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Another look at impact fees

by Wayne Grinnell

There have been numerous articles and comments in local media following the impact fee assessment vote by Council on May 12.

First, the presumption that "build it and *they* will come" is nearly always incorrect regarding development and building; *they* have to be here already. Land development and construction typically are responsive (reactive) to a market, not responsible for it. Second, developers, builders, and builder/developers are different groups, who actually work toward common goals less frequently than one might imagine. Third, people who created the *colonias* were not developers, as no development took place; they were rank speculators, suffered and permitted to operate by those in political office and those with administrative responsibility to act. And many of those who built there were not builders; it was self-help housing, with an inappropriate expectation that the community would come along and improve their lot in life, at no cost to them.

Population increase and creation of households drive the demand for housing, and offices, schools, employment. Many complain of population growth from new residents, but immigration is not the reason for growth here. Over the past 60 years, just considering births over deaths, and disregarding immigration/outmigration, El Paso's population might be 50,000 greater than it is today. We appear a net exporter of human capital, which means the housing stock, and all other forms of construction, would have been larger if we weren't shipping the kids elsewhere. So, on a net basis, the people who end up paying for infrastructure are your own kids, not that big batch of wealthy retirees who never came and already left. The wealthy do not retire to here; they retire from here.

Affordability of housing is a tremendous argument. Here are some facts.

Strong and vibrant economies generate interest by retailers, employers, investors, services, health care, everyone. And employers look to good quality of life, indicated partly by disposable income, before locating a facility. One indicator of that quality is a regional median family income (MFI) of at least 75 percent of the national median of \$64,000, or \$48,000. Here, it is \$39,700, or 62 percent of national (And the fourth-lowest MFI in the USA! *HUD and ACS, March, 2009*). That news keeps well-paying jobs out of town.

An affordable home is one that costs no more than 30 percent, certainly under 35 percent, of net monthly income, including principal, interest, insurance, taxes, and utilities. That means about 2.5 times the gross monthly income, and assumes a 20 percent down payment. The median-priced home in El Paso (~ \$140,000) is affordable to the

70th percentile income family (\$60,000 per year). At the median income, an affordable home is under \$100,000. I suggest if you have a house and kids, you add on an apartment so they will have a place to live through their 30s, or until they leave for anywhere at all else.

The extent to which impact fees actually impact housing costs is a function of the amount charged, timing (when it is imposed), and fairness of purpose, or equity. There is no business that does not pass on the cost of doing business. The cost of adding that cost depends largely where in the process the cost is added. When a fee is paid much before it is recaptured, the carry cost is higher (interest, administration, etc.). Sometimes an impact fee is fairly assessed and might result in a reduction in the initial lot price. That will not reduce the price of the house, and may even increase it.

In El Paso, as in many areas, the home value is based on 20 percent of the value in the land and 80 percent in the improvements. If the lot price is \$20,000 (No, there are none at this price), the home sells for \$100,000; if the lot price increases \$1,000, the home price increases \$5,000, rendering the home unavailable to a very large number of people at the median income. Theoretically, if the lot were a larger percentage of the total, the home would be smaller, and cheaper; but the builder at some point makes less than is necessary to remain in a very risky business. No risk? If interest rates increase one point, sales drop precipitously, and the builders and developers have no control.

New homes typically are taxed at higher values than existing homes of similar size, often far more. And perhaps they should be, but here again new housing is subsidizing older housing. The homes generally are better built, and the subdivision infrastructure is much improved over that built 40 years ago. And some depreciation already has occurred on older housing. It has an economic life of some 50 years, with depreciation of one-to-two percent annually. Of course some of it is better-built and better-maintained in better neighborhoods, so appreciation may offset depreciation. Scarcity helps, too: El Paso likely is shy some 30,000 decent housing units for its current population, a fact that forces home prices higher, and forces many people into undesirable living conditions.

By the way, in 1959 El Paso's median family income was 91 percent of the national median, and is 62 percent today, a disastrous slide in economic well-being. Great job of economic development, folks. Whatever you had, you threw away.

Maybe this will surprise you, but the typical military family moving here will not be any better paid than the median family is compensated here now, under \$40,000 annually. I look at real estate investment information advice nationally, including that directed toward military families. They are often advised not to buy homes if they will be in an area fewer than five years. They are advised not to buy homes at a cost of greater than a multiplier of their income, and they need to pay 20 percent down.

Oh, the school argument. Big box schools are a major reason for, not result of, sprawl; an elementary site is now 15 + acres for 800 students, when 25 years ago it was five acres for 350-400 students. The increase in site size is not a local phenomenon, and came about largely from a lot of apparently bogus information. The school districts need to rethink the formula for rehabilitating smaller, closer-in schools, as is being done in Albuquerque and other areas.

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Wayne Grinnell has been involved in private and public sector land planning and development in the El Paso, Texas/Southern New Mexico region for over 30 years. He is a member of the Counselors of Real Estate (CRE) and the American Institute of Certified Planners (AICP). He is Vice-President of Planning and Development of the CSA Design Group in El Paso.