitalized directly into the project. This flexibility is especially useful in high-cost urban areas, where infrastructure investment is critical to support new development. Major examples of this include the San Francisco Treasure Island Infrastructure and Revitalization Financing District (IRFD) and the Burbank Collection Community Facilities District, which have effectively used Mello-Roos funds to finance significant infrastructure in support of new residential and commercial developments. By covering off-site costs, Mello-Roos helps LIHTC projects remain financially feasible, extending public financing support beyond the immediate project site and enhancing the viability of affordable housing initiatives.

Southern California Association of Governments. "Mello-Roos Community Facilities District." SCAG, 19 Nov. 2020, https://scag.ca.gov/post/mello-roos-community-facilities-district.

California Land Title Association. "Understanding Mello-Roos." CLTA, Mar. 2017, https://www.clta.org/page/Consumer7.

Special Topics

Development Costs: Market Rate vs. Affordable Construction

There has long been a debate as to whether affordable housing development costs more than market-rate housing. Affordable housing developers would argue that, other than administrative costs associated with receiving the necessary financing to make an affordable housing project financially feasible, affordable housing development does not cost more since general contractors do not distinguish between market-rate and affordable housing developments in their cost estimates. Industry experts and professionals seem to arrive at varying conclusions. The issue may be in the semantics of discussing development costs—in that affordable housing developments are located on sometimes expensive-to-develop sites with unique construction requirements, that, if applied to market-rate housing to make for an “apples-to-apples” comparison, would result in the same construction costs.

In 2019, a signed statement was publicly released from the three directors of Housing Finance Agencies (HFAs) from California, Washington, and Oregon. Also included is a signature from the director of CTCAC. The statement sought to address the issue that "the rising costs of housing construction have led to intensified discussions centering on cost controls and comparisons." Specifically, the statement challenges the assumption that affordable housing development is more costly than market-rate housing. The agencies reiterate the importance of LIHTCs and the private market in affordable housing production, citing the 3.2 million units created through LIHTCs since it was federally legislated in 1986.

The rationale provided for increasing affordable housing development costs is that all construction on the West Coast—both market-rate and affordable—is getting more expensive according to the HFAs internal data, as well as industrywide data. They cite multiple studies, including from U.S. Senate Committee on the Judiciary, United States Government Accountability Office (GAO), the National Council of State Housing Agencies (NCSHA), and HFAs, showing that construction costs are equal on both a statewide and national level. The statement emphasizes that the size of the project, location (urban and/or high-cost area), and other factors common to all apartment construction largely determine construction costs. It concludes that the affordable housing development community is providing affordable housing as efficiently and cost-effectively as possible, and that the cost of building the same housing in the same place for the same purpose is the same regardless of the builder.

"Construction Costs of Affordable Housing: A Joint Statement by the California Tax Credit Allocation Committee, California Housing Finance Agency, Oregon Housing and Community Services, and Washington State Housing Finance Commission." December 2019.

A summary of the GAO study and the NCSHA study, those sources that are the first two cited in the statement, are provided here:

The GAO's "Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management" is an analysis of the 9 percent LIHTC program in 10 states, including several (such as California and Washington) that are home to the nation's highest-cost cities, emphasizing that construction costs are mostly determined by the size of the project, location (i.e., an urban and/or high-cost area), and other factors common to all multifamily construction. While it is true that the study considered target population, project size, and other factors, the study was not able to specifically compare the cost of market-rate and affordable housing development, stating that they "were unable to obtain data on market-rate developments from industry groups we contacted that represented developers and lenders, or from researchers who had conducted similar studies." (p. 18) Instead the study's main finding is that some state agencies (not including California) do not sufficiently scrutinize general contractor costs.

United States Government Accountability Office (GAO). Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management. GAO-18-637, September 2018.

In a report published for the NCSHA, both the 4 percent and 9 percent LIHTC programs were evaluated across several Qualified Allocation Plans (QAPs). The findings reveal that location significantly affects development costs, with higher costs observed in principal cities, difficult development areas (DDAs), qualified census tracts (QCTs), and specific regions such as New England, the Mid-Atlantic, and the Pacific. Additionally, smaller projects and those with larger average unit sizes tend to be more expensive per unit. The type of project also plays a role, with new construction projects costing more per unit compared to those that involve the acquisition and rehabilitation of existing structures. Projects with multiple financing sources also face higher costs, potentially due to the complexities of assembling such financing. Overall, these insights highlight the critical factors driving the cost variability in LIHTC developments. However, no comparisons to market rate developments are made in this study.

Abt Associates. Variation in Development Costs for LIHTC Projects. Prepared for the National Council of State Housing Agencies, Aug. 2018.

While the two studies highlighted project attributes, such as location and target population, as drivers of development cost differences, neither drew comparisons between affordable housing and market-rate developments. However, the following studies, conducted at the state level, did draw comparisons between market-rate and affordable housing development costs and did not find significant differences when comparing projects with the same specifications (construction type, number of stories, average unit size, etc.):

California Department of Housing and Community Development, California Tax Credit Allocation Committee, California Housing Finance Agency, and California Debt Limit Allocation Committee. 2014 California Affordable Housing Cost Study. Oct. 2014.

Blue Sky Consulting Group. Affordable Housing Cost Study. Prepared for Oregon Housing and Community Services Department, June 2019.

Meyer Memorial Trust. The Cost of Affordable Housing Development in Oregon. Oct. 2015.

Washington State Joint Legislative Audit and Review Committee. Analyzing Development Costs for Low-Income Housing. Jan. 2019.

According to one Chicago business journalism outlet, affordable housing development is posited as more costly than market-rate housing development. Developers and other experts identified the unique causes of the perceived high cost of affordable housing development, in which the following factors played a major role:

Direct Funding vs. Tax Credits: The current system of funding affordable housing through tax credits is complex and costly. It involves a capital stack of funding sources, each with their own fees and requirements, driven by the rules of the federal tax credit system. This system requires builders to assemble multiple funders, leading to high transaction costs and legal fees. Experts suggest that it would be far cheaper for the federal government to directly fund the construction of affordable housing. However, there is no guarantee that a polarized Congress would appropriate the money for direct funding. The generous interpretation of the federal policy is that LIHTC-driven funding avoids fights in Congress that would be inevitable if

direct appropriations were required. Financing for affordable housing development is becoming more complex and expensive, with federal resources not keeping up with inflation.

Sustainability and Design Standards: There is a push for environmentally sound and sustainable buildings, which can drive up costs but are seen as long-term investments. The term "**everything bagel liberalism**" is referenced, a term coined by New York Times columnist Ezra Klein, as a situation where the government tries to accomplish too much within a single project or policy, leading to a failure to accomplish any policy objective effectively. Klein suggests that adding too many elements to a policy can create a "black hole" from which nothing can escape, including the government's ability to solve hard problems. This term is used to critique the tendency to overcomplicate policies with too many objectives. In the context of affordable housing production, this means that burdensome requirements can lead to decreased housing production.

Regulated Rents: Despite the high cost to build, rents for affordable housing are regulated and capped based on household income. This means developers cannot raise rents to capture increases in cost.

Crown, Judith. "The High Cost of Creating Affordable Housing." Crain's Forum, 16 Jan. 2024, www.chicagobusiness.com/equity/what-makes-affordable-housing-development-so-expensive.

Insurance Costs

While data contained in LIHTC applications gives a sense of the rising cost of builder's risk insurance, according to many affordable housing operators, the greater existential risk to affordable housing is in property insurance as a part of operating expenses, which has uncontrollably soared in recent years.

According to a report from the New York Housing Conference, insurance premiums for affordable housing have been increasing at an average rate of 26 percent annually, while coverage is decreasing or difficult to find. This puts existing affordable housing at serious financial strain and makes it harder to finance new affordable housing. The average cost to insure an affordable apartment is $1,770 per year, a 103 percent increase from four years ago, when the average annual per-unit premium was $869, according to the paper. Insurance costs represent 22 percent of monthly rent for an extremely low-income household's one-bedroom affordable apartment. Rising insurance costs are a growing threat to affordability. Insurance carriers discriminate against affordable housing based on income source and income level. Many insurance providers will not consider insuring developments in New York City, particularly in the Bronx. This discrimination is reminiscent of redlining practices that undermined affordable housing development in the past. Recommendations for intervention include banning discrimination of coverage or costs based on income source and income level, requiring reporting to better understand insurance companies' practices, reducing costs through supporting affordable captive insurers and creating an excess liability fund, investing in resilient infrastructure, and exploring new frameworks such as CRA-type requirements and

public options. According to the report, for a rent of $682, $148 goes toward insurance. For new affordable housing developments, rising insurance costs are being absorbed by higher subsidy rates at initial underwriting, but as insurance rates continue to relentlessly rise, they may eventually impact affordability and rent levels.

"The Alarming Risk of Rising Insurance Costs for Affordable Housing." New York Housing Conference, March 2024.

Regulatory Environment

One driver of cost differences in affordable housing production, and all housing production, is the degree of regulatory burden in each locality. The idea is that an increase in land use regulatory burden results in increased costs for developers, which then hampers housing production. In fact, according to a Wharton School research paper establishing an index for land use regulatory burden, known as the Wharton Residential Land Use Regulatory Index (WRLURI), the topic has been raised to the executive level, with the Trump administration in 2019 issuing an executive order establishing a "White House Council on Eliminating Regulatory Barriers to Affordable Housing." The WRLURI offers an easy method to rank different communities and markets based on their level of regulatory restrictiveness, with higher scores indicating stricter regulations. The index is an aggregation of the following indices, which provides a convenient shorthand considering multiple aspects of land use regulation:

- Local Political Pressure Index (LPPI): Measures the degree of involvement and influence local actors (like councils, community groups, etc.) have on residential development and growth management in a community.
- State Political Involvement Index (SPII): Assesses the extent to which the state legislature influences local residential building activities and growth management procedures.
- Court Involvement Index (CII): Evaluates the role and impact of local and state courts in the local residential land use process.
- Local Project Approval Index (LPAI): Indicates the complexity and involvement of various local entities in approving residential projects that comply with existing zoning codes ("by right" projects).
- Local Zoning Approval Index (LZAI): Reflects the approval process complexity for residential projects that require variances or changes to existing zoning codes.
- Local Assembly Index (LAI): Captures whether direct democracy mechanisms, like town meetings, are required for approving residential development projects.
- Supply Restrictions Index (SRI): Represents the presence of explicit limits or caps on the annual supply of new housing units in a community.
- Density Restriction Index (DRI): Indicates the extent of density constraints in a community, such as minimum lot size requirements for residential development.
- Open Space Index (OSI): Shows whether developers are required to provide dedicated community space or pay a fee in lieu as part of residential development projects.

- **Exactions Index (EI):** Measures the obligations placed on developers to pay impact fees or contribute to infrastructure costs in the community.
- **Affordable Housing Index (AHI):** Identifies whether there is a mandate for developers to include affordable housing units in their residential projects.
- **Approval Delay Index (ADI):** Reflects the average time taken for residential project approvals, encompassing standard projects, rezoning requests, and subdivision approvals.

The Court Involvement Index (CII), State Political Involvement Index (SPII), and Local Political Involvement Index (LPII) are the factors that weigh most heavily on the final index, while the Local Assembly Index (LAI), Supply Restrictions Index (SRI), and Density Restrictions Index (DRI) weigh least heavily. It is important to note that the study does not make claims on the index's connection to the cost of construction directly and that it only captures land use factors and not other factors such as financial and market environments or building code requirements.

As shown in Table 26 below, four cities that are part of geographies cited in the paper are in the top five most regulated land use regimes in the country out of 44 ranked, possibly resulting in increased costs and extended project timelines when compared to other geographies in the county. San Francisco's position as the most regulated land use regime also corresponds with its position as the most expensive city to build in within our study's dataset of affordable housing projects.

Table 26: Wharton Residential Land Use Regulatory Index (WRLURI) 2018

Ranking	CBSA Name	WRLURI
1	San Francisco-Oakland-Hayward, CA	1.18
*	San Jose-Sunnyvale-Santa Clara CBSA	0.92
4	Seattle-Tacoma-Bellevue, WA	0.73
5	Los Angeles-Long Beach-Anaheim, CA	0.73

Source: "The local residential land use regulatory environment across U.S. housing markets: Evidence from a new Wharton index", 2021; BAE, 2024

Notes: (a) The San Jose-Sunnyvale-Santa Clara CBSA had fewer than 10 observations and so was not included.
(b) Only includes CBSAs with ten or more observations. There were 44 CBSAs nationally ranked.
(c) CBSA refers to the US Census Bureau geography known as "Core Based Statistical Areas".

Gyourko, Joseph, et al. "The Local Residential Land Use Regulatory Environment Across U.S. Housing Markets: Evidence from a New Wharton Index." Journal of Urban Economics, vol. 124, May 2021

Another way of measuring regulatory burden, which takes into account the building code and other codes, is through a high-level analysis of the number of regulations contained in state codes. For example, the California Code of Regulations (CCR) contains various titles that organize the type of regulations they contain. Title 24, known as the Building Standards Code,

is the biggest set of regulations in the CCR, containing 75,712 restrictions. The document highlights that California has a significant amount of regulation, both at the state and federal levels.

Broughel, James. "A Snapshot of California Regulation in 2019: 395,129 Restrictions, 21.2 Million Words, and 29 Weeks to Read." Mercatus Center at George Mason University. July 2019.

In contrast, Title 51 in the Washington Administrative Code (WAC), which is associated with the Department of Enterprise Services (Building Code Council), contains 4,585 restrictions, making it one of the top 10 titles in terms of the number of restrictions in the WAC. Compared to California, however, the number of restrictions is a fraction of the number in the corresponding California code, indicating that even states that outwardly seem similar in terms of cost and political climate may have widely varying requirements that affect ease of development.

Broughel, James. "A Snapshot of Washington State Regulation in 2019." Mercatus Center at George Mason University, April 2019.

RECOMMENDATIONS FOR POLICYMAKERS

The following are considerations for strategies that could potentially contain development costs, as well as finance mechanisms that may enhance the feasibility of affordable housing developments for projects based in the City of San Diego. The recommendations outlined in this section are intended to prompt further exploration and analysis, rather than serve as definitive or prescriptive instructions.

Containing Development Costs

The following strategies have the potential to reduce residential development costs:

- Consider the establishment of an **alternative land acquisition pipeline**. The Surplus Land Act (SLA) supports affordable housing by prioritizing the use of publicly owned land for affordable housing developments when that land is deemed surplus. Beyond SLA, the policymakers active in the City of San Diego could explore acquiring land or partnering with private individuals to deed-restrict land proactively for affordable housing production. This approach could involve hiring development officers with connections in philanthropic circles in San Diego to seek land donations or discounted land or creating a land bank funded by other sources. Alternatively, the City could collaborate with nonprofit organizations. If land is ground leased to a developer, the policymakers could encourage cost-saving strategies.

    - **Benefits:** Increased LIHTC new construction activity and a decrease in the proportion of budget dedicated to land and acquisition.
    - **Drawbacks:** Non-trivial startup, administrative, and legal costs. Consider a feasibility study to determine whether the benefits would outweigh the costs of such a program.

- Developers point to a variety of **cost-saving strategies, such as vertical integration of in-house general contracting and design functions, standardization of materials and designs, and the production of a specification book** that outlines those standardized designs. Additionally, relationships between the developer and general contractors are key to cost containment. While SDHC cannot directly compel outside firms to adopt these practices, SDHC can take a leadership role in organizing the affordable development community, perhaps by inviting firms to an annual development summit or creating and distributing an annual developer survey. Consider involving the entire development community, including developers, financial institutions, and general contractors.

- **Benefits:** The sharing of cost-saving knowledge between developers and between developers and SDHC, increased opportunity to understand the shifting cost drivers of development, including potential changes in the labor and materials markets.
- **Drawback:** Might include costs associated with the organization of outreach efforts. Education and fostering relationships have an indirect impact on development costs.

- Consider **minimizing general off-site costs**—those improvements outside the project area that the project subsidizes. City of San Diego projects see higher off-site costs as a percentage of the budget than projects in other cities. Minimizing general off-site costs might include reducing off-site costs to just project-specific costs or finding alternative ways to finance off-site costs, such as through a Mello-Roos district. In some cases, general off-site costs are paid for entirely by sources such as the Infrastructure Infill Grant. In such cases, development costs will appear higher, even though the costs are accounted for. Encouraging a clear understanding is required to distinguish between cost to build the residential portion of the project and the general off-site portion of the project.
  - **Benefits**: A reduction of total residential development costs. Depending on the funding source influencing off-site costs, this can be either more directly or less directly influenced.
  - **Drawbacks**: Potential startup costs and community opposition to a Mello-Roos district, or costs associated with reducing off-site costs.

- Consider continuing **to encourage microunit development** in dense urban neighborhoods. This strategy has the potential to significantly reduce the per-unit cost of residential development while maximizing land use efficiency. For instance, a project in Pasadena successfully produced 250 units in a podium structure for $250,000 per unit. Such developments can provide affordable housing solutions in core areas where space is limited, and costs are high.

  - **Benefits**: Significantly reducing per-unit residential development costs while maximizing land use efficiency.
    Drawbacks: Potential resistance from local communities and would require additional regulatory adjustments

- **Consider drafting or advocating for state legislation that would prioritize a utility company's scheduling of inspections and other critical services for affordable housing projects.** Construction interest is a major cost driver in affordable housing. While much of construction interest cost is driven by factors outside the development itself, such as federal monetary policy, construction interest can also increase when a

project's construction period lengthens. While the development community is satisfied with the speed and efficiency of permitting in San Diego, nearly all interviewees suggested that difficulties in scheduling timely services from utilities companies contribute to project delays, which delays project timelines, and therefore increases construction interest expenses. Anecdotally, utilities companies appear resistant to prioritizing affordable housing projects for permitting and inspections, but legislation recently introduced at the State level seeks to apply parameters and timelines to utility companies' post-entitlement permitting process for housing projects.

- **Benefits:** A reduced construction timeline would reduce construction interest costs and therefore residential development costs.
- **Drawbacks:** Costs associated with lobbying efforts and expenditure of political capital.

Financing Mechanisms

Especially in the face of Proposition 5's failure, which eliminates the near-term likelihood of establishing a major funding source through a voter initiative, policymakers can look to alternative options for establishing a major affordable housing funding source. The following strategies have the potential to reduce funding burdens on developers:

- Consider studying the implications of a **real estate tax reduction incentive program** in San Diego similar to New York's 421-a/485-x Tax Incentive program to incentivize affordable housing development. Under a real estate tax incentive program, a project's real estate taxes are reduced or eliminated if they provide a minimum proportion of affordable units. A lower real estate tax burden would lower operating expenses and increase net operating income (NOI). With higher NOI, projects achieve a more favorable debt service coverage ratio, allowing them to secure more financing and reduce the funding gap for affordable housing developments. Though not a direct funding source, a real estate tax incentive can significantly improve project feasibility, particularly for projects with a substantial real estate tax burden. While affordable housing units are currently tax-exempt under California's Welfare Exemption, additional incentives could spur the production of more affordable units in mixed-income projects, as well.

    - **Benefits**: A real estate tax incentive program can encourage the development of affordable housing by reducing property tax burdens, thus increasing NOI and enabling developers to access higher levels of debt financing. This approach can help close funding gaps, allowing affordable projects to proceed without requiring as many direct subsidies. Additionally, a well-structured incentive program would provide San Diego with a flexible, long-term tool to

incentivize developers to include affordable units in new developments, contributing to the city's housing goals.

- **Drawbacks**: Implementing a real estate tax incentive program requires careful planning and ongoing oversight to ensure tax reductions are balanced with public revenue needs. Additionally, the program would need clear eligibility criteria and guidelines to prevent overuse or abuse, ensuring that only projects providing significant public benefit qualify. Establishing a tax incentive program may also involve initial costs related to administration, outreach, and coordination with stakeholders to promote transparency and accountability. The creation of new tax exemptions may require legislative action at the state level. If the program is effective, as seen in New York, industry and labor groups may lobby for their respective positions. The cost of forgoing tax revenues would need to be weighed against the benefit of additional affordable housing units.

- Consider establishing **Tax Increment Financing (TIF)** districts, specifically through the creation of **Community Revitalization and Investment Authorities (CRIAs) and Affordable Housing Authorities (AHAs)**, to provide a sustainable funding source for affordable housing and infrastructure. TIF districts capture the increase in property tax revenue generated by rising property values within a designated area, redirecting this "tax increment" to fund improvements that benefit the district. CRIAs can be used to revitalize economically disadvantaged areas, channeling TIF funds not only into affordable housing but also into broader community improvements such as infrastructure and public amenities. AHAs, on the other hand, are dedicated specifically to affordable housing, ensuring that TIF revenue within these districts is focused solely on housing projects and related infrastructure. By implementing TIF districts under CRIA and AHA structures, the city can create targeted funding tools that align with community needs and affordable housing goals.

  - **Benefits:** Establishing CRIA and AHA districts allows the city to capture property value increases and use this revenue to offset development costs for affordable housing and other essential infrastructure, reducing the financial burden on developers. This approach enables the city to meet its affordable housing and revitalization objectives without over-reliance on general funds, leveraging the growth within designated areas to directly benefit the community. A voter supermajority is not needed to issue housing bonds in this option.
  - **Drawbacks:** Creating and managing CRIA and AHA districts involves upfront costs and complex planning, as well as long-term commitments to ensure that funds are used effectively. The success of these districts depends on consistent property value growth within the area, and their establishment requires thorough coordination to meet state requirements and community priorities. Significant funding may not be available until years after the creation of such districts.

APPENDIX – PROJECT DEEP DIVES

This appendix provides detailed project information for cities with high cost overruns within California, excluding the City of San Diego.

Top 5 Highest Cost Increase PIS Projects – Other California Cities

Table 27 below provides a concise summary of the five projects in San Jose, Sacramento, and San Francisco with the highest cost overruns, detailing the reasons for the cost increases from application to service implementation.

Table 27: Top 5 Cost Overrun Project Justification Summary, Other California Cities

Project App #	Project Name	City	App Cost	PIS Cost	% Inc.	Cost Overrun Justification
17-775	1500 Mission	San Francisco	$69.8M	$80.7M	16%	Increased costs from changing market conditions, rising interest rates, delayed construction timelines, higher-than-expected local development impact fees, and a reassessment of property value leading to increased property taxes.
18-617	Iamesi Village	San Jose	$63.6M	$72.3M	15%	Increased costs from pandemic delays and supply chain issues, rising interest rates, extended construction timelines, additional origination fees, and a $1 million CalHFA loan resizing fee required to address the project's cost escalation.
20-712	Northlake Senior Apartments	Sacramento	$38.2M	$43.4M	14%	Unexpected increases in labor and materials costs due to shortages, reallocation of permanent loan interest, and rising interest rates, which significantly raised construction loan interest and fees.
19-548	SHRA RAD Phase I	Sacramento	$23.1M	$25.5M	10%	Increased rehab expenses due to added scope items (e.g., microwaves, HVAC, windows, and rot repairs), higher reserve costs based on updated Physical Needs Assessments, COVID-19-driven relocation requirements, additional permanent financing origination costs, and increased legal fees from COVID-related delays and extended construction timelines.
19-535	Valley Palms Apartments	San Jose	$157M	$173M	10%	Significantly increased construction interest and fees from extended construction timelines and rising interest rates, a sharp rise in other project costs due to unanticipated 24/7 onsite security, and higher rehabilitation costs without a specified cause.

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

1500 Mission Street (17-775)

Source: Build Group, 2024.

1500 Mission Street is a 39-story residential tower in San Francisco's Market-Octavia District. This project offers a total of 550 rental units, 110 of which are affordable. The project also includes 438 market-rate apartments and two managers' units, with the affordable units dispersed throughout floors 2 through 26. In addition to residential units, the tower features approximately 47,000 square feet of retail space on the ground floor.

Constructed using Type I steel and concrete over a two-level subterranean parking facility, the LEED silver certified project is on a 1.3-acres parcel. Before construction, the site underwent demolition, with building efforts beginning in October of 2017 and finishing in February of 2020. The project will utilize 4 percent tax credits.

Reason for Cost Increase

As shown in Table 28, the initial budget was $69.9 million, which increased by 15.5 percent to $80.7 million. The most significant increase in cost was in the new construction category, which increased by 13.5 percent from $43.4 million to $49.2 million. In the developer's explanation, they note that the preliminary budget was based on the design development documents, but that by the time final detail construction documents were completed, market conditions changed such that construction costs increased by 10 percent. Rising interest rates and a delayed construction timeline caused construction interest and fees to increase by 13.5 percent from $43.4 million to $49.2 million. The other costs category saw a substantial increase, as well, increasing by 35.6 percent from $7.0 million to $9.5 million. The primary reason for increases in this category was a higher-than-expected amount of local development impact fees, with the remainder of the increase mostly coming from a reassessment of the property's value, causing an unexpected increase in property tax.

Table 28: 1500 Mission Street Budget vs. Actual Residential Development Costs

	Budget		Actual		Change $	Change %
Land Cost / Acquisition Cost	$5,990,438	8.6%	$5,991,296	7.4%	$858	0.0%
Predev. Interest/Holding Cost	$1,540,366	2.2%	$1,831,595	2.3%	$291,229	18.9%
Rehabilitation Costs	$0	0.0%	$0	0.0%	$0	
Relocation Expenses	$0	0.0%	$0	0.0%	$0	
Total New Construction Costs	$43,378,002	62.1%	$49,243,536	61.0%	$5,865,534	13.5%
Architecture Costs	$1,368,960	2.0%	$1,514,070	1.9%	$145,110	10.6%
Survey & Engineering Costs	$1,275,587	1.8%	$1,131,857	1.4%	($143,730)	-11.3%
Appraisal Costs	$8,108	0.0%	$11,086	0.0%	$2,978	36.7%
Appraisal Contingency Cost	$0	0.0%	$0	0.0%	$0	
Construction Interest & Fees	$5,014,269	7.2%	$6,783,218	8.4%	$1,768,949	35.3%
Permanent Financing Costs	$0	0.0%	$0	0.0%	$0	
Legal and Consulting Costs	$0	0.0%	$494,935	0.6%	$494,935	
Contingency Cost	$0	0.0%	$0	0.0%	$0	
Reserve Costs	$524,227	0.8%	$440,000	0.5%	($84,227)	-16.1%
Other Costs	$7,007,477	10.0%	$9,501,059	11.8%	$2,493,582	35.6%
Developer Costs	$3,767,123	5.4%	$3,767,123	4.7%	($0)	0.0%
Total Project Costs	**$69,874,559**	**100.0%**	**$80,709,775**	**100.0%**	**$10,835,216**	**15.5%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Iamesi Village (18-617)

Source: Architects Fora 2024

Iamesi Village is a 135-unit residential project on a 0.7-acre site at the intersection of Bassett and Terrain Streets in downtown San Jose. The development consists of five stories of residential units over a Type I-A podium at ground level, with structured parking, totaling six stories. The project is designed to specifically serve veterans who previously experienced homelessness, individuals experiencing chronic homelessness, and individuals with disabilities.

Construction for this project began in October of 2018 and was completed by October 2020. The building is constructed using Type II-A materials and has LEED Platinum certification. This project was financed by 4 percent tax credits.

Reason for Cost Increase

As shown in Table 29, the initial budget was $63.6 million and increased 14.7 percent to $72.9 million. Most of the increase can be attributed to new construction costs, which increased 18.4 percent from $44.7 million to $52.9 million. The developer cites that costs were "higher than estimated due to pandemic delays and supply chain issues." Rising interest rates and an extended construction time were cited as reasons for the near doubling of construction interest and fees from $4.1 million to $8.0 million, as well as the inclusion of origination fees not initially present and a $1 million CalHFA loan resizing fee necessary to fill the gap of the project's rising costs.

Table 29: Iamesi Village Budget vs. Actual Residential Development Costs

	Budget		Actual		Change	
					$	%
Land Cost / Acquisition Cost	$305,000	0.5%	$376,745	0.5%	$71,745	23.5%
Predev. Interest/Holding Cost	$0	0.0%	$65,373	0.1%	$65,373	
Rehabilitation Costs	$0	0.0%	$0	0.0%	$0	
Relocation Expenses	$0	0.0%	$0	0.0%	$0	
Total New Construction Costs	$44,728,257	70.4%	$52,937,948	72.6%	$8,209,691	18.4%
Architecture Costs	$2,255,000	3.5%	$2,035,104	2.8%	($219,896)	-9.8%
Survey & Engineering Costs	$0	0.0%	$289,866	0.4%	$289,866	
Appraisal Costs	$35,000	0.1%	$41,003	0.1%	$6,003	17.2%
Appraisal Contingency Cost	$2,211,356	3.5%	$0	0.0%	($2,211,356)	-100.0%
Construction Interest & Fees	$4,102,240	6.5%	$7,983,498	10.9%	$3,881,258	94.6%
Permanent Financing Costs	$155,700	0.2%	$262,125	0.4%	$106,425	68.4%
Legal and Consulting Costs	$110,000	0.2%	$0	0.0%	($110,000)	-100.0%
Contingency Cost	$0	0.0%	$0	0.0%	$0	
Reserve Costs	$1,620,885	2.6%	$1,228,405	1.7%	($392,480)	-24.2%
Other Costs	$5,182,265	8.2%	$4,193,017	5.8%	($989,248)	-19.1%
Developer Costs	$2,850,000	4.5%	$3,500,000	4.8%	$650,000	22.8%
Total Project Costs	**$63,555,704**	**100.0%**	**$72,913,084**	**100.0%**	**$9,357,380**	**14.7%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Northlake Senior Apartments (20-712)

Source: Apartments.com, 2024

Northlake Senior Apartments is a new construction, senior living residential development just beyond the North Natomas Community Plan area in Sacramento. The project includes 191 units, all of which are reserved for income-qualified seniors aged 55 and older.

The building consists of six one-story and 10 two-story buildings, developed with Type V wood-framed construction, designed for functionality and aesthetic appeal. The site includes 206 parking spaces for residents and six parking spaces for guests.

The project began construction in April of 2020 and was completed by December 2020 and is supported by a 4 percent tax credits.

Reason for Cost Increase

As shown in Table 30, the initial budget was $38.2 million, which increased by 13.7 percent to $43.4 million. The new construction cost category was the largest source of increasing costs, with hard costs increasing by 34.7 percent from $23.4 million to $31.5 million. According to the developer, labor and materials shortages caused an unexpected spike in costs. The construction interest and fees category increased by 171 percent, from $895,813 to $2.4 million due to the reallocation of permanent loan interest and rising interest rates, which caused a higher-than-expected amount of construction loan interest.

Table 30: Northlake Senior Apartment Budget vs. Actual Residential Development Costs

	Budget		Actual		Change $	Change %
Land Cost / Acquisition Cost	$2,500,000	6.5%	$2,510,545	5.8%	$10,545	0.4%
Rehabilitation Costs	$0	0.0%	$0	0.0%	$0	
Relocation Expenses	$0	0.0%	$0	0.0%	$0	
Total New Construction Costs	$23,416,121	61.3%	$31,535,892	72.6%	$8,119,771	34.7%
Architecture Costs	$124,150	0.3%	$130,314	0.3%	$6,164	5.0%
Survey & Engineering Costs	$390,823	1.0%	$322,816	0.7%	($68,007)	-17.4%
Appraisal Costs	$0	0.0%	$0	0.0%	$0	
Appraisal Contingency Cost	$0	0.0%	$0	0.0%	$0	
Construction Interest & Fees	$895,813	2.3%	$2,424,990	5.6%	$1,529,177	170.7%
Permanent Financing Costs	$1,530,694	4.0%	$207,500	0.5%	($1,323,194)	-86.4%
Legal and Consulting Costs	$185,000	0.5%	$232,243	0.5%	$47,243	25.5%
Contingency Cost	$1,344,936	3.5%	$0	0.0%	($1,344,936)	-100.0%
Reserve Costs	$466,461	1.2%	$481,899	1.1%	$15,438	3.3%
Other Costs	$3,839,385	10.1%	$2,086,556	4.8%	($1,752,829)	-45.7%
Developer Costs	$3,500,000	9.2%	$3,500,000	8.1%	$0	0.0%
Total Project Costs	**$38,193,382**	**100.0%**	**$43,432,755**	**100.0%**	**$5,239,373**	**13.7%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Sacramento Housing and Redevelopment Agency (SHRA) Rental Assistance Demonstration (RAD) Phase I (19-548)

The Sacramento Housing and Redevelopment Agency (SHRA) undertook a comprehensive rehabilitation project known as RAD 1, revitalizing 124 housing units across six sites, totaling 8.53 acres within Sacramento County. As part of SHRA's pilot program for transition to the Rental Assistance Demonstration (RAD), the project addresses a diverse mix of housing needs, including units for both elderly residents and families.

The rehabilitation focused primarily on interior upgrades, such as plumbing, electrical systems, carpeting, and painting, ensuring improved living conditions for the residents. Funding for the rehabilitation was sourced from Public Housing Authority (PHA) resources 4 percent LIHTC.

Construction began in July 2022 and aimed to extend the lifespan and quality of these essential affordable housing units, ensuring that both elderly and family residents continue to have access to safe and well-maintained homes throughout Sacramento.

Reason for Cost Increase

As shown in Table 31, the initial budget was $23.1 million, which increased by 10.4 percent to $25.5 million. Compared to other projects with notable cost increases, SHRA RAD Phase 1's cost increases are more evenly spread across many categories. Increased rehabilitation costs were the biggest contributor, increasing by 24.8 percent from $6.4 million to $8.0 million. "Additional alternatives" which were not initially considered part of the scope, such as microwaves, HVAC replacements, new windows, and repairs due to undiscovered rot, were

eventually incorporated as mandatory components of the scope. Reserve costs increased by 187 percent from $491,116 to $1.4 million, with the developer noting that the initial estimate for capitalized replacement reserves was not sufficient to address improvements in the final Physical Needs Assessment. Relocation expenses unexpectedly rose 56.4 percent from $512,850 to $802,322 due to COVID-19 related relocation requirements. The permanent financing category saw rising origination costs due to "additional costs associated with conversion to permanent financing." Legal fees also saw notable increases due to "closing delayed by complications from COVID-19 and delays to construction, increasing legal costs."

Table 31: SHRA RAD Phase 1 Budget vs. Actual Residential Development Costs

	Budget		Actual		Change	
					$	%
Land Cost / Acquisition Cost	$10,410,000	45.0%	$10,410,000	40.8%	$0	0.0%
Rehabilitation Costs	$6,419,075	27.7%	$8,008,249	31.3%	$1,589,174	24.8%
Relocation Expenses	$512,850	2.2%	$802,322	3.1%	$289,472	56.4%
Total New Construction Costs	$0	0.0%	$0	0.0%	$0	
Architecture Costs	$447,539	1.9%	$357,982	1.4%	($89,557)	-20.0%
Survey & Engineering Costs	$0	0.0%	$84,250	0.3%	$84,250	
Appraisal Costs	$0	0.0%	$0	0.0%	$0	
Appraisal Contingency Cost	$0	0.0%	$0	0.0%	$0	
Construction Interest & Fees	$788,798	3.4%	$439,306	1.7%	($349,492)	-44.3%
Permanent Financing Costs	$27,298	0.1%	$368,084	1.4%	$340,786	1248.4%
Legal and Consulting Costs	$150,000	0.6%	$527,000	2.1%	$377,000	251.3%
Contingency Cost	$1,027,032	4.4%	$12,906	0.1%	($1,014,126)	-98.7%
Reserve Costs	$491,116	2.1%	$1,407,341	5.5%	$916,225	186.6%
Other Costs	$364,224	1.6%	$577,729	2.3%	$213,505	58.6%
Developer Costs	$2,510,000	10.8%	$2,550,000	10.0%	$40,000	1.6%
Total Project Costs	**$23,147,932**	**100.0%**	**$25,545,169**	**100.0%**	**$2,397,237**	**10.4%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Valley Palms Apartments (19-535)

Source: Apartments.com, 2024

Valley Palms Apartments in San Jose is a rehabilitation project that revitalized a 354-unit residential community that was originally built in 1981. Spread across 17.46 acres, the development consists of 28 two-story, garden-style residential buildings. The scope of the renovation focused on energy-efficient improvements to enhance the sustainability and livability of the property

Out of the 354 units, 350 are rent-restricted residential units, and four are unrestricted manager's units. The project was funded through a 4 percent tax credit. Renovation work commenced in November 2019 and was completed a year later in November of 2020, with full occupancy of all low-income units achieved in the same month.

Reason for Cost Increase

As shown in Table 32, the initial budget was $157.5 million, which increased 10.1 percent to $173.5 million. The largest contributor was construction interest and fees, which increased 158 percent from $7.0 million to $18.1 million. Due to COVID-related shortages and delays, the construction period doubled, which, in combination with rising interest rates, led to a steep increase in construction interest. The other project costs category also saw an increase of nearly 12 times the original cost, from $405,291 to $4.7 million. The developer cited the requirement for 24/7 on-site security, which was an expense that was not initially accounted for. Rehabilitation costs increased by 25.6 percent, from $15.7 million to $19.7 million, but a reason was not provided for the overruns.

Table 32: Valley Palms Budget vs. Actual Residential Development Costs

	Budget		Actual		Change	
					$	%
Land Cost / Acquisition Cost	$110,500,000	70.2%	$110,500,000	63.7%	$0	0.0%
Rehabilitation Costs	$15,705,017	10.0%	$19,725,865	11.4%	$4,020,848	25.6%
Relocation Expenses	$432,000	0.3%	$27,546	0.0%	($404,454)	-93.6%
Total New Construction Costs	$0	0.0%	$0	0.0%	$0	
Architecture Costs	$158,100	0.1%	$41,530	0.0%	($116,570)	-73.7%
Survey & Engineering Costs	$15,000	0.0%	$40,390	0.0%	$25,390	169.3%
Appraisal Costs	$0	0.0%	$0	0.0%	$0	
Appraisal Contingency Cost	$0	0.0%	$0	0.0%	$0	
Construction Interest & Fees	$6,989,951	4.4%	$18,065,229	10.4%	$11,075,278	158.4%
Permanent Financing Costs	$1,127,000	0.7%	$217,000	0.1%	($910,000)	-80.7%
Legal and Consulting Costs	$150,000	0.1%	$121,701	0.1%	($28,299)	-18.9%
Contingency Cost	$2,405,752	1.5%	$0	0.0%	($2,405,752)	-100.0%
Reserve Costs	$1,659,767	1.1%	$2,024,840	1.2%	$365,073	22.0%
Other Costs	$405,291	0.3%	$4,730,163	2.7%	$4,324,872	1067.1%
Developer Costs	$17,964,000	11.4%	$17,964,000	10.4%	$0	0.0%
Total Project Costs	**$157,511,878**	**100.0%**	**$173,458,264**	**100.0%**	**$15,946,386**	**10.1%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Top 5 Highest Cost Increase PIS Projects – Los Angeles

Table 33 below provides a concise summary of the top five projects in Los Angeles with cost overruns, detailing the reasons for the cost increases from application to service implementation. Additionally, Los Angeles hosts the top five cost overrun projects in California overall.

Table 33: Top 5 Cost Overrun Project Justification Summary, Los Angeles

Project App #	Project Name	App Cost	PIS Cost	% Inc.	Cost Overrun Justification
16-899	Florence Morehouse	$15.3M	$26.7M	75%	Expanded accessibility requirements, extended construction timelines that raised interest and fees, and unanticipated relocation expenses for all resident households.
17-813	RISE Apartments	$23.9M	$32.7M	37%	Substantial increases in hard costs without clear justification, significant rises in construction interest and fees from an extended timeline, a developer fee aligned with the budget increase, and higher architecture fees for additional site supervision and value engineering.
18-726	Ariadne Getty Senior Housing	$42.6M	$57.9M	36%	Compliance with new labor agreements, COVID-19-related delays and material cost increases, unanticipated parking garage expenses, and extended timelines that doubled construction interest and fees.
18-620	Missouri Place	$34.8M	$46.5M	34%	Increased construction costs from COVID-19-related delays that raised labor and material expenses, additional accessibility and labor compliance requirements, and extended timelines and rising interest rates that significantly increased construction interest and fees.
19-424	Summit View Apartments	$32.6M	$42.8M	31%	Increased construction costs from city-mandated offsite improvements, COVID-19-related material and labor inflation, and site topography delays; higher construction interest, land acquisition, permits, utility hookups, and ADA/LEED consultant fees.

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Florence Morehouse (16-899)

Source: LAHD, 2024

Florence Morehouse, a 61-unit, 4 percent LIHTC, scattered development for families, involved the acquisition and rehabilitation of two existing LIHTC projects in South Los Angeles. The project's last building was placed into service in December 2019. The for-profit project was

developed by Century Housing Corporation, a nonprofit organization. Both properties were previously acquired by the developer and required significant rehabilitation, including the addition of sustainability features and replacement of major systems and common areas.

Morehouse Apartments, one of the two acquired properties, was a 41-unit affordable housing development for families. Developed originally as a 9 percent tax credit project, it consists of a three-story Type V building over a one-story Type I concrete podium garage. CADI acquired the property in 2013.

Florence Avenue Villas was a 20-unit affordable housing development for families. Placed in service in April 1994, it was developed originally as a 9 percent tax credit project with additional soft financing from the Century Freeway Housing Program and the City of Los Angeles Housing Department. The property features a three-story Type V building over a one-story Type I concrete podium garage.

Reason for Cost Increase

As shown in Table 34, the initial budget was $15.3 million, which increased by 75.1 percent to $26.7 million. There were three principal categories responsible for the $11.5 million increase. The most significant was the project's hard cost, which increased by 376 percent from $2.16 million to $10.3 million. According to the developer, the "the vast added scope that HCID mandated on the property related to accessibility" required the addition of further soft debt and bond sources. Due to the ADA requirements, the project's construction period increased from 10 months to 2.5 years, leading to the second greatest contributing cost increase—construction interest and fees, which increased by $1.4 million (249 percent). The third reason for the project's cost increase was relocation cost, which was virtually non-existent in the budget, accounted for just nine households for a matter of weeks, but ultimately cost over $1.0 million, in order to relocate all 61 households for up to two months.

Table 34: Florence Morehouse Budget vs. Actual Residential Development Costs

	Budget		Actual		Change $	Change %
Land Cost / Acquisition Cost	$8,877,016	58.2%	$8,637,069	32.3%	($239,947)	-2.7%
Rehabilitation Costs	$2,164,440	14.2%	$10,318,887	38.6%	$8,154,447	376.7%
Relocation Expenses	$90,000	0.6%	$1,119,541	4.2%	$1,029,541	1143.9%
Total New Construction Costs	$0	0.0%	$0	0.0%	$0	
Architecture Costs	$300,000	2.0%	$666,706	2.5%	$366,706	122.2%
Survey & Engineering Costs	$45,000	0.3%	$29,401	0.1%	($15,599)	-34.7%
Appraisal Costs	$10,000	0.1%	$26,500	0.1%	$16,500	165.0%
Appraisal Contingency Cost	$322,134	2.1%	$0	0.0%	($322,134)	-100.0%
Construction Interest & Fees	$569,965	3.7%	$1,989,998	7.4%	$1,420,033	249.1%
Permanent Financing Costs	$60,000	0.4%	$64,820	0.2%	$4,820	8.0%
Legal and Consulting Costs	$221,201	1.4%	$71,996	0.3%	($149,205)	-67.5%
Contingency Cost	$0	0.0%	$0	0.0%	$0	
Reserve Costs	$416,112	2.7%	$311,462	1.2%	($104,650)	-25.1%
Other Costs	$444,385	2.9%	$468,762	1.8%	$24,377	5.5%
Developer Costs	$1,736,560	11.4%	$3,007,547	11.3%	$1,270,987	73.2%
Total Project Costs	**$15,256,813**	**100.0%**	**$26,712,689**	**100.0%**	**$11,455,876**	**75.1%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

RISE Apartments (17-813)

Source: Apartments.com, 2024

Rise Apartments is a 57-unit, permanent supportive housing community for veterans experiencing chronic homelessness and individuals experiencing homelessness in South Los Angeles. The five-story building consists of one level of subterranean parking and commercial office space on the ground floor. The Type V over Type I project utilized 4 percent tax credits. The project was developed as a joint venture by Highridge Costa Development Company, a for-profit company, and Single Room Occupancy Housing Corporation, a nonprofit. Construction started in December 2018. The project was placed in service in April 2021.

Reason for Cost Increase

As shown in Table 35, the initial budget was $23.9 million, which increased by 36.9 percent to $32.7 million. There were four principal categories responsible for the $8.8 million increase. The most significant was the project's hard cost, which increased by 49.1 percent from $14.2

million to $21.1 million. The reasons cited by the developer were vague, in which they referenced general increases in structures and general requirements costs—"cost increases before closing and changes [sic] orders." Construction interest and fees increased nearly fourfold, from $520,653 to $2.5 million, despite the expected construction timeline of 22 months only being extended by 31.2 percent to 29 months. The developer fee increased by over $1 million, in line with the increase in the project budget. Architecture fees increased by 52.9 percent, from $862,524 to $1.3 million. According to the developer, more budget needed to be allocated to architects for site supervision and value engineering purposes. Based on the PIS documentation alone, while it is clear that hard cost increases drove the overall budget increase, the precise reason is not provided.

Table 35: RISE Apartments Budget vs. Actual Residential Development Costs

	Budget		Actual		Change	
					$	%
Land Cost / Acquisition Cost	$2,278,068	9.5%	$1,698,809	5.2%	($579,259)	-25.4%
Rehabilitation Costs	$0	0.0%	$0	0.0%	$0	
Relocation Expenses	$0	0.0%	$0	0.0%	$0	
Total New Construction Costs	$14,156,202	59.2%	$21,111,857	64.5%	$6,955,655	49.1%
Architecture Costs	$862,524	3.6%	$1,319,216	4.0%	$456,692	52.9%
Survey & Engineering Costs	$716,772	3.0%	$685,327	2.1%	($31,445)	-4.4%
Appraisal Costs	$20,000	0.1%	$12,789	0.0%	($7,211)	-36.1%
Appraisal Contingency Cost	$889,171	3.7%	$0	0.0%	($889,171)	-100.0%
Construction Interest & Fees	$520,653	2.2%	$2,469,603	7.5%	$1,948,950	374.3%
Permanent Financing Costs	$64,199	0.3%	$111,092	0.3%	$46,893	73.0%
Legal and Consulting Costs	$295,000	1.2%	$309,306	0.9%	$14,306	4.8%
Contingency Cost	$0	0.0%	$0	0.0%	$0	
Reserve Costs	$296,668	1.2%	$335,381	1.0%	$38,713	13.0%
Other Costs	$1,087,611	4.6%	$949,588	2.9%	($138,023)	-12.7%
Developer Costs	$2,713,852	11.4%	$3,725,123	11.4%	$1,011,271	37.3%
Total Project Costs	**$23,900,721**	**100.0%**	**$32,728,091**	**100.0%**	**$8,827,370**	**36.9%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Ariadne Getty Senior Housing (18-726)

Source: Thomas Safran & Associates, 2024

Ariadne Getty Senior Housing, also known as McCadden Campus Senior Housing, is a 98-unit building serving seniors and seniors experiencing chronic homelessness and seniors who previously experienced homelessness. It is in the Hollywood neighborhood of Los Angeles. The Type III over Type I five-story building also includes amenities such as a community room, elevators, computer room, and elevators. The project utilized 4 percent tax credits and was developed as a joint venture between the for-profit developer Thomas Safran & Associates and the nonprofit Los Angeles LGBT Center. Construction for this project began in July 2019 and was placed in service in July 2021.

Reason for Cost Increase

As shown in Table 36, the initial budget was $42.6 million, which increased by 35.9 percent to $57.9 million. The primary cause of the budget increase was due to new construction costs, which increased from $21.8 million, by 68.7 percent, to $36.8 million. The developer cited multiple reasons, including compliance with Measure HHH's Project Labor Agreement requirement, which was imposed after the original application, as well as COVID-19 related inspection delays and material & equipment cost increases. Additionally, $6.2 million of parking garage cost was added to the project's final budget which was not present in the original budget. Due to the extended construction timeline, construction interest and fees more than doubled from $3.3 million to $7.3 million.

Table 36: Ariadne Getty Senior Housing Budget vs. Actual Residential Development Costs

	Budget		Actual		Change	
					$	%
Land Cost / Acquisition Cost	$5,500,158	12.9%	$5,651,821	9.8%	$151,663	2.8%
Rehabilitation Costs	$0	0.0%	$0	0.0%	$0	
Relocation Expenses	$0	0.0%	$0	0.0%	$0	
Total New Construction Costs	$21,816,800	51.2%	$36,802,862	63.6%	$14,986,062	68.7%
Architecture Costs	$1,117,730	2.6%	$1,825,043	3.2%	$707,313	63.3%
Survey & Engineering Costs	$760,220	1.8%	$424,003	0.7%	($336,217)	-44.2%
Appraisal Costs	$10,000	0.0%	$10,377	0.0%	$377	3.8%
Appraisal Contingency Cost	$2,243,534	5.3%	$0	0.0%	($2,243,534)	-100.0%
Construction Interest & Fees	$3,268,542	7.7%	$7,310,680	12.6%	$4,042,138	123.7%
Permanent Financing Costs	$370,980	0.9%	$369,833	0.6%	($1,147)	-0.3%
Legal and Consulting Costs	$165,000	0.4%	$739,706	1.3%	$574,706	348.3%
Contingency Cost	$0	0.0%	$0	0.0%	$0	
Reserve Costs	$269,645	0.6%	$389,155	0.7%	$119,510	44.3%
Other Costs	$2,349,577	5.5%	$1,870,307	3.2%	($479,270)	-20.4%
Developer Costs	$4,725,890	11.1%	$2,500,000	4.3%	($2,225,890)	-47.1%
Total Project Costs	**$42,598,076**	**100.0%**	**$57,893,787**	**100.0%**	**$15,295,711**	**35.9%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Missouri Place (18-620)

Source: Thomas Safran & Associates, 2024

Missouri Place is a 74-unit permanent supportive housing complex serving low-income families and individuals experiencing homelessness. The Type III over Type I building includes amenities such as a parking garage, community space, fitness room, and a recreational facility for children. Developed as a joint venture by the for-profit Thomas Safran & Associates and nonprofit Housing Corporation of America, the project utilized 4 percent tax credits. Construction began in March 2019 and was placed in service in September 2021.

Reason for Cost Increase

As shown in Table 37, the initial budget was $34.8 million, which increased by 33.7 percent to $46.5 million. The primary driver behind the increase in costs was due to new construction costs, which increased by 49.2 percent, from $23.1 million to $34.5 million. According to the developer "COVID-19 related schedule delays" caused substantial increases in labor costs, as well as materials increases. LAHD-mandated accessibility and labor compliance considerations resulted in additional unplanned delays. Construction interest and fees, which increased by 67.3 percent from $1.9 million to $3.2 million, were also a significant source of the increase in cost. In addition to delays causing the accumulation of interest, developers cited an increase in interest rates during construction as a cause of increasing cost.

Table 37: Missouri Place Budget vs. Actual Residential Development Costs

	Budget		Actual		Change $	Change %
Land Cost / Acquisition Cost	$300,000	0.9%	$494,374	1.1%	$194,374	64.8%
Rehabilitation Costs	$0	0.0%	$0	0.0%	$0	
Relocation Expenses	$0	0.0%	$0	0.0%	$0	
Total New Construction Costs	$23,129,530	66.4%	$34,518,358	74.2%	$11,388,828	49.2%
Architecture Costs	$1,260,650	3.6%	$1,163,427	2.5%	($97,223)	-7.7%
Survey & Engineering Costs	$333,250	1.0%	$564,877	1.2%	$231,627	69.5%
Appraisal Costs	$6,000	0.0%	$4,000	0.0%	($2,000)	-33.3%
Appraisal Contingency Cost	$2,320,300	6.7%	$0	0.0%	($2,320,300)	-100.0%
Construction Interest & Fees	$1,883,905	5.4%	$3,151,256	6.8%	$1,267,351	67.3%
Permanent Financing Costs	$86,150	0.2%	$411,262	0.9%	$325,112	377.4%
Legal and Consulting Costs	$105,000	0.3%	$256,929	0.6%	$151,929	144.7%
Contingency Cost	$0	0.0%	$0	0.0%	$0	
Reserve Costs	$560,145	1.6%	$686,079	1.5%	$125,934	22.5%
Other Costs	$2,331,903	6.7%	$2,787,902	6.0%	$455,999	19.6%
Developer Costs	$2,500,000	7.2%	$2,500,000	5.4%	$0	0.0%
Total Project Costs	**$34,816,833**	**100.0%**	**$46,538,464**	**100.0%**	**$11,721,631**	**33.7%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024

Summit View Apartments (19-424)

Source: LA County, 2024

Summit View Apartments, developed by the non-profit LA Family Housing, is a 49-unit housing complex serving special needs individuals and families, in particular veterans experiencing homelessness and individuals experiencing chronic homelessness. The project is in the Sylmar neighborhood of Los Angeles and is uniquely perched on top of a hill. The Type V over Type I development is LEED certified and used 4 percent tax credits. Construction began in January 2020 and was placed in service in January 2023.

Reason for Cost Increase

As shown in Table 38, the initial budget was $32.6 million, which increased by 31.1 percent to $42.8 million. New construction costs constituted the largest increase category, which increased by 31.1 percent from $17.5 million to $23.0 million. One of the driving factors behind the increase in hard costs was additional off-site improvements requirements by the City of Los Angeles. The addition of new off-site requirements, possibly required as a result of

the site's unique topography, and COVID-19 related materials and labor inflation and shortages, caused delays in construction. Accordingly, construction interest and fees more than doubled from $2.4 million to $5.3 million. Land and acquisition costs, a category which includes the cost of off-site work, increased by 69.6 percent from $2.0 million to $3.5 million. The off-site improvements were extensive and included several key enhancements: street improvements and the construction of a cul-de-sac, sidewalks with retaining walls, curbs, gutters, restriping, streetlights, and 300 feet of 8-inch pipe to connect the parcel to the main sanitation line. The other costs category increased by 51.1 percent from $2.0 million to $3.1 million due to multiple reasons, including additional permits required for off-site work, additional utility hookup fees, and additional ADA consultant and LEED consultant fees.

Table 38: Summit View Budget vs. Actual Residential Development Costs

	Budget		Actual		Change	
					$	%
Land Cost / Acquisition Cost	$2,047,155	6.3%	$3,471,747	8.1%	$1,424,592	69.6%
Predev. Interest/Holding Cost	$350,000	1.1%	$176,426	0.4%	($173,574)	-49.6%
Rehabilitation Costs	$0	0.0%	$0	0.0%	$0	
Relocation Expenses	$0	0.0%	$0	0.0%	$0	
Total New Construction Costs	$17,539,337	53.7%	$22,995,628	53.7%	$5,456,291	31.1%
Architecture Costs	$1,051,410	3.2%	$1,176,086	2.7%	$124,676	11.9%
Survey & Engineering Costs	$200,000	0.6%	$684,766	1.6%	$484,766	242.4%
Appraisal Costs	$0	0.0%	$0	0.0%	$0	
Appraisal Contingency Cost	$0	0.0%	$0	0.0%	$0	
Construction Interest & Fees	$2,428,062	7.4%	$5,259,688	12.3%	$2,831,626	116.6%
Permanent Financing Costs	$78,204	0.2%	$65,583	0.2%	($12,621)	-16.1%
Legal and Consulting Costs	$215,872	0.7%	$263,339	0.6%	$47,467	22.0%
Contingency Cost	$2,253,994	6.9%	$0	0.0%	($2,253,994)	-100.0%
Reserve Costs	$413,638	1.3%	$450,000	1.1%	$36,362	8.8%
Other Costs	$2,030,886	6.2%	$3,068,578	7.2%	$1,037,692	51.1%
Developer Costs	$4,038,884	12.4%	$5,195,052	12.1%	$1,156,168	28.6%
Total Project Costs	**$32,647,442**	**100.0%**	**$42,806,893**	**100.0%**	**$10,159,451**	**31.1%**

Source: California Tax Credit Allocation Committee (CTCAC), 2024; BAE, 2024