

# HOUSING IMPACT FEES

## A NEW STRATEGY TO KEEP COMMUNITIES STRONG

### THE PROBLEM

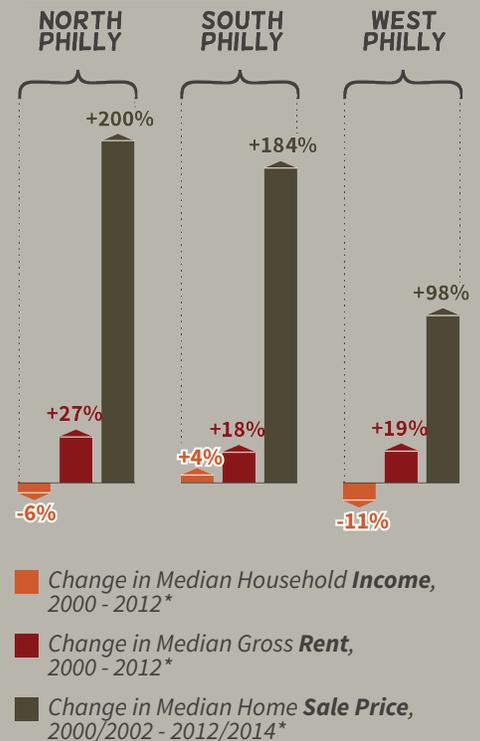
After years of population decline, Philadelphia has once again become a desirable place to live. Although this is a sign of progress it has also meant that many long term Philadelphia residents have been displaced.

- Between 2000 and 2012, in the gentrifying portions of West, South, and North Philadelphia, housing prices skyrocketed, while incomes shrank.
- During that same timeframe, the African American population in those neighborhoods decreased by 22%-29%. Meanwhile, the Caucasian population increased.
- The number of new high-end market-rate housing units is increasing by roughly 2,300 units per year every year for the past five years. This adds 750 new single-family for-sale homes and 1,550 new rental units each year at a rate that far out-paces new affordable housing units, despite Philadelphia's ongoing affordability crisis.
- And we are seeing that **with market-rate housing development, there is an increase the demand for affordable housing.** As new residents with higher incomes move to Philadelphia, they spend money here that they previously would have spent elsewhere. This means an increase for the City's tax base and support for new jobs, often for low-wage workers.



DEVELOPMENT WITHOUT DISPLACEMENT  
DESSAROLLO SIN DESPLAZAMIENTO

#### CHANGE IN INCOME VERSUS HOUSING COSTS



\*adjusted to 2012 dollars

Sources: 2000 U.S. Census, 2008-2012 American Community Survey 5-Year Estimates, and City of Philadelphia Office of Property Assessment

# THE COSTS OF UNCHECKED DEVELOPMENT

IN 10 YEARS

THE AFFORDABLE HOUSING GAP GREW BY 42%

50% OF HOUSEHOLDS

EARNING LESS THAN 20,000 PER YEAR COULD NOT FIND AN AFFORDABLE HOME

71% OF HOUSEHOLDS

71%

- New residential development is changing the affordability landscape. Market-rate development drives up rents, and renters are particularly vulnerable to displacement. In North, South, and West Philadelphia, 50% of renter households are “housing cost-burdened,” paying more than they can afford for their rent.
- The affordability gap is growing.
  - In 2000, Philadelphia had an affordable housing gap of 50% for renter households earning less than \$20,000 per year, **meaning HALF of these low-income households** (or more than 57,400 households) **did not have an affordable option in Philadelphia.**<sup>1</sup>
  - By 2010, **Philadelphia’s affordable housing gap had grown to 71%**, with nearly 83,000 households unable to find an apartment for rent within their means.<sup>2</sup>
- Market pressures and rising rents force long-term residents to move, neighborhood-serving businesses to shutter, community gardens and farms to up-root. Without an intervention, market growth comes at too high a price for low-income families, small businesses, and community green spaces in Philadelphia’s gentrifying neighborhoods.

## WHAT NEEDS TO BE DONE?

### WHAT IS A HOUSING IMPACT FEE?

A Housing Impact Fee is a fee per square foot on new market-rate housing development used to fund affordable housing or other community uses.<sup>5</sup> These fees seek to offset the negative impacts of new market-rate housing on neighborhood affordability.

### WHERE ELSE HAS THIS BEEN DONE?

As of 2015, cities in Florida and California had adopted housing impact fees to support affordable housing development. In California, the fees per square foot ranged from \$3.76 in Santa Rosa to \$18.90 in Fremont, underscoring the need to price the fee appropriately to what the local housing market can bear.<sup>6</sup>

**Philadelphia needs a Housing Impact Fee.** City government must take action to curb the displacement that is destabilizing our communities. This requires adopting public policy that encourages fair and equitable development.

- A Housing Impact Fee levied on new market-rate residential development would create a new dedicated revenue stream for the Philadelphia Housing Trust Fund to use toward affordable housing development, home repairs for low-income and disabled residents, homelessness prevention, and community garden preservation, ensuring that our city’s neighborhoods remain livable for all Philadelphians.
- Based on the current pace of market-rate residential construction in Philadelphia, and market research on local development costs and how much of a fee the Philadelphia market will bear, a Housing Impact Fee could generate between \$3.4 million and \$12.2 million per year.<sup>3</sup>

**TABLE 1**

*Potential Revenue from Market-Appropriate Impact Fees in Philadelphia*

POTENTIAL FEE IMPACT		FEE PER SQUARE FOOT	AVERAGE SQUARE FEET	ANNUAL UNITS PRODUCED	ANNUAL REVENUE
For-Sale Units (750 units per year with no fee)	High	\$4.40	2,000	664	\$5,800,000
	Medium	\$2.20	2,000	732	\$3,200,000
	Low	\$1.10	2,000	750	\$1,600,000
Rental Units (1,550 units per year with no fee)	High	\$4.80	1,000	1,329	\$6,400,000
	Medium	\$2.40	1,000	1,489	\$3,600,000
	Low	\$1.20	1,000	1,531	\$1,800,000



- Because Housing Impact Fees increase development costs, pricing the fee appropriately is important so as not to deter future growth and investment.
  - At the high rate, the Housing Impact Fee would reduce market rate activity by an estimated 12-14%
  - The medium rate would reduce market rate activity by 3-3.6%
  - The low rate would reduce market activity by 0.7-0.9%<sup>4</sup>
- Balance is key, and the medium rate strikes the right balance between an estimated possible reduction in market rate activity of less than 4% (or 78 units per year) in exchange for 427 low-income families per year whose housing needs could be met.

HOUSING IMPACT FEE SCENARIO	HIGH	MEDIUM	LOW
Assessment Rate	\$4.40 - \$4.80/SF	\$2.20 - \$2.40/SF	\$1.10 - \$1.20/SF
Decrease in Ownership Units (750 units developed per year with no fee)	<b>86</b> (-11%)	<b>18</b> (-2%)	<b>0</b> (-0%)
Decrease in Rental Units (1,550 units developed per year with no fee)	<b>221</b> (-14%)	<b>61</b> (-4%)	<b>19</b> (-1%)
Decrease in Total Market-Rate Units (2,300 units developed per year with no fee)	<b>307</b> (-13%)	<b>79</b> (-3%)	<b>19</b> (-1%)
Revenue Generated	\$12,200,000	\$6,800,000	\$3,400,000
<b>LOW-INCOME FAMILIES SERVED BY HOUSING IMPACT FEE REVENUE<sup>7</sup></b>	<b>765</b>	<b>427</b>	<b>213</b>

**TABLE 2**

*Anticipated Market Response to Different Housing Impact Fee Rates in Philadelphia*

- If the medium-rate impact fee is levied, the \$6.8 million that would be generated annually for the Housing Trust Fund would leverage another \$45.5 million in public and private dollars, together yielding **\$77 million in economic impacts in the Philadelphia economy as well as \$1.2 million in tax revenues to City of Philadelphia** as a result of the construction and renovation work funded by the new Housing Trust Fund dollars.
  - The economic impact of \$77 million far exceeds the investment in construction that would be lost due to the impact fee, which totals only \$14.5 million.

# WHAT WE CAN ACCOMPLISH WITH THE HOUSING IMPACT FEE

The proposed **Housing Impact Fee** (of \$2.20/SF for new market-rate for-sale homes and \$2.40/SF applied to new market-rate rental units) **would raise an estimated \$6.8 million in resources for the Philadelphia Housing Trust Fund per year.**

The Philadelphia Housing Trust Fund could use the \$6.8 million to support:

- **136 units** of newly-constructed affordable rental apartments *AND*
- **85 existing homeowners** seeking critical improvements through the Basic Systems Repair Program *AND*
- **51 home rehabilitations** through the Adaptive Modifications Program *AND*
- **155 households** facing homelessness receiving utility and mortgage assistance *AND*
- **136 grants for capital improvements** and infrastructure in community gardens and food-producing green spaces

**... EVERY YEAR!**

*Estimates of unit production, renovation, and garden grants per year are based upon the following funding assumptions:*

**TABLE 3**

INVESTMENT BY PHILADELPHIA HOUSING TRUST FUND	ALLOCATION	PERCENT OF NEW DOLLARS	COST	HOMES & GARDENS PER YEAR
New affordable rental apartments	\$3,400,000	50%	\$25,000 subsidy/home	<b>136</b>
Home repairs through Basic Systems Repair Program	\$680,000	10%	\$8,000/home	<b>85</b>
Home rehabs through Adaptive Modifications Program	\$1,020,000	15%	\$20,000/home	<b>51</b>
Homelessness prevention	\$340,000	5%	\$2,200/grant for utility or mortgage assistance	<b>155</b>
Grants for community gardens & food-producing green spaces	\$1,360,000	20%	\$10,000/capital improvement grant	<b>136</b>
<b>TOTAL ANNUAL ESTIMATED HOUSING IMPACT FEE REVENUE</b>	<b>\$6,800,000</b>	<b>100%</b>		

## A CALL TO **ACTION**

### END NOTES

- 1 Affordable Housing Gap research by Dr. Amy Hillier, 2013.
- 2 Ibid.
- 3 “Exploring the Relationship between New Market Rate Residential Development and Affordable Housing Need.” Econsult Solutions. 12 Jan 2016.
- 4 Ibid.
- 5 Inclusive Communities Toolkit. National Housing Conference. 2015.
- 6 “Exploring the Relationship between New Market Rate Residential Development and Affordable Housing Need.” Econsult Solutions. 12 Jan 2016.
- 7 Numbers based on calculation detailed in Table 3.

**Again, the PHILADELPHIA COALITION FOR AFFORDABLE COMMUNITIES (PCAC)** calls on Philadelphia’s elected officials to adopt a progressive policy that will capture the benefits of the residential growth underway in our city and ensure that people of all incomes can afford to stay in Philadelphia, and in their communities, for decades to come.

- **City Council must pass Housing Impact Fee legislation that applies a fee for all new market-rate residential development in Philadelphia to support sustained affordability and increased access to affordable, accessible housing and green space.**
  - By collecting fees of \$2.20 per square foot for new market-rate for-sale homes and \$2.40 per square foot for new market-rate rental units, such legislation could generate \$6.8 million for the Housing Trust Fund EVERY YEAR!

[www.phillyaffordablecommunities.org](http://www.phillyaffordablecommunities.org)

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