Statement of Gerald M. Howard
On Behalf of the National Association of Home Builders
Before the House Ways and Means Subcommittee on Oversight on
Expanding Housing Access to All Americans
July 14, 2021

Introduction

Chairman Pascrell, Ranking Member Kelly, and members of the Oversight Subcommittee, on behalf of the more than 140,000 members of the National Association of Home Builders (NAHB), thank you for this opportunity to testify today on the important subject of housing access and opportunity for all Americans. My name is Jerry Howard, and I am the President and CEO of NAHB. NAHB's members are involved in all aspects the residential and light commercial construction industry, including home building, remodeling, and multifamily construction, and will construct 80% of new homes and apartments this year. Collectively, the industry represents 3 million workers in the construction sector, and housing's share of the U.S. Gross Domestic Product is 17.6% of the economy at the start of 2021.

I want to thank you for holding this hearing to highlight the need for improving and expanding access to safe, decent and affordable housing for all Americans. Builders, remodelers and other stakeholders in the home building industry recognize that the housing market is a ladder. Each rung must operate for people to advance. For housing, this means constructing and maintaining single-family and multifamily housing alike and—as the housing stock ages and more seniors age in place—a robust and effective remodeling sector.

My statement will focus on the current state of the housing market; the challenges of increasing housing supply; the rise of institutional investors in the market; and policies the Committee should consider using to expand access to housing.

State of the Housing Market

Over the course of 2020, housing was a bright spot for an economy that experienced a dramatic and unexpected economic downturn due to the COVID-19 crisis. As other industries faltered, home construction expanded and added much-needed jobs as demand for housing increased and inventories declined to historic lows. Supported by low interest rates, favorable demographics, and a shift in the geographic preferences for rental and for-sale homes, home builders increased construction to meet this demand.

However, the residential construction industry, and housing, faces remaining challenges. Namely, home prices are rising too quickly due to an approximate one-million-unit housing deficit and industry limits on supply. Rising home prices, apartment rents and construction costs represent real risks to housing affordability for prospective buyers and renters.

The Housing Deficit and its Causes

The overall housing deficit has been growing over the past five to ten years as home construction has not kept pace with demand. The residential construction industry has underbuilt due to several supply-side constraints, such as a lack of labor and tight lending conditions. These factors, which the industry has been struggling with for years, were intensified by the COVID-19 pandemic. While some demand-side forces, such as the rising demographic of first-time buyers (Millennials), pre-existed the pandemic, other drivers of the increasing deficit were brought about by the nation's behavior during COVID-19.

One such change due to the 2020 crisis is that housing demand shifted outward to suburban and exurban areas. Homebuyer preferences shifted as the number of people working from home increased. This resulted in increased demand for home offices. Buyers also searched for more space, which is at a premium in markets closer to urban cores. These renters and buyers consequently expanded their search for housing outward, to lower-density, lower-cost markets. As this suburban demand increased, existing inventory was insufficient. In an ideal market, home building would add to inventory; however, supply-side constraints limited the rate of expansion in the market.

Supply-Side Challenges

NAHB has identified these supply-side factors and informally refer to them as the "5 Ls." Collectively, they represent limiting factors on how fast housing supply can be added. To add additional multifamily and single-family housing, and protect housing affordability, policymakers should consider policies that would ease these constraints.

- Labor: The lack of skilled labor has challenged builders over the past decade. The industry is currently short about 300,000 workers.[1]
- Lots: Land development is taking longer and has become more expensive since the Great Recession.
- Lending: The majority of builders are small businesses and lack access to capital markets. Credit availability for Acquisition, Development and Construction loans is crucial.
- Lumber/building materials: From lumber to fasteners, builders face shortages and rapidly rising prices.
- Legal/regulatory burdens: Regulations are costly in terms of time and dollars and have consistently increased in the past decade. According to NAHB, approximately 26 percent of the cost of a single-family home and 33 percent of a multifamily unit is directly attributable to regulatory burdens at the local, state and federal levels of government.

Solving just one or even a few of these issues will prove insufficient in easing housing affordability. Progress must be made on all fronts to significantly ease the supply-side challenges holding back housing production.

[1] Robert Dietz, Crosswinds for Construction Job Openings, National Association of Home Builders Eye on Housing blog. July 7, 2021: https://eyeonhousing.org/2021/07/crosswinds-for-construction-job-openings/.

To put this into context, NAHB estimates 1.55 million housing units will be built in 2021. This is broken down as 1.12 million single-family homes, an 11% gain over the 2020 total of approximately one million units. To keep up with population and household growth—and to supply the second home housing market and replace older homes that are removed from the stock—NAHB estimates about 1.2 million homes per year are needed to meet this demand. Thus, we are not quite at the levels that would significantly reduce the housing deficit.

For multifamily construction, we estimate more than 430,000 units will be built this year, a strong 10-percent gain over the slight weakness seen in 2020 (393,000 units).

Thoughts on Single-Family Rental Housing

At the intersection of for-sale and for-rent housing is a growing market: single-family rental. There are more than 14 million single-family units in the rental housing stock, compared to 30 million multifamily units.[2] The single-family rental market is a useful one in that it enables people that cannot afford to purchase a home to have more space and a more suburban aesthetic, preferences that have risen as a result of the COVID-19 crisis.

The market has recently grown in part due to increased institutional buyer activity. NAHB estimates institutional investor ownership at roughly one million units. Even with this increase, most of the existing single-family rental stock is still based on “mom and pop” ownership.

A small percentage of newly built homes are built-for-rent as well, accounting for six to seven percent of total starts. Roughly two-thirds of these units are built, and then held by a builder for rental purposes. NAHB estimates that the other third is sold to an investor, who purchases with the intent to rent. Although the market share may be small in terms of total construction, it is growing and may rise to 10 percent in the coming years.

A key question is whether this growth is crowding out prospective home buyers from the market. Given the relatively small size of the built-for-rent market, this is unlikely, although examples in some markets can be found. Fundamentally, it is the lack of housing stock, due to years of underbuilding, that represents the most significant challenges for prospective home buyers.

Policy Considerations to Expand Access to Safe, Decent and Affordable Housing

Lumber and Materials

Fixing the construction supply chain is key to building more housing and reducing the housing deficit. The government can do more to provide access to affordably priced lumber and other materials. First, the United States government must engage with Canada and adopt a new softwood lumber agreement. The duties levied on Canadian softwood lumber imports increase prices and price volatility of a commodity which the nation has never been able to produce to domestic demand levels. In fact, the U.S. market currently imports approximately 30 percent of the softwood lumber it consumes. As negotiations takes time, the Department of Commerce should suspend the duties until an agreement is reached to reduce construction costs.

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[2] US Census Bureau, American Community Survey, 2019; NAHB calculations.

Second, the government can host a summit at which stakeholders of the lumber value/supply chain can participate and identify blockages in the production process. Although lumber prices are now showing some declines from peak levels, large and sustained price increases were all-too-frequent even before the pandemic (e.g. 2018). After starting at approximately $350 per thousand board feet (mbf), lumber prices peaked near $1,500/mbf and currently stand near $700/mbf.

Additionally, many other products continue to face supply-chain hurdles. A critical example is Oriented-Strand Board (OSB) panels, which are used as sheathing in walls, flooring, and roof decking. OSB prices remain nearly 500% greater than April 2020 levels, having not experienced the declines reported for softwood lumber. In a May NAHB survey, 92 percent of builders reported a shortage of OSB.

Affordable Rental Housing

The most effective affordable rental housing program in history is the Low-Income Housing Tax Credit (LIHTC). The federal government has collaborated with private investors and developers since the program's inception to address a textbook market failure—underproduction of low-income rental housing—to much success. Over the program's lifetime, it has financed three million units to the benefit of millions of households. Despite the program's success, the nation and its underserved communities need an expansion of LIHTC.

The tireless, bipartisan work of this committee's members resulted in the "four-percent fix" by which the law was amended to ensure that the effective tax credit rate for 4-percent LIHTC projects never falls below four percent. Special thanks are due to Representatives DelBene and Walorski, and over 200 of their House colleagues, for supporting and pushing for inclusion of the four-percent fix in the 2020 omnibus/COVID relief package.

But we can and must to do more. We are thankful that members of this subcommittee and other advocates on the Hill have shown their commitment to expanding the program and helping our most vulnerable citizens when they need it most. A perfect example of this commitment is the *Affordable Housing Credit Improvement Act of 2021*. Led by Representatives DelBene, Walorski, Beyer, and Winstrup, and Senators Cantwell, Young, Wyden, and Portman—the bill would increase the amount of credits allocated to each state; increase the number of affordable housing projects that can be built using private activity bonds (PABs); and better target the program to at-risk and underserved communities.[3] It is easy to see why the bill enjoys bipartisan support, as it would finance millions of additional rental homes at a time when the number of severely cost-burdened renters has reached an unfathomable 11 million households.[4] [5]

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[3] Office of U.S. Representative Jackie Walorski. Walorski Leads Bipartisan Legislation to Build Two Million Affordable Housing Units Nationwide: https://walorski.house.gov/affordable-housing-credit-improvement-act/.

[4] Peter Lawrence and Dirk Wallace. 2021 Affordable Housing Credit Improvement Act Could Finance More Than 2 Million Additional Affordable Rental Homes Over 10 Years. Novogradac. April 15, 2021: https://www.novoco.com/notes-from-novogradac/2021-affordable-housing-credit-improvement-act-could-finance-more-2-million-additional-affordable.

[5] National Association of Home Builders. Bipartisan Low-Income Housing Tax Credit Legislation Introduced in House and Senate. April 15, 2021: https://nahbnow.com/2021/04/bipartisan-low-income-housing-tax-credit-legislation-introduced-in-house-and-senate/.

Additional affordable housing stock is also dependent upon tax-exempt bonds. Any future consideration of the tax treatment of these bonds must be done so with this in mind.

Affordable Homeownership

NAHB strongly supports tax policies that enable the dream of homeownership. NAHB believes that owning a home is a significant tool to building financial security for Americans; properly structured and focused tax incentives to promote homeownership can reduce disparities in opportunities and outcomes. Traditionally, the mortgage interest deduction has filled that roll. And historically, most of the benefit of the mortgage interest deduction (MID) flowed to younger, middle class families, making homeownership more accessible at a younger age.

Recent tax changes have undermined the effectiveness of the MID. Increases in the standard deduction and limits on the state and local tax deduction have resulted in fewer middle-class taxpayers itemizing and incentives flowing more to high-income households. Additionally, the current homeownership tax incentives have not done enough to support minority homeownership opportunities. The homeownership rate among white households was 73 percent in 2018 while it was 58 percent, 47 percent, and 42 percent for Asian, Hispanic, and Black households, respectively. Further, first-time homebuyers face a significant hurdle in the form of accumulating a down payment, which the current housing tax incentives ignore.

NAHB supports a bold reformulation of the current homeownership tax incentives, shifting from a deduction to a tax credit that is targeted to lower- and middle-income Americans. Additionally, a permanent, first-time home buyer tax credit would complement this shift and could provide some relief to the challenge of accumulating a down payment. Owning a home remains the gateway to the middle class and for most Americans their home is their most valuable asset. Making homeownership more accessible to lower- and middle-income families will increase the financial success of future generations and keep the American Dream a reality.

Like-Kind Exchanges

Some have proposed limiting the rules that govern like-kind exchanges (a.k.a. section 1031 exchanges). Doing so would be a mistake and would harm housing affordability. The multifamily market would be particularly hard-hit, as sales of multifamily property account for nearly 40 percent of 1031 exchange dollar volume. [6]

The like-kind exchange rules provide liquidity that is critical to an illiquid market by facilitating transfers and development. Empirical data show that like-kind exchanges are associated with shorter real property holding periods (i.e., higher market liquidity). If like-kind exchanges were eliminated, longer holding periods would lead to higher risk premia demanded by investors.[7] This would then result in lower property values and capital flight.

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[6] David C. Ling and Milena Petrova. The Tax and Economic Impacts of Section 1031 Like-Kind Exchanges in Real Estate. October 2020, p. 57: https://1031buildsamerica.org/wp-content/uploads/Ling-Petrova_Like-Kind-Exchanges_RELKEC_10-05-20-final.pdf.

[7] Ibid, p. 5.

Section 1031 exchanges are also associated with increased capital investment in replacement property. Thus, more capital is invested in multifamily structures than otherwise would be, particularly in underserved communities. Even systemic financial risk is reduced by the availability of like-kind exchanges as exchanged properties are associated with lower loan-to-value ratios relative to other real property.[8]

Without section 1031 exchanges and the carefully crafted rules that govern them, the cost of developing land and investing in multifamily developments would undoubtedly be higher.

Regulations

State and local governments have significant authority they could use to help reduce the housing deficit. According to NAHB research, regulations imposed by the government account for $93,870 of the final price of a new single-family home built for sale and this amount has increased from $65,000 and $85,000 in 2011 and 2016, respectively. Of the 2021 figure, 56 percent of the total is incurred during construction while 44 percent is paid during lot development.[9] Similarly, regulatory costs make up more than 30 percent of the cost of a multifamily development.[10]

Zoning restrictions on land use artificially depress the level of residential housing stock and its potential rate of growth. But these restrictions also have indirect effects on inequality. For example, tighter restrictions raise the extent to which income differences are capitalized into home prices and impede cross-locality convergence in human capital. Cooperation between federal and local governments could incentivize zoning that is more conducive to residential construction, thereby increasing housing supply and affordability.

Conclusion

Improving access to affordable housing is a critical challenge for markets and policymakers. Due to the rise in demand, accelerated by the COVID-19 crisis, and the existing housing stock deficit, home prices are rapidly increasing. Home construction would normally tame these market forces and help prospective home buyers and renters with additional housing supply.

Due to supply-side limitations in the market, however, the rate at which supply can be added is limited. The industry is committed to continuing to innovate and support policy solutions that will expand housing supply and help reduce the housing deficit, with a goal of improving housing affordability for all, particularly communities who in the past have lacked access to homeownership or affordable rental housing.

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[8] Ibid, p. 5.

[9] Paul Emrath. Regulation Now Accounts for $93,870 of the Average New Home Prices. National Association of Home Builders Eye on Housing blog. May 28, 2021: https://eyeonhousing.org/2021/05/regulation-now-accounts-for-93870-of-the-average-new-home-price/.

[10] Paul Emrath. Regulation: Over 30 Percent of the Cost of a Multifamily Development. National Association of Home Builders Eye on Housing blog. June 14, 2018: https://eyeonhousing.org/2018/06/regulation-over-30-percent-of-the-cost-of-a-multifamily-development/.

Again, thank you for holding this hearing and allowing me to testify before you today. The members of NAHB stand ready to work with you to improve and expand access to safe, decent, and affordable housing for all Americans.