

Government Regulations Add to “Sticker Shock” of New Home Prices

by Paul Guppy - Vice President for Research

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“Sticker shock is biting both newcomers and those already here,” reports a recent news article on soaring home prices in some parts of Washington. It’s no secret that home prices in urban areas across the state are rising fast, often putting the American dream of homeownership out of reach for the average working family in Washington. In King County, for example, the median sales price on a home has increased almost 9%, from \$192,000 to \$209,000, in just one year. That’s more than ten times the rate of inflation in the general economy.

Most consumers are acutely aware of rising home prices. The larger question, however, is *why* are prices rising so fast. Factors most often cited include the growing economy, the limits imposed by the Growth Management Act, and the fact that more people are moving to Washington attracted by the natural beauty of the region and the promise of well-paying jobs.

One cost contributor that is often overlooked is how much government policies add to the sales price of a new home, far beyond purely economic factors. Yet it is difficult to tell just how much government rules and taxes add to home prices.

To get the answer, one homebuilder, Taseca Homes, Inc. of Vancouver, decided to find out just how much local and state regulations, taxes and fees tack on to the market price of a home. The company’s managers carefully itemized and tracked all the actual costs that go into some of the homes the company has built recently. Their findings for one home are shown on the reverse. In many ways, the results are surprising.

They found that at least \$40,486 of this home’s \$223,600 selling price can be attributed to government regulations and fees. That’s an increase of 22% over the cost of building the actual house. And this calculation does not even include the impact of added federal expenses, like payroll

withholding and income taxes, or the costly delays created by federal regulations.

In practical terms, that means an average family would have to come up with \$8,000 more in cash simply to afford the 20% down payment required by most lenders. Most working families are only able to set aside a few hundred dollars a month toward buying a home. To save up the extra money needed at closing means any realistic chance of owning that first home is pushed years into the future, resulting in dreams deferred and lost economic opportunities.

Some added costs, like building permits, processing and utility hook-up fees are directly applied to any homebuilding project and are easily tracked. Government regulations, however, shift indirect costs like park impact fees, wetlands mitigation, street paving and transportation mitigation onto new home construction and therefore add extra expenses that are not so obvious. The cost, of course, is simply passed on to the consumer in the form of higher home prices.

Many of these government rules may of course be good and useful, and serve the public interest. The trouble is, most homebuyers do not even know they are paying these extra costs when they purchase a home. Also, these hidden costs are paid in addition to the property and sales taxes that are *already* being paid to provide public services, so they just become one more source of revenue for governments that are already collecting taxes from the general community.

The overall result is that for many working families, the dream of becoming homeowners is only pushed farther and farther out of reach.

Washington Policy Center is a 501(c)(3), non-profit research organization. For statements on Taseca Homes’ methodology, visit our website at www.washingtonpolicy.org

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Statement on Methodology

Total Selling Price: The total selling price listed here is the current asking price, since this particular home has not yet sold. Since the actual price paid to the homebuilder may be lower, depending on market forces at the time of sale, the percentage of total taxes paid may end up being higher than the 22% listed here.

B & O - Custom Homes: The cost of B & O (Business and Operating) taxes are not included here because under Washington law these taxes do not apply to revenue from the sale of real property. Thus when a new home is constructed on a lot owned by the homebuilding company there is no B & O tax. When a company builds a home on a lot owned by a client, however, these taxes do apply to revenue from construction.

L & I workers' compensation: The Department of Labor and Industries collects taxes from employers on a per-worker basis to pay for the state workers' compensation program. The figure listed here only accounts for L & I taxes paid to cover Taseca Homes' own employees. Additional L & I taxes were paid to the state by companies that worked on the home as subcontractors. The figures shown on the chart therefore substantially understate the total cost of L & I insurance.

N/A Entries: Entries marked on the sheet as N/A (Not Applicable), such as Fire Impact Fees or Wetlands Mitigation Fees, only mean that these government costs did not apply to this particular home. Local jurisdictions across the state levy various fees and taxes on homebuilding, so some or all of these costs would apply to the construction of other homes, depending on where they are located.

Property Taxes: Property tax costs are included due to the time required to get a building permit, which takes about 48 weeks. Once this house is sold, the new homeowner will pay all applicable property taxes from the date of sale.

Inflated Tax Assessment: Further costs not included here are the higher property taxes the new homeowners will pay on the inflated price of the home. According to the county assessor, the home's "fair market value" is the sale price of the home, which includes the cost of building home plus all the government fees and regulations levied against it. Thus the new owners will be paying property tax not just on the economic value of their home, but also on the cost of previously-paid taxes.

News Article Source: The newspaper quote and King County median home prices are from a news article by Bill Virgin and Tracy Johnson, "Housing costs take toll on recruiting," The Seattle Post-Intelligencer, June 7, 1999, pp C-1 and C-4.

taseca

HOME, INC

"The People Who Put Quality First"

GOVERNMENT COSTS OF NEW HOME CONSTRUCTION

Job #:	<u>5370</u>
Customer Name:	<u>Taseca Homes, Inc.</u>
Address/City/County:	<u>2113 NE 53rd Ave, Vancouver, WA 98684</u>
New Home Base Price:	<u>\$ 183,114</u>
Govt./Regulatory Costs:	<u>\$ 40,486</u>
Total Selling Price:	<u>\$ 223,600</u>

Utility hook-up fees (water, sewer, telephone, electric)	<u>\$ 1,507</u>
Meter costs	<u>\$ 1,105</u>
School Impact Fees	<u>\$ 931</u>
Park Impact Fees	<u>\$ 1,461</u>
Transportation Impact Fees	<u>\$ 1,291</u>
Fire Impact Fees	<u>\$ N/A</u>
Wetlands mitigation	<u>\$ N/A</u>
SEPA mitigation	<u>\$ N/A</u>
Other mitigation	<u>\$ N/A</u>
Environmental Impact Study	<u>\$ 7</u>
Value of land set aside or setback	<u>\$ N/A</u>
Storm water runoff controls- Erosion Controls	<u>\$ 63</u>
Street & sidewalk paving- Permits- City of Vancouver	<u>\$ 2,018</u>
Off-site improvements	<u>\$ 4,577</u>
Clearing and hauling	<u>\$ 2,000</u>
Tree preservation/reforestation	<u>\$ 539</u>
Energy code (i.e. insulation & windows)	<u>\$ 560</u>
Seismic/wind load requirements- Engineering, framing, foundation	<u>\$ 1,004</u>
Platting & Engineering	<u>\$ 1,200</u>
Building Permit Fees	<u>\$ 2,235</u>
City/County Administration Fees & Application Fees	<u>\$ 1,117</u>
Cost of processing approvals/Permits	<u>\$ 2,000</u>

STATE & LOCAL GOVERNMENT TAXES

B&O- Custom Homes	<u>\$ N/A</u>
L&I workers' compensation	<u>\$ 550</u>
Unemployment Insurance	<u>\$ 250</u>
Real Estate Excise Tax- Spec. Homes	
State	<u>\$ 2,862</u>
Local	<u>\$ 1,118</u>
Retail sales tax on labor & materials	
State	<u>\$ 7,710</u>
City	<u>\$ 1,425</u>
County	<u>\$</u>
Property Tax	
State/County	<u>\$ 1,088</u>
City	<u>\$ 708</u>
Schools/library	<u>\$ 1,160</u>

TOTAL GOVERNMENT COSTS: **\$ 40,486**