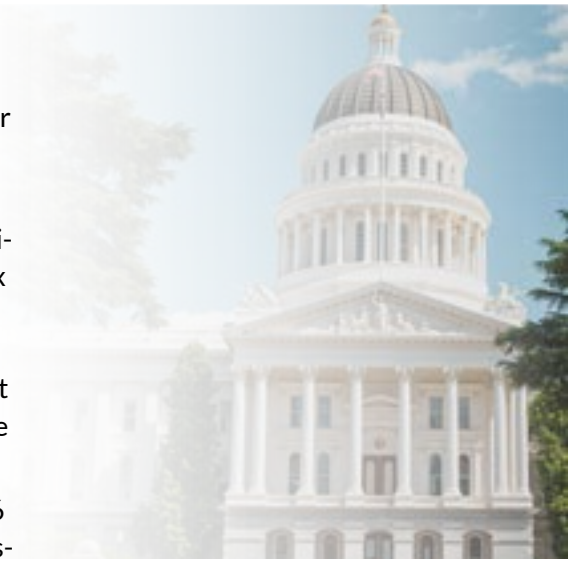
California Housing Partnership

FEBRUARY 2026

How California Can Save $439 Million Per Year and Build Thousands More Affordable Homes

EXECUTIVE SUMMARY



California's housing crisis is not just about a lack of affordable homes and the funding needed to produce them at scale; increasingly, it has become about the cost to develop them. While many factors play a role, the single largest one under direct state control is the structure and design of California's fragmented state affordable housing finance system and the long delays it creates.[1]

New Research from the California Housing Partnership shows that for each additional state funding entity involved in the financing of a Low-Income Housing Tax Credit (Housing Credits) development, there is a cost increase of $25,351 per home per state funding entity involved for 4% Housing Credit-funded new construction developments. Given that the average 4% Housing Credit development applied to 2.67 state funding entities from 2012 to 2024, this means the average per-home savings of moving to a single funding portal would be $42,336.[2]

This amount of savings per new affordable home is even more important in 2026 and beyond due to two recent developments. First, the federal government's passage of HR1 in July of 2025 cut the amount of tax exempt bonds required to acess 4% Housing Credits by half, thereby increasing the amount of equity California can access through the 4% Housing Credit by roughly $3 billion annually. Even though this increase only became available halfway through 2025, California's production of new 4% Housing Credit-funded homes jumped from 16,689 in 2024 to 21,000 in 2025, a number that should increase in 2026 again with a full year of the lower bond requirements, although the lack of matching state funding will become an issue.

Secondly, Governor Newsom's January 9th budget and related January 30th Trailer Bill Language. The proposal is for the new Housing Development and Financing Committee (HDFC) within the new California Housing and Homelessness Agency (CHHA) to allocate not just state subsidy funds but also the tax-exempt bonds and 4% Housing Credits needed to achieve a true "one-stop shop".[3]

Prior to the Governor's budget proposal, the state created a stakeholder working group that has been meeting to develop recommendations on ways for the state to reduce fragmentation. Authorized by Assembly Bill 519 of 2023 (Schiavo), this effort overlaps with the Administration's work to set up the new HDFC and take substantive steps towards a one-stop state funding system and is expected to help the Administration flesh out critical implementation details.

Applying $42,336 in potential savings to 50% of the state's 2025 level of production of new construction homes funded

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1 Five state agencies currently provide funding critical to the feasibility of new affordable homes: the California Department of Housing and Community Development (HCD), the California Housing Finance Agency (CalHFA), the California Tax Credit Allocation Committee (CTCAC), the California Debt Limit Allocation Committee (CDLAC) and the California Strategic Growth Council (SGC): HCD disburses a variety of state funding serving different high priority populations through its Multifamily Housing Program; CalHFA administers special pots of bonds and state Housing Credits that it combines under its Mixed Income Program (MIP); CTCAC allocates 9% and 4% Housing Credits that pay for anywhere from 35% to 70% of total development costs; CDLAC allocates tax-exempt bonds that bring lower interest rates and access to 4% Housing Credits; and SGC allocates currently the largest awards through its Affordable Housing and Sustainable Communities (AHSC) program.

2 Our analysis utilizes Housing Credit data over a longer timeframe (2012-2024) than the Terner Center's 2025 report Terner Center's 2025 report that examined Housing Credit application data from 2020-2023. Our extended period offers two primary advantages: (1) the larger sample size (N=2,594) provides fair amount statistical power to conduct multiple subgroup analyses by both Housing Credit type (4% vs. 9%) and construction type (new construction vs. acquisition/rehabilitation); (2) the broader time period captures variation across different market conditions, policy environments, and economic cycles, thus helping to reduce sensitivity to period-specific shocks such as the COVID-19 pandemic's effects on construction costs during 2020-2021. While the Terner Center's more recent data may better reflect current market conditions, our longer timeframe better supports our ability to understand how various cost drivers impact different types of developments.

3 This number is derived by taking the savings and dividing the average per unit state subsidy in 4% Housing Credit transaction during the 2012-2024 period (inflated to 2024 dollars).

with 4% Housing Credits in 2025 of 21,000 results in an estimated savings of $439,468,848 a year in development costs if the state is able to award all funding through a single portal. This amount of savings would be sufficient to fund 2,295 more homes in 2027 if Governor Newsom's proposal is implemented as proposed.[4]

1. RESEARCH CONTEXT

California's housing crisis has reached a scale of severity that greatly impacts the state's economy and its residents' well-being.[5] This crisis is exacerbated by the extraordinarily high cost of building new housing in the state. A 2014 state study found essentially no difference in costs between market rate and affordable home development in California while a 2025 RAND study found that developing affordable housing in California costs are over two times higher than developing similar housing in Texas.[6] The RAND study also goes into how it takes about two more years on average to construct privately funded multi-family housing in California compared to Texas and the costs of land, labor, and construction material are all many times higher in California than in Texas.

Although there are many factors that contribute to these high costs, the Terner Center and the California Housing Partnership have found California's fragmented affordable housing finance system adds unnecessary risk, administrative burdens, and time penalties that are a significant driver of both higher costs and time delays.[7] Development costs for 9% Houisng Credit projects increased from $411,000 per unit in 2008 to $480,000 in 2019, with costs per square foot rising from $451 to $700 within that same time period.[8] Some of that increase was likely from increased construction costs, e.g. labor, materials, and site work, since Terner also found that construction costs increased 25 percent between 2008 and 2018 for multi-family developments in California.[9]

The Partnership has extensive experience in providing technical assistance to government and non-profits developers of affordable rental homes navigating the state's fragmented financing system that provides us with a unique vantage point into how delays and costs impact the building of affordable housing. For this reason, the Partnership felt it critical to give weight to factors beyond what had been done in prior studies, specifically the impact of forcing housing providers to apply to multiple state agencies in the current fragmented affordable housing finance system and to look at the 4% Housing Credit funding system separately from the 9% system.

2. HOW STATE FUNDING FRAGMENTATION DRIVES UP COSTS

To better understand the extent to which fragmentation is driving the cost of affordable housing development in California, it is critical to understand how developers building affordable rental housing currently navigate the need to assemble a multi-layered stack of financing from a variety of state, federal, and local sources. This process involves navigating a complex network of five state agencies overseeing funding programs with different rules, timelines, and requirements while also working with private lenders and federal and local funders to acquire all the

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4 Prior to the Governor's budget proposal, the state created a stakeholder working group that has been meeting to develop recommendations on ways for the state to reduce fragmentation. Authorized by Assembly Bill 519 of 2023 (Schiavo), this effort overlaps with the Administration's work to set up the new HDFC and take substantive steps towards a one-stop state funding system and is expected to help the Administration flesh out critical implementation details.

5 California Housing Partnership's "Affordable Housing Benefits Map and Calculator" showcases the economic, health, and household benefits of affordable housing for residents and their well-being, such helping improve children future employment outcomes or helping to reduce asthma related emergency room visits for children.

6 Ward, Jason and Luke Schlake. 2025. "The High Cost of Producing Multifamily Housing in California: Evidence and Policy Recommendations." RAND, Santa Monica, CA.

7 Ried, Carolina, 2025. Terner Center for Housing Innovation. Reducing the Complexity in California's Affordable Housing Finance System. https://ternercenter.berkeley.edu/blog/reducing-the-complexity-in-californias-affordable-housing-finance-system/; Garcia, David, Ian Carlton, Lacy Patterson, and Jacob Strawn. 2023. "Making It Pencil: The Math Behind Housing Development (2023 Update)". Terner Center for Housing Innovation at the University of California, Berkeley; Schwartz, Matt and Mark Stivers. 2021. "Creating a Unified Process to Award All State Affordable Rental Housing Funding "One-Stop Shop". Califonria Housing Partnership.

8 Ried, Carolina, 2020. "The Costs of Affordable Housing Production (9% LIHTC)Reid, Carolina, The Costs of Affordable Housing Production: Insights from California's 9% Low-Income Housing Tax Credit Program." Terner Center for Housing Innovation at the University of California, Berkeley.

9 Raetz, Hayley, Teddy Forscher, Elizabeth Kneebone, and Carolina Ried. 2020. "The Hard Costs of Construction: Recent Trends in Labor and Materials Costs for Apartment Buildings in California." Terner Center for Housing Innovation at the University of California, Berkeley.

resources needed to build the developments.[10]

Administrative and Financial Fragmentation

The most visible form of fragmentation occurs at the state level, where developers must secure funding from multiple agencies including TCAC, CDLAC, HCD, CalHFA, and SGC.[11] Between 2012 and 2024, on average more than 70 percent of Housing Credit developments received funding from at least two or more agencies.[12] The percentage of Housing Credit developments receiving funding from three or more agencies jumped from 16 percent in 2012 to 37 percent in 2024. These findings illustrate how the funding of affordable housing developments has grown to involve more and more agencies over the past decade.

The consequences of the fragmentation of California's current affordable housing finance system is significant and measurable. In addition to the Partnership's new analysis detailed below, the Terner Center for Housing Innovation quantified this inefficiency in 2025 by finding that each additional public funding source adds an average of four months to a development's timeline and is associated with $20,460 higher per-unit total development costs per funding program.[13] Other Academic researcher confirms that this type of administrative complexity imposes significant costs beyond the regulations themselves. Ben-Joseph's comprehensive study of subdivision regulations for single family housing found that developers consistently cite approval time issues and regulatory changes as more burdensome than the regulations themselves.[14]

The cumulative effect is a system where developers must navigate not just different agencies, but different levels of government, each with their own application cycles, requirements, and approval processes. These delays and cost increases create a high degree of risk for developers that a proposed development will stall for multiple years or die altogether after receiving initial funds, putting at risk millions in sunk costs.

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10 Dan Rinzler, Matt Alvarez-Nissen, Lindsay Rosenfeld, Anthony Carroll, Samantha Batko, and Pear Moraras. 2022. "Evaluation of the Homes for the Homeless Fund Analysis of Development Costs and Timeline for Tahanan (833 Bryant Street), a Permanent Supportive Housing Development in San Francisco.

11 Although TCAC and CDLAC are technically under one agency, the California Treasurer's Office, TCAC and CDLAC should be thought of as representing distinctly separate entities at play within the affordable housing finance system. TCAC and CDLAC each have different voting boards and processes for approving funds for Housing Credits.

12 California Housing Partnership. Low-Income Housing Tax Credit Application Cost Database. 2025.

13 Ried, Carolina, 2020. "The Costs of Affordable Housing Production (9% LIHTC)Reid, Carolina. The Costs of Affordable Housing Production: Insights from California's 9% Low-Income Housing Tax Credit Program." Terner Center for Housing Innovation at the University of California, Berkeley.

14 Ben-Joseph, Eran. 2003. Subdivision Regulations: Practices & Attitudes: A Survey of Public Officials and Developers in the Nation's Fastest Growing Single Family Housing Markets. Lincoln Institute of Land Policy.

Regulatory and Procedural Fragmentation

Beyond the housing finance fragmentation, the system suffers from fragmented regulatory and procedural requirements that extend development timelines far beyond national norms. The average predevelopment time in California is 2.1 times longer than Texas, while construction time is 1.5 times longer.[15] Terner found that roughly "27 percent of new construction developments that eventually received Housing Credits between 2020 and 2023 had to reapply at least once," and of those who had to reapply they waited an average of 17 months before they could start construction.[16]

Prescriptive Requirements Fragmentation

Another costly form of fragmentation involves design and policy requirements from multiple funding sources. This manifests most clearly in the disproportionate soft costs for affordable housing developments in comparison to market-rate housing.[17] Soft costs for Housing Credit developments in California average $187 per net rentable square foot; more than double the soft costs for market-rate developments in the state ($84) and 7.5 times the average soft costs for market-rate developments in Texas ($25).[18] Specifically in the Los Angeles region, soft costs for Housing Credit developments reach $221 per square foot compared to $86 for market rate housing. These higher soft costs for Housing Credit developments may, in part, reflect the cumulative burden of navigating multiple funding sources because each may have their own design requirements, compliance standards, and monitoring obligations.

3. ANALYSIS AND FINDINGS

To help explore just how much the complexity of the California affordable housing finance system costs the state, the California Housing Partnership conducted a multivariate regression analysis using the Partnership's Housing Credit Application Cost Database from 2012-2024. The analysis estimates the unique effect related to the current fragmented state funding system has on total residential development costs per unit while controlling for a number of other factors (detailed in Appendix A below).

It is important to note that this analysis focuses specifically on the count of distinct state funding entities (TCAC, CDLAC, HCD, CalHFA, and SGC) rather than the number of funding sources or programs, as previously looked at by Terner. The model reveals a statistically significant relationship between the number of state funding agencies and development costs suggesting that administrative fragmentation contributes to higher costs.

It is also important to note that this analysis looks only at the impact on 4% Housing Credit transactions because they are distinct from 9% transactions in several important ways.[19] The single biggest reason this report focuses on 4% Housing Credit transactions is that the changes made by HR1 increased the share of 4% Credits to 92% of all Housing Credit awards in 2025, a ratio that is likely to hold or even increase going forward.

Range of Findings

Unlike prior analysese, this analysis reveals that the cost impact of administrative fragmentation varies significantly depending on the type of Housing Credits used:

- **Combined 4% and 9% New Construction Housing Credit Transactions Sample:** When analyzing all new construction Housing Credit developments together (both 4% and 9% tax credit developments), the Partnership finds that each additional state funding agency adds $19,257 in per-unit costs. This finding captures the average cost premium across the full spectrum of Housing Credit developments in California, representing the baseline ineffi-

15 Ward, Jason and Luke Schlake. 2025. "The High Cost of Producing Multifamily Housing in California: Evidence and Policy Recommendations." RAND, Santa Monica, CA.

16 Ried, Carolina, 2020. "The Costs of Affordable Housing Production (9% LIHTC)Reid, Carolina. The Costs of Affordable Housing Production: Insights from California's 9% Low-Income Housing Tax Credit Program." Terner Center for Housing Innovation at the University of California, Berkeley.

17 There are two types of costs encountered by developers when building affordable housing, hard costs and soft costs. Hard costs are the money spent on building the physical structure of the housing, like the materials, workers, and everything visible in the finished building and property. Soft costs are all the other expenses needed to make the development of affordable housing possible including paying architects to design the building, lawyers to handle paperwork, permits from the city, interest costs and loan fees to borrow money.

18 Ward, Jason and Luke Schlake. 2025. "The High Cost of Producing Multifamily Housing in California: Evidence and Policy Recommendations." RAND, Santa Monica, CA.

19 Multi-family affordable housing developments seeking 9% and state tax credits also face multiple rounds of competitive applications, but the characteristics of the capital stack of these developments and their development timelines are not the focus on this particular report.

ciency cost of the fragmented system.

- **4% Housing Credit New Construction Transactions Sample Only:** Focusing specifically on new construction 4% Housing Credit developments, which are now 92% of Housing Credit transactions, the cost impact of fragmentation is higher. For this subset, each additional state funding agency adds $25,351in per-unit costs. This represents a cost premium that is roughly 32 percent higher than the combined 4%/9% Credit sample estimate described above.

The difference between these estimates is important to understand. Developers applying for the more limited and valuable 9% Housing Credits do not apply separately for bonds. In contrast, developers wishing to use the more plentiful and less valuable 4% Credits must first obtain an allocation of tax-exempt private activity bonds through CDLAC's competitive system in order to receive an allocation of 4% Credits. Four percent developments by definition then face at least one additional layer of complexity in their financing structure, requiring coordination of application across at least one additional state agency. This additional complexity appears to amplify the costs of administrative fragmentation, making the "one-stop shop" reform even more critical for 4% developments.

Methodological Considerations and Supporting Research

The finding of $25,351 per unit increase in costs for each additional state agency involved captures the estimated costs of navigating different bureaucratic entities with distinct application processes, review standards, timelines, and reporting requirements.[1] This supports the hypothesis that a "one-stop shop" model consolidating state agencies would provide significant cost savings and efficiency gains by eliminating the administrative burden of coordinating across separate bureaucratic entities.

Additionally, the Terner Center's analysis of state funding found that each additional funding source added $20,460 in per-unit costs, but this measured the number of individual state funding programs not the number of state agencies involved.[20] A single agency like HCD can administer multiple funding programs (such as HOME, CDBG, and various bond programs), meaning that developers might access several funding sources while dealing with only one state agency, or conversely, might need only one or two funding sources but be required to navigate multiple agencies. Our findings, particularly the $25,351 estimate for 4% new construction developments, demonstrate that the agency-level fragmentation creates substantial costs.

4. THE CASE FOR A "ONE-STOP SHOP" STATE FUNDING SYSTEM

California's fragmented affordable housing finance system is unusual among states and undermines efficient housing delivery.[21] The quantitative findings of this report provide a data-backed justification for a "one-stop shop" model. Since administrative fragmentation is a measurable and significant cost driver across multiple areas, the reduction in that fragmentation for affordable housing financing offers the most direct and actionable path for state action to reducing costs and accelerating housing production.

The Governor's proposed "one-stop shop" would centralize the application, review and award processes for state funding. Instead of navigating multiple, separate competitions at different times, developers could apply to a single portal and receive all forms of needed state funding including subsidy, bonds and Housing Credits.[2]

Benefits of One-Stop-Shop Plan

This systemic reform would yield several measurable benefits:

- **Cost Reduction:** A streamlined system could directly save an estimated $42,336 per unit by eliminating the costs associated with applying to an average of 1.7 additional state agencies.
- **Timeline Acceleration:** Research suggests that reducing California's average market-rate production timeline from 49 months to Texas's 27-month average could lower total development costs by approximately 8 percent.[22]

20 Ried, Carolina, 2020. "The Costs of Affordable Housing Production (9% LIHTC)Reid, Carolina. The Costs of Affordable Housing Production: Insights from California's 9% Low-Income Housing Tax Credit Program." Terner Center for Housing Innovation at the University of California, Berkeley.

21 Shoemaker, D., Rao, G., Karlinsky, S., and Metcalf, B. "Housing Opportunities: Governor's Reorganization Plan to Create the California Housing and Homelessness Agency." Terner Center for Housing Innovation, UC Berkeley.

22 Ward, Jason and Luke Schlake. 2025. "The High Cost of Producing Multifamily Housing in California: Evidence and Policy Recommendations." RAND, Santa Monica, CA.

Although this finding is about market-rate housing, it is not difficult to extrapolate that reducing production timelines for affordable housing developments would also save development costs.

- **Risk Mitigation:** A unified system could reduce the high degree of financial risk for both developers and the state. This is particularly important for 4% Housing Credits developments where the funding coordination with multiple state agencies creates compounding risks that can derail developments even after substantial preliminary investment.

APPENDIX

Multivariate Regression Model Summary

The following presents the key findings from the multivariate regression analysis of Housing Credits developments in California from 2012 to 2024. Our analysis was conducted on multiple split samples made up of 9% Housing Credit developments, 4% Housing Credit developments, new construction, and acquisition/rehab developments to understand how the impact of administrative fragmentation varies across different types of developments.

Table A.1: Variables in Primary Multivariate Regression

Variable	What It Measures
What We're Trying to Explain	
Cost per Home	How much each home costs to build (adjusted for inflation to 2024 dollars)
Main Variable of Interest	
Number of State Agencies	How many different state funding agencies are involved in financing the development (TCAC, CDLAC, HCD, CalHFA, or SGC)
Development Size and Design	
Total Number of Homes	How many housing units are in the development
Number of Stories (Reference group: 1 story developments)	
	2-5 Stories
	More than 5 Stories
Who the Development Serves (Reference Group: SRO and At-Risk)	
Seniors	Yes/No:Development serves senior residents
Large Family	Yes/No:Development serves large families
Special Needs	Yes/No:Development serves people with special needs
Where is the Development Located (Reference Group: Bay Area)	
Sierras Region	Yes/No: Within the Sierras region
Capital and Northern Region	Yes/No: Within Capital and Northern region
Central Coast Region	Yes/No: Within Central Coast region
Central Valley Region	Yes/No: Within Central Valley region
Inland Region	Yes/No: Within Inland region
Los Angeles County	Yes/No: Within Los Angeles County
North and East Bay Region	Yes/No: Within North and East Bay Region
Orange County	Yes/No: Within Orange County
San Diego County	Yes/No: Within San Diego County
South and West Bay Region	Yes/No: Within South and West Bay Region
When was the Development Awarded Funding (Reference Group 2012)	
2013-2024	Yes/No: Development was awarded tax credits in each year
Tax Credit Funding Type	
4% tax credit	Yes/No: Development was awarded a 4% tax credit

Table A.2: Multivariate Regression Results on Per-Unit Development Cost

	New Construction (4% and 9% Housing Credits)			New Construction (4% Housing Credits Only)		
Variable	**Coefficient**	**Std. Error**	**Pval**	**Coefficient**	**Std. Error**	**Pval**
Number of State Agencies	19257	7437	0.01	25351	11444	0.03
Total Units	-563	91	0.00	-354	122	0.00
Stories (2-5)	65158	13815	0.00	-44270	57907	0.44
Stories (more than 5)	-55077	34963	0.12	74926	19576	0.00
Prevailing Wage	107593	10539	0.00	123680	17625	0.00
Seniors	-114177	16673	0.00	-155658	25022	0.00
Large family	-376	13846	0.98	-11891	18427	0.52
Special needs	-58481	16449	0.00	-28843	24901	0.25
Region						
Sierras Region	-183918	34836	0.00	-129246	51054	0.01
Capital and Northern Region	-271973	22688	0.00	-241203	34945	0.00
Central Coast Region	-174839	25738	0.00	-130753	48934	0.01
Central Valley Region	-323021	23944	0.00	-298426	38795	0.00
Inland Region	-238069	24808	0.00	-212628	36777	0.00
Los Angeles County	-156493	20024	0.00	-176269	29222	0.00
North and East Bay Region	5249	23403	0.82	34567	32948	0.29
Orange County County	-162536	26951	0.00	-152836	41290	0.00
San Diego County	-188465	22956	0.00	-159564	33314	0.00
South and West Bay Region	-52906	21045	0.01	-27082	29227	0.35
Award Year						
2013	13685	26849	0.61	42290	55936	0.45
2014	21534	25714	0.40	30860	52251	0.55
2015	49225	26398	0.06	10797	52353	0.84
2016	173748	24602	0.00	185799	45937	0.00
2017	87768	25494	0.00	76587	47126	0.10
2018	174400	25285	0.00	193512	46557	0.00
2019	148156	24707	0.00	154989	46227	0.00
2020	117939	21997	0.00	113847	41369	0.01
2021	63000	22261	0.01	36054	41879	0.39
2022	129280	23946	0.00	100285	43622	0.02
2023	190476	24564	0.00	143082	44393	0.00
2024	200732	23245	0.00	157765	42171	0.00
4% Tax Credit	-26447	13450	0.05			
Intercept	618770	30980	0.00	549374	55002	0.00
R-squared	0.421			0.372		
N	1614			895		

Contextualizing R-Squared

Across the eight regression models that were tested the 4% new construction sample on, the R-squared values ranged from 0.296 to 0.478.[23] These values indicate that between 29%--47% of variation in outcomes is explained by the included predictors. In applied social sciences, OLS regression models with R values of 0.30 or higher can be meaningful. These levels of explanatory power in social science often reflect the inherent complexity of social and economic systems.

Data Sources and Limitations

The analysis utilized the California Housing Partnership's Housing Credit Cost Database, a comprehensive dataset of Housing Credit projects in California. While this dataset is considered robust and is the well utilized source for this type of analysis, it is important to note the data's limitations. Our Housing Credit cost database likely does not capture all unobservable variables that influence cost, such as local regulatory variations, specific site conditions, or developer-specific characteristics. While our primary model for this analysis explains approximately 37% of cost variation, other factors not within the model likely contribute significantly to project costs, like structured parking and infill developments.

23 We tested eight regression specifications (Models S1-S8) to ensure the robustness of our finding that administrative fragmentation drives up costs for Housing Credit funded affordable housing developments. Each model regressed inflation-adjusted per-unit costs on the number of state funding agencies involved, while adding controls for development characteristics (unit count, building stories, tenant type), geographic location (regional indicators), time periods, and other factors (prevailing wage requirements). Models S8 used log-transformed costs as the dependent variable to test how assumptions differed with a dependent variable for model S7, our primary model for this analysis and model S6, our replica of the Terner Center 2025 Houisng Credit cost model analysis. To isolate the effect of fragmentation on different development types, we re-estimated all models on split samples: developments using 4% vs 9% tax credits, new construction vs rehabilitation developments, and all four combinations.

ACKNOWLEDGEMENTS

Matt Schwartz, President and CEO (Co-Author)
Anthony Vega, Ph.D., Research Director (Co-Author)
Images Courtesy of Josh Hild via Unsplash, David Wakely and Leo Visions via Unsplash