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Impact Fees

What Multifamily Developers and Builders Should Know

As vacancy rates continue to decline, multifamily developers and builders are actively searching for land suitable for new projects. Lenders are more willing this year to fund good projects in good locations, further motivating efforts to begin new construction. In evaluating property for potential projects the normal market forces will be in play, but one factor directly controlled by local governments should be of particular interest – impact fees. While ad valorem taxes levied by local governments have pretty uniformly been held constant or only gradually increased, there has been a high degree of variability among Florida cities and counties in impact fees charged for new multifamily projects. The financial model for proposed projects must take into account the latest information concerning applicable fees.

Impact fees are the one-time charge for all new development intended to at least partially offset the cost of new governmental services for the project, such as police, fire, parks, schools and roads. Between 2000 and 2008 impact fees significantly increased, so that impact fees for multifamily development in some jurisdictions in Florida have exceeded ten thousand dollars per unit. Total impact fees for a 300-unit project have been well over three million dollars. In a given market where land costs, construction costs, and ad valorem taxes are roughly equivalent, it makes sense to look closely at the highly variable impact fees when evaluating competing potential sites, particularly where local governments may have temporarily reduced fees in an effort to attract new development and the associated construction jobs, long term employment, and tax revenue.

For example, a Central Florida developer could consider sites in Brevard, Polk or Lake County where transportation impact fees have been suspended until at least March 2012, or face the full impact fee in Seminole, Orange, and Osceola County. In addition to determining whether the fees have been suspended, other issues to focus on include the expiration date of the temporary suspension, what step in the permit process must be completed before the expiration date (e.g., site development permit application, building permit application), and the total current amount of the fees. Developers should follow discussions by local elected officials to determine if partial or full suspensions of fees are likely, and whether permanent reductions are possible.

Workforce or affordable multifamily housing projects may be eligible for reduced or delayed impact fees in some jurisdictions but not in an adjoining jurisdiction. Often, only a portion of a project must be set aside for lower rents to qualify for impact fee reductions.

Unfortunately, there is no centralized database which tracks local impact fees, pending changes, or expiration dates. The amount of the fees, and the effect on the bottom line of the proposed multifamily project should motivate developers to spend time comparison-shopping. Every jurisdiction is likely to have a table of applicable impact fees on its website, but because the websites are not frequently updated, information concerning temporary suspension of fees or expiration of suspension may not be readily available. Telephone calls or visits with government staff may be required to get current information.

Once a site is chosen and the development process begins it is likely that as the economy improves and the temporary suspension of fees in some jurisdictions nears expiration there will be a rush to reduce the "time to market" and complete the necessary permitting and review steps prior to construction to avoid a multi-million dollar cost to the new development. Again, coordination with local staff will be required to avoid added costs. ●

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