

Why is it so expensive to build affordable homes in California? It takes too long

by Jason Ward

The spiraling cost of housing in California has affected virtually every facet of life.

California has the nation's largest unsheltered homeless population and among the highest rates of [cost-burdened renters](#) and [overcrowded homes](#).

One reason for the seemingly endless upward trajectory of rents is [how expensive it is to build](#) new apartments in California. Those costs are a major contributor to "[break-even rents](#)," or what must be charged for a project to be financially feasible.

I recently led a [study that compared total apartment development](#) costs in California to those in Colorado and Texas. The average apartment in Texas costs roughly \$150,000 to produce; in California, building the same apartment costs around \$430,000, or 2.8 times more. Colorado occupies a middle ground, with an average cost of around \$240,000 per unit.

For publicly subsidized, affordable apartments — a sector that California has spent billions on in recent years — the gap is even worse. These cost over four times as much as affordable apartment units in Colorado and Texas.

There's no single factor driving these huge differences. Land costs in California are over three times the Texas average. "Hard costs," or those related to improving the land and constructing buildings, are 2.2 times those in Texas. California's "soft costs," which include financing, architectural and engineering fees, and development fees charged by local governments, are 3.8 times the Texas average.

There are some unavoidable California-specific costs, like ensuring buildings are resilient to shaking from earthquakes. But the truly lifesaving seismic requirements explain only around 6% of hard-cost differences, the study estimated. The state's strict energy efficiency requirements add around 7%.

California's high cost of living may drive up the price of labor, but we found that construction wage differences explain only 6% to 10% of hard-cost differences for market-rate apartments. However, for publicly subsidized apartment projects, which are often mandated to pay union-level wages, labor expenses explain as much as 20% to 35% of the total difference in costs between California and Texas.

"Soft costs" in California are a major culprit. California property developers pay remarkably high fees for architectural and engineering services — triple the average cost in Texas. It's five times as much or more if you're building publicly funded, affordable apartments in the Los Angeles and San Francisco metro areas.

Explainers

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Seismic engineering requirements play a role. The bigger factor are complex and burdensome design requirements for affordable housing. These are dictated by state and local funding sources, and have little to do with habitability or safety but contribute substantially to these astonishing differences.

Development fees to local governments make up the largest soft-cost difference in California. Such fees, which were the subject of a [2024 U.S. Supreme Court case](#), average around \$30,000 per unit. In Texas, the average is about \$800. (Again, Colorado occupies a middle ground at around \$12,000.)

In San Diego, for example, these fees on average eat up 14% of total development costs per apartment.

But the biggest thing driving up California apartment costs? Time.

A privately financed apartment building that takes just over two years to produce from start to finish in Texas would take over four years in California. It takes twice as long to gain project approvals and the construction timeline is 1.5 times longer.

That means land costs must be carried for longer, equipment and labor are on jobsites longer, and that loans are taken out for a longer term, and so on.

Most of the differences that the study uncovered stem from policy choices made by state and local governments. Many are legacies of the so-called “[slow growth movement](#)” in California, which has shaped housing production since the 1980s.

Those efforts worked. Population growth in the state went negative for a few years after 2020, [due primarily](#) to the high cost of housing. Even more recently, California's growth was half the numbers seen in Texas and Florida, with [younger](#) and [higher earners](#) disproportionately leaving.

These departures have dire implications for the state's fiscal future and political influence nationally. California recently [lost a congressional seat](#) for the first time in its history. If current national population trends hold, it could lose four or five seats in 2030.

The California Legislature has become [increasingly focused](#) on reducing the cost of living, but meeting this goal requires substantial progress on lowering housing costs. New proposals to [exempt urban infill housing production from state environmental law](#) and a package of permitting reforms are steps in that direction.

Will policymakers also take lessons from Texas and Colorado's cheaper housing methods? That remains to be seen. But the future of California may well hinge on it.

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