

March 2008

Dear Colleague,

Impact Fees: Who's Impacting Whom?

"The current fee structures have sucked the economic reality out of the residential building industry," said Scott Molloy, Public Policy Advocate for the BIA San Diego. "When you factor in impact fees and the decline in housing prices, it now costs more to develop a house than a builder can sell it for," he said.

Snow Properties sat down with Mr. Molloy and Ernie Cowan, Vice President of Government Affairs for the North San Diego County Association of Realtors (NSDCAR), to examine the state of impact fees in today's housing market. Now that the housing industry is entering its second year of steep declines, many feel it's time for local government and builders to work together in resolving what many believe has become an unsustainable model.

Impact fees are one-time charges imposed by municipalities on residential builders to recover part of the costs of infrastructure improvements necessary for expanded development, such as sewer, water, schools, and parks. These costs are passed on to the homebuyer.

"Municipalities have tremendous pressure to find sources of revenue," said Mr. Cowan, a former mayor of Escondido. "Not only are impact fees a huge source of revenue, they are 'hidden' from the consumer/taxpayer/homebuyer. Most don't realize that a significant portion of the price of their home goes toward subsidizing these services."

A national survey of impact fee levels across the country, conducted last year by Texas-based Duncan Associates, shows an average of \$10,496 per single-family home in jurisdictions that use impact fees. However, in Southern California, impact fees now average \$50,000 for a single-family detached home, and reach as high as \$100,000 in some municipalities, according to Mick Pattinson, CEO of Barratt American Homes and chairman of a new impact fees task force recently launched by CBIA.

As noted in the February 2008 issue of Professional Builder, builders often say that land owners are the last to recognize and accept new price levels when a market cycles down. But local elected officials are probably even more oblivious to today's new market dynamics.

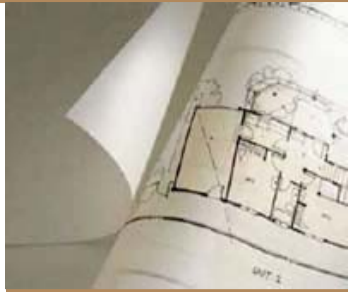
Observed Mr. Molloy, "During the housing boom, everybody was doing great, municipalities included. But now that building permits have plummeted and many homebuilders have pulled out of Southern California, local governments are feeling the squeeze. Their first inclination is to raise fees in order to cover the decline in revenue."

Today's market provides homebuilders unprecedented leverage to address impact fees. Leaders such as Cowan, Molloy and Pattinson agree that the legislative arena is the most effective place to wage battle. From lobbying to have fees applied at certificate of occupancy rather than at the building permit stage, to fiscal reforms that allow cities to keep a larger slice of property tax revenues, the battle is on. No matter the outcome, impact fees will continue to impact governments, homebuyers, and homebuilders for better or for worse for years to come.

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Did You Know?

"This new jumbo conforming loan is less than was hoped for by the consumers. It will be more conservative in guidelines and less robust in attributes. And the interest rate will not be as low as conforming loans are today. However, it's a step in the right direction, and we're optimistic it will be one of the fundamental blocks of rebuilding."

Craig Brown, President of Rancho Financial Mortgage

One of our readers replied to last month's newsletter: "Mortgage rates in the early 1960s or late 1950s were in the 5% range, and I remember a prospective buyer complaining that the bank wanted 6% and he refused to pay it! (I'm smiling.) So after living through the high rates of the 1970s and early 1980s, I totally appreciate 5-6% rates. Gosh, I'm old. But age has its advantages."

"In any moment of decision, the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing." Theodore Roosevelt.

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