Government Regulation in the Price of a New Home: Georgia

Summary

Housing affordability is a pressing concern for state and local policymakers as existing inventory is unable to fulfill historic demand for housing across Georgia. The purpose of this study is to determine one factor contributing to rising home prices: the cost of regulation to build a new single-family home.

This study, like its national counterpart, does not argue that all regulation is bad or should be eliminated. Some costs included in the study would have to be borne by taxpayers who derive no direct benefit, if they were not covered by builders or homeowners. Rather, the goal is to recognize the financial impact for builders when assessing current and proposed public policy. These costs are ultimately passed on to consumers, particularly in the entry-level market.

This study utilizes the methodology by the National Association of Home Builders (NAHB) in "Government Regulation in the Price of a New Home: 2021" to define the cost of regulation to build a new single-family home in Georgia. Two sets of questions were conducted statewide – one of home builders and one of lot developers – to estimate the aggregate cost of regulation and what it means for the price of a new home. Nine distinct regions across the state are represented in this survey and its findings.

On a percentage basis, the statewide estimates show that regulations imposed by government at all levels (federal, state, local) account for **26.9 percent** of the final price of a new single-family home built in Georgia. Of this, **11.3 percent** of the final house price is attributable to regulation during development of the lot with **15.6 percent** due to regulation during construction of the single-family home.

Notably, the aggregate cost of regulation was slightly higher in Georgia than the national survey conducted earlier in 2021 by the NAHB. Nationwide, regulations accounted for **23.8 percent** of the final price of a new single-family home built for sale, with **10.5 percent** of the final house price attributable to regulation during development of the lot and the other **13.3 percent** due to regulation during construction of the single-family structure.

The following sections provide perspective for the housing market in Georgia and describe the methodology and survey results in greater detail. In addition, the survey questions and a detailed list of assumptions used for the calculations are located at the end in a set of appendices. Citations are from the 2021 NAHB study on the cost of regulation unless otherwise indicated.

Introduction

Georgia once boasted one of the nation's most affordable housing markets. That and other cost-of-living advantages have helped spur population growth of at least 10 percent in every census count since 1950. The state added more than 5.2 million new residents between 1980 and 2020, a 96 percent increase.

In recent years, however, housing affordability has been an increasing concern for state and local policymakers. The surge of new residents alone is not to blame. The number of building permits issued in Georgia, according to Census Bureau data, crashed during the Great Recession and has yet to fully recover despite continued, rapid population growth. As one illustration, the annual number each year from 1995 to 2007 was higher than in any year since then. Put another way, more building permits were issued during the last five years of the 1990s than during the entire decade from 2010 to 2019.

Georgia's housing affordability problem is first and foremost a problem of too little supply.

Yet, too often, policymakers pay scant attention to the problem of supply and instead focus their energies on the demand side. This takes the form of policies such as rent controls and subsidies for buyers or renters. These policies can dampen the supply of new housing at affordable prices by dis-incentivizing builders. Even those policies ostensibly designed to boost the supply of affordable housing, such as inclusionary zoning, tend to push market prices higher overall because developers seek to recoup some of their forgone revenues from designated "affordable" units with higher revenues from other units.

One exception to this blind spot for policymakers was a 2019 Study Committee on Workforce Housing created by the Georgia House of Representatives. The committee's report notes, in one pertinent part: "There are existing barriers to the development of attainable workforce housing in Georgia which can be organized by the 'Four L's': LABOR, LAND, LUMBER, & LAWS."

In setting out to tackle the issue of housing affordability, the Georgia Public Policy Foundation surveyed a number of stakeholders and policymakers in a variety of relevant industries over a period of several months during 2020-2021. The Foundation subsequently determined the greatest need concerned not only the question of supply, but more specifically the fourth of the "Four L's"—Laws. Many stakeholders interviewed discussed the prevalence of costly regulations across numerous jurisdictions within Georgia, which has 159 counties and more than 500 incorporated municipalities.

Methodology

As noted previously by the NAHB, "a study of housing regulation that seeks to be reasonably comprehensive needs to collect information from builders and developers, as they are the most accurate source that have experience with a broad enough range of regulations to provide information about them."

To capture the cost of regulation, the Georgia Public Policy Foundation sent the survey electronically to 986 members of the Home Builders Association of Georgia (HBAG) in October 2021. A total of 55 builders and 31 lot developers provided complete and usable responses. Respondents who completed the survey received gift cards for their participation.

To determine the cost during lot development, the Foundation surveyed HBAG members with experience developing single-family lots and selling them to builders. Most of these questions (Appendix II) asked for costs as a fraction of the final lot price. HBAG members with experience building single-family homes completed a survey in which most of the questions (Appendix III) asked for costs as a fraction of the builder's construction costs.

The surveys ask builders and developers for information they can reasonably be expected to provide. The surveys don't ask for a breakdown of costs attributable to different levels of government, as this is often difficult to impossible for a builder or developer to determine.

For example, building codes are adopted and enforced at the local level. However, some are adopted at the state level, and states may have varying rules for how much local jurisdictions are or are not allowed to modify the codes. Moreover, several federal agencies (including the Department of Energy, the Federal Emergency Management Agency and the Environmental Protection Agency) actively participate in the development of national model codes, which ultimately form the basis for the locally administered codes. DOE also has a budget to persuade state and local governments to adopt more stringent codes. It is reasonable to ask builders for the cost of moving to a different building code, but not to tease out the contributions different levels of government make to the final code.

Similarly, the surveys cannot capture the cost impacts of some categories of regulation. Although lumber prices affect the cost of new housing, and some federal policies (import duties, amount of timber harvested from federal lands, etc.) undoubtedly have an impact on lumber prices, builders are not expected to quantify the effect those policies.

To convert the average responses from builders and developers to costs as a share of final house prices, the survey results were combined with other information—such as independent construction cost estimates, terms on development and construction loans, how long it takes to build a home and profit margins—completely documented in Appendix I.

Table 1. Average Regulatory Costs for a Single-family Home in Georgia (Percentage)					
A. DURING LOT DEVELOPMENT					
	Share With the Regulatory Cost	Regulation as a % of ***Lot Cost***		Regulation as a % of ***House Price***	
		Average When Present	Average Across All Lots	Average When Present	Average Across All Lots
Cost of applying for zoning approval	100.0%	5.2%	5.2%	1.3%	1.3%
Hard costs of compliance (fees, required studies, etc.)	100.0%	13.2%	13.2%	3.3%	3.3%
Land dedicated to the govt. or otherwise left unbuilt	86.2%	14.8%	12.9%	3.7%	3.2%
Standards (setbacks, etc.) that go beyond the ordinary	92.9%	11.0%	10.3%	2.7%	2.6%
Complying with OSHA/other labor requirements	64.0%	3.2%	2.3%	0.8%	0.6%
Pure cost of delay (if regulation imposed no other cost)	100.0%	1.5%	1.5%	0.4%	0.4%
All Regulation During Development			**45.2%**		**11.3%**
B. DURING CONSTRUCTION OF THE STRUCTURE					
	Share With the Regulatory Cost	Reg. as a % of ***Construction Cost***		Regulation as a % of ***House Price***	
		Average When Present	Average Across All Lots	Average When Present	Average Across All Lots
Fees paid by the builder after purchasing the lot	97.9%	3.7%	3.7%	2.3%	2.3%
Changes to building codes over the past 10 years	97.9%	11.4%	11.2%	7.1%	7.0%
Architectural design standards beyond the ordinary	71.2%	9.1%	6.6%	5.7%	4.1%
Complying with OSHA/other labor requirements	80.0%	3.6%	3.0%	2.3%	1.9%
Pure cost of delay (if regulation imposed no other cost)	94.4%	0.7%	0.6%	0.4%	0.4%
All Regulation During Construction of the Structure			**25.1%**		**15.6%**
TOTAL COST OF REGULATION					**26.9%**

Regulation during Development

Table 1 shows estimates of regulation as a percentage of both the lot cost, and the final house price. The table shows the share of developers subject to the regulation, the average cost of the regulation when it exists, and the average cost of the regulation across all homes (i.e., with answers of "zero" included in the average).

Every developer who responded to the survey reported regulatory costs at the zoning approval stage. Regulatory costs imposed at this time can include fees paid directly to a government, as well as requirements for environmental impact, traffic, archeological or other studies. On average, these costs account for 5.2 percent of the price the builder pays for the lot, which translates to 1.3 percent of the final house price.

All developers in the survey also reported incurring regulatory costs after obtaining zoning but sometime later during the development process. This may include costs of complying with, for example, requirements to mitigate environmental impacts, as well as actual fees. Governments impose impact, utility hook-up, and other types of fees when site work begins. On average, these costs account for 13.2 percent of the builder's lot cost, 3.3 percent of the final house price.

Also common (reported by 86.2 percent of developers) are requirements to dedicate land to the government (e.g., for a park) or otherwise leave a portion of it undeveloped. In these cases the developer must pay for the land but is not allowed to derive revenue from it, driving up costs on the lots that can be developed and sold. Averaged across all lots in the study (including those

with zero costs for requirements to leave some land undeveloped), these requirements account for 12.9 percent of the price of the lot, and 3.2 percent of the final house price.

Local governments often require that new development conform to community design standards. These may include specific requirements for lot size and design, sidewalks, landscaping, etc. The survey specifically asks about standards that go beyond the ordinary. For example, in the absence of regulation, the developer is still likely to provide some landscaping. This study assumes a design standard imposes no cost unless it requires the developer to provide landscaping (or something else) that costs more than the developer's ordinary practice.

A large share of developers (92.9 percent) reported being subject to design standards that go beyond what they would ordinarily do and add to their costs. Averaged across all lots in the study, these requirements account for 10.3 percent of price of the lot, and 2.6 percent of the final house price.

OSHA is responsible for labor safety standards. State or local governments may have safety standards as well. Safety of construction workers is important, and there is a broad level of support for a variety of safety rules. However, NAHB has criticized particular standards for attempting to regulate risks that don't really exist in residential construction (e.g. beryllium), imposing costs significantly greater than needed to ensure worker safety (e.g. silica) or accomplishing little beyond driving up recordkeeping costs (e.g. Volks rule).

Although reported less often than other regulatory costs incurred during development, 64.0 percent of developers said that complying with OSHA or other labor standards added to their costs. Averaged across all lots in the study, these standards account for 2.3 percent of the price of a lot, and 0.6 percent of the final house price.

Even when regulation imposes no direct costs, it can have a financial impact if it delays the development process. If nothing else, if it takes longer to develop and sell a lot, interest on a development loan will typically accrue.

Every developer in the survey said complying with regulations typically caused a delay. Using the interest rate and other assumptions described in Appendix I, it was calculated that the "pure" cost of this delay (i.e., the cost of the delay even if regulation imposed no other costs) on average accounts for 1.5 percent of the price of a lot, and 0.4 percent of the final house price.

Every developer in the survey reported experiencing some type of regulatory cost. Added together, the development regulatory costs captured by the survey account for **45.2 percent** of the price of a lot, and **11.3 percent** of the final house price.

Regulation during Construction

Table 1 also shows the impacts of regulation imposed during construction, after a builder has acquired the lot from a developer. Most single-family builders responding to the survey questions

(97.9 percent) reported paying fees during this phase of the project. These could be building permit or inspection fees, as well as additional impact or utility hook-up charges not covered by the developer. Across all homes in the survey, fees paid by the builder after acquiring the lot account for 3.7 percent of the builder's construction costs, and 2.3 percent of the final house price.

The survey also asked builders about the cost implications of changes to building codes over the past 10 years. Most jurisdictions in Georgia have been adopting and enforcing building codes for decades, so the 10-year criterion in general captures changes to codes after they have already been updated and revised many times.

Most builders (97.9 percent) reported that changes to building codes over the past 10 years have added to their costs. Averaged across all homes, the cost increases associated with codes account for 11.2 percent of the builder's construction costs, and 7.0 percent of the final house price—making this the most costly of the categories of regulation listed in Table 1.

In addition to traditional building codes, jurisdictions have increasingly sought to impose architectural design standards motivated by aesthetics, or possibly even, in some cases, a desire to price less affluent residents out of particular neighborhoods. Prohibition of vinyl siding has become relatively common, for example, but NAHB has also reviewed ordinances that mandate details like the orientation of a garage, material used in fences, window shutters, the square footage of window space, and dimensions of particular features down to a quarter of an inch.

Many builders (71.2 percent) report being subject to architectural design standards of this type that force them to spend more than the otherwise would on particular home features. Averaged across all homes in the survey sample, these standards account for 6.6 percent of the builder's construction costs, and 4.1 percent of the final house price.

Like developers, builders can also experience costs of complying with labor regulations, as well as delays caused by regulatory requirements. A total of 80.0 percent of builders in the survey reported costs of complying with OSHA or other labor regulations. Averaged across all homes in the survey, these requirements account for 3.0 percent of construction costs, 1.9 percent of the final house price.

In addition, 94.4 percent of builders reported that regulation caused some delay in the construction process. Averaged across all homes in the sample, the "pure" cost of regulatory delays during construction account for 0.6 percent of construction cost, and 0.4 percent of the final house price.

All builders reported experiencing some type of regulatory cost during construction. Added together, the average of these costs across all homes in the sample account for **25.1 percent** of the builder's construction costs and **15.6 percent** of the final house price.

Combined with results from the development phase of the project, total regulation captured in both surveys and attributable to all levels of government accounts for **26.9 percent** of the final

house price. Compared to NAHB's national averages, a higher share of Georgia lot developers and builders reported incurring each type of regulatory cost listed in the survey, except for hard costs of compliance during development (where both are 100 percent) and land dedicated to the government (where Georgia is 7.8 percentage points lower). The differences are notably larger among Georgia home builders during construction for architectural design standards **(13.7 percentage points higher)** and OSHA/labor compliance **(16.2 percentage points higher).**

Conclusion

Although workforce shortages and the cost of building materials constitute the bulk of attention on the rising price of homes, this study demonstrates that government regulation is a significant factor in both the supply of housing and the affordability. As the NAHB has observed, home builders in Georgia are "subject to a wide array of regulatory costs, including various fees, standards, and other requirements imposed at different stages of the development and construction process that may be imposed by any combination of federal, state and local governments. The only way to construct a reasonably comprehensive picture of these costs is to collect information from the builders and developers who experience them."

Notably, these regulatory costs contributed **26.9 percent** of the price in a new single-family home, higher than the national average, and disproportionately impactful for consumers seeking entry-level housing. This suggests that local governments are imposing ordinances beyond the national standard, an implication worth further exploration. While regulations may be only "one L" as identified by the state (Laws), it is wise to consider their impact alongside those of Land, Lumber and Labor to ensure a robust housing market for all communities.

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Appendix I: Assumptions Used in the Calculations

Land Acquisition and Development of the Lot

- The finished lot purchased by a builder accounts for 21.4 percent of the final price of a single-family house, based on the average of NAHB Construction Cost surveys conducted between 2002 and 2019. A long run average is used to produce an estimate with a significant shelf life and allow for the possibility that the relatively small sample of homes captured in the latest survey may not be perfectly typical.

- A 20.8 percent mark-up on lots sold to builders, based on the difference between business receipts and the cost of goods sold for the land subdivision industry from the most recent (2013) SOI tax stats published by the IRS. Without a competitive return on investment, developers will not be able to attract capital or get loans underwritten to finance the project, and the lots will not be developed

- The previous two bullets imply that total lot acquisition and development costs account for (1-.208) × .214—or 17.0 percent—of the final price of a single-family home.

- Of all land acquisition and lot development costs, 75 percent is financed by a loan. Since 2018 NAHB has collected data on terms for these loans in its quarterly AD&C Financing Survey. Over that span, the average loan-to-cost ratio on A&D loans in the survey has been 75 percent.

- A 6.96 percent interest rate on all land acquisition and development (A&D) loans. Since 2018 the spread over prime (a common way to set interest rates on the loans) has averaged 1.46 percent on A&D loans in NAHB's AD&C Financing Survey. To obtain estimates with a significant shelf life, that spread is applied to a prime rate of 5.5 percent—300 basis points above the median appropriate longer term policy path for the federal funds rate projected by Federal Reserve Board members and Bank presidents.

- An initial fee of 90 basis points, based on the average on A&D loans since 2018 in NAHB's AD&C Financing Survey.

Construction of the Single-family Structure

- Construction costs account for 56.6 percent of the house price, based on the average of NAHB Construction Cost surveys conducted between 2002 and 2019.

- A loan is used to finance 86 percent of total construction costs, based on the average loan-to-cost ratio on loans for both speculative and pre-sold single-family construction in NAHB's AD&C Financing Survey since 2018.

- A 6.65 percent interest rate on all land acquisition and development (A&D), based on the 1.15 percent post-2018 average spread above prime on speculative and pre-sold single-family construction loans in AD&C Financing Survey, and a 5.5 percent prime rate consistent with the median appropriate longer term policy path for the federal funds rate projected by Federal Reserve Board members and Bank presidents.

- An initial fee of 76 basis points, based on the post-2018 average on loans for speculative and pre-sold single-family construction in NAHB's AD&C Financing Survey. Due to the short duration of typical single-family construction loans, the initial points can often be more economically significant the actual interest rate on the outstanding loan balance.

- A 9.6 percent gross profit rate for builders and developers, based on the average rate on NAHB Construction Cost surveys conducted between 2002 and 2019. Without a competitive return above costs, builders will typically be unable to get construction loans underwritten to build the homes.

- A broker's fee of 2.9 percent, based on the "non-construction" cost factor the Census Bureau applies to single-family homes built for sale.

Average Time Lags

Zoning application to start of site work: 16.6 months
NAHB 2021 Land Developer Survey of Regulatory Costs

Start of site work to sale of lot to builder: 10.0 months
NAHB 2021 Land Developer Survey of Regulatory Costs

Sale of lot to start of construction: 1.0 month
Average length of time from authorization by building permit to start (U.S. Census Bureau with partial funding from HUD) for single-family homes built for sale in 2020, assuming the builder seeks authorization for construction at the same time as purchasing the lot.

Start of construction to completion: 5.9 months
Average length of time from start to completion (U.S. Census Bureau with partial funding from HUD) for single-family homes built for sale in 2020.

Completion to closing: 0.8 months
NAHB tabulation of Survey of Construction microdata (U.S. Census Bureau with partial funding from HUD) indicates that 60 percent of single-family homes built for sale and completed in 2019 were sold before they were completed. These homes are assumed to close at the same time as the completion. The other 40 percent are assumed to close slightly more than 2 months after completion, based on the average time it takes to sell an existing home reported by Zillow.

Impact of Costs on House Price

The above assumptions imply the following mark-up percentages that vary depending on when a particular cost is imposed on a developer, builder or home buyer:

Additional Charges Passed on to the Home Buyer Depending on When a Cost is Incurred	
0.00%	Cost imposed directly on buyer at closing
14.94%	Cost incurred by builder during construction
16.35%	Cost Incurred at start of construction
16.82%	Cost incurred when applying for building permit
27.63%	Cost incurred during site development
30.17%	Cost incurred when applying for development approval

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Appendix II:
2021 Land Developer Survey on Regulatory Costs

1. **What is your local Home Builders of Georgia membership affiliation?**

2. **Does your company have substantial experience in acquiring raw land, developing finished lots and selling them to builders?**

   ☐ Yes ☐No

   [If "Yes," please answer questions 3-10. If "No" end survey]

   Please answer questions 3-10 for a typical project to develop finished lots to sell to a builder (or multiple builders). Please estimate your responses, to the best of your ability, as percentages of the total cost for land acquisition and lot development.

3. **For a typical piece of land, how much does it cost to apply for zoning approval, as a % of total land acquisition and lot development cost?** *(Include costs of fiscal or traffic impact or other studies, and any review or other fees that must be paid by time of application. Please enter "0" if there are typically no application costs).*

   _____%

4. **For a typical project, how many months does it take between the time you apply for zoning approval and the time you begin site work?**

   _____Months

5. **Between the time you begin site work and the time you sell the lots, how much does it cost to comply with regulations, as a % of total land acquisition and lot development cost?** *(Include costs of complying with environmental or other regulations as well as the cost of hook-up or impact or other fees. Do not include cost of labor regulations, as they are covered in Question 7). Please enter "0" if cost of complying with these regulations is zero).*

   _____%

6. **For your typical project, what is the value of any land that must be dedicated to the local government or otherwise left unbuilt (for parks, open green space, etc.), as a % of total land acquisition and lot development cost?** *(Please enter "0" if dedicating land is required infrequently).*

   _____%

7. **How much do development requirements that go beyond what you would otherwise do (e.g. setbacks, property layout, landscaping, etc.) add to your cost, as a % of total land acquisition and lot development cost?** *(Please enter "0" if the jurisdiction's requirements don't go substantially beyond what you would normally do).*

   _____%

8. **How much does complying with OSHA or other labor regulations cost, as a % of total land acquisition and lot development cost?** *(Please enter "0" if labor regulations have no substantial impact on development costs).*

   _____% ☐ **Don't know/use of subs makes it impossible to estimate**

9. **How many months does it typically take between the time you begin site work and the time you sell the lots to a builder (or builders)?**

   _____ Months

10. **How much extra time (in months) overall does complying with regulations add to the development process?** *(Please enter "0" if regulations typically cause no substantial delay).*

    _____Months

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Appendix III:
2021 Home Builder Survey on Regulatory Costs

For questions 2-6, please estimate all percentages as a fraction of total construction costs for the typical home you build, after acquiring a finished lot or developing it yourself. Total construction costs include all costs for labor, subs, materials and fees, but exclude all costs associated with the finished lot.

1. **What is your local Home Builders of Georgia membership affiliation?**

2. **After a lot is finished and can be built on, how much on average do you pay for permit, hook-up, inspection, impact or other government fees as a percent of total construction costs?** (*Please enter "0" if fees paid during or after construction are negligible; exclude any fees associated with the lot before the building permit is pulled*).

   _____ % of total construction costs

3. **Over the past 10 years, how much have changes in construction codes and standards added to your cost, as a percent of total construction costs?** (*Please enter "0" if code changes have had minimal impact on construction costs*).

   % of total construction costs ☐ Don't know/was not building homes 10 years ago

4. **How much do architectural design standards (requirements for siding materials, windows, landscaping etc.) that go beyond what you would otherwise do (and are not related to building codes) add to your cost, as a percent of total construction costs?** *(Please enter "0" if the jurisdiction's requirements don't go substantially beyond what you would normally do).*

   %_____ of total construction costs

5. **How much does complying with OSHA or other labor regulations cost, as a percent of total construction costs?** *(Please enter "0" if labor regulations have no substantial impact on development costs).*

   _____ % of total construction costs ☐ Don't know/use of subs makes it impossible to estimate

6. **How much extra time (in weeks) does complying with regulations (including unreasonable delays in obtaining permits or inspections) add to the construction process?** *(Please enter "0" if regulations typically cause no substantial delay).*

   _____Weeks