

Comment on Shishir Mathur’s “Do Impact Fees Raise the Price of Existing Housing?”

Timothy S. Chapin

Florida State University

Abstract

Mathur finds that impact fees have different effects on affordability for “low-quality” and “high-quality” units. His study indicates that such fees increase prices for existing high-quality homes, but not for existing low-quality homes. He concludes that this finding is good news for those who support impact fees, because it would suggest that they do not affect affordability in lower-income neighborhoods.

In offering a different view, I first discuss the intent of impact fees and illustrate that certain types of fees should raise prices for low-quality housing, regardless of whether it is new or existing. Noting that not all impact fees are created equal, I also suggest a key refinement for future research to explore this aspect. Finally, I identify different types of fees and describe two scenarios in which the price effects would be expected to differ from those Mathur describes.

Keywords: Affordability; Growth management; Housing

Introduction

Mathur’s article joins a growing body of quality empirical research that furthers our understanding of the effects of impact fees on the land development process, housing prices, and affordability. (In addition to Mathur and the papers he references, see also Burge and Ihlanfeldt 2007; Burge, Nelson, and Matthews 2007; and Jeong and Feiock 2006.) Generally speaking, research into impact fees has found that this infrastructure financing tool is not the ruin of housing markets, nor is it employed solely as a way to promote exclusionary housing by keeping multifamily units, lower-income households, and/or people of color out of the suburbs.

Previously, Mathur and his colleagues published a study that investigated the influence of impact fees on *new* housing units (Mathur, Waddell, and

Blanco 2004). The present study expands on this work and contributes to the literature on impact fees by investigating their influence on *existing* housing units. In this study, Mathur finds that impact fees have different effects on the affordability of existing “low-quality” and “high-quality” housing units and that existing high-quality units capitalize the value of impact fees into home values, regardless of the time of construction. He also finds that these fees increase housing prices for existing high-quality homes, but not for existing low-quality homes. He concludes that this finding is good news for those who support impact fees, because it suggests that they do not affect affordability in lower-income neighborhoods.

The purpose of this comment is twofold. First, I explain my position: I disagree with Mathur’s conclusion that the lack of price effects on low-quality housing units is good news. To elaborate, I discuss the intent of these fees and illustrate that, when used appropriately and successfully, they should raise prices for low-quality housing units in existing as well as new neighborhoods, along with those for high-quality units.

Second, I suggest a key refinement for future research based on the fact that not all impact fees are created equal. As part of this discussion, I identify different types of fees and describe two scenarios in which price effects would be expected to differ. This section illustrates that there are indeed different types of impact fees and that these differences should be reflected in research into the effects of these fees.

Is it really good news?

Drawing on a wonderfully detailed longitudinal data set for King County, Mathur finds evidence that impact fees drive up housing prices for existing homes, but only for high-quality units. He concludes that this is a desirable outcome since lower-income households, which are disproportionately composed of people of color, will not see their housing prices increase with the imposition of an impact fee. He concludes that this should allay some of the concerns that advocates for affordable housing have about such fees.

However, when viewed from another perspective, the finding that low-quality homes do not capitalize impact fees into their values may not be wholly desirable. Housing units are often the primary opportunity for moderate- and low-income households to increase their wealth. For most of these households, homes represent the asset with the greatest value. While price increases indeed make units less affordable, they also represent an opportunity for homeowners to build wealth. As they do so, opportunities can arise in which the household can move up the housing ladder to better-constructed

and/or better-located units. I would argue that when used appropriately and effectively, impact fees can contribute to higher home prices through better infrastructure and better services. Mathur's findings suggest that these spillover effects are found only in higher-quality housing. This is somewhat counterintuitive because all households use the infrastructure and services in the community.

How might impact fees influence housing prices? These fees are to be used for capital expenditures within the region from which fees have been collected. For example, a county that imposes a school impact fee is supposed to use the money to fund improvements to existing schools or to construct new ones in the areas of the county from which fees were collected. Generally speaking, local governments cannot take impact fees from one area of the county and spend them on infrastructure improvements that primarily benefit other areas. The rational nexus test applied to impact fees is in part based on geography; is there a nexus (a clear link) between those households that have paid the fees and the benefits created from them? Local governments know that this question must be answered in the affirmative for an impact fee to be upheld if it is challenged in court.

In most cases, it seems reasonable to expect that all units in a jurisdiction in which an impact fee system is in place will see increases in property values. These increases should be experienced by units that paid an impact fee (the new ones) and units that did not (the existing ones). Why is this so?

First, it is important to recognize that most infrastructure improvements financed via impact fees are *nonexcludable*. While benefits must be aimed toward the households paying the fees, improvements must also be "public" in nature; they cannot exclude households that do not pay fees. For example, a new school financed by impact fees will typically include students from households that paid the fees and those that did not. Similarly, a new park, a new library, or even a new road financed by impact fees can be used by all residents of the area.

Second, improvements to schools or roads paid for by impact fees often have systemwide effects and should lessen the load on other schools and roads. Because these improvements can generate systemwide spillover benefits, we might expect fees to increase the desirability of all housing units in the general area, regardless of whether their owners paid the fee. Thus, in the long run, prices can be expected to increase when impact fees are used on systemwide improvements.

However, Mathur's findings contradict the theorized relationship between improvements paid for by impact fees and home prices, because low-quality housing units did not experience any spillover price effects. Instead of view-

ing this finding as positive (since housing prices remain low, affordability is maintained), it might also be viewed as a failure of low-quality homes to capture the value generated by impact fee-based improvements. By contrast, high-quality homes have been shown to be more likely to capture these price effects, generating wealth for their owners. For those who advocate for affordability, Mathur's finding might be good news, but for those who advocate for wealth-building in lower-income communities, it might be viewed very differently.

All impact fees are not created equal

In the literature, impact fees have typically been modeled in one of two ways, either as a dummy variable (1 = impact fee, 0 = no impact fee) or as a ratio variable in which the average value of a generically labeled "impact fee" is used in the analysis. A review of this literature finds that very few studies have investigated the effects of different types of impact fees. However, it is important to recognize that not all impact fees are created equal. In reality, there are at least three types, each with different effects on housing prices.

One type is aimed at providing basic infrastructure and urban services to new homes in a community. Examples of this type of fee are water/sewer hookup fees (sometimes called tapping fees) and stormwater impact fees; these might be termed *basic services impact fees*. They yield infrastructure improvements that are tailored specifically to the service provision needs of new residential developments. Each new home pays the cost of hooking up to the water and/or sewer system (as with hookup fees) or pays into a fund that provides pipes, ditches, and stormwater ponds to capture the runoff from the development (as with stormwater fees). It is important to recognize that basic services impact fees generally do not yield nonexcludable and systemwide improvements to infrastructure, serving instead as a financing mechanism for the basic services related to each new home. As a consequence, basic services impact fees would not be expected to generate housing price spillovers to units that have not paid the fees.

A second type of impact fee has to do with improvements to existing infrastructure systems that are often major factors in housing prices in the long run. These fees might be termed *system expansion impact fees*; the primary examples are school and road impact fees. Research has shown that better schools and greater accessibility generally contribute to higher housing prices. For this type of fee, new residential units pay into a fund that is used to expand school and road systems. The improvements funded by system expansion impact fees are typically public, with the benefits aimed primarily,

but not exclusively, at fee-paying households. Consequently, when appropriately designed and implemented, school and road impact fees might be expected to generate spillover benefits to units that did not pay the fees.

A third type of impact fee is focused on infrastructure elements that are seen as contributing to quality of life. Examples include park and library impact fees, which are collected by some jurisdictions to support and augment these systems. These fees might be termed *quality of life impact fees*. Unlike the other two types, these fees are not aimed at systems perceived to be fundamental to the functioning of an urban area, but rather at a softer set of services. While libraries and parks are viewed as desirable, a home can be built and function without the immediate availability of these amenities. However, like school system and road network expansions, improvements funded by quality of life impact fees are also nonexcludable, and households that did not pay the fee can use the new libraries and parks. As a consequence, when a jurisdiction imposes quality of life fees, we might expect units that did not pay them to experience some modest housing price effects (inasmuch as library and park systems influence housing prices).

The overarching point to be made is that the types of impact fees being employed in a set of jurisdictions may matter when attempting to discern the effects these fees have on housing prices. Two scenarios underscore this point.

Community A has a simple water/sewer hookup fee. Each new home is required pay a \$2,500 fee to tap into the city's water and sewer systems; this covers the cost of the actual physical connections. In this case, the benefits from these hookup fees are largely exclusive, because the primary and most immediate benefit associated with them is that newly constructed homes now have water and sewer service. Further, the improvements take the form of new underground pipes, so they are generally invisible. Unlike the other types of impact fees in which large, often highly visible public works are constructed, water/sewer hookup fees are limited to new units and finance numerous small, mostly invisible improvements that typically do not boost prices for existing units. Therefore, it is likely that Community A would not see any significant spillover effects on housing prices for existing homes from this hookup fee system.

By contrast, Community B has a \$2,500 school impact fee. In effect, each new home has to pay this amount into the capital budget of the local school board. Once sufficient money has been collected, the board constructs new schools (or expands existing ones) to serve the sections of the community from which the fees have been collected. In contrast to Community A, Community B might very well expect to see housing price spillovers to units

that did not pay the fee. In this case, improvements take the form of new or expanded schools—infrastructure elements that often influence housing prices. Further, the improvements funded by these fees are highly visible, with new school buildings usually receiving substantial attention from the local media. These impact fee-based improvements can influence housing values—home buyers are notorious for bidding up prices in desirable districts with newly constructed schools. Finally, children living in households that did not pay the fee may go to these new schools, so the nature of the improvements is likely nonexcludable.

These cases illustrate that invisible water/sewer impact fees and visible school impact fees almost certainly have very different effects on local housing prices. To date, however, researchers (including Mathur) have tended to ignore these variations in the types and uses of impact fees. Researchers need to recognize that different types of fees likely have different effects on housing prices. This simplification finds its way into the professional literature and even into the popular press, in that impact fees are described and discussed in very generic ways. However, I argue that the types of fees employed may matter greatly when it comes to affordability, wealth-building, and even the level of support for this financing mechanism.

Conclusion

These critiques notwithstanding, Mathur's research offers yet more evidence that impact fees are a generally viable and useful infrastructure financing mechanism for local governments. However, future research needs to expand on Mathur's approach and investigate the effects of different types of impact fees on housing prices. Only when these analyses more accurately capture the different intents and purposes of various types of impact fees can we more fully understand how to effectively implement this infrastructure financing tool without affecting housing prices in undesirable ways.

In closing, it is imperative that any discussion of impact fees not lose sight of their fundamental purpose—namely, to fund infrastructure improvements. At its core, an impact fee is an infrastructure financing mechanism. New homes pay a fixed fee into a fund that is then used to provide a very specific set of public improvements that service these homes. While the nature of the improvements varies, every type of impact fee produces tangible, physical improvements to the jurisdiction's infrastructure and service delivery systems. These improvements provide essential services (such as water or sewer hookups), system-wide expansions (to schools and roads), and/or quality of life improvements (like parks and libraries).

For the past several decades, business interests and (more generally) the public have shown a great distaste for property taxes (or almost any other type of tax) as a way to raise revenue. This distaste is best evidenced by the many efforts to limit property taxes, the most famous of which is California's Proposition 13. This dislike for taxes is rooted in part in the difficulty of ascertaining where and how local governments spend these funds.

In contrast to property taxes, impact fees are proving to be popular with both business interests and the public because of the contractual relationship that underlies them (Jeong and Feiock 2006). While the purchasers of new homes do indeed pay more for their units, they also expect and often receive more or better services in return. At the end of the day, then, I think that there can be little doubt that impact fees increase housing prices. However, any analysis of the effects of these fees on prices must also recognize the benefits they provide, in the form of improvements to local infrastructure and service delivery systems and increases in property values.

Author

Timothy S. Chapin is an associate professor in the Department of Urban and Regional Planning at Florida State University.

References

- Burge, Gregory S., and Keith R. Ihlanfeldt. 2007. Documenting the Rise of Impact Fees. *In Growth Management in Florida: Planning for Paradise*, ed. Timothy S. Chapin, Charles E. Connerly, and Harrison T. Higgins, 283–302. London: Ashgate Press.
- Burge, Gregory S., Arthur C. Nelson, and John Matthews. 2007. Effects of Proportionate-Share Impact Fees. *Housing Policy Debate* 18(4):679–710.
- Jeong, Moon-Gi, and Richard C. Feiock. 2006. Impact Fees, Growth Management, and Economic Development: A Contractual Approach to Local Policy and Governance. *Urban Affairs Review* 41(6):749–68.
- Mathur, Shishir, Paul Waddell, and Hilda Blanco. 2004. The Effects of Impact Fees on the Price of New Single-Family Housing. *Urban Studies* 41(7):1303–12.

