



## Brokers, builders push back against development fee proposal

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Small signs of life in metro Atlanta's real estate and construction industries have local governments asking whether they should charge developers more to build homes, commercial properties and offices.

Development impact fees, which are levied on developers to help pay for parks, roads, police facilities and fire stations, could increase by thousands of dollars in Atlanta under legislation set to be considered by the City Council. Just a week ago, Cherokee County raised its fees to pre-recession levels.

In Atlanta, the proposed legislation would update fees that have not been raised in nearly two decades. Some city officials say that would yield more cash for crucial amenities such as roads. But opponents in the real estate and construction industries say the changes would hurt the city's still-shaky real estate industry by raising the cost of development just as some intown properties are showing signs of recovery.

Meanwhile, some key competitors for development, including Cobb and Gwinnett counties, don't charge the fees at all.

City Councilwoman Joyce Sheperd said Atlanta's existing fee structure is obsolete and costing the city money.

"At some point as a city, we can't just say, 'Don't do it,' " she said of the proposed increases. "This is really the city being fiscally responsible with what we do. We can't just sit on stuff and say the timing's bad. We've got to make sure as we build out, we're doing it in a smart way."

Opponents seem dug in.

"In light of everything going on in the economy, is this the right time to make it more expensive to do business in the city of Atlanta?" said David Ellis, executive vice president of the Greater Atlanta Home Builders Association.

If approved, the changes could be phased in over five years. A public hearing is scheduled for Aug. 28 on the fee hikes.

"I do understand that the development community is having some trouble with the ordinance," said James Shelby, the commissioner of Atlanta's Department of Planning and Community Development, who said he planned to meet with developers and other stakeholders this month.

"We would gradually increase the rates over a certain period of time," he said. "We wouldn't just dive in and do this all at once."

Impact fees are a way to offset the cost of adding new roads and other amenities after new development occurs. The idea is to sustain the same levels of service and ensure taxpayers aren't hurt by development. In Georgia,

the fees were authorized by a state law in 1990. Currently, 48 local governments in Georgia are eligible to charge impact fees, according to the state's Department of Community Affairs.

Steve Brock, whose construction company has done business in Atlanta for 27 years, said higher fees would "absolutely" discourage new development in the city.

"Our industry has been under tremendous stress," said Brock, president of Brock Built Homes. "It was a depression for a real estate market, and I think the timing is exceptionally poor for a proposal like this. This is one of those things that is penny wise and pound foolish."

In metro Atlanta, impact fees — or the lack thereof — figure in the competition for jobs, company relocations and construction projects.

"Obviously, you can't raise the fees too much higher than surrounding competing jurisdictions or you'll drive business away," said Harvey Newman, a retired professor of public management and policy at Georgia State University. "That's always a concern for elected officials."

Impact fees are generally small parts of the total cost of a big project —perhaps a percentage point or less — said Conor McNally, the chief development officer for Carter, one of the country's biggest development firms.

But the fees add up. Impact fees totaled about \$550,000 on the 271 17th St. tower that Carter helped build, McNally said. That building sold for \$75 million. McNally said the need for better infrastructure is real, but so is the need to protect Atlanta's reputation as a low-cost environment.

"It's no good for anybody ... if we have police that are underfunded," he said. "But it's a sensitive time, and I would be very careful and thoughtful about [raising fees]."

There was hearty debate in Gwinnett County during the boom years about whether the fast-growing county should implement the fees to pay for new libraries or roads. But the county never charged the fees.

Neither did Cobb County, which opted to negotiate agreements with developers on a case-by-case basis. Those agreements might call for a developer to pay for wider roads, additional traffic signals or rebuilt bridges. That saves paperwork and time, and it gives Cobb a competitive edge, said Rob Hosack, the county's community development director.

"I can tell you that based on feedback on our customers, that is an advantage — not having impact fees," Hosack said.

Just before the recession, Roswell officials considered raising the city's fees, but they backed off as the real estate market slumped.

Cherokee County temporarily cut its impact fees across the board in August 2009. That may have helped persuade some big builders to move forward with their plans, but the overall impact was not dramatic.

"We did not have a big rush to buy permits simply based on the reduction," said Jeff Watkins, the county's director of planning and zoning. Other factors, he said, such as obtaining financing and sewer tap fees, play bigger roles in development decisions.

Cherokee's fees were partially raised in 2011 and returned to pre-recession levels last week. Based on past experience, Watkins predicted a quiet reaction.

In Atlanta, the real estate industry appears set to resist the increases. Robert Broome, a spokesman for the Atlanta Board of Realtors and the Atlanta Commercial Board of Realtors, called the increases arbitrary and potentially off-putting to businesses that want to relocate inside the city. He said Atlanta officials had not justified the increase.

"It's simply, 'We want to raise fees because we haven't raised them in a long time,' " Broome said. "They are not showing that the funds are not sufficient."

But some experts question whether heavier fees would actually drive development away from Atlanta. Location is the most important factor in deciding where to break ground, said Sharon Gay, a partner at McKenna Long & Aldridge LLP.

"If you really want to build a hotel on Peachtree, you're not going to go to Ga. 20 in Cherokee County," she said. "The real question is whether that hotel on Peachtree will have the infrastructure it needs. Will the sidewalks be wide enough? Will there be access to MARTA? Will the toilets flush properly?"

"It's sometimes worth paying for things," she said, "if you're getting what you pay for."

### Impact fees proposal

Atlanta has scheduled a public hearing for Aug. 28 to consider increasing development impact fees, which have remained the same for nearly two decades. The fees help pay for roads, parks and public safety. The proposed increases are based on a 2010 study by Duncan Associates, an outside consultant. They would be phased in over five years.

Category/Current fee/Proposed fee/Percentage increase

Single-family home/\$1,544/\$3,633/135%

Multifamily unit\*/\$857/\$2,293/168%

Commercial development\*\*/\$2,273/\$4,039/78%

\*Fee based on dwelling in a multifamily unit

\*\*Fee based on 1,000 square feet of commercial space

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