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Impact Fees Reduce Housing Affordability, New Study Maintains

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Impact fees provide one of the most potent weapons for both sides in the battle over sprawl.

Many residential builders contend that the fees charged by municipalities to offset the costs of development are excessive and result in higher home prices that shut first-time and lower-income buyers out of the suburban market.

On the other side, opponents of sprawl don't think that the fees are high enough, and that this, in effect, subsidizes sprawl by making home construction easier and more profitable.

A study by the University of Minnesota concluded that municipalities have been forced to resort to impact fees over the last 20 years for a variety of reasons.

Among them are a drop in federal and state funding, higher interest rates, changes in the tax-exempt-bond market, and the unwillingness of voters to pay higher taxes for services necessitated by development.

The fees began in the 1960s to pay the cost of water and sewer connections to new developments, but changes in municipal financing and suburban population growth have added substantially to the list.

"Impact fees are viewed as a way for growth to pay its way," according to the report written by the staff of the university's Center for Transportation Studies.

The issue of whether these impact fees are putting affordable housing out of the reach of a growing number of Americans is also the subject of intense debate. The housing industry maintains that [they are], and a study in 2006 by the Center for Housing at Harvard concurred with that observation.

"At the local level, land-use regulations often make it difficult for builders to develop affordable housing," according to the Harvard study. "Large minimum-lot sizes, restrictions on land available for residential development, impact fees that place the marginal cost of infrastructure and public services on new-home buyers, and approval processes that add risk and delays all play a hand in rising house prices."

Although many land-use rules address important concerns such as environmental protection and public health, "they nevertheless make housing more expensive," the Harvard report said. "Indeed, the stricter the development regulations, the more intense the affordability problems in that community."

A new study by the National Association of Home Builders (NAHB) seems to support the Harvard study's conclusion.

Even as the housing market correction continues to exert downward pressure on new home prices, localities continue to push forward with new fees and regulations that will further erode housing affordability, the study said.

The report on the impact of government regulation on housing shows that each $1,000 increase in the cost of a new median-priced home forces 217,000 prospective buyers out of the marketplace.

Based on national mortgage underwriting standards and incorporating the latest data from the U.S. Census Bureau, the report contains detailed results for more than 300 metro areas.

The analysis found that every $819 rise in fees paid at the beginning of the construction process--such as an increase in the price of a construction permit, a tap fee, a proffer or an impact fee--adds an additional $1,000 to the final price of the home.

"The study shows that even modest impact fees can have a dramatic effect on housing affordability," said Jerry Howard, executive vice president and CEO of NAHB. "Local governments need to understand that higher regulatory costs frequently push up the price of housing beyond the means of many teachers, firefighters, police officers and other moderate-income workers."

The number of households that would no longer be eligible to qualify for a mortgage based on a $1,000 increase to a median-priced home ranges from a low of 10 in both the La Crosse, Wisconsin-Minnesota metropolitan statistical areas and the Ocean City, New Jersey MSA, to a high of 4,193 in the Dallas-Fort Worth-Arlington, Texas area.

The numbers vary significantly in each marketplace, and are largely a function of local income distribution, house prices and population.

A few years back, for example, *Professional Builder* magazine and the Gainesville, Florida Builders Association hired two University of Florida economists to study fees in Alachua County, Florida.

The study determined that developers were paying $3,114 more than it cost for basic infrastructure and services for a typical 2,077-square-foot house.

Official impact-fee schedules dramatically understate the true costs imposed on developers by municipalities, according to a study by The Heartland Institute of Chicago.

Other costs include annexation fees, permit and application fees, connection fees, time spent in public hearings, interest paid on loans or capital investments pending approval of applications, and the cost of complying with many other kinds of regulations.

Many expenses are unique to each project and, therefore, cannot be averaged.

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"Effects of Impact Fees on the Suburban Chicago Housing Market," *Heartland Policy Study* No. 93, November 1, 1999: **http://www.heartland.org/Article.cfm?artId=9437**