# Economic and Workforce Development Committee

## Ohio House Representatives

### House Bill 149 – Proponent Testimony

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Chairman Zeltwanger, Vice-Chair Powell, Ranking Member Sobecki, and Committee Members, thank you for the opportunity to present testimony in support of the Affordable Homebuilding and Housing Act sponsored by State Representative Derek Merrin.

I currently reside in Cleveland, Ohio. My principal occupation is residential real estate developer. I have been in the real estate business since obtaining my license in February of 1997. My focus shifted to new home construction sales in 2001. In June of 2004 I was hired by the Drees Company to manage their Cleveland Land Division which, at its peak, had a $14 million development budget. For 6.5 years I was responsible for land acquisition, land entitlement, and managing the development construction activities.

Since December of 2010 I have been self-employed. During this time I have managed or am currently managing a mix of residential subdivisions for small, medium and large volume builders. I have a keen grasp of the challenges and risks associated with single-family residential land development.

Last week, Rep. Merrin offered Sponsor Testimony to this Committee. His analysis of the current state of the new home market is very accurate. He also clearly makes the case for the positive economic benefits of a strong new home market.

I would like to expand on the risk associated with residential development. I will also address the concerns expressed by opponents of this bill by demonstrating a positive economic impact of bringing equity and fairness to the assessment of property taxes on residential development.

Residential development is a very expensive undertaking. It is also fraught with peril. It is acutely affected by changing market conditions in the macro. Developers must have a keen sense of the local real estate scene in a widely diverse set of sub-markets in the micro.

Land prices, development costs, environmental compliance, plan review fees, inspection fees continue to rise at a pace that far exceeds the income growth required broaden affordability in the marketplace.

This is compounded by an increased time in securing the entitlements and approvals required to commence construction.

In my early years with the Drees Company, I would budget 1.5 years to obtain all required approvals from the local government (village, township, city), the County, United States Army Corps of Engineers, and Ohio EPA. These approvals were for zoning, permits to install underground improvements, Storm Water General Discharge Permit, Storm Water Pollution Prevention Plan, and road construction.

Today, I have option agreements on land that are approaching four years since initial execution. It is the exception, and not the rule, for obtaining approvals in less than 3 years. A dramatic shift in the economy can spell disaster for a project Pro Forma that was based on market conditions that change dramatically as we all witnessed from 2006 to 2010.

In real dollars, simply obtaining preliminary plan approval can run as high as $35,000. Due diligence items such as Wetland Delineations, Sub-surface Soil Investigations, Phase 1 Environmental Site Assessments run $2,000-5,000 each. Surveys, depending on County subdivision requirements, can top $15,000. Design engineers charge $3,000-7,500 for preliminary plans. Plan review fees by local and county planning agencies are $50-75 per proposed lot.

The most frustrating part for the developer can be simply obtaining this preliminary plan approval. Even if the proposed subdivision meets the current zoning code. Most of these codes are outdated and require lot sizes no longer popular save for a narrowing market. Zoning changes add additional time and expense.

I am currently working on a development in Portage County. The proposed development would be 113 homes in the $260,000 to $360,000 price range. I have budgeted $35,000 for preliminary plan approval and due diligence costs. There is an additional $170,000 budgeted to design the public improvements.

The total investment for land, engineering/soft costs, and phase 1 improvements is $3.5 million. Property taxes are budgeted at $232,000 (2,053.10/lot) or 6.75% of project’s initial investment. While employed by Drees, we hoped for a net 20% margin. That translates to needing to sell 90 of the 113 lots to simply break even.

If the project sells out in four years, the Company’s return was an annualized return of 5%. Increasing velocity to a three year sellout raises this return to nearly 7%. In order to increase velocity, we must find a way to reduce lot prices. Lower lot prices permit lower home prices. This expands our pool of buyers because we can attract buyers at lower income levels.

Turning to Rep. Merrin’s average home value of $350,000, the monthly payment on a 30yr., 4% mortgage with an 80% Loan to Value is $1,920.10/month. It requires $82,300 annual income to qualify. Reducing that home by $7,000 brings a buyer with only $80,600/ annual income into the market. Their payment is $1,881.69.

This is the net effect of simply bringing down the developer’s property tax burden. Yet, contrary to the opinion of certain county auditor’s and fiscal officers, the impact on the overall tax collections increases. This is a function of completing homes at a faster pace. In a moment, we can turn our attention to that handouts and discuss this in greater detail.

I am here today because I have a personal stake in this issue. I am also here because of my commitment to our Industry and its Association members. We have historically only asked for fairness and equity. A shining example of this philosophy centers around our approach to the International Energy Code adopted back in 2012.

One key component changed the insulation factor in new homes from R-13 to R-19. The U.S. Energy Dept. was told that the average cost to new homes would be $350. A few of our members studied the issue and determined the actual cost was closer to $2500 for an approx. 1,200sf home. With interest on a 30 yr. mortgage and factoring in the actual energy savings, this change would be a 174 year payback. OHBA worked with Gov. Kasich and his Common Sense Initiative. The State of Ohio has an exception to the code calling for R-15 in the walls and increased ceiling insulation from R-39 to R-45. It achieved the same savings at about a third of the cost.

As a developer, I have no issue paying the full value of the land that I purchase for development. That value can be 3-10 times the agricultural tax value prior to purchase. The developer then pays to install public improvements necessary to support new home construction. The benefits of those improvements only inure to the end user – the new home buyer.

Prior to the sale of the lot, the developer does not benefit from any of the improvements. The developer does not utilize any of the institutions or services funded by the property taxes levied.

So, the current method of calculating property taxes **has the net effect of taxing private investment made to bring public services to the growing community**.

Growth, as highlighted in Rep. Merrin’s testimony, that is highly desirable for a number of economic reasons.

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