

**State Representative Derek Merrin  
District 47**

**House Bill 149 – Sponsor Testimony  
Economic Workforce and Development Committee  
April 3, 2019**

---

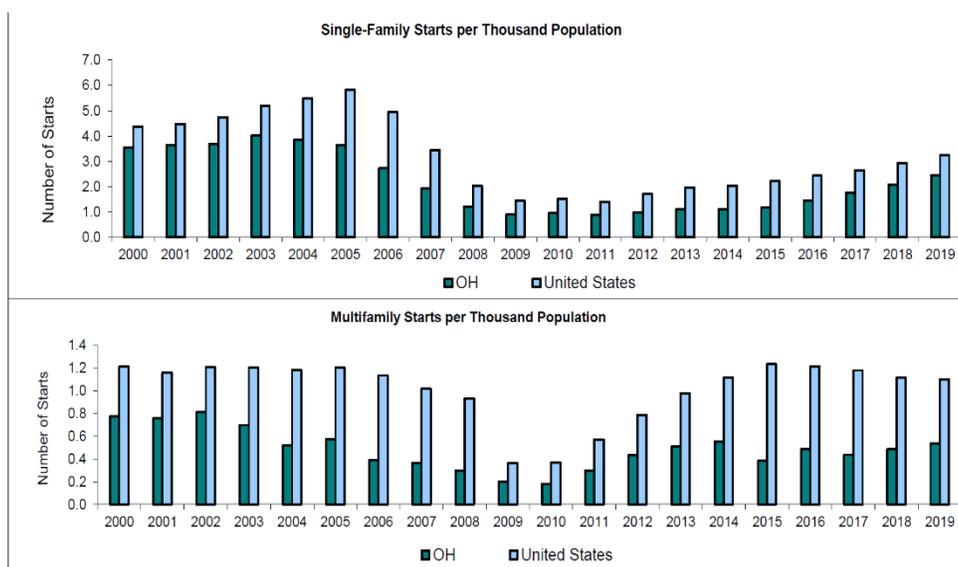
Chairman Zeltwanger, Vice-Chair Powell, Ranking Member Sobecki, and Committee Members, thank you for the opportunity to present testimony on the Affordable Homebuilding and Housing Act. Ohio has performed far below the national average in single-family and multi-family residential construction for the last eighteen years. New homebuilding provides huge economic benefits and supplies new housing that alleviates soaring prices. The construction bolsters jobs, population growth, and leads to increased tax revenue. House Bill 149 removes a disincentive for homebuilding and makes housing more affordable.

In a *Wall Street Journal* article, “The Next Housing Crisis: A Historic Shortage of New Homes” detailed how in 2018 America was short 400,000 new homes to keep up with the population growth. This pushes home prices higher. The problem is more acute in Ohio where we ranked 44<sup>th</sup> nationally in new residential homebuilding in 2016. Since 2000, our state every year has performed below the national average in single-family and multi-family residential construction.

**Quick Homebuilding Economics:**

- **100 New Homes Built = \$30 million in new income for state residents**
- **100 New Homes Built = \$6 million in additional tax revenue**
- **100 New Homes Built = 419 full-time jobs created during construction**

The on-going annual impact of 100 single-family homes is \$4.6 million in new income for residents, \$1.6 million in state/local tax revenue, and 78 jobs.



Platting and subdividing land is critical to igniting new homebuilding. Homebuilders need access to ready-to-build lots. Typically, the platting of land is the first step. However, our tax laws discourage landowners from taking this first step. House Bill 149 seeks to reform our tax code to be pro-homebuilding and spur land development.

Let me provide an example how our tax code increases risk to developers. A hypothetical developer purchases ten acres of vacant land for \$100,000. Assuming the Auditor values it at \$100,000 with a 2% tax rate that equates to \$2,000 in annual taxes. The developer plans to divide the land into ten residential lots and build ten homes. The developer gets local approval to subdivide the land creating ten new lots or parcels.

The County Auditor now places a \$50,000 value on each of the ten lots. Without any construction or sale, the land's tax value increased from \$100,000 to \$500,000. The hike in property value increases property taxes, at a 2% rate, annually from \$2,000 to \$10,000. This is a major disincentive for landowners to plat and subdivide land to sell to developers. Additionally, developers may own vacant land that is not subdivided; they can be slow to plat and subdivide because of the looming increase in property taxes. This makes homebuilding more risky; because if the lots do not sell quickly, developers are on the hook for the property tax bills. During the Great Recession, the property taxes on unsold lots is the what put many homebuilders out of business and still makes developers hesitant to start new developments.

Under House Bill 149, the land is still taxable, but increased value due to subdividing is not subject to taxation, thus removing the tax disincentive to prepare land for homebuilding. The hypothetical developer purchasing ten vacant acres valued at \$100,000 would not have his overall tax burden increase. It is important to note property taxes paid by a developer on lots during development typically inflate the final cost to the buyer, which makes home ownership more expensive.

This bill is not about giving homebuilders a tax break; it is about reducing risk for land development that will lead to increased home construction and affordable housing. My legislation exempts pre-residential lots from the increased tax value on land due until construction commences, the land is sold, or after 8 years. In the long-term, the Affordable Homebuilding and Housing Act will increase local government revenue by creating new value that will be taxed.

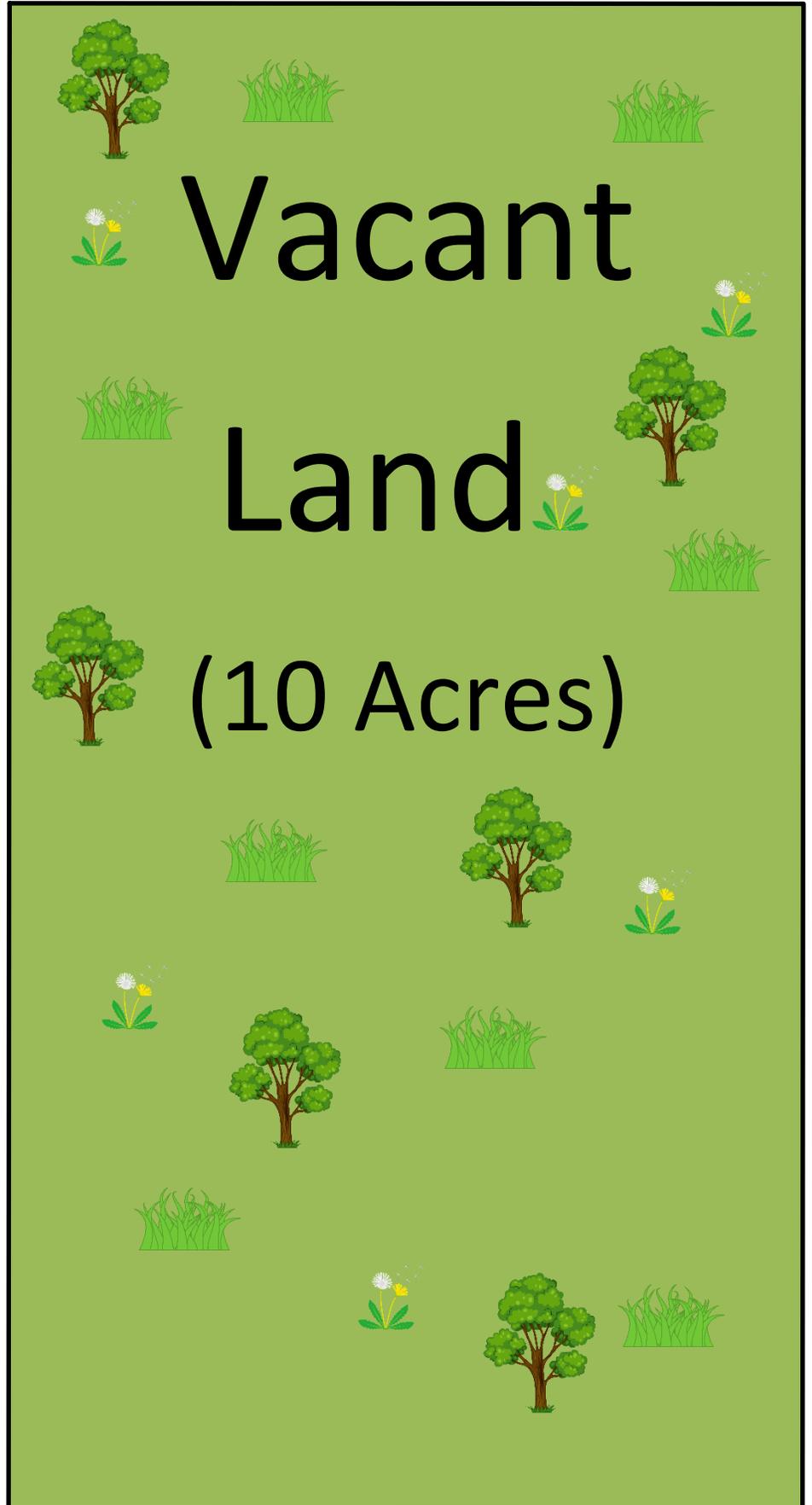
Our tax code should be fair and encourage economic growth. I strongly believe the legislation will spur land development and jump-start homebuilding in Ohio. When considering this bill, please remember the chart demonstrating Ohio's dismal homebuilding performance compared to the national average. Ohio must and should do better. Remember, when new homes are built, everyone wins!

I hope to have your support and I welcome the opportunity to walk through the attached handouts that provide a visual illustration on how the legislation would work.

.

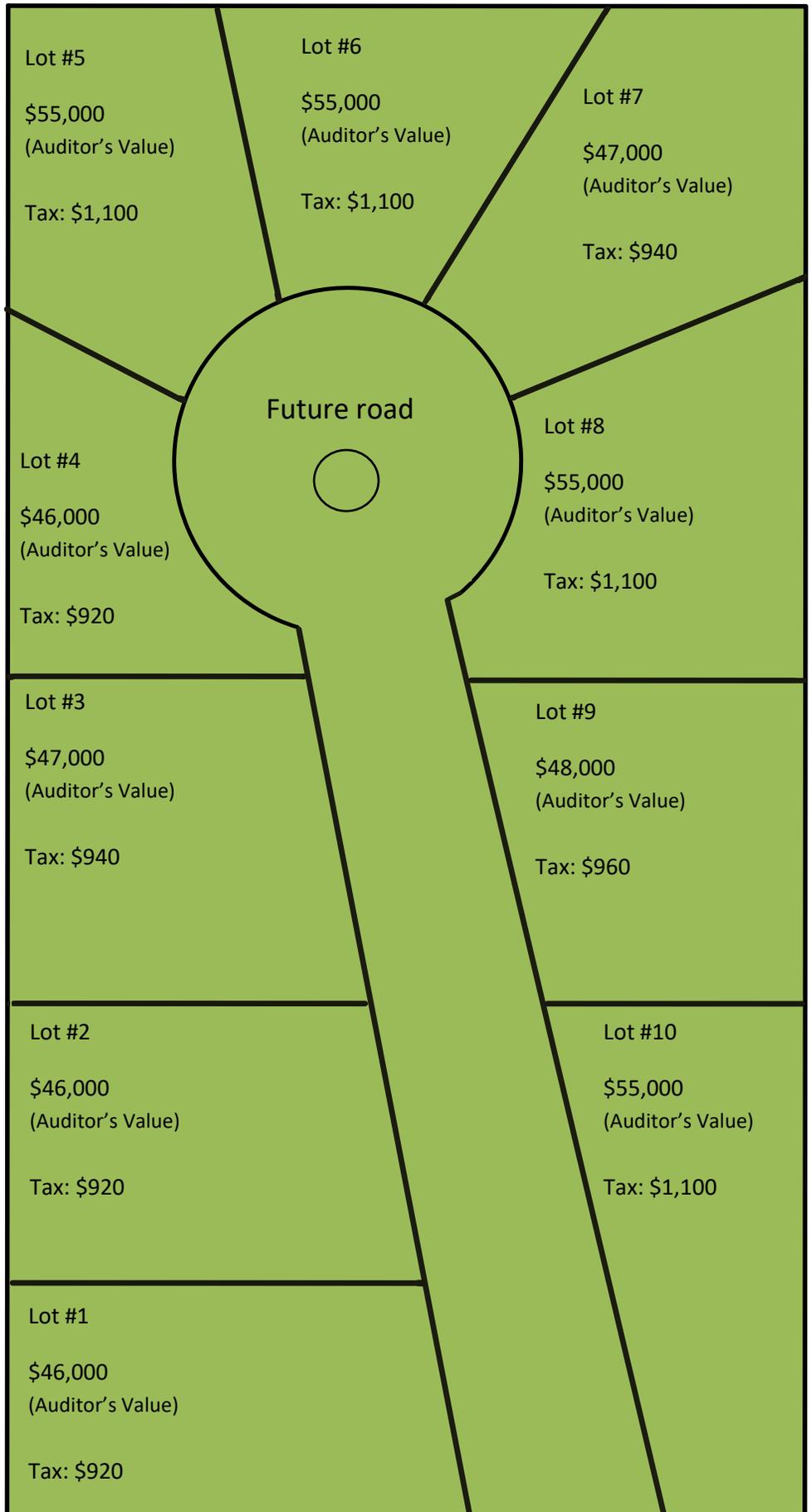
## Current Example:

- 10 acres of vacant land is purchased by a developer
- County Auditor assesses the property at a \$100,000 value
- Taxed at an annual 2% rate
- Taxes owed are \$2,000 per year



## Current Problem:

- Land is subdivided into 10 lots to prepare for homebuilding
- The land is still vacant
- County Auditor must place a new value on each lot; theoretically, raising the overall value to \$500,000
- Taxed at an annual 2% rate
- Taxes owed are now \$10,000 per year

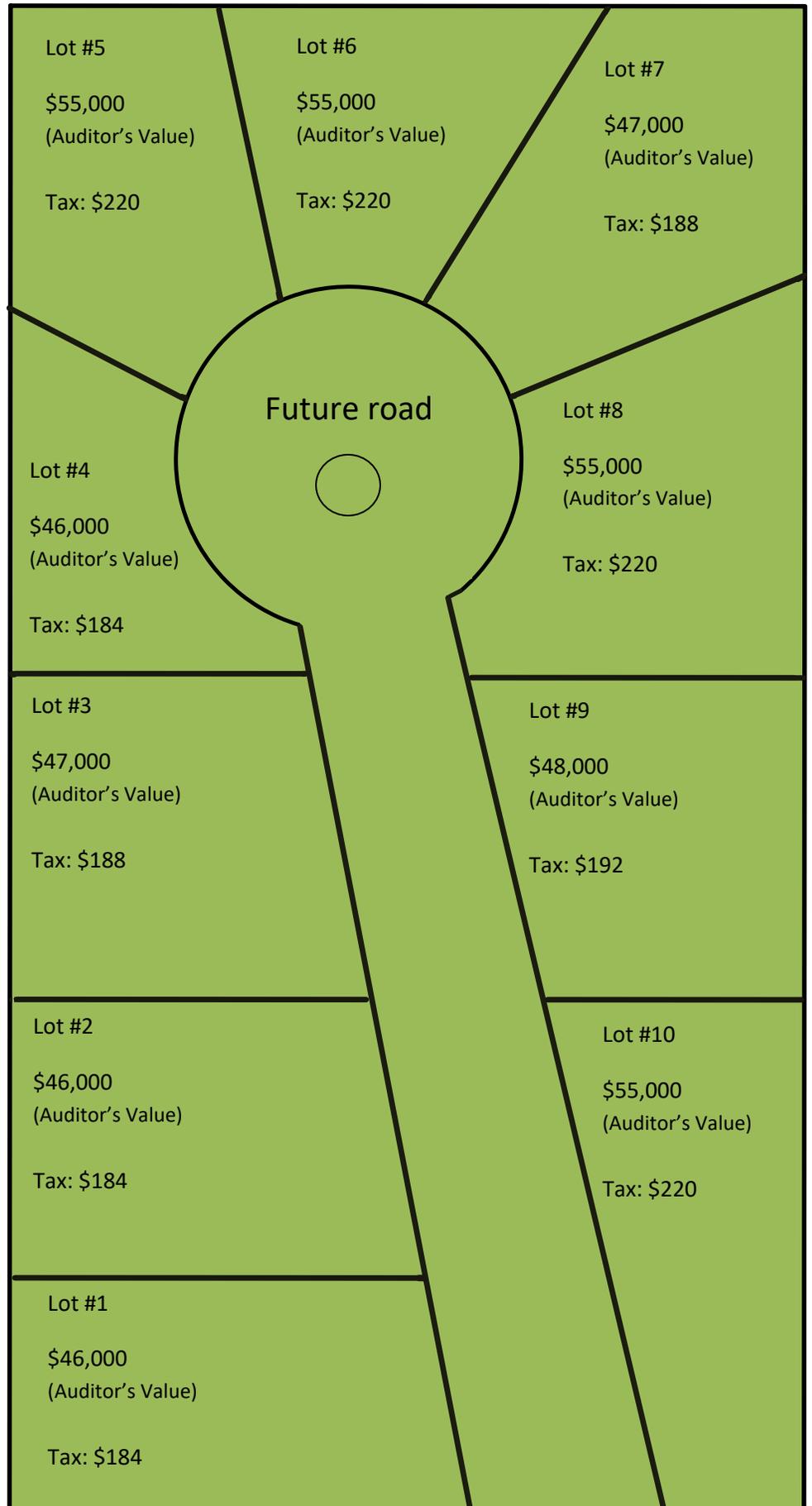


## Affordable Homebuilding and Housing Act Impact:

- The owner is taxed on the original \$100,000, valued by the auditor, instead of the \$500,000 valuation created after land was subdivided for development
- \$100,000 property value
- Taxed at a 2% rate
- \$2,000 in annual taxes owed

## Details of HB 149

- When lot is sold, the exemption ends
- When construction begins, the exemption ends
- After 8 years, the exemption ends



### Homes Constructed:

- Each lot is now fully taxed at the auditor's value after homes are built
- Total value of the 10 acres is now \$3,500,000
- Taxed at a 2% rate
- \$70,000 tax is generated annually

### Benefits of HB 149 – 10 Homes

- Reduces the final cost of new homes
- Removes the tax disincentive for developing land to build homes
- Projected 41.9 new FTE's created during construction
- Projected 7.8 permanent, FTE's created
- Projected \$3,000,000 of new income for state residents
- Projected \$410,000 of recurring income for local economy
- \$68,000 increase in local government revenue

