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How does neighborhood location affect the cost of producing affordable housing?

Aaron Barrall & Michael Lens • October 2026

California’s housing crisis has been building for decades; most lower-income households are severely rent-burdened, and the state’s slowing population growth is being tied to rapidly rising housing costs (Fischer and White, 2026; Johnson and McGhee, 2026). Researchers and policymakers broadly agree the crisis necessitates construction of new housing units, especially those restricted to lower-income households.

The Low-Income Housing Tax Credit Program (LIHTC) is the nation’s largest program for producing affordable housing, helping finance more than 3.5 million units since its inception in 1986. The program, however, has been criticized for producing housing that costs too much to build and is not often built in the highest-opportunity areas. Research on neighborhood effects, which emphasizes the effect that neighborhood location has on people’s (especially children’s) education, health, wealth and other key outcomes, demonstrates that residents in LIHTC developments would be better served if those projects were increasingly built in higher-opportunity areas. Concerns about cost, meanwhile, have come to a head in California as the cost of building housing subsidized with LIHTC and other public sources

routinely exceed \$500,000 per unit. We can build more homes for more people — and particularly more subsidized homes with lower rents — if production costs are lower. If, on the other hand, producing housing in higher-opportunity neighborhoods costs considerably more, such fair housing goals will conflict with the desire to build more housing.

This brief examines whether and to what extent affordable housing costs vary across California neighborhoods. We use a unique data set of tax credit applications by developers of LIHTC housing in California from 2012 to 2024 that provide detailed cost data and a full set of variables on financing and project characteristics to assess development cost differences by neighborhood type. We use the State of California Tax Credit Allocation Committee (TCAC) neighborhood designations, which categorize every census tract in the state into the following: Low Resource, Moderate Resource, High Resource and Highest Resource. We then run a series of regression models to estimate how much it costs to build in different types of neighborhoods, controlling for several project characteristics.

Table 1.

Total Development Costs (TDC) by Opportunity Category, 2012-2017 and 2018-2024

	Before 2018					2018 and Later				
		TDC per Unit (\$)		TDC per Square Foot (\$)			TDC per Unit (\$)		TDC per Square Foot (\$)	
	N	Mean	Median	Mean	Median	N	Mean	Median	Mean	Median
Low Resource	324	\$538,503	\$511,516	\$466.25	\$427.63	534	\$591,716	\$572,738	\$629.26	\$576.43
Moderate Resource	89	\$530,365	\$516,051	\$498.67	\$448.21	150	\$594,609	\$565,326	\$652.52	\$595.44
High Resource	84	\$527,403	\$483,649	\$498.54	\$484.62	142	\$600,977	\$572,967	\$623.06	\$563.15
Highest Resource	70	\$488,828	\$465,157	\$511.77	\$448.25	171	\$598,064	\$555,343	\$626.96	\$576.39
Not Available	17	\$400,654	\$394,860	\$460.77	\$406.04	54	\$557,737	\$540,668	\$604.52	\$562.04

N = 1635 total projects. Excludes projects flagged for exclusion.

Results

An initial comparison of development costs shows they do not vary much from lower- to higher-resourced neighborhoods. **Table 1** summarizes the average and median costs per unit and square foot for two time periods: 2012 to 2017 and 2018 to 2024. Without controlling for other characteristics, costs do not vary across neighborhoods in linear or expected ways. Depending on the timeframe, median costs per unit and per square foot are lower in High and Highest Resource neighborhoods, compared to Low and Moderate Resource neighborhoods. In the Initial time period, projects in the Low Resource neighborhoods have higher average and median costs per unit than projects in the Highest Resource neighborhoods.

Figure 1 illustrates that after controlling for project characteristics, development costs are between \$29,000 to \$33,000 higher per unit in the High and Highest Resource neighborhoods than in Low Resource neighborhoods. These differences almost completely disappear after removing land costs, suggesting the price of land acquisition makes the biggest difference in cost between opportunity areas. The results largely hold when costs are measured at the per square foot level, except that the differences between Low and Moderate Resource neighborhoods are statistically significant in these models.

Figure 2 illustrates development costs in Los Angeles and the Bay Area, California’s most populous and expensive regions. Here, the patterns are slightly different. In Los Angeles, the Highest Resource neighborhoods are generally not more expensive than Low Resource neighborhoods, even with land costs

included. Moderate and High Resource neighborhoods are more expensive, even after removing land costs. In these regions, costs per square foot are generally not significantly different, with the exception of High Resource neighborhoods in Los Angeles.

A striking finding is that costs increase dramatically year over year, despite controlling for baseline inflation. LIHTC units cost more than \$245,000 more to build in 2024 than in 2012 *controlling for all of the attributes in our regression model*.

Our analyses also suggest that several aspects of development have more impact on cost than neighborhood location. Parking structures and prevailing wage agreements add considerably more costs than are saved by locating in low-resource areas. We estimate that prevailing wage agreements account for about \$100,000 per unit.

Conclusion

We find evidence that the lowest-resourced neighborhoods are less costly to build in than in other neighborhood types, but that the differences are only identifiable when land costs are accounted for. In this sense, there is a trade-off between locating in higher-opportunity neighborhoods. But these differences are not very large. Although our analysis suggests it is somewhat cheaper to build LIHTC-financed affordable housing in Low Resource neighborhoods and more expensive in higher-resourced neighborhoods, these cost savings should be weighed against the benefits of building outside of these neighborhoods. Considering the ample evidence on neighborhoods’ substantial effects on earnings and other long-term outcomes for children,

Figure 1.
Total Development Costs (TDC)
Relative to Low Resource Areas
Statewide

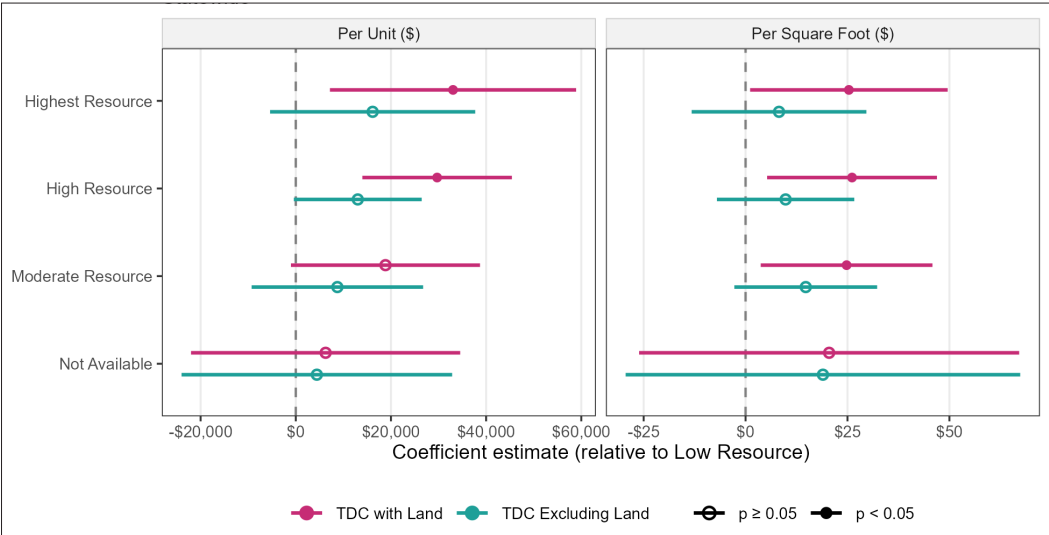
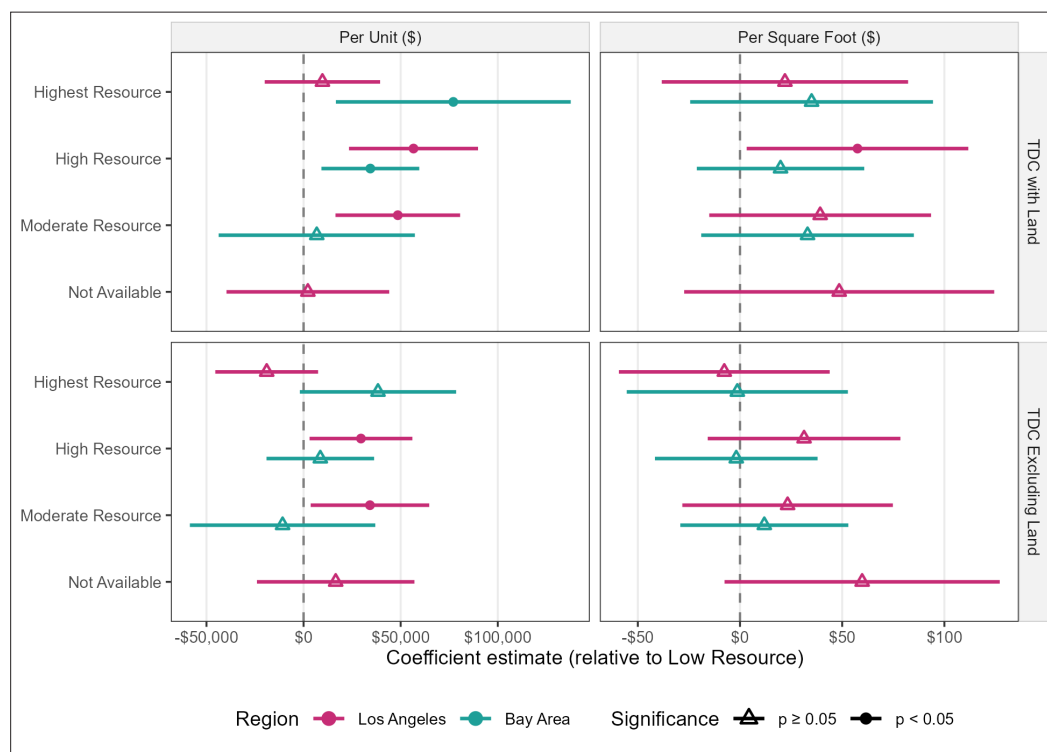


Figure 2.

Total Development Costs (TDC)
Relative to Low Resource Areas
Bay Area vs. Los Angeles



evidence demonstrating the desire among many low-income families to move to these areas (Sanbonmatsu et al., 2011), and the state's legal mandate to Affirmatively Further Fair Housing (AFFH), the benefits of providing affordable housing in higher-resourced neighborhoods likely outweigh the costs to the state.

We do acknowledge that this is unlikely to be easy, and there may be other barriers to building in these neighborhoods. First, land developable for multifamily housing is undoubtedly scarce in higher-resourced neighborhoods in California and across the country. Competition is likely intense for the limited number of parcels in high-opportunity neighborhoods that allow for multifamily development. State and local government agencies can make it easier for affordable housing development on these scarce parcels by prioritizing public land to be donated or provided at a discounted rate for such development. The state already provides favorable scoring to LIHTC applications for locating in these neighborhoods. These incentives, paired with additional subsidies, should make affordable housing more feasible in higher-opportunity neighborhoods.

More Information

This policy brief is based on a forthcoming article in *Housing Policy Debate*. For more information, contact Michael Lens at mlens@ucla.edu.

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