Everyone Needs a Roof over Their Head

Mark Nix, Executive Director
Home Builders Association of South Carolina

Housing investment must now be looked at like any other type of economic development investment a community may need or desire. There is very limited bank lending available for housing inventory development today. There are increasing regulatory and building material costs. There is a shortage of workers and lots. At the same time, there is growing demand for larger homes that provide higher returns on investment. With these challenges and dynamics in the marketplace, very few new homes are being built at starter home or mid-level price points (what we define as "workforce housing"). At the same time, many new jobs are being created across the state, driving up demand for all types of housing. Supply is not meeting demand and Realtors® report record low inventory of homes for sale in a growing number of markets.

Because of economic forces and the aforementioned challenges, the building industry in South Carolina cannot respond to demand in the same way it could in pre-recession years. As a result, we are seeing more and more hard-working middle-class families being pushed out of the new construction housing marketplace because they cannot afford the cost of a newly constructed home in their community. These pressures also severely inflate rental rates on S.C. families.

Real estate has always played an important role in the U.S. and S.C. economies and continues to be an important bellwether of the economy. Residential real estate provides housing for millions of families and is often the greatest source of wealth and savings for many families.

In a healthy market, housing makes up roughly 20% of GDP. Housing contributes to GDP in two basic ways: through home buying (residential investment – includes all construction new single and multifamily structures, residential remodeling, broker fees, etc.) and consumption spending on housing services. Historically, residential investment has averaged around 5% of national GDP, leaving housing services to contribute 12-15% percent, for a combined contribution of around 20% of the GDP. While we have had growth in residential construction the past several years, a majority of our S.C. communities cannot boast of rallying more than 50% of permits pulled in 2005.

So what is holding workforce housing back?

The biggest constraints on the housing market continue to be tight supply, labor shortage and regulatory barriers. Statewide, we have seen pockets of tremendous growth, but also a concerted effort to restrict growth and the entry level housing market.

The largest obstacle may be regulatory. Any contributing member of the construction industry is all too aware that regulations come in many forms and are imposed by many levels of government. The industry will incur both direct and indirect costs. Those costs include; business license, permit, hook-up/tap, and impact fees and establish development and construction standards that either directly increase costs to builders and developers, or cause delays that translate to higher costs. New NAHB estimates based on the latest data show that, on average, regulations imposed by government at all levels account for up to 33 percent of the final price of a new single-family home built for sale. Three-fifths of this—14.6 percent of the final house price—is due to a higher price for a finished lot resulting from regulations imposed during the lot's development. The other two-fifths—9.7 percent of the house price—is the result of costs incurred by the builder after purchasing the finished lot.

In many areas across our country these regulatory costs are much higher. Not one aspect of the construction industry is exempt from these costs and forecasts note the trend of even higher regulatory costs. Recently, affordable housing in South Carolina has taken a huge step backwards with the recent school impact fee passed by York County -- $18,158 for a single family home and $12,020 for a multifamily home, which is almost half of the median family income in S.C. The HBA of S.C. legislative team has a record of success beating the unnecessary regulatory barriers and their additional costs, which are paid by the homeowners, but we are literally plugging holes with our fingers in a regulatory dike ready to break loose. Our efforts, to date, have saved the home owners more than $650 million in 2018 alone. This equates to more than $25,000 in additional costs on every house built in S.C., but we, as an Association, must continue to support a more robust regulatory affairs program to defend affordable workforce housing in S.C.

A revolution against workforce housing has been brewing. Recently, many lead articles in newspapers across the state have centered on a growing number of S.C. communities discussing and voting for increased impact fees, moratoria, inclusionary zoning and other anti-growth measures. While we have had growth in residential construction in the past two years a majority of our communities cannot boast of rallying more than 50% of permits that were pulled in 2005. The misguided mantra that residential housing does not pay for itself is starting to grow louder and more persistent. The HBA of S.C. can produce economic studies by state an national economists that highlight the ongoing financial benefits of housing (Appendix 1), but cities and counties statewide regularly ask, "How will we pay for our infrastructure – roads, schools, parks, water and wastewater services, and other public facilities?" The easy answer is that every economic impact study shows that housing more than pays for itself, but using facts and common sense may not always help us put shovels in the ground.

Appendix 1

ECONOMIC IMPACT OF HOUSING IN S.C.

Home building generates substantial economic benefits for S.C., including income and jobs for residents of the state, and revenue for the state government and local governments within the state. The National Association of Home Builders (NAHB) has developed a model to estimate economic benefits of housing. The model captures the effect of the construction activity itself, the ripple impact that occurs when income earned from construction activity is spent and recycles in the state's economy, and the ongoing impact that results from new homes becoming occupied by residents who pay taxes and buy goods and services produced within the state. In order to fully capture the positive impact residential construction has on a state's economy, it's important to include the ripple effects and the ongoing benefits.

S.C. is projected to build more than 25,000 single family homes in 2018. The estimated economic impact is at least:

-$3.84 billion in income for South Carolina residents,
-$828.2 million in taxes and other revenue for the state and local governments in the state, and
-68,544 new jobs in South Carolina.

The additional, annually recurring impacts of building 25,000 single-family homes in South Carolina include:

-**$665 million in income for South Carolina residents,**
-$243.8 million in taxes and other revenue for the state and local governments in the state, and
-13,540 new jobs in South Carolina.

These are ongoing, annual local impacts that result from the new homes being occupied and the occupants paying taxes and otherwise participating in the state economy year after year.

To kick-start more workforce building activity at all price points and to develop a more sustainable housing environment well into the future for our state, the HBA of South Carolina believes three cornerstone principles must be addressed by policy makers and community leaders to better encourage investment, eliminate costly delays and regulatory costs and help shape the industry's future workforce:

I. Local Government Policies & Processes that Impact Housing Investment Must be Spotlighted, Identifying Impediments and Adopting Best Practices.

II. State Authority to Enforce Code & Land Development Laws Must Be Clear & Unwavering.

III. Efforts to Train and Attract Individuals to the Skilled Trades Must be Dramatically Increased and Sustained over the Long-Term.

The HBA of South Carolina and its members believe the recommendations linked to these three cornerstones are crucial. But, first and foremost, we need local community leaders and elected officials to hear and understand that the world has changed for our industry. Housing investment must now be looked at like any other type of economic development investment a community may need or desire. It won't just happen.

If communities want to attract jobs to their region and have those employees live in their towns, they need to think about their housing stock and the review and approval systems they have in place for land development, new home construction and the renovation of existing homes. If they have a shortage of housing, they need to look at how their systems may be impeding such development and determine what they might be able to do to attract such investment in the future.

Lengthy and complicated review processes represent an especially difficult challenge for obtainable (quality housing options at low and moderate price points) housing development. With a lower return on investment, obtainable housing projects suffer disproportionately from costs associated with regulatory processes and delay. Not surprisingly, fewer obtainable housing units are being built. According to the National Association of Home Builders (NAHB), an ever-increasing portion of the cost of a new home is attributable to the cumulative effect of these types of costs. On average, nationally, 25% of the cost of a typical home can now be attributed to these costs—everything from mandated studies to multiple site reviews, delays, permit and other fees, code requirements, etc.

In this landscape, communities that can distinguish themselves by streamlining these processes and removing barriers to investment will benefit now, more than ever. An efficient review and approval process will benefit not only the builder/developer, but the government and taxpayers of communities across the state by keeping housing affordable and expanding the local population and tax base. More families, more children and more homes equal more money for schools and local government.

To continue to promote economic development in our state we must look for new solutions as well. The vast majority of local governments manage their infrastructure needs using the same tools and assumptions they used many decades ago. To continue to provide safe and affordable housing for the citizens of our state we may need to turn to alternative infrastructure solutions. There are viable options, ranging from alternative financing tools to innovative methods of delivery and operation. We need to take a leadership role in identifying those alternatives and demonstrating how they can and have been used to solve communities' infrastructure challenges.

Infrastructure Finance Tools:
Below is infrastructure financing mechanisms available to local governments. Please note that in some cases a few of these tools are being used in the absence of an enabling statute.

Community Development Districts (CDD), sometimes called Community Development Authorities (CDA), are quasi-governmental entities with distinct boundaries that provide a limited number of public services. The debt is retired by charging the district's homeowners an annual tax surcharge.

Certificates of Participation (COPS) are portions of incoming municipal lease payments that are sold as issues to raise revenue for financing the project.

Design/Build is a privatization strategy in which the design and building of the infrastructure is done by a private party. Other variations include design/build/operate and design/build/operate/finance.

Garvee Bonds are debts secured with anticipated federal funds.

State Infrastructure Banks (SIBS) operate the same way as SRFs. SIBs are intended to complement the traditional federal highway and transit aid programs by supporting certain projects via loans and credit enhancements.

Small-Scale Water and Wastewater Systems enable developers to use new technologies to provide water and wastewater service to their developments. The developer typically adds the cost of installing these systems to the price of the homes. This technology overcomes development limits based on public sewer and water capacity.

Special Districts are a form of local government that delivers public services such as water, fire protection, police protection and flood control within defined boundaries. Special districts are usually empowered to enter into contracts, employ workers, acquire property, levy assessments and charge fees for services.

State Revolving Loan Funds (SRFS) make low-cost loans available to jurisdictions for infrastructure. Loan repayments are put back into the program to fund additional projects.

Tax-Exempt Municipal Lease Financing is basically a "rent-to-own" program in which a municipality pays one-year renewable obligations to a third-party lessor as rent payments on a given project. These leases are not considered outstanding debt for bond ratings. The financed infrastructure often becomes the property of the lessee once the debt is retired.

Tax Increment Financing (TIF) takes the difference between a site's pre- and post- development tax revenues for a proposed development and uses that difference (or increment) to finance the proposed development.

Community Development/Community Facilities Districts (CDDs/CFDs/Mello-Roos) - CDDs and CFDs are community development districts established by local government agencies as a means of obtaining funding for services in newly developed areas. Within these clearly defined areas a special property tax on real estate is imposed on real estate located within the district for the purpose of financing public improvements. Improvements typically include streets, water, sewage, drainage, electricity, schools, parks, fire and police protection. The taxes associated with properties located in these districts are in addition to other established local government taxes and assessments.

Community Based Private Financing – A bill being discussed in Arizona give developers more power to issue municipal bonds and levy taxes to pay for public infrastructure in communities they are building. The proposal would allow developers and land owners to automatically set up what's known as a special taxing district. The units are run by boards with authority similar to governments. Under current law, setting up a special taxing district can only be done by working with municipal or county government. This proposal would allow developments to form the districts if they are more than 600 acres, in unincorporated areas and if all the landowners agree, among other conditions. If approved, it could have a significant impact on the growth of master planned communities

Many of these tools may not be feasible in every area around the state, but I believe it is imperative that we start the discussion and review all opportunities. Where a private/public partnership is unattainable we may need to review a truly private enterprise that benefits the homeowners of our state.

Thomas Jefferson once stated; “I hold it that a little rebellion now and then is a good thing, and as necessary in the political world as storms in the physical.”

The workforce housing revolution must begin now.