

Advising Your Clients: Exploring Key Tax Credit and Affordable Housing Issues

Cost Containment

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GAO Reports Due in 2016

- ◆ HFA focused – Spring 2016
- ◆ Private side focused – late 2016
- ◆ GAO reports being performed by separate teams. Anticipated that both reports will comment on costs to develop

Current Market Trends Fueling the Fire

- ◆ Hot market
- ◆ Construction cost increases
- ◆ Labor shortage
- ◆ Delays
- ◆ Land and building acquisition cost
- ◆ High equity pricing and low interest rate environment

- ❖ Not easily comparable to market rate
- ❖ Difficultly aggregating all LIHTC properties
- ❖ Requires detailed analysis by property and by state/region
- ❖ Balance between providing safe, affordable, quality housing for reasonable cost. What's reasonable?

- ◆ Diligent and efficient underwriting and oversight – HFA, lenders, syndicators and investors
- ◆ HFA QAP is tailored to its needs and ability to react to market conditions
- ◆ Strict limits on fees
- ◆ Design standards - minimums

Industry Efforts-continued

- ❖ Public/private partnership which develops housing that has a measurable impact on health, safety and economic vitality of communities and individuals including fair housing initiatives.
- ❖ Need to develop measurements around the cost of NOT developing affordable housing.

Common Cost Drivers

- ❖ Construction requirements
- ❖ Contract type – lump sum/cost plus
- ❖ Prevailing wages
- ❖ Energy/Green requirements
- ❖ Reserve requirements
- ❖ Land – walkability and access to transportation
- ❖ Social service requirements

Common Cost Drivers- continued

- ◆ Professional fees
- ◆ LIHTC fees
- ◆ Compliance and oversight
- ◆ Relocation costs
- ◆ Other QAP requirements
- ◆ Number of funding sources

Development Cost Analysis

Year of Construction Completion	2013		2015		2013		2015		2013		2015	
Location	Kansas City, MO		St. Louis, MO		Tulsa, OK		Memphis, TN		St. Louis, MO		Miami FL	
	9%		9%		9%		9%		9%		9%	
Total Units	78		47		128		64		40		94	
Total Square Footage	102,282		57,428		107,566		58,011		57,542		85,402	
Development Costs												
Hard Costs	\$ 8,757,211	78%	\$ 7,307,043	79%	\$ 15,304,220	77%	\$ 6,301,993	68%	\$ 7,923,014	79%	\$ 16,526,032	56%
Architectural/Engineering/Survey	403,410	4%	281,340	3%	858,294	4%	173,324	2%	237,413	2%	484,643	2%
Soft Costs	482,234	4%	283,870	3%	1,030,715	5%	412,008	4%	237,913	2%	3,961,946	14%
Financing Costs	232,878	2%	217,922	2%	296,414	1%	293,692	3%	214,630	2%	542,021	2%
Acquisition	20,083	0%	110,000	1%	—	0%	511,550	6%	467,088	5%	1,874,644	6%
Developer Fee	981,000	9%	815,000	9%	1,900,000	9%	1,059,000	11%	800,000	8%	4,517,835	15%
Reserves	387,551	3%	279,200	3%	840,358	4%	525,000	6%	159,000	2%	1,433,931	5%
Total Development Costs	\$ 11,264,367	100%	\$ 9,294,375	100%	\$ 20,230,001	100%	\$ 9,276,567	100%	\$ 10,039,058	100%	\$ 29,341,052	100%
Development Cost per Unit	\$ 144,415		\$ 197,753		\$ 158,047		\$ 144,946		\$ 250,976		\$ 312,139	
Development Cost per Sq. Ft.	\$ 110		\$ 162		\$ 188		\$ 160		\$ 174		\$ 344	