National Center for Sustainable Transportation

POLICY BRIEF

Cost of Building Affordable Housing in Major Cities Driven by Multiple Factors—But Not by Proximity to Transit

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Issue

California taxpayers have supported more than a billion dollars of bonds to support affordable infill housing in neighborhoods with access to rail transit. The cost of constructing subsidized affordable housing in California has significantly increased over the past several years (Figure 1), leading the Legislative Analyst's Office to conclude that the state's affordable housing construction programs alone cannot solve the state's housing crisis.[1]

There has been limited analysis of the interactions between policies that prioritize affordable housing development in transit- and jobs-rich neighborhoods and the cost of affordable housing in general. To better understand this interaction, this project studied the key drivers of affordable housing production costs across four regional metropolitan areas in California: Metropolitan Transportation Commission (MTC), Sacramento Area Council of Governments (SACOG), San Diego Association of Governments (SANDAG), and Southern California Association of Governments (SCAG).

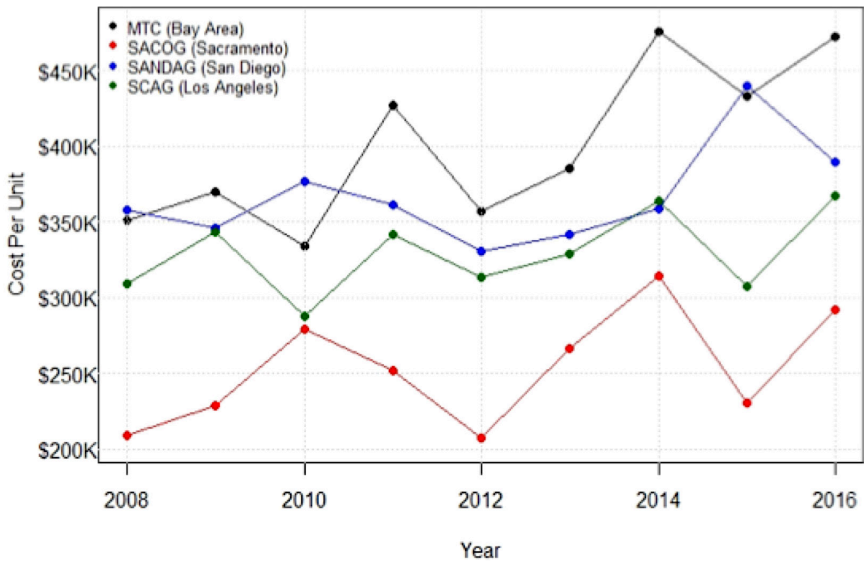

Figure 1. Affordable new construction cost trends by metropolitan planning organizations.

Key Research Findings

There is little evidence that prioritizing affordable housing in neighborhoods with access to rail transit and jobs leads to increases in the production costs of affordable housing. Correlations between proximity to transit and project costs are explained by other factors; namely, homes near transit are more expensive than those not located near transit because fixed-route transit systems are located in the most expensive counties in the state. Factors that were found to have a more substantial influence on production costs are summarized below.[2]

Number of Units in a Project – Per-unit costs decrease by 1.8% with every 10% increase in the number of units.

Underground Parking – Inclusion of underground parking increases project costs by 5.7% per unit on average.

Prevailing Wage Requirements – If a project pays prevailing wages, costs increase by 15.3% on average, with the effect higher in the San Francisco Bay Area and lower in Southern California.

Unit Size – For every 100-foot increase in the average unit size of a project, costs increase by 1.5% per unit.

Commercial Space – Every thousand feet of commercial square space increases costs by 5.8% per unit, but this cost is theoretically recouped by commercial rent and/or potentially reversed in and around downtown and west Los Angeles.

Incomes of Residents – As the average incomes of residents (as measured relative to area median income) rises by 1%, costs decrease by an average of 0.5% per unit.

Populations Served – Projects serving seniors, on average, are 11% less expensive per unit than projects not targeted to specific populations.

Elevators – An elevator increases project costs by 3% to 4% per unit on average.

Time – Every year project costs increased, on average, between 2.7% to 3.3% per unit.

More Information

This policy brief is drawn from "The Effect that State and Federal Housing Policies have on Vehicle Miles of Travel," a research report and technical background memo from the National Center for Sustainable Transportation, prepared by Matthew Palm and Deb Niemeier of the University of California, Davis. To download the report, visit: https://ncst.ucdavis.edu/project/the-effect-that-state-and-federal-housing-policies-on-vehicle-miles-of-travel/

For more information about the findings presented in this brief, please contact Matthew Palm at mattdpalm@gmail.com or Deb Niemeier at dniemeier@ucdavis.edu.

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[1] *See http://www.lao.ca.gov/reports/2015/finance/housing-costs/housing-costs.aspx.*

[2] *Data were assembled from new construction project applications to the California Tax Credit Allocation Committee (TCAC) from 2008 to 2016.*

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