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AUGUST 2, 2011

Homebuilders: Regulation accounts for 25% of a new home's price

In Maryland and across the country, local and state agencies shape the homebuilding process through regulations -- rules about where and how companies can build. The idea is to avoid problems.

But the **National Association of Home Builders says regulations add a substantial cost**, accounting for 25 percent of the price of a new single-family home.

The trade group's study, conducted by HousingEconomics.com, relied on survey responses from homebuilders, including firms with experience acquiring land and developing lots.

As you might imagine it would, the report suggests government officials think twice before adding more regulations in an environment where "builders are already reporting new homes appraising at less than the cost required to produce them."

The cost of regulation and regulatory-related delays tends to be somewhat higher in the Northeast, the study says.

Maryland -- at the cusp of the Northeast and South -- has a variety of rules that vary from county to county. Some are of the building-code sort. Some are queues -- designed to control the pace of development so it doesn't get ahead of new schools. And some require upfront fees to pay for the impact of more people on the roads and students in classrooms.

Maryland's "impact fees" are among the highest in the nation, according to a separate survey by impact-fee consulting firm Duncan Associates.

Duncan Associates says Maryland is one of the few states where you'll find impact fees for school construction, one explanation for its high ranking. Impact fees of all sorts average about \$8,900 in the state for a single-family house, close behind No. 2 Florida but far behind the No. 1 state. The average impact fee tally in California is more than \$23,000.

Impact fees under \$5,000 for a single-family house are more typical, the 2010 survey found.

So, is this bad, good or neutral? It really depends on your perspective.

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Plenty of suburban Howard County residents were aggravated with development when I covered that beat in the early part of the housing bubble, so they liked anything that slowed the pace and contributed fees for capital improvements.

If you're a homebuyer, you might wish for fewer regulations if it would mean a lower price tag. Or you might not, depending on the sort of house and neighborhood services you'd get without them. Difficult to tell without being able to compare.

Homebuilders, meanwhile, tend to complain the most about rules that bog down the pace of work -- especially if it's inconsistent, like a commute that's 15 minutes some days and an hour on others.

Are there local building regulations you love or hate? Do you think, all told, development rules are worth the bottom-line cost?

Posted by **Jamie Smith Hopkins** at 6:00 AM | [Permalink](#) | [Comments \(10\)](#)

Categories: **Housing stats**



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Comments

Sure, without regulation, they could build houses out of spit and cardboard, which are relatively cheap. After all, they wouldn't have to live in the resultant death traps.

Posted by: Cheap Jim | [August 2, 2011 6:46 AM](#)

Survey data like these are going to be pretty unreliable, since the sampling population is biased. I wouldn't trust this unless it were quantitative. NAHB isn't happy until ALL construction permitting and regulation is eliminated.

Posted by: Doug | [August 2, 2011 8:31 AM](#)

I should point out that the study doesn't analyze actual costs, it just asks homebuilders what they think the percentage is.

Posted by: Able Baker | [August 2, 2011 8:53 AM](#)

Able Baker, the survey questions (which you can see on page 11 of the report) ask builders to break out the percentage of costs by various measures -- the value of land that must be left unbuilt, for instance, and the cost of applying for zoning/subdivision approval (including traffic impact studies, etc.). So it's better than a simple "guess at how much regulations are costing you" query, but obviously the accuracy of the results depend on how carefully the builders go through their records. And how honest they are about it.

A study by and for a neutral party would certainly be preferable.

Posted by: **Jamie Smith Hopkins** | [August 2, 2011 9:32 AM](#)

Sure, I read the report. Having multiple categories doesn't mean it's going to be more accurate.

Posted by: Able Baker | [August 2, 2011 12:17 PM](#)

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They're really missing the biggest point, that is shifting the housing market away from perfect competition, and towards monopolistic competition. The more monopolistically competitive a market, less quantity will be supplied at higher prices. It goes far beyond the hard costs of applying for permits, and opportunity costs of time delays.

Areas with stricter zoning correlate strongly with areas where housing is priced significantly over the marginal cost of production. This is the Lerner index method of measuring monopoly power.

<http://app.ny.frb.org/research/epr/03v09n2/0306glae.pdf>

Minimum lot sizes alone increase the price of housing by 20% where land is in limited supply

<http://ase.tufts.edu/econ/papers/zabelMinimumLotSize.pdf>

Sprawl certainly has negative externalities. But the problem is when you combine anti-sprawl zoning, with anti-density zoning. You end up significantly tilting the individual firm demand curve on a very inelastic good. Result: massive welfare transfer from society as a whole into the hands of monopolists (developers). It is no wonder that developers, and the RE industry in general, are always top campaign contributors.

Posted by: **Josh Dowlut** | **August 2, 2011 3:11 PM**

What are you saying? That there shouldn't be impact fees?

When a builder takes a 10 acre parcel and puts low income \$1 down condos on it then 200 families move in. That means on average 500 more cars in the area... 3 more buses for school half a dozen new school rooms... Increased demand on water and sewer and everything... In my area they annexed land from another county because the mayor's brother was a developer.. they made tens of millions of dollars...

It caused everyone's taxes to go up.. It caused a 100 MILLION DOLLAR BOND ISSUE FOR NEW SCHOOLS.. fricken hundred million...

AND AS A BONUS! it brought in some really low class people to a quiet town that used to be nice to live in...

NOW ITS OBAMA LAND....

BTW this is the town that Joe Biden's son lives in SMYRNA, DELAWARE...

THE TOWN IS TOTALLY TRASHED IN UNDER 5 years and for the past few all you hear day and night is ... Boom Boom Boom Boom boom Boom as the trash drives up and down in their Free Obama Clunker Cars.....

Drunk driving is up Robberies at stores drug sales that were nonexistent before.. THESE SCUM TRASHED OUR TOWN BECAUSE THE MAYOR IS CORRUPT.

I SAY THESE FOOLS SHOULD BE MADE TO PAY 100% OF THE COST THEY CAUSED ON MY TOWN...

Posted by: **HockeyGuy** | **August 2, 2011 11:06 PM**

@HockeyGuy

OBAMA LAND? Really?

Your post is reeking of racism.

Instead of trashing the president, why don't you focus your wrath on the local officials that apparently ruined your town?

Posted by: **Shireen** | **August 3, 2011 4:39 PM**



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the "Obama Land" post really is off-base and anecdotal in any case.

i'm pretty fiscally conservative, but i have to agree with those that say the regulations involved with building new homes are necessary, for the most part. josh, the "free market" does not always produce a result we want. the goal of zoning and housing policy should not be to provide the most goods at the least cost. it should be to create livable communities that fit the needs and expectations of the voting public in a given area. if an area wishes to retain a rural or exurban character, they should handle their zoning accordingly. similarly, if an area wants to ensure that quality, rather than quantity, of housing is built in their area, i see no problem with this.

on the other hand, if an area chooses lax zoning and low "lot fees", then they should be prepared to content with the consequences.

freedom to zone your area the way you want and to require certain things from builders seems pretty fair to me. i certainly don't see why it would be more fair to eliminate standards... defects or shortcuts in home construction are major issues and not something that most buyers have time or familiarity to check out. some defects can easily be missed by inspectors. and, if standards are lax, the inspector won't really be protecting the buyer because even hack jobs will be "up to code".

the last thing is... there is no shortage of housing in this country. tons of inventory out there. the last thing we need is lots of new crapshacks getting built in sprawling fashion.

Posted by: chappy10 | August 4, 2011 4:38 AM

There's a difference between a free market and a competitive market. Not all free markets result in competitive markets, but for those markets that are able to operate pretty close to the perfect competition side of the spectrum, consumers dictate terms to producers, and producers do produce what the majority of society wants. Consider that negative externalities are a form of theft, hinder market function, and government has a legitimate role in limiting them.

Ultimately it is expansive zoning rules, and double regulation (meaning builders are licensed, and their work is also licensed through a permitting process), that turns the developers into state-sponsored monopolists, and shifts power to them and away from society as a whole.

Also, the real world does not need to be all or nothing. It is possible to have a narrower zoning, permitting, and regulatory process, while far from eliminating it all together.

Regarding the surplus of housing, much of that has to do with the bureaucratic, bailed-out, leveraged, secured financing that creates a ratchet effect in the housing market, hindering downward price flexibility which is necessary to clear the market.

Posted by: Josh | August 4, 2011 6:45 PM

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