ANNUAL AFFORDABLE HOUSING COST DATA

Report to the Washington State Legislature

December 2023

Submitted by the Washington State Housing Finance Commission

CONTENTS

INTRODUCTION

The Low-Income Housing Tax Credit Program

The Washington State Housing Finance Commission (Commission) administers the **Low-Income Housing Tax Credit (LIHTC)** program which finances the construction and preservation of affordable multifamily housing units through federal tax incentives. Housing credit in the 9% program is awarded through an annual competitive process in which projects are evaluated and scored according to the Commission's established criteria. The 4% housing tax credit combines tax credit equity with tax-exempt bonds and the tax-exempt bonds are allocated through a competitive process. These programs are governed by the Internal Revenue Service (IRS) and annual state allocations are determined by a per capita formula.

The Department of Commerce (Commerce) administers the **Housing Trust Fund**, a state program that makes grants and low-interest loans for low-income housing. Commerce and the Commission collaborate on policies and partner on making investments in affordable housing across the state. In any given year, 30-50% of our projects "overlap," meaning that they receive both a Housing Trust Fund award and a LIHTC allocation of federal housing tax credits.

Reporting Requirements

In 2017, the Legislature directed the Joint Legislative Audit and Review Committee (JLARC) to analyze the costs of developing low-income housing (i.e., affordable to households making less than 80 percent of the area median income). In their final report, published in January 2019, JLARC made recommendations to Commerce and the Commission to improve cost efficiency, controls, and monitoring, including the following recommendation:

> ***Commerce and the Commission should report development cost data to the Legislature annually.*** *Data should include the total development cost per unit for each project, descriptive statistics (such as average and median per unit costs), regional cost variation, and other cost data that agencies deem necessary to improve cost controls and enhance the Legislature's understanding of development costs. Commerce and the Commission should coordinate to identify relevant development cost data and ensure that measures are consistent across the agencies. The costs should be published in a format that allows the Legislature and the agencies to track development costs over time.*

In 2019, pursuant to the JLARC report, the Legislature included JLARC's recommendation in the 2019-21 Capital Budget appropriation for the HTF (Section 1029), as follows:

> *(b) Beginning December 1, 2019, and continuing annually, the department must provide the legislature with a report of its final cost data for each project under this section. Such cost data must, at a minimum, include total development cost per unit for each project completed within the past year, descriptive statistics such as average and median per unit costs, regional cost variation, and other costs that the department deems necessary to improve cost controls and enhance understanding of development costs. The department must coordinate with the housing*

finance commission to identify relevant development costs data and ensure that the measures are consistent across relevant agencies.

This report responds to the recommendation made by JLARC to provide relevant development cost data and analysis for LIHTC affordable housing projects to the Legislature. The data in this report includes projects that have submitted to the Commission their final development cost data during state fiscal year 2023 (July 1, 2022, to June 30, 2023). The numbers provided are derived from the Certified Public Accountant-prepared cost certifications and the analysis relies on benchmarks established in previous reports including a series of assumptions and definitions that allow for consistent measures and data characteristics across the two programs and state agencies.

COST DATA AND COST CONTAINMENT

CPA Cost Certified Data

Since the inception of the federal Low-Income Housing Tax Credit (LIHTC) program in 1987, the Commission has collected and tracked cost data. Developers cannot obtain approval from the IRS for the housing tax credits until their costs are certified. They must submit a CPA-generated report of the total sources and uses of the project's funding to obtain Form 8609 from the IRS, which enables their investors to claim the housing tax credits and thus provide equity for the project.

Cost Containment Policy

In addition to the cost-certification process, the Commission has a robust cost-containment strategy which is essential to the future success and continued credibility of the Housing Tax Credit program. Given the finite resource of the Housing Tax Credit, the primary objective of these cost-containment policies is to balance cost containment with promoting quality development. As referenced in the JLARC report, the Commission follows key national best practices for monitoring and controlling costs.

To this end, in 2012, the Commission developed and established total development cost (TDC) limits to benchmark and analyze costs against metrics. These limits vary according to region to better measure and acknowledge the different cost drivers throughout the state. The Commission reviews these limits annually (and resets them if necessary) using third-party data from Engineering News-Record (ENR). The TDC limits are documented in the Development Cost Limit Schedule as part of the LIHTC application process.

As part of the competitive application process, points are awarded based on a percentage of the amount under the TDC limit and based on the comparative cost of projects in the geographic pool. Projects are subject to the Development Cost Limit Schedule in place at the time of application. As part of the application, projects must provide a detailed breakdown of all anticipated project costs.

Based on our ongoing analysis and work with the Housing Development Consortium of Seattle/King County Cost Analysis workgroup, we adjusted our cost limits for projects applying for resources starting in 2022 to reflect more granular nuances of costs found between Seattle and Balance of King County. Numbers are now being presented to reflect that change below.

Commerce's application recognizes the less costly projects with higher prioritization in funding but does not apply a strict cost limit like the Commission. There are wide-ranging variations of project types, including single family construction/renovation, congregate shelters, acquisition rehabs and new construction in all types of communities. Therefore, Commerce finds the scoring to be a fairer method of recognizing and containing costs.

Current Conditions: Interest Rate and Operating Cost environment

This past year continued to provide challenges for projects given the continued increase in interest rates and cost of capital as well as other operating costs, like insurance that has impacted sponsors and projects. As was stated in last year's report, significant issues evolving out of the pandemic continued to have a large impact on real estate and construction projects. Increased interest rates for both construction and permanent financing are affecting projects in development as well as projects just trying to close on their financing. Increased operating costs, including insurance and security are making it harder for projects to convert their construction loans to permanent financing thereby affecting organizations' financial capacity. The Commission and the Department of Commerce continue to work collaboratively to ensure projects can still move forward with full financing in place.

New Financing Tools to Stretch Federal Resources

As described in the introduction to this report, a significant part of the Low-Income Housing Tax Credit program (the “bond/credit” or “4%” program) relies on federal tax-exempt bonds that then combine with federal tax-credit equity. These bonds are capped for each state based on population. Washington is a nationwide leader in the use of this program to build and preserve affordable housing. In recent years, dramatically increased demand for this program has far exceeded the annual bond cap available.

The Commission has responded with several innovative financing programs to stretch our limited bond cap with the help of corporate and other private capital. These tools are most useful for “workforce housing” projects, rather than housing that serves the lowest incomes and most vulnerable (such as for the homeless). They include:

- **Bond recycling partnership with Microsoft:**
  In this national award-winning partnership, Microsoft provides the Commission with a $250 million line of credit to facilitate the recycling of housing bonds. Through bond recycling, as short-term affordable housing bonds are paid off, a certain amount of the repaid principle can be reissued to finance new affordable housing projects. Microsoft’s line of credit not only lowers the cost of each transaction, making individual projects pencil for developers, it also gives the Commission a structure and mechanism for recycling bonds on a much larger scale than we were able to do before. In 2022-23, we issued $102.4 million in recycled bonds that helped bring 9 projects with 1,072 units to fruition.

- **Evergreen Impact Housing Fund:**
  A collaboration between the nonprofit Seattle Foundation and the Commission, the Evergreen Fund brings in private capital from socially motivated investors – including large corporate donors – to supplement and extend the LIHTC bond program. Microsoft, and a coalition of credit unions have contributed to the EIHF, which fills the gaps currently unfilled by bonds and housing credits to make 4% LIHTC projects feasible again in high-growth urban areas of King County. Since implementation in 2020, the fund has invested $51.7 million, financing five LIHTC projects with a total of 1,136 units. Meanwhile, equity investors and philanthropists can contribute to the fund and earn a return.

DATA DEFINITIONS & METHODOLOGY

The data included in this report is based on **Total Residential Project Cost (TRPC)**, which includes the total cost of the residential portion of a project, including land, capitalized reserves, and offsite infrastructure improvements.

Total Residential Development Cost (TRDC) is the Total Residential Project Cost minus the cost of land, reserves, and infrastructure. The Commission uses TRDC for purposes of analyzing projects against limits and determining competitive points because TRDC better reflects the costs over which the developer has control. Some developers, for example, may be building on donated land, while others may have paid market price.

Definitions

The following table shows the key data and criteria that have been agreed upon by both the Commission and Commerce for reporting cost data**.**

Field	Description
General Project Data	
Sponsor	Project Sponsor (the primary developing organization)
Project Name	Project Name
Program Type	4% or 9% Low-Income Housing Tax Credit program
Project Address	Project Address
Project City	Project City
Project County	Project County
Zip	Project Zip
New Construction OR Acquisition/Rehab	New Construction vs. Acquisition/Rehabilitation of an existing building
Total Units	Includes all physical units in the property: • **Low-Income Housing Units** (income- and rent-restricted units); • **Common Area Units** (which include manager-occupied units and sometimes community areas); and • **Market Rate Units** (units renting at market rate without income or rent restrictions).
Total Residential Square Feet	Includes all residential areas including common areas and parking; does not include commercial square footage
Project Cost Data	
Total Residential Project Cost	All costs including land, capitalized reserves, and infrastructure costs associated with the residential budget. All subtotals below are for residential costs.
Land/Acquisition Subtotal	Cost for acquiring land, buildings and any closing costs
Construction Subtotal	Materials, labor, and associated costs of residential construction; any site or infrastructure work; and contingency

Professional Fees Subtotal	Engineering, architecture, appraisals, market studies, Geotech, topography, environmental reports, legal fees, development consultant, developer fees
Financing Costs Subtotal	Loan fees, interest expenses and insurance
Capitalized Reserves Subtotal	Operating and/or replacement reserves
Other Development Costs Subtotal	Real estate tax, insurance, relocation, bidding costs, permits/fees/hookups, impact mitigation fees, development period utilities, nonprofit donation, accounting audit, marketing leasing expenses, and any carrying costs at rent up reserve
Sources of Financing	
State Housing Trust Fund?	True = The project includes an investment from the Washington State Housing Trust Fund; may also include State HOME funds, National Housing Trust Funds.
State Housing Trust Fund Amount	Amount awarded from the Washington State Housing Trust Fund (through Dept of Commerce); may also include State HOME funds and National Housing Trust Funds allocated through the Dept of Commerce.
Private Equity from LIHTC	Private equity generated from federal Low-Income Housing Tax Credits
Other State Source	Capital appropriations
Federal Source Summary	HUD Choice Neighborhoods, may also include other federal resources, if available direct from the Federal level
Local Source Summary	Housing Authority capital funds, local HOME funds (HUD), local housing levies, other city or county investments
Private Source Summary	Tax exempt private activity bond cap (issued by either Commission or Housing Authority), permanent loans, other federal tax credits, subordinate loans, etc.
Sponsor Source Summary	Deferred developer fee, sponsor loan, sponsor contribution, Net Operating Income (NOI) during lease-up, seller note
"Cost Per" Data	
Cost Per Unit	Total Residential Project Cost divided by Total Units
Cost Per Total Residential Square Footage	Total Residential Project Cost divided by Total Residential Square Feet

Methodology

The analysis provided in this report is focused on describing or summarizing total residential development cost data and uses common descriptive statistics such as measures of central tendency. This method of analysis was chosen with the goal of providing a simple but meaningful presentation of the data. It is important to note that this method of analysis deals with quantitative data only and should not be used to generalize or make unsupported conclusions about the cost of affordable multifamily housing projects not included in this data set.

2023 REPORT ON LOW-INCOME HOUSING TAX CREDIT PROJECTS

The charts and points below highlight data found in the list of **projects placed in service from July 1, 2022, through June 30, 2023,** provided as Attachment A.

Note: Median costs, instead of average costs, are used below to capture the central location of the dataset's distribution when outliers are present in the data.

Total Projects, Units and Median Costs – 2019-2023

Fiscal Year	Total Projects	Median units per project	Median cost per unit	Median cost per square foot
July 2022 – June 2023	31	80	$300,977	$384
July 2021 - June 2022	32	99	$316,097	$392
July 2020 - June 2021	33	95	$262,331	$284
July 2019 - June 2020	43	108	$259,105	$280
July 2018 - June 2019	51	114	$207,496	$239

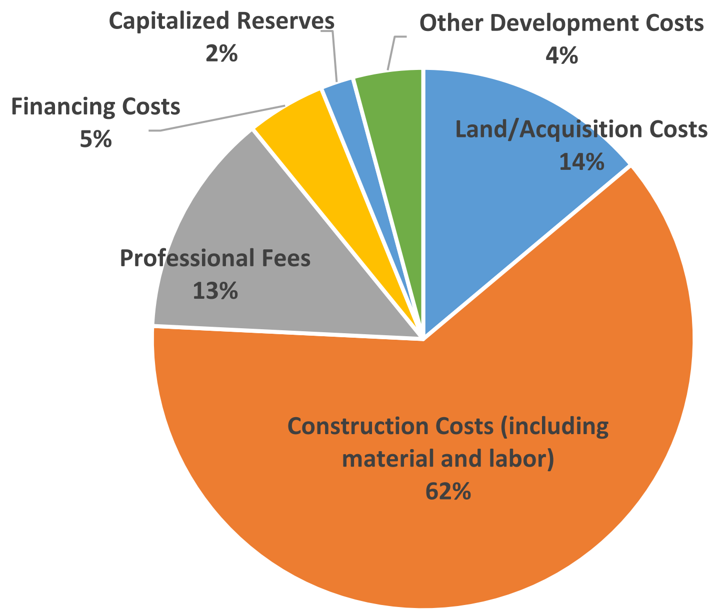
Costs by County and Construction Type – 2022-23

New Construction:		
County	Median Cost Per Unit	Median Cost Per Residential Square Foot
Clark	$335,929	$368
Grant	$221,784	$205
King (All)	$331,484	$480
Seattle	$338,783	$537
Balance of King	$328,298	$335
Kitsap	$300,619	$452
Okanogan	$297,642	$299
Pierce	$366,960	$533
Snohomish	$305,445	$298
Spokane	$243,818	$253
Thurston	$262,945	$587
Whitman	$219,980	$228
Yakima	$282,437	$256
Med of All New Const:	**$299,131**	**$376**

Acquisition/Rehab:		
County	Median Cost Per Unit	Median Cost Per Residential Square Foot
Clark	$311,628	$370
King (All)	$474,813	$461
Med Of All Acq/Rehab:	**$322,279**	**$409**

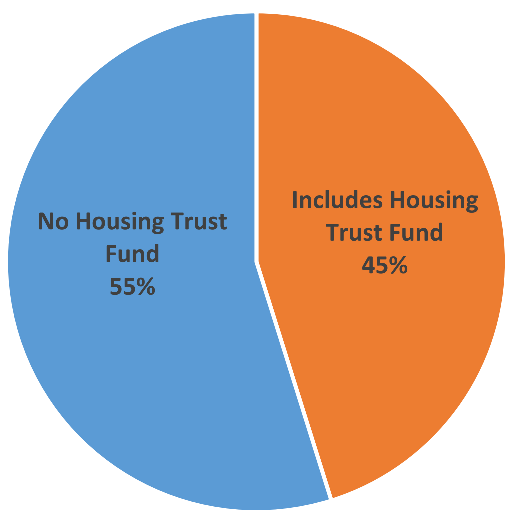
Source of Project Costs

Construction costs, including labor and materials, are the major cost drivers of affordable housing projects. *Project cost categories are defined above in the Data Definitions Table.*



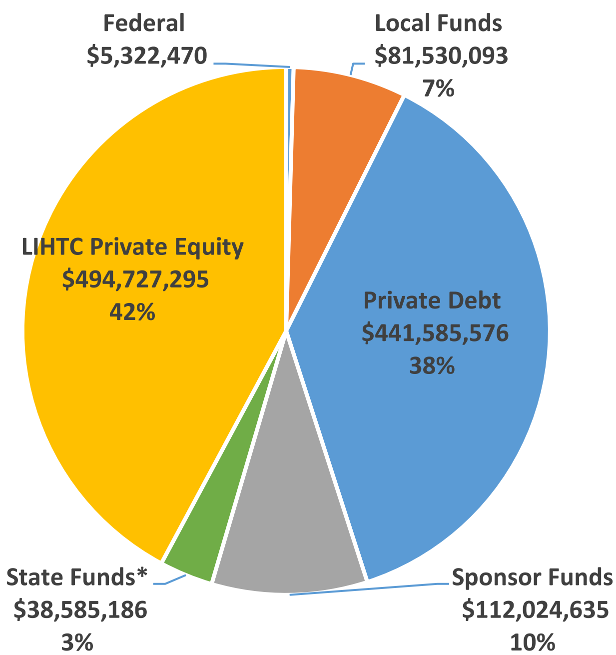
State Housing Trust Fund Involvement

How many 2022-23 projects include funding from the Washington State Housing Trust Fund?



Funding Sources in 2022-23 LIHTC Projects

Note: Private debt includes tax-exempt bonds issued by the Commission or by the local housing authority.



*The State Funds category is solely made up of State Housing Trust Fund.

Attachment A: Full List of 2022-23 LIHTC Projects in this Dataset

Attachment B: Additional Non-LIHTC Projects Funded only by the Housing Trust Fund (Not Included in Charts Above)