

**LFC Requester:****Emily Hilla****AGENCY BILL ANALYSIS - 2025 REGULAR SESSION**

**WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO**  
[AgencyAnalysis.nmlegis.gov](http://AgencyAnalysis.nmlegis.gov) and email to [billanalysis@dfa.nm.gov](mailto:billanalysis@dfa.nm.gov)  
*(Analysis must be uploaded as a PDF)*

**SECTION I: GENERAL INFORMATION***{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}***Date Prepared:** 2/22/25

Check all that apply:

**Bill Number:** HB554Original  Correction Amendment  Substitute **SECTION II: FISCAL IMPACT****APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		
\$0	\$0		

(Parenthesis ( ) indicate expenditure decreases)

**REVENUE (dollars in thousands)**

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		
\$0	\$0	\$0		

(Parenthesis ( ) indicate revenue decreases)

**ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)**

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>						

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:

**SECTION III: NARRATIVE****BILL SUMMARY**

House Bill 554 (HB554) proposes amendments to state law pertaining to Zoning Authority of County or Municipalities to allow accessory dwelling units (also referred to as ADUs, casitas, guest houses, mother-in-law quarters, granny flats, or Fonzie flats) in all residential areas and limits the types of approval criteria that local governments can impose on their approval. The bill also allows multifamily residential housing in commercially zoned areas and within ¼ mile of a transit rail stop. HB554 provides minimum standards for density, height and maximum parking required for multi-family housing meeting these locational criteria.

## **FISCAL IMPLICATIONS**

### **SIGNIFICANT ISSUES**

New Mexico is facing an unprecedented housing shortage and related affordability crisis. Since 2017 New Mexico has seen homelessness increase 87%, 47% faster than the national average. Median rents in New Mexico have increased 60% in that same time, as compared to 27% nationally. The average cost of a home has increased 70%, far outpacing wage growth. Driving this is a 15-year underproduction of housing, a period where the state built around 50% of the homes constructed in the 15 years preceding the 2009 financial crisis. Furthermore, according to the National Association of Homebuilders 2024 “Priced Out” report, the median new home cost in New Mexico is now \$440,062, which is unaffordable to 81.6% of New Mexicans. Despite high demand and low supply of available housing, as of October 2024, New Mexico was one of just one of five states nationally with a decline in single-family permit issuance year-on-year. A recent article published by Pew Charitable Trusts identifies regulatory barriers to new housing as one of the primary drivers of our state’s affordability crisis. This proposal would directly target one of the critical regulatory barriers to new housing, zoning rules.

Accessory dwelling units are widely recognized as an important approach for adding naturally affordable housing due to their smaller size. Because they are built in existing neighborhoods, they utilize existing infrastructure which lowers the cost to develop and mitigates sprawl and vehicle miles traveled. Accessory dwelling units can also be an important source of income for existing homeowners, particularly those with lower incomes. Fourteen states have adopted some form of statewide law liberalizing construction of ADUs.

Key to easing rental costs is adding to the supply of multi-family rental housing. Rental housing construction is particularly challenged in current market conditions due to historically high commercial construction costs and higher than typical interest rates. This can be seen in a dramatic drop in multi-family rental permits, which were down 24% through the third fiscal quarter in 2024. Allowing residential construction in areas of commerce and near transit can add significant housing in areas where it has little impact on existing residential areas, utilizes existing infrastructure and parking, and gives people access to jobs, services, and transit options. By allowing this type of development, it either alleviates the need for developers to go through lengthy and costly rezoning processes, which add to the eventual rental rates, or allow housing in areas that currently are not options for housing development.

Arizona, Colorado, Florida, Hawaii and Maryland all passed legislation in 2024 to allow apartments in some or all areas near commerce and transit, often with strong bipartisan support.

These two proposals together offer significant opportunities for adding new housing and at lower cost than under our existing housing regulatory frameworks.

## **PERFORMANCE IMPLICATIONS**

## **ADMINISTRATIVE IMPLICATIONS**

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

## **TECHNICAL ISSUES**

## **OTHER SUBSTANTIVE ISSUES**

## **ALTERNATIVES**

## **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

## **AMENDMENTS**

One obstacle to the creation of new ADUs is that their construction forces a current and correct property tax valuation. Residential properties in New Mexico are subject to a 3% annual cap in property tax increase, so if an owner with significant tenure builds an ADU, they can see a shock increase in property tax often doubling or tripling their current property tax rate. One way to help make sure that regulatory changes lead to actual new home construction would be to provide a temporary abatement, or have taxes ramp up over a set period of time to current and correct value. Allowing taxes to increase 20% towards current and correct per year for five years would give time for existing owners to adjust to increased property taxes.