

Why Is Affordable Housing So Expensive?

Limited city budgets and rising building costs create a recipe for disaster.

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In many cities, affordable housing has a problem: it's not affordable. California Governor Jerry Brown made that point again, emphatically, with his new state budget. He's said that won't put any new state resources into subsidizing affordable housing until state and local governments figure out ways to bring the costs down. Last year, opposition from labor and environmental groups blocked the governor's proposal to exempt affordable housing from some key regulatory requirements. Brown had offered \$400 million in additional state funds for affordable housing if that proposal was adopted. Now that money is off the table, as Brown said in his budget speech: "We've got to bring down the cost structure of housing and not just find ways to subsidize it."

But the costs are substantial. In San Francisco, one of the largest all-affordable housing projects, 1950 Mission Street, clocks in at more than \$600,000 per unit. That number isn't getting any lower: new units in that city's Candlestick Point development will cost nearly \$825,000 each, according to recent press reports. Brown's point is that, at that cost per unit, it is simply beyond the fiscal reach of California to afford to build housing for all of the rent-burdened households.

While the problem is extreme in San Francisco, it crops up elsewhere, too. In St. Paul, Minnesota, affordable housing, mostly one-bedroom units, in a renovated downtown building costs \$665,000 per unit.

In Portland, Oregon, newly elected Mayor Ted Wheeler has temporarily embargoed any further spending of the city's recently improved \$258 million affordable housing bond issue. Shortly before he took office, the Portland Housing Bureau committed to spending nearly 15 percent of the levy's proceeds to acquire an existing 263-unit housing complex. The city will pay \$51 million in total, about \$193,000 per unit for the building. The cost of new construction tends to be even higher. Public projects often involve more elaborate design, LEED certification, additional public spaces and higher overhead costs.

More broadly, the case has been made that much publicly subsidized affordable housing costs significantly more to build than market-rate housing. Private developers are able to build new multi-family housing at far lower costs. One local builder has constructed new one-bedroom apartments in Portland at a cost of less than \$100,000 a unit, albeit with fewer amenities and in less central locations than most publicly supported projects. In Portland, local private developer Rob Justus has proposed to build 300 apartments and sell them to the city for \$100,000 each on a turn-key basis to be operated as affordable housing. Another possible cost-savings measure: off-site construction. The University of California Berkeley's Turner Center has a new report that explores the possibility for pre-fabricated, off-site construction to reduce construction costs. Wheeler voices the same concerns as Governor Brown:

We've added a lot of programs to affordable housing that may be socially desirable. But when the goal is to create the maximum number of new doors, we have to reduce costs and get more supply on the market as quickly as possible.

In the Twin Cities, Myron Orfield has pointed out that the allocation of tax credits and the concentration of community development corporations in urban neighborhoods has tended to

produce more housing in costly urban locations. Orfield also blames the high overhead costs of CDCs.

Central city development programs are inefficient, spending much more per unit of new affordable housing in the central cities than comparable housing costs in more affluent, opportunity-rich suburbs. Many of the leading developers working in the poorest parts of the region also pay their managers very high salaries. As a result, the funding system incentivizes higher cost projects in segregated neighborhoods over lower cost projects in integrated neighborhoods.

Perhaps the central problem of housing affordability is one of scale—the number of units that we’re able to provide is too small. That’s true whether we’re talking about through Section 8 vouchers (that go to only about 1 in 5 eligible households), or through inclusionary zoning requirements (which provide only handfuls of units in most cities).

The very high per-unit construction costs of affordable housing only make the problem more vexing: the pressure to make any project that gets constructed as distinctive, amenity-rich and environmentally friendly as possible, means that the limited number of public dollars end up building fewer units. And too few units—scale—is the real problem here.

The combination of very limited public funds for affordable housing, even in the most prosperous and liberal cities, and the tendency for publicly subsidized housing to be nearly as costly as new, market rate housing, is a recipe for failure.

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