



## Fact Sheet

### Permanent Supportive Housing: Cost Drivers and Savings

The Third Door Coalition believes we can solve chronic homelessness through permanent supportive housing (PSH). But how much does it cost? Is it cheaper for the private sector to build PSH than the public sector? And how can we limit the cost of PSH while maintaining its efficacy? The Third Door Coalition found answers to these questions.

We're highlighting five strategies to reduce the cost of building PSH: create a unique dwelling type in the land-use code, secure regulatory exemptions, reduce land costs, create a consolidated capital stack and leverage innovations in construction.

#### Construction quotes aren't always apples-to-apples

In Seattle, for example, the cost to build a single unit of PSH is around \$330,000. We tested the common assumption that it costs more for the government to build housing than it does for the private sector, and found it to be false. We found two reasons for this misconception.

- First is an issue of measurement: cost per unit can be calculated in many ways. PSH providers tend to include *all* costs of construction because they are accountable to taxpayers. Meanwhile, commercial developers may exclude certain costs from their estimates, such as financing costs and legal fees.
- Second, PSH requires shared spaces for services. This community space means that while the average size of PSH units is *smaller* than that of a commercial unit, the smaller units are counterbalanced by the additional square footage of shared spaces, which are often not present in commercial housing projects.

Looking closely, it turns out **building a unit of PSH generally costs the same as building a commercial unit.**

#### Five cost-reduction strategies for permanent supportive housing

The Third Door Coalition identified several cost drivers of constructing PSH and proposes at least five ways to make building PSH more affordable.

## 1. Creating a unique type for PSH in the land use code

Many of these cost drivers could be removed or reduced through legislative changes. The gateway to legislative changes that could have substantive cost and time savings, such as streamlined/minimized entitlement processes, reduced permit and hookup fees, and removing costly space requirements from PSH projects (i.e. bicycle parking, commercial/retail space, and community space sizes) would be to create a distinct dwelling unit type in the land-use code for PSH. This could be done as an amendment to the Small Efficiency Dwelling Unit provisions in the code. Most, if not all, new PSH projects are developed under these standards. PSH projects meeting certain criteria for size, amenities (full kitchen and bath), storage and layout standards, and rental restriction to individuals experiencing homelessness could then be categorically prioritized through a tailored land-use process that seeks to minimize delays and costs.

Identifying PSH as a specific dwelling unit type would not in and of itself reduce costs; but coupling this measure with changes to the code — to allow for reductions in permit and hookup fees, streamlined design and permit review, increased build height, and removing costly requirements like bike parking for this housing type — **would indeed reduce costs**. The first step is creating a distinct unit type that could be revised as issues come up that would add costs or time delays in delivering needed PSH units.

**Creating a unique unit type for PSH in the land-use code is a key enabling factor.**

## 2. Securing regulatory exemptions

Fees, taxes, hook-ups, and permitting make up a substantial percentage of total project costs. Governments can reduce these costs by waiving local and state taxes fully or partially, as building PSH uses some public dollars and benefits the entire community. Cost savings can also come in the form of legislation that allows the city to absorb costs or exempt requirements related to utility, hookups, fees, and installations, or through developer fee concessions.

**Regulatory exemptions can save up to \$35,856 per unit.**

## 3. Reducing the cost of land

Increasing land prices drive increased housing costs, and governments often have surplus land that could be used for PSH. To reduce the cost of PSH, governments could grant use rights to developers of PSH with preferential terms, mitigate environmental concerns for compromised properties, lower the requirements to approve permits for PSH, or prioritize open lands for PSH over alternative uses. Another option for decreasing land costs includes moving PSH units outside of the most expensive urban areas; however, more remote PSH increases barriers to transportation and service delivery.

**Reduced land costs can save up to \$30,000 per unit.**

#### 4. Creating a consolidated capital stack

Multiple funding sources can be duplicative and costly, while a consolidated capital stack streamlines funding. Most PSH today is funded by government tax credits, which must be legally organized and sold off in security markets to companies who buy them to defer future taxes. The process is costly and complicated. In addition, federal funding, such as the Low-Income Housing Tax Credit, increases the time required to bring PSH online and limits options for other cost savings. We propose a legislatively-created public-private partnership that merges public and private funds into a single funding source.

**A consolidated capital stack can save up to \$16,053 per unit.**

#### 5. Leveraging innovations in construction (as technology develops)

Cross-laminate timber, modular construction, and wood-frame buildings are approaches that save money on construction costs. Cross-Laminate Timber (CLT) allows for taller buildings with fewer internal supporting walls than conventional wood. CLT is a large-scale engineered wood panel, constructed away from the building site, making on-site work quicker and cheaper than concrete-based alternatives. Similarly, modular construction allows an entire building to be constructed in modules offsite, then reassembled at the building location. Last, a commercial construction style in use today — wood-framed buildings — is the least expensive to build, but does not allow for the robust service space required for PSH due to fire safety laws. However, strategically placing PSH buildings with service space near wood-framed buildings could allow us to achieve cost savings from wood-framed buildings and still offer services to tenants.

**Innovative construction technology can save up to \$86,980 per unit.**

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**The Third Door Coalition** is a nimble group of business leaders, service providers, researchers and advocates who seek to solve chronic homelessness in King County through permanent supportive housing. The organization's nonprofit status is pending IRS approval. Learn more: <https://thirddoorcoalition.org>.