High Development Costs Under Scrutiny

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The cost of sheltering our community's less wealthy residents has been rising and so has the heat surrounding the financial price associated. Due to the global financial situation, the amount being spent on public low- and medium-income housing investments and other affordable housing properties is under growing political and public scrutiny.

Often affordable housing investments are perceived to be out of hand by people who are not in the industry. They see foreclosed homes as an investment opportunity cheaper than new affordable housing developments. To them that doesn't add up and it has become a major political problem.

Is affordable housing too sophisticated technically?

With Government budget under pressure, anything can be cut or zeroed out. Normal people might say "*Instead of building new properties, why not just buy vacant homes and rent them to people?*" That the existing stock may not be where the jobs are located, or is in some other way unsuitable, is a potential answer, but not a snappy comeback.

When dealing with "soft" capital (from Government), how can UK taxpayers be expected to pay more for newly developed affordable apartments when the median single-family home may sell for less? Why should UK taxpayers be asked to subsidize housing that they themselves cannot afford to live in? When dealing with soft capital, and even more so when dealing with hard capital (from private investors), doing good doesn't mean doing it at any cost.

So, is affordable housing too expensive?

- Yes,it is.

Some people believe the cost of developing affordable housing has gotten too high nationwide. For them, affordable properties are being developed with unnecessary design features that are not required and should not be part of affordable housing. Affordable housing should be basic in design, which allows for long-term use, proper enveloping, and cost effectiveness.

- Yes it is, but with good reasons.

Others say there is a need to keep up with technology, sustainability, amenities, etc. These things cost money and are a part of the new way of doing business that will soon be mainstream.

- No, it isn't.

And some disagree that the cost of developing affordable projects has become too high because the costs are vetted by Government agencies, lenders, developers and occasionally private investors, and so they do reflect the proper market value.

The "just one more thing" policy

When dealing with Government entities, at local or state levels, politics can be overwhelming. On top of people's own political agendas, those entities have a number of members with different policy perspectives. These differences may lead to substantial disagreement about how an affordable operation can best serve the interests of its clients and of the local people.

Overall, the high costs are being driven by the "*just one more thing*" phenomenon. When affordable housing is financed with soft capital there is a push for the property to be greener, more accessible, more deeply affordable, more socially responsive. All these are "*just one more thing*," and these mandates are embedded into laws and local planning rules.

These cost increases are multiplicative. Let's says that planning approval has 15 "*just one more thing*" elements, each of which adds 2 percent to the cost. Multiply that out, and the housing is suddenly at least 30 percent more expensive than initially planned.

There are many competing public priorities that get played out in the affordable housing arena. They include pushing and enhancing the whole question of green building and sustainability, and that's great; it is a wonderful public purpose and priority. But there are also local hiring requirements, prevailing wage costs, and design requirements; each one requires a level of compliance. Don't get me wrong; they are good and desirable, but they do have a cost impact.

And in many cases there is resistance to affordable housing, so developments serving low- and moderate-income households are being pushed by reticent neighbours and city officials to have the best designs and features or risk not being built at all.

A disconnect between market prices and household income

The issue is that many families cannot afford the rents that are dictated by a straight, private real estate transaction. In many parts of the UK people's incomes have not kept pace with the rising cost of housing. Across the country there are renters working full time who are not able to afford the market rents where they live. The number of extremely low-income renters, those earning 30 percent or less of the area median income, jumped considerably over the last few years, making the need for affordable housing greater than ever.

I am sure that the wrong answer is to stop developing in high-cost areas. That's not a good solution, and I can't think of a worse situation that saying everyone with incomes of X must move to place Y. That's a ridiculous social construct. High-cost areas have lots of low-paying jobs where people must be able to live in. But it can only be achieved through the direct involvement of local Boroughs, via intense lobbying, that would provide us with free land to build on.

What about capping an investment?

So, wouldn't capping an investment be the answer, allowing an easy decision process? A development or refit would either be under or over a threshold, making it easy to apprehend financially.

But a "universal" cap would also make some unique deals cost-prohibitive, like preservation deals, developments with special needs and social service components, historic rehabilitation. In some cases, an affordable housing development does not just provide housing, but also stimulates job growth or turns around a blighted community. There is a value to that that may justify a higher per unit cost, although it shouldn't be a reason to invest hard capital (from private investors) on its sole ground.

Indeed, cost containment is paramount but should also be complemented with other parameters to offer the best overview of what could be achieved, without regards to the public/private origin of funding.

It is easily fathomable that an improvement in the local area and the community surrounding an affordable housing investment will bring value to the operation and its stakeholders globally. And for investors more specifically that means pulling up the selling and rental prices to their benefit.

Quantifying project costs

The problem is there is no good standard for determining what a project should cost because affordable housing pursues multiple objectives, not only financial ones, and we do not all share the same priorities. There are many other benefits, but they are difficult to quantify.

Although crucial for both soft and hard investors, the price tag fails to tell the whole story. For instance:

- Many affordable housing developments are located in infill locations close to services, jobs, and public transportation. These locations are often critical to low-income families, but they are also more expensive to develop on these sites than on the far edges of a community.
- Studies have also shown that stable, affordable housing can help support children's success in school.
- The positive impact on health issues is also great as people who might be living in unsanitary environments are relocated in mould-free, pest-free, drought-free living

spaces. Hence providing a decent and proper environment for them to thrive into instead of simply survive.

- The embodied superior insulation and low-consumption appliances allow for much reduced utility bills, hence acting directly on lowering fuel poverty in the UK whilst increasing the population's global wellbeing. Less physical and mental diseases, lower impact on treating facilities. More money spent on the purchase of goods benefiting local businesses.
- The impact on the environment, lowering carbon emissions and drinking water consumption.

That leaves us with the question of how should development costs be measured.

- One way is cost versus cost of other successful affordable housing operations.
- Another is to compare the costs with foreclosed homes. But many developers believe it is unfair because of location, configuration, and other factors.
- By simply considering the price per Sq Foot.
- Or through a custom mix of the above?

Closing argument

In our current situation the problem of lack of private investment in affordable housing nationwide is industry-wide. It is therefore crucial to understand why the market has failed to address it so far.

Ultimately the burden is on us to prove that our process is optimally efficient, providing a sound financial base from the outset (construction phase) and through to the running costs.

Instead of bashing affordable housing and calling it inefficient and improper as an investment, people are going to have to start looking at what can be given up or what can be changed to make the development process more cost effective.

And that's what we do at Poune AM.

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