



1400 Village Sq. Blvd.,  
Suite 3-250  
Tallahassee, FL 32312  
850/222-6000  
850/222-6002 Fax  
www.floridacahp.org

March 15, 2022

Marisa Button, Director of Multi-Family Allocations  
Florida Housing Finance Corporation  
227 N. Bronough St., Suite 5000  
Tallahassee, FL 32301

**RE: 2022 Construction Cost Inflation**

Dear Marisa,

Thank you for the opportunity to submit additional public comments from the Coalition of Affordable Housing Providers regarding cost inflation.

Florida's affordable housing developers are experiencing unprecedented inflation. Construction cost increases are heavily impacting Florida Housing's funded pipeline regardless of geography, construction method, development type, demographic, or RFA vintage. Inflation, along with other unique present-day factors, is also driving longer construction timelines, rising interest rates, rising insurance costs, and rising operating expenses. The impact of these cost increases is of a magnitude that our industry has not experienced in recent memory.

CAHP surveyed its members and found that of 27 new construction developments submitted by our members, there had been an average hard cost escalation of nearly \$3,800,000 per development, or nearly \$33,000 per unit, for an average increase of nearly 20%. The survey also showed that the rate of monthly cost escalation had picked up substantially in the past few months. Every indication is that these cost increases have not leveled out and are expected to continue to move upward.

Florida Housing may understandably question why many market rate developments seem able to proceed despite these factors. The answer is simply that market rate developments can rely on increased revenue from rapidly increasing market rents, while affordable developments cannot:

- Historically, Area Median Incomes have not kept pace with market rate rents.
- Due to federal formulas, AMIs typically trail the economy by several years.
- AMIs are adjusted by CPI, but construction costs historically outpace CPI.
- In 2023, AMIs are projected to drop due to a covid-related Census data collection anomaly.<sup>1</sup>

Florida's affordable housing production pipeline is threatened, and no one can accurately predict how much more inflation will increase final costs above today's costs. Developers are endeavoring to close gaps by any means possible – including applying for competitive local funds and redesigning their

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<sup>1</sup> <https://www.novoco.com/periodicals/articles/lihtc-income-limits-could-see-35-reduction-fiscal-year-2023-according-novogradac-research>

developments. Those steps take time, which risks even more cost increases (subcontractors are not holding pricing beyond 2-4 weeks). Florida Housing and the development community need to be nimble and creative to ensure that funded developments move forward as quickly as possible.

CAHP is submitting the following recommendations for FHFC's consideration:

- Waive Total Development Cost caps for all funded developments.
- Allow FHFC staff to approve any changes to the development that occur after Credit Underwriting Report and that are still within FHFC rules (e.g. increasing the permanent debt amount within allowable DSC limitations). This will prevent further cost increases by avoiding delays related to the board approval process.
- Allow FHFC staff to approve changes to development type.
- Allow FHFC staff to waive the subcontractor limitations of 20% and 31%
- Increase allowable hard cost contingency to 10% for new construction and 25% for rehab.
- Allow materials cost allowances to be underwritten into GMP contracts.
- Extend time limits for expenditures of SAIL funds during construction if the construction timeline is prolonged (for example, due to materials and labor shortages).
- Authorize staff to create a Construction Inflation Relief ("CIR") program for developments that are currently funded. Upon authorization, we recommend that Florida Housing staff consider the following CAHP recommendations for a CIR program:
  - Prioritize the feasibility of currently funded developments within Florida Housing's 2022 allocation authority, with the goal of ensuring that shovel ready housing can proceed before committing needed funds to new applicants. This would also allow Developers and FHFC time to better tailor the 2022 RFA's to current market conditions.
  - Put all available Corporation resources on the table - including 9% credits, SAIL, NHTF, and HOME ARP funds –to find, on a case-by-case basis, the most efficient ways to fill gaps. (For example, we anticipate that amount of gap will exceed the amount of soft dollars that FHFC can make available at the present time, and therefore 9% credits may be present the quickest and most cost-effective solution for some developments).
  - Award NHTF on previously committed ELI units to stretch NHTF dollars further, as opposed to requiring the 22% AMI units in addition to the ELI units.
  - Allow SAIL self-sourced developments to take on additional non-corporation sources without reducing their SAIL award.
  - Make CIR funds available in the ordinary course of development (i.e., initial construction loan closing and during construction), instead of

delaying their availability to a later milestone. This will reduce construction interest expense (in contrast to other recent programs in which funds were not made available until issuance of 8609's) which would allow CIR program funds to go further.

- Allow staff approval of CIR-related amendments to Credit Underwriting Reports to reduce further cost escalation by speeding up the process.

We appreciate Florida Housing's willingness to quickly evaluate and respond at this critical moment in time.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ken Naylor', written in a cursive style.

Ken Naylor  
Chair

Cc: Steve Auger, Vice Chair  
Suzanne Hurst, Executive Director

Attachment: CAHP Construction Inflation Survey

Location	Unit Count	Development Type	Net Rentable SF	Previous Hard Cost Estimate Amount	Previous Hard Cost Estimate Date	Current Hard Cost Pricing Amount	Current Hard Cost Pricing Date	Is Current Pricing an estimate or a bid?	% Change	Duration (months)	Cost / Unit	Cost / SF	% escalation PER MONTH	Escalation / Unit PER MONTH	n / Unit PER DAY	Total Escalation Amount
Kissimmee, FL	84	Garden 3-story walk up. Concrete. New construction. Family.	73,596	\$ 11,179,000	1/1/2022	\$ 13,802,377	3/1/2022	Estimate	23%	2.0	\$164,314.01	\$ 187.54	12%	\$15,880.01	\$529.33	\$ 2,623,377
Cape Coral	240	Market Rate	224,300	\$ 47,110,320	12/21/2021	\$ 50,437,200	2/21/2022	Bid	7%	2.1	\$210,155.00	\$ 224.86	3%	\$ 6,707.42	\$223.58	\$ 3,326,880
Miami-Dade	120	High Rise	85,000	\$ 25,500,000	12/3/2021	\$ 31,000,000	3/1/2022	bid	22%	2.9	\$258,333.33	\$ 364.71	7%	\$15,625.00	\$520.83	\$ 5,500,000
Miami-Dade	374	High Rise	332,221	\$ 69,188,941	11/15/2021	\$ 78,389,474	2/12/2022	Estimate	13%	3.0	\$209,597.52	\$ 235.96	4%	\$ 8,292.25	\$276.41	\$ 9,200,533
Pasco County	88	Garden 3-story concrete	\$ 11,440,000	\$ 11,440,000	12/1/2021	\$ 15,509,076	3/1/2022	bid	36%	3.0	\$176,239.50		12%	\$15,413.17	\$513.77	\$ 4,069,076
Cape Coral	96	Garden Style, concrete	93,828	\$ 15,415,580	10/25/2021	\$ 18,600,000	44744	Estimate	21%	3.5	\$193,750.00	\$ 198.24	6%	\$ 9,477.44	\$315.91	\$ 3,184,420
Cape Coral	96	Garden Style, concrete	93,828	\$ 15,415,580	10/25/2021	\$ 18,600,000	44744	Estimate	21%	3.5	\$193,750.00	\$ 198.24	6%	\$ 9,477.44	\$315.91	\$ 3,184,420
Delray Beach Florida	60	New Construction	69,000	\$ 16,051,862	10/18/2021	\$ 18,436,710	2/7/2022	Bid	15%	3.7	\$307,278.50	\$ 267.20	4%	\$10,646.64	\$354.89	\$ 2,384,848
Gadsden County	80	Multifamily - Frame Construction	91,682	\$ 12,866,140	9/30/2021	\$ 14,403,395	2/17/2022	Bid	12%	4.7	\$180,042.44	\$ 157.10	3%	\$ 4,117.65	\$137.25	\$ 1,537,255
Naples, FL	160	Low Rise Garden	132,158	\$ 23,991,617	44395	\$ 28,863,617	9/15/2021	Bid	8%	5.0	\$161,647.61	\$ 195.70	2%	\$ 2,355.70	\$ 78.52	\$ 1,872,000
Tampa, FL	30	Affordable with Developing Disabled	26,685	\$ 6,300,000	44237	\$ 8,300,000	1/3/2022	Bid	32%	5.0	\$276,666.67	\$ 311.04	6%	\$13,333.33	\$444.44	\$ 2,000,000
Miami-Dade	113	Multifamily- midrise/garden/town	99,130	\$ 24,000,000	9/1/2021	\$ 30,000,000	2/1/2022	Bid	25%	5.1	\$265,486.73	\$ 302.63	5%	\$10,411.24	\$347.04	\$ 6,000,000
Miami-Dade	266	Multifamily	207607	\$ 54,177,300	10/5/2021	\$ 53,507,000	3/7/2022	Bid	-1%	5.1	\$201,154.14	\$ 257.73	0%	\$ (494.10)	\$ (16.47)	\$ (670,300)
Panhandle	96	Garden Style wood frame	102,915	\$ 15,063,853	9/1/2021	\$ 20,640,000	1/3/2022	Estimate	37%	6.0	\$215,000.00	\$ 200.55	6%	\$ 9,627.33	\$320.91	\$ 5,576,147
Lakeland, Florida	72	Garden Apartments	72,696	\$ 11,930,046	44428	\$ 13,317,773	1/3/2022	Bids	12%	6.4	\$184,969.07	\$ 183.20	2%	\$ 2,995.96	\$ 99.87	\$ 1,387,727
Sarasota, Florida	84	New Construction	92,976	\$ 16,171,322	8/2/2021	\$ 20,600,000	2/17/2022	Bid	27%	6.6	\$245,238.10	\$ 221.56	4%	\$ 7,948.09	\$264.94	\$ 4,428,678
Miami-Dade	227	Multifamily	146163	\$ 31,860,412	6/8/2021	\$ 35,819,400	2/11/2022	Bid	12%	8.3	\$157,794.71	\$ 245.06	2%	\$ 2,109.73	\$ 70.32	\$ 3,958,988
Miami-Dade	84	Mid-Rise 6	57,346	\$ 15,999,900	44472	\$ 17,382,240	4/2/2022	Estimate	9%	11.0	\$206,931.43	\$ 303.11	1%	\$ 1,491.52	\$ 49.72	\$ 1,382,340
Pinellas County	81	HR	73,463	\$ 15,108,646	44123	\$ 17,472,962	9/24/2021	Bid	16%	11.3	\$215,715.58	\$ 237.85	1%	\$ 2,575.51	\$ 85.85	\$ 2,364,316
Polk County	88	Garden	74,542	\$ 12,301,512	43962	\$ 13,196,617	3/1/2022	Bid	7%	14.1	\$149,961.56	\$ 177.04	1%	\$ 719.69	\$ 23.99	\$ 895,105
Kissimmee	96	3 story garden walk up, wood frame	105,920	\$ 12,862,114	11/5/2020	\$ 17,739,998	1/18/2022	Bid	38%	14.6	\$184,791.65	\$ 167.48	3%	\$ 3,472.30	\$115.74	\$ 4,877,884
St Lucie County	82	Garden	77,768	\$ 11,840,610	43932	\$ 13,177,963	3/2/2022	Bid	11%	15.2	\$160,706.87	\$ 169.45	1%	\$ 1,072.97	\$ 35.77	\$ 1,337,353
Escambia County	36	New Construction - 2 garden style residential buildings and a clubhouse	47,628	\$ 3,852,000	44125	\$ 5,112,000	1/2/2022	Estimate	33%	15.6	\$142,000.00	\$ 107.33	2%	\$ 2,243.59	\$ 74.79	\$ 1,260,000
Palm Beach Co	112	Garden Style, concrete	101,677	\$ 17,425,782	10/1/2020	\$ 21,464,670	3/1/2022	Bid	23%	17.2	\$191,648.84	\$ 211.11	1%	\$ 2,096.60	\$ 69.89	\$ 4,038,888
Broward County	113	high rise w/surface parking	115,793	\$ 19,186,028	9/1/2020	\$ 25,208,158	3/1/2022	Bid	31%	18.2	\$223,081.04	\$ 217.70	2%	\$ 2,928.20	\$ 97.61	\$ 6,022,130
Broward County	72	5 story mid-rise	54,000	\$ 16,900,000	9/1/2020	\$ 21,000,000	3/1/2022	Estimate	24%	18.2	\$291,666.67	\$ 388.89	1%	\$ 3,128.82	\$104.29	\$ 4,100,000
Miami-Dade	64	Multifamily	52,063	\$ 13,960,700	2/16/2020	\$ 15,518,400	1/11/2022	Bid	11%	23.2	\$242,475.00	\$ 298.07	0%	\$ 1,050.61	\$ 35.02	\$ 1,557,700
Average	115			\$ 479,626,755		\$ 551,307,802			19%	8.7			2%	\$ 6,100.15	\$203.34	\$87,399,765

\$ 3,799,590 Average Escalation per Development  
\$ 32,548

Location	Unit Cour	Developm	Net Rent	Previous Hard Cost Estima	Previous Hard Co	Current Hard	Current Hard (	Is Current Pricing an estimate or a bid?	% Change
Riviera Beach, Palm Beach County	79	Garden	68,182 \$	12,492,701	4/8/2020	\$14,542,701	3/2/2022	It's an escalation change order at 85% complet	16%
West Palm Beach	94	Highrise	62,680 \$	19,257,393	10/14/2020	\$20,837,393	3/2/2022	It's an escalation change order at 75% complet	8%
Fort Walton Beach	72	Garden	63,767 \$	9,879,416	12/18/2020	\$10,790,441	3/2/2022	It's an escalation change order at 50% complet	9%
Gainesville	192	Garden Ap	211,608 \$	30,679,215	12/17/2021	\$34,360,720	3/10/2022	Post closing escalation	12%
Orlando	288	New Const	245,470 \$	44,893,744	9/27/2021	\$56,287,393	10/3/2022	Contract adjusted for post-commencement pri	25%
Kissimmee	383	New Const	331,017 \$	62,130,545	9/2/2021	\$65,634,802	10/3/2022	Contract adjusted for post-commencement pri	6%
Kissimmee	331	New Const	282,072 \$	51,429,646	3/30/2021	\$56,952,975	9/3/2022	Contract adjusted for post-commencement pri	11%
Palmetto	224	New Const	193,923 \$	33,455,093	3/18/2020	\$41,216,012	9/3/2022	Contract adjusted for post-commencement pri	23%