

PRIME Cost Analysis

07.01.2024

Overview

The Louisiana Housing Corporation (LHC) fulfills the mission to ensure that every Louisiana resident is granted opportunity to obtain safe, affordable, energy-efficient housing, through a variety of initiatives and programs to boost development projects across the state. Affordable housing is subsidized through several federal sources. LHC leverages federal investments of mainstream entitlement funds, Community Development Block Grant (CDBG), and HOME Partnership (HOME), to enhance impact of federal resources like CDBG Disaster Recovery (CDBG-DR), Low Income Housing Tax Credits (LIHTC) and Multi-family Revenue Bonds. Development projects that prioritize people with low and moderate incomes and add necessary housing inventory not only meets federal requirements, but it is also an essential function of meeting the organization's mission.

While LHC administers all sources noted above, CDBG-DR funding is the primary focus of this housing development cost analysis. CDBG-DR is allocated to communities that have received a Presidential disaster declaration following a disaster event. Allocations, which are administered by the U.S. Department of Housing and Urban Development (HUD) and managed locally by the Louisiana Office of Community Development Disaster Recovery Unit (OCD-DRU) and the Louisiana Housing Corporation (LHC) make housing creation possible to further meet the housing needs of Louisianans.

Administering CDBG-DR funding requires adherence to several federal requirements, including meeting national objectives and spending 80% of funding in HUD designated Most Impacted and Distressed Areas (MIDs). CDBG-DR funding must be used in a disaster impacted area and address a related impact. CDBG-DR allocations generally require that 70% of the total award meets the low-moderate income national objective which includes housing to low-moderate income households, benefitting a low-moderate income area, meets limited clientele, supports job retention or creation, buyout programs and housing incentives for low-moderate income households.

HUD categorizes low-moderate incomes as follows:

- Extremely Low-Income: up to 30% of Area Median Income (AMI)
- Low Income: greater than 30% but does not exceed 50% of median income
- Moderate Income: greater than 50% but does not exceed 80% of median income

Parish	2024 AMI Categories		
	30%	50%	80%
Acadia	\$19,600	\$32,650	\$52,250
Caddo	\$22,550	\$37,600	\$60,150
Calcasieu	\$23,700	\$39,500	\$63,200
East Baton Rouge	\$26,200	\$43,700	\$69,900
Orleans	\$26,050	\$43,400	\$69,450
Vermilion	\$22,400	\$37,300	\$59,700

The graphic above illustrates the regional variation in Area Median Income (AMI) across the state. The Area Median Income for the state is **\$77,400**. Housing at all income levels is needed for communities to thrive. The national objective sets clear expectations of income variation in housing development. It is important to note that the amount of subsidy required increases with lower incomes served, because the amount of rent-generated revenue decreases.

Housing development is a multifaceted process with variables that are impacted by market and environmental factors. Multi-family and single-family development face unique circumstances that influence the cost to build and thus subsidy needs. Multi-family development offers an economy of scale and is essential to meeting a region’s housing supply needs. The infrastructure, land and operational requirements of multi-family developments add cost when compared to single-family housing construction. The inherent differences of scope between single-family and multi-family housing make it difficult to compare in a per-unit cost analysis.

Project expenses are categorized as hard and soft costs. Hard costs, which typically account for up to 70% of the total project budget, commonly include land acquisition, labor costs, foundation and framing work, plumbing and electrical installations, HVAC systems and interior finishes, flooring, and painting. Soft costs are usually between 20 to 30% of the project cost and cover expenses associated with design, engineering, financing, permitting and impact fees. Project costs are driven by the region in which they are procured and while many costs are predictable, inflation, interest rates and other environmental factors play a key role in final cost and impact on the overall project

budget. Lender fees and requirements can impact project feasibility when interest rates and inflation are higher, as it influences loan terms and loan to value (LTV) requirements.

Cross-Cutting Requirements for Federally Funded Projects

Federally funded housing projects have additional requirements mandated by HUD. CDBG-DR funded projects are expected to follow federal cross-cutting requirements. LHC is required to ensure that all subrecipients and beneficiaries like developers meet applicable cross-cutting requirements, which can include but are not limited to environmental review, the Davis-Bacon Act, Civil Rights requirements, HUD's Lead Safe Housing Rule, the Uniform Relocation Assistance and Real Property Acquisition Policies Act, and Section 3. While there is additional cost to meeting cross-cutting requirements, the requirements are to ensure that funding is well-stewarded and that tenants live in safe, habitable housing. Requirements that have perception of, or possible budgetary impact are explored in detail below.

The **Davis-Bacon Act** requirements are issued from the U.S. Department of Labor to construction and rehabilitation projects over \$2,000 with eight (8) or more units in a single structure. The Davis-Bacon Act ensures that labor professionals are paid wages aligning with the prevailing state wage standard. Critics of the Davis-Bacon Act wage requirements posit that the wage and reporting requirements add undue cost and regulatory compliance to already complicated projects. The state of Louisiana does not have current state prevailing wage legislation. In the absence of a state prevailing wage, the contractor must follow the federal rate of at least **\$17.20 per hour or \$31,200 per year**. Minimum wages and fringe benefits vary between trades and Parishes, which influence the overall cost of the project. For example, according to Sam.gov, the Davis-Bacon Act prescribed hourly wage (with fringe

KEY FINDING

Projects which utilize federal funding require increased costs to comply with federal requirements.

Parish-to-parish comparisons on skilled labor wages reveal up to 40.2% increases in project costs for similar labor utilization due to Davis-Bacon requirements.

benefits) for an electrician in **Ouachita Parish is \$35.08**. The hourly wage for the same electrician in **St. Charles Parish is \$49.20**, representing a **40.2% increase** in cost to the project for the same labor. Given that labor typically accounts for 50-60% of hard costs associated with residential construction, an increase in this cost, sometimes up to 30% depending on location can have a significant impact on the total development cost and cost per unit.

Environmental Review is the process of evaluating a project or activity funded by Community Development Block Grant Disaster Recovery (CDBG-DR) for its potential environmental impacts. The review is done to ensure the compliance with the National Environmental Policy Act (NEPA) and related laws and authorities. The review requires completing the Environmental Information Document and Environmental Review Record and must be completed before funds are committed through a grant agreement. No work may start on a proposed project before the environmental review process is completed, even if that work is being done using non-HUD funds. The review process is typically between 120-180 days from date of receipt of the comprehensive environmental review record (ERR). The work-stop order until the review is complete has the potential to add cost to a project, depending on carrying costs like land acquisition, architectural and development fees have already been committed.

To ensure that federal investments have maximum reach and impact to people with low and moderate incomes, HUD requires housing rehabilitation, housing construction and other public construction projects with over \$200,000 of HUD investment to comply with **Section 3**. Section 3 is a provision of the HUD Act of 1968 that promotes local economic development, neighborhood economic improvement and individual self-sufficiency. To comply with this requirement, developers are to provide job training and employment opportunities to low- or very low-income residents in connection with projects and activities in their neighborhoods. This provision builds skill sets and job opportunities to catalyze people out of experiences of poverty and supports long-term stable housing. There is a potential cost to the project via job-training and outreach to target communities and a reporting requirement to show best efforts are made to provide outreach and education opportunities.

The **Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA)** protects existing tenants of homes, businesses, or farms from displacement due to redevelopment and property acquisition. When a property is acquired for redevelopment or when an existing property will displace existing tenants to rehabilitate the structures, the developer must ensure that existing tenants receive adequate notice, communication, and compensation to establish new housing arrangements. When residential displacements occur the owner/developer of the property is required to provide relocation advisory services, provide a minimum of 90 days written notice to vacate, reimburse moving expenses and provide payments for the added cost of renting or purchasing

comparable replacement housing. For non-residential (businesses, farms, and nonprofit organizations) the owner/developer is required to provide the same amount of notice and relocation services and reimburse for moving and re-establishment expenses. While URA requirements add additional cost to projects, it is an important practice to ensure that additional housing stock is created but not to the detriment of others.

Federal Register 3209 for disasters occurring in 2020 and 2021 establishes requirements regarding **Green and Resilient Building Standards**. The standards apply to all new construction and reconstruction of residential buildings and all rehabilitation activities of substantially damaged buildings, including changes to structural elements. The Green and Resilience business standard require all construction that meets the project standards above and are assisted with CDBG-DR funds meet an industry recognized standard that achieves certification under Enterprise Green Communities, LEED (Leadership in Energy and Environmental Design), National Green Building Standard Green+Resilience, Living Building Challenge, or an equivalent comprehensive green program acceptable to HUD.

Additionally, all such covered construction must achieve a minimum energy efficiency standard, such as (i) ENERGY STAR (Certified Homes or Multifamily High-Rise); (ii) DOE (Department of Energy) Zero Energy Ready Home; (iii) EarthCraft House, EarthCraft Multifamily; (iv) Passive House Institute Passive Building or EnerPHit certification from the Passive House Institute US (PHIUS), International Passive House Association; (v) Greenpoint Rated New Home, Greenpoint Rated Existing Home (Whole House or Whole Building label); (vi) Earth Advantage New Homes; or (vii) any other equivalent energy efficiency standard acceptable to HUD. These requirements are imposed at the grantee level and passed on to subrecipients, i.e., builders and developers.

Projects with rehabilitation to non-substantially damaged buildings must follow the guidelines specified in the HUD

KEY FINDING

Federal disaster funding now requires green and resilient building standards to be applied to all new construction and reconstruction of residential buildings, and all rehabilitation activities of substantially damaged buildings.

Costs associated with Green and Resilient Building Standards are added to the total cost of development and impact the cost per unit equation. The upfront cost contributes to safer housing for tenants and reduced energy costs in the long term.

CPD Green Building Retrofit Checklist. Subrecipients must apply these guidelines to the extent applicable for the rehabilitation work undertaken, for example, the use of mold resistant products when replacing surfaces such as drywall. Products and appliances replaced as part of the rehabilitation work must be ENERGY STAR-labeled, WaterSense-labeled, or Federal Energy Management Program (FEMP)- designated products or appliances.

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Landscape of Affordable Housing Development in Louisiana

As demonstrated throughout this paper, building costs are project, location and economy dependent. Setting a standard by which to evaluate total development cost, cost per unit and cost of hard and soft cost can be useful to evaluating overall impact of a project and ensure strong stewardship of limited federal resources. For illustration, PRIME 1 project data which has been adjusted for inflation at a rate of 3.2% and represents 97 deals totaling \$3.7 billion in Total Development Costs (TDC) is used to highlight the average cost per unit was **\$317,336 per unit** with average hard costs per unit of **\$244,259**. While these deals were brokered long before the post-Covid reality of increased costs and inflation, they demonstrate a baseline from which other deals can be evaluated.

Assumed Inflation 3.20% Current Year 2024	TDC /Unit	Hard/Unit
25th Percentile	\$234,488	\$100,902
50th Percentile	\$308,512	\$159,103
75th Percentile	\$362,758	\$269,598
Average	\$317,336	\$244,259

Source: Compass Group

PRIME 2 funding illustrates an average cost per unit of **\$287,279**. Data collected from LHC highlight little variation in total development costs in three eligible parishes. This limited set includes one rural parish (Acadia).

Parish	PRIME 2	
	AVG TDC	AVG TDC/U
Acadia	\$28,210,018	\$282,053
Caddo	\$22,140,029	\$273,562
Calcasieu	\$28,054,773	\$289,004

In comparison, the PRIME 3 deals, which are currently in the approval pipeline, reflect an average TDC per unit of **\$365,595**, which highlights a **15% increase** in cost over the five years between PRIME 1 and PRIME 3 while incorporating stricter building requirements tied to the use of FORTIFIED construction on all projects.

Building costs vary across Louisiana due to geographical differences including soil conditions, regional regulatory requirements, wind exposure and median housing cost. According to Moran Consultants' *2024 Comparative Analysis of Construction Costs: Louisiana, Georgia, and Florida* development costs in the southern half of the state trend higher than costs in the central and northern regions of the state. Urban and rural settings which are subject to different municipal requirements, land availability and cost, and the cost and availability of labor in different markets further drive cost outcomes.

Southern parts of the state, primarily south of I-10, face unique challenges including soil quality, proximity to the Gulf of Mexico and increased risk of hurricane and weather events. To remediate these challenges, substantial earth work, and site preparations are often required which add to hard costs. Developments in the southern part of the state typically experience increased cost imposed by local municipalities, like New Orleans' advanced stormwater management systems. By contrast, developments in northern and central parts of the state typically have more stable soil and diminished weather event impacts, which reduce the need for preventative

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earthwork and fortified building. Additionally, developments in these areas typically face fewer municipal requirements and can acquire land for lower costs.

The data evaluated in this section suggests that a reasonable cost per unit is up to **\$385,000** with an established protocol to consider projects above the threshold due to regional and site-specific circumstances. The burden to prove the necessity of additional cost per unit funding is on the developer through the application, proforma and underwriting stages.

Cost Comparisons by State

Costs associated with housing development fluctuate, as a rule. Construction budgets, or pro-forma, account for this with a contingency. Prior to late 2020, a 10-15% contingency was a healthy buffer to fluctuating costs, but as the economy shifted because of the 2020 Covid-19 pandemic and resulting supply and labor shortages, the margins of the contingency narrowed. According to Moran Consultants' *2024 Comparative Analysis of Construction Costs: Louisiana, Georgia and Florida*, the cost to build a Low-Income Housing Tax Credit project (LIHTC) increased 11% between the time periods of 2018-early 2020 and late 2020-2022. Local conditions including hurricane activity, unpredictable inflation and the post-pandemic economy have contributed to projects in 2023 and 2024 seeing an increase to \$194.22 per gross square foot, equating to a 32% increase since early 2020. This increase is consistent with the **national trend of building cost increases of 30% or more.**

To build a stronger picture of how Louisiana fares, it is helpful to compare cost activity with states that have similar landscapes. For this exploration, Florida and Georgia are elevated as they are coastal and have similar risk of hurricane activity as well as a need to develop more affordable housing to meet demand. Both markets reflect similar post-pandemic economy effects and heightened inflation rates.

Prior to the pandemic (2018- early 2020) average construction rates for LIHTC projects in Florida was \$127.84 per gross foot of building space. Between late 2020 and 2022 construction costs increased to \$174.49 per gross foot of building space, marking a 36% rise in costs. Projects beginning in 2023 and 2024 are experiencing an average cost per gross foot of \$189.19, which represents a **48% increase since 2020.**

Similar cost increases are experienced in Georgia. Before the pandemic, the cost per gross foot was \$129.97. After early 2020, costs increased to \$191.86 per gross foot, equating to a 48% increase. Projects starting in 2023 and 2024 continue to experience the increase

cost to build with an average cost per gross foot of \$196.18, which equates to a **51% increase since early 2020**.

Both Florida and Georgia have more competitive building markets due to increased population in Florida and diversity of construction firms that breeds competition and can drive down cost per project. Given these realities, Louisiana is successfully maintaining comparable and slightly lower construction costs since before the pandemic.

FORTIFIED Building

As an emerging best practice, fortified buildings protect investments long-term, safeguard people from housing displacement in the event of natural disasters and extend the useful life of buildings. Fortified building adds cost to the initial development, however; the investment pays back in the reduced cost of rehabilitating damaged property, lost inventory, and revenue due to business interruption. A 2018 study by the National Institute of Building Science demonstrates that for every \$1 spent on fortified commercial construction, approximately \$4 is saved in disaster recovery expenses.

The FORTIFIED program is designed to strengthen homes and commercial buildings against severe weather such as high winds, hail, hurricanes and tornadoes. The program offers resilient construction and retrofitting options. There are three program certifications, FORTIFIED Roof, FORTIFIED Silver and FORTIFIED Gold.

The state of Louisiana is a leader in investing in fortified buildings, including adopting requirements for properties built with federal and state funds. Recently, the Louisiana Housing Corporation's Piggyback Resilience Initiative-Mixed Income or PRIME 3 established a requirement for developers to meet the FORTIFIED Multi-family Gold standard at a minimum, as well as conduct a multi-hazard risk and vulnerability analysis to ensure that potable drinking water, flood-proof buildings, emergency power are provided during hurricane and disaster related events. PRIME 3 properties are distinguished from traditional multi-family housing as being significantly more disaster resilient.

The significance of fortified buildings is seen in the results it produces. In 2022 the LHC-funded project, Les Maisons de Bayou, a 35-unit storm resilient affordable housing community located in Lockport, Louisiana was completed. The \$11 million development (**\$313,914/unit in 2022 dollars, equating to \$334,326 in 2024 dollars**) includes resilient construction which meets the Fortified Commercial Standard Gold designation, a certification designed to minimize damage from a category 3 hurricane. The project was 90% complete when Hurricane Ida made landfall in August of 2021. The property remained intact and did not sustain the substantial damage that nearby housing experienced in the storm and if the project had been complete and occupied, residents would not have been

displaced. This proof-point furthers the need to invest right the first time and reduce future rehabilitation or new construction costs. Fortified building reduces future rehabilitation costs as well as cost and household impact of displacement from storms. When households can stay in-place or swiftly return after a disaster event, they are more likely to retain employment and the stabilizing influences housing creates.

Fair Housing Impact

As established throughout this paper, developing housing is multi-faceted and complex. Regional differences including available land, industry pay standards and cross-cutting requirements directly impact the cost of a project by region. In addition to meeting federal cross-cutting and regulatory requirements of affordable projects it is imperative to ensure that investments are made with an assessment of Fair Housing and potential Disparate Impact. The Fair Housing Act of 1968 protects people from discrimination when they are renting or buying a home, getting a mortgage, seeking housing assistance or engaging in other housing related activities. Most housing is covered under the act and housing operators are required to follow the Fair Housing Act when they administer four or more dwelling units. Housing discrimination is prohibited because of race, color, national origin, religion, sex (includes gender identity and sexual orientation), family status and disability. The LHC in this instance is considered an operator or broker of housing as the primary funding agency. Under the Fair Housing Act, the LHC should ensure that housing is available to all regions in the state that have documented housing needs and people living with low and moderate incomes.

There are several considerations under fair housing that fall within the category of Disparate Impact. Disparate Impact refers to practices that are neutral on their face but have disproportionate negative effect on protected groups. An example of a policy that appears neutral but has disparate impact for a protected group are occupancy limits. While HUD has not set concrete occupancy standards, properties often set a maximum per bedroom or unit. If a family with four children determines that they can afford and comfortably reside in a two-bedroom apartment, but the property has imposed a maximum occupancy of five people in a two bedroom, the family faces a disparate impact because of their familial status. The family should be offered an exception to the occupancy rule to reside in and enjoy their housing.

At a development scale, if policy were enacted regarding maximum per-unit costs of construction, there is potential for disparate impact to protected groups in regions where the cost to build exceeds the established maximum. Housing availability for people with low -and- moderate incomes would diminish, creating lack of access for people who identify with a protected group. As a broker of housing, the Louisiana Housing Corporation

should make every effort to ensure housing access is available throughout the state, which assures that cost-incurring fair housing complaints/lawsuits are avoided.

Conclusion

As this paper illustrates, there are unique complexities to utilizing federal funding to build housing for people with low and moderate incomes. The requirements enacted by Congress and HUD ensure that public investment is prioritized by need, distributed equitably, and meets local needs including withstanding future hurricanes and disasters. The infusion of CDBG-DR resources in the State of Louisiana poses an incredible opportunity to meet acute and long-term housing needs. Deepening understanding of the requirements and opportunities facilitates strong stewardship and innovation.

KEY FINDING

While national trends reflect a 30% increase in total construction costs compared to pre-pandemic levels, costs tied to PRIME programs under LHC's direction have risen approximately 15% in the same period.