Impact Fees and Housing Affordability

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The Promise of Impact Fees

- Impact fees force *internalization of externalities:* a developer who bears or shares cost of infrastructure is more likely to
  - Design project to minimize use of infrastructure (e.g., higher density, less sprawling form)
  - Site project to minimize use of infrastructure (e.g., less leapfrog development)
  - Design & site project to minimize destruction of natural features such as wetlands that can reduce need for built infrastructure
  - Design & site project to avoid external effects that would trigger fees (e.g., drainage onto neighboring lands)

The Promise of Impact Fees

- Impact fees are closer approximation of *marginal cost pricing* than property taxes
  - Marginal cost may be higher than average cost if the service is subject to congestion
  - Marginal cost may be higher than average cost if development is far from services, in especially difficult terrain or geography, or lower-density than average development

The Promise of Impact Fees

- Fees may *enable growth* where infrastructure and public funding constraints would otherwise require a moratorium or staged growth, or would motivate other growth control or management regulations
- Fees may act as an *insurance policy* for existing residents, reducing the risk of property tax increases (and consequent property value decreases) to finance new growth
  - That reduced risk may assuage homeowners who would otherwise insist on growth control or management

The Perils of Impact Fees

- Impact fees can be misused as *exclusionary zoning*
  - Evidence of use for exclusion is thin and mixed
- Impact fees raise issues of *transitional fairness* because they deny a subsidy available to prior new-comers (legal transition)
- Impact fees raise threat of *rent-seeking* –if current residents misuse to require newcomers to subsidize existing residents
- Impact fees can raise the price of housing beyond the reach of many people

Who Bears the Cost of *Efficient* Impact Fees?

- If impact fees fund infrastructure that consumers value, or finance infrastructure more efficiently than property taxes, or reduce the risk of property tax increases, those benefits should be capitalized into the value of the housing
  - Unless the amenities/lower taxes/lower risk are available for less in a substitute, competitor, jurisdiction
- So, consumer, rather than developer, will pay, but will suffer no net loss because they will receive in benefits a value equal to (or greater than) the cost of the infrastructure financed (or taxes or risk avoided) by the fee

Who Bears the Cost of Impact Fees if Impact Fees Provide No Net Value, or Provide Value Available Elsewhere for Less?

- Depends on relative elasticities (responsiveness to price increases) of consumers’ demand for housing and landowners’ supply of land

What if it's easy for home-buyer to escape fee?

- If consumers can obtain an equivalent new house in another jurisdiction, or an equivalent used dwelling in the taxing jurisdiction, for the pre-exaction price, the developer will be unable to raise prices to consumers
  - Developer won't pay, if market is competitive, unless the fee was unanticipated at time of land purchase
  - Landowner will take less, or hold land off the market until demand increases

What if home-buyer can't escape fee – the exaction is widespread, or the jurisdiction is unique?

- Consumer will pay all or most of the impact fee because no substitute no-fee housing will be available
- Impact fees will raise the price of both new and old housing, because some consumers will seek substitutes in existing housing until the price for existing housing has risen to equal that of new housing

Empirical Studies of Price Effects

Study	Fee effect on new housing	Fee effect on existing housing
Delaney & Smith	3.24 to 3.48	1.42
Mathur, Waddell & Blanco	0.63 to 3.58	Not studied
Singell & Lillydahl	3.214	5.92
Dresch & Sheffrin	0.25 to 1.88	0 to 0.23
Baden & Coursey	0.70 to 2.10	0.73 to 1.50
Ihlandfeldt & Shaughnessy	1.64	1.68

Empirical Studies of the Price Effects of Impact Fees on Land

Study	Effect on Price of Land
Nelson & Lillydahl	No effect in Loveland CO; Significant increase in Sarasota County FL
Skaburskis & Qadeer	+1.23 to 1.88
Ihlandfeldt & Shaughnessy	-1.00

What Conclusions Follow from Empirical Studies?

- Fees correlate with increase in new house prices
- But magnitudes of increase vary dramatically and are impossible to explain
- Sometimes, fees associated with increase in existing housing prices, but magnitudes vary dramatically
- Increase in prices for existing housing sometimes higher than for new housing, sometimes lower
- Fees are associated with both increases and decreases in price of land
- Only study to measure both effect on housing and effect on land finds both increases in house prices and decreases in land prices totaling much more than fee

Research Needed on Price Effects of Impact Fees

- Need to measure benefits of impact fee – infrastructure financed; taxes avoided; risk avoided
- Need to measure effect on supply of housing
- Need to account for differences in demand for housing and competitiveness of jurisdictions
- Need for more completely specified model – adequate variables for housing characteristics; variables for neighborhood effects; variables for employment and other trends

Price Effects and the Affordability of Housing

- If impact fees increase price of housing by no more than the value added for consumers, then no effect on affordability (no net loss for consumers)
- If impact fees correct price of housing by forcing internalization of externalities, then effect on affordability is efficient
  - But there may be distributional concerns re: transition to correct pricing

Price Effects and the Affordability of Housing

- Fees may offset effect on price of housing by encouraging efficient land development
- Fees may offset effect on housing prices by reducing expense of other items, such as transportation
- Fees may offset effect on housing prices by funding provision of housing specially targeted for moderate income households
- Fees may offset effect on housing prices by increasing supply, where growth controls otherwise would have been implemented

Research Needed on Impact Fees and Affordability of Housing

- Studies must account for the benefits provided by fees – infrastructure financed; taxes avoided; risk avoided
- How do price effects on new (usually higher quality) housing translate to effects on housing bought or rented by moderate income households? What is filtering effect of fees?
- What are distributional effects – differences in impact of fees on racial and ethnic minorities?
- All effects of impact fees must be measured relative to realistic alternative financing methods

Research Needed on Impact Fees and Affordability of Housing

- Can impact fees be paired with measures to increase affordability by encouraging more efficient land use, more efficient regulatory systems, or greater density?
- How best to tailor impact fees to be more progressive?
- How best to mitigate effect of fees on affordable housing – waivers, credits, etc?
- How best to use fees to increase supply of affordable housing?

Conclusion

- Research does not yet prove that impact fees raise the *net* price of housing – the price after the value of infrastructure financed/taxes avoided/risk avoided is accounted for
- Research is just beginning to assess the effect of impact fees on housing affordability and housing opportunity for racial and ethnic minorities