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Report: Regulation Accounts for 32% Of Multifamily Development Costs

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Figure 1: Incidence and Typical Magnitude of Regulatory Costs

Type of Cost	Share of Developers' Projects Subject to the Cost	Average Cost When Present (as a Share of Total Development Costs)
Cost of applying for zoning approval	98%	4.1%
Interest costs on refundable fees charged when site work begins	50%	0.5%
Other (non-refundable) fees charged when site work begins	93%	4.5%
Development requirements that go beyond the ordinary	95%	6.3%
Land dedicated to the government or otherwise left unbuilt	50%	4.3%
Fees charged when building construction is authorized	93%	4.2%
Cost of complying with affordability mandates (e.g., inclusionary zoning)	30%	5.7%
Cost increases from changes to building codes over the past 10 years	98%	7.2%
Cost of complying with OSHA requirements	90%	2.6%
Pure cost of delay (i.e., even if regulation imposed no other type of cost)	98%	0.7%

WASHINGTON DC–Government regulation accounts for 32.1% of the cost of an apartment project, according to a joint report by the **National Association of Home Builders** and the **National Multifamily Housing Council**. Practically all multifamily developers incur costs when paying fees to local jurisdictions — both when applying for zoning approval, and again when local jurisdictions authorize the construction of buildings. These hard and upfront costs, of course, are not surprising but the report also dug into how government regulations impose costs in other ways.

These include, the report found, sometimes lengthy approval processes, development standards that go beyond what would ordinarily be done, changes to building codes over the past decade, and OSHA requirements. There are other regulations that are less common, such as requiring developers to dedicate land to the government.

The report acknowledges that some regulation, such as safety standards, are necessary. But it takes issue with the high percentage (32.1%) of costs that are attributed to government regulation, which the two associations say, raises other other questions as well. Such as: Are governments aware they aware of how much regulation currently exists? Do they realize how multiple regulations with conflicting standards can cause delays and increase costs? And do they understand the extent to which these increased costs translate into higher rents and make it difficult to build new housing that families with modest incomes can afford?

Types of Regulation

Regulatory costs fall into several categories including fees, development standards, building codes and land dedicated to public purposes. The range of these regulations can be broad, and the cost of complying with them substantial, the report said.

For example, at the zoning approval stage costs can average 4.1% of the total development costs. "Regulatory costs incurred at this stage can include fees paid directly to a government, but may also include other types of costs," the report said, citing environmental impact, archeological or other types of studies.

Multiple fees from overlapping jurisdictions is also a problem, such as from a municipality, a water district, and a school district. 93% of the typical projects of multifamily developers in the NAHB-NMHC survey pay fees at this stage of the process. When they exist, these fees average 4.5% of total development costs.

Almost all (95%) of the typical projects of the developers surveyed were subject to design standards that that go beyond what the developer would otherwise do. When these beyond-ordinary requirements were present, they accounted for an average of 6.3% of the overall development cost.

Of all the listed categories, changes to building codes over the past 10 years, which came to 7% of total development costs, imposed the highest average costs.

Total Cost of The Regulations

The report also calculated the upper and lower quartiles of these costs to illustrate their variability.

Figure 2: Government Regulation as a Share of Multifamily Development Costs

Type of Cost	Lower Quartile	Average	Upper Quartile
Cost of applying for zoning approval	1.1%	4.0%	5.3%
Interest costs on refundable fees charged when site work begins	0.0%	0.2%	0.2%
Other (non-refundable) fees charged when site work begins	1.9%	4.2%	5.5%
Development requirements that go beyond the ordinary	1.1%	5.9%	8.4%
Land dedicated to the government or otherwise left unbuilt	0.0%	2.1%	3.3%
Fees charged when building construction is authorized	1.1%	3.9%	5.4%
Cost of complying with affordability mandates (e.g., inclusionary zoning)	0.0%	1.7%	2.6%
Cost increases from changes to building codes over the past 10 years	5.2%	7.0%	7.1%
Cost of complying with OSHA requirements	1.3%	2.3%	2.3%
Pure cost of delay (i.e., even if regulation imposed no other type of cost)	0.1%	0.7%	1.2%
TOTAL ESTIMATED REGULATION AS A SHARE OF DEVELOPMENT COSTS	21.7%	**32.1%**	42.6%

It found that the ten components in the lower quartile come to less than 21.7%

The implication of this is that multifamily developers can minimize some types of regulatory costs depending on where they operate—but not all of them proportionately at the same time, the report said.