

It All Adds Up

The Cost of Housing Development Fees in Seven California Cities

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Studying Development Fees

Development fees make up an increasingly significant portion of the cost to build new housing in California cities.

The Turner Center for Housing Innovation has undertaken a detailed analysis of development fees in seven sample cities across California:

Sacramento Roseville
Berkeley Oakland Fremont
Los Angeles Irvine

We examined the total amount of fees charged in each city, the makeup of these fees and how they are set and the extent to which information on development fees is available to builders.

Findings

- › Development fees are extremely **difficult to estimate**.
- › Development fees are usually set **without oversight** or coordination between city departments, and the type and size of impact fees levied **vary widely** from city to city.
- › Individual fees add up and substantially **increase the cost** of building housing.
- › Projects are often subject to **additional exactions** not codified in any fee schedule.

Recommendations

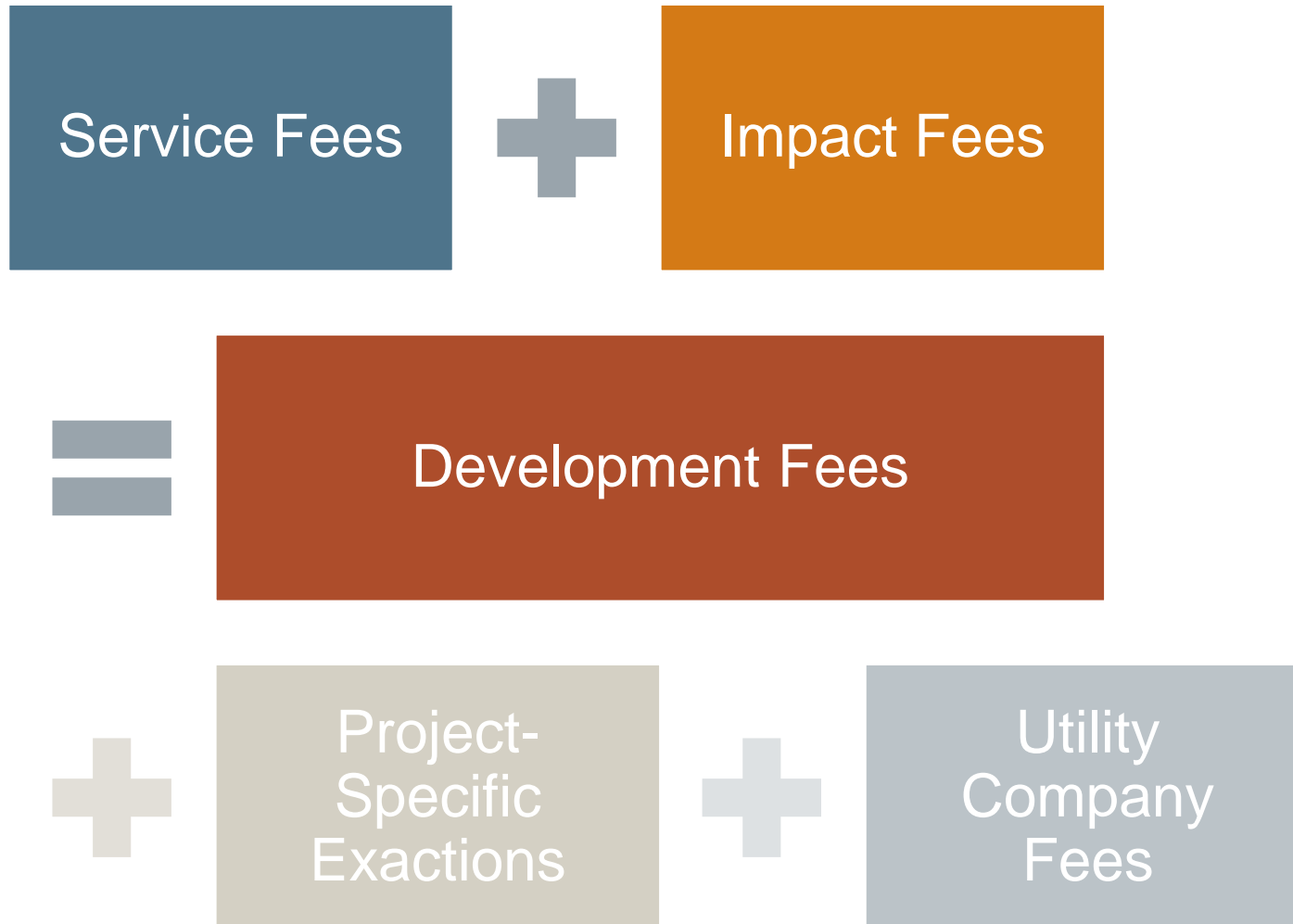
- › Adopt **objective standards** for determining the amount of fees that can be charged.
- › Adopt a **fee transparency policy** and implement best practices for setting and charging fees.
- › **Define when** fees can be levied and changed during the development process.
- › Identify **alternative ways to pay** for the costs of growth to reduce cities' reliance on fees.

Outline

- › Defining Development Fees
- › Evaluating Development Fees
- › Research Findings
- › Implications
- › Policy Recommendations

Defining Development Fees

Cities levy two main types of fees on development projects.



Defining Service Fees

Service fees pay for city services needed for the approval and construction of projects.

Planning service fees cover the planning department costs during the entitlements process, including plan checks, general plan updates, design review and variances.

Utility service fees go towards the plan reviews, permits, and inspections needed to connect water, sewer, electricity and gas to the project. *These fees were not included in our analysis.*

Building service fees pay for the building department costs of permitting a project and other city services needed during the construction phase, including plan checks, engineering (with grading and seismic work), mechanical work, infrastructure connections and inspections, as well as work to ensure that fire and public safety services are available to the building.

Defining Impact Fees

Impact fees offset the effects of new development on the community.

School impact fees support new school facilities to serve future residents of new developments.

Park and art impact fees are set aside for parks, arts districts and other public spaces and public art.

Transportation impact fees fund the costs of expanding transportation infrastructure usage.

Housing impact fees go towards affordable housing needed to complement market-rate housing.

Environmental impact fees pay for environmental protection and mitigation programs, such as air quality mitigation and environmental endowment fees.

Capital improvement impact fees pay for any expansions of city facilities or infrastructure, such as roads, parks, libraries, fire stations and utility plants.

Fire and public safety impact fees go towards expanding the capacity of fire and public safety systems.

Utility impact fees pay for water, sewer, electricity and gas infrastructure. *These fees were not included in our analysis.*

Evaluating Development Fees

We calculated the fees needed to develop two prototypical projects: a 20-home single family subdivision and a 100-unit multifamily building.

	Multifamily prototype:	Single family prototype:
Location:	Urban infill	Suburban greenfield
Units:	100 apartments	20 single family homes
Bedrooms:	50 1br/1ba, 50 2br/1ba	10 3br/2.5ba, 10 4br/3ba
Stories:	5 residential over 2 parking	2-story homes
Unit size:	850 sqft average	3br: 1,850 sqft, 4br: 2,250 sqft
Total sqft:	143,240 sqft	50,680 sqft
Lot size:	0.64 acres	2.44 acres
Density:	156.3 units per acre	8.2 units per acre

We also spoke with planners, builders and designers about their experiences with development fees.

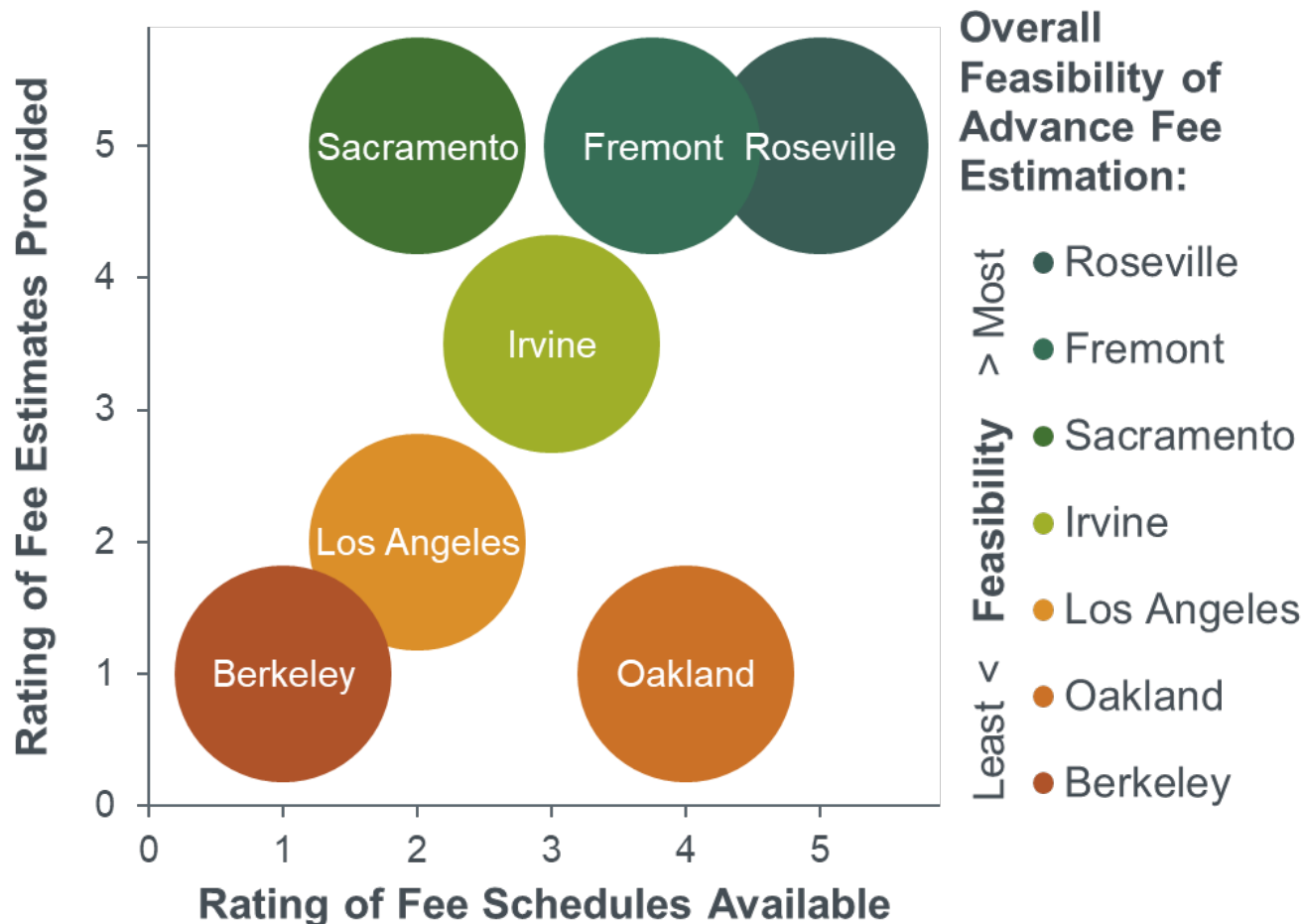
Research Findings

Our research reveals several problems with current development fee practices:

- 1. Development fees are extremely difficult to estimate.**
- 2. Development fees are usually set without oversight or coordination between city departments, and the type and size of impact fees levied vary widely from city to city.**
- 3. Individual fees add up and substantially increase the cost of building housing.**
- 4. Projects are often subject to additional exactions not codified in any fee schedule.**

Development fees are extremely difficult to estimate

We assessed the availability of fee schedules and estimates, and the overall feasibility of estimating fees in advance.



Cities charge different types of impact fees, and base them on various metrics

	Los Angeles	Sacramento	Roseville	Oakland	Irvine	Fremont
Schools:	Square Feet	Square Feet	Square Feet, Units	Square Feet	Square Feet	Square Feet
Parks and/or Art:	Units	Square Feet, Bedrooms, Units	Units	Bedrooms	Valuation	Bedrooms, Square Feet
Transportation:		Trips, Constr. Cost, Units	Units	Units	Square Feet, Units	Bedrooms
Capital Improvement:	Units		Units	Units	Valuation	Bedrooms
Housing:		Square Feet		Units	Units	Square Feet
Fire and Public Safety:			Valuation			Bedrooms
Environmental:		Square Feet	Units			

Impact fees are collected according to a variety of metrics, which can incentivize project design choices; per-unit fees tend to encourage projects with fewer, larger units.

Service fee amounts vary widely from city to city

Service Fees for 100 Multifamily Apartments

	Los Angeles	Sacramento	Roseville	Oakland	Irvine	Fremont
Planning Services	\$ 80,464	\$ 31,529	\$ 35,865	\$ 30,961	\$ 103,304	\$ 54,705
Building Services	\$ 169,259	\$ 181,104	\$ 105,877	\$ 624,242	\$ 1,095,727	\$ 251,288
Total Service Fees*	\$ 249,723	\$ 212,633	\$ 141,742	\$ 655,203	\$ 1,199,031	\$ 305,993

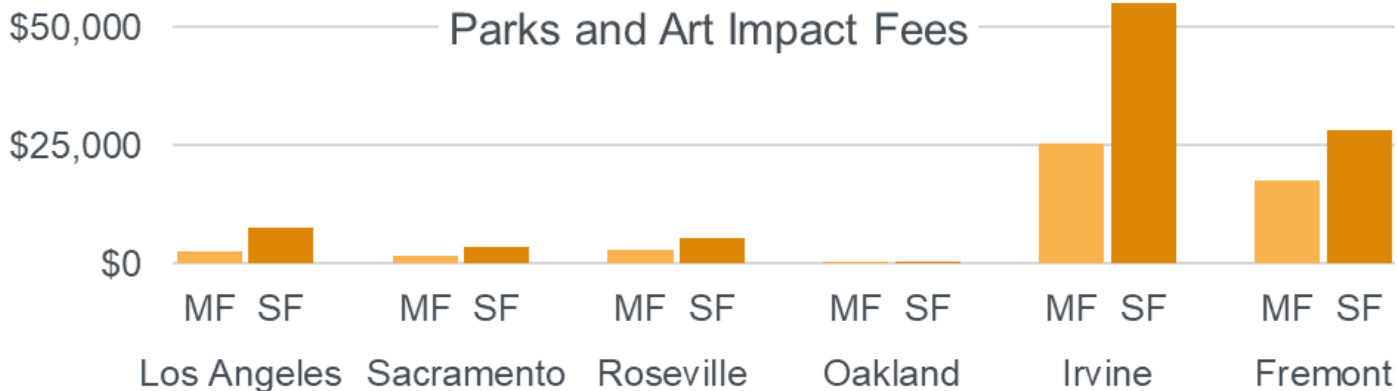
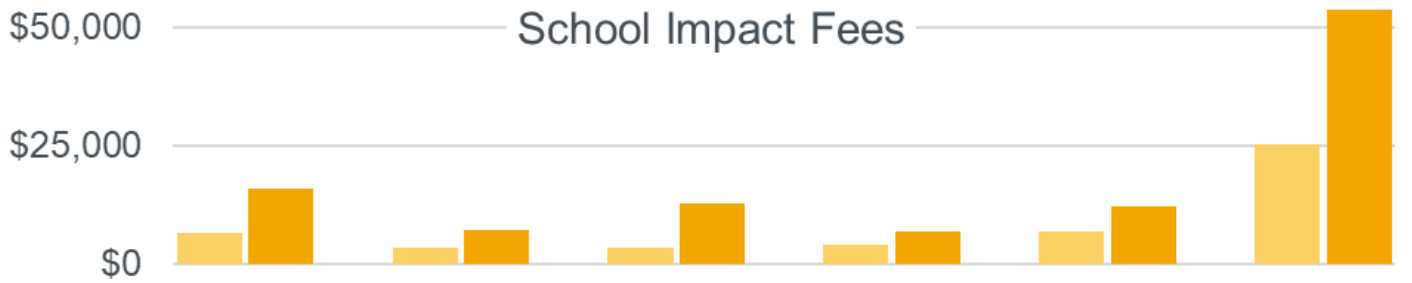
Service Fees for 20 Single Family Homes

	Los Angeles	Sacramento	Roseville	Oakland	Irvine	Fremont
Planning Services	\$ 96,380	\$ 24,242	\$ 25,447	\$ 68,781	\$ 94,345	\$ 60,945
Building Services	\$ 70,232	\$ 52,157	\$ 43,443	\$ 467,619	\$ 1,089,518	\$ 173,410
Total Service Fees*	\$ 166,612	\$ 76,399	\$ 68,890	\$ 536,400	\$ 1,183,863	\$ 234,355

*Note: These totals do not include service fees for utility connections, which are usually charged by utility companies.

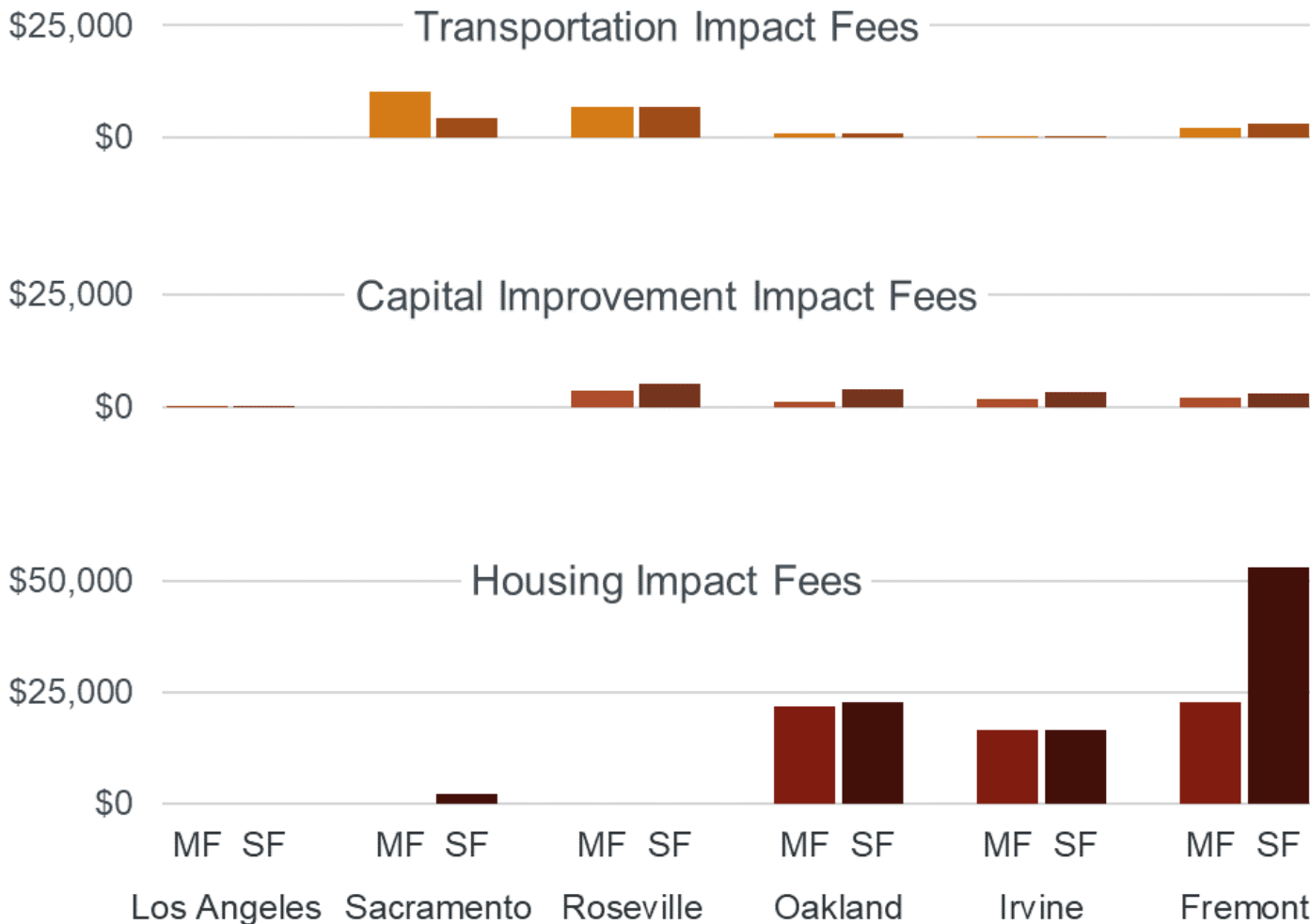
Impact fee amounts vary widely from city to city

Estimated fees per unit:



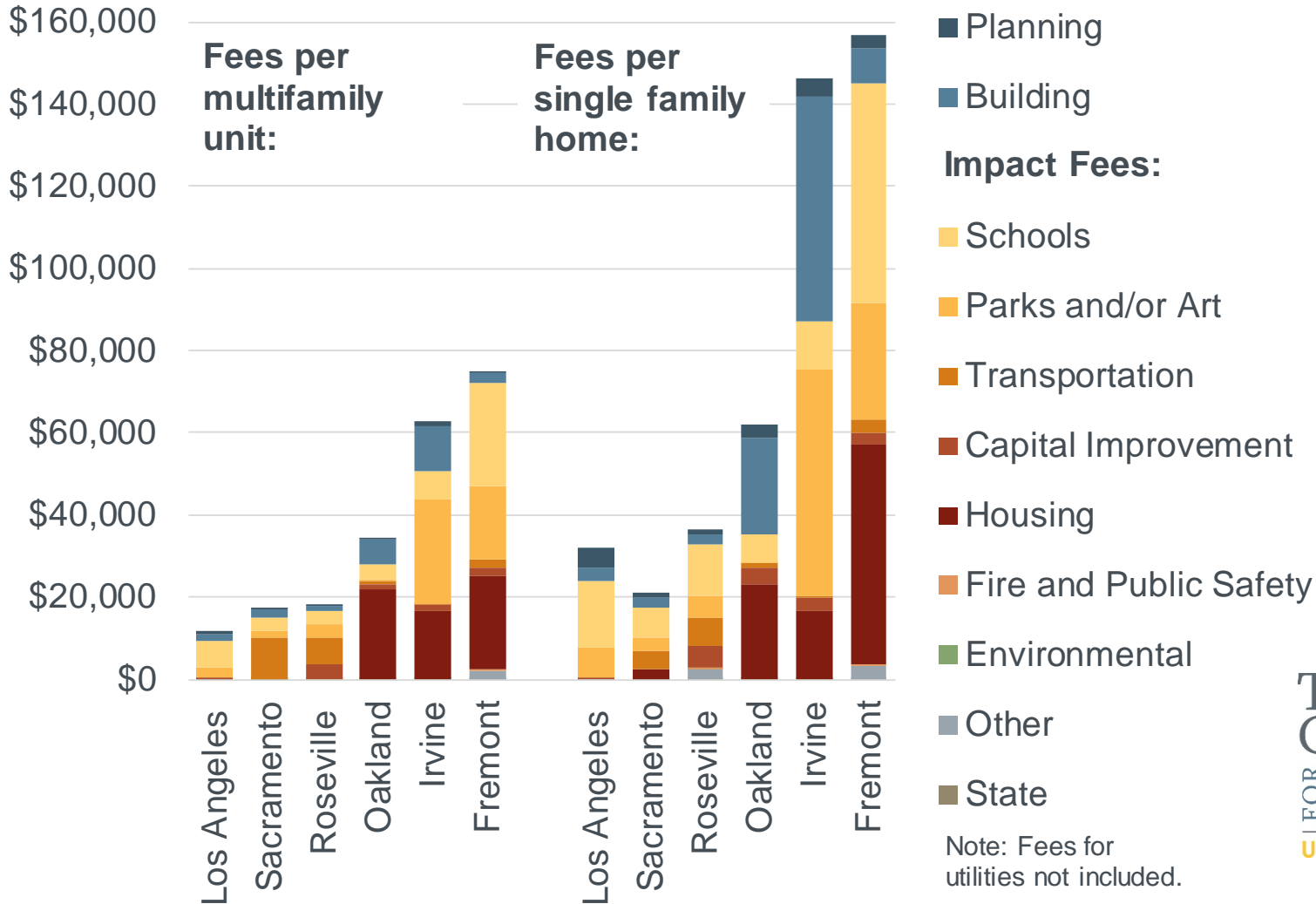
Impact fee amounts vary widely from city to city

Estimated fees per unit:



Individual fees add up and substantially increase the cost of building housing

Estimated Development Fees:



Individual fees add up and substantially increase the cost of building housing

Total Project Fees

	Los Angeles	Sacramento	Roseville	Oakland	Irvine	Fremont
Multifamily	\$ 1,174,642	\$ 1,725,739	\$ 1,810,506	\$ 3,455,593	\$ 6,268,064	\$ 7,515,775
Single Family	\$ 642,549	\$ 423,485	\$ 728,782	\$ 1,243,353	\$ 2,928,004	\$ 3,132,282

Fees Per Unit

	Los Angeles	Sacramento	Roseville	Oakland	Irvine	Fremont
Multifamily	\$ 11,746	\$ 17,257	\$ 18,105	\$ 34,556	\$ 62,681	\$ 75,158
Single Family	\$ 32,127	\$ 21,174	\$ 36,439	\$ 62,168	\$ 146,400	\$ 156,614

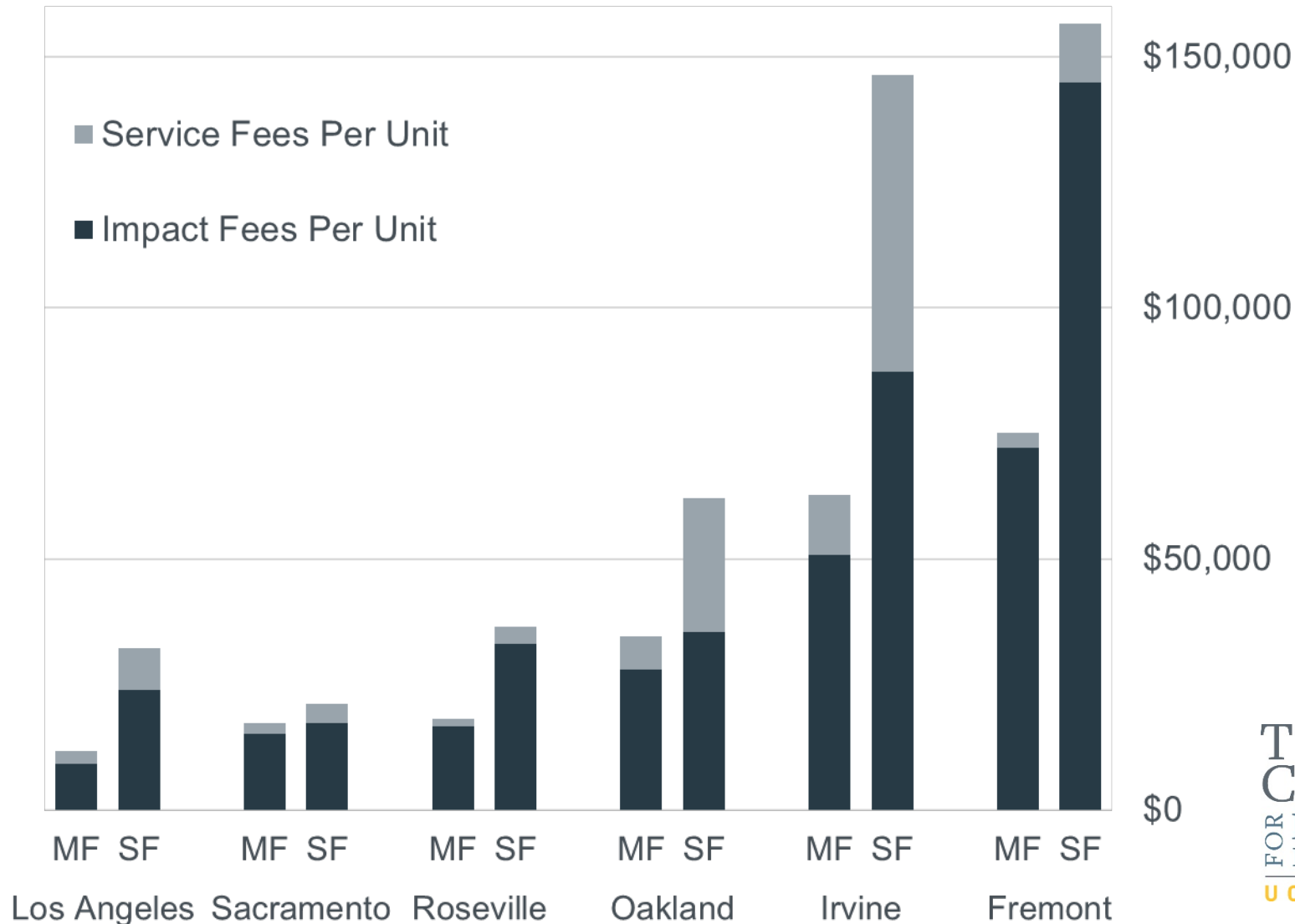
Fees Per Bedroom

	Los Angeles	Sacramento	Roseville	Oakland	Irvine	Fremont
Multifamily	\$ 7,831	\$ 11,505	\$ 12,070	\$ 23,037	\$ 41,787	\$ 50,105
Single Family	\$ 9,179	\$ 6,050	\$ 10,411	\$ 17,762	\$ 41,829	\$ 44,747

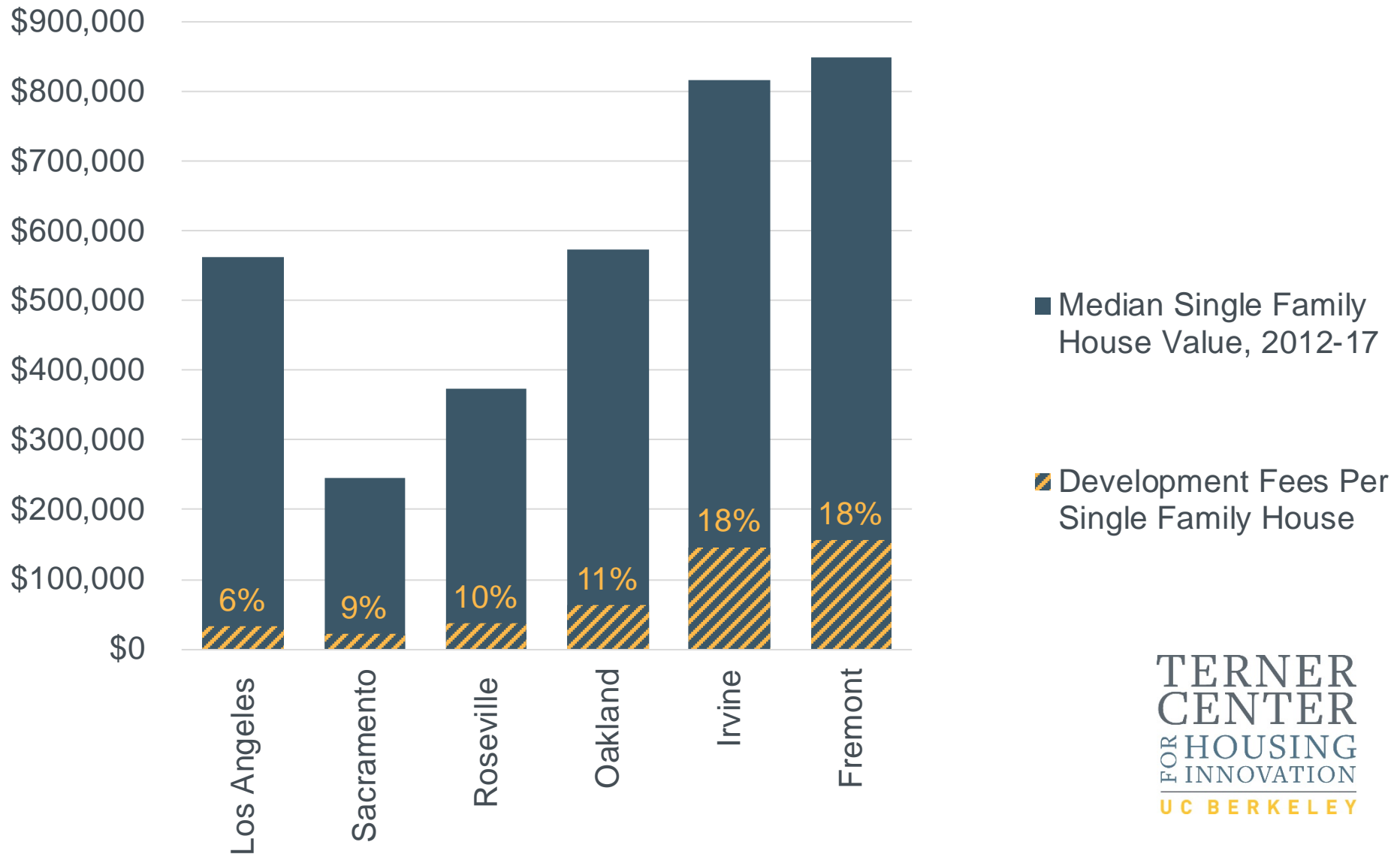
Fees Per Square Foot

	Los Angeles	Sacramento	Roseville	Oakland	Irvine	Fremont
Multifamily	\$ 12	\$ 18	\$ 19	\$ 36	\$ 65	\$ 78
Single Family	\$ 16	\$ 10	\$ 18	\$ 30	\$ 71	\$ 76

In most cities, impact fees make up the majority of the cost of development fees



In the cities we studied, development fees ranged from 6 percent to 18 percent of median home prices



Projects are often subject to additional exactions not codified in any fee

In addition to set fees, developers are often required to pay additional, project-specific fees and exactions levied by cities to ensure approval of their project.

- › Development agreements are negotiated at various points during the entitlement process on a project-by-project basis.
- › Development agreements may involve project design changes, building additional amenities, and expensive payments over and above codified fees, usually in exchange for concessions from the city in terms of relaxing zoning requirements.
- › Development agreements can create further uncertainty by adding costs that are not codified by any specific entity and potentially stalling the development progress.

Implications

The lack of transparency, high cost and sometimes haphazard structure of development fees, as well as the added cost of project-specific exactions, have serious consequences for housing development:

- › Expensive fees add to the cost of development and may reduce housing affordability and even hinder housing production.
- › Poorly structured development fees can incentivize adverse design choices.
- › Unpredictable development fees can delay or even derail a project.
- › Without formal systems to estimate development fees, developers must rely on informal relationships with planning and building officials.

Policy Recommendations

Given the importance of development fees to the cost and production of housing in California, several new policies could improve the fee process:

- › Adopt objective standards for determining the amount of fees that can be charged.
- › Define when fees can be levied and changed during the development process.
- › Adopt a fee transparency policy and implement best practices for setting and charging fees.
- › Find alternative ways to pay for the costs of growth to reduce cities' reliance on fees.

These suggestions offer initial responses to improve the current system of development fees; it is also clear that further study and a broader policy debate are needed to assess whether the system requires more extensive reforms.