

Government Regulations Impact Housing Affordability

Evan as studies indicate that a growing number of households are struggling to afford housing that meets their needs, local governments are imposing new fees and costly regulations that make it more difficult for many low- and moderate-income families to find housing.

A new report from the National Association of Home Builders on the impact of government regulation on housing finds that each \$1,000 increase in the cost of a new median-priced home forces 217,000 prospective buyers out of the marketplace. The report, which is based on national mortgage underwriting standards and incorporates the latest data from the U.S. Census Bureau, contains detailed results for more than 300 metro areas.

The study shows that even modest impact fees can have a dramatic effect on housing affordability. 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.

While cost increases can result from forces far beyond the control of government or government officials, frequently it is specific government action that reduces housing affordability. For example, any time a local government raises construction costs by increasing the price of a construction permit, a tap fee, a proffer or an impact fee, the cost of building a house in that area rises and affordability is necessarily reduced.

Impact fees and other exactions imposed by local governments are supposed to be applied to the provision of infrastructure – roads, schools, water and sewer, etc. – in proportion to the impact of the new homes being built. But all too often the money collected through such fees is spent on local needs that have little relationship to the actual impact of the development. In the long run, such fees add to the cost of all housing, new and used, because when the cost of a median-priced new house rises, prices of existing houses rise too. Affordability across all price levels is reduced whenever building fees are raised and not just for buyers of new homes.

The analysis found that for every \$819 rise in fees paid at the beginning of the construction process – such an increase in the price of a construction permit, tap fee, a proffer or an impact fee – adds an additional \$1,000 to the final price of the home. The differential occurs when construction costs rise, other costs, such as financing costs and broker commissions, rise in tandem.

The NAHB study found that the number of households who 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, WI-MN metropolitan statistical area (MSA) and Ocean City, N.J. MSA, to a high of 4,193 in the Dallas-Fort Worth-Arlington, TX MSA. Des Moines, IA MSA prices out 522 potential homebuyers per \$1,000 increase.

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

To view a detailed breakdown on how \$1,000 price increase on a median-priced home affects households in individual market areas, go to www.nahb.org/pricedoutcities. The full study is available online at www.nahb.org/pricedout.

Meeting the housing needs of America's working families is a difficult challenge. Excessive government fees and regulations that drive up the cost of housing make that challenge even more difficult, and harm low- and moderate-income working families that struggle to find housing they can afford.

For more information on the impact of government regulations on housing affordability, contact Home Builders Association Greater Des Moines at 515-278-8500. To sign up for NAHB's free consumer e-newsletter, visit www.nahb.org/housekeys.