

Difficulties Building Low-Income Housing and The View of One Company: A Case Study

Kyle Henriksen

California Polytechnic State University
San Luis Obispo, CA

This case study investigates low-income housing and why it can be more difficult to build compared to other construction projects. Five individuals of PREMIER Design + Build Group were interviewed and gave their opinions on the subject. Each person interviewed has a different role in the company a market leader, project manager, superintendent, and a project engineer to gain a more diverse view on low-income housing. These interviews were semi-structured and open ended to create dialogue about their experiences in affordable housing. This paper investigates a single project called The Cottages located in Lake Elsinore CA. This process found that low-income housing can be more challenging to build. The design phase of this project was a main challenge that PREMIER faced when completing The Cottages. Furthermore, the acquisition of new subcontractors that were appropriate for this work were needed, adding another challenge. Finally, the budget was something that took many hours and critical thinking to come up with a way to make the design and price work. However, after these interviews it was shown that the construction process of building was fairly similar to traditional construction with only a few minor changes regarding requests for information and change orders.

Key Words: Low-income, Housing, Construction, Challenges, Development

Introduction

In recent history the availability of housing has been dropping with the increase of people and prices around The United States. In 1934 the government created the Federal Housing Administration the alleviate some of the hardships from the Great Depression (National Low Income Housing Coalition pg. 1-7). This created the long-term mortgages that we know today with the low down-payment. After realizing how poor the housing market was and that people were not able to afford living cost the U.S. Housing Act aimed to fix it. In 1937 the housing act was put into place and was designed to help the need of low-income households. It created public housing to make sure that the housing was decent and had hot running water. Later, an agency called HUD was enacted to replace the housing agency and moved it to a cabinet level in the federal government. Soon after the cost to operate public housing greatly outweighed the revenue from the rent. HUD began to subsidize the housing agencies to make up for the lost revenue. In 1969 the “Brooke Amendment” was passed producing limitations on the people that could live in the public housing. Originally it was 25% of the annual income later raised to 30% was the amount someone would pay for housing (National Low Income Housing Coalition pg. 1-7). A little later HUD created a program to have private investment create new affordable housing causing a boom in the 70’s. After the contract between HUD and the private investors ended the investors started to sell their housing units causing some of the units to be lost.

The construction industry has the opportunity to create affordable housing for the people that live around us and in our communities. As the number of people that live in The United States increases and so do the prices of housing it is becoming more and more difficult to find an affordable place to

live. With the addition of more affordable places to live the availability of affordable housing will rise as well and rent will begin to drop. This would help to create a safer place for people to live.

Literature Review

As we look deeper into what affordable housing is and why it was created it is important to look at the history of it. The main goal that wanted to be achieved was “Making sure that everyone has a decent place to live is an important general priority. People are also interested in ensuring that economic diversity exists in specific cities, metropolitan areas, or neighborhoods” (Yglesias 2015). This goal was harder to reach than previously thought because of complications that were not seen. Introduced in 1937 the federal government wanted to create a place for everyone to live. But in order to live in these government housing they needed to meet certain qualifications of household income. Many people who should be able to qualify did not receive the housing that they needed because of the lack of availability.

Low-Income Housing Shortage

There are many things that can affect the shortage of affordable homes and housing developments. The three main factors are demands for space and amenities, restrictive local government, and failure to preserve existing affordable housing. All of these houses lead to rising costs of homes and decreases the number of affordable ones. Another major factor is that houses being built today are much larger than houses build 10-20 years ago. The average price per square foot in the United States is \$64 while in 1995 it was \$57. The lot sizes of houses have gone down by 8% in the last 10 years causing people to build more expensive features into the house and not the land. To help combat this “local governments must reduce regulatory barriers that limit the market’s ability to build small, lower-cost homes on expensive land.” (Schuetz 2020). Furthermore, only about 20% of new houses are multi-family and these tend to be less expensive than single family homes. These multi-family homes also have grown in size so that they can accommodate family with children.

According to an article by Curbed “Nearly two-thirds of renters nationwide say they can’t afford to buy a home, and saving for that down payment isn’t going to get easier anytime soon: Home prices are rising at twice the rate of wage growth.” (Sisson et. Al 2020). This means that for most people buying a house is out of the question for them and it is not going to change in the future. This study by The National Low-Income Coalition also found that a person who works 40 hours a week at a minimum wage cannot afford a two-bedroom apartment in any country nationwide. This is a major problem that the United States is facing, and something needs to be done. There is a need for a large improvement in the number of affordable housing. People should start to build more of these housing facilities so that people do not have to spend all their income on renting an apartment for them and their families.

Low-Income Housing Construction

The process of building low-income housing does not change drastically from other types of building but there are challenges other than the construction of the building. Some challenges to, “building affordable housing, including tight competition to purchase land, the region’s high cost of living, the friction between scarcity and high demand, applying for tax incentives, finding partners, and government regulations.” (Tang 2016). Primarily these challenges are ones that are faced in the pre-construction phase and the design phase of construction. When it comes to the land that the building will be sitting on it is hard to find for many reasons. First there is the competition of private

developers. Many people around the country are trying to build houses and investment properties so therefore it is hard to find land without paying high premiums. One of the biggest factors that contributes to the building of low-income housing is the federal tax breaks that entices companies to complete these projects. “That leaves subsidies, the biggest of which is the low-income housing tax credit, which Congress funded to the tune of \$7 billion last year. Even so, that program is more useful to developers building for higher wage-earners” (Clark 2016). A difficulty that comes with this is that these federal programs are not set up for mixed low-income housing complexes. This means that only a certain number of bed or units in the complex are reserved for low-income families or individuals. This makes it very difficult to get financial supports for these projects and would make the developer pay for during construction.

Challenges After Construction

After the construction of an affordable housing complex there are still challenges with maintain the building. With low-income housing usually cheaper materials are used in construction to try and save money on the initial building cost. These are also selected to try and make up for the reduced rent that the developer will be receiving. According to an article by Joanne Tang “After construction is complete and residents move in, there is still the challenge of maintaining the building. Construction costs and maintenance costs are connected.” (Tang 2016) so the more higher quality materials that are used in construction will result in lower cost of maintenance of the building. On the other hand, with most low-income housing cheap materials are used and lead to higher maintenance cost and a higher rate of problems that are needed to be fixed by the contractors.

Main Challenges in The Industry

The process of building anything is more or less the same, but the challenges are usually faced in the design phase of construction. With low-income housing the main challenges come in pre-construction not just the building of the complex.

- The procurement of land is hard to get due to high competition for property developers and the price is always increasing as it becomes less available.
- The necessity of federal funding and tax credits that make it worth building are hard to get and for certain types of projects.
- High cost of construction and finding partners.
- High cost of living in the areas and government regulations.

Methodology

Objectives of the case study are as listed:

- To see what challenges there are with building low-income housing.
- See how low-income building is different than traditional commercial building.
- Highlight the areas of difficulty.
- Look into one company that does not traditionally build low-income housing.
- Identify what they believe makes it harder to build than what they are used to.

The methodology chosen for this case study was qualitative. The study was done by semi structured interviews with employees at PREMIER Design + Build Group. The questions focused on the objectives that are listed above and were conducted over Zoom. At the time of the interviews the low-

income project was around 80%-90% complete. Five employees were interviewed all in different positions of the company as followed: Southwest market leader, Project manager, Superintendent, and Project engineer.

The purpose of this case study is to investigate the view of PREMIER Design + Build Group to see what they think are the challenges in building low-income housing. Semi structured interviews were conducted over zoom on the current low-income housing project they are working on. These interviews consisted of:

- Steven Gabbert - Southwest Market Leader
- Derrick Schuster – Project Manager
- Jacob Kulik – Superintendent
- Darrin Bickler – Superintendent
- Erik Henriksen – Project Engineer

These interviews were semi-structured and had limited questions for a couple of reasons. Firstly, they were done in this way to promote a conversation with the interviewee to capture more ideas that are not mentioned in the questions. Secondly, with this style of interview it allows to ask more questions than intended creating a more reliable information. On average these interviews lasted around twenty to twenty-five minutes.

Question asked:

- what are some differences between commercial construction and low-income housing?
- what things can go wrong on an affordable housing project that would not happen in a regular project?
- what are the main challenges you face when building a low-income housing complex?
- Are there any unique laws or requirements while building a low-income housing complex?
- Does building these types of building have a higher cost? What makes it worth building over a regular commercial building?

Case Study

PREMIER Design + Build Group is a general contractor based out of Chicago Illinois. PREMIER was founded in 2004 by three individuals that,” think outside the box to streamline the building process from concept to completion.” (PREMIER 2021). The Southwest division ran by Steven Gabbert has most of their experience in commercial mixed-use buildings and warehouse distribution centers. Recently the PREMIER team took on the challenge of a large low-income housing complex located in Lake Elsinore California.

The questions that were asked are listed above under methodology. The idea behind these interviews is to get an understanding from all sides of the project from the same company. Each position has different views on the same project, and this will help to see how low-income housing may be more difficult to build.

Project Specifics

The low-income housing project that PREMIER Design + Build Group is working on is called The Cottages, located in lake Elsinore California. This project is a large low-income housing complex with 143 units and had a final cost of around 24 million dollars. The project manager for The Cottages is Derrick Schuster, the superintendents are Jacob Kulick and Darrin Bickler, and Erik Henriksen as the project engineer.

Southwest Market Leader

Steven Gabbert the Southwest Market leader for PREMIER took the time to speak with me on why it difficult to build low-income housing in his experience. Of the entire southwest team Steven is the only one with experience in multi-family housing. While talking he mentioned one of the main challenges with The Cottages was the design of the buildings. These buildings are all separate units designed to look like single family style homes (See Figure 1). The design process took a long time to complete when trying to figure out how they would be able to achieve this look while keeping costs low. They had to find a way to reconfigure the site plan and find a way to make it more dense to accommodate the number of beds that they needed and the style that was wanted. A second challenge that they had to deal with when completing this project was working with the city or Lake Elsinore. They worked closely with the city and the architect and every process along the way needed to be approved by the city fist. Another challenge that PREMIER faced was finding subcontractors that were appropriate for the job. According to Steven many of the subcontractors that they usually work for them are Cadillac guys that charge too high of prices for this type of job. PREMIER needed to find all new subcontractors that would be used to compete the project. This took many man hours to do and had the added difficulty of not having a relationship with the workers.



Figure 1. The Cottages Design

Project Manager

Derrick Schuster is the Project Manager for The Cottages and spoke with me about some of the challenges that he faced when building PREMIER's first multi-family low-income housing complex. Derrick stated that when trying to tackle this project that it took much more pre planning and thinking compared to the projects that PREMIER usually builds. Furthermore, when talking Derrick mentioned that most of the projects done are concrete tilt up buildings and with those are the same thing repeatedly. When building affordable housing on the other hand it is more unique and more opportunity for mistakes to happen. A huge challenge about this project was the budget and trying to make it work with the design that was needed of detached single family style units. The Budget for low-income housing is based on the number of beds that it has and once that is calculated then the design phase can start adding a layer of complexity to the project. With The Cottages this was additionally difficult because many of the units do not share walls and instead are spread out along a bigger area than traditional low-income housing. Additionally, to save money because of the style further planning was needed between all the trades and design teams to rethink the entire project. Derrick had also mentioned the amount of RFI's (request for information) for The Cottages was higher than the other projects that PREMIER were building. This is because of the complexity of the design along with the size of the project.

Superintendent

Jacob Kulik and Darrin Bickler were both superintendents for The Cottages and gave some more insight on why this was more difficult to build. While speaking with them they said that this project was more challenging for a couple of reasons. With the design of this project being styled as single-family homes both superintendents agreed that was the most challenging part of the project. Additionally, a big challenge that they experienced was the transition of subcontractors. The Cottages being a new sector of building for PREMIER they had to find new subcontractors for the project. This proved to be a challenge because the lack of a relationship the companies had and the work that they performed was all new to them.

Project Engineer

While talking with Erik Henriksen, a project engineer for PREMIER, he mentioned some areas that were different from his perspective. Erik stated that the amount of change orders and RFI's that he filed were higher than the other projects that he was placed on. Due to the complexity of The Cottages it led to the need of more clarification between parties and more changes. After finishing the interview with Erik, we found that his section of work was very similar to his traditional work and felt that The Cottages was similar work to the other projects.

Conclusion

After speaking with five individuals at PREMIER Design + Build Group on their new low-income housing project, The Cottages, it is clear that affordable housing is not an easy task to complete. The design of this project led to longer construction time and mentally challenged the team. More time and effort were put into the design compared to PREMIER's usual construction of concrete tilt ups. Furthermore, they faced the challenge of finding all new subcontractors that were appropriate for this project. This added a new element to the project working with trades that they have not before. Finally, the budget was a huge challenge for this low-income project and PREMIER. After speaking with these industry professionals, it is easy to see how building affordable housing has its own unique challenges compared to other projects.

Future research for this topic could include many different aspects of low-income housing. The challenges facing low-income housing are variable across different projects and companies. Looking into a wider range of companies and projects would help to increase the knowledge of low-income housing. Furthermore, with the housing crisis that the United States is currently in and the rising cost of home ownership investigating these areas would be useful. This could help to create more affordable living around the country. Finally, the differences between low-income housing and single-family housing. Looking into this topic can give more insight to the shortage of low-income housing and why it is relevant to people around the country.

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