S. HRG. 118–185

THE STATE OF HOUSING 2023

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED EIGHTEENTH CONGRESS

FIRST SESSION

ON

EXAMINING THE CURRENT STATE OF HOUSING IN OUR NATION

FEBRUARY 9, 2023

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

Available at: https://www.govinfo.gov/

U.S. GOVERNMENT PUBLISHING OFFICE

54–466 PDF WASHINGTON : 2024

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C O N T E N T S

THURSDAY, FEBRUARY 9, 2023

WITNESSES

Additional Material Supplied for the Record

THE STATE OF HOUSING 2023

THURSDAY, FEBRUARY 9, 2023

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:09 a.m., via Webex and in room 538, Dirksen Senate Office Building, Hon. Sherrod Brown, Chair of the Committee, presiding.

OPENING STATEMENT OF CHAIR SHERROD BROWN

Chair BROWN. Welcome back to many of you, fewer of you, but thank you for sticking around, Jack and Mike; I appreciate that.

I want to welcome Senator Scott as the new Ranking Member of this Committee. He has played an important role on this Committee for nearly a decade. I also want to thank him for his words about Senator Fetterman. We hope he recovers quickly. He is a good man, and he was put on this Committee just a couple of weeks ago, also, Senator Britt and my colleague from Ohio, Senator Vance.

Ranking Member Scott and I have worked closely together to advocate for our Committee's budget. We have agreed to clarifying updates. I appreciate the work that he has done.

I am pleased especially to have worked with Senator Scott on issues that matter to families across this country, from making sure expecting moms have health care to supporting investment in home revitalization so we can increase home ownership opportunities for all Americans. I look forward to the work we will do together over the next 2 years.

Last Congress, this Committee talked more about housing than we had for a long time. Around town, this Committee for years had been referred to simply as the Senate Banking Committee, far too much about Wall Street, not nearly enough about the issues that matter to people's lives—housing, transit, community development, and frankly, small and regional banks and credit unions.

We are starting this Congress with a hearing on housing because it is one of the most important issues facing families, from Aiken, South Carolina, to Zanesville, Ohio. Housing determines so much about your life—how long it takes to get to work, whether you have easy access to a bank or fresh food, whether you worry about your kids getting sick from lead paint or mold. It determines your access and your kids' access to opportunity, and for far too many people, safe, affordable housing, it is just too hard to find.

There is not a day that goes by that I do not hear about the challenges that Ohioans are facing in the housing market. In just the last few weeks, I have heard from Ohio seniors who have lived in the same manufactured housing community for years, sometimes decades, but they are now worried they will lose their homes after an out-of-State investor bought, literally, their neighborhood and raised their rents. I have heard from renters in rural Ohio, whose rent went up almost 90 percent in a single year, the same kind of problems that the Ranking Member has to endure in rural areas in his State.

I have heard from city council members and mayors who are excited to have new jobs bringing economic opportunities for their region, but now they are worried there simply is not enough housing for new workers or that existing workers will be priced out as we have seen happen to teachers and police officers and firefighters.

The story is the same nationally. There just is not enough quality housing at prices people can afford. It is not happening just in Ohio. Nationwide, we are short an estimated 3.8 million homes, and the gap grows. In Ohio, we are short 50,000 homes. In Senator Scott's home State, it is 12,000. In Senator Sinema's home State, the estimate is 123,000 homes.

Because there are not enough homes, renters and home buyers are stuck paying more every month or living with peeling lead paint or leaks, if they can find a home at all. In 2021, a record number of renters, 21 million households, paid more than 30 percent of their income for housing. More than 30 percent, that is about half the Nation's renters.

Many of these renters work fulltime jobs or more than one job, but it just is not enough. Eleven of the 25 most common occupations in the U.S. workers depend on—home health aides, office support staff—nearly half of the most common occupations do not pay enough to afford a one-bedroom apartment anywhere in the country.

More renters are struggling in part because rents have skyrocketed over the past 3 years. Nationwide, rents are 25 percent—25 percent—higher than they were in 2019. Some places, rent has gone up even more than that.

And while rent growth is finally starting to slow in some places, millions of families are still paying more each month than they would have a year or two ago. That means less money for food. It means less money for childcare. It means less money for prescription drugs. Saving for a downpayment is, for far too many families, just simply an impossibility. Combine sky-high rents with higher home prices, with rising interest rates, with too few homes in the market, home ownership looks further and further out of reach for millions of families.

And the families who have already become homeowners are feeling the squeeze, too. One in five homeowners pays more than they can afford. That includes families who have to make tough choices—choices about paying their water bills or their heat or their mortgage—and seniors who have to put off critical repairs to keep up with payments on a fixed income.

It is not just a problem in big cities or the Pacific Coast and Atlantic Coast. It is not just a Republican problem or a Democratic problem. It is every community's—rural, suburban, urban, Tribal communities, every State in the country. As we heard last Congress, communities from Bozeman, Montana, to Tempe, Arizona, to Akron, Ohio, struggle with the lack of affordable housing. A national problem will take all of us, Senator Scott and I and many others, to work to solve it.

Today's witnesses are experts chosen together. Senator Scott's staff and mine worked together. The Majority and Minority chose these witnesses together. This bipartisan group will help us understand the housing conditions facing renters and homeowners across the country and what we can expect in the months and years ahead. Their insights on the availability and affordability of housing, the barriers to new development of more affordable housing, the unique challenges in rural and Tribal communities, that Senator Rounds knows so very well and has worked with Senator Smith bipartisanly on a number of solutions, will inform this Committee's work to make housing opportunities available to families in all 50 States.

I look forward to hearing from witnesses today, to working with all of my colleagues, including our three new Members, to find common ground on addressing these challenges.

Senator Scott.

OPENING STATEMENT OF SENATOR TIM SCOTT

Senator SCOTT. Thank you, Chairman Brown. It certainly has been a privilege to work with you, and we find common ground. Sometimes common ground typically leads to common sense, and we have found some common ground between the two of us.

We also very often, I believe, see the same problem. We see different paths to get to the solution. Today is a day where we celebrate bipartisanship. It may not be every day, but it is at least today. And thank you for working together on consensus witnesses to really understand and appreciate the plight of so many Americans who are suffering through the challenges of home ownership or renting.

As I said in my earlier comments, I grew up with a mom who worked really hard, 16 hours a day. We rented through high school. We lived with my grandparents when we were younger, with my brother and my mother and I sharing a bed and a bedroom in a rented house.

And so the problems that we see are not recent problems. They span back through history. You think about where we find ourselves. So today, we have an opportunity to really try to understand why housing in this country has become so expensive and out of reach to so many families.

Federal housing policies have long been disconnected from the economic realities that we face. Recent spending bills have contributed to what I call housing inflation, and I worry that continuing to promote irresponsible Federal spending does not address affordability challenges. In fact, in many ways, it may be the root, too much money flooding into our market leading to incredible inflation, and then the Fed tries to figure out how to tamp down inflation by slowing the economy.

This Administration likes to talk about the need for more affordable housing, but as we all know, talk is cheap and leads to empty promises. For instance, when President Biden ends Federal apprenticeship programs that produce high-paying jobs in the skilled trades, he should not get to bemoan the lack of construction workers, or when he fails to address domestic supply chain bottlenecks, he should not feign surprise when construction materials take months to arrive at job sites.

Threatening builders and housing providers with the possibility of rent control will only further increase the gap in housing supply. For decades, Washington's response to housing challenges has simply been more spending. We need to end this cycle and stop spinning our wheels.

While the trillions spent on numerous Federal housing programs were well intended—I do not doubt that—the net result, however, has made no meaningful and lasting impact on home ownership rates, especially as we see burdensome regulations push closing costs higher and higher, making the path to home ownership even more difficult. For African American families in particular, the home ownership rate remains unchanged since 1968, unchanged, the year the Fair Housing Act was signed into law.

For too long, assistance programs have served as subsistence programs for the most vulnerable Americans. It is past time to rethink the tax-and-spend strategies that keep families trapped in generational cycles of poverty and find real solutions to meaningfully impact households, breaking that cycle of poverty.

Government must begin responsibly helping families rather than doubling down on programs that fail to generate modest results. We need to leverage the successes of American capitalism by encouraging private investment in the housing sector and eliminating needless barriers that artificially restrict supply. And, most importantly, we should remember that effective housing policy is driven by communities. It is critically important the Federal Government encourages local solutions to uniquely local problems.

These ideas are common sense and should not be controversial. I sincerely believe Republicans and Democrats should be able to find common ground on many of these important matters that impact the American people.

I thank Chairman Brown for working together on building this consensus panel, as you said earlier. With that, I would like to welcome the witnesses, and I look forward to your testimony.

Chair BROWN. Thank you, Senator Scott, and thank you for your comments about common ground as we are beginning to find. So, thank you for that.

I will introduce the three witnesses. Dr. Christopher Herbert, from left to right, is the Managing Director of the Harvard Joint Center for Housing Studies. He is a lecturer at the Harvard Graduate School of Design in the Department of Urban Planning and Design. Welcome.

Dr. Robert Dietz is Chief Economist and Senior Vice President for Economics and Housing Policy at one of the most important housing organizations in the country, the National Association of Home Builders. Prior to joining them, he worked as an economist for the Congressional Joint Committee on Taxation. He is a native of Beavercreek, Ohio, I believe, a town in southwest Ohio, not far from Dayton and Springfield.

Mr. Lance George is the Director of Research and Information at the Housing Assistance Council. Mr. George leads the organization's research, data, and information efforts. So, welcome, Mr. George.

Mr. Herbert, if you would begin your testimony.

STATEMENT OF CHRISTOPHER HERBERT, MANAGING DIRECTOR, HARVARD JOINT CENTER FOR HOUSING STUDIES

Mr. HERBERT. Thank you, Chairman Brown, Ranking Member Scott, and Members of the Committee. Thank you for inviting me to testify at this hearing.

I am Managing Director of the Joint Center for Housing Studies of Harvard University, a lecturer in the Department of Urban Planning and Design at the Graduate School of Design. I am also a member of the board of directors of Freddie Mac.

Through its research, education, and public outreach programs, the Joint Center for Housing Studies' mission is to advance understanding of housing issues and to help leaders in Government, business, and the civic sectors make decisions that effectively address the needs of cities and communities. For more than three decades, we have published our annual *The State of the Nation's Housing* report, and I am pleased to have the opportunity to share our work with the Committee today.

Perhaps the most apt description of the housing market trends over the last year is that of a rollercoaster ride, first marked by home prices and rents increasing at a dizzying pace in response to pandemic-enhanced demand and against a backdrop of restricted supply, and now in the midst of a dramatic slide in response to the Federal Reserve's efforts to bring inflation under control. While the forces behind these trends are certainly out of the ordinary, they have illuminated and exacerbated housing challenges that are not new, but rather long, in the making.

Arguably the Nation's principal housing challenge is that of affordability. The share of renters facing housing cost burdens rose from the 2000s through the middle of the last decade. While the last few years before the pandemic saw a modest recovery, the cost-burdened share of renters has now worsened substantially in the face of rising rents. While young adults and people of color were able to make up some lost ground in homeowning following the Great Recession, the combination of very high home prices and now much higher interest rates has priced most would-be owners out of the market. Today's worsening affordability is particularly concerning given the stubbornly high disparities in home ownership rates for Black and Hispanic households.

One notable feature of the trends in housing affordability over the last decades has been the spread of these problems to those higher up the income ladder. The recent jump in renter cost burdens has in fact been most pronounced among middle-income renters. A key driver of this trend has been a constrained supply of new homes, and particularly modest-priced homes and apartments, which has put upward pressure on both rents and home prices.

Climbing interest rates further limited the supply of new single-family homes over the last decade, but over the last decade multiple factors have been behind this lack of supply, including regulatory barriers to new development, rising cost of materials, and the lack of labor. Efforts to address these barriers to expand the supply of homes are needed to improve affordability.

But the most severe affordability challenge has continued to be concentrated among the Nation's lowest-income households who are outside the reach of the private market even under the best of circumstances and so in need of greater public subsidies to close the gap between what they can afford and the cost of decent housing.

But housing affordability is not the only challenge we face as a country. Housing policy has an important role to play in responding to the economic trajectories of neighborhoods, including where residents are at risk of displacement and in communities that are suffering from disinvestment, where housing investments can be an important part of a revitalization strategy.

Housing policies and supports are also needed to be attuned to our rapidly aging population, which presents a unique set of housing concerns.

Finally, to maintain the quality of older, modest homes, to reduce energy consumption to meet our goals for carbon reduction, and to address the growing impact of severe weather events on homes, our Nation's aging housing stock itself needs investment.

I realize that I have outlined a broad set of challenges that are perhaps daunting, but having a good quality, affordable, and secure home in a thriving community is foundational for a healthy and productive life for every person in America. Addressing our housing challenges will take a substantial commitment from the public, private, and nonprofit sectors, but doing so would pay dividends for us all.

Thank you for turning your attention to these critical issues and for your invitation to share this information today. I look forward to addressing any questions you may have.

Chair BROWN. Thank you, Dr. Herbert.

Dr. Dietz, welcome.

STATEMENT OF ROBERT DIETZ, CHIEF ECONOMIST AND SENIOR VICE PRESIDENT FOR ECONOMICS AND HOUSING POLICY, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. DIETZ. Chairman Brown, Ranking Member Scott, and Members of the Committee, thank you for the opportunity to testify today. My name is Robert Dietz. I am the Chief Economist of the National Association of Home Builders.

NAHB is proud to have the opportunity to testify before you today, and we applaud the Committee for making housing the focus of its first hearing of the 118th Congress. I look forward to sharing our views on the state of housing and the barriers our industry faces to increasing the production of both for-sale and for-rent residences.

The primary and persistent challenge of the residential market in 2023 is a lack of attainable, affordable housing in both the single-family and multifamily markets, and the fundamental cause of this challenge is a lack of construction over the prior decade that has resulted in a structural deficit of at least 1.5 million homes.

The causes of this underbuilding are complex, but we commonly cite them as the "5 Ls." It is a lack of labor, a lack of lots, lumber and building materials, lending for development and construction purposes, and of course, legal and regulatory burdens. Solving just one of these challenges is not enough. They must all be tackled.

For example, the construction industry faces a persistent skilled labor shortage with currently more than 400,000 open construction sector jobs needing to be filled. This will require the industry to recruit, train, and retain workers in the trades.

The regulatory cost burden is large and distorts the market. NAHB estimates that about a quarter of a typically, newly built, single-family home's purchase price is due to various kinds of regulatory cost. This burden can be even larger for apartment buildings due to delay costs and zoning issues. These growing regulatory burdens, such as exclusionary zoning practices, have made it very difficult to build entry-level housing for first-time home buyers.

And, of course, everyone is aware of recent supply chain issues, when lumber costs climbed and product and building material delays were common. Construction material costs have increased 36 percent since the start of 2020, ultimately resulting in higher rents and higher home prices. This is particularly true given the growing importance of new construction as a source of supply during a period when inventory of existing for-sale housing is low. NAR data, for example, shows that resale inventory stands at just a 2.9 months' supply when 5 to 6 months would be balanced. These supply chain issues continue. In NAHB surveys, about half of single-family and multifamily builders cite ongoing delays with electrical transformers as an example.

To solve these fundamental challenges of the homebuilding sector will be a significant undertaking, requiring policy action at all levels of Government to address the limiting factors on the often neglected supply side of the housing sector.

Safe, decent, and affordable housing provides fundamental benefits that are essential to the well-being of families, communities, and the Nation. Having access to affordable rental housing is critical for younger households and working-class families, and home ownership is a primary source of household wealth for a typical family in the Nation.

For these reasons, NAHB is calling on Congress and the Administration to make housing affordability a top national policy priority, and the need is real. Nearly a third of renters were cost-burdened in 2020, and reducing these burdens is going to require additional construction. Unfortunately, construction of new affordable rental housing is often impossible without some type of public support such as the successful Low-Income Housing Tax Credit or tax-exempt bond programs.

And with home buyers experiencing a doubling of the 30-year fixed rate mortgage over the past year as the Federal Reserve fights inflation, single-family, for-sale affordability has plummeted. According to the NAHB/Wells Fargo Housing Opportunity Index, just 38 percent of new and existing single-family homes are affordable to a typical family with median income of $90,000. This is the lowest affordability measure in the post-Great Recession period. Improving housing affordability for renters and home buyers will also help fight inflation.

With these goals in mind, Congress should pass legislation that will help the homebuilding industry increase much-needed housing supply, and helpful policy will focus on the supply side challenges I have identified today. Addressing these supply side bottlenecks would increase home construction, expand housing inventory, and lower inflation. If action on these issues is delayed, however, housing costs, which make up about 40 percent of the Consumer Price Index, will continue to be persistent drivers of inflation as well as remain a burden on typical American families.

Thank you again for the opportunity to testify today, and I look forward to answering your questions.

Chair BROWN. Thank you, Dr. Dietz.

Mr. George, welcome to the Committee.

STATEMENT OF LANCE GEORGE, DIRECTOR OF RESEARCH AND INFORMATION, HOUSING ASSISTANCE COUNCIL

Mr. GEORGE. Chairman Brown, Ranking Member Scott, Members of the Committee, greetings and thank you for this opportunity to testify on the state of housing in rural America. My name is Lance George, and I am the Director of Research and Information at the Housing Assistance Council.

The Housing Assistance Council, often referred to by the acronym HAC, is a national nonprofit corporation that supports affordable housing efforts in rural areas in the United States. HAC helps build homes in communities across rural America. We work with local community-based entities. These groups know what is best for their communities. We just help enable them to improve their housing conditions through an array of resources, including research, data, information to help them form strategies and solutions.

In many respects, the housing issues, characteristics, and trends in rural America are no different than what Dr. Herbert or Dr. Dietz presented on national housing trends, but there are some unique differences in rural housing provisions and markets as well.

Geography is important to this discussion. The people of rural America reside in approximately one-quarter of the United States homes, but these homes are located across 97 percent of our Nation's land mass. There is immense diversity across rural areas and small towns; yet, there is also a set of community and market conditions that tie this landscape together.

With this preface, we wish to quickly mention five trends in rural housing that we believe are of importance and interest to this Committee.

First, the pandemic left its mark on rural America, and housing markets remain uncertain. Housing instability is particularly concerning for rural renters. Throughout the pandemic, the Census Bureau's Pulse Survey consistently revealed that renters nationally have been more likely to be behind on their house payments and have less confidence in their ability to make next month's rent than homeowners.

Second, rural mortgage markets are being impacted by high interest rates and prices, too. Data from the Department of Agriculture on its Guaranteed Home Loan product signals that rural home buyers hit the brakes as well. As a proxy for rural mortgage activity, USDA's loan guarantees plummeted by more than 40 percent from their 2021 levels.

Number three, affordability is the greatest housing challenge in rural America by far. Sometimes there is a misperception that housing affordability and costs are not as problematic in rural communities, but in reality over 5.6 million or one-quarter of rural households are considered housing cost-burdened, and the incidence of cost burden has increased markedly for rural households over the past few decades.

Number four, manufactured housing is an often overlooked but important source of housing in rural America, especially in rural America. More than half of all manufactured homes are located in rural areas, and manufactured homes make up 13 percent of all houses in rural and small-town communities, twice the national rate.

Living in manufactured homes is often characterized by unique financing and land tenure dynamics. The majority of manufactured homes are financed with personal property or what is referred to as chattel loans. Approximately 66 percent of manufactured home loans are classified as high-cost, meaning they have substantially high interest rates, which is more than 5 times the level of high-cost lending for all homes nationally. And for manufactured homes secured by the home only, that is, without land, that figure jumps to a staggering 90 percent high-cost loan rate.

Number five, race matters across the rural spectrum, especially in housing. Race and ethnicity are central but often complex components of our national history and struggles. One highly visible impact of race in rural America are areas of persistent poverty with substantial rates of non-White populations, including the Lower Mississippi Delta and the rural Southeast, the border colonias along the U.S.–Mexico border, Native American lands, and among migrant and seasonal farm workers. In these largely rural communities and populations, the incidence of substandard and inadequate homes is twice the national rate.

Finally, I would only like to add that we simply do not know as much about rural housing conditions as we should. In the research realm, we often use the term "bias." Well, as a rural researcher, I will present my own personal bias. The level and quality of data for rural communities is just not comparable to that of urban and suburban areas. The reasons are varied, and the examples are many, but we would encourage the Committee to promote greater rural data availability in resources like the Census, the American Community Survey, and the Home Mortgage Disclosure Act among others. We need quality and accessible data to help inform strategies and solutions that improve housing for all communities—urban, suburban, and rural.

HAC appreciates the Committee's attention to housing issues in rural communities. Thank you again for this opportunity to testify today.

Chair BROWN. Thank you, Mr. George.

The Ranking Member has a unanimous consent request, briefly.

Senator SCOTT. Thank you, Mr. Chairman. I would move that Senator Lummis' statement be included in the record.

Chair BROWN. Without objection, so ordered. Thank you.

Start with Dr. Dietz and Dr. Herbert. We heard from the two of you, and also from Mr. George, that we need more housing supply across the board.

Dr. Dietz, what are the types of housing where we see the greatest shortfall? You mentioned in your statement it is almost impossible to build affordable rental housing without a subsidy. What people are most likely to be priced out? And, speak about that for a moment if you would.

Mr. DIETZ. Yeah. When you talk to builders across the country and prospective home buyers, the tightest part of the housing market right now remains that small lot, entry-level construction that is appropriate for a first-time or a first-generation home buyer. So when you look at the data, more than 10 years ago, back in 2010, about 32 percent of new homes being built were under 2,400 square feet. That 32 percent share has now shrunk to about 24 percent, so we have seen a marked decline in that entry-level construction.

And then the impact? It is harder for those younger households to attain home ownership. So the result of that, of course, then is people renting longer, which is one of the reasons rents are higher, and then we have had a near doubling of young adults who live with their parents over the last 20 years.

Chair BROWN. A doubling.

Mr. DIETZ. A doubling. It has gone from one in ten 25- to 34-year-olds to one in five.

Chair BROWN. And that is over a 20-year period.

Mr. DIETZ. That is over a 20-year period. So these are long-standing issues.

Chair BROWN. Dr. Herbert, comment, if you would, on my question. Your thoughts on it?

Mr. HERBERT. Yeah, I would agree with what Dr. Dietz said. I think the shortage of single-family, particularly starter, homes is really important. He used the metric of 1,800 square feet. If we go down to 1,400 square feet, that was a very common home in the early 80s, and now it is low single digits.

I was talking with a home builder, a national home builder, the other day, who specializes in this segment of the market, and they were saying there are communities that will mandate that the smallest house you can build is 1,600 square feet, so they cannot even build their entry-level house in that market. So that restriction on building those starter homes is key.

Dr. Dietz has also talked about the need for more townhomes and condos. That is a segment of the market that has really been missing, too, as an affordable entry point.

And I would just also highlight the need for more modest cost rental housing. What we have been building mostly over the last decade has been very large, prime-location, multifamily housing downtown, which has been needed, but it is very hard to build at an affordable price point there.

So it is really we need to have lower density housing in the suburbs but still making use of land that provides the kind of garden apartment-style housing we used to build, more modest rental housing as well.

Chair BROWN. That comment you made about 1,600 and 1,400, I would—not in this hearing now, but I would like to explore that more with you, that it could answer some of these problems, I think. So, pretty interesting comments.

Dr. Herbert and Mr. George, you both talked about home repairs as a tool to help lower-income homeowners and seniors. Talk about the benefits of home repairs, most importantly, what resources can make those repairs affordable for families with limited incomes. Start with you, Mr. George, then you, Dr. Dietz.

Mr. GEORGE. Thank you, Senator. I think home repairs are important, particularly to the older population in the United States, and as you know, the population in rural America is just older than the Nation as a whole and is maybe a harbinger for things to come nationally. But oftentimes, older Americans need resources and the ability to repair their homes, and I think there are several resources that come to mind.

One, notably, I would like to reinforce from the work that the Housing Assistance Council does is that capacity among local housing providers is extremely important. So they are—oftentimes, the local housing nonprofits are the connective tissue or the catalysts that help turn these resources into affordable homes and supply those vital home repairs. So I think capacity at a local level is important.

Also, I would just quickly mention USDA Section 504 Home Loan and Rehab Repair Program, which has assisted hundreds of thousands of rural homeowners across the United States and is particularly important to older homeowners.

So those are a couple of quick resources. Thank you.

Chair BROWN. Thank you.

Dr. Dietz, your comments.

Mr. DIETZ. Yeah, the remodeling sector is absolutely critical as part of the reinvestment strategy. As Dr. Herbert mentioned, we have got an aging housing stock. The typical home in the United States right now is about 39 years old. About 15 years ago, it was kind of in the low 30s. That is a pretty dramatic increase in that period of time.

So if we are looking to improve the housing stock, improve energy efficiency, improve resiliency, making sure that remodelers have access to skilled labor is going to be key. Remodelers like to say, not only do I have to find skilled workers, but they have to work in someone's home. So finding those additional workers is important.

And I think policy tools can play a role. The Section 25(c) and 25(d) Energy Efficiency Tax Credits are good tools, but making sure that people can access cash-out refi mortgages to get capital and reinvest in those homes, that is really where the low-hanging fruit is when it comes to improving our housing stock.

Chair BROWN. And, Dr. Herbert, would you answer that question, too?

But I want to—just because time is limited, if you would work in an answer to this question also. I have cosponsored the bipartisan Eviction Crisis Act with Senator Portman, my colleague who just retired, from Ohio, Senator Young and Senator Bennet, offering ways to reduce the number and impact of evictions on the lives of families across the country. Matt Desmond has written about it. And so, if you would also answer: What lessons can we learn from the Emergency Rental Assistance Program as we continue to work to reduce evictions?

Mr. HERBERT. Thank you, Senator. Briefly, on the remodeling question, I would echo what my colleagues have said and highlight the fact that we have an older housing stock. We also have housing that is in need of energy retrofits, and as you mentioned in your question, an aging population that needs housing that is adapted to meet their needs with mobility and other ways to keep them safe.

In terms of how, I would highlight the importance of grants, particularly for very low-income households who may not—particularly elderly households who may not have the ability to take on loans, and I would also highlight the need for technical assistance for people to be able to assess the need and help find a contractor and make sure the work is done well.

In terms of the Emergency Rental Assistance program, I think it is really—the evidence is quite clear that the program was enormously helpful in keeping people, keeping renters, in their homes and, at the same time, also enormously helpful for landlords who were suffering from lost rental payments. More than 3 million renters have received assistance from that program. It has been remarkably well targeted. Some two-thirds of those assisted have been—earned less than 30 percent of area median income; another 20 percent earned between 30 and 50 percent.

And we saw during the pandemic enormous concern that we were going to see evictions go through the roof, and what we found from the data from the Eviction Lab in Princeton is that in fact evictions stayed very low, in part because we had a moratorium, but that emergency rental assistance was really critical in making sure that people could stay stably housed.

Chair BROWN. Thank you. Those comments are really important. Senator Scott.

Senator SCOTT. Thank you, Mr. Chairman.

Mr. George, your comments about the harbinger of things to come as it relates to the aging population, aging housing stock, and the need going forward, I think we could have an entire hearing on the importance of aging in America. I think it is by the year 2040 or so one out of five Americans will be over the age of 65. We have got real challenges coming in what we need. Would you agree with that?

Mr. GEORGE. I agree, Senator. Thank you.

Senator SCOTT. And we have a lot of work to do on that topic. I would also—I want to reflect a little bit the importance of good Government policy versus bad Government policy. And Dr. Thomas Sowell said it really well when he said that the goals of rent control and its actual consequences are opposite policies. I think that is well said, and I oftentimes wonder if all of the great minds can use common sense when it comes to delivering reality. Does reality actually marry the comments?

And Dr. Thomas Sowell's comments, I think, are best reflected in the Twin Cities, in St. Paul and Minneapolis. In St. Paul, Minnesota, we saw rent control go in, and when that happened the census data showed that there was nearly an 80 percent drop in construction. Next door, Minneapolis did not follow in that suit, and we saw construction permits increase by nearly 70 percent. A stark example reinforcing the words of one of the greatest economists, in my mind, of all time.

Despite the overwhelming evidence and wide consensus that rent control or rent stabilization depresses supply, exacerbates discrimination, reduces both quality and safety, and makes housing less affordable, amazingly, this Administration has chosen to evaluate the feasibility of adopting such policies.

Dr. Dietz, how are renters impacted by policies that forbid landlords, including mom-and-pop landlords, from setting rents at market rates?

Mr. DIETZ. Yeah, I think most economists would agree that rent-control-type policies basically act as a tax on supply in the long run. So they are counterproductive in the sense that the ultimate solution to all the challenges that we are talking about today is adding additional supply. So whether it is rent control or other harmful regulatory policies that show up at the local level, they drive production elsewhere.

And what we have seen in the last 10 years is those communities that have been able to add affordable housing stock, whether it is for renters or home buyers, they attract businesses, they attract jobs. Columbus, Ohio, is a good example of that with the new Intel facility. So it is getting that regulatory burden, whether it is at the Federal level or the State and local level, as low as possible so we can add the stock necessary to house that workforce housing.

Senator SCOTT. Do wealthier households or poorer households end up struggling with the consequences of these bad policies, as I would describe them?

Mr. DIETZ. Yeah, I would echo some of the data that Dr. Herbert mentioned, which is if you look at the housing cost burdens, whether for renters or home buyers, they tend to be concentrated among lower-income individuals.

And as we said earlier, if you talk about the housing that is most difficult to build, it is that smaller lot, slightly more dense, walkable-type housing that is appropriate for renters or first-time home buyers, and that is where the regulatory burden emerges the hardest, and it is the kind of housing that is most difficult to build.

Senator SCOTT. The Chairman and I both really—when we heard the 1,600 square feet, we both said, wow. And 1,200 is darn near as bad. My mother's first house that I talked about earlier was 1,092 square feet, and so that is not even possible in some areas. It is just ridiculous.

The prices of housing per square foot now has never been higher. If you have to have a minimum square footage to build a house, you are talking to first-time home buyers, and you are just saying, please do not bother thinking about being a part of the American Dream. Offensive, from my perspective.

Dr. Dietz, you also mentioned exclusionary zones. Talk to me for a minute about that.

Mr. DIETZ. So exclusionary zoning are policies, I think, economists of the Left and the Right both agree are inefficient. That is things like minimum lot size requirements——

Senator SCOTT. Yep.

Mr. DIETZ. ——that basically say, OK, if you want to build that 1,400 square foot house, it has got to be built on a half-acre or larger lot. In fact, if you look at the data for New England, the typical lot size of a newly built home is 0.9 acres. It is almost a full acre. Well, you cannot build entry-level housing if you have got those kinds of zoning rules.

So whether it is zoning rules or Federal regulatory policies, what it has done is made it much more difficult for those first-time home buyers to attain home ownership.

Senator SCOTT. I am running out of time, which is something you will have to get used to, Mr. Chairman, but I will just say this. As a guy who used to run a county and chairman of Charlestown County government, many of the issues that we are grappling with here in Washington really are local issues.

So one of the reasons why I asked you about exclusionary zoning is because it is uniquely and specifically a local issue that many parts of the country face. The truth is, though, that we need to be able to bifurcate out responsibilities versus somebody else's. Perhaps we can send smoke signals, but the truth of the matter is some things need to be challenged on the local level and not here in Washington.

Chair BROWN. Thank you, Senator Scott.

Senator Menendez of New Jersey is recognized.

Senator MENENDEZ. Thank you, Mr. Chairman, and let me congratulate the new Ranking Member on his new position.

Senator SCOTT. Take your time.

Senator MENENDEZ. If the Chairman lets me, I will. And, thrilled to also now have him as a member of the Senate Foreign Relations Committee, which I just came from, so we look forward to seeing you there as well.

Senator SCOTT. Thank you, Senator.

Senator MENENDEZ. Flooding is one of the most expensive and most frequent natural disasters in the United States. Despite this, just 4 percent of Americans have flood insurance. With climate change bringing heavier rainfall and stronger hurricanes, we need to ensure that flood insurance remains affordable and homeowners are financially protected, but last year, FEMA implemented a new premium methodology for the National Flood Insurance Program that will lead to higher premiums. The Agency itself has estimated that premium increases will cause one million policyholders to drop coverage and, therefore, dilute this already small pool.

And, to make matters worse, there is little transparency about how FEMA is pricing the premiums, leaving the construction industry in the dark about how to optimally build flood-resistant homes.

So, Dr. Dietz, how have home builders been impacted by FEMA's new premium system, and what would be the long-term effects for coastal communities if flood insurance becomes too expensive?

Mr. DIETZ. Thank you for raising this issue, Senator. This is something you hear about from builders across the country in terms of not just the direct effect in terms of home buyers and their cost of higher insurance premiums—and clearly, flood insurance is an important part of making sure that we can build housing in areas where you have got job creation and economic activity—but it is the uncertainty of how those premiums are calculated, as data person, that is particularly concerning.

How can you plan to do land development in an environment where that calculation is not known, in other words, the underlying equations? That makes it difficult to do land development. And I think it is really important to keep in mind that if you are talking about homebuilding, that process is proceeded by 3 to 5, in some cases, 10, years of land development.

So the uncertainty of it harms the land development process, which then harms the lot supply process, and then results in what we have talked about today, which is pricing out home buyers from the market and makes home ownership more expensive.

Senator MENENDEZ. Yeah. And I would just note, if FEMA itself recognizes that it is going to lose a million policyholders and insurance is about spreading risk across the widest base possible, you lose a million policyholders; that means the rates go up for everybody else. And then we have natural disasters in our States across the country, and the Federal Government comes and helps instead of having an insurance program that can mitigate as well as cover the cost. It does not make any sense to me.

So that is why Senators Cassidy and Kennedy and I have introduced bipartisan legislation that will reauthorize the National Flood Insurance Program, keep premiums affordable, invest in cost-saving mitigation measures to put the program on a firm financial footing, and I look forward to working with the Chairman and the Ranking Member on this critical issue.

I am concerned about two things as someone who has sat on this Committee for quite some time. Affordable housing is increasingly located in areas that are away from job centers, forcing workers to pay transportation costs or work fewer hours. Thankfully, the Infrastructure Investment and Jobs Act passed the last Congress injected a much-needed $550 billion into reviving our Nation's transportation systems.

So, Dr. Herbert, how can we leverage the investments of IIJA to help connect affordable housing to good jobs, and how critical is it that we build more affordable housing near public transit so that we can connect people to good-paying jobs and careers?

Mr. HERBERT. Thank you for that question, Senator. It is absolutely critical that we have well-located housing near transportation systems. I believe in his opening remarks Chairman Brown mentioned the importance of housing and transportation. We talk about not just the housing cost burden, but you have to add transportation costs which come with that house to the housing cost to understand how much people are burdened. So well-located housing can address housing affordability by reducing that overall burden.

In terms of the Investment in Infrastructure and Jobs Act, my center recently did an analysis looking at the opportunities there to link that to housing. There is three ways. Much of that money is actually by formula, so it makes it difficult.

But, one is to provide technical assistance to States and localities to understand those connections. The second is to take advantage of the competitive grant programs to instill in those elements that require localities that get those grants to take into account housing. And then the third is to use all the formula grant programs to try to build into those, using existing tools, maybe through best practices and the like, to make sure that States and localities understand how those investments can help.

Senator MENENDEZ. Finally, the Urban Institute says that 16.1 million new household formations over the next 20 years, 80 percent of them will be senior households. Now it seems to me that this increase in senior households is going to put a huge demand on senior public and assisted housing capacity and needs for the next Congress to consider. Do you see it that way as well?

Mr. HERBERT. Absolutely, Senator. In my written testimony, I talked about the increasing number of senior renters with worst-case housing needs. Since 2011, the Baby Boom generation started turning 65, and over that same last decade period, we have seen a 60 percent growth in senior renters who are either 50 percent of their housing—their income for housing or living in some really inadequate housing. And this is, in many respects, the tip of the iceberg as that older population, particularly people 75 and older, where the Baby Boom edge is just now—will continue to grow over time. So we are absolutely going to see an enormous increase in need among our most oldest residents.

Senator MENENDEZ. Thank you, Mr. Chairman.

Chair BROWN. Thanks, Senator Menendez.

Senator Vance, one of our new Members, from my State of Ohio, is recognized. Welcome.

Senator VANCE. Thanks, Mr. Chairman. And I guess since there are no Republicans between me and you that makes me the Ranking Member here? I am drunk with power for the next 5 minutes here. Thank you for having me.

Chair BROWN. Keep thinking that way about this place.

Senator VANCE. I wanted to direct my first question to Mr. George. One of the things I have seen reported on lately is the idea—and we have certainly seen evidence of this in the data—that you have this massive influx from more Progressive States into typically Red States, some very rural, from a very affluent portion of the home buyer population. What have you seen?

And I am talking places like Florida, Montana, Idaho, Utah, and so forth. What effects are we seeing on housing prices from this influx of a pretty affluent group of home buyers? Is housing supply keeping up, and if not, why?

Mr. GEORGE. Thank you, Senator Vance, for that question. I agree we are seeing this. It is hard to parse out in the data because it is a still a relatively new phenomenon. There is no doubt there was what we would call—and I am not a demographer, but there was population churn as a result of the pandemic. According to some of our analyses and mortgage analysis and various other housing data analysis, it does appear as if much of that population growth is in areas of high amenities or in relatively close proximity to large metropolitan areas.

What we hear, again, we are trying to see in the data, and we have seen this some in mortgage prices, but is an acute shortage of rental housing in many of these communities. In general, rural communities lack—many rural communities lack of a good source of, or a good stock of, affordable rental housing. And when you have that relatively small stock, much of that is being, for lack of a better term, gobbled up or purchased up in many rural communities. You know, it is particularly causing affordability or housing affordability challenges among rural renters.

Senator VANCE. Great. Thank you.

Mr. Dietz, I want to direct this one to you. So actually, staff brought this to my attention. I was not aware of this, but if you look both at the United States but also a lot of other OECD countries, you see this really stark decline in productivity of construction workers going back to the 1970s. I would love to hear your thoughts on what is driving that. When we sort of think of all of the innovations and technology but somehow we are less productive as a society than we were half a century ago, what is going on there?

Mr. DIETZ. Yeah, I mean, some of it could be a data issue.

Senator VANCE. Sure.

Mr. DIETZ. We are not measuring the remodeling sector correctly. But I think if we think about the economics, the challenge here is that the regulatory cost burden has grown during that period of time. So when we are talking about productivity, we are talking about output per worker, literally, and the number of homes and apartments we build per construction worker.

And, it is a real challenge. It is both an impact of the labor shortage itself, but it does point to some opportunities. If we can get the regulatory burdens down, I think we can see a great deal of innovation in the home building sector, things like offsite construction, more capitalization of the work site, smarter products, and all those represent real market opportunities for the industry.

Senator VANCE. Yeah, I mean, it occurs to me that we all agree and think it is important to have basic public safety for both the construction workers but also the things that they build, but if productivity has declined or stagnated for 50 years, that of course, means a lot of our construction workers are not earning the wages they should be earning. It also means a lot of the homes that we are building maybe not as high quality as they should be.

I want to just sort of finish with one observation here, and this obviously a focus. The immigration crisis that we have in this country is a focus of especially this side of the aisle, the Conservatives. It is something that we talk a lot about.

But I want to make this observation because I think very often we talk about the immigration problem, certainly in the State of Ohio, for very good reasons. There is fentanyl problem. Obviously, that affects the housing stock and the housing situation a little bit. But it is mostly a human problem, just the basic misery and the death and destruction cause by it. We talk about it as a law and order problem.

But I want to plant the seed both for our colleagues on my side of the aisle, colleagues elsewhere, and also for those of you who are interested in this issue, that if you think about what it means to have 20 or 25 million undocumented, illegal immigrants in a country, in a situation where we are not building enough housing, that puts incredible pressure. You have way more buyers for way fewer homes, and that puts incredible pressure on home buyers and people who just want to live a good life.

I am a very strong believer that we should think about our immigration problem and our immigration crisis as an economic problem as much as a cultural or a law and order problem. Immigration in this country right now, illegal immigration in this country, means wage theft in the form of competition for jobs from lower-wage migrants. And in this instance, in the context of housing, illegal immigration means theft of the American Dream of housing, when you have 25 million people who should not be here, by law, competing with American citizens to buy their first home, to rent a home, and that is a major problem that we should be talking more about in the context of the immigration crisis.

That is it. Thank you.

Chair BROWN. Thanks, Senator Vance.

Senator Warner from Virginia is recognized.

Senator WARNER. Thank you, Mr. Chairman, and let me also welcome our new Members as well.

I am not going to ask a question in my first comment as much as to share. I would like to share with all of you, and we will send you some materials from my colleagues. I mean, lots of indications about the racial wealth gap in this country, but I mean, Black households and White households.

Last Congress, I think we had a relatively innovative approach that said let us look at first-generation, first-time home buyers. By definition, that is about 60 percent, roughly, people of color. And if you qualify for that traditional 30-year mortgage and you fit into this category, and you have to start at a relatively small basis, rather than giving you a 30-year mortgage, we will give you a 20-year mortgage and the payment schedule will be based on 30.

So it is an indirect subsidy, but what it does for that first-time home buyer is it literally allows them to accumulate equity at almost twice the rate, just the plain math on a 10-year basis. And I think we think about wealth gap, creating that equity in an attainable manner is, I think, at least part of the solution, number one.

Number two—and I want to get a quick response because I have got a third question or third point I want to make—is I am a big advocate around tax credits along the supply side. I think everyone, you have all mentioned, we have really a huge supply issue, particularly for affordable housing, low- and moderate-income housing.

So I have supported LITEC, New Market Tax Credits. Actually, Senator Portman and Senator Cardin had a really interesting initiative, Neighborhood Homes Investment Tax Credit. How do you go at that housing stock in distressed communities? And we have got them all. Every one of us have got some those that could rebuild that structure or fix it up to code. In many cases, the equity may not be enough to refurbish that building.

But, what can we do along the tax credit range to take these or other initiatives and really target it to those communities most in need? And I would ask relatively brief responses, so we will go down the line.

Mr. HERBERT. Senator, I would second that endorsement for the Neighborhood Homes Investment Act that would close the gap between what it costs to build housing and the market rate, and it is necessary to prime the pump in these areas where demand has fallen. So I think that is an incredibly important use both for rehab and new construction, and so I would just second that.

Mr. DIETZ. Yeah, you know, consider expansion and refinement of the Low-Income Housing Tax Credit is the most successful production program for improving rental affordability.

On the home ownership side, consider taking the now modified Mortgage Interest Deduction after the 2017 Tax Reform Act and converting it into a broad-based home ownership credit that can be claimed whether you are an itemizer or not. That would help on the home ownership side.

Senator WARNER. Interesting suggestion.

Mr. GEORGE. Thank you, Senator. As we noted in our testimony, there is a dearth of good quality rental housing in many rural communities. So production at any level, the tax credit is one of the largest production, rental production, programs in the United States. It does not work as well in some rural communities for various reasons. I am not an expert on that, but I would just say we need production in rural America of any scope. Thank you.

Senator WARNER. Yeah, and again, I strongly support all three of these. Mr. Chairman, I tell you I think there is a number of our colleagues on the Republican side that are interested on the supply issue around the tax credit, and I would welcome folks like our new colleague to join in that discussion.

One of the things that a lot of folks from the traditional civil rights community have always advocated for as well is downpayment assistance. I am not sure that is going to take place for the current makeup in the House.

So one of the things I have been trying to explore—and I would again—I will throw it out, would like your quick responses, but if we could get a longer response, is as we think about how we keep health care workers in rural communities, for example, I am interested in the idea of providing, giving an appropriate incentive for an employer to provide a tax-assisted downpayment assistance that might, to that employee, come on a tax-free basis. Help with that downpayment. Help retain that workforce.

Have any of you done any work around employer-based tax credits in terms of downpayment assistance?

Mr. HERBERT. Senator, I have not although I have certainly heard of employers who are struggling to get employees into new markets. Most of the initiatives I have heard of have been focused on the rental side, but I think that adapting this for the home ownership side would have a lot of benefits as well. So I think employers have a need and an incentive to participate.

Mr. DIETZ. And our research has tended to focus more on the supply side, but you know, where employers get involved in the housing market is making sure that builders in those markets can construct and add supply to the marketplace because they know they do not want to expand to markets where housing is not available.

Mr. GEORGE. Thank you, Senator. I would only agree with the other two commenters and also note that we hear, anecdotally to some degree, that businesses that want to move into rural communities do not have a good supply of housing across the spectrum for low, moderate, and high——

Senator WARNER. If we could combine that supply with some of our existing tools but also with some level of downpayment assistance, you have got a great retention tool, you have a benefit to workers in distressed communities.

I am going to do some work on this, Mr. Chairman, and would love to work with you and others on both sides of the aisle to explore this. Thank you, Mr. Chairman.

Chair BROWN. Thanks, Senator Warner.

The lady from Alabama, Senator Britt, for her first hearing is recognized.

Senator BRITT. Absolutely. Mr. Chairman, I want to thank you and the Ranking Member for your warm welcome today at my very first hearing. It is certainly an honor to be on this Committee, and I look forward to being a very productive and active part of it. So, thank you.

My first question is for Mr. Dietz or Dr. Dietz. We know the Biden administration has actually put in more rules and regulations in the first 2 years of their Administration than Obama did in eight. When we look at that, it undoubtedly contributes to inflation and to stifled economic growth across the board, and I believe the housing sector is no exception to that.

I understand the regulations add cost to building homes, 25 percent of the cost of constructing a single-family home and 40 percent of a multifamily home due to regulations. So I know that you face regulations both at a State and a local level, and I wanted to know if you could share some of those existing regulations that are really driving up cost for home buyers.

Mr. DIETZ. I think a good example at the Federal level is the Waters of the U.S. rule, which is both confusing but adds cost and makes it difficult to bring land to market, takes longer, provides a lot of money for consultants to do studies, but provides that uncertainty during the land development process that can take 2, 3, 4, 5 years.

At the local level, we already talked about zoning rules, but you also have rising impact fees, delay requirements, just the delay itself of getting land approved, construction projects approved. All of that results in higher rents and higher home prices.

So if we are really serious about tackling housing affordability, we need to find ways to reduce the red tape and bring homes to market faster.

Senator BRITT. Absolutely. Well, given those hurdles, can you tell me, is it harder—single-family homes, multifamily homes, who have been impacted more by this, ultimately?

Mr. DIETZ. Well, if you listen to builders enough, which I do—I travel across the country a lot—they will say, all of us. Right? It is not necessarily a competition. They are all sort of challenging in their own ways. Multifamily, it is more density issues. With single-family, it is concerns about land supply and lot development. With remodeling, it is the skilled labor shortage. But you know, if we are looking at low-hanging fruit, to improve the availability of housing in the country, reducing housing regulatory costs is a big way to get there.

Senator BRITT. And you are saying home buyers across the board are impacted.

Mr. DIETZ. I mean, it probably disproportionately affects first-time buyers, first-generation buyers, because again that entry-level construction, that townhouse construction is difficult, too, that sort of light-touch density, but generally speaking, it is driving up the cost of all forms of housing.

Senator BRITT. So it is people that want to start the American Dream that are being stifled, I guess.

Mr. DIETZ. Exactly.

Senator BRITT. So the past 2 years, inflationary policies of the Biden administration have compounded the naive belief that the inflation would be transitory. We have seen it hit us, everything from groceries to gas, and obviously, home buying is no exception to that.

The past year alone, the Federal Reserve has raised the Federal Reserve Fund rates nearly 5 percentage points, and that has materially impacted the price of housing, driving up borrowing cost and monthly mortgage cost to the average American home buyer.

What is your outlook of the housing demand, and how does that impact the expected housing construction in the next, I would say—you know, what do we see in the next 2 years, maybe 5 years, 10 years?

Mr. DIETZ. Yeah, right now, we are in a bit of a downturn, as Dr. Herbert talked about. Our expectation is that single-family construction and multifamily construction are likely to decline this year, but we see a turning point ahead for single-family home building. In fact, after 12 straight months of decline for builder sentiment that we measure each month, we actually got an uptick in January. So I think in the short run we are going to see some stabilization.

And then 2025 through 2030, if we can just get the regulatory burdens out of the way, 2025 through 2030 will be a pretty good runway for home building growth because we have got to reduce that structural housing deficit that is in place, that shortage.

Senator BRITT. Absolutely. And as we talk, obviously, about the home building, I think it is important to make sure that people can get access to capital, that they can be financed. Is there anything you can tell us about the status of the loan market or anything that the Committee needs to consider to make sure that capital is available for these people who want to achieve the American Dream?

Mr. DIETZ. Yeah, this is where we do not see enough focus. I think when we talk about lending and loans in housing, we are typically thinking about mortgages on the demand side. But keep in mind about two-thirds of home construction is undertaken by smaller builders, and they get their capital by going to community banks and borrowing funds, so we call that acquisition development and construction lending.

And one of the things we know about the business cycle is that particular market tightens when we go into a downturn. So the concern is we see mortgage interest rates begin to settle back, a turning point comes in view, but builders and land developers cannot get access to credit.

So there is a lot of different ideas in terms of how to address some of those challenges. One would be extending the secondary market that currently exists for purchase mortgages over to builder and construction loans, and that would help reduce some of the costs of credit and make sure that capital is available, particularly in, I would say, like rural markets where it is more difficult to obtain that kind of lending for builders.

Senator BRITT. Absolutely. Thank you so much, Dr. Dietz.

Chair BROWN. Thank you, Senator Britt.

Senator Warren from Massachusetts is recognized from her office, I believe.

Senator WARREN. Thank you very much, Mr. Chairman, and thank you all for being here today.

We know that housing is the largest expense for American families every month, and the problem has just gotten worse. New research shows that for the first time the typical American renter is spending at least 30 percent of their income to cover the average rent. That makes them rent-burdened by Federal standards.

Now a severe shortage of homes paired with growing persistence of greedy corporate landlords has made this problem worse and put housing out of reach for many families. Fixing this problem at its root is going to require serious investments in building more housing, like those I call for in my American Housing and Economic Mobility Act, and I am going to keep fighting for this.

But the problems that renters face go far beyond the supply problem. In too many places across the country, renters have few protections from needless evictions, excessive fees, and exorbitant rent hikes.

Dr. Herbert, you are one of the Nation's leading researchers on the housing market, so let me ask you. There has been a growing movement of tenants across the country calling on the Federal Government to establish tenant protection standards. Why is it important that the Federal Government act to protect tenants?

Mr. HERBERT. Thank you, Senator. Well, I would say that there is lessons that we have learned from the previous pandemic about the importance of housing and having stable, secure housing, which led us to take steps nationally to have an eviction moratorium and the like. I think there is a lesson there that says this is an issue of national interest. It should not be something that differs depending on what State you are in.

The other precedent I would point to is in the mortgage market, where we have a number of Federal statues, RESPA, TILA, ECOA, that all relate to making sure that home buyers across the country, wherever you live, are treated fairly in the market. So I think there is a very similar parallel there between homeowners and renters.

Senator WARREN. That is a really important point, and it is part of the reason that I led a letter with Congressman Jamaal Bowman, joined by 47 of our colleagues, calling on President Biden to take Executive action to protect tenants and bring down rental costs.

Two weeks ago, the White House announced a framework for enhanced renter protections, and I was glad to see this action. It is an important first step, but we need more.

In fact, the day the White House's framework was announced, the real estate lobby celebrated, and they bragged that they had watered down the Administration's announcement. This is the very same industry that spent over a hundred million dollars on lobbying last year, including to fight against renter protections. The National Apartment Association, the organization that lobbies on behalf of corporate landlords, said, quote, what we can say with certainty about the Biden administration's blueprint for advancing a renter's bill of right is that NAA's advocacy helped avert an Executive order.

Now, Dr. Herbert, what does it tell you that the landlord lobby is celebrating an announcement that was purported to be about protecting tenants?

Mr. HERBERT. Well, Senator, what I would say is that in a market where, as you said in your opening remarks, half of renters are cost-burdened, more than a quarter are severely burdened, we saw rents rising in high double digits and on top of this pain, I guess I would just urge the apartment industry and the industry—housing industry to take some ownership of the question of what do we do and how do we protect renters. Obviously, we want investors and owners of properties to make a reasonable return, but it cannot come at the expense of people being forced out on the streets.

Senator WARREN. Yeah, I think that is exactly right. And look, if the big corporate landlords see this blueprint as a cause for celebration, then I think it is probably safe to assume there is a lot more that the Administration could do to meaningfully protect renters.

You know, in fact, they can start by making sure that the Federal Government is not in the business of subsidizing law-breaking corporate landlords. A U.S. House subcommittee investigation found that four corporate landlords evicted nearly 15,000 families during—during—the COVID eviction moratorium. Some of these landlords receive Federal financing to help them buy up housing on the cheap. I think that is fundamentally wrong and that anyone that is breaking the law should not be permitted to participate in these Federal programs.

So I just want to say, thank you to all of you for being here; thank you, Dr. Herbert.

The Administration has an obligation to ensure that agencies are using all of their authorities to protect families' access to housing, and where the agencies lack the tools to forcefully protect renters, then I look forward to working with my colleagues to pass legislation to get them the tools that they need. It is going to take an all-of-Government approach to bring down housing costs for American families, and it is time for us to get to work on this.

Thank you, Mr. Chairman.

Chair BROWN. Thank you, Senator Warren.

Senator Van Hollen of Maryland is recognized.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Thank all of you for being here and for your testimony.

Dr. Herbert, I have a number of questions for you relating to housing vouchers because I agree with the strong sentiment that we have to get at the supply issue. Obviously, that is fundamental to making sure that we have more affordable housing, and I look forward to working with everybody here on creative solutions to that. But while we need to start that right away, it does not address the issue right away, and we do need more, in my view, affordable housing vouchers. I know you have testified about this in the past and written about it in the past.

I have introduced legislation over the years that we are going to continue to push for. It is a bipartisan bill. It is called the Family Stability and Opportunity Vouchers Act. It really does two things. Number one, it would provide more affordable housing vouchers, period, so more people would have access to affordable housing. But the opportunity part of the bill is important. It is focused on families with young kids, along with mobility services, to really provide opportunities for more upward mobility, as the name indicates.

Could you talk a little bit about the need for additional housing vouchers and how they can also be used to achieve greater opportunity for families?

Mr. HERBERT. Thank you, Senator, for that question. You know, I would say we absolutely need more subsidies, and I think we need to have a balance of subsidies. We talked a lot today about supply. But you are right; housing vouchers are more immediate, and they also address issues around access to a broader range of communities. And thinking about different market conditions and places where we have a tight supply, vouchers may be challenging to use, but other places we have plenty of housing.

And, as your bill points to, I think there is both a need for more vouchers but more supports. There was a study done by Opportunity Insights in conjunction with King County in Washington State, where they provided counseling to voucher holders to open up the range of information they had about communities, and they found an enormous increase in people coming from urban areas to looking and considering moving to higher opportunities areas. That counseling helped. That information helped. Support for moving costs helps, and also, engagement with landlords. It is important to have landlords who understand the program and are willing to engage to it.

So I think if we are really going to make vouchers work, to have this ability to move to opportunity, we have to provide information and supports to make it happen.

Senator VAN HOLLEN. No, I appreciate that. As you indicated, as I said as well, this is a bipartisan initiative because it accomplishes those twin goals.

Can you talk about the challenges that we continue to face where there are some homeowners that discriminate against those who are using vouchers? Obviously, if we are going to work to try to make sure that there are more opportunities here, we need to make sure that that people are not discriminating against those who are using a voucher as part of their rent payment.

Mr. HERBERT. Yes, Senator. And you know, in a number of States, they have passed so-called source of income discrimination laws which make it against the law to be able to say I refuse to rent to you because of how your rent is going to be paid, but in many States, those protections do not exist. Landlords in those cases may decide they will not rent to Section 8 vouchers, effectively closing off a whole range of the housing stock to those folks.

So expanding those protections are a really important part of making sure the voucher program can be used.

And I will say that there are ways in which the program can be challenging for landlords. So I would use a carrot-and-stick approach, where if you are going to do that I also would make sure that you are addressing the concerns landlords about equality inspections and the like. Doing both is important, but certainly starting with do not discriminate is an important first step.

Senator VAN HOLLEN. I am happy to look at both, you know, a requirement that people not discriminate based on source of income but also—what are some of the carrots that you think that need to be applied?

Mr. HERBERT. Well, I think help with the property inspections and making sure that those are not—you know, there is a whole set of equality standards that can be somewhat inconsequential. Matt Desmond's book, *Evicted*, talked about an inspector looking for a shower curtain as a step. So I think making sure that that process is not unduly cumbersome for the landlords and the like. So I think it is really a question of looking at it also from the landlords' perspective, to say, how can we make this process simpler and less fraught for them?

Senator VAN HOLLEN. Got it. Do either of the other witnesses have any comments on this? Dr. Dietz.

Mr. DIETZ. I would just issue a bit of caution. NAHB has been supportive of voucher programs. We think they are important, but you know, voluntary participation in the program is better.

Keep in mind, for a typical multifamily owner-operator, they tend to be smaller businesses. So as you layer additional regulatory requirements on, it does increase the cost of housing and, therefore, deters investment in the multifamily sector.

Senator VAN HOLLEN. Right. Just a quick follow-up, but just so I understand, you agree that we should have a principle of nondiscrimination by landlords based on the source of income of the tenant. Do you agree with that principle?

Mr. DIETZ. In principle but not in terms of requirement and rules. The complexity of it is particularly difficult for owner-operators.

Senator VAN HOLLEN. No, I think this is, as I understand Dr. Herbert's point, in terms of more incentives. The idea would be to address—we agree on the principle?

Mr. DIETZ. Sure. Incentives, yeah.

Senator VAN HOLLEN. But understanding that there could be additional administrative burdens that someone has to go through, if we are addressing that issue, I am assuming that you would support enforcing the principle.

Mr. DIETZ. Our preference on incentives would be to expand the Low-Income Housing Tax Credit program because that increases supply.

Senator VAN HOLLEN. Well, no, as I said at the outset, I strongly support that and would like to see an expansion of that as well on the supply side, but we also have to address this immediate issue.

Thank you very much, Mr. Chairman.

Chair BROWN. Thank you, Senator Van Hollen.

Senator Scott and I each have one question, one more question. Then we will wrap up.

Mine is to Mr. George. HAC found that affordable rental units developed under USDA's 515 program have been exiting the program when their loans mature at a faster rate than predicted. In the coming years, 515 buildings that are home to thousands of families and seniors may be eligible to leave the program. What would the consequences be for rural renters in States like mine, where there are a number of them, if we just let these affordable 515 units exit the program? What do we do then to preserve affordable housing?

Mr. GEORGE. Thank you, Chairman Brown. Just to go back into the larger discussion we had on the importance of rental housing but a dearth of good quality rental housing in many rural communities, in this particular source of rental housing, if you go into a community, it is oftentimes among the best rental housing in a rural community. But the impacts can be profound, and they can be multiplying, the first of which, at a degree which I do not think Congress would allow, if you let every unit expire, you would lose somewhere between 350 and 400,000 vital affordable rental units in rural communities. The second element I would note is the tenants in these properties tend to be among the most vulnerable in the United States. Two-thirds of the tenant occupancy are elderly or disabled, and they have an average household income of just above $13,000, and in many respects there would be no place for them to go. That would be the final point. There are just not a lot of other good options. This is not—again, these are not tenants that are in the workforce. They are not highly mobile. And it would be very difficult for them to find affordable housing in many of these communities without this particular resource. It is just a very valuable resource in rural communities.

Chair BROWN. Thank you. Exactly what we thought and hoped you would say, thank you. I have been into these communities and know how vulnerable rural Ohio has become with the change in the economy. So, thank you.

Senator Scott.

Senator SCOTT. Thank you, Mr. Chairman. Thinking about housing affordability throughout South Carolina, I know that when you travel to my family's home town of Salley, South Carolina, that you see perhaps more manufactured homes or mobile homes or modular homes. The theory that modular or manufactured homes are of less quality and not as safe has consistently proven not true. I would love for us to one day visit the Innovative Housing Showcase put on by HUD at the National Mall, where home builders in the manufactured housing industry have an opportunity to demonstrate the innovations in home construction.

My question, Dr. Dietz, is it seems that both manufactured and modular housing show great promise in terms of constructing decent, safe, quality housing that low-income families can afford. What are the threats to more of these housing opportunities being procured by modest families?

Mr. DIETZ. There is a real potential here for offsite construction, so particularly in home building, that is modular and panelized construction. It is only about 3 percent of single-family starts. In the late 90s, it was 8 percent. So just getting back to the market share we had—we talked about labor productivity in this sector—this is a way to do it.

But like any innovation in any business sector, it is about rate of return, making sure the capital is available, and then making sure the regulatory environment is not so harsh that you cannot make those investments and then reap that investment return. So we do think that is one area where we are going to see innovation in housing and, we hope, housing affordability in the long run.

Senator SCOTT. Any comments, Mr. George?

Mr. GEORGE. No, only to reiterate that this is an extremely important source of housing in rural communities, but it is often maligned and overlooked. I would agree completely, especially since, you know, the construction of the what we call commonly the HUD Code in 1976, the quality, safety, size, amenities of these homes are indistinguishable from stick-built homes. What we do see in some respects are sometimes consumers have a foot in both worlds, where the quality of the homes are very high, but elements about how the home was sold, financed, appraised or warrantied are oftentimes in the automobile realm, and sometimes consumers are not as well served by those elements. And we are trying to make—I think it would be laudable to try to make, particularly home financing, to provide consumers of this product similar financing options like conventional or stick-built homeowners with mortgages.

Senator SCOTT. Thank you.

Chair BROWN. Thank you, Senator Scott. Thanks to the witnesses today for being here and providing testimony. We chose "The State of Housing" because that is, to me, the number one priority on this Committee. So, thank you for your leadership and for speaking out. Senators who wish to submit questions for the record, they are due 1 week from today, Thursday, February 16th. To the witnesses, you have 45 days to respond to any questions. Thank you again. Any closing comment?

Senator SCOTT. Thank you, Chairman. I think we had a very good hearing today, talking about the challenges and the burdens that Government can put on the home building business and, frankly, if you have more burdens on the business of building homes, you have more burdens on the ability to achieve the American Dream, which, for most of us, is home ownership.

I appreciate the consensus approach to this Committee. I am sure we are going to have that on every single hearing we have this year. I will wait for a response.

Chair BROWN. Yes, Senator Scott.

Senator SCOTT. Thank you so much, sir.

Chair BROWN. We will attempt to.

Senator SCOTT. Yes, sir. Appreciate that.

Chair BROWN. Thank you. With that, the hearing is adjourned. Thanks, folks.

[Whereupon, at 11:26 a.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF CHAIR SHERROD BROWN

Welcome back to many of you, and welcome to the new Members of this Committee.

I want to welcome Senator Scott as the new Ranking Member of this Committee.

Senator Scott has played an important role on this Committee for nearly a decade.

I am pleased to have worked with him on issues that matter to families across the country—from making sure expecting moms have health care to supporting investment in home revitalization so we can increase home ownership opportunities for all. I look forward to the work we'll do together over the next 2 years, starting with today's hearing on the state of housing.

Senator Fetterman, Senator Vance, Senator Britt—welcome. We look forward to working with you on finding common ground and providing real bipartisan solutions to the issues that matter to the people we serve. I also wish Senator Fetterman a speedy recovery.

Last Congress this Committee talked more about housing than we had for a long time. Around town, this Committee used to be referred to as Senate Banking. It was far too much about Wall Street and not nearly enough about the issues that matter to people's lives—about housing, transit, community development, and small and regional banks and credit unions.

We're starting this Congress with a hearing on housing because it's one of the most important issues facing families from Aiken, South Carolina, to Zanesville, Ohio.

Housing determines so much about your life—how long it takes to get to work, whether you have easy access to a bank or fresh food, whether you worry about your kids getting sick from lead paint or mold.

It determines your access—and your kids' access—to opportunity.

And for too many people, safe, affordable housing, and the opportunity it provides, is just too hard to find.

There isn't a day that goes by that I don't hear about the challenges that Ohioans are facing in the housing market.

In just the last few weeks, I've heard from Ohio seniors who have lived in the same manufactured housing community for years—or even decades—but are now worried they'll lose their homes after an out-of-State investor bought their neighborhood and raised the rent.

I've heard from renters in rural Ohio whose rent went up almost 90 percent in a single year.

I've heard from city council members and mayors who are excited to have new jobs bringing economic opportunities to their region. But now they're worried there isn't enough housing for new workers, or that existing workers will be priced out, as we've seen happen to teachers and cops and firefighters.

The story is the same—there just isn't enough quality housing at prices that people can afford.

Of course, this isn't happening just in Ohio.

Nationwide, we're short an estimated 3.8 million homes, and the gap is growing.

In my home State of Ohio, we're short 50,000 homes. In Senator Scott's home State, it's 12,000. And in Senator Sinema's home State, they're short 123,000 homes.

And because there aren't enough homes, renters and homeowners are stuck paying more every month or living with peeling lead paint or leaks—if they can find a home at all.

In 2021, a record number of renters—21.6 million households—paid more than 30 percent of their income for housing.

That's about half of the Nation's renters. Many of these renters are working full-time jobs, or more than one job, but it just isn't enough.

Eleven of the 25 most common occupations in the U.S.—workers we all depend on, like home health aides and office support staff—nearly half of the most common occupations don't pay enough to afford a one-bedroom apartment anywhere in the country.

More renters are struggling in part because rents have skyrocketed over the past 3 years.

Nationwide, rents are 25 percent higher than they were in 2019. In some places, rent has gone up even more. And while rent growth is finally starting to slow in some places, millions of families are still paying more each month than they would have a year or two ago.

That means less money for food, less money for childcare, less money for prescription drugs. Saving for a downpayment is nearly impossible.

Combine sky-high rents with higher home prices, rising interest rates, and too few homes on the market. Home ownership is looking further and further out of reach for millions of working families.

And the families who have already become homeowners are feeling squeezed, too.

One-in-five homeowners is paying more than they can afford for their homes. That includes families who have to make tough choices about paying their water or their heat or their mortgage, and seniors who have to put off critical repairs to keep up with payments on a fixed income.

This isn't just a problem in big cities or on the coasts. And it isn't a Republican problem or a Democratic problem.

It's hitting every community—rural, suburban, urban, and Tribal communities—and every State in the country.

As we heard last Congress, communities from Bozeman, Montana, to Tempe, Arizona, to Akron, Ohio, are struggling with a lack of affordable housing.

It's a national problem. And it will take all of us working together to solve it.

Today's witnesses are experts chosen together by the majority and minority. This bipartisan group will help us understand the housing conditions facing homeowners and renters across the country, and what we can expect in the months and years ahead.

Their insights on the availability and affordability of housing, the barriers to new development of more affordable housing, and the unique challenges in rural and Tribal communities will help inform this Committee's work to make housing opportunities available to families across the Nation.

I look forward to hearing from our witnesses today, and to working with all of my colleagues—including our three new Members—to find common ground on addressing these challenges.

PREPARED STATEMENT OF SENATOR TIM SCOTT

Thank you, Chairman Brown. It certainly has been a privilege to work with you and we have found some common ground between the two of us. We also very often see the same problem, and just see different paths to get to the solution.

Today is a day when we celebrate bipartisanship. Thank you for working together on consensus witnesses who will help us understand the plight of so many Americans who are suffering through the challenges of home ownership or renting. I grew up with a mom who worked really hard—16 hours a day—and we rented through high school. We lived with my grandparents when we were younger, with my brother, my mother, and I sharing a bedroom in a rented house. The problems we see today aren't recent problems—they span back across history.

And so today we have an opportunity to try to understand why housing in this country has become so expensive and out of reach for so many families.

Federal housing policy has long been disconnected from economic reality. Partisan spending bills have contributed to housing inflation, and I worry that continuing to promote irresponsible Federal spending does not address affordability challenges. In fact, it may be the root cause. Too much money flooding into our market and leading to incredible inflation, causing the Fed to try to figure out how to tamp down inflation by slowing the economy.

This Administration likes to talk about the need for more affordable housing, but as we all know, talk is cheap and leads to empty promises. For instance, when President Biden ends Federal apprenticeship programs that produce high paying jobs in the skilled trades, he shouldn't get to bemoan the lack of construction workers. Or, when he fails to address domestic supply chain bottlenecks, he shouldn't feign surprise when construction materials take months to arrive at job sites.

Finally, threatening builders and housing providers with the possibility of rent control will only further increase the gap in housing supply.

For decades, Washington's response to housing challenges has simply been more spending. We need to end this cycle and stop spinning our wheels.

While the trillions spent on numerous Federal housing programs were well intended, the net result has made no meaningful and lasting impact on home ownership rates. Especially as we see burdensome regulations push closing costs higher and higher, making the path to home ownership more difficult.

For African American families in particular, the home ownership rate remains unchanged since 1968, the year the Fair Housing Act was signed into law. For too long assistance programs have served as subsistence programs for the most vulnerable Americans.

It's past time to rethink the tax-and-spend strategies that keep families trapped in generational cycles of poverty and find real solutions to meaningfully impact all households—breaking the cycle. Government must begin responsibly helping families rather than doubling down on programs that fail to generate results.

We need to leverage the successes of American capitalism by encouraging private investment in the housing sector and eliminating needless barriers that artificially restrict supply. And most importantly, we should remember that effective housing policy is driven by communities—it is critically important the Federal Government encourages local solutions to uniquely local problems.

These ideas are common sense and shouldn't be controversial. I sincerely believe Republicans and Democrats should be able to find common ground on many of these important matters that impact the American people. I thank Chairman Brown for working together on building this consensus panel.

With that, I would like to welcome the witnesses and I look forward to your testimony.

PREPARED STATEMENT OF CHRISTOPHER HERBERT

MANAGING DIRECTOR, HARVARD JOINT CENTER FOR HOUSING STUDIES

FEBRUARY 9, 2023

Chairman Brown, Ranking Member Scott, Members of the Committee: Thank you for inviting me to testify at this hearing.

I am the Managing Director of the Joint Center for Housing Studies of Harvard University and a Lecturer in the Department of Urban Planning and Design at Harvard's Graduate School of Design. I am also a member of the Board of Directors of Freddie Mac. Through its research, education, and public outreach programs, the Joint Center for Housing Studies' mission is to advance understanding of housing issues and to help leaders in government, business, and the civic sectors make decisions that effectively address the needs of cities and communities. For more than three decades we have published the annual report *The State of the Nation's Housing* and I am very pleased to have the opportunity to share the work of our Center with the Committee today.

Introduction

Perhaps the most apt description of housing market trends over the last few years is that of a roller coaster ride; first marked by home prices and rents increasing at a dizzying pace in markets across the country in response to pandemic-enhanced demand against a backdrop of restricted supply, and now in the midst of a dramatic slide in response to the Federal Reserve's efforts to bring inflation under control. While the forces behind these trends are certainly out of the ordinary, they have illuminated and exacerbated housing challenges that are not new, but rather long in the making.

Arguably the nation's principal housing challenge is that of affordability. The share of renters facing housing cost burdens rose from the 2000s through the middle of last decade. While the years before the pandemic saw a modest recovery, the cost-burdened share of renters has now worsened substantially in the face of rising rents. While young adults and people of color were able to make up some lost ground in homeowning that followed the Great Recession, the combination of very high home prices and now much higher interest rates has priced most would-be owners out of the market.

A notable feature of the trends in housing affordability over the last two decades has been the spreading of these problems into the middle rungs of the income distribution. One key factor driving this trend has been a constrained supply of new homes, particularly modestly-priced homes and apartments which has contributed to the upward pressure on housing prices and rents. But the most severe affordability challenges continue to be concentrated among the nation's lowest-income households, who are outside of the reach of the private market under the best of circumstances.

But housing affordability is not the only housing challenge we face as a country. Housing policy has an important role to play in responding to the economic trajectories of neighborhoods, including those experiencing a rising tide that may threaten to displace existing residents and those who are suffering from disinvestment and decline where housing investments can be an important part of a revitalization strategy. Housing policies and supports also need to be attuned to the rapidly aging population, which presents a unique set of housing concerns. Finally, a rapidly aging housing stock calls for increased investment to maintain the quality of modest homes, to reduce energy consumption to meet the nation's goals for carbon reduction, and to address the growing impact of severe weather events on homes.

In my testimony today I hope to highlight and illuminate these trends in today's housing market in the hopes of informing your consideration of ways to support more concerted efforts by the public, private, and non-profit sectors to address these challenges.

The Housing Market is Cooling Rapidly in the Face of Rising Interest Rates

As the economy shut down in response to the onset of the pandemic in March 2020 the housing market initially slowed sharply. But within a few months home prices began to rise rapidly as the increased importance of home for work, study, and living boosted housing demand sharply. By the end of 2020 home prices were increasing at nearly 10 percent nationally, greatly surpassing the pace from a year earlier (**Figure 1**). The rental market was slower to bounce back and ended 2020 with rents essentially flat relative to the year before. But 2021 saw demand in both markets skyrocket, pushing house prices up 20 percent by year's end and rents up nationally by more than 10 percent, both record levels for annual gains.

These trends reversed dramatically in 2022 in response to the Federal Reserve pushing up interest rates sharply to tame inflation. By the end of 2022 home price gains year-over-year were down to 8 percent, with monthly trends showing prices actually falling. Rents followed a similar pattern, up just 3 percent year-over-year, with trends indicating further slowdowns ahead. Still, given the dramatic increase in prices and rents in recent years, it would take far more substantial declines to make up for the outsized gains. While there is some variation across markets in these growth rates and declines, the trends were evident in all areas of the country driven by significant macro forces that were equally felt in historically fast and slow growing markets.

The slowdown in the housing market has also been evident in new housing starts, although mostly in the single-family segment. Prior to the pandemic, single-family construction was gradually trending up but remained well below the long-term historical average of 1 million homes annually (**Figure 2**). In response to the surge in demand during the pandemic, single-family starts swelled to 1.2 million homes, reaching the highest levels since the last housing boom. But last year's rise in mortgage rates substantially dampened demand and starts plunged some 30 percent, ending the year at a pace close to the pre-pandemic level of around 900,000 new homes, once again below the long-term average.

Meanwhile, multifamily starts have remained remarkably stable through 2022 at a pace that is the highest since 1986. However, there are signs that rising interest rates are also being felt in this sector as multifamily building permits turned down over the last quarter of 2022 which suggests starts will head lower in 2023. However, there are also nearly 1 million multifamily units currently under construction, reflecting extended construction timelines, which suggests that the completion of new apartments will remain high through 2023.

Tight Housing Supply Remains an Ongoing Concern

In the years before the pandemic the supply of new homes was not keeping pace with what was needed to accommodate the growth in households, to replace older housing stock, and to meet demand for second and seasonal homes. Beginning in the 1970s, the addition of new homes through construction exceeded household growth by about 20 percent on average. But for much of the last decade new construction has barely kept pace with household growth, a streak that was unprecedented over the past half century (**Figure 3**). Freddie Mac estimates that nationally the shortfall in housing supply, as of 2020, amounted to 3.8 million units.[1]

Then during the pandemic household growth spiked, reaching the highest levels in decades. Recent analysis by our Center has found that much of this increase in household formation is due to young adults moving out on their own, making up for a shortfall in independent living that had built up in the decade prior.[2] As shown in Figure 3, even with the rise in construction levels over the last two years, the surge in demand expanded the gap between household growth and construction levels, adding to the already large shortfall in housing supply.

The tight housing supply is also evident in vacancy rates for rental housing. According to data from CoStar, rental vacancy rates rose sharply at the start of the pandemic, driven mostly by rates in prime urban markets, but then fell to historic lows (**Figure 4**). These excessively tight conditions were a significant factor in the rapid increases in rents that ensued. Over the last six months there have been signs of easing of market conditions as vacancy rates have edged back up to the levels that prevailed before the pandemic, but not yet enough to provide substantial relief.

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[1] Khater, Sam, Len Kiefer, and Venkataramana Yanamandra. "Housing Supply: A Growing Deficit." Freddie Mac, Economics and Housing Research Note, May 2021. Available at: https://www.freddiemac.com/fmac-resources/research/pdf/202105-Note-Housing_Supply-08.pdf

[2] McCue, Daniel. "The Surge in Household Growth and What It Suggests About the Future Of Housing Demand." Harvard University, Joint Center for Housing Studies, *Housing Perspectives*, January 17, 2023. Available at: https://www.jchs.harvard.edu/blog/surge-household-growth-and-what-it-suggests-about-future-housing-demand

The owner-occupied market has also been marked by a significant shortage of homes for sale. A balanced market is generally thought to be marked by a 6-month supply of homes available for sale as levels below this are associated with upward pressure on prices. The supply of homes for sale has stayed below this level since 2012 and dipped below 2 months at the start of 2022 (**Figure 5**). Even with the recent slowdown in homebuying activity, the number of homes on the market has stayed near historic lows, increasing the month's supply to just above 3, still well below what's needed to reduce price pressure in the market. With so many existing homeowners having well below market interest rates on their mortgages, it seems likely that the supply of existing homes put up for sale will remain constrained.

Further contributing to the tight existing home market is the increased activity by investors in purchasing single-family homes. Analysis by CoreLogic identified a substantial increase in investors' share of single-family home purchases during the pandemic, which has remained at high levels even through 2022.[3] If fact, the role of investors in the housing market more generally has increased substantially over the past two decades. As documented by the Rental Housing Finance Survey, the overall share of rental housing properties owned by non-individual investors (that is, some form of legal ownership other than in individuals' names) has grown substantially over the last two decades (**Figure 6**). From 2001 to 2021, the share of properties owned by non-individuals increased from 18 to 26 percent, with the largest increases among properties with between 2 and 49 units. There are concerns that larger-scale investors will pursue strategies that are more focused on maximizing rents contributing further to rent pressures. Although a recent study of the increased role of investors in Canadian multifamily housing highlights that investors have various investment strategies from seeking stable income to aggressively pushing rents.[4]

Freddie Mac's assessment of the supply shortage pointed to the fact that an important part of this trend has been a substantial decline in the number of entry-level homes built over time, which they define as being under 1,400 square feet. Since the 1980s the number and market share of these homes has fallen steadily, from roughly a third of the market and over 400,000 homes annually to just 69,000 homes in 2021 and only 7 percent of the market. There are many factors contributing to this trend, including rising land costs, higher construction costs and fees, a shortage of labor, and restrictive zoning.[5] The implication of

[3] Malone, Thomas. "The New Normal? Single-family Investor Activity Remains Steady in Q3." CoreLogic, December 8, 2022.
[4] August, Martine. "The financialization of Canadian multi-family rental housing: From trailer to tower." Journal of Urban Affairs 42, no. 7 (2020): 975-997.
[5] Freddie Mac, Economics and Research Group. *The Housing Supply Shortage: State of the States.* Economic and Housing Research Insight, February 2020. Available at: http://www.freddiemac.com/fmac-

the lack of starter homes is that entry-level homebuyers have fewer affordable choices, delaying transitions to homeownership and increasing rental demand.

In short, a deficit in the supply of new housing has been an important factor in the rising house prices and rents that have been evident in recent years. These factors were exacerbated during the pandemic when housing demand surged and builders were unable to meet the need for homes. While the Federal Reserve's efforts to control excessive growth in housing prices and rents was clearly necessary, it has unfortunately also resulted in a decline in new construction which will ultimately be needed to bring the housing market into a more healthy balance.

Given the important contribution of supply-side constraints in producing our affordability challenge, there is a clear need for concerted efforts by the public, private, and non-profit sectors to pursue both regulatory reform and more efficient means of production to increase the supply of housing, and particularly of modest cost homes. Doing so will require concerted efforts that address the multiple barriers to added supply, including the need for relief from restrictive zoning codes and approval processes, more efficient means of building homes through off-site production, and growth of the labor force in the building trades. There is a role for action at all levels of government and by the private sector to make progress in these areas.

Renter Affordability Has Deteriorated Substantially

With rents rising at record pace and renter incomes declining during the pandemic (the median income for renter households decreased from $44,500 in 2019 to $43,500 in 2021, a decline of 2.3 percent), the last few years have seen a substantial erosion in rental affordability, reversing a trend toward modest improvement that had been evident since the middle of the last decade.[6] Between 2011 and 2019 the share of renters that were cost burdened (paying more than 30 percent of their income for housing) fell from a record high of 50.8 percent to 46.3 percent (**Figure 7**). But between 2019 and 2021 this share jumped to 49.0 percent, wiping out much of the ground gained and pushing the number of cost burdened renters to a new record of 21.6 million households. Most of the increase was among those facing severe cost burdens (paying 50 percent of their income for housing), which rose by 1.1 million to 11.6 million, or more than one-in-four renters.

Cost burdens increased across all income groups, but the gains were largest among middle

resources/research/pdf/202002-Insight-12.pdf; and Badger, Emily. "Whatever Happened to the Starter Home?" New York Times, September 22, 2022. https://www.nytimes.com/2022/09/25/upshot/starter-home-prices.html

[6] Whitney, Peyton. "Number of Renters Burdened by Housing Costs Reached a Record High in 2021." Harvard University, Joint Center for Housing Studies, *Housing Perspectives*, February 1, 2023. Available at: https://www.jchs.harvard.edu/blog/number-renters-burdened-housing-costs-reached-record-high-2021

income households, continuing a trend that has been evident since the early 2000s. Renters with an income between $30,000 and $44,999 experienced a 3.1 percentage point increase in cost burdens to 62.7 percent, while households with incomes between $45,000 and $74,999 saw a 3.5 percentage point jump to 34.3 percent (**Figure 8**). Cost burden increases were somewhat smaller for lower-income renters, but these households still faced the highest overall share of cost burdens. Among renter households with a real income under $30,000, fully 82.7 percent were cost burdened, a 1.6 percentage point increase from 2019. Importantly, a large majority of these renters (76 percent) were severely burdened, highlighting the acuteness of the affordability challenges facing lowest-income renters.

Very high shares of lowest-income renters are cost burdened in all areas of the country, while the incidence of cost burdens among higher income renters varies significantly with housing costs. The share of lowest-income renters with cost burdens ranges from a low of 71 percent in non-metro areas to 87 percent in the 25 largest metro areas with the highest housing costs (**Figure 9**). Meanwhile, among households earning between $30,000 and $45,000 the cost burdened share is more than 50 percentage points higher between non-metros areas and the highest cost metros. The difference is also nearly as large among those earning $45,000-$75,000.

These affordability challenges can be traced to the difficulty of providing housing at rents affordable at modest income levels. Applying the 30 percent of income standard, households earning $30,000 a year could afford to pay $750 a month for housing—a level that has become more difficult for landlords and developers to meet. Since 2014 the number of rental homes available for less than $1,000 a month has declined by 7 million, including a decline of 3.3 million units renting for under $600 a month (**Figure 10**). New construction of low-cost units has been particularly rare. Census data show that less than 3 percent of new apartments rented for less than $1,050 while the median asking rent for these apartments was $1,745.[7]

<u>Homelessness and Evictions on the Rise</u>

Deteriorating rental affordability is evident in both increases in homelessness and a rebound in eviction rates. From 2016 to 2022 the overall number of people experiencing homelessness increased only modestly, from 550,000 to 582,000. However, this broader trend masks a rapid increase in the same period among unsheltered individuals, which increased by 38 percent with 59,000 more people living on the streets (**Figure 11**). This trend has been most evident in California where there has been an increase of unsheltered individuals of 37,000. But increases of 1,000 individuals or more also occurred in Arizona,

[7] US Census Bureau, Survey of Market Absorption, available at: https://www.census.gov/programs-surveys/soma/about/table-creator.html

Colorado, Tennessee, Texas, Oregon, and Washington. In all, 22 states experiencing increases of more than 50 percent of this 6-year period.

At the beginning of the pandemic there was significant concern about the potential for a massive wave of evictions as millions of renters lost income and fell behind on rent. However, due in large part to a combination of eviction moratoria during the public health emergency and a significant commitment of federal funds for Emergency Rental Assistance[8] the level of evictions remained low by historical standards for the first two years of the pandemic. According to data collected by The Eviction Lab of Princeton University for much of 2021 eviction rates in the cities and states they are able to track remained below half of their average level from 2012 to 2016 (**Figure 12**). Eviction rates began to rise in late 2021 as eviction moratoria ended and then rose more sharply at the start of 2022 as Emergency Rental Assistance funds were drawn down. Since March of last year eviction rates have stabilized at between 80 and 90 percent of historic levels.

While these trends are perhaps better than might be hoped given rising affordability challenges and the reduction of public supports, the harm caused by evictions highlights the importance of minimizing these outcomes. As Matthew Desmond's research has documented, eviction has profound impacts on families, disrupting schooling and undermining the ability to maintain employment, leading him to conclude that evictions are both a consequence and a cause of poverty.[9] Research during the pandemic has also documented the negative consequences of missed rent payments for landlords and thus highlight the value of rent relief for property owners as well.[10] Given the high costs of evictions for individuals and society, it is important that policy makers recognize the lessons learned from the pandemic about the effectiveness of support for renters in financial distress.

Homeownership Affordability Has Worsened Substantially, Threatening Recent Gains

In the years following the Great Recession the homeownership rate plunged from 69.0 percent in 2004 to a low of 63.4 percent in 2016. The decline in homeownership was most pronounced among adults under age 35, between ages 35 and 44, and Black households, for whom rates of owning fell by 8 percentage points or more (**Figure 13**). Beginning in 2016

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[8] For information on the nature and use of Emergency Rental Assistance see https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/emergency-rental-assistance-program.
[9] Desmond, Matthew. *Evicted: Poverty and profit in the American city*. Crown, 2016.
[10] de la Campa, Elijah, Vincent J. Reina, and Christopher Herbert. "How Are Landlords Faring During the COVID-19 Pandemic?." Harvard University, Joint Center for Housing Studies, August 2021 (available at: https://www.jchs.harvard.edu/research-areas/working-papers/how-are-landlords-faring-during-covid-19-pandemic-evidence-national; and Decker, Nathaniel. "The uneven impact of the pandemic on the tenants and owners of small rental properties." Terner Center for Housing Innovation, UC Berkeley. July 13, 2021 (available at: https://ternercenter.berkeley.edu/research-and-policy/pandemic-impact-tenants-owners-small-rental-properties/).

these trends reversed and rates began to rise again with particularly strong gains for young adults and Black and Asian, Native Hawaiian and Pacific Islander (ANHPI) households. These trends continued during the pandemic with these same groups showing notable gains in owning. However, despite these increases, homeownership rates for young adults remain well below their levels from the early 2000s, while rates of owning for Black and Hispanic households continue to substantially lag white households with differences of 29 and 26 percentage points, respectively.

The gains in homeownership of recent years in part reflect the relative affordability of homebuying for much of the past decade as relatively low interest rates offset increases in home prices (**Figure 14**). However, the sharp jump in interest rates since the start of 2022, coupled with the recent substantial gains in home prices, have significantly increased the income needed to afford the median home. In April 2021 the median price of homes sold according to the National Association of Realtors was $340,700, which when coupled with prevailing interest rates of 3.06 percent meant that homebuyers needed an income of $79,600 to qualify for a mortgage under standard underwriting assumptions (**Figure 15**). A year later the combination of home price gains and an increase in prevailing interest rates to nearly 5 percent pushed the qualifying income needed to $107,900, leaving a large majority of renters unable to afford the median home. While the price of homes sold declined over the last half of the year, continued increases in interest rates offset these declines so qualifying incomes remained well above $100,000.

The substantial erosion of homebuyer affordability will make it much more challenging for young adults and people of color to transition into homeownership. In addition to the high incomes needed to qualify, the amount of savings needed for a downpayment represents a considerable barrier. One implication of today's much higher home prices is that homebuyers need a substantial amount of savings to meet downpayment and closing costs. As shown in Figure 15, for the national median-priced home, buyers generally have needed to bring about $25,000 in savings to the closing table. According to the 2019 Survey of Consumer Finances, very few renters have cash reserves near this amount. Only renters in the top income quintile have median savings of $20,000, while the median renter overall only has $1,500.[11] The levels are even lower for Black and Hispanic renters, who have only $800 and $1,000 in savings respectively.

Efforts to expand homeownership opportunities start with ensuring that would-be buyers have access to adequate information and advice about the homebuying process. Surveys by by Fannie Mae have found that many consumers have limited or erroneous understanding

[11] Joint Center for Housing Studies of Harvard University. *The State of the Nation's Housing 2022*. Harvard University, 2022. Available at: https://www.jchs.harvard.edu/state-nations-housing-2022

of the credit and downpayment standards needed to buy a home.[12] Support for homebuyer education and counseling can help ensure that homeseekers have the information they need to make to good choice about buying a home. Access to safe and affordable mortgage credit is obviously another key ingredient. Analysis by Freddie Mac shows that while many young adults have credit histories that would pass muster for conventional financing, many more are only near mortgage-ready based on their credit histories, with many more Black and Hispanic renters falling into this category.[13] For this reason, efforts to expand access to credit for those who have the ability to sustain homeownership but may not measure up given standard metrics are needed. Finally, given the lack of savings among young households, efforts to expand homeownership opportunities and to close racial homeownership gaps will need to include support for downpayment assistance to overcome this significant hurdle to buying a home.

Gentrification Pressures are Growing, But Neighborhood Decline Remains Much More Pervasive

Neighborhood conditions are also an important consideration for housing policy, both to help ensure that long-term residents can maintain residence in economically improving areas and to help remedy a lack of effective demand that makes it difficult to maintain decent housing in economically depressed communities.

The past two decades have been marked by a growing focus on gentrification, the process where lower-income neighborhoods experience an influx of higher-income households and new investment capital, which bring about a significant rise in house values and rents that can displace lower-income residents. Gentrification raises particular concerns when it impacts historically depressed, urban neighborhoods where the majority of residents are Hispanic or Black.

The growing incidence of this type of neighborhood change is shaped by the significant movement of younger, highly educated adults into central cities over this period.[14] In fact, an analysis by *Governing* magazine found a significant increase in the prevalence of gentrification in the period 2000-2013 in the country's 50 largest cities compared to the

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[12] Palim, Mark and Sarah Shahdad. "Consumers Continue to Overestimate Mortgage Requirements." Fannie Mae, Perspectives Blog, June 5, 2019. Available at: https://www.fanniemae.com/research-and-insights/perspectives/consumers-continue-overestimate-mortgage-requirements

[13] Dey, Jaya, Sijie Li, Robert Argento, and Jintao Huang. "Who Are the Future Borrowers? A Deep dive into their Barriers and Opportunities." Freddie Mac, *Insight Report*, July 16, 2021. Available at: https://www.freddiemac.com/research/insight/20211021-future-borrowers

[14] Baum-Snow, Nathaniel, and Daniel Hartley. "Causes and consequences of central neighborhood change, 1970–2010." In Research Symposium on Gentrification and Neighborhood Change, vol. 3, pp. 57-85. 2016.

1990s.[15] The same study found, however, that gentrification was not all that common, affecting only 8 percent of all neighborhoods examined, and was highly concentrated in a small number of cities. This same conclusion—that gentrification was fairly rare and was concentrated in select markets—was also reached by subsequent studies employing varying measures of gentrification.[16]

Gentrification raises a number of concerns about changes to longstanding low-income communities and communities of color—including the loss of businesses and social and cultural amenities—not benefiting existing residents. But perhaps the principal concern is how rising housing costs due to gentrification may displace residents.

Displacement is difficult to measure with most available data and so has been challenging to document. Detailed studies of the movement of households in New York City and Philadelphia concluded that the rate of out-movement of lower-income residents from gentrifying areas either remained fairly constant or slowed, but that the household composition of these neighborhoods changed as fewer new low-income residents moved in.[17] Still, in the aggregate the results were a decline in the low-income population. The Philadelphia study also found that residents displaced from gentrifying neighborhoods moved to lower-income areas. The 2019 study by the National Community Reinvestment Coalition, which focused on net declines in Black and Hispanic populations in gentrifying neighborhoods rather than the movement of individual households, also found a significant loss of these populations.[18]

But while gentrification has received a great deal of attention, far less attention has been paid to the problems of neighborhood decline and growing neighborhood poverty.[19] In order to compare the two challenges of upward and downward mobility of neighborhoods, researchers at the University of Minnesota examined what types of change occurred in neighborhoods in the 50 largest metropolitan areas in the country between 2000 and

[15] Maciag, Michael. "Gentrification in America Report." Governing, January 23, 2015. Available at: https://www.governing.com/archive/gentrification-in-cities-governing-report.html#:~:text=Gentrification%20still%20remains%20rare%20nationally,declines%20in%20the%20poverty%20rate.

[16] Richardson, Jason, Bruce Mitchell, and Juan Franco. "Shifting neighborhoods: Gentrification and cultural displacement in American cities." National Community Reinvestment Coalition, March 19, 2019 (available at https://ncrc.org/gentrification/); and Drew, Rachel Bogardus. "Gentrification: Framing Our Perspectives." Enterprise Community Partners, Inc., 2018 (available at https://www.enterprisecommunity.org/sites/default/files/2021-07/Gentrification%20White%20Paper10-9-Final_1.pdf).

[17] Freeman, Lance, and Frank Braconi. "Gentrification and displacement New York City in the 1990s." Journal of the American planning association 70, no. 1 (2004): 39-52; and Ding, Lei, Jackelyn Hwang, and Eileen Divringi. "Gentrification and residential mobility in Philadelphia." Regional science and urban economics 61 (2016): 38-51.

[18] See Richardson, Mitchell and Franco, 2019.

[19] Mallach, Alan. The divided city: Poverty and prosperity in urban America. Island Press, 2018.

2016.[20] They created a typology of four categories of neighborhoods that were experiencing at least moderate change in population: (1) neighborhoods where both low- and non-low-income populations were growing, (2) neighborhoods with low-income displacement, (3) neighborhoods where the number of lower-income residents was growing, so-called "low-income concentration," and finally, (4) neighborhood abandonment marked by both a declining population and high shares of low-income households.[21]

Figure 16 shows the results of this analysis for the 50 largest metro areas. The principal insight from their results is that by far the most common type of neighborhood change is that of low-income concentration, evident in neighborhoods where 36.5 million people live, accounting for more than two-thirds of all residents experiencing neighborhood change. In contrast, low-income displacement impacted 9.5 million individuals, only about a quarter of the population impacted by a growing concentration of poverty. The incidence of abandonment over the study period was fairly rare, but did impact 2.2 million residents. In contrast, areas experiencing growth accounted for 4.8 million residents.

As these results show, four time as many residents lived in communities experiencing a growing concentration of poor households, than lived in gentrifying neighborhoods. And while the problem of abandonment has not been nearly as common in the first decades of this century, neighborhood depopulation still affected more than 2 million people, not accounting for areas that have depopulated over previous decades.

Housing policy has an important role to play in addressing the challenges in both declining and gentrifying areas. For areas that are gentrifying the most obvious need is for an expansion of supports for permanently affordable rental housing and paths to affordable homeownership that create opportunities for long-time residents to remain and to promote racially and socioeconomically diverse communities that can benefit from improving neighborhood conditions. For neighborhoods subject to disinvestment and decline a broader toolbox is needed, including efforts to support investment and upgrading of existing homes, access to mortgage financing for both small balance loans and rehabilitation, new construction as part of a revitalization strategy, and reclaiming and repurposing vacant and abandoned land and properties.

Meeting the Housing Needs of a Rapidly Aging Population

[20] Orfield, Myron W. "American neighborhood change in the 21st century." Institute on Metropolitan Opportunity, University of Minnesota Law School, April 2019.

[21] Low-income households were defined as those with incomes below 200 percent of the poverty level with non-low-income households having incomes above that level. Neighborhoods experiencing at least moderate change had changes in the non-low-income population of at least 10 percent and changes in the share of low-income population of at least 5 percent.

Since the first baby boomer turned 65 in 2011, older adults have been the fastest growing segment of the population. And with these oldest boomers now well into their 70s, our Center projects that the fastest growing household segment between 2021 and 2040 will be those age 75 and older, with particularly strong growth among those age 80 and older (**Figure 17**).[22] Indeed, by 2040 there will be some 17 million of these households, representing 12 percent of the total.

While advanced age is associated with increased resilience and other social advantages, older people have unique housing needs, particularly at the oldest ages. These include limited and often declining income that affects capacity to pay for housing along with other necessities like food and out of pocket healthcare expenses, difficulty navigating and using their homes as mobility declines, and a need for assistance with household chores and activities of daily living.

Older adults are not immune to the challenge of finding housing that fits within their budgets. While lowest-income homeowners and renters both face affordability challenges, renters are more likely to experience housing cost burdens across the income spectrum (**Figure 18**). A large majority of both owners (84 percent) and renters (75 percent) with incomes under $15,000 are cost burdened, with most of these households facing severe cost burdens. As incomes rise, cost burdens drop more sharply for owners, but among renters more than two-thirds of those with incomes of $15,000-29,999 are cost burdened as are more than half of those with incomes between $30,000-44,999.

To assess how well housing assistance programs are meeting the needs of low-income renters, the US Department of Housing and Urban Development prepares a biennial report to Congress reporting on the incidence of worst case housing needs, which is defined as having severe rent burdens, severely inadequate housing, or both.[23] The latest report documents how the rapid growth of older renters facing significant affordability challenges is swamping any increases in rental assistance. In 2009 there were 3.6 million very-low-income renters (with incomes up to 50 percent of area median) eligible for most rental assistance, with available support only sufficient to reach 36 percent of eligible households. By 2019 the number of very low-income older renters had grown to 5.6 million, an increase of more than 50 percent (**Figure 19**). The number of assisted renters also increased by a similar rate over this period so that the share receiving assistance stayed essentially constant at 36 percent. But among unassisted renters the incidence of worst cast housing

[22] Joint Center for Housing Studies household projections, re-benchmarked to 2021 population and assuming low immigration scenario.

[23] US Department of Housing and Urban Development. *Worst Case Housing Needs Report to Congress 2021*. Available at: https://www.huduser.gov/portal/sites/default/files/pdf/Worst-Case-Housing-Needs-2021.pdf

needs increased. As a result, there were 2.2 million older households with worst case housing needs in 2019, up from 1.3 million a decade earlier, an increase of 69 percent.

Aside from affordability, another significant housing challenge for older adults is whether their homes are able to accommodate their physical needs as they age. The incidence of physical disability rises with age, and older adults are most likely of all age groups to report being unable to navigate and use features of their homes (**Figure 20**). Yet less than 1 percent of the housing stock is estimated to be wheelchair accessible and under 4 percent to offer no-step entry, a bedroom and bathroom on the main living floor, and wide halls and doors that could accommodate a wheelchair. A mismatch between a person's needs and their environment can increase dependence on others for conducting daily activities.[24]

Our research has shown that publicly-assisted housing is more likely to offer accessibility features than market-rate housing, but still more than a quarter of older assisted renters (who are more likely to have disabilities than peers in non-subsidized units) have difficulties with access in their homes.[25] There is a clear need for investment in assisted housing to expand the number of adaptable and fully accessible units. Older adult households now make up over a third of all subsidized renters, so this need is only going to grow as these residents age.

For those living in non-subsidized housing, including millions of low- and moderate-income older homeowners, home modifications to enhance safety and accessibility can be financially out of reach. HUD's new Older Adult Home Modification Program offers a template to meet these needs with modest grants to make needed changes. To date, however, allocations to the program have been relatively small. Programs that offer higher value no-interest loans and grants, such as the Massachusetts Homeowner Modification Program, may allow for more comprehensive accessibility modifications. Programs might also support modifications for safety to prevent falls and other accidents that lead to disability, rather than requiring documentation of a disability (as is required by many modification programs).

In addition to housing units that are accessible, most older adults will need supports and services to remain in their communities; for millions, these are as important as an

[24] Samara Scheckler, Jennifer Molinsky, and Whitney Airgood-Obrycki. 2022. *How Well Does the Housing Stock Meet Accessibility Needs? An Analysis of the 2019 American Housing Survey*. Joint Center for Housing Studies. https://www.jchs.harvard.edu/sites/default/files/research/files/harvard_jchs_housing_stock_accessibility_scheckler_2022_0.pdf

[25] Whitney Airgood-Obrycki and Jennifer Molinsky. 2020. *Accessibility Features for Older Adults in Subsidized Housing*. Joint Center for Housing Studies. https://www.jchs.harvard.edu/sites/default/files/harvard_jchs_aging_in_subsidized_housing_airgood-obrycki%20_molinsky_2020.pdf

affordable and accessible home to the goal of remaining in a community (e.g., non-nursing home) setting. Yet access to home-based personal care and assistance is extremely limited. In some states, it may be available to the lowest-income older adults under Medicaid Home and Community Based Services waivers, but not as an entitlement, and often there are long waiting lists. Middle-income older adults often cannot afford to hire caregivers or homemaker services but have few public options for support.

As a result, most older adults (90 percent) in need of support rely on family and friends.[26] Older adults living alone are most likely to have unmet needs for support (and despite having lower incomes and higher rates of disabilities than other types of households, to pay for the care they need) and the number of older people living alone in their 80s and beyond is set to double in the next decade.[27]

Given the importance of affordable, accessible and supportive housing for successful aging, the rapid growth in the number of the adults over age 80 in the next few decades will require increased attention by policy makers to ensure that these critical housing needs are met.

Investments Needed in Existing Homes

In addition to the need to invest in the nation's homes to adapt them to support an aging population, there is also a need to support investments to remedy inadequate conditions, make homes more energy efficient to reduce the residential sector's carbon footprint, and to address the risks and damage from extreme weather events.

One consequence of lagging rates of new construction is that the nation's housing stock is itself aging. The median age of the nation's homes was 42 in 2021, up from 37 a decade earlier, and just 28 years in 1995.[28] Older homes are much more likely to suffer from structural defects that affect the health and well-being of occupants. The American Housing Survey documents a range of these defects, from severe problems such as a lack of kitchens and bathrooms and significant failures of heating systems, to more moderate problems such as cracks and holes in walls and floors, rodent infestations, and exposed wiring. While inadequate housing conditions are much less common than they were decades ago, they

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[26] *Caregiving in the US 2020: A Focused Look at Family Caregivers of Adults Age 50+.* 2020. AARP Family Caregiving.
[27] *Housing America's Older Adults 2019.* Joint Center for Housing Studies. https://www.caregiving.org/wp-content/uploads/2021/05/AARP1340_RR_Caregiving50Plus_508.pdf; https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_Housing_Americas_Older_Adults_2019.pdf; Chris Herbert, Samara Scheckler, and Jennifer Molinsky. 2022. Household Composition, Resource Use, and the Resilience of Older Adults During Covid-19. University of Wisconsin Center for Financial Security. https://cfsrdrc.wisc.edu/publications/working-paper/wi22-13
[28] US Census Bureau, The American Housing Survey, 2011 and 2021. Available at: https://www.census.gov/programs-surveys/ahs.html

can be pervasive in older homes (**Figure 21**). Housing inadequacy is nearly three times as common among homes built in 1960-79 compared to the newest homes, with more than one in twenty being either moderately or severely inadequate. Meanwhile, nearly one in ten of the oldest homes built before 1940 are inadequate. Since older homes often are an important source of more affordable housing, efforts to support the maintenance and improvements of these homes can be an important means of meeting the need for modest-cost housing. Inadequate housing is also much more common for Black (8.2 percent), Hispanic (7.3 percent) and Native American (11.2 percent) households compared to white households (4.0 percent), and so an important aspect of racial disparities in housing conditions.

In addition to housing quality, investments in improving the energy efficiency of existing homes is essential if the nation is to meet its goals for reduction of carbon production. Housing's energy use produces one fifth of the nation's greenhouse gas emissions from both the direct combustion of carbon-based fuels in homes as well as the mix of fuels used to generate the retail electricity that homes consume.[29] Another consequence of the nation's aging housing stock is that older homes are less efficient than newer ones and require higher levels of investment in energy-efficiency retrofits. In fact, the benefits of these investments are evident in the improvements in energy use of older homes over time, although area for further improvement remains (**Figure 22**).

Data from the latest Residential Energy Consumption Survey suggest that millions of homes across the country will require significant investment in the conversion of home systems and equipment to become more or fully electrified, especially in the Northeast and Midwest where less than 15 percent of the occupied housing stock was all-electric in 2020. Almost 75 million US homes currently use natural gas for at least one energy need, over 60 percent of the nation's housing stock. With incentives provided through the 2022 Inflation Reduction Act set to be offered this year, there is a major opportunity for the residential remodeling industry to electrify the US housing stock and make it more efficient. However, how effective states are in implementing this funding will impact the degree of geographic concentration of energy efficient housing.

The 2021 Infrastructure Investment and Jobs Act also supports home energy improvements through its $3.5 billion in additional appropriations for the Weatherization Assistance Program. The national program, along with state and local government programs and regulated utilities, improves the efficiency of the housing stock and can reduce energy

[29] Environmental Protection Agency. 2022. Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2020. U.S. Environmental Protection Agency, EPA 430-R-22-003. https://www.epa.gov/ghgemissions/draft-inventory-us-greenhouse-gas-emissionsand-sinks-1990-2020.

insecurity and energy burdens. Low-income households are more likely to live in poorly insulated and inefficient homes and, despite consuming less energy than households with higher incomes, spend a higher share of their incomes on energy costs. In 2021, the typical homeowner with household income under $32,000 devoted nearly a quarter of their monthly housing costs to energy utilities including electric, gas, oil, and other fuels. In comparison, owners with incomes over $150,000 typically spent less than 11 percent of their total housing cost for energy bills. Homeowners of color are also disproportionally likely to experience energy insecurity or related energy hardships that home improvements could rectify.[30]

Finally, the increased frequency of extreme weather events is also expanding the need for investments to repair and protect the nation's homes from these impacts. The National Oceanic and Atmospheric Administration reports that the number of billion-dollar weather- and climate-related disasters increased from 14 in 2019 to 22 in 2020 and 20 in 2021, while the combined inflation-adjusted damages climbed from an average of $59 billion annually in the 2000s to $94 billion annually in the 2010s, to $145 billion from 2020–2022 (**Figure 23**). Although hurricanes, tornadoes, and wildfires capture news headlines, a large share of disaster repair expenditure is for damages caused by other types of severe storms, such as snow, hail, and wind, which accounted for fully 45 percent of disaster-related restoration in 2021.

As an increasing number of homes are exposed to environmental hazards, there is a need for increased investment in homes not just after disaster hits, but in modifications that homeowners might make to mitigate their homes before disasters hit. According to a recent Freddie Mac survey, 66 percent of homeowners are somewhat or extremely concerned about severe weather-related events impacting their home in the next five years.[31] However, the high cost of retrofitting homes and the limited public assistance for home mitigation, combined with a lack of information about the benefits of retrofits and unclear insurance coverage and premium incentives, prevent many households from pursuing mitigation actions. Federal investment to address for hazards and climate effects is largely going to large public works rather than to housing, though infrastructure can only protect homes from a small number of hazards such as floods. Expanding assistance for low-income households, who are more financially vulnerable to hazards but less able to afford home mitigation work or relocate, is critically important to maintain the housing stock and reduce

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[30] Harvard Joint Center for Housing Studies. *Improving America's Housing 2023*. Forthcoming.

[31] Freddie Mac. "Homeowners Are Growing More Concerned about the Effects of Severe Weather." Research Note, October 5, 2022. Available at: https://www.freddiemac.com/research/consumer-research/20221005-homeowners-are-growing-more-concerned-about-effects

unwanted displacement of households when preventable.

However, the high cost of retrofitting homes and the limited public assistance for home mitigation, combined with a lack of information about the benefits of retrofits, prevent many households from pursuing mitigation actions. Expanding assistance for low-income households, who are more financially vulnerable to hazards but less able to afford home mitigation, is critically important to maintain the housing stock and reduce displacement of households.

Concluding Remarks

I realize that I have outlined a broad set of housing challenges that are perhaps daunting in their scope and scale. But having a good quality, affordable, and secure home in a thriving community is foundational for a healthy and productive life for every person in America. Addressing our country's housing challenges will take a substantial commitment from the public, private, and non-profit sectors. But this investment would pay dividends in improved quality of life for those who are unaffordably and inadequately housed and in improved access to good quality neighborhoods. Investments in housing also need to be an important part of the country's efforts to house its aging population, and to mitigate and adapt to climate change, both of which are becoming more pressing with each passing year.

Thank you for turning your attention to these critical issues and for your invitation to share this information with you today. I look forward to answering any questions you may have.

Figure 1: Home Prices and Apartment Rents Soared to New Heights in 2021 but Slowed Sharply in 2022

Note: CoStar samestore rents are for professionally managed marketrate apartments in buildings with five or more units. Homeprices in 2022q4 reflect data for October and November only.
Source: JCHS tabulations of CoStar data; S&P CoreLogic CaseShiller US National Home Price Index.

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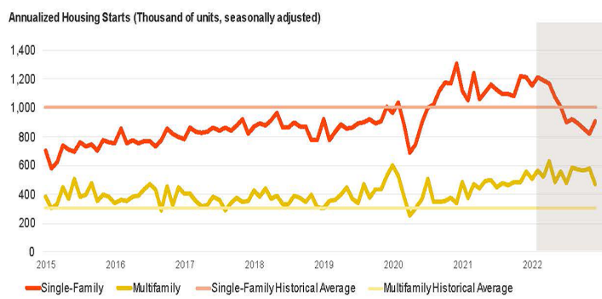
Figure 2: While Single -Family Construction Has Turned Down Sharply, the Pace of Multifamily Building Has Not Yet Slowed



Note: Singlefamily and multifamily historical averages are of seasonally adjusted monthly data from January 1990 to September 2022.
Source: JCHS tabulations of US Census Bureau, New Residential Construction data.

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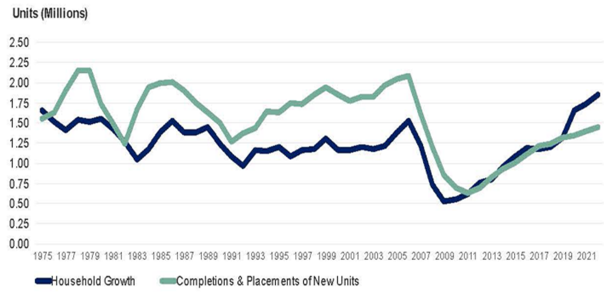
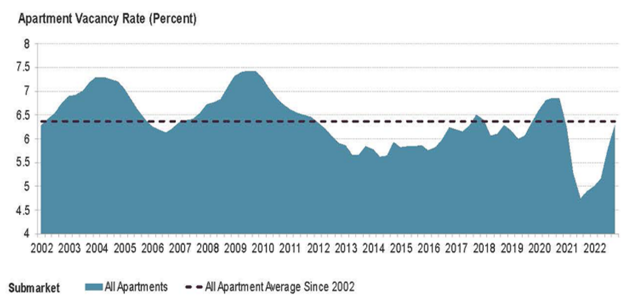
Figure 3: Housing Construction Has Struggled to Keep Pace with Household Growth for a Decade and Fell Further Behind in the Pandemic



Notes: Household growth data are threeyear trailing averages. Placements refers to newly built mobile homes placed for residentuse.
Source: JCHS tabulations of US Census Bureau Housing Vacancy Survey, New Residential Construction data.

Joint Center for Housing Studies of Harvard University JCHS

Figure 4: Vacancy Rates Have Retreated From Historic Lows but the Market Remains Fairly Tight



Notes: Urban/suburban areas are based on density in the 54 largest markets that CoStar tracks. Prime submarkets have the highest rents..
Source: JCHS tabulations of CoStar data.

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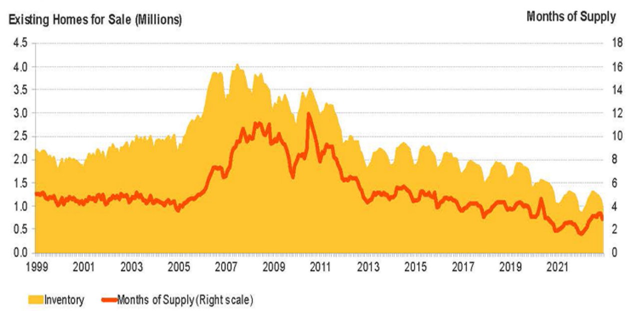
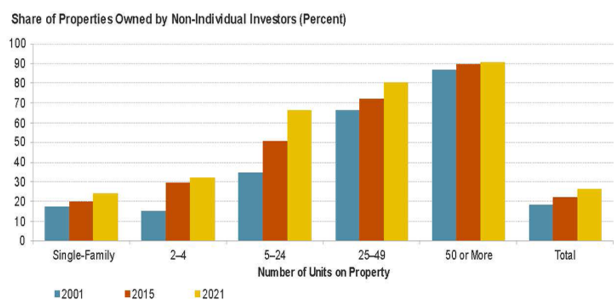
Figure 5: The Supply of Homes on the Market Has Increased Since Early 2022 but Remains Well Below Normal Levels



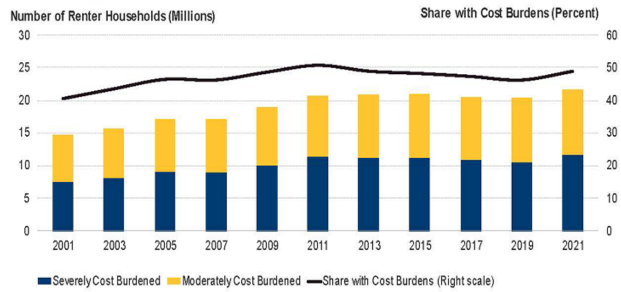
Note: Months of supply measure how long it would take homes on the market to sell at the current rate, where six months typically considered a balanced market.
Source: JCHS tabulations of NAR, Existing Home Sales.

Figure 6: Non-Individual Investors Own a Growing Share of Rental Properties



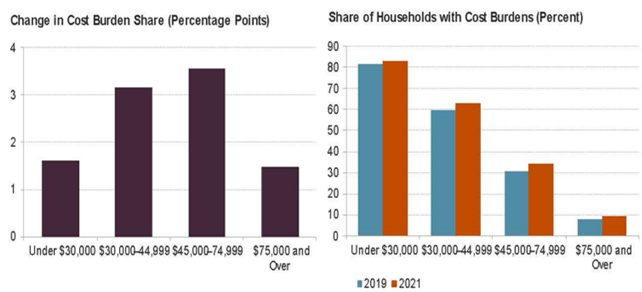
Note: Non-individual investors include partnerships, trustees for estate, real estate corporations, Real Estate Investment Trusts, nonprofit organizations, and other entities.
Source: JCHS tabulations of HUD, Rental Housing Finance Surveys. Data for 2021 are preliminary and subject to change.

Figure 7: The Number of Cost -Burdened Renter Households Reached a Record High in 2021



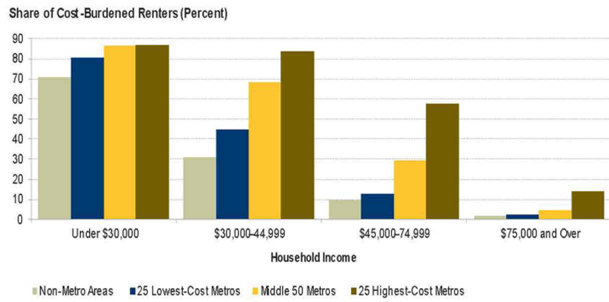
Notes: Moderately (severely) cost-burdened households pay more than 30% (more than 50%) of income for housing. Households with zero or negative income are assumed to have burdens, while households paying no cash rent are assumed to be without burdens.
Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates.

Figure 8: Renter Cost Burdens Increased Across All Income Levels in 2021 but Were Largest among Middle -Income Groups



Notes: Moderately (severely) cost-burdened households pay more than 30% up to 50% (more than 50%) of household income for housing. Households with zero or negative income are assumed to be severely burdened, while households paying no cash rent are assumed to be unburdened. Household incomes are inflated to 2021 dollars using CPI-U All Items.
Source: JCHS Tabulations of US Census Bureau, 2019 & 2021 American Community Survey 1-Year Estimates.

Figure 9: In Expensive Rental Markets, Even Middle -Income Households Face Elevated Cost Burdens



Notes: Costburdened households pay more than 30% of their income on housing. Households with zero or negative income are assumed to have burdens, while households paying no cash rent are assumed to be without burdens. In metro areas, only the 100 largest metro areas are shown, categorized by the median gross rent.
Source: JCHS tabulations of US Census Bureau, 2021 American Community Survey 1-Year Estimates and Missouri Census Data Center.

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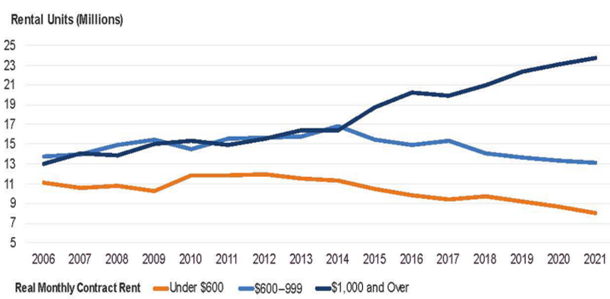
Figure 10: Strong Growth in High -Cost Rentals Has Coincided with Dramatic Declines in Low -Cost Units



Notes: Rental units may be occupied, vacant for rent, or rented but unoccupied; excludes units occupied without cash rent. Dollar values are adjusted for inflation using the CPI-U for All Items Less Shelter. Contract rent excludes all utilities paid separately. 2020 values are interpolated.
Source: JCHS tabulations of US Census Bureau, American Community Survey 1-Year Estimates via IPUMS USA.

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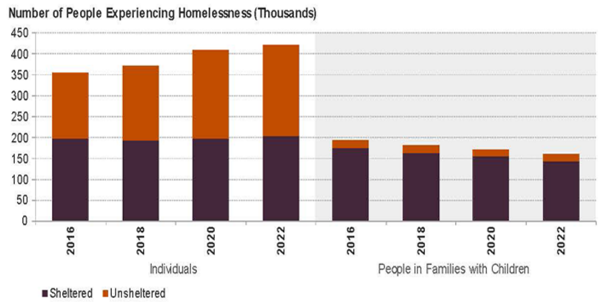
Figure 11: The Number of Unsheltered Homeless Individuals Has Increased Dramatically Since 2016



Notes: People experiencing homelessness in families with children have at least one adult age 18 or over and at least one child under 18. Point-in-time estimates are conducted in January, so the 2020 estimates are pre-pandemic estimates.
Source: JCHS tabulations of HUD, Annual Homeless Assessment Report Point-in-Time Estimates.

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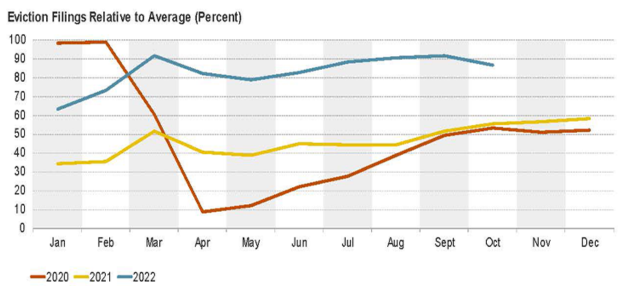
Figure 12: Eviction Filings Are Near Historic Averages Following the Expiration of Pandemic Relief Measures



Note: Data include eviction filings in 6 states and 31 cities. Averages are from 2000-2016.
Source: JCHS tabulations of Eviction Lab, Eviction Tracking System through October 31, 2022.

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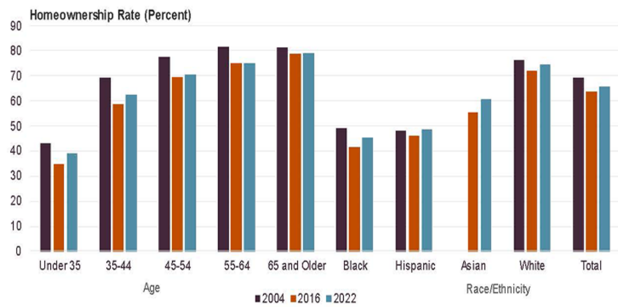
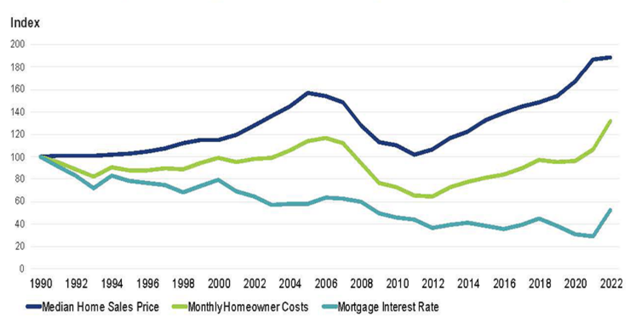
Figure 13: Homeownership Rates Have Rebounded from Post-Recession Lows but Remain Well Below Previous Highs



Note: Hispanics may be of any race.
Source: US Census Bureau, Housing Vacancy Survey.

Figure 14: Rising Interest Rates Have Dramatically Increased Monthly Cost of Owning After Long Period of Relatively Favorable Affordability



Notes: House prices and monthly homeowner costs are adjusted to 2020 dollars using the CPI-U for All Items less shelter. Monthly homeowner costs assume a 3.5% downpayment on a median-priced, existing single-family home (including condos and coops); property taxes of 1.15%, property insurance of 0.35%, and mortgage insurance of 0.85%.
Source: JCHS tabulations of Moody's Analytics estimates; US Census Bureau, Current Population Surveys; and Freddie Mac, Primary Mortgage Market Surveys.

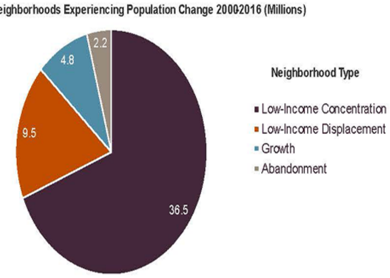
Figure 15: Recent Interest Rate Hikes on Top of Rapid Price Increases Have Greatly Eroded Homebuyer Affordability

	April 2021	April 2022	July 2022	Dec 2022
Interest Rate (Percent)	3.06	4.98	5.41	6.36
Median Home Price (Dollars)	340,700	391,200	403,800	366,900
Downpayment & Closing Costs	22,100	25,400	26,250	23,800
Monthly Mortgage Payment	1,400	2,020	2,190	2,200
Total Monthly Owner Costs	2,060	2,780	2,970	2,910
Annual Income Needed	**$79,600**	**$107,600**	**$115,000**	**$112,600**

Note: Estimates assume 3.5% downpayment on a 30-year fixed rate loan with zero points, 0.85% mortgage insurance, 0.35% property taxes, 1.15% property taxes, 3% closing costs, and a maximum 31% debt to income ratio.
Source: JCHS tabulations of Freddie Mac, Primary Mortgage Market Surveys; NAR, Existing Home Sales.

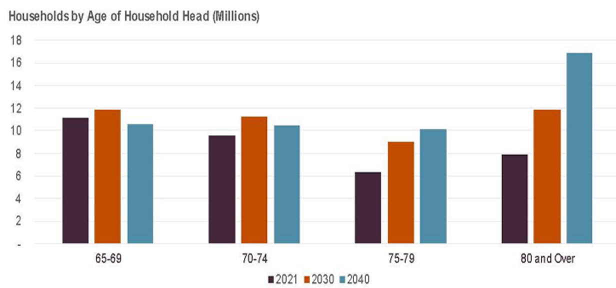
Figure 16: Between 2000 and 2016 Neighborhood Decline Was More Common than Gentrification

Number of Residents in Neighborhoods Experiencing Population Change 2000-2016 (Millions)



Note: Neighborhood change based on change in population above and below 200 percent of the federal poverty line. See entire study for detailed definition of categories of neighborhood change.
Source: Institute on Metropolitan Opportunity (2019), "American Neighborhood Change in the 21st Century." Research Report: https://www.law.umn.edu/sites/law.umn.edu/files/metro-files/american_neighborhood_change_in_the_21st_century_-_full_report_-_4-1-2019.pdf

Figure 17: The Number of Households Headed by Someone Age 80 or Over Will Double by 2040



Note: Projections use Census 2017 population projections with low immigration scenario. Projections have been re-benchmarked with 2021 actual population.
Source: JCHS household projections.

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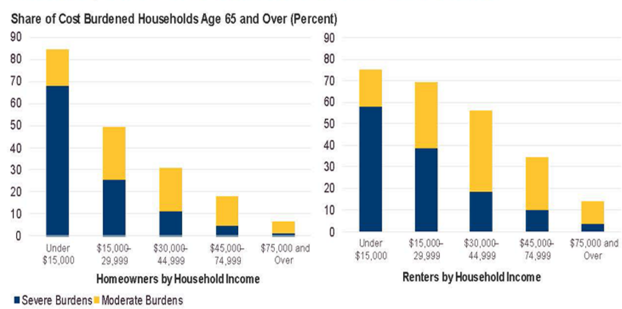
Figure 18: Lowest -Income Older Owners and Renters are Highly Cost Burdened , but So Too Are Moderate-Income Older Renters



Note: Moderate (severe) cost burdens are defined as housing costs of 30-50% (more than 50%) of household income. Households with zero or negative income are assumed to be severely burdened, while renters not paying cash are assumed to be unburdened.
Source: JCHS tabulations of US Census Bureau, 2021 American Community Survey 1-Year Estimates.

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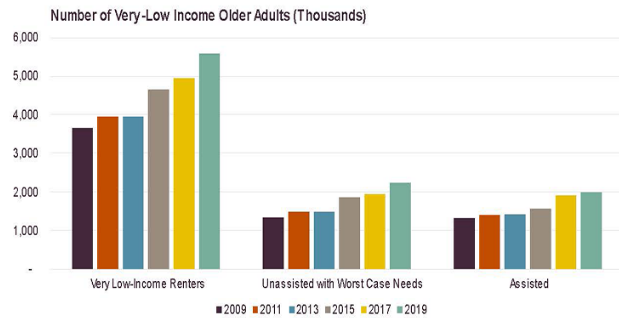
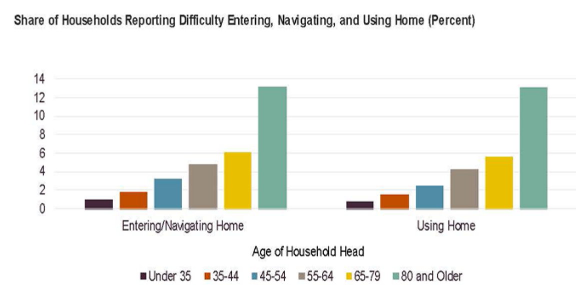
Figure 19: The Number of Very-Low Income Older Renters with Worst Case Housing Needs Has Been Increasing Sharply



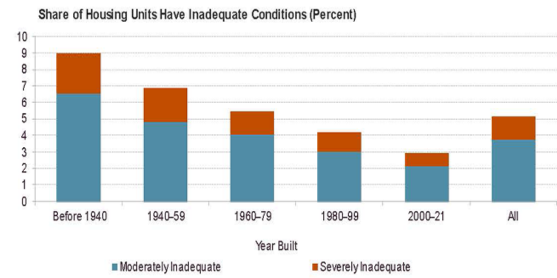
Notes: Older adults are age 62 and over. Unassisted with severe problems have severe cost burdens, live in severely inadequate housing, or both. Very low income older adults earn below 50 percent of area median income.
Source: JCHS analysis of Table A-5A, Worst Case Housing Needs Reports to Congress 2009-2021.

Figure 20: Older Households Are More Likely to Report Difficulties Entering, Navigating, and Using Their Homes



Note: Difficulties entering, navigating, and using the home without assistance are the result of a condition other than a temporary injury and apply to occupants over 6 years old.
Source: JCHS tabulations of HUD, 2019 American Housing Survey.

Figure 21: Housing Inadequacy is More Common in Older Homes



Notes: Housing inadequacy refers to a variety of structural deficiencies, such as large holes and leaks or the absence of basic features such as plumbing, electricity, water, or heat. HUD classifies units as moderately or severely inadequate depending on the type and number of these physical problem
Source: JCHS tabulations of HUD, 2021 American Housing Survey.

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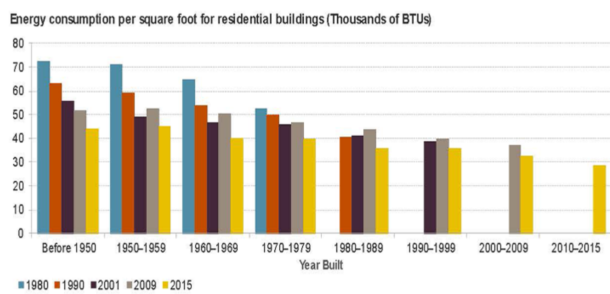
Figure 22: Remodeling Has Helped Improve the Energy Efficiency of the Existing Housing Stock



Source: US Department of Energy, Energy Information Administration, Residential Energy Consumption Survey 1980–2015.

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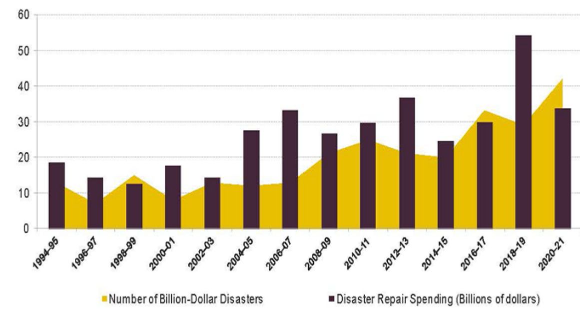
Figure 23: Size of the Disaster Reconstruction Market Has Grown with More Frequent and Severe Storms



Notes: Billion-dollar disasters are events that generate over $1 billion in damages after adjusting for inflation. Disaster repair spending is to owner-occupied homes.
Source: JCHS tabulations of NOAA, US Billion-Dollar Weather and Climate Disasters; and HUD, American Housing Surveys.

PREPARED STATEMENT OF ROBERT DIETZ

CHIEF ECONOMIST AND SENIOR VICE PRESIDENT FOR ECONOMICS AND HOUSING POLICY, NATIONAL ASSOCIATION OF HOME BUILDERS

FEBRUARY 9, 2023

Introduction

Chairman Brown, Ranking Member Scott, I am pleased to appear before you today on behalf of the National Association of Home Builders (NAHB) to share our views on the state of housing and the barriers our industry faces to increase the production of quality, affordable housing. My name is Robert Dietz, and I am the Chief Economist and Senior Vice President for Economics and Housing Policy for NAHB.

NAHB represents more than 140,000 members who are involved in building single-family and multifamily housing, remodeling, and other aspects of residential and light commercial construction. NAHB's members construct approximately 80% of all new housing in the United States each year.

The primary and persistent challenge of the housing market in 2023 is a lack of attainable, affordable housing in the single-family and multifamily markets, both for-rent and for-sale. The fundamental cause of this housing challenge is a lack of construction during the decade prior to the coronavirus pandemic that began in 2020.

The causes of this underbuilding are multifaced and complex. These supply-side headwinds, which I have denoted as the 5 L's (labor, lots, lumber/materials, lending for development/construction, and legal/regulatory barriers) limited the amount of housing placed in service, producing declines for housing affordability. The brief and now completed housing boom of 2020 and 2021 illustrated these limits as housing construction increased due to historically low interest rates, but prices for lumber skyrocketed, lot supplies dwindled, and the skilled labor shortage intensified.

Despite the increase in construction during the post-pandemic period, a structural deficit of housing persists. Recent NAHB research places this deficit at 1.5 million residences using 2021 data[1]. This structural deficit is a mismatch between the size of the population in the U.S. and the available housing stock, which is determined by the volume of residential construction. Solving the fundamental challenges of the home building sector – primarily the lack of attainable, affordable housing in both the single-family and multifamily markets -- will be a significant undertaking, requiring policy action at all levels of government. NAHB's research finds that there is no simple, scalable solution that will provide the supply necessary to eliminate this deficit and improve overall housing affordability conditions. Productive action will need to be taken to address all the limiting factors on the often neglected supply-side of the industry.

Congress Can Ease the Nation's Housing Affordability Crisis

Improving housing affordability for renters and home buyers will help to fight inflation. With this goal in mind, Congress should pass legislation that will help the home building industry increase much needed housing supply. The lack of skilled labor, the high cost of building materials, challenging access to affordable construction financing, burdensome federal regulations, and local land use policies that restrict home and apartment construction are the main drivers of low housing supply and high housing costs. Passing legislation to alleviate these supply-side bottlenecks would increase home construction, expand housing inventory, and lower inflation. If action on these issues is delayed however, housing costs, which are roughly 40% of the Consumer Price Index, will continue to be persistent drivers of inflation, as well remain as a burden on American families.

[1] https://eyeonhousing.org/2022/12/the-size-of-the-housing-shortage-2021-data

Housing Affordability Is a Major NAHB Priority

Safe, decent, and affordable housing provides fundamental benefits that are essential to the well-being of families, communities, and the nation. For these reasons, housing affordability is NAHB's top advocacy issue. NAHB has called on Congress and the Administration to make housing affordability a national policy priority. Likewise, federal, state, and local officials should work in partnership with the private sector to help hard-working Americans purchase or rent affordable homes. Through these actions, we will also create jobs and move the economy forward.

NAHB's research shows that housing affordability in the single-family market is at its lowest level since NAHB began tracking it on a consistent basis in 2012 as rising mortgage rates, ongoing building material supply chain disruptions, high inflation and elevated home prices pushed the housing market into a recession. According to the NAHB/Wells Fargo Housing Opportunity Index (HOI), just 38.1% of new and existing homes sold between the beginning of October and end of December 2022 were affordable to families earning the U.S. median income of $90,000[2].

Owning or renting a suitable home is increasingly out of financial reach for many households. According to Harvard's Joint Center for Housing Studies, in 2020, the nationwide share of cost-burdened households paying more than 30% of their incomes for housing stood at 30%. Moreover, 14% of all households were severely burdened and spent more than half their incomes for shelter[3].

As a nation, we can and must do better. American home buyers and renters at all socioeconomic levels should have a choice in securing safe, decent, and affordable housing in quality neighborhoods. Low -and moderate-income families, including members of the armed forces, teachers and first responders, should be able to afford to live in a home or apartment in the communities they serve. NAHB strongly believes that increasing the inventory of new single-family and multifamily housing is a key to improving housing affordability. Builders simply have not been able to construct the necessary number of units to balance the supply and demand for affordable housing.

Factors that Affect Housing Affordability

Ongoing job creation and solid household formations are driving strong demand for housing. Unfortunately, rising costs are constraining builders' ability to construct new homes and apartments at affordable prices to meet the demand. NAHB believes that an insufficient supply of housing is at the root of much of the affordability crisis.

Several supply-side factors account for the increased building costs and insufficient supply of new housing, such as regulations, availability of buildable lots, lack of skilled labor, cost of building materials and financing expenses. These costs are having a direct negative effect on housing affordability. NAHB's "Priced Out" Estimates for 2022 show that 117,932 households would be priced out of the housing market if the median U.S. new home price rises by $1,000.[4]

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[2] https://www.nahb.org/news-and-economics/press-releases/2022/11/housing-affordability-falls-to-more-than-10-year-low-as-rising-interest-rates-take-a-toll

[3] https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_State_Nations_Housing_2022.pdf

[4] https://www.nahb.org/-/media/05E9E223D0514B56B56F798CAA9EBB34.ashx

As a benchmark, 87.5 million households (roughly 69% of all U.S. households) are not able to afford a new median priced new home. Similarly, an analysis using 2018 data found that a $1,000 increase in the cost of building a new rental unit will price out almost 20,000 renters for that apartment;[5] the household would be rent-burdened after the rent increase, but not before.

In order for developers who plan to build new single-family homes or apartments to move ahead with a project, they must be sure that there is demand for new housing in the local market area and that they can build homes buyers or renters can afford. A developer must demonstrate that these factors can be achieved in order to obtain financing.

Additionally, multifamily developers cannot secure financing unless they can demonstrate to lenders that the rents will be sufficient to cover costs and pay off the loans. The builder/developer needs the mortgage to construct the property, and the loan underwriting requires rents that produce enough revenue to pay the mortgage. If the builder/developer cannot charge the rents that are necessary to pay back their construction loans, cover costs and ensure the properties are financially sustainable over the long term, the deal is infeasible, and it simply will not be done. This dynamic explains why the majority of new multifamily construction over the past several years has been limited to luxury properties in strong markets.[6]

The single-family market presents similar challenges to building for low- to moderate-income home buyers. Construction costs are high, and interest rates are increasing, which leaves many low- and moderate-income buyers on the sidelines, unable to afford new homes. If the builder cannot sell the new homes at the projected price points, he or she faces considerable financial losses.

I cannot stress enough that the shortage of new housing units affordable to low- and moderate-income families reflects market realities, not a lack of interest in serving low- to moderate-income renters and home buyers. Builders and developers would be glad to serve families at all income levels if they could simply make the numbers work.

Unfortunately, it is impossible to build new apartments affordable to low-income families without some type of government assistance to increase equity, such as the Low-Income Housing Tax Credit, financing via the tax-exempt bond programs or deep rental subsidies.

Historic Background – How Did We Get Here?

Home building in the 2010s was a story of the Long Recovery. After the Great Recession, the number of home builders declined significantly and the availability of financing for acquisition, development and construction (AD&C) activities was severely constrained. These factors significantly limited the production of new housing at a time when housing demand was increasing. This underproduction of new homes caused a structural housing deficit in the U.S., which NAHB estimates to be 1.5 million residences. This deficit of housing in the United States continues to exist because of persistent supply-side headwinds for builders, creating a critical housing affordability challenge for renters and home buyers.

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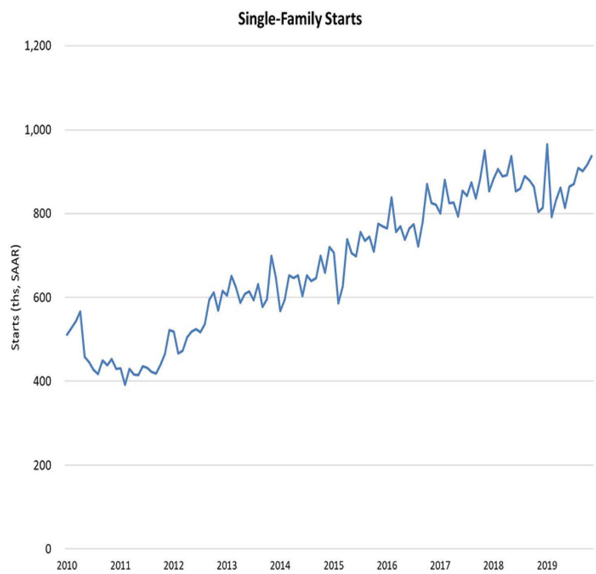
[5] Based on the 2018 median rent of $2,189, a $1000 increase in the cost of building a new apartment unit would price out 19,617 renters.

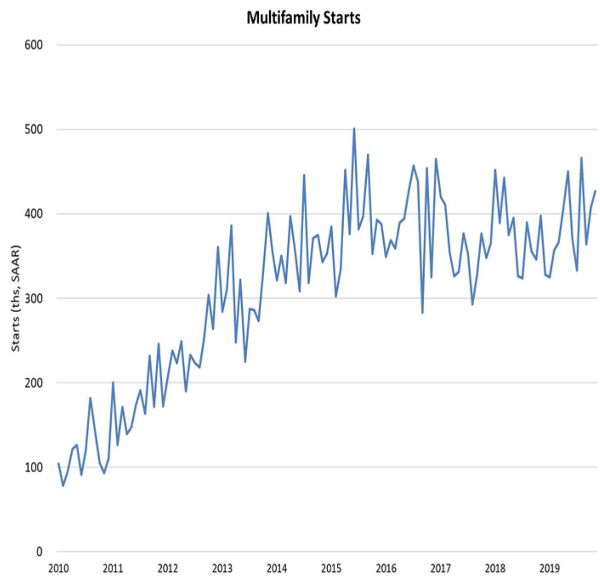
[6] Only 6% of the unfurnished apartments completed in 2017 has asking rents under $850 per month. U.S. Census Bureau, Characteristics of Apartments.

The Housing Market Conditions of 2010-2019

Between 2010 and the end of 2019, there were 6.8 million single-family housing starts. That total included 1.53 million custom home building starts; 827,000 townhouses starts (single-family attached); and 300,000 single-family built-for-rent (SFBFR) starts. More than half (54%) of single-family starts occurred in the South region, and nearly a quarter (23%) were in the West. The Midwest and Northeast regions accounted for 15% and 8% of starts, respectively. Overall, single-family starts grew modestly over that period of time. That expansion was curbed by occasional soft patches, the first occurring in mid-2010 with the cessation of the stimulus era home buyer tax credit.



Multifamily starts during the 2010s totaled 3.1 million. Most (2.98 million) were built in properties of five or more units, while just 123,000 were in 2- to 4-unit buildings. Only 7% (229,000) were built-for-sale condos, compared to a historical average share of 20%. The overall multifamily building sector peaked in 2015 and then leveled off in succeeding years.



Remodeling activity expanded in the 2010s, though it slowed in 2019 with the declines in existing home sales. Approximately 150 million home remodeling projects occurred during the decade. Total spending on improvements made by remodelers to existing, owner-occupied homes eclipsed $1.5 trillion.

The home building declines of the Great Recession had a large impact on the industry's labor force. The sector suffered a net loss of 1.5 million jobs between 2005 and 2010. After reaching a low point in 2011, employment in the industry slowly increased with nearly 940,000 net jobs by the end of 2019, further illustrating what the housing industry means to the U.S. economy.

In terms of overall economic impact, the home building component of Gross Domestic Product, residential fixed investment (RFI), totaled 3% of GDP over the last decade. This share accounted for approximately $5 trillion of economic activity from 2010 through the end of 2019. There was a significant amount of underbuilding during 2010-2019 compared to prior decades. Consider the following decade-based totals for single-family home construction:

1960s: 9.3 million starts

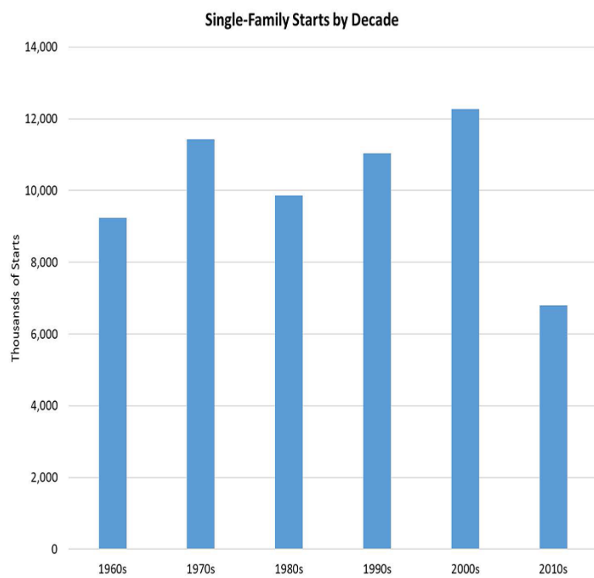
1970s: 11.4 million starts

1980s: 9.9 million starts

1990s: 11.0 million starts

2000s: 12.3 million starts

2010s: 6.8 million starts



The reduced amount of single-family home construction over the last decade is even more striking when considering the U.S. population has continued to increase over time. For example, here are the production numbers as measured in terms of starts per million population (averaged over the decade).

1960s: 47,997 starts

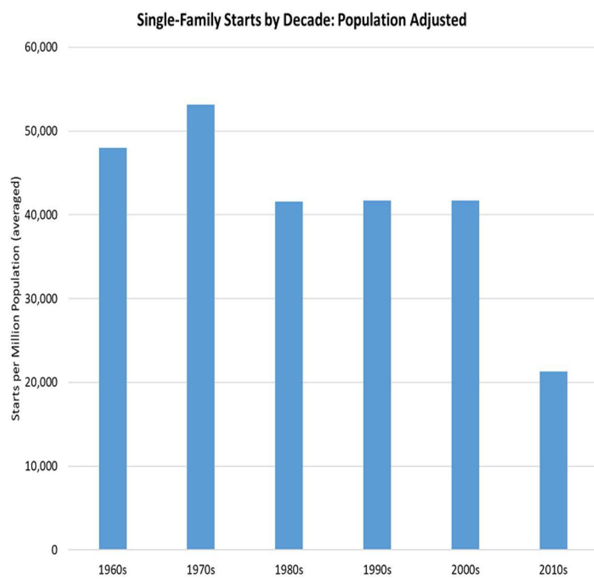
1970s: 53,138 starts

1980s: 41,588 starts

1990s: 41,710 starts

2000s: 41,671 starts

2010s: 21,288 starts



After a downshift following the Baby Boomer induced single-family home construction wave of the 1970s, the population-adjusted pace of single-family construction was remarkably constant, despite year-to-year ebbs and flows. In fact, over the period of 1980 through the end of the 2000s, single-family construction averaged just higher than 41,000 starts per million of population. The 2010s stand out as the exception to this general benchmark, with single-family construction operating near 50% of this pace following the demand-side and supply-side impacts of the Great Recession.

Why Were the 2010s Different?

It is tempting to attribute the relative construction weakness over the last decade to purely demand-side variables, namely the residual uncertainty caused by the Great Recession and a falloff in demand due to the smaller size of Generation X. Clearly, reduced demand compared to decades past had an important role in holding back home building, particularly in the first half of the decade, but this occurred during a period of rapid price growth. The low levels of production also occurred with falling vacancy rates, declining housing affordability, and rising building costs. These supply-side headwinds held back home construction in the 2010s and resulted in a net housing deficit for the U.S.

Consider population growth over the last decade. The U.S population expanded by more than 20 million during the 2010s. While this represents a slower rate of growth than that of the 2000s (with a gain of more than 24 million), this increase still marks a solid level of demand for new home construction with a gain of approximately 10 million households.

End of Homeownership Declines

Despite the country's ever-growing population, the momentum for housing demand was primarily within the rental market during the first half of the decade. The homeownership rate fell from 67.1% at the start of the decade to a post-recession low of 62.9% during the second quarter of 2016. As a result of this demand environment, multifamily construction was the first sector of the industry to recover to relatively normal conditions, which were achieved in construction terms by 2015.

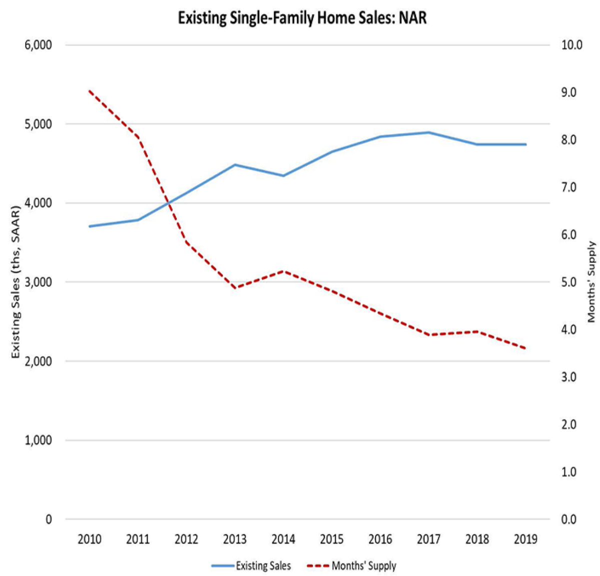
During the second half of the decade, the homeownership rate rebounded to 64.8% by the third quarter of 2019. This is higher than many expected, as some analysts had forecasted the rate slipping below 60% due to national demographic changes and faltering demand for for-sale housing due to the Great Recession. However, NAHB consumer preference surveys from earlier in the decade showed homeownership had remained a goal for most households.

Interest Rates Impacts on Affordability

While the general preference for homeownership remains solid, the impact of housing cost is key. And the cost of buying a home depends on a number of factors, including interest rates. For much of the past decade, accommodative monetary policy supported low mortgage interest rates. For example, from late 2008 until late 2015, the Federal Reserve held the key federal funds rate near 0%. From 2012 until the passage of the tax reform law of 2017, mortgage rates remained near 4%. A notable rise in rates, which caused a soft patch for housing, occurred with the "taper tantrum" of 2013, as rates increased due to the announcement by the Federal Reserve that it would reduce the scale of bond purchases as a part of ending Quantitative Easing. The negative bond market reaction was a sign that financial markets were sensitive to monetary policy changes, an outcome that would repeat again in 2018 and foreshadow the large negative impacts for housing affordability in 2022.

Years of population and household formation growth, combined with relatively reduced levels of home building, have left the market with a critical supply shortage. As estimated by the National Association of Realtors (NAR), existing home sales growth has lagged while inventory declined. In fact, as of December 2022, inventory now stands at a still critically low 2.9-month supply, where a 6-month supply would represent a balanced market (although there are good arguments that the 6-month benchmark is somewhat too high in today's marketplace).

The following graph notes how the NAR measure of months' supply inventory plunged during the prior decade as home construction lagged. This set the market up for substantial scarcity when interest rates declined after the initial weeks of the COVID-19 pandemic, leading to a surge in home prices.



Builder Optimism

Low resale inventory and generally healthy economic conditions — including the longest economic expansion in American history — lifted builder sentiment during the prior decade. At the start of the decade, builder confidence, as measured by the NAHB/Wells Fargo Housing Market Index (HMI), was just 15 on a 100-point scale (any score below 50 indicates the majority of builders are reporting poor market conditions). Confidence increased to 25 at the start of 2012, as the post-stimulus era recovery for home building began.

By June of 2013, the HMI finally exceeded a level of 50, the first time since the Great Recession. In 2014, the HMI briefly fell below 50, as a result of the taper tantrum and housing soft patch of 2013-2014. After that slight decline, the HMI trended higher due to lack of market supply and declining interest rates. The HMI reached a level of 72 at the start of 2018.

As noted earlier, a challenging period occurred in late 2018, prior to the stock market declines at the end of the year, as the HMI fell from 69 in October to 56 in December. This was a clear sign that the Federal Reserve policy of higher rates, and the corresponding rising risk of a recession, was a concern for the building industry. But over the course of 2019, the HMI increased on lower rates, reduced macro concerns, and positive labor market conditions. In December, the index reached a level of 76, the highest reading since the summer of 1999. The industry was confident, but that level of sentiment did not translate into substantial increases for home construction.

Matters of Supply and Demand

The paradox of declining inventory, rising home prices, and underperforming single-family construction has been the most important home building research focus of the last decade. Traditional demand-side housing analyses are insufficient to explain these market conditions. The lack of building is rooted in a set of supply-side headwinds that limit home construction in expanding markets.

Since 2015, NAHB's explanation and forecasts have referred to this complex set of limiting factors as the five Ls: lack of labor, lots/land, lumber/materials, lending for builders, and laws/regulatory burdens. No single factor alone can sufficiently explain the housing supply equation of the last decade. And to a certain degree, the challenges offered by this set of issues are rooted in consequences of the Great Recession on the structure, organization, and enforced policies on the housing industry in the 2010s. Some details on each are useful for understanding the challenges of the 2010s.

Labor —Residential construction faces a persistent labor shortage, which has resulted in higher costs and longer construction times. The effort to replace the 1.5 million workers lost during the Great Recession has been difficult. In fact, the skilled labor shortage has been cited as either the No. 1 or No. 2 business-related challenge for builders stretching back to 2015.

As hiring has progressed and many organizations in the housing sector have enacted programs to recruit, train and retain workers in the home building and remodeling sectors, the pace of those efforts has not kept up with demand. As of the end of 2022, there were 413,000 open jobs in the construction sector. And for the last six years, the open jobs rate has been higher than the peak rate during the building boom of the last decade— a clear sign of the ongoing labor shortage in home building.[7]

Land — Access to land and lots for building has also limited aggregate building volume since 2012. As of the Fall of 2021, almost eight out of ten home builders indicated that lot supplies were low or very low[8]. Low lot supplies are due to a reduced number of land development companies, as well as tighter rules regarding zoning for housing and land development.

Lumber and materials — Lumber price volatility and access and cost of other building materials have also acted as a headwind for home construction. For example, in 2018 lumber prices expanded by 63% at their peak, adding thousands of dollars to the cost of a typical newly built home. And of course, all housing analysts are aware of what happened to lumber prices after the pandemic resulted in a surge of housing demand, increasing from roughly $350 per thousand board feet to more than $1,500, adding tens of thousands of dollars of cost to the price of a typical home[9].

Lending — Access to builder and developer financing is also a key ingredient for housing supply. Discussions of housing and lending are often exclusively focused on mortgage financing, but a buyer cannot buy a home before financing is ready for construction. Typically, small and regional builders rely on debt financing from banks. Such acquisition, development and construction (AD&C) lending was improving but tight in the 2010s[10].

Laws and regulations — Finally, regulatory burdens increased during the 2010s. NAHB analysis finds that approximately 24% of the price of a typical newly-built single-family home is due to the broad set of regulatory burdens imposed by state, local and federal governments[11]. Moreover, between 2011 and 2016, such costs increased by 29%, faster than inflation and economic growth. Such burdens are high for apartment construction as well, as an updated joint study by NAHB and the National Multifamily Housing Council found that up to 41% of apartment costs are due to regulatory costs[12].

A Perfect Storm

The prior decade legacy of what Federal Reserve Chair Jerome Powell referred to as a "perfect storm" for home builders in terms of the supply-side headwinds and the impacts of the Great Recession have resulted in years of underbuilding, declines for vacancy rates, and increasing housing affordability burdens.

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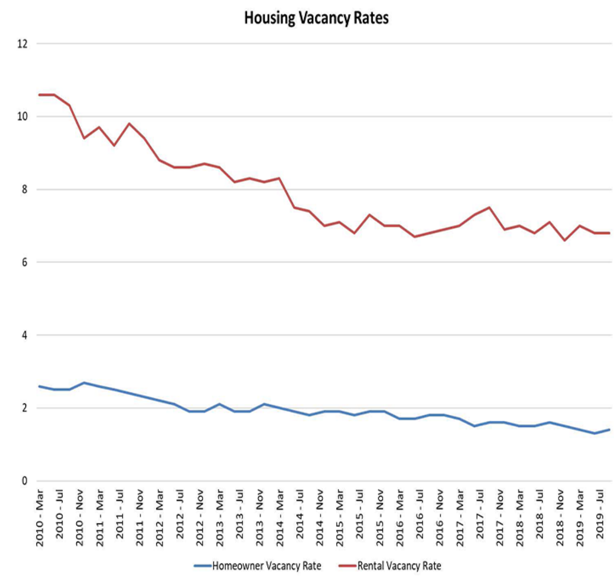
[7] https://eyeonhousing.org/2023/02/uptick-for-construction-job-openings-in-december/
[8] https://eyeonhousing.org/2021/10/problems-with-lot-availability-worse-than-ever/
[9] https://eyeonhousing.org/2022/02/lumber-prices-in-2020-and-2021-set-record-highs-even-when-adjusted-for-inflation/
[10] https://eyeonhousing.org/2022/11/credit-conditions-for-builders-and-developers-continue-to-worsen/
[11] https://eyeonhousing.org/2021/05/regulation-now-accounts-for-93870-of-the-average-new-home-price/
[12] https://www.nahb.org/news-and-economics/press-releases/2022/06/new-research-shows-regulations-account-for-40-point-6-percent-of-apartment-development-costs



For example, the vacancy rate for for-sale housing at the start of 2010 was 2.6% per Census data, and ended the decade near 1.4%. The decline was even larger for rental properties, which started the decade with a 12.2% vacancy rate and ultimately declined to 6.8% by the end of 2019.

These declines point to the degree of underbuilding of housing for the U.S. in the 2010s. A 2023 NAHB analysis found that the country is short 1.5 million total homes due to building conditions over the last decade. Other estimates are larger. Freddie Mac places the total close to 4 million.

Lack of supply increased affordability challenges over the 2010s. According to the NAHB/Wells Fargo Housing Opportunity Index (HOI) approximately 79% of new and existing home sales were affordable for the typical family in 2012 (the start of the new HOI benchmarking). As of the third quarter 2019, that share had fallen to 64%. When interest rates were higher in late 2018, the HOI was near a decade low at 57%.

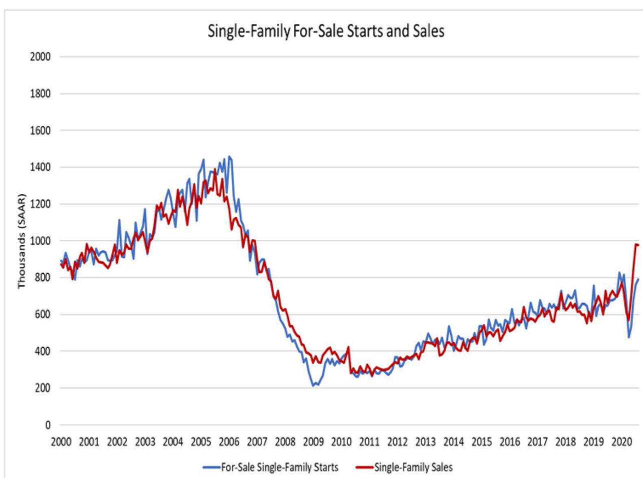
The Impact of Covid – Home Building Dynamics Since 2020

Given the underbuilding of the 2010s, home building looked forward to a dynamic decade in 2020s. Despite an increasing amount of attention given to Millennials, it was expected that about half of newly-built homes will be built for members of the generally overlooked Gen X (the latchkey kids become turnkey construction buyers). And Gen Z would enter apartment markets in greater numbers as this younger generation produces new households. Policy was expected to play a critical role. From supporting and expanding the LIHTC, to improving access to affordable rental housing, as well as improving land use and zoning decisions to increase housing supply, and offering additional workforce development resources, housing issues are at the forefront of community development.

No one expected what happened next. But the root causes of the last three years for housing were set in place by the housing market conditions of the 2010s. As a result of the covid pandemic, economic policy and consumer preferences shifted. Mortgage interest rates plummeted, falling to a historic low of 2.65% in January 2021. Prospective home buyers, who in larger numbers were working from home at least a few days a week, wanted more space and, due to changes in commuting patterns, were willing to seek out housing farther from urban cores.

Consequently, after a sharp decline in the spring of 2020 due to covid-era uncertainty, home building staged a dramatic rebound. In fact, supported by low mortgage rates, an evolving geography of housing preferences, and favorable demographic tailwinds, housing demand improved so quickly that the current difference between the pace of newly-built single-family home sales and for-sale single-family construction starts has reached a historic level, with sales outrunning the ability to build the homes. This change in demand confirmed the structural, supply-side limitations impeding housing supply.

Nonetheless, housing supply increased in response to the new era of demand. After reaching 682,000 in 2019, new home sales jumped to 821,000 in 2020 and remained strong at 771,000 in 2021. Sales fell back in 2022 to 645,000 due to declining affordability conditions. Single-family construction starts struggled to keep pace. Single-family starts totaled 888,000 in 2019, the best year since the Great Recession. Construction starts increased to 991,000 in 2020. Note that sales in 2020 increased by 20%, while starts lagged with a gain of just 12%. More building was needed to align starts and sales. In 2021, single-family construction starts increased to 1.13 million. And then, with the impact of higher interest rates, starts fell back to approximately 1 million. An additional decline is expected this year as sales have fallen in 2022.



And the geography of the demand has shifted multiple times over this period. First to lower density markets, such as exurbs, outer suburbs, and rural areas in the immediate aftermath of the pandemic. Then demand shifted back into the inner suburbs as metro areas reopened. And now back out to lower cost, lower density areas as higher mortgage rates (reaching 7.1% in October 2022) priced buyers out of the market. In fact, NAHB estimates that the increase in interest rates in 2022 priced 18 million households out of the for-sale market[13].

Using the NAHB Home Building Geography Index, we can estimate the share of single-family and multifamily construction that occurs by economic geographies (as opposed to state or metro totals). For example, large metropolitan statistical areas (MSA) (more than one million residents) core areas and inner suburbs hold 16.3% of single-family construction and 38.4% of multifamily construction in the third quarter of 2022. Suburbs of large MSAs host 25% of single-family construction and 27.6% of apartment construction. Exurbs of large MSAs hold 9.5% of single-family home building and just 3.6% of apartment construction. Medium-sized cities (MSAs with less than one million of population) contain 38.2% of single-family construction and 26.7% of multifamily construction. And rural areas have 11% of single-family home building and 3.6% of apartment construction.

Multifamily construction increased as well, as household formation jumped during the post-pandemic period. Apartment construction totaled 402,000 in 2019 and fell back in 2020 due to construction delays and the shifting of the geography of demand, to 389,000. Following the increase in single-family construction, multifamily development increased as well, rising to 474,000 in 2021 and 545,000 in 2022. This was the strongest year since 1986. Moreover, the apartment construction pipeline has surged. As of December 2022, there are 943,000 apartment units under construction, the highest total since 1973. As a result, NAHB is expecting apartment construction starts declines in 2023.

Due to this surge in construction activity, the supply-side challenges were revealed. Lumber prices surged. Reports of delays and higher costs of building materials increased, extending construction times. Residential construction material costs increased 36% since the start of 2020. Concerns over low supply of building lots also increased. As a result of these higher construction costs, median new home prices increased from $328,900 in January 2020 to $442,100 in December 2022.

Higher costs, higher prices, higher interest rates and longer construction times all priced out home buyers and cooled the market in 2022. Home builder confidence, as measured by the NAHB/Wells Fargo HMI, fell 12 straight months in a row, settling in at a low level of 31 in December 2022. Due to a recent retreat for long-term interest rates, the HMI increased for the first time in a year in January 2023, rising to 35. There is a sense that builders are expecting a rebound later in 2023, provided supply-side factors ease as well. Nonetheless, additional construction declines are expected for the coming quarter. Multifamily construction will cool due to expected job losses and a wave of apartment completions out of the construction pipeline.

A rebound for single-family construction is coming later in 2023. It will be driven by a sustainable fall back for mortgage rates and the underlying structural housing deficit. Yet, the strength of that recovery will depend on housing affordability conditions for buyers and renters. Watching the homeownership rate will be a key measure of how affordability conditions have changed since 2020. The rate stands at 65.9% at the start of 2023. NAHB expects the rate to decline given the weakening of housing demand in the second half of 2022. Particular attention should

[13] https://eyeonhousing.org/2023/01/how-many-households-are-priced-out-by-higher-mortgage-rates-in-2022

be paid to communities and groups that have lacked access to homeownership in the past. For example, the black homeownership for the fourth quarter of 2022 was 44.9% and for Hispanics 48.5%.

Increasing attainable housing for-sale supply is a key way to address these unequal outcomes. And it is important to recall that homeownership offers critical benefits for communities and families. Homeowners are more active in social and civic activities. And homeowners have, on average, 40 times the wealth of a renter ($255,000 vs. $6,300 in 2019 per the Federal Reserve's 2019 Survey of Consumer Finances). It has become more difficult for younger households to attain homeownership, due in part to the difficulty building entry-level construction. For example, in the year 2000, the homeownership rate for heads of households under age 35 was 41%. By the year 2017, it had fallen to just 35%, before rebounding to 38% in 2021 per Census Bureau estimates.

What's Missing?

Much attention has been given to the missing middle, a useful if somewhat incomplete concept. While the market could certainly use more townhouses and low-rise apartments, the overall housing market is starved for the homes that became the hardest to build in the 2010s due to supply-side headwinds: entry-level, single-family detached homes.

In 2010, 59% of new single-family homes were smaller than 2,400 square feet, per Census data. By 2018, that share declined to 51%. The numbers are starker at smaller sizes. In 2010, 32% of new homes were smaller than 1,800 square feet. That share fell to just 24% by 2021, the latest year for which there is data.

Identifying Solutions to Improve Affordability

Part of the process of the Long Recovery is rebuilding the industry's infrastructure: its labor force and reliable sources of lending and building materials. Policy improvement is needed at all levels of government. Congress can improve housing affordability conditions by passing legislation that will help the home building industry increase much-needed housing supply in this country. Federal and state regulations should be examined for their impact on housing affordability. Communities need to reduce the cost of producing new housing by fighting impact fee increases and enabling building with density where the market demands it. These actions will allow more construction of housing affordable to entry level home buyers and create more equitable housing market.

Conclusion

Whether they rent or own, Americans want to choose where they live and the type of home that best meets their needs. Thank you, Chairman Brown and Ranking Member Scott for convening this important hearing on the state of housing and the barriers our industry is facing to build quality, affordable housing. NAHB stands ready to work with you to achieve thoughtful, effective policies to expand the availability of affordable housing.

PREPARED STATEMENT OF LANCE GEORGE

DIRECTOR OF RESEARCH AND INFORMATION, HOUSING ASSISTANCE COUNCIL

FEBRUARY 9, 2023

HAC
Housing Assistance Council

We help build homes and communities across rural America.

Statement for the Record of Lance George,
Director of Research and Information, Housing Assistance Council
U.S. Senate Committee on Banking, Housing, and Urban Affairs
February 9, 2023

INTRODUCTION

Chairman Brown, Ranking Member Scott, and Members of the Committee, greetings and thank you for this opportunity to testify on the state of housing in rural America. My name is Lance George, and I am the Director of Research and Information at the Housing Assistance Council (HAC).

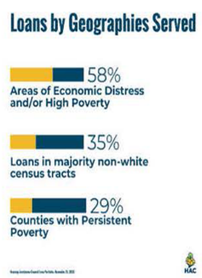
HAC is a national nonprofit that helps build homes and communities across rural America. Founded in 1971, headquartered in Washington, DC, and working in all 50 states, we provide technical assistance to community-based organizations, loans for affordable housing development, and in-depth research on rural community economics. HAC has a specific focus on high-needs rural regions and areas of persistent poverty, including rural Appalachia, Native American communities, the Mississippi Delta and southern Black Belt, farmworker communities, and the Southwest border colonias. Our current lending portfolio is helping to construct, preserve, or renovate over 3,000 homes, spread across 27 states and concentrated in communities of economic distress and majority non-white census tracts with persistently high poverty.

HAC also produces robust research on rural housing, demographics, and poverty, with leading public and private sector institutions relying on HAC's research and analysis to shape policy. We are independent and assiduously nonpartisan and regularly respond to Congressional committees and Member offices with the research and information needed to make informed policy decisions. To learn more, please visit www.ruralhome.org.

If you need to know how a new program or policy could impact America's smallest towns, please do not hesitate to call on us. It is an honor to be here in this capacity today, on a panel alongside two such distinguished experts.

1025 Vermont Ave., N.W., Suite 606, Washington, DC 20005
202-842-8600 hac@ruralhome.org ruralhome.org 202-347-3441


Housing Assistance Council Loans, December 31, 2022
Tenure
For Sale
Rental
Source: Tabulations of HAC Loan Fund Data
HAC


Loans by Geographies Served
58%
Areas of Economic Distress and/or High Poverty
35%
Loans in majority non-white census tracts
29%
Counties with Persistent Poverty
HAC

STATE OF RURAL HOUSING 2023

The people of rural America reside in approximately one quarter of the United States' homes and occupy 97 percent of our nation's landmass. There is immense diversity among its towns and small settlements, yet there is also a set of community and market conditions that tie this vast landscape together.

Rural America represents 18 percent of America's population, but one of every 12 jobs in the American economy is connected in some way to what happens in rural America. It's one of the few parts of our economy that still has a trade surplus. Rural places launch over half of our small businesses, provide nearly all of the fiber and minerals for our industries, and produce nearly all of the renewable and fossil fuels that power our homes, cars, and infrastructure. Rural places hold 88 percent of our clean and renewable water, steward nearly all our natural lands, and manage many of the world's most popular outdoor recreation destinations. Despite these essential roles in the life and economy of the nation, rural places are being systematically starved of investment and opportunity.

With the continuing outmigration of working age residents, rural communities contain larger shares of older residents. Racial and ethnic diversity is also increasing in rural America, as it is throughout the country. These demographic drivers are important bellwethers of housing markets and demand. An older, less mobile, yet more diverse rural population will require housing options and solutions currently not available in many rural communities across the nation. While housing issues from the pandemic are not to be overlooked, far too many rural residents struggled with housing problems and inadequacies for years, if not decades, before COVID-19.

THE PANDEMIC LEFT ITS MARK ON RURAL AMERICA AND HOUSING MARKETS REMAIN UNCERTAIN

The pandemic revealed uneven and tumultuous economic circumstances and labor markets across the nation. These conditions spilled over into the housing world including housing price increases at all-time highs, limited housing supply, and millions in tenuous housing situations of eviction or foreclosure. Supply chain problems and building material shortages have only served to exacerbate these shortages and rising prices.

Many Americans were buoyed by large scale federal unemployment benefits and economic stimulus. Some of that federal investment is still making its way into many rural communities, while other pandemic-related resources have ended. There were, and still are, substantial potential collateral impacts to almost all sectors of the housing market.

Housing instability is particularly concerning for rural renters who typically have lower incomes, less savings, employment uncertainty or safety due to COVID, fewer protections, and less ability to weather economic shocks compared to homeowners. Throughout the pandemic, the U.S.

Census Bureau's Pulse Survey has consistently revealed that renters nationally have been more likely to be behind on their house payments and have had less confidence in their ability to make next month's rent than homeowners.[1]

There are also concerns on the supply side of rural housing markets. Many landlords have declining or uncertain rental income because of policies and adjustments related to the pandemic. Rural housing market dynamics are also distinct in this realm. On one hand, the levels of "free and clear" homeownership without a mortgage are highest in rural America and this could help provide stability for many homeowners during the economic crisis. But rural rental properties tend to be smaller and are also more likely to be owned by individuals who may be less able to weather a loss of rental income than corporations can.

The process of creating a "new normal" has only just gotten underway. It is not yet clear whether the pandemic-induced housing supply shortage will fizzle or will create long-term changes in some rural economies or will land somewhere in between.

WE ARE A NATION OF HOMEOWNERS – ESPECIALLY IN RURAL AMERICA

Owning a home has traditionally been the bedrock of the "American Dream," conveying prosperity, financial security, and upward mobility. The United States is largely a nation of homeowners and homeownership is more prevalent in rural areas. But many rural households still face challenges in accessing, attaining, and affording the purchase of a home. Lack of available stock, high housing costs relative to incomes, and high-cost loans are barriers to homeownership.

In 2020, 64.4 percent of U.S. homes were owner-occupied. This rate is lower than the 2010 homeownership level of 66.6 percent, but homeowner rates have consistently been above 60 percent since the 1960s. In rural and small-town communities, homeownership rates are even higher than the national level. Approximately 16.8 million, or 72 percent of occupied homes in rural communities are owned by their inhabitants. Consistent with national trends, homeownership rates declined slightly between 2010 and 2020.[2]

Rural America also has a higher level of "true homeownership." True homeownership describes homeowners who own their homes without a mortgage. This is often referred to as "free and clear" ownership. Nearly half of rural and small-town homeowners own their properties with no mortgage debt, compared to about 37 percent of all U.S. homeowners.[3] There are several reasons for the higher rate of true homeownership in rural and small town areas. These include the presence of manufactured homes and the age of the residents. Manufactured homes are

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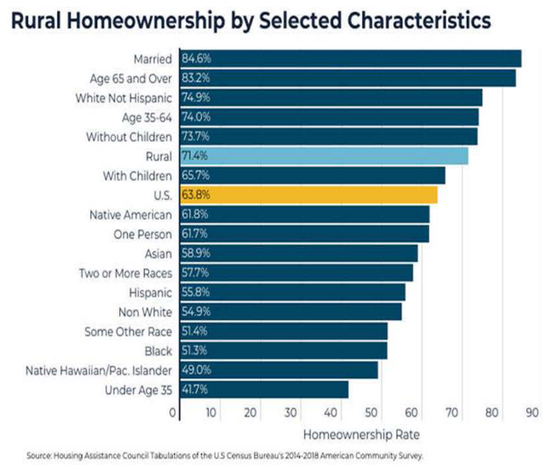
[1] "Measuring Household Experiences during the Coronavirus Pandemic," U.S. Census Bureau, January 5, 2023, https://www.census.gov/data/experimental-data-products/household-pulse-survey.html.

[2] Housing Assistance Council tabulations of the U.S. Census Bureau's 2016-2020 American Community Survey 5-Year Estimates.

[3] Housing Assistance Council, *Rural Research Brief: Homeownership in Rural America*, June 29, 2020, https://ruralhome.org/homeownership-in-rural-america/.

often financed with personal property loans which have shorter loan terms than typical mortgages. In addition, the population in rural areas tends to be older than the nation as a whole and, as homeowners age, their mortgage debt typically decreases.



But ownership of housing also varies across geography, age, and racial and ethnic groups in rural and small-town communities. Similar to national characteristics, non-white and Hispanic rural and small-town residents have substantially lower homeownership rates than white non-Hispanic households. Approximately 75 percent of rural and small town white non-Hispanics own their homes while only 55 percent of minority households own their homes. Black rural and small-town households (51 percent) and Native Hawaiian and Pacific Islanders (49 percent) are the least likely groups to own their homes.[4] But non-white and Hispanic rural residents are nearly 8 percent more likely to own their homes than minorities in the nation as a whole.

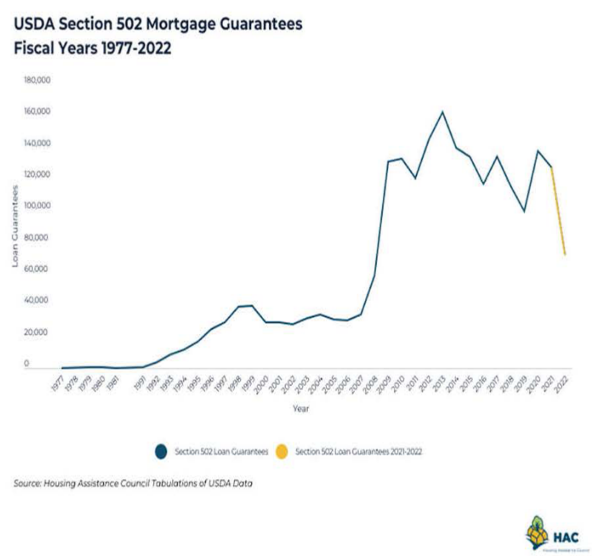
RURAL MORTGAGE MARKETS ARE BEING IMPACTED BY INTEREST RATES AND PRICES TOO

There have been numerous research and business reports on the slowdown in homebuying and mortgage activity in recent months. This market response is largely related to recent interest rate increases for 30-year fixed mortgages spurred by the Federal Reserve raising its benchmark

[4] HAC, *Homeownership.*

rates. According to some estimates, the rate of mortgage applications nationally fell by half in 2022, and refinancings plummeted even more.

Housing finance dynamics in rural areas often mirror national trends – but with a few differences. Due to underlying economic and demographic characteristics, rural finance dynamics sometimes lag suburban and urban trends and experience less volatility generally. Data from the Department of Agriculture (USDA) on its Guaranteed Home Loan product signals that rural homebuyers hit the brakes in 2022 as well. USDA provides a federal loan guarantee to borrowers seeking to purchase or rehabilitate a home in rural communities. In many respects USDA's loan guarantees are like Federal Housing Administration (FHA) loans in which the mortgage is originated by a private market lender and insured against default by the U.S. government.



Over 2 million homes have been financed with USDA loan guarantees since the product's inception, and the agency guaranteed more than 100,000 mortgages each year from 2009 to 2021. But in 2022 USDA loan guarantees plummeted by more than 40 percent from their 2021 level and dropped well below the 100,000-loan mark to guarantee 72,000 loans.[5] The decline in USDA's guarantees is generally consistent across the nation. All states experienced a decline in USDA mortgage guarantees and the declines were substantial. Between January 2022 and

[5] Housing Assistance Council, *Rural Research Note: Home Mortgage Demand Declined in Rural America Too*, February 6, 2023, https://ruralhome.org/information-center/rural-research-notes/.

January 2023 all but four states and territories had declines of 50 percent or more in this loan product. Montana, Hawaii, Massachusetts, and Rhode Island all experienced more than an 80 percent decline in their USDA loan guarantees over this time.[6]

AFFORDABILITY IS THE GREATEST HOUSING CHALLENGE IN RURAL AMERICA (BY FAR)

Housing costs nominally tend to be lower in rural areas than within suburbs and cities. Despite these cost dynamics, an increasing number of rural households find it challenging to pay their monthly housing expenses. Over 5.6 million – or one quarter of rural households – pay more than 30 percent of their monthly income toward housing costs and are considered cost-burdened. The incidence of housing cost burden has increased markedly for rural households over the past few decades. Housing affordability problems are especially problematic for rural renters. A full 44 percent of rural renters are cost-burdened, and nearly half of these renters are paying more than 50 percent of their monthly income toward housing costs.[7] Almost 40 percent of cost-burdened rural households are renters – a much higher proportion than the overall housing stock.[8]

Housing affordability problems are not limited to rural renters. The majority of rural cost-burdened households are actually homeowners. Similar to national trends, home purchase prices have escalated unabated in many rural communities, making home purchase options largely unaffordable to many low- and moderate-income rural Americans. Nationally, the average price of a new single-family home in the United States has skyrocketed over the past few years. According to the most recent Census Bureau and U.S. Department of Housing and Urban Development (HUD) reporting, the median sales price for a new home sold in the United States in the last quarter of 2022 was $467,700.[9]

Relatedly, the Federal Housing Finance Authority's Housing Price Index reached its highest level since 1980 in the third quarter of 2022.[10] The price of new homes financed with USDA's home loan guarantee has witnessed similar increases and spikes in prices to those national trends. In fiscal year 2022, the average loan amount for a USDA guaranteed loan was $185,241 – up 31 percent from the 2019 average loan amount with this product.[11] While median housing prices

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[6] HAC, *Home Mortgage Demand.*

[7] Housing Assistance Council tabulations of the U.S. Census Bureau's 2016-2020 American Community Survey 5-Year Estimates.

[8] Housing Assistance Council tabulations of the U.S. Census Bureau's 2016-2020 American Community Survey 5-Year Estimates.

[9] U.S. Census Bureau and U.S. Department of Housing and Urban Development, "Median Sales Price of Houses Sold for the United States [MSPUS]," FRED, Federal Reserve Bank of St. Louis, January 30, 2023, https://fred.stlouisfed.org/series/MSPUS.

[10] U.S. Federal Housing Finance Agency, "All-Transactions House Price Index for the United States [USSTHPI]," FRED, Federal Reserve Bank of St. Louis, January 31, 2023, https://fred.stlouisfed.org/series/USSTHPI.

[11] Housing Assistance Council, *USDA Rural Development Housing Activity: Fiscal Year 2021 Year End Report* (Washington, DC: Housing Assistance Council, 2022), https://ruralhome.org/wp-content/uploads/2022/04/USDA-Housing-Activity-Report-FY-2021.pdf.

have increased nationally over the past 10 years, income growth in many rural communities has remained stagnant, also exacerbating the affordability challenges in rural markets.

RENTAL HOUSING IS ESSENTIAL TO HEALTHY COMMUNITIES, BUT OPTIONS ARE OFTEN LIMITED AND EXPENSIVE FOR RURAL RENTERS

While homeownership is often described as an important part of the American Dream, rental housing is also essential because many households cannot or choose not to own a home. Some of the most economically vulnerable rural residents rent their homes. Yet far too many of them live with rental costs they cannot afford, physically inadequate homes, or overcrowding. At the same time, the supply of affordable rural rentals is shrinking.

About 28 percent of rural households (and the same proportion of suburban residents) rent their homes, compared to just over half (52 percent) in urban places. In keeping with the less dense nature of rural areas, rural renters are likely to live in much smaller buildings than their urban and suburban counterparts. Almost three-quarters (73 percent) of rural renters occupy detached single-family homes and less than 3 percent live in properties with 20 or more apartments. Rural renters are also far more likely to live in manufactured homes than are renters in other places: 13 percent compared to 5 percent in suburbs and 1 percent in cities.

Housing costs are a significant problem for rural renters, as they are for urban and suburban residents. More than 45 percent of renters in rural America (over 2.5 million households) pay more than 30 percent of their income for rent and utilities, and nearly half of those (1.2 million) pay more than 50 percent of their income for shelter. Cost-burden rates are even higher in rural census tracts where the majority of the population is Black or Hispanic. In Black-majority rural census tracts, 55 percent of renters pay more than 30 percent of income for housing, as do 47 percent in Hispanic-majority tracts.[12]

RURAL AMERICA IS LOSING AFFORDABLE RENTAL HOUSING AT AN ALARMING RATE

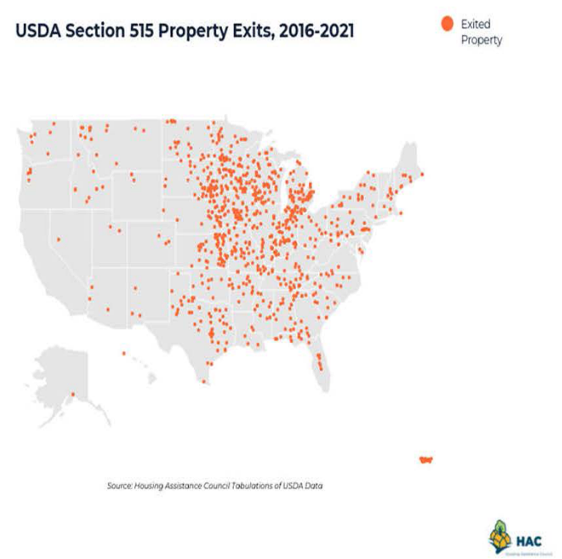
Rental properties financed by USDA Section 515 loans are an important source of rental housing in many rural communities. Since the program's inception in 1963, Section 515 Rural Rental Housing loans have financed nearly 28,000 rental properties containing over 533,000 affordable apartment homes across rural America. With just under 400,000 affordable apartments in USDA's current Section 515 Rural Rental Housing portfolio, there is at least one USDA Section 515 property in 87 percent of all U.S. counties.

No new construction of Section 515 properties has been financed since 2012 and, because most of these properties are several decades old, their original mortgages are reaching the ends of their terms. As the Senate report on the fiscal year 2018 agriculture appropriations bill noted, there is an "alarming number of multi-family housing mortgages scheduled to mature in the next few years. As these mortgages mature, projects and units will be removed from USDA's

[12] Housing Assistance Council tabulations of the U.S. Census Bureau's 2015-2019 American Community Survey 5-Year Estimates.

affordable rural housing program, placing very low income rural residents in jeopardy of untenable rent increases and possible eviction."[13]

HAC recently determined that from 2016 through mid-2021 maturing mortgages removed these properties from USDA's Section 515 portfolio slightly more slowly than previously predicted. Far more properties than expected, however, left the program for reasons unrelated to mortgage maturity. HAC identified 921 Section 515 properties that left the portfolio between 2016 and July 2021 – nearly three times more than USDA had projected for maturing mortgages alone during the five-year period.[14]



The residual impacts of this trend are exponential. Once the USDA mortgage has ended, the property owner is generally no longer subject to government oversight or regulations on use of their property (unless the project has other subsidies still in place), the federal government is no longer paying to support that housing, any remaining or replacement financing has a higher

[13] Committee on Appropriations, U.S. Senate, *Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Bill 2018, Report S. 115-131*, July 20, 2017, https://www.congress.gov/115/crpt/srpt131/CRPT-115srpt131.pdf.

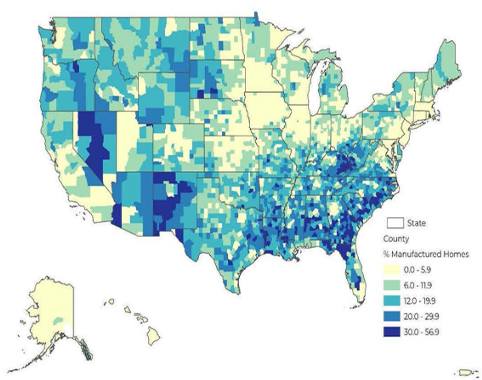
[14] Housing Assistance Council, *Rural Research Brief: An Update on Maturing Mortgages in USDA's Section 515 Rural Rental Housing Program*, March 2, 2022, https://ruralhome.org/update-maturing-mortgages-usda-section-515-rural-rental-housing-program/.

interest rate than the USDA loan, the tenants are no longer eligible for USDA Rental Assistance, and in some instances, the homes may no longer be affordable for their tenants.

MANUFACTURED HOUSING IS AN OFTEN OVERLOOKED BUT IMPORTANT SOURCE OF HOUSING – ESPECIALLY IN RURAL AMERICA

There are approximately 6.7 million occupied manufactured homes in the United States, comprising about 6 percent of the nation's housing stock. More than half of all manufactured homes are located in rural areas around the country and manufactured homes make up 13 percent of all occupied homes in rural and small-town communities. Manufactured housing accounts for about 10 percent of all new single-family housing starts in the U.S.[15]

Manufactured Housing in the United States



Source: Housing Assistance Council Tabulations of the U.S Census Bureau's 2016-2020 American Community Survey Five Year Estimates.

Living in manufactured homes is often characterized by unique financing and land tenure challenges. While the purchase price of manufactured homes can be relatively affordable, financing costs can be much greater than for conventional housing mortgages. The majority of manufactured homes are financed with personal property, or "chattel," loans. These types of loans are more similar to automobile loans than to conventional mortgage loans and have their roots in the manufactured homes' growth out of the travel trailer industry. With shorter terms and higher interest rates, personal property loans are generally less beneficial for consumers

[15] Housing Assistance Council, *Rural Research Brief: Manufactured Housing in Rural America*, July 2020, https://ruralhome.org/wp-content/uploads/2021/05/Manufactured_Housing_RRB.pdf.

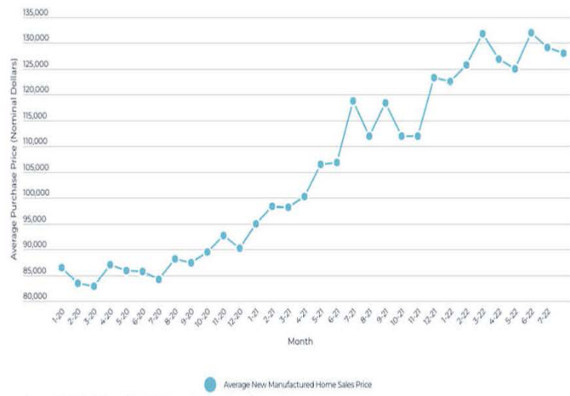
than conventional mortgage financing, putting vulnerable, low-income borrowers at risk. Approximately 66 percent of manufactured home loans in 2018 were classified as high cost (having a substantially high interest rate), which is more than five times the level of high-cost lending for all homes nationally. And for manufactured home loans secured by the manufactured home only (without land), that figure jumps to a staggering 90 percent high-cost loan rate.[16]

Land tenure status is another unique characteristic for many manufactured homes. Manufactured housing units are often located in land lease communities, where residents own their unit but pay rent to a landlord for the lot on which it is located. Though about three quarters of manufactured homes are owner-occupied, estimates suggest that approximately 40 percent of all manufactured homes are in land lease communities. There are around 45,000 of these communities across the nation.[17]

In addition to the longstanding challenges of high-cost financing and land tenure status, newer issues have also arisen such as the emergence of private equity investment in manufactured housing communities. These investments can be among the most profitable in the already-hot real estate sector, but they often come at the expense of residents in the communities being purchased. Private equity investors purchase manufactured housing communities and profit by increasing lot rents for residents, often significantly. This practice can lead to reduced affordability, eviction, or displacement for these families – even when they own the unit itself. There is little federal or local regulation to prevent this practice, and nearly no public funding to counter this growing issue.

[16] Housing Assistance Council tabulations of Consumer Financial Protection Bureau 2018 Home Mortgage Disclosure Act data.
[17] HAC, *Manufactured Housing.*

Average Sales Price of New Manufactured Homes
January 2020 - August - 2022



Source: HAC Tabulations of the U.S. Census Bureau's Manufactured Home Survey

HAC

The cost increases, supply chain delays, and materials and labor shortages that have impacted the broader housing market in recent years have also impacted manufactured housing. The average sales price of a new manufactured home (excluding land) in 2019 was $81,700.[18] As of August 2022 (the most recent data available), that average sales price had jumped to $128,000 – an increase of 56 percent.[19] Because affordability is the most significant housing issue facing rural residents, these cost increases – both for manufactured housing and more broadly – are a significant added barrier to homeownership in rural communities.

RACE MATTERS ACROSS THE RURAL SPECTRUM – ESPECIALLY IN HOUSING

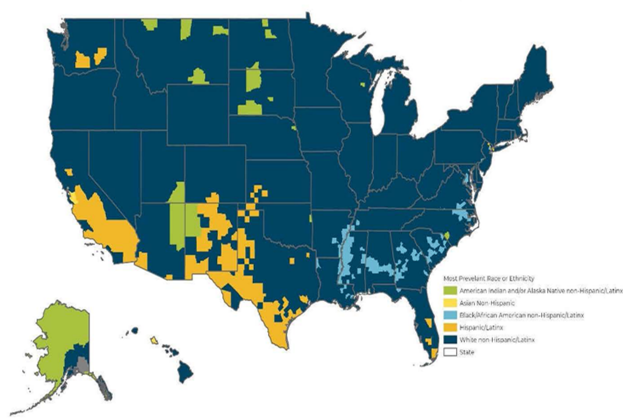
Race and ethnicity are central but often complex components of our national identity, history, and struggles. Racial dynamics also manifest themselves in our geographies and communities. While rural America is becoming more diverse, non-white and Hispanic groups comprise a relatively smaller proportion of rural populations than for the nation as a whole. For example, in 87 percent of counties in the nation, white non-Hispanics are the most prevalent racial or

[18] Housing Assistance Council tabulations of the U.S. Census Bureau's Manufactured Home Survey, https://www.census.gov/data/tables/time-series/econ/mhs/latest-data.html.
[19] Housing Assistance Council tabulations of the U.S. Census Bureau's Manufactured Home Survey, https://www.census.gov/data/tables/time-series/econ/mhs/latest-data.html.

ethnic group. These residential patterns are partly a combination of demographic trends and events such as the "Great Migration" by Blacks from the rural South, but also historic and enduring factors of exploitation, relocation, exclusion, and segregation.[20]

Geographic clustering of groups in regions and communities can be exemplified by the statistic that over 85 percent of rural Blacks reside in the Southern region of the United States. Black residents comprise an even larger portion of the population in the southern "Black Belt" communities of Alabama, Georgia, Mississippi, North Carolina, South Carolina, and Virginia, as well as the Lower Mississippi Delta states of Arkansas, Mississippi, and Louisiana. Large numbers of rural Native Americans reside on or near Native American reservations and trust lands in the Midwest plains, the Southwest, and Alaska. Nearly half of all rural Hispanics reside in the four states of Texas, California, New Mexico, and Arizona. Over one-fifth of all rural Hispanics live in Texas alone.[21]

MOST PREVALENT RACE OR ETHNICITY BY COUNTY, 2020



Source: Housing Assistance Council Tabulations of the U.S Census Bureau's 2020 Census of Population and Housing

HAC

Across the country, rural social and economic conditions generally lag in comparison to many urban and suburban areas. In addition, rural communities with large non-white populations are

[20] Housing Assistance Council, *Rural Research Brief: The United States is Becoming More Racially Diverse – And So is Rural America*, September 28, 2021, https://ruralhome.org/united-states-becoming-more-racially-diverse-so-is-rural-america/.
[21] HAC, *More Racially Diverse.*

in comparably worse social and economic conditions in comparison to white non-Hispanic communities. Racial and ethnic minority populations and communities have historically and systemically been excluded from pathways to adequate housing. Racial discrimination results in substandard and inaccessible housing that perpetuates economic distress in many racial/ethnic minority communities. Geographic isolation and relative segregation continue to be important components of poverty and substandard housing in many rural communities.

RACE AND HOUSING DISPARITIES ARE MOST ACUTE IN RURAL PERSISTENT POVERTY COUNTIES

The issue of poverty is complex, but it is much more than an abstract condition for the over 37 million Americans who face daily struggles with food insecurity, access to health care, and search for basic shelter. Poverty is often imagined as an urban issue in the national discourse, but some of the country's deepest and most persistent poverty can be found in rural areas. Identified as "Persistent Poverty Counties," these communities are generally rural, isolated geographically, lack resources and economic opportunities, and suffer from decades of disinvestment and double-digit poverty rates.

Persistently poor counties are classified as having poverty rates of 20 percent or more for three consecutive decades. Using this metric, the Housing Assistance Council estimates there were 377 persistently poor counties in 2020.[22] For the first time, HAC also calculated persistent poverty status for Puerto Rico. All 78 of Puerto Rico's municipios (county equivalents) were classified as having persistent poverty status as of the 2020 data. With the island territory included, there are a total of 455 Persistent Poverty Counties.[23]

One of the consistent features of many Persistent Poverty Counties is their clustering within several rural geographic regions that have a large footprint over the United States. Persistent Poverty Counties make up one-tenth of all U.S. counties, or county equivalents, and 15 percent of the U.S. landmass. They are concentrated in rural regions, including the Mississippi Delta or Black Belt, central Appalachia, and Native lands. Sixty percent of people living in Persistent Poverty Counties are people of color and 42 percent of Persistent Poverty Counties have majority populations of color.[24]

One highly visible impact of this economic distress can be seen in these areas' housing conditions. The incidence of housing units lacking adequate plumbing is twice the national rate, and over 380,000 households in Persistent Poverty Counties live in crowded conditions. Additionally, while housing costs are relatively low in many of these communities, more than

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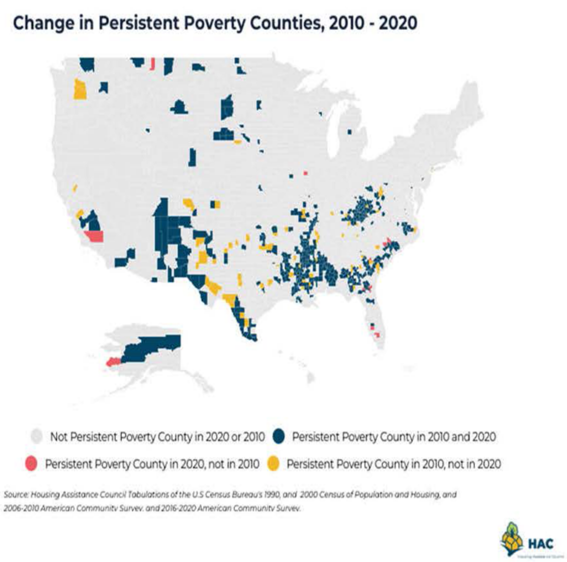
[22] Housing Assistance Council, *Rural Research Brief, The Persistence of Poverty in Rural America,* April 2022, https://ruralhome.org/wp-content/uploads/2022/04/rural-research-brief-persistent-poverty-2021.pdf.
[23] HAC, *The Persistence of Poverty.*
[24] "Persistent Poverty in America," Partners for Rural Transformation, accessed November 9, 2022, https://www.ruraltransformation.org/persistent-poverty/.

half of Persistent Poverty County renters encounter affordability problems and are considered housing cost-burdened (defined as paying more than 30 percent of income in rent).[25]



Mortgage and housing finance are similarly unbalanced in persistently poor communities. Mortgage activity including applications and loan originations are substantially low in many Persistent Poverty Counties. Likewise, more than one-quarter of mortgage applications were denied in these communities – more than six percentage points higher than the national rate. And when loans are made in persistently poor communities, they tend to have higher interest rates. The level of "high-cost mortgages"[26] in these counties is two-thirds higher than the rate for all mortgage loans in the United States.[27]

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[25] Housing Assistance Council tabulations of the U.S. Census Bureau's 2016-2020 American Community Survey 5-Year Estimates and Consumer Financial Protection Bureau 2021 Home Mortgage Disclosure Act data.

[26] A higher-priced mortgage loan is defined by the Consumer Financial Protection Bureau's regulations as a consumer credit transaction secured by the consumer's principal dwelling with an annual percentage rate that exceeds the average prime offer rate for a comparable transaction as of the date the interest rate is set by 1.5 or more percentage points for loans secured by a first lien on a dwelling, or by 3.5 or more percentage points for loans secured by a subordinate lien on a dwelling. "Requirements for Higher-Priced Mortgage Loans," 12 CFR §1026.35, CFPB, https://www.consumerfinance.gov/rules-policy/regulations/1026/35/.

[27] Housing Assistance Council tabulations of Consumer Financial Protection Bureau 2021 Home Mortgage Disclosure Act data.

POLICY RECOMMENDATIONS

Too many federal policies and programs benefit some areas of the United States while harming others. Focusing the benefits of government on a handful of thriving metropolitan regions, while overlooking the needs of underserved rural regions, is driving economic, social, and political problems that the nation ignores at its peril. In previous eras, the United States promoted geographic dispersion in economic activity. Legislative and regulatory policies in the areas of transportation, communications, housing, trade, and antitrust helped construct an era of geographic convergence in the mid-twentieth century. Wealth was less concentrated, and opportunity more evenly distributed. The unraveling of this regulatory order around 1980 coincided with the beginning of an era of growing divergence between the economic fates of urban/suburban metropolitan areas and rural communities.

To be sure, America's small towns and rural regions are diverse demographically and economically and face a wide and differing array of local challenges and opportunities for community and housing development. While each place is unique, the data explored above demonstrate the existence of common themes.

At the same time as rural communities face challenges related to housing conditions and poverty, they often struggle to access federal tax and spending subsidies. Distribution of the nation's largest housing subsidy, the mortgage interest deduction, is skewed toward metropolitan areas. And many federal formula grants make direct allocations to cities and larger suburbs but force rural communities to go through bureaucratic hoops – and in many instances compete with other rural communities – because state government controls "balance of state" formula funding. This is fundamentally a question of equity, which is why HAC has consistently urged Congress and the Administration to take geographic equity into account in all federal policy and funding decisions.[28]

HAC was encouraged that the Administration's Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government includes "persons who live in rural areas" in the list of groups who need to be granted "consistent and systematic fair, just, and impartial treatment" and identifies "geographic communities" as a category that the Administration intends to consider in determining an "underserved community." [29] The

[28] See, e.g., HAC comments submitted in response to OMB Request for Information on "Methods and Leading Practices for Advancing Equity and Support for Underserved Communities Through Government," July 6, 2021, https://ruralhome.org/hac-recommends-federal-actions-for-rural-equity/; HAC comments in response to Interagency Community Investment Committee Request for Information on "Opportunities and Challenges in Federal Community Investment Programs," December 19, 2022, https://ruralhome.org/hac-comments-on-community-investment-focus-on-capacity-building-and-capital-access/.

[29] Joseph R. Biden Jr., "Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government," January 20, 2021, https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/20/executive-order-advancing-racial-equity-and-support-for-underserved-communities-through-the-federal-government/.

recommendations below outline policy reforms Congress can undertake that can help provide rural communities the resources they need to address their housing needs and determine their own economic destinies.

HOMEOWNERSHIP

As detailed above, homeownership in rural areas has become more expensive and harder to maintain. Inadequate access to mortgage credit, an aging rural housing stock, high construction and rehabilitation costs, small balance mortgages, complex appraisal issues, and barriers to the secondary mortgage market all contribute to the difficulties rural homebuyers and the small financial institutions who serve them often face. The current rising interest rate environment is just the latest in a series of challenges confronting current and aspiring rural homeowners.

Federal programs administered by USDA's Rural Housing Service (RHS) and HUD play an essential role in making homeownership a viable option for rural communities. Congress can help thousands more rural families achieve homeownership by investing in and modernizing these programs, particularly:

- the Self-Help Homeownership Opportunity Program (SHOP);
- the Section 502 Direct Loan program; and
- the Section 504 Single-Family Repair Loans and Grants program.

Fully Fund the Self-Help Homeownership Opportunity Program (SHOP)

Since its beginnings in 1996, HUD's Self-Help Homeownership Opportunity Program (SHOP) has leveraged $3 billion in outside funding and helped create more than 35,000 homes, half of which are in rural areas. SHOP helps hardworking low- and moderate-income families achieve homeownership through sweat equity. These families do not just complete the program with a new home. The at least 100 hours they worked building their home (though many families invest more than 500 hours) equip them with the ability to better maintain their homes and with valuable, employable skills. SHOP funds pay for land and infrastructure costs, which are often some of the most difficult items for local nonprofits to finance. By increasing funding for SHOP, Congress would help thousands more rural families build a better future, one nail at a time.

Improve the Section 504 Single-Family Repair Loan and Grant Program

Aging housing stock is a significant challenge for many rural areas, and homeowners are often older and on a fixed income, making home repair a challenge. The RHS's Section 504 Single-Family Repair Loans and Grants program provides direct loan and/or grant funds for home repair to very low-income applicants who do not qualify for conventional bank financing. However, inefficiencies in the program have deterred potential applicants and have even resulted in funds left on the table in some years, despite huge need on the ground. Some potential Section 504 improvements include:

- Encourage RHS to streamline the Section 504 application process. USDA has begun some of this already, but it is often as onerous to complete a $20,000 Section 504 loan/grant as a $150,000 Section 502 mortgage.

- Increase the threshold for the mortgage requirement on a Section 504 loan above $7,500. The current threshold was set 23 years ago, in 2000, and has never been adjusted for inflation. A promissory note would be appropriate security for loans under $15,000.
- Reinstate "packaging grants" through the Section 525 Technical and Supervisory Assistance Grant Program so that nonprofits can help USDA offices process Section 504 applications. Using nonprofits to assist with packaging has been a helpful tool in the Section 502 direct program.
- Allow loans under $25,000 to be closed without a title company so that title insurance, escrow, and similar processes would not be needed.

Fully Fund the Section 502 Direct Loan Program to Respond to the Current Mortgage Market
The above-mentioned data from the USDA Section 502 loan ***guarantee*** program illustrates the challenges low- and very low-income rural families are having entering homeownership in the current high interest rate environment. USDA's Section 502 ***direct*** loan program is specifically designed to respond to such circumstances, enabling low- and very low-income rural residents to purchase homes with affordable mortgages at fixed rates as low as 1 percent and no down payment is required. Because inability to qualify for market-rate credit elsewhere is a precondition for obtaining a Section 502 direct loan, the program's borrowers are homebuyers who could not otherwise access homeownership if Section 502 loans were not available. Over two million families have become homeowners since 1950 through the Section 502 direct program. In 2021, the average income of Section 502 direct loan borrowers was about $40,000.[30] Importantly, this is a loan program, not a giveaway; the funds are repaid to USDA, with interest. In 2019, the total cost per loan to the government for a Section 502 direct loan averaged $7,066.[31] Increased funding for the Section 502 direct loan program would help more low- and very low-income rural households achieve homeownership while building a history of successful borrowing.

Increase Access to Credit and Capital by Rural Communities Generated by the Community Reinvestment Act (CRA) and GSE Duty To Serve (DTS) Plans
Without access to financial services and capital, individuals cannot access safe credit and financial literacy resources, businesses cannot grow and serve the needs of their communities, and ultimately the communities' economies cannot thrive. Unfortunately, there are around 150 rural counties that have one or no bank branches to serve their residents. Building access to capital in underserved rural regions is not just critical for the long-term viability of rural communities. It is the foundation of building a robust system of homeownership across rural America. Congress can work to solve this problem by making bank lending and investments under CRA and the Government Sponsored Enterprises' (Fannie Mae and Freddie Mac) activities under their DTS plans more responsive to the needs of rural communities.

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[30] HAC, *USDA Rural Development Housing Activity: Fiscal Year 2021.*
[31] "Fast Facts! Section 502 Direct Loans Open Doors to Rural Homeownership," National Rural Housing Coalition, accessed February 6, 2023, https://ruralhousingcoalition.org/section-502/.

CRA
The Community Reinvestment Act (CRA), adopted in 1977, requires federally insured depository institutions to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods. While HAC has applauded the Federal Reserve, FDIC, and OCC for their proposed changes to CRA regulations last year, there are still more improvements to be made. Specifically, Congress should urge the regulators to create an additional impact factor for rural activities, use a more precise definition of "rural," maintain a lower asset threshold for defining small and intermediate banks, and increase the weight of community development financing and services in CRA ratings.[32]

Duty to Serve
The DTS obligation enacted on a bipartisan basis in the Housing and Economic Recovery Act of 2008 (HERA) requires the GSEs to provide a more proactive secondary market for mortgages in three focus areas: manufactured housing, affordable housing preservation, and rural housing. By building a more robust secondary mortgage market for rural communities, DTS makes it easier for small financial institutions to lend, improving the overall liquidity available in these communities. While the latest DTS plans from the GSEs show important improvements, the true yet-untapped potential of Duty to Serve requires the Enterprises to set ambitious goals. By supporting the preservation and expansion of DTS requirements and deliberate consideration of rural conditions in all FHFA rulemaking, Congress can improve access to mortgage lending nationwide.

Authorize the PRICE Fund to Preserve and Revitalize the Nation's Affordable Manufactured Housing Stock
The FY2023 omnibus appropriations act funded the first federal program specifically targeted to manufactured housing, an essential housing stock in rural America. The program – named the Preservation and Reinvestment Initiative for Community Enhancement (PRICE) – received $225 million. HUD will competitively award grants to be distributed over five years to states, local governments, resident-owned manufactured housing communities, cooperatives, nonprofits, CDFIs, Tribes, and other entities designated by HUD.

PRICE Fund monies can be used outside manufactured home communities or in communities that are owned by residents or are legally required to remain affordable for the long term. Eligible uses of funds include infrastructure, planning, resident and community services, resiliency activities, and assistance for land and site acquisition. Within the $225 million total, $25 million is set aside for a pilot program to provide grants to assist in the redevelopment of manufactured housing communities as affordable replacement housing. Eligible activities include relocation assistance or buy-outs for residents of a manufactured housing community or downpayment assistance for the residents.

[32] HAC comments submitted in response to Joint Notice of Proposed Rulemaking on "Community Reinvestment Act," August 5, 2022, https://ruralhome.org/hac-submits-cra-comments/.

While it provides a critical momentum boost to public and private sector actors seeking solutions to address the challenges described above in maintaining and revitalizing affordable manufactured housing, this one-time funding will not solve the problem. Accordingly, legislation permanently authorizing the PRICE Fund should be enacted in the 118th Congress.

Enact the Neighborhoods Homes Investment Act

As noted, relative to urban and suburban markets, homeownership is more common in rural communities. And single-family homes are typically the predominate form of housing used. Across much of rural America, communities struggle to retain or attract growing businesses in the absence of high quality, affordable homeownership opportunities for workers. The private sector alone, however, is unable to revitalize single-family homes that are in poor condition in many of these markets because the cost of rehabilitating them or building new homes exceeds their market value – a challenge known as the "appraisal" or "value" gap. No current government tax or spending subsidy is specifically designed to fill this gap.

The bipartisan Neighborhood Homes Investment Act (NHIA) (S. 98 in the 117th Congress) would address this issue by establishing a tax credit carefully targeted to include low-income rural communities with elevated poverty and low home values. Approximately 27 percent of nonmetro census tracts would be automatically eligible, with additional flexibility for certain other nonmetro census tracts. If enacted, the NHIA is projected to produce 500,000 homes over 10 years, generating $100 billion in development activity, nearly 800,000 jobs, $43 billion in wages and business income, and $29 billion in tax revenue.[33]

The NHIA is well-designed to meet the needs of rural communities. This tax credit is flexible – usable to build new homes, to acquire and rehabilitate homes for sale, and to rehabilitate homes for current homeowners. It can be used for detached homes, townhomes, two- to four-unit homes, condominiums, and cooperatives. Manufactured homes are eligible, provided they are permanently attached to a foundation and are titled as real property. Thus, it aligns with the housing types and scale of development most common in rural communities.

The credit is also structured to avoid abuse or unintended negative consequences. A minimum level of rehabilitation prevents merely superficial improvements. Only 35 percent of development costs for starter homes can be covered by the credit. Finally, to prevent revitalization from tipping into rapid gentrification, sale prices would be limited to ensure broad affordability and high-income and high-income buyers would be excluded.

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[33] *Neighborhood Homes Investment Act* (Washington, DC: Neighborhood Homes Coalition, March 9, 2022), https://static1.squarespace.com/static/589b48fbe3df28f7ed63b31b/t/622909ff205750275598eb8d/1646856704390/NHIA%2BSummary%2BMarch%2B2022.pdf.

RENTAL HOUSING

Strengthen Essential USDA Multifamily Housing Programs

Although homeownership is more common in rural areas than in urban and suburban communities, rental options remain a crucial part of the affordable housing landscape. As described above, USDA's Section 515 program provides an especially important housing opportunity for many rural communities.

Section 515 rental units house an economically vulnerable population – two thirds are occupied by seniors and people with disabilities and tenants' annual income averages only $13,600. Yet not all tenants in Section 515 properties receive rental assistance that limits their rent to 30 percent of household income. Approximately three quarters of all Section 515 tenant households live in units that are rent subsidized through USDA's Section 521 Rental Assistance (RA) program. Another 15 percent receive some other help with their rent, such as Housing Choice Vouchers, Project-Based Rental Assistance (PBRA) or HOME program rental assistance administered by HUD. The remaining 15 percent receive no rental subsidy, with the result that more than one-third of these unassisted tenants are cost-burdened.

The preservation of affordable housing options is critical to ensuring the well-being of rural communities across the country. For this reason, HAC respectfully urges the Committee to build on the work begun in the 117th Congress by Housing, Transportation, and Community Development Subcommittee Chair Smith and Ranking Member Rounds, and Senator Shaheen, to craft legislation that would preserve critical federal multifamily preservation funding and programs.

Include Funding for Section 521 Rental Assistance to Cover ARPA Units in the FY2024 Appropriation for USDA

The most immediate, high impact need we see in the USDA multifamily portfolio right now is the need to renew Section 521 Rental Assistance for the 27,000 families covered under the American Rescue Plan Act (ARPA), who are set to lose their assistance at the end of this month. ARPA included $100 million in funding for Section 521 Rental Assistance for previously unassisted units.[34] This funding allowed USDA to extend Rental Assistance coverage to an estimated 27,000 units in 3,700 properties. This funding expired at the end of Fiscal Year 2023. ARPA included no language suggesting that this 521 Rental Assistance was not to be included in the broader Section 521 appropriations account which Congress annually renews at its full level of need. This is in marked contrast to the Emergency Housing Vouchers (EHVs) provision of ARPA,[35] which included a clear expiration date for the issuance/reissuance of EHVs, explicitly segregated EHVs from the broader Housing Choice Voucher renewal account, and included dedicated funding for the full anticipated renewal amount.

The Administration clearly expected that ARPA Section 521 Rental Assistance would be

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[34] American Rescue Plan Act, Section 3203, P.L. 117-2, March 11, 2021, https://www.congress.gov/117/plaws/publ2/PLAW-117publ2.pdf.

[35] American Rescue Plan Act, Section 3202.

renewed, as its FY2023 proposed budget specifically included additional Section 521 Rental Assistance to continue coverage for these units. RHS was able to delay the day of reckoning to FY2024 by extending these subsidies with existing funds. But allowing these units to fall out of the system would be disastrous for the families who are currently receiving that Rental Assistance, and would have deeply troubling implications for the prospects of preserving the quality and affordability of the essential USDA multifamily portfolio for the long term.

Below is a state-by-state chart showing how many units will lose their Section 521 Rental Assistance at the end of FY2023 without Congressional action to renew this funding through the appropriations process.

ARPA Section 521 Rental Assistance Number of Projects and Units		
State	**Number of Projects**	**Number of Families Losing Rental Assistance**
Alabama	184	1,710
Alaska	0	0
Arizona	7	45
Arkansas	77	353
California	175	1,369
Colorado	22	136
Connecticut	33	166
Delaware	13	51
Florida	144	1,178
Georgia	253	3,206
Hawaii	0	0
Idaho	6	6
Illinois	90	222
Indiana	170	442
Iowa	15	18
Kansas	38	76
Kentucky	195	1,654
Louisiana	138	1,826
Maine	60	153
Maryland	76	711
Massachusetts	16	28
Michigan	232	1,041
Minnesota	109	204
Mississippi	118	1,447

Missouri	197	641
Montana	11	17
Nebraska	7	8
Nevada	10	77
New Hampshire	22	72
New Jersey	29	187
New Mexico	18	55
New York	30	118
North Carolina	102	664
Ohio	140	634
Oklahoma	57	496
Oregon	44	142
Pennsylvania	73	640
Puerto Rico	0	0
Rhode Island	3	7
South Carolina	138	1,659
South Dakota	15	18
Tennessee	125	1,291
Texas	266	1,704
Utah	15	67
Vermont	10	31
Virgin Islands	0	0
Virginia	104	1,290
Washington	90	512
West Virginia	66	369
Wisconsin	44	70
Wyoming	6	15
Grand Total	3,793	26,826

Extend Section 521 Rental Assistance for All Units

The looming expiration of ARPA-provided 521 Rental Assistance simply spotlights the underlying problem within the 515 portfolio, namely that a fifth of the vulnerable families living in USDA rental housing do not receive rental assistance from USDA, HUD, or state sources. Most of these unassisted households are paying more than 30 percent of their income in rent and include the elderly, disabled, and children. To address this, Section 521 Rental Assistance should be extended to all Section 515 units to help families in need. Not only is this clearly the right thing to do, but it will also stabilize the finances of many developments, encouraging preservation and enabling owners to seek additional financing sources.

Authorize Important Multifamily Preservation Programs

Several of the current USDA preservation programs are funded through appropriations but are not authorized. The Multifamily Preservation and Revitalization (MPR) program, the Preservation Revolving Loan Fund (PRLF), and the Multifamily Preservation Technical Assistance (MFTA) program all play key roles in addressing the preservation crisis but, because they are not authorized, their status is instable. Authorizing these three programs is a critical step in ensuring they are stably funded into the future.

The MPR program allows existing properties in the Section 515 rental housing and Section 514/516 farmworker housing programs to refinance their loans and receive more funding to help revitalize their properties and maintain affordability. This program not only preserves the affordability of rental housing through continued government oversight but also provides owners with the capital they need to maintain and repair their aging properties. USDA estimates that $30 billion in funding for the MPR program is needed over the next 30 years to preserve 80 percent of the existing Section 515 portfolio.

The PRLF program was funded through appropriations for several years between 2005 and 2011. It allowed RHS to make long term (30 years), very low interest (1 percent) loans to private nonprofit organizations, and state and local housing finance agencies, to provide revolving loans for the preservation and revitalization of Section 515 and 514/516 properties. HAC alone has used PRLF funding to preserve over 1,300 units in 18 states, but the program has been unfunded since FY2011. (USDA continued issuing NOFAs through 2014 using unobligated funds.)

To help address the growing crisis of multifamily maturing mortgages, the MFTA program was first funded through Congressional appropriations in FY2017. The program provides competitive grants to eligible nonprofit organizations and public housing authorities (PHAs) to provide technical assistance and other services to enable affordable housing preservation through the transfer of Section 515 properties from current owners to nonprofits or PHAs. The original intent of the program was two pronged: to subsidize preservation transactions by providing individual property owners with technical assistance in the sale, restructuring, or acquisition of properties; and to focus on transforming the program through research and policy development. To date, only the first intent has been funded in the first two program rounds.

Authorizing these three programs will help ensure they are stably funded into the future, that the intent of the programs is better reflected in use of funds, and that they remain part of the suite of preservation tools available at RHS.

Improve Opportunities for Mission-Focused Nonprofits to Preserve Maturing Properties

Preserving the Section 515 portfolio requires collaboration with RHS, current owners, and public and private sector purchasers. However, the current process for transferring properties is overly burdensome and prohibitively difficult for small, mission-focused nonprofits. Many of these properties are aging and in need of repair. When new buyers want to purchase Section

515 properties, all immediate and long-term repair and rehabilitation needs must be identified by a Capital Needs Assessment (CNA). The nonprofit purchaser must demonstrate the availability of reserves to adequately cover the cost of addressing the property's capital needs – an often insurmountably high bar.

Instituting a "two-step" transfer process for nonprofits trying to maintain the affordability of multifamily housing could streamline the process and increase preservation of properties. If properties could be transferred to a new nonprofit owner prior to the identification of funding sources for all repairs identified in the CNA and the reserve requirements adjustment, a significant administrative barrier to preservation could be removed. RHS is currently piloting its "Simple Transfer Program"[36] which may prove helpful for this process.

Nonprofit preservation efforts could also be enhanced by setting aside funding in both the Section 515 and MPR programs for smaller and lower capacity organizations. These nonprofits often struggle to be competitive with the larger and more powerful organizations, but these smaller organizations often work in areas that have the deepest need, specifically persistently poor communities. Preservation funding needs to be equitably distributed to ensure that geographies are not being left out due to lack of capacity.

Increase Data Transparency

Despite the importance of USDA properties, there is limited data on them accessible to the public. This makes it challenging for organizations to aid in the preservation of this affordable housing. Releasing more data on the current housing stock, including information on why properties leave the programs (maturation, prepayment, foreclosure, or other servicing issues) and risk rankings for properties, would improve preservation outcomes and stakeholder understanding of the issues.

Increasing data transparency would also make rural housing research more robust and could help USDA identify which properties are working best and which programs are most helpful. Nongovernmental research offers a different perspective and would help USDA and other agencies work more efficiently.

Establishing a preservation advisory committee to work with USDA to develop a plan to ensure the long-term preservation of rural housing options, as laid out in the Strategy and Investment in Rural Housing Preservation Act (S. 4872 in the 117th Congress), would also improve communication and allow for better stakeholder involvement.

Decouple Rental Assistance from RHS Mortgages Under Certain Parameters

Under current law, the availability of Section 521 Rental Assistance to residents of a Section 515 or 514/516 property is tied to the term of the mortgage. When the mortgage is paid off, the

[36] USDA Rural Housing Service, "Multi-Family Housing Simple Transfer Pilot Program," 87 FR 75457, December 9, 2022, https://www.federalregister.gov/documents/2022/12/09/2022-26726/multi-family-housing-simple-transfer-pilot-program.

property loses its Rental Assistance. Decoupling the mortgage and the Rental Assistance has been considered as a solution to this situation. HAC would prefer to see RHS's multifamily programs funded at a level that would adequately meet the portfolio's preservation needs. However, thousands of units are leaving the program each year and that funding has not materialized to meet the need.

As a result, RHS needs a suite of preservation strategies to be available in the absence of adequate funding. If decoupling is considered, it should be paired with increased funding for preservation programs and a few parameters should be met in order to ensure long-term affordability for the properties:

- Properties looking to decouple should have to sign a restrictive use agreement and a 20-year Rental Assistance contract (subject to annual appropriations), to maintain long-term affordability.
- Properties looking to decouple should have to demonstrate that they have tried to access other preservation funding before pursuing decoupling as a last resort.
- Nonprofit transfers should be incentivized, as covered earlier in these comments.

Strengthen the Rural Voucher Program

Under the current appropriations, the RHS Section 542 rural housing voucher subsidy is set at the time of prepayment and never changes as rents increase or household income decreases. As a result, voucher holders face displacement from their housing if they have a loss of income or their rents are increased. This issue could be resolved by making the RHS voucher subsidy identical to the HUD housing choice voucher subsidy.

Enact the Affordable Housing Tax Credit Improvement Act (AHCIA)

The Low Income Housing Tax Credit (LIHTC) program is the nation's most successful tool for creating and preserving affordable housing. Often deployed in conjunction with other housing subsidies administered by USDA and HUD, state, and local governments, it is responsible for the majority of production and preservation of rental housing dedicated to low-income households in the United States.

LIHTC's contribution to affordable housing production and preservation in rural communities has been essential.[37] HAC estimates that of the over 13,000 properties that received LIHTC allocations from 2006 to 2016, over one quarter were located in census tracts defined by the Federal Housing Finance Agency (FHFA) as rural. Notably, rural LIHTC properties were substantially smaller (44 units versus 88 units on average) and served a poorer population (94 percent low-income versus 86 percent low-income) than non-rural properties.

Unfortunately, the program is vastly oversubscribed, with states able to fund only about one

[37] Andrew M. Dumont, "Rural Affordable Rental Housing: Quantifying Need, Reviewing Recent Federal Support, and Assessing the Use of Low Income Housing Tax Credits in Rural Areas," Finance and Economics Discussion Series 2018-077 (Washington, DC: Board of Governors of the Federal Reserve System, 2018), https://doi.org/10.17016/FEDS.2018.077.

in three qualified applications for 9 percent credits, which have not received a permanent boost in authority in over two decades.[38] The bipartisan Affordable Housing Improvement Act (S. 1136 in the 117th Congress) would dramatically expand and improve this already highly successful subsidy.

The AHCIA includes two provisions that would be especially helpful to deployment of housing credits in rural communities. First, rural areas would be added to the definition of Difficult Development Areas, thus allowing states to provide up to a 30 percent basis boost to rural properties if needed for financial feasibility. Second, the AHCIA builds on an important 2018 programmatic change that allowed new 9 percent LIHTC developments to serve households earning up to 80 percent of area median income (AMI), so long as the average income in the low-income units in any given property would be no higher than 60 percent of AMI. This flexibility – often referred to as the Average Income Test or colloquially as "income averaging" – makes projects more feasible in areas where incomes are depressed, which is very common in rural areas. The AHCIA would extend income averaging to the housing bond program, which triggers 4 percent credits.[39]

CAPACITY BUILDING

Geographic equity for rural places cannot be achieved unless federal investments in economic development, housing and other infrastructure are paired with robust capacity building to ensure the most underserved and persistently poor rural places are in a position to access these resources. Many rural regions have been stripped of their economic engines, financial establishments, and anchor institutions with devastating impact on public and private sector capacity.

The degree of difficulty rural communities confront in preserving and developing affordable housing is compounded by: 1) challenges within their local markets that make it difficult for even the most sophisticated lenders and project sponsors to make a deal "pencil out"; and 2) smaller projects and transactions that often do not mesh easily with tax subsidies and secondary markets that typically operate at scale.

Simply put, the importance of capacity building and access to capital cannot be overstated when it comes to rural housing. Strong local institutions do not happen by accident. The good news is that Congress has long recognized the importance of capacity building and established a track record of success: federal investment toward rural capacity building launched nearly all the most successful local and regional rural housing organizations that HAC works with today. There are several actions this Committee and Congress should take that could begin to scale this progress across rural America.

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[38] *Detailed Bill Summary: The Affordable Housing Credit Improvement Act* (Washington, DC: The ACTION Campaign, September 2021), https://rentalhousingaction.org/wp-content/uploads/2021/10/AHCIA-Detailed-Bill-Summary-September-2021.pdf.

[39] The ACTION Campaign, *Detailed Bill Summary.*

Authorize the Powerful Rural Community Development Initiative

USDA's Rural Community Development Initiative (RCDI) provides funding to nonprofits, public bodies, and qualified for-profit groups to support housing, community facilities, and community and economic development projects in rural areas. The funds can go towards homeownership education, technical assistance to sub-grantees, and other programming to build local organizations' capacity and technical knowledge.

Unlike the Rural Capacity Building program administered by HUD, RCDI lacks authorization and its very existence is subject to the annual appropriations process. Authorizing RCDI would provide the program with the long-term stability it needs. Other improvements to the program could also help it be even more effective. There is currently a $250,000 per-awardee cap, which is not statutory. This cap limits how much organizations can do with their funds, specifically larger groups that may have the capacity to do more. Additionally, RCDI's 1:1 match requirement can be challenging for organizations to meet, especially those serving the most persistently poor rural regions. These regions are the most in need of capacity building, but requirement for matching funds can make it difficult to deploy these investments in exactly the type of place that needs it the most. And finally, recent additions to the RCDI funding notice – specifically the requirement that applicants proposing to serve one or more federally recognized tribes must include a resolution of support with its application from the Tribes it proposes to serve – can also make it unduly burdensome to serve the communities who need it most. Actions by the Committee to encourage or direct RHS to increase the per-awardee cap, waive or rebalance the matching requirement, and eliminate burdensome application requirements would help the program serve persistently poor communities more robustly.

Authorize a Large Cross-Sectoral, Flexible Capacity Building Rural Investment Initiative

While smaller sector-targeted capacity building programs such as RCB and RCDI are crucial, the need to build capacity in rural communities extends across the board and therefore demands large cross-sectoral policy interventions. Accordingly, HAC and many other rural stakeholders' groups have for the past several years advocated for a multi-billion-dollar initiative to provide flexible funding that enables multi-year grants and ongoing support so that rural communities can attract the necessary investment, including from federal programs, and manage implementation of locally led solutions that lead to economic impact.

This dedicated program would empower rural regions by supporting locally led planning and capacity building efforts and providing flexible funding to meet critical needs. It would consist of two funding streams: grants for direct activities and projects and grants for organizations providing technical assistance. Having funds dedicated to capacity building and technical assistance would allow organizations to better support their communities. Just as Congress moved in a bipartisan fashion to enact the Infrastructure Investment and Jobs Act (IIJA), so must it authorize this transformative program to ensure that rural communities – especially historically underserved and persistently poor communities – have the capacity infrastructure to transform the capacity of rural places to improve housing conditions.

Ensure that RHS has Sufficient Staff and Operational Capacity

RHS plays a unique role in rural communities as a service provider and a connector to funding and program opportunities. Unlike some resource and expertise-rich urban counterparts, rural areas cannot overcome capacity gaps at the agency administering the lion's share of federal housing funds in their communities.

First and foremost, a well-trained, experienced, and community-focused workforce is essential to RHS best supporting rural communities. Current staffing shortages and uncertainty about processes and the chain of command, particularly as transactions move across branches within the multifamily housing division, have real implications for organizations and individuals trying to work with RHS programs.

Technological updates are also a critical element of improving the RHS services. Current technology at RHS is vastly out of date, slowing down processing times. Using newer technology could also improve data collection, which could better inform which programs should be funded and where funds should go.

CONCLUSION

High quality rural housing is critical to maintain the health and well-being of communities across the United States. USDA programs make renting and owning feasible options for people through rental assistance, financing options, and capacity building opportunities. RHS has had a major impact on rural communities despite its ever-shrinking budget. The age of the housing stock in many rural areas is beginning to show, and with shifts in Section 515 availability and other USDA programs, the future health of rural communities is at risk. Improving multifamily options and rental assistance would help people who cannot afford to buy a home stay in their communities. Reinvesting in single-family housing support would help current and future homeowners improve their homes. Strengthening capacity building programs would help communities develop in sustainable and impactful ways. Finally, improving staff training and upgrading technology at RHS would help USDA better serve rural communities. These shifts would improve the quality of housing options and the quality of life for many rural Americans.

RESPONSES TO WRITTEN QUESTIONS OF CHAIR BROWN FROM CHRISTOPHER HERBERT

Q.1. You mentioned in your testimony that restrictive zoning hinders the construction of affordable starter homes. What types of zoning requirements can restrict the ability to build these more affordable homes, and have we seen any communities successfully address those barriers?

A.1. In my testimony I relayed an anecdote I had recently heard from a homebuilder who specializes in entry-level housing that a community in Colorado had a minimum house size of 1,600 square feet that made it impossible for them to build their most common entry-level home. However, systematic information on zoning restrictions is extremely limited so it is difficult to document the extent to which such restrictions limit the building of small single-family homes generally. However, one systematic analysis of zoning codes in all jurisdictions in Connecticut has found that even in a State that outlawed the use of minimum house sizes there were a number of jurisdictions that imposed such limits, including a number that set a minimum house size of 2,000 square feet. [1] But a related and very common regulatory limit that makes it difficult to build entry-level homes are minimum lot size requirements that increase land costs per home. The same study of Connecticut's zoning found that 91 percent of all land in the State was zoned exclusively for single-family homes and in 73 percent of these areas the minimum lot size was at least 0.92 acres and in 45 percent of these areas the minimum was 1.84 acres.

But this issue is by no means limited to Connecticut as another recent study on zoning in Texas concluded that minimum lot sizes in that State also constrained housing supply generally and specifically of homes on 5,000–7,000 square foot lots that have strong demand. [2] In addition, a study by researchers at the University of Pennsylvania examining survey results on regulatory conditions in suburban jurisdictions across the country and how they have changed over the period from 2006 to 2008 found that increases in minimum lot sizes were one of the most significant trends toward more restrictive development over this period. [3] Slightly more than 40 percent of jurisdictions were found to have increased minimum lot sizes, with the share reporting a minimum size of over ½ acre increasing from 39 to 52 percent. In addition to minimum lot sizes, another important way in which zoning restricts the development of entry-level housing is through limiting development to detached single-family homes. The same Connecticut study found that very little land is zoned as of right for multifamily housing that would allow for duplex, triplex, town home, or condominium development.

There has been a growing movement to address these limits on more modest entry-level housing. At the jurisdiction level, the City

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[1] Bronin, Sarah C. "Zoning by a Thousand Cuts". *Cornell Journal of Law and Public Policy*, February 24, 2022.

[2] M. Nolan Gray and Salim Furth. "Do Minimum-Lot-Size Regulations Limit Housing Supply in Texas?" Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, May 2019. Available at: *https://www.mercatus.org/students/research/research-papers/do-minimum-lot-size-regulations-limit-housing-supply-texas.*

[3] Gyourko, Joseph, Jonathan S. Hartley, and Jacob Krimmel. "The Local Residential Land Use Regulatory Environment Across U.S. Housing Markets: Evidence From a New Wharton Index". *Journal of Urban Economics* 124 (2021):103337.

of Minneapolis in 2020 changed its zoning to allow for three homes to built as of right in all areas of the city. [4] Similarly, the City of Charlotte as part of its comprehensive plan process also upzoned many areas of the city formerly limited to single-family detached homes to allow for townhomes and duplexes. [5] There have also been significant initiatives at the State level to overrule local resistance to such higher density development, including the elimination of single-family zoning in many areas of the State by both California and Oregon. [6] The State of Massachusetts has passed a new mandate for all communities served by the mass transit system to zone a specified minimum amount of land within a half-mile of a transit stop for as-of-right housing at a density of 15 units per acre to allow for an increase of each town's housing stock by 10 percent over time. [7]

Q.2. What challenges do private, public, and nonprofit sectors face when attempting to reduce the cost of construction by pursuing more efficient means of building homes through offsite production? What policies can help reduce barriers and cost for more efficient means of building homes through offsite production?

A.2. Several recent studies have explored the potential and the challenges of more widespread use of offsite production methods. Most recently, a study conducted by researchers at Abt Associates for the Terwilliger Center for Housing Policy at the Bipartison Policy Center identified a series of obstacles to greater use of modular housing, including the need for a steady flow of production to support the high fixed costs of a factor, the long learning curve for adopting this new method, the lack of experienced installers, and difficulties in the Government inspection process. [8] This study suggests that one way in which the public sector can support the development of the sector is through support for minimum purchase commitments that support the development of factories to produce these homes. It also cites examples of two public programs, one by the State of Colorado providing financial support for starting offsite factories and another by the State of Virginia housing finance agency providing grants of up to $500,000 to support innovative construction techniques, which included support for a new modular housing factory.

A 2018 report by the Terner Center for Housing Innovation at the University of California at Berkeley also explores the potential of and barriers to offsite production. The list of barriers is similar to that of the Abt Associates study, highlighting the need for consistent production to support the factory and the challenge of time-

[4] See Minneapolis 2040 at *https://minneapolis2040.com/*.

[5] See Charlotte's Unified Development Code available at *https://charlotteudo.org/wp-content/uploads/2022/08/CLT-UDO-Adopted-08-22-22.pdf.*

[6] Von Hoffman, Alexander. "Single-Family Zoning: Can History Be Reversed?" Housing Perspectives, October 5, 2021, Harvard Joint Center for Housing Studies. Available at: *https://www.jchs.harvard.edu/blog/single-family-zoning-can-history-be-reversed.*

[7] Information on this regulation is available at *https://www.mass.gov/info-details/multi-family-zoning-requirement-for-mbta-communities.*

[8] Burnett, Kimberly, Jeffrey Lubell, Lindsay Elam, and Mary Tingerthal. "Using Economies of Scale To Produce Starter Homes". Abt Associates and the Bipartisan Policy Center, November 2022. Available at: *https://bipartisanpolicy.org/report/economies-produce-starter-homes/*.

ly inspections of modules.[9] The Terner Center study also focuses on the challenges of using traditional construction financing which does not align with the high upfront costs of factory production and argues that the public sector could play a role in providing loan guarantees that could facilitate the development of financing for this form of production.

A study by the American Enterprise Institute was more pessimistic about the potential for the offsite construction industry to achieve greater scale in the U.S. reviewing the history of previous initiatives that failed to gain traction.[10] The study notes the advantage of the flexibility of existing homebuilding methods to adapt to specific demands and unique site features as well as the high transportation costs for modular components as difficult barriers to overcome. However, the study does note the significant cost advantage of manufactured homes and concludes that if all offsite construction methods were subject to a similar single national code there would likely be much greater production of modular and panelized construction methodologies.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNOCK FROM CHRISTOPHER HERBERT

Q.1. The Federal Reserve rate hikes have clearly affected the broader economy. However, within the housing market, prices still remain stubbornly high. This is unusual considering how interconnected the housing market is with borrowing rates. One possible explanation is homeowners with low, fixed rates are locked into their current homes due to higher borrowing costs, which in turn further locks housing supply.

Who is bearing the brunt of the rate hikes in the housing market? Is it fair to say low-income and first-time home buyers are feeling the most economic consequences? Which generation is being affected the most by these market conditions?

A.1. Interest rate hikes are certainly most consequential for first-time homebuyers as they attempt to qualify for a mortgage. Lower-income households will also be more impacted. However, higher interest rates are also consequential for current homeowners who would like to change homes but face much higher mortgage costs if they do. Homeowners who would like to tap home equity for home improvement, funding education or businesses also face higher costs. But all told, it seems fair to say though that the largest impact is on younger households who are unable to afford to buy a home.

Q.2. If rate hikes won't free up supply and lower prices, how can we open up supply in the short run? ls there a legislative solution you would recommend to approach this problem?

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[9] Galante, Carol, Sara Draper-Zivetz, and Allie Stein. "Building Affordability by Building Affordably: Exploring the Benefits, Barriers, and Breakthroughs Needed To Scale Off-Site Multifamily Construction". Terner Center for Housing Innovation, UC Berkeley. March, 2017. Available at: *https://ternercenter.berkeley.edu/wp-content/uploads/2020/08/offsite-construction.pdf.*

[10] Fisher, Lynn M., and Scott Ganz. "Will Homebuilding Finally Evolve? Lessons From the American Experience With Factory-Built Housing". AEI Economic Perspectives, American Enterprise Institute, April 22, 2019. Available at: *https://www.aei.org/research-products/report/will-homebuilding-finally-evolve-lessons-from-the-american-experience-with-factory-built-housing.*

A.2. Higher interest rates will make it more difficult to supply new housing, adding to the shortfall in supply that has been evident in recent years. Of most concern for policy is the shortage of affordable housing, including subsidized rental housing. Perhaps the most effective legislative solution would be to increase funding for the Low-Income Housing Tax Credit to expand the supply of below mark rate rental housing. Proposals such as the Neighborhood Homes Investment Act which would provide subsidies to expand the rehabilitation and new construction of housing in distressed communities could also help expand the supply of affordable housing.

Q.3. For the first time since it began tracking data, the Federal Reserve Bank of Atlanta designated the Atlanta housing market as unaffordable, keeping more and more prospective homeowners in the rental market. All the while, rents continue to rise, causing folks to spend a significant proportion of their income on rent. Last Congress, I introduced the Rent Relief Act, which would give low- and middle-income folks who spend over 30 percent of their income on a rent a fully refundable tax credit.

Do you believe supplementing rent, especially for vulnerable renters, is effective at keeping people housed?

A.3. Households facing very high housing cost burdens are clearly more vulnerable to experiencing homelessness and so providing subsidies would certainly reduce this risk. A recent book by Gregg Colburn and Clayton Page Aldern undertake a thorough review of factors that might explain differences in the rate of homelessness across markets in the United States and conclude that the most important factor is differences in the cost and availability of rental housing. [1]

Q.4. Do you recommend any other short-term solutions to protect low and middle-income renters?

A.4. The Emergency Rental Assistance that was provided during the pandemic to help renters make up arrears to avoid eviction has proven quite effective at both stabilizing renters and in supporting landlords who would otherwise experience higher financial losses. While the economic impacts of the pandemic are fading the financial challenges facing low-income renters continue as indicated by the continued high share of renters reporting being behind on rent in the Census Bureau's Household Pulse Survey. Providing ongoing support for this form of emergency rental assistance would be a significant improvement in the Nation's rental housing safety net. In addition, funding to provide tenants with advice and counsel about their rights as tenants and help with housing search as well as support for the cost of moving could also help to improve renter stability.

Q.5. Foreign and out-of-State investors have had an outsized influence on Georgia's residential real estate market over the past decade. The buy-to-rent model has been particularly prevalent in the metro Atlanta area and targeted toward Black and Brown communities, keeping more and more Georgians from home ownership.

[1] Colburn, Gregg, and Clayton Page Aldern. "Homelessness Is a Housing Problem: How Structural Factors Explain U.S. Patterns". Univ. of California Press, 2022.

Do you think the issues I brought up in my two previous questions are some of the symptoms of this investor activity?

A.5. The previous questions were related to affordability in the rental market overall. There have been very few studies that I am aware of that have examined the relationship between the extent of investor activity in a market and growth in overall rents. One study by researchers from the Federal Reserve Bank of Philadelphia examined this question and did find that investor activity explained about a third of the change in single-family rent growth across the markets studied (although they did not examine changes in overall market rents).[2] Another study does examine rent changes at the neighborhood level in cases where two large single-family investors merged and find that rents increased by 0.5 percentage points more in these neighborhoods compared to other neighborhoods where the two firms operated, suggesting that investor activity does push up rents faster than they otherwise would have risen. Still, with overall rent increases of several percentage points in most years this degree of increase is only a portion of the overall rise in rents. In short, while there is some evidence that investor activity is contributing to increases in rents it does not explain a majority of these increases.

Q.6. Why do you believe investors are choosing to target Atlanta and the surrounding areas?

A.6. Investors appear to have been drawn to sunbelt markets generally because of relatively low cost of housing compared to high-cost coastal markets and also because the housing stock is generally newer and more standardized in typology that makes valuation and management easier. The faster growth of these States also provides more stable demand for housing. Finally, these States generally experienced higher levels of foreclosure following the Great Recession that provided an opportunity for investors in these areas that they are now able to build on.

Q.7. How do Georgia's tenants' rights, which are largely determined at the State level, compare to the rest of the Nation?

A.7. Not being a legal scholar, this is not my area of expertise. However, several sources suggest that Georgia's laws are among the most favorable for landlords in the country in terms of ability to evict quickly, charge fees, and enter properties.[3]

RESPONSES TO WRITTEN QUESTIONS OF SENATOR FETTERMAN FROM ROHIT CHRISTOPHER HERBERT

Q.1. I have grown increasingly concerned about the outsized role private equity is playing in the housing space, including reported growth in the manufactured housing sector. Observers have seen institutional investors target manufactured housing communities,

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[2] Lambie-Hanson, Lauren, Wenli Li, and Michael Slonkosky. "Leaving Households Behind: Institutional Investors and the U.S. Housing Recovery". Research Department Working Papers, Federal Reserve Bank of Philadephia, WP19-01, January 2019.

[3] See, for example, reviews by: ConsumerAffairs (*https://www.consumeraffairs.com/moving/best-states-for-renters.html*), Roofstock (*https://www.consumeraffairs.com/moving/best-states-for-renters.html*), and SparkRental (*https://sparkrental.com/anti-landlord-laws-worst-cities-states-for-investors/*).

purchasing the land and raising rents, increasing evictions, and deferring even basic maintenance.

As private equity increases its presence in manufactured housing communities, what impact will we see on residents' pocketbooks? Could you share any data or specific examples you have regarding increases in rent or fees after private equity firms purchase manufactured housing communities.

A.1. Concerns about investors raising rents substantially on residents of manufactured housing communities has been covered widely by the media, although I am not aware of any academic studies that have documented the extent of this phenomena.[1] The academic Esther Sullivan of the University of Colorado at Denver has done a number of studies examining the impact of rising rents and evictions in manufactured home communities, which highlight the devasting impact that these increases have on residents.[2]

Q.2. What do we know about the role federally backed loans are playing in these purchases?

A.2. There is no systematic information that I am aware of on the extent of these purchases or the prevalence of different forms of financing for these purchases. However, in 2021 several high profile media reports found cases where manufactured home community residents facing significant rent increases lived in communities that had been acquired using financing from the Government-sponsored enterprises, Freddie Mac and Fannie Mae.[3] In response to these concerns the Federal Housing Finance Agency required the agencies to increase their protections for residents on loan they financed under their Duty to Serve mandates.[4] Since 2022 both GSEs require manufactured home park borrowers to include a series of mandated tenant protections as part of their loan terms including renewable lease terms, written notice of rent increases, grace periods for late rental payments, and rights governing the sale of a manufactured home at an MHC. However, there are certainly other protections that could be extended to residents as part of FHFA's oversight of this aspect of GSE lending.

Q.3. How could Fannie Mae and Freddie Mac better support residents seeking to purchase these properties, particularly as co-ops or other community ownership structures?

A.3. Resident ownership of manufactured home communities has been proven effective at increasing affordability and stability in these communities. A number of factors are needed to support resident purchase of these parks, including State laws requiring adequate notice of sale, a right of first refusal by residents, and tax

[1] See for example: Kasakove, Sophie, "Investors Are Buying Mobile Home Parks. Residents Are Paying a Price". *New York Times*, March 27, 2022; Kolhatkar, Sheelah. "What Happens When Investment Firms Acquire Trailer Parks". *The New Yorker*, March 8, 2021; Bhattarai, Abha. "'We're All Afraid': Massive Rent Increases Hit Mobile Homes". *Washington Post*, June 6, 2022.

[2] Sullivan, Esther. "Displaced in Place: Manufactured Housing, Mass Eviction, and the Paradox of State Intervention". *American Sociological Review* 82, no. 2 (2017): 243–269.

[3] See, for example, Arnold, Chris, Robert Benincasa, and Mary Childs. "How the Government Helps Investors Buy Mobile Home Parks, Raise Rent and Evict People". National Public Radio, December 18, 2021. Available at: *https://www.npr.org/2021/12/18/1034784494/how-the-government-helps-investors-buy-mobile-home-parks-raise-rent-and-evict-pe.*

[4] Federal Housing Finance Agency, Listening Session on Manufactured Housing, July 12, 2022. Available at: *https://www.fhfa.gov/Media/Documents/FHFA-Listening-Session-on-Manufactured-Housing-07-12-2022.pdf.*

incentives to support these transactions.[5] Access to long-term, affordable financing is also key to supporting these transaction. Both GSEs do provide such financing,[6] although the scale of these efforts could be increased. However, such an increase would be most likely in conjunction with efforts by policymakers to increase tenants right to purchase. A 2021 policy brief by Enterprise Community Partners outlines a number of ways in which there could be greater financial and other supports for these transactions.[7]

Q.4. I am incredibly proud of the work Pennsylvanians have been doing to preserve our existing housing supply, like through the Whole-Home Repairs Program. In 2022, the Pennsylvania State legislature passed a first-in-the-Nation law establishing this program, which uses funding from the American Rescue Plan Act to provide streamlined grants for homeowners and landlords to repair and weatherize their homes. Instead of needing multiple grants to address specific repair needs, recipients can address the totality of habitability, safety, accessibility, or sustainability concerns.

What impact will there be on affordability and supply if we fail to maintain existing housing?

A.4. According to the U.S. Department of Housing and Urban Development's Worst Case Housing Needs 2021 Report to Congress among very-low income households earning less than 50 percent of Area Media income there are 5.1 million renters receiving rental assistance.[8] But this represents just over one in four of households at this income level who are generally available for rental subsidies. Of the remaining households, most are facing either severe or moderate housing problems, paying more than 50 percent or 30 percent of income on housing, or living in severely or moderately inadequate housing. Still, some 3.5 million households at these income levels live in affordable, decent quality housing provided by unsubsidized housing. For low-income households earning 50–80 percent of AMI, who are increasingly facing rent burdens, the number living in affordable, unsubsidized housing is even larger at 3.7 million. In short, existing housing affordable to low-income households without subsidies is of great importance for millions of renter households.

As my Center's work has documented, renters who face housing cost burdens are forced to cut back on spending on essentials such as food, health care, transportation and savings and face an increased risk of housing instability.[9] Our work has also documented the significant loss of affordable rentals over the last decade as market pressures have pushed up rents across the board in mar-

[5] National Consumer Law Center. "Promoting Resident Ownership of Communities". January 2021. Available at: *https://www.nclc.org/wp-content/uploads/2022/08/cfed-purchase-guide.pdf.*

[6] See *https://www.multifamily.loans/freddie-mac-manufactured-housing-community-resident-owned-loan/* and *https://multifamily.fanniemae.com/financing-options/specialty-financing/manufactured-housing/non-traditional-ownership-pricing-incentive.*

[7] Abu-Khalaf, Ahmad, Flora Arabo, and Steven Swann. "Preserving the Affordability of Manufactured Homes in Land-Lease Communities". Policy Brief, Enterprise Community Partners, 2021. Available at: *https://www.enterprisecommunity.org/sites/default/files/202110/Manufactured%20Home%20Communities%20Policy%20Brief-updated.pdf.*

[8] U.S. Department of Housing and Urban Development. Worst Case Housing Needs 2021: Report to Congress. Available at: *https://www.huduser.gov/portal/sites/default/files/pdf/Worst-Case-Housing-Needs-2021.pdf.*

[9] Harvard Joint Center for Housing Studies. America's Rental Housing 2022. Available at: *https://www.jchs.harvard.edu/americas-rental-housing-2022.*

kets across the country so that the number of rentals for $600 or less declined by 3.9 million between 2011 and 2019.

Policies that support the preservation of existing housing at lower rents would have great benefit. Such approaches could include favorable loan terms, grants, or tax breaks in exchange for limiting rent increases on these properties. In addition, there is also a need to support investments to maintain older homes, with a particular need for supports for low-income households who may have difficulty affording these investments. Researchers at the Federal Reserve Bank of Philadelphia have estimated that there is a need for $149B in investment to remedy deficiencies in the existing housing stock, including $57B for homes occupied by low-income households. [10]

Q.5. What do we know about the match—or mismatch—between the current housing supply and our aging population's needs?

A.5. I am very glad you are asking this question as my Center has an initiative specifically focused on the challenges we face in meeting the housing needs of a rapidly aging society and has produced a broad range of research on this topic. [11] First, there is enormous unmet need for affordable rental housing for older adults. Over 10 million households headed by someone 65 and over are cost burdened (paying more than a third of their income on housing); half of these pay more than 50 percent. Nearly three-quarters of renters earning under $15,000 per year are cost burdened. To compensate, households often cut back on food and medical care, which can be detrimental for those with chronic health conditions. Renters, often on fixed incomes, are particularly at risk of rising housing costs, and have a much smaller personal safety net: in 2019, the median older renter had a net wealth under $6,000.

At last measure, over 2.2 million older, very low-income renter households had "worst case housing needs," defined as having severe cost burdens, living in severely inadequate housing, or both. Only 36 percent of income-eligible older adults receive Federal housing assistance, and trends point to greater demand for support in the coming years: the number of income-eligible households will increase with population growth and widening income disparities, and rentership rates are rising, in part because people now nearing retirement were particularly hard hit by the foreclosure crisis. Expanding rental assistance can provide needed stability to these households—and also help address a growing homelessness crisis among older adults.

Affordability challenges are disproportionately felt by older people of color. Longstanding disparities in access to well-paying jobs and home ownership opportunities have resulted in steep gaps in home ownership with White households and greater financial insecurity, particularly for older Black and Hispanic households.

Second, very little of the Nation's housing stock offers even the most basic of accessibility features. Our analysis shows that less

[10] Divringi, Eileen. "Updated Estimates of Home Repair Needs and Costs", Research Brief, Federal Reserve Bank of Philadelphia, March 2023. Available at: *https://www.philadelphiafed.org/-/media/frbp/assets/community-development/reports/23-02-home-repairs-update.pdf.*

[11] For more information on the Joint Center's work in this area see *https://www.jchs.harvard.edu/research-areas/aging.*

than 4 percent of homes offer a no-step entry, single-floor living, and wide enough doors and hallways to accommodate a wheelchair. Older people are also most likely to report difficulties entering, navigating, and using different parts of their homes. Support is needed for renters and property owners, as well as older homeowners, to make modifications and maintain housing in safe condition.

Third, the need for assistance and services that support older adults with activities of daily living and household tasks is escalating. Service-enriched affordable housing has been shown to support independence—and reduce health care costs—but need outstrips supply. Demand will grow for supports and services delivered to middle-income older adults who typically also cannot afford assisted living settings.

Finally, our research shows that many older adults live in places that lack livability features, such as neighborhood services, transportation alternatives, safe streets, and opportunities for engagement. These all contribute to wellbeing, and can even combat isolation and loneliness, both serious health issues in their own right. This lack points to the need for support for the development of new housing options in well-located areas where these needs can be met.

Q.6. Can you outline the historical relationship between rental building repairs or infrastructure improvements and affordability, eviction rates, or rent increases?

A.6. Unfortunately I am not aware of any studies that have examined the relationship between building repairs and infrastructure improvements and these outcomes.

Q.7. How will an effort like the Whole-Home Repairs Program fill in gaps in existing grant and loan opportunities?

A.7. The Whole-Home repairs program does hold great potential for improving the ability of lower-income households to invest in improvements in the quality and energy efficiency of their homes. As the Joint Center documented last year, there are a variety of Federal, State, and local programs that support remodeling but they vary widely in eligibility, uses of funds, and the amount of funding available relative to the need. [12] It will be valuable to study the implementation and outcomes from this Pennsylvania program to assess how well it fill the gaps in the significant need for repairs referenced above as well as the "deferral gap" that makes a home ineligible for the Weatherization Assistance Program until other physical deficiencies are remedied.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SINEMA FROM ROBERT DIETZ

Q.1. The demand for affordable housing has far outpaced the supply of available units. According to the Arizona Department of Housing, the State is short 250,000 units to meet the demand. We

[12] Mayes, Taylor, and Carlos Martin. "Home Repair Programs Serve Critical Needs for Low-Income and Vulnerable Homeowners". Housing Perspectives, Harvard Joint Center for Housing Studies, June 27, 2022. Available at: *https://www.jchs.harvard.edu/blog/home-repair-programs-serve-critical-needs-low-income-and-vulnerable-homeowners.*

know that supply chain disruptions, zoning constraints, and other local barriers have impacted the development of affordable housing. A few weeks ago, I held a roundtable discussion in Arizona with industry experts and housing developers. It was brought to my attention that the Department of Energy is proposing a rule that would require electrical transformers to use amorphous steel cores. Can you tell me about the availability of amorphous steel, other industries that will be in direct competition with affordable housing developers to obtain this material, and the impact you see this Federal regulation having on the development of affordable and available housing units?

A.1. Amorphous metals are used to manufacture countless items, including: Solar cells, casings for electronics and telecommunications equipment (such as cell phones), protective coatings for petroleum drill pipes and for boiler tubes in electrical plants, armor-piercing ammunition being developed by the military.

Amorphous metals are also used in aerospace, medical devices, electric motor parts, and robotics. [1] Both amorphous and grain-oriented electrical steel (GOES) will continue to experience increasing demand both domestically and internationally. Demand for amorphous metals will be driven by global electric grid modernizations as well as increased demand for higher-efficiency industrial motors.

Although amorphous metals are not yet suited to EV motors, [2] amorphous metals are extremely well suited for other applications in EV manufacturing and will experience increased demand with that segment of the automotive market in addition to use in high-efficiency, high-cost transformers.

Energy rationing policies in China caused a global deficit of electrical steel as the country accounts for more than 70 percent of worldwide production. This resulted in increasing prices in 2021–2022. Prices began to stabilize as China's output normalized but are expected to increase as demand for both GOES and NOES increases in large part due to regulations and infrastructure plans developed by the world's advanced economies in recent years.

While NAHB supports efforts to address energy conservation throughout the country, it is concerning that DOE's efforts to change energy efficiency standards in distribution transformers are coinciding with an unprecedent shortage in distribution transformers affecting the ability of NAHB's members and other interested stakeholders from completing, or even starting projects to meet downstream customer demands.

Lack of adequate competition is compounded by severe disruptions in the supply chain for these and other products, which continue to create significant issues for downstream stakeholders and to date remain unresolved. Continuing shortages remain unresolved and significantly impede industry efforts to meet requirements of even minimal user needs.

For example, a decline in imports of finished transformers has added exponentially to the problems being experienced by end

[1] Industries and Applications of Amorphous Metals, Heraeus Amloy (available at *https://www.heraeus.com/en/landingspages/hat/markets-hat/markets.html#anchor-2*) (last visited March 25, 2023).

[2] Development of Motor with Amorphous Metals, Hitachi (Nov. 18, 2018) (available at *https://www.hitachi.com/rd/sc/story/amorphous/index.html*) (last visited March 25, 2023).

users. Prior to the pandemic, the United States relied on imports for 82 percent of its large transformers. The number of high-capacity transformers has fallen substantially due to both the pandemic as well as restrictive trade policy. Imports of transformers rated for 50kVA–500kVA has fallen from 1.6 million in 2018 to 537,000 in 2022. Mexico has exported more than twice as many units to the United States in 2022 than the next largest international supplier, France, but the number of units exported is still 66 percent lower than it was in 2018.

Imports of transformers rated 16kVA–50kVA have shown a similar downward trend, declining 150,000 units—or 33 percent—between 2021 and 2022. The 2-year total fell nearly one-third between 2018/2019 and 2021/2022. Vietnam, Mexico, and China were the leading source countries in 2022. Consequently, vastly reduced imports into the United States are exacerbating the current transformer crisis across the country.

Restrictive trade policy has also decimated the available supply of GOES in the United States. Without electrical steel, transformers cannot be made. Without transformers, new residential development cannot occur, adversely affecting roughly one-sixth of the U.S. economy.

RESPONSES TO WRITTEN QUESTIONS OF CHAIR BROWN FROM LANCE GEORGE

Q.1. What kinds of capacity challenges do rural communities face when doing economic development and housing stability work? What types of tools could help to increase local capacity to support investments in rural communities?

A.1. The power of capacity building in rural communities cannot be overstated. Rural communities often have small and part-time local governments, inadequate philanthropic support, and a shortage of the specialists needed to navigate the complexities of Federal programs and modern housing finance, and compete for government and philanthropic resources. Targeted capacity building through Federal investments in training and technical assistance is how most local organizations build the skills, tap the information, and gain the wherewithal to do what they know needs to be done. Without deeply embedded, high-capacity local organizations, available Federal funding and other capital will never evenly flow to rural communities.

A variety of Federal programs invest in local organizations with the training and technical assistance they need to serve their communities effectively. The Rural Capacity Building (RCB) Program at the U.S. Department of Housing and Urban Development (HUD) and the Rural Community Development Initiative (RCDI) at the U.S. Department of Agriculture (USDA) are two critically important capacity building programs that focus specifically on rural areas. Other targeted programs, like the Community Facilities Technical Assistance and Training Grant and the Multi-Family Housing Non-Profit Transfer Technical Assistance Grant, fund hyper-targeted technical assistance for specific Rural Housing Service programs. HAC supports increased funding for these programs, as well as new capacity building programs like the Rural Partnership Program, and the creation of a robustly funded Federal rural housing intermediary.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR FETTERMAN FROM LANCE GEORGE

Q.1. People across Pennsylvania have shared with me their struggles with rising rents and home prices in our cities, suburbs, and rural regions. It has been reported that apartment rents have increased 40 percent in central Pennsylvania since 2017, and the median metro sale price increased 6.9 percent from October 2021 to October 2022. In many areas, demand is vastly exceeding supply. Projections vary, but the National Low Income Housing Coalition estimates that the State is short 266,000 rental homes affordable and available for extremely low-income renters.

One of the existing tools we have to address housing shortages in rural areas is the Department of Agriculture's (USDA) Section 515 Rural Rental Housing Loan Program. Yet despite the real potential of this program to increase the stock of needed affordable rental housing, funding has been cut. There have been no new rural rental homes financed under Section 515 since 2011.

How can Congress use existing programs like Section 515 to kickstart rural housing development?

A.1. An important source of housing in many rural communities are rental homes financed by USDA. Today, there are nearly 13,000 USDA rental properties providing around 400,000 affordable homes to families and individuals across rural America. However, due to Federal funding cuts, no new USDA direct financed rental housing has been developed in years, and the existing properties are increasingly losing their affordability provisions. Once the mortgage on the property matures, the units lose their rental subsidy and thus their affordability. For many rural communities, these units constitute the only affordable rental housing available. Significant Federal commitment is needed to address this rising crisis. We elaborate on the Federal tools needed in the responses to Questions 2 and 3 below. But more generally, programs like Section 515 are important to maintaining a healthy housing ecosystem in rural communities. Economic and community development can be hobbled by a lack of workforce and low-income housing sources, especially housing for rent.

You can explore more about rural multifamily production in this 2018 study from the Urban Institute and HAC entitled "A Platform for Production". The key takeaways from that report suggests the following core strategies for improving affordable rental housing production across rural communities:

1. Increase public-sector resources for the production of new affordable rental housing in rural America.
2. Set priorities and preferences, and provide incentives, for development projects in rural communities with the most-severe needs.
3. Minimize risk and attract private-sector investment by using innovative strategies.

4. Improve the capacity of Federal agencies to mobilize and coordinate funding to rural communities.
5. Improve developer capacity in underserved rural places and provide incentives.
6. Promote more flexible building types for rental housing in rural communities.
7. Establish, maintain, and provide access to a national and/or statewide database of existing market analyses in diverse types of rural markets.
8. Encourage proactive local planning for rental housing development, prioritizing areas where local infrastructure and services already exist.

Q.2. Additionally, USDA loans from the main period of Section 515 activity are reaching maturity, meaning that the bulk of the USDA's stock will exit the program within this decade.

What mechanisms can the Federal Government leverage to preserve this rental housing stock?

A.2. HAC supports increased funding for the USDA Section 515 program to allow for new multifamily construction to resume; increased funding for the Multifamily Preservation and Revitalization (MPR) program, the Preservation Revolving Loan Fund (PRLF) program, and the Multifamily Preservation Technical Assistance program, to address the preservation needs of the multifamily portfolio; the extension of rural rental assistance to all USDA multifamily units; and improved protections for tenants in USDA properties that are being preserved. All of these tools would help to preserve and expand this important rental stock. Additionally, other Federal and State programs, such as the Low Income Housing Tax Credit, can help to preserve Section 515 properties.

Q.3. Are there certain incentives we know help willing owners restructure their loans and remain in the program?

A.3. USDA has a few programs that help to restructure Section 515 loans or otherwise keep properties in the program. The MPR program, mentioned above, helps owners to restructure their loans to stay in the program. However, the MPR program is woefully underfunded compared to the need, which is projected to be $30 billion over the next 30 years to preserve 80 percent of the portfolio, according to informal USDA estimates. Additionally, the Multifamily Preservation Technical Assistance program helps owners navigate the complex process of preserving properties or transferring them to new mission-driven owners who will preserve the properties. USDA also rolled out a new Simple Transfer Pilot in 2022 to streamline property transfers, but only certain properties and transactions are eligible for this streamlining. Adding some prioritization for transfers to nonprofits and smaller preservation deals into Federal funding streams could help the smallest, lowest capacity communities better preserve their properties. And finally, some advocates support "decoupling" the Section 521 rental assistance from the Section 515 mortgage to ensure that rental assistance can continue after the mortgage matures. This decoupling concept could be tested as a pilot initially, to assess its efficacy before being expanded to the entire portfolio.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Statement submitted by Senator Cynthia Lummis of Wyoming

Thank you, Chairman Brown. I'm pleased that we are focusing our first committee meeting this Congress on the important topic of housing.

The high cost of housing is a challenge for the people of Wyoming, like it is for many Americans. Many families are struggling to find affordable and available housing, especially low- and middle- income families.

In addition to providing shelter, housing provides Americans community and support. The purchase of a home is the opportunity to build wealth and achieve the American dream. The challenge of finding safe, affordable housing, particularly in rural communities, has Americans looking to us for solutions.

As ranking member of the Housing, Transportation, and Community Development subcommittee, I look forward to working with my colleague, Senator Smith, to reduce regulatory burdens that stall the building of new homes and find ways to improve access to affordable housing for all Americans, particularly those in rural areas and on Native American reservations.

Letter submitted by Jeffrey Bode, President and CEO, Click n' Close, Inc.

Click n' Close™, Inc.

February 9, 2023

The Honorable Sherrod Brown	The Honorable Tim Scott
Chairman	Ranking Member
Committee on Banking, Housing and Urban Affairs	Committee on Banking, Housing and Urban Affairs
United States Senate	United States Senate
534 Dirksen Senate Office Building	534 Dirksen Senate Office Building
Washington, D.C. 20510	Washington, D.C. 20510

Re: Senate Committee on Banking Housing and Urban Affairs hearing titled: "The State of Housing 2023"

Chairman Brown, Ranking Member Scott, and Members of the Senate Committee on Banking, Housing and Urban Affairs, Click n' Close (formerly Mid America Mortgage) would like to express our appreciation for your interest in the housing market and the supply, price, and access challenges facing American homebuyers.

Click 'n Close also owns 1st Tribal Lending, the nation's premier mortgage lender to Native Americans obtaining Section 184 loans. Currently, 1st Tribal Lending provides about 50% of the 184 loans to deserving Native American borrowers. As an aside, the Committee we are very pleased to report that our Section 184 loans are currently performing very well.

We appreciate the Committee's consideration to include our testimony for the hearing Record and for the opportunity to present to the Committee recommendations that will combine the use of technology and access to the National Directory of New Hires ("NDNH") to streamline the mortgage process and, more importantly, lower consumers' interest rate costs.

As we know, the housing market has been under extreme stress this past year. However, it is times like these which often lead to the implementation of new and improved business practices that can and will save consumers time and money and improve the consumer's mortgage experience.

I. Utilizing the NDNH Database for Verifying a Mortgage Applicants' Income

We propose utilizing the Department of Health and Human Services' ("HHS") Office of Child Support Enforcement ("OCSE") NDNH database for the purposes of verifying a mortgage applicant's income to alleviate the problems being faced with the IVES system, mitigate fraud in the mortgage industry, and accelerate the "application-to- close" period, which will result in significant savings to homebuyers. This proposal would enable Fannie Mae, Freddie Mac, and qualified mortgage lenders to pull the current and past year's income information only from the NDNH database and transmit the information, in an encrypted format, to the GSEs and qualified lenders' underwriting systems. Unlike the IVES system, the NDNH database also has current year income information, to the past quarter, so underwriters would be able to verify mortgage applicants' current and past years' income within seconds. We would like to stress that the information pulled from the NDNH database would be limited solely to verifying the mortgage applicant's income and only with the consumer's signed consent.

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- ***Improving Anti-Fraud Management***

Between the second quarters (Q2) of 2016 and 2017, overall risk for mortgage application fraud increased 16.9 percent. Specifically, financial analytics company, CoreLogic, found that around 13,404 mortgage applications contained indications of fraud, a 0.82 percent incidence, compared to 0.70 percent the previous year. Since mortgage fraud appears to be on the rise, it is important that the industry be able to have the necessary tools available to it to prevent fraud. Being able to use the NDNH database safely and securely to verify mortgage applicants' income will greatly help to achieve that goal.

- ***Enhancing Security While Improving Efficiency***

Federal law requires that OCSE implement safeguards to restrict access to NDNH information to authorized entities and restrict the use of the information for authorized purposes only. In fact, federal law mandates various operational, technical, and management safeguards that ensure NDNH information is stored, accessed, and used safely, securely, and properly. The reason for the original IVES update that led to the problems IVES system stemmed from the IRS' efforts to improve the security of the IVES system. Accessing the NDNH database gives the industry and the consumer the security they need while enhancing the efficiency of the mortgage process.

- ***Using Technology to Reduce Consumer Costs***

There are other benefits to utilizing the NDNH database for income verification. The new hire, quarterly wage, and unemployment compensation information is transmitted from the states to the NDNH electronically through high-speed, secure communication lines. Employers are strongly encouraged to electronically transmit their new hire data to the state.

Currently, a mortgage application can take anywhere from 45 to 90 days to be processed and closed. It is estimated that for every 30 days the "application-to-close" period is reduced, the consumer will save approximately one-quarter point on their interest rate. Accelerating the mortgage process will be even more important for consumers as the Federal Reserve raises interest rates. Accessing the NDNH database is a significant component in accelerating the mortgage process. Utilizing technology, the industry is striving to reduce that "application-to- close" process time to 10 days. This would result in significant savings to the consumer in addition to helping to improve the consumer experience.

- ***Responsibly Expanding Access to Credit for Low- to Moderate-Income Homebuyers***

In today's workforce, many individuals have multiple jobs. If a lender can verify that an applicant has multiple jobs consistently throughout the year, and that the income from those positions is not temporary, the credit profile for the consumer can be changed. For workers at the lower end of the wage scale, holding multiple jobs is routine. Allowing a lender to verify the applicant's consistent forms of income through the NDNH database will help to responsibly expand the credit box, thus enabling more first-time, low-to-moderate income borrowers to become homeowners.

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II. Expanding the NDNH Database by Capturing Independent Contractors' Income Information

In 2006, the number of independent and contingent workers – contractors, temps, and the self- employed – stood at 42.6 million, or about 30% of the workforce. By 2020, that number is expected to rise to 40%.

Currently the NDNH database captures W-2 wage-earner income information. Capturing independent contractors' income information would expand the data in the NDNH database, thereby enhancing the ability of the OCSE to meet its child support enforcement goals.

If the mortgage industry were to be able to pull income information safely and responsibly from the NDNH database and the database also included independent contractor current year income information, this would greatly reduce the incidence of mortgage fraud, accelerate the mortgage process for independent contractors, and reduce costs while improving their consumer experience.

The process to expand the NDNH database to capture independent contractors' income information could begin by having the IRS share the existing 1099 information with the OCSE. This could be accomplished by having the IRS sign of Memorandum of Understanding (MOU) with the OSCE

Ultimately, to capture current year income information, we recommend embracing a proposal put forth by the leading expert on America's independent workforce, MBO Partners. Their proposal, described below, would establish a Certified Self-Employed Solution (CSE) for independent contractors.

- ***Establishing a Voluntary Program That Would Allow for Clear Distinctions Between Employees and Independent Workers is Needed***

The Certified Self-Employed (CSE) designation would remove roadblocks impeding the growth of the independent services market while embracing many of the elements of the safety net provided by the traditional employer-employee social contract.

The mission of the CSE solution is simple, direct, and critical: it creates voluntary worker-driven steps that empower independents to create partnerships with customers and clients, thus removing the dependences of traditional employment in which a business provides benefits that limit the independents' mobility.

Much as Turbo Tax changed dealing with the IRS, this does the same for the new GIG economy workers, as well as other more traditional small businesses. This platform makes no changes to collections, just provides a simplified process. A simplified process will invariably lead to an increase in additional reporting and, naturally, taxpayer compliance. Very importantly, the income information could be reported into the NDNH database.

- ***How the Certification System Works***

  - When applying for certification, applicants would represent that they understand they are waiving the protections of employment laws. A test or legally binding form would verify that applicants understand what this means.

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- Applicants would agree to comply with applicable tax funding rules whether they are (i) pass-through entities budgeting and setting aside funds from their income so that they are able to pay quarterly taxes or (ii) paying themselves as a W-2, withholding taxes each time they receive payment.
- Applicants would represent that they bear risk of loss and opportunity for profit and understand what is needed to cover their own business expenses, benefits, and self-employment taxes.
- Applicants would represent that they hold themselves out to the public as offering services, and that they have or anticipate having multiple sources of income, and thus do not have economic dependency from any one company that could appear as an employer.
- Applicants would certify that they are free from more than de minimis direction/control from clients concerning the details of their work. ¬ Applicants should be able to represent and show proof of how they are developing their own skills independent from those provided by any one client.
- Certification would be valid for a set period and would be subject to renewal.
- Applicants would agree to verify their tax payments via an approved service provider, such as a certified accountant or financial management platform.
- Certification would bar classification of the worker as an "employee" under any federal, state or local law and would preempt contrary laws.
- Workers who do not go through the certification process would be subject to existing laws and regulations which favor employee status. The recipient of the service (or the platform that delivers the worker to perform the service) must adhere to local and federal employer–employee responsibilities.
- First-time applicants could apply based on their anticipated business model. Renewal applicants would need to represent that their business has been compliant with CSE terms over the previous certification term.

Precedent for Expanding Access to the NDNH Database

NDNH information is used by additional state and federal agencies and other entities for the following specified purposes:

- Subsection 453(b)(1)(A) permits NDNH information to be used for enforcement of state or federal law unlawful taking or restraint of a child or making or enforcing a child custody or visitation determination. • Subsection 453(i)(3) provides the Secretary of the Treasury with access to information in the NDNH for the specified purposes of administering the Earned Income Tax Credit program.
- Subsection 453(j)(3) directs the Secretary, to the extent and with the frequency that he/she determines necessary, to conduct data comparisons among different components of the Federal Parent Locator Service to facilitate the administration of the programs under parts A (Temporary Assistance to Needy Families), B (child and family services), D (child support), and E (foster care and adoption) of Title IV of the Social Security Act.
- Subsection 453(j)(4) provides the Commissioner of Social Security with access to all information in the NDNH.

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- Subsection 453(j)(5) gives the Secretary of Health and Human Services the discretion to provide researchers with access to the NDNH data (reported by employers pursuant to §453A(b)) for research purposes that would contribute to the IV-A (Temporary Assistance for Needy Families) or IV-D (child support enforcement) programs. Any data provided to researchers would not include personal identifiers.
- Subsection 453(j)(6) provides the Secretary of Education with access to information in the NDNH for the purpose of matching individuals who are borrowers of loans made under Title IV of the Higher Education Act of 1965 that are in default or owe an obligation to refund an overpayment of a grant awarded under such title.
- Subsection 453(j)(7) provides the Secretary of Housing and Urban Development with access to information in the NDNH for the purpose of verifying the employment and income of individuals who are participating in certain federal housing programs.
- Subsection 453(j)(8) provides the State Workforce Agencies with access to information in the NDNH for the purpose of administering the unemployment compensation program.
- Subsection 453(j)(9) provides the Secretary of the Treasury with access to information in the NDNH for the purpose of collecting federal (non-tax) debts.
- Subsection 453(j)(10) provides access to information in the NDNH to state agencies responsible for the administration of the food stamp program for purposes of administering a food stamp program.
- Subsection 453(j)(11) provides the Secretary of Veteran's Affairs (VA) with access to information in the NDNH for the purpose of verifying the employment and income of individuals who are applying for, or receiving, certain VA benefits, compensation, or services.
- Subsection 459a(c)(2) permits access to NDNH for a foreign reciprocating country.
- Subsection 466(e) authorizes the Department of State to use NDNH information to locate a parent for purposes of the International Child Abduction Remedies Act.

The NDNH may also be used by entities for certain blanket purposes, such as law enforcement, the Department of Justice, courts and other adjudicative bodies, contractors, and those required as a result of a security breach.

Our proposal to open access to the National Directory of New Hires, but only with the consumer's express written consent, to Fannie Mae, Freddie Mac, and qualified mortgage lenders is beneficial to all parties:

- The mortgage industry will see a decrease in fraudulent mortgage applications that are approved, minimizing the pain of what the FBI in 2010 estimated was over $10 billion lost in loans originated from incorrect, or fraudulent, data.
- Independent contractors will be included in the National Directory of New Hires and the data also can be used to increase taxpayer compliance and improve upon the revenue collection process.
- The OCSE will have more accurate and reliable data and more individuals' data in their system to track and monitor. Including independent contractors, of which there are currently 40 million and the number is growing, into the National Directory of New Hires will only improve upon the viability of the data that the OCSE can use.

Access to the Directory has been granted numerous times in the past for various purposes that help other entities accomplish their missions and/or assist in the OCSE's mission of monitoring and correcting delinquent child support payments. Given the current difficulties with the IVES system, a new, forward-thinking approach is needed. We believe the National Directory of New Hires is that solution. It is secure, fast, and more accurate than any other database that currently exists. We strongly encourage access to the NDNH be granted to Fannie Mae, Freddie Mac, and qualified mortgage lenders.

If the mortgage industry were to be granted access to the NDNH database and relied on it to verify mortgage applicants' income information, it would work in concert with the OCSE to ensure that the NDNH database is accurate and up to date.

Finally, in the past, we have met with officials at Fannie Mae, Freddie Mac, their regulator, the Federal Housing Finance Agency, mortgage industry representatives, and various other officials. Thus far, those officials have been favorably disposed to this proposal.

Thank you very much for your kind consideration of our recommendations.

Sincerely,

Jeffrey E. Bode

Jeffrey Bode
President and CEO

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Joint letter submitted by Cedar Band of Paiutes Indians, Lower Brule Sioux Tribe, and Rosebud Sioux Tribe

February 07, 2023

Cedar Band of Paiutes Indians

Lower Brule Sioux Tribe

Rosebud Sioux Tribe

The Honorable Sherrod Brown
Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Tim Scott
Ranking Member
Committee on Banking, Housing and Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, D.C. 20510

Re: Senate Committee on Banking Housing and Urban Affairs hearing titled: "The State of Housing 2023"

Chairman Brown, Ranking Member Scott, and Members of the Senate Committee on Banking, Housing and Urban Affairs, the Cedar Band of Paiutes, the Lower Brule Sioux, and the Rosebud Sioux tribes[1] would like to express our appreciation for your interest in the housing market and the supply, price, and access challenges facing American homebuyers. We appreciate the Committee's consideration to include our joint tribal testimony for the hearing Record and for the opportunity to inform the Committee on the efforts our respective tribal nations are making to enable homebuyers to purchase a home and become successful homeowners.

- Each of our tribes owns and operates a national governmental housing finance agency that responsibly provides much needed down payment assistance (DPA) for the purchase of a home to largely first-time, minority and low- to moderate-income homebuyers across the nation.
    - In this testimony, we include recommendations to enhance the transparency of the performance and pricing for the FHA-insured loans assisted by the DPA programs offered by 1800+ governmental entities.
- Each of our tribes supports HUD's Section 184 loan program.
    - Included in this testimony are recommendations to update and streamline the administration of the Section 184 program.

Each of our tribes recommends that HUD engage in a robust tribal consultation process so that it can better understand the value we are bringing to homebuyers, particularly low- to moderate-income, first-time, and minority homebuyers, and the benefits that our recommendations will

[1] Each of our tribes are recognized by the federal government as independent tribal nations.

bring to consumers, whom we serve, and to HUD itself by improving HUD's risk-management capabilities

DOWN PAYMENT ASSISTANCE

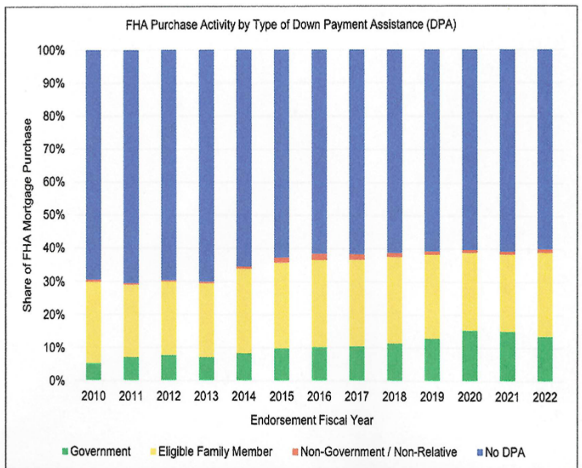
Governmental Housing Finance Agency DPA Programs Are Crucial to Narrowing the Racial Wealth Gap

When properly structured and administered, DPA programs, like those we provide, play a critical role in overcoming the obstacles faced by many minority, first-time, and low- to moderate-income individuals in purchasing a home, and should be a key component of policy solutions to bridge the racial wealth gap.

A significant part of the wealth gap stems from the substantially lower homeownership rates among Hispanic and African-American individuals, as compared to White non-Hispanic individuals. In the fourth quarter of 2022, the St. Louis Fed reported that the country's overall homeownership rate was 65.9%. Among White non-Hispanic households, the homeownership rate was 74.5%. However, the Hispanic homeownership rate was only 48.5% and the African-American homeownership rate was only 44.9%, hovering near 50-year lows. The recent rapid escalation in home prices likely is presenting further challenges to Hispanic and African-American individuals seeking to become homeowners.

DPA has become a crucial tool in helping families purchase a home. Traditionally, the only other route to DPA than government programs has been through gifts from relatives. Such gifts, however, are not widely available to all borrowers, including those who lack access to intergenerational wealth. Most low- to moderate-income and minority homebuyers do not come from families who have the financial ability to provide their relatives with a down payment, so these borrowers absolutely need the DPA programs offered by governmental entities, including our 100% tribally owned housing finance agencies.

Exhibit III-10: FHA Purchase Activity by Type of Down Payment Assistance



NOTE: Data does not account for instances where down payment assistance data was missing from origination data submitted to FHA.
SOURCE: U.S. Department of HUD/FHA. October 2022.
Source: https://www.hud.gov/sites/dfiles/Housing/documents/2022FHAAnnualRptMMIFund.pdf

Our housing finance agencies responsibly provide DPA to qualified applicants who can make mortgage payments but lack the resources for a down payment. Well over 50 percent of our borrowers whom we assist are minorities (African-American, Hispanic, Asian, and Native-American), over 70% of our borrowers are low- to moderate-income, and nearly all our borrowers are first-time homebuyers. We purposefully seek to help underserved, historically marginalized communities through homeownership, and directly advance economic equity, particularly for first-time, low- to moderate-income, and minority homebuyers.

Governmental DPA Programs Are Well Run and Have Strong FHA Loan Performance

The number of households utilizing DPA has grown. The chart above shows that over the past eleven years most of the DPA assistance came from family members, with 15% coming from government entities, including our 100% tribally owned housing finance agencies. This demonstrates the need to take steps to expand, and not contract, the ability of government entities, including tribally owned housing finance agencies, to provide valuable DPA assistance.

Governmental DPA programs are well run and do not pose a risk to FHA or the FHA Mutual Mortgage Insurance Fund (MMIF). FHA's own data reflect that FHA loans involving DPA through government programs perform significantly better than FHA loans involving DPA in the form of gifts from family members:

		Rates in Percent of Active Loan Counts						
	IIF Shares%[a]	All Past Due[b]	30 Day	60 Day	90+ Day	In Foreclosure	In Bankruptcy	Seriously Delinquent Ratio
Gov't	9.23	14.32	6.11	2.31	4.80	0.54	0.56	5.90
Relative	16.34	15.91	7.01	2.46	5.15	0.67	0.61	6.43

[a] Insurance in force shares of total FHA Title II single-family loans
[b] Includes all loans 30 or more days past due, including those in bankruptcy or foreclosure
Source: HUD/FHA, November 2022

The better performance of loans associated with governmental DPA programs results from the process by which governmental entities fund DPA. Governmental DPA program providers are inherently interested in the performance of the FHA mortgage loan because, for example, sanctions can be imposed on FHA mortgagees for poor loan performance.

Our organizations understand and take seriously our responsibility to protect the MMIF. We carefully review the performance of the FHA mortgage loans and adjust credit standards, as necessary. Further, many governmental DPA programs offer the borrower significant support. For example, CBCMA's Chenoa Fund program requires borrowers with FICO scores between 600 -639 to receive pre-purchase education and counseling, and all borrowers, once they become homeowners, receive 18 months of post-purchase counseling from a HUD-approved counselor. As another example, CBCMA's Chenoa Fund program offers borrowers the option of choosing a non-repayable second lien loan. If the borrower makes 36, on-time, consecutive monthly mortgage payments on the first FHA-insured mortgage loan, their second lien is forgiven. This product incentivizes borrowers to prioritize their monthly mortgage payments on the FHA-insured first lien mortgage, which reduces FHA defaults and lowers risk to the MMIF.

Our collective goal is to ensure long-term sustainable homeownership. Our borrowers, the communities in which they live, and we only benefit if our borrowers remain successful homeowners.

Governmental DPA Programs are Competitive

The DPA market is competitively served by over 1,800 governmental national, state and local housing finance agencies providing DPA. In addition, the governmental DPA market faces competition from borrowers receiving DPA assistance from their relatives. While nearly all borrowers receiving DPA are first-time home buyers, governmental entities providing DPA provide that assistance to homebuyers who do not have access to intergenerational wealth and gifts from family members, as noted above.

Mortgage bankers are traditionally the intermediary between the borrowers and the DPA offering. This highly competitive industry drives mortgage lenders to continuously search for the lowest cost option for the borrower to retain that transaction. Thus, lenders continuously search for "best execution," meaning the lowest cost offering for their client or they risk losing the transaction altogether to another lender. This competitive process benefits consumers.

Our programs complement the full breadth of providers and products participating in the mortgage market by serving a broad audience of consumers, driving a healthy, competitive market, and introducing innovative, but responsible, financial products.

In addition, since our programs are offered nationally, we bring added competition to markets that previously might have been underserved.

Most Governmental DPA Programs are Privately Financed and Do Not Rely on Grants to Fund Their DPA Programs

Today's governmental entity housing finance agencies' DPA programs are financed in the private market and do not rely on grant programs, whose funding can be intermittent and is often limited. Our funding structures enable us to responsibly provide DPA to borrowers sustainably and without interruption or limitation.

Notably, we are pleased to report that our programs were able to provide continued DPA assistance throughout the Pandemic.

Enhanced Data Collection is Needed: "A Monitored Marketplace"

As noted above, HUD's data show that FHA-insured loans receiving DPA from governmental entities perform better than the loans assisted by relatives. Both HUD and governmental entities, however, would benefit if HUD collected a more granular level of data from each governmental entity. This enhanced data collection would enable HUD to better-manage the risk to the MMIF and would also enable each governmental entity to better-assess and manage its risk. Enhanced data collection would also provide HUD with the information it needs to allay any pricing concerns it may have.

Currently, HUD collects loan performance data for governmental housing finance agencies as a group, but not for each individual governmental housing finance agency. This can easily be done because HUD's forms and systems are already capable of this collection. Indeed, HUD already collects this data from DPA provided by non-profit entities.

Notably, Congress already recommended that HUD collect a more granular level of data on the performance of the FHA-insured loans assisted by governmental entities. We would encourage Congress to, once again, make this recommendation to HUD.

- Identification

HUD should require that, for every FHA mortgagor that receives DPA from a governmental entity, the originator enter an Employer Identification Number (i.e., taxpayer ID number) or similar unique identifier into the FHA system. The fields for such data already exist in HUD's system because in 2000 HUD issued Mortgagee Letter 00-8 requiring that originators collect this data for non-profits providing down payment assistance.

HUD simply needs to require originators to enter similar data for all governmental entities providing DPA. This will enable HUD to monitor the performance of each governmental entity's DPA program. Additionally, HUD will be able to discern how governmental entity DPA programs affect the interest rates on the FHA first mortgage. This would enable HUD to ensure that the governmental entities' DPA programs are not increasing the costs to borrowers without commensurate benefits.

- Reporting

Once HUD identifies the governmental entity providing the DPA, it can begin reporting the performance of each governmental DPA program. Governmental entities will then be able to have accurate performance information for their programs as well as understand their performance relative to their peers. This will allow each governmental entity offering DPA to more easily assess if any deficiencies exist in their program, and, if so, better track the effects of remedial measures they may need to take. [This will also allow HUD to better-assess if a particular DPA program may present risk.]

After setting up performance monitoring for each governmental DPA program, HUD should establish uniform performance standards. For example, HUD could use compare ratios as it does with FHA mortgage lenders. If a governmental DPA program has a compare ratio relative to its peers of 150 or higher, meaning the loans it assists default at 1.5 times the default rate of its peers, it may be placed on a "Watch" list. Each governmental entity could determine how best to keep their relative performance below 150, whether that is by imposing credit standards, such as credit score minimums and debt-to-income (DTI) maximums for borrowers receiving DPA, or by increasing borrower support services such as pre-purchase education, post-purchase counseling, or some other form of a down payment substitute. Most importantly, it would give each governmental entity the opportunity to try alternative, innovative practices to better assist underserved borrowers. If DPA is responsibly provided within certain credit standards or with the proper down payment substitutes, the amount of DPA that is provided will naturally be limited, but more importantly, whatever amount is provided will not be a detriment to the MMIF or a risk to taxpayers.

This type of monitoring and reporting will ensure that the overall delinquency and default rates of FHA mortgages receiving DPA from governmental entities is acceptable. When performance is measured, it improves. When performance is measured and reported, it improves more rapidly. Once this data is available, HUD could then better assess what action, if any, may be necessary to ensure that the performance of DPA-assisted mortgages do not present a substantial risk of loss to taxpayers.

- Pricing Transparency

To ensure that consumers are best served, we recommend that each government entity report quarterly to HUD their average pricing for the previous quarter.

HUD'S SECTION 184 LOAN GUARANTEE PROGRAM

The Section 184 loan guarantee program was created by the Housing and Community Development Act of 1992 ("the Act"). Prior to 1992, it was difficult for Native Americans who lived on reservations to obtain a mortgage. When the Section 184 Loan Guarantee Program was created by the Act, attaining a loan or mortgage became easier. Today, however, the program needs to be streamlined and updated. Without being reengineered, its continued existence is threatened.

Background

Administered by the Office of Native American Programs ("ONAP") within HUD, Section 184 loans are specifically designed for American Indian and Alaska Native families, Alaska Village, Tribes, or tribally designated housing entities. These loans can be used both on and off reservation lands for new construction, rehabilitation, purchase of an existing home, or refinance. Section 184 is a program that is specifically geared towards these groups because of the unique status of Native American lands.

These lands and areas are being held in Trust by the U.S. government for specific Tribes or individuals belonging to Native American Tribes. Because of the legal status of a Trust, these lands cannot be mortgaged to prevent the private seizure of Native American lands. Private lenders were unwilling to grant home loans and mortgages because of the difficulty in securing collateral against a loan. The Section 184 program was created to give private lenders the insurance they needed to provide mortgage loans on reservations. Later, as HUD recognized that many Natives do not live on reservations, the program was expanded to encompass areas in states and counties designated by HUD as Tribal Operating Areas.

If the land is on tribal trust land, the eligible buyer works with the Bureau of Indian Affairs (BIA) and HUD to set up the home as a lease hold estate, turning the property into a leased entity for the duration of the mortgage plus 10 years. Both departments must approve the mortgage, and it is the lease, not the land itself, that the lender seizes if the loan defaults. The land still belongs to the Tribe and is a part of the Trust; the lender cannot sell the land to anyone other than an eligible tribe member, the tribe, or the Indian Housing Authority.

As noted above, Section 184 is reserved for members of Native American and Alaskan tribes, so to receive a Section 184 loan you must be an enrolled member of a federally recognized tribe. Enrollment into a tribe is solely made by the tribal government and the tribe will typically provide a card or letter proving your enrollment into the tribe. Proof or tribal enrollment will be necessary when applying for a Section 184 loan. The participating Tribes are allowed to determine where Section 184 loans are available, whether they are limited to specific counties or are available statewide.

Program Reforms are Needed

Most immediately, HUD needs to resolve the current claims payment crisis by clearing up its current backlog of unpaid claims if the lenders participating in the Section 184 loan program are expected to remain active participants. HUD's current backlog far exceeds the processing times required under HUD's own guidelines.

In addition, a coalition of Section 184 lenders, that provide over 90 percent of the Section 184 loans nationwide, made additional recommendations to modernize and streamline the Section 184 program in a letter they submitted to HUD on August 12, 2021. Those recommendations were:

1. ONAP needs to adopt and implement the FHA "Direct Endorsement" program for the Section 184 program. This "best practice" would –
   - Allow lenders to issue the Loan Guarantee Certificate ("LGC") after closing and for ONAP to audit files to check lender compliance.
   - Enable lenders to stay in compliance with GNMA by eliminating any delay in providing the required governmental insurance or guarantee to GNMA for pool certification.
   - Eliminate many of the ONAP work overload issues and "bottlenecks" that have arisen because of ONAP's current outdated process of manually reviewing all files prior to the issuance of their LGC.
2. ONAP needs to update the Section 184 program's underwriting standards to reflect the current "best practices" adopted by FHA, VA, and RHS while also addressing the unique needs of Native American country.
   - To accomplish this goal, a joint industry-government working group needs to be set up to update these underwriting standards.
3. ONAP needs to adopt and utilize FHA's system for monthly mortgage insurance premium payments.
4. ONAP needs to improve its response times.
   - ONAP needs to put in place a tracking system so that incoming inquiries can be tracked, and outgoing responses can occur on a timely basis. This includes responding to property preservation inquiries expeditiously to avoid property deterioration which negatively impacts neighborhoods, communities (including tribal communities), and the other homeowners in those neighborhoods.
   - Section 184 lenders' calls and request for guidance and clarification often go unanswered. This lack of responsiveness and inability to provide the industry with clear guidance makes it exceedingly difficult for the Section 184 lenders to serve Native American homebuyers purchasing properties on tribal trust lands. The industry needs their calls returned and needs clear guidance.

We support the recommendations made by the coalition of Section 184 lenders because we are concerned that without those recommendations being implemented, the Section 184 program will become obsolete and Native Americans will be disadvantaged.

TRIBAL CONSULTATION

As tribal governments, we encourage HUD to engage in robust and meaningful tribal consultation in order for HUD and the Administration's policy leaders to better understand responsible and innovative housing programs in which our tribal organizations are involved. We are enormously proud of our programs. They are well run, do not pose risk to HUD, FHA or the MMIF, and seek to address the significant wealth gap in this country by safely providing DPA to many first-time, low- to moderate-income and minority homebuyers who would not be able to purchase a home without the assistance.

In coordination with Section 184 lenders, we also believe that we can assist HUD in reengineering the Section 184 loan program so that it can serve our borrowers purchasing homes on tribal trust lands.

In closing, we would again like to express our appreciation for the opportunity to share with the Committee a review of our efforts to responsibly expand homeownership opportunities to many first-time, low- to moderate-income and minority homebuyers. We also appreciated the opportunity to make recommendations for HUD to make program improvements that will accrue to everyone's benefit, including homebuyers.

Sincerely,

Delice Tom
Chairwoman
Cedar Band of Paiute
Indians

Delice Tom
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Clyde J.R. Estes Chairman
Lower Brule Sioux Tribe

Scott Herman President
Rosebud Sioux Tribe

Letter submitted by NAA and NMHC

February 9, 2023

The Honorable Sherrod Brown
Chairman
U.S. Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Tim Scott
Ranking Member
U.S. Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

Chairman Brown and Ranking Member Scott:

The National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA) respectfully submit this statement for the record for the U.S. Senate Committee on Banking, Housing and Urban Affairs February 9, 2023, hearing titled "The State of Housing 2023."

For more than 30 years, NMHC and the NAA have partnered to provide a single voice for America's apartment industry. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, management, and finance. NMHC represents the principal officers of the apartment industry's largest and most prominent firms. As a federation of 145 state and local affiliates, NAA encompasses over 91,000 members of all sizes representing more than 11 million apartment homes globally.

We appreciate the Committee's continued focus on housing issues and, in particular, the rental housing sector and the many challenges that face our industry and its residents. As the Committee conducts this hearing, we write to offer our perspective on efforts needed to promote workable and sustainable polices to address our nation's housing challenges. Our ultimate goal is to ensure the long-term viability of a sector that provides apartment homes for 38.9 million Americans and contributes $3.4 trillion annually to the economy.

The Challenge: Decades-Long Underbuilding Has Resulted in Widespread Unaffordability

There is no doubt that America is facing a housing affordability crisis. Challenges are different from city to city and state to state, but facts are facts. For decades, America has witnessed the escalating challenge created by demographic shifts, flawed public policy decisions and economic changes culminating in the inability of families to rent, buy, or maintain stable, affordable and safe homes.

Today, in more and more communities, many hard-working Americans are unable to rent homes due to skyrocketing costs driven by a lack of supply, barriers to development and regulatory burdens. The total share of cost-burdened households (those paying more than 30% of their income on housing) increased steadily from 28.0% in 1985 to 36.9% in 2021, while others have been priced out of communities altogether. This is not sustainable, particularly in a period of high inflation. Wage stagnation in conjunction with barriers to new supply – for instance, onerous regulatory hurdles, antiquated and often discriminatory zoning and land use policies at the local level, and NIMBYism – has led the nation to this junction.

In addition, current economic instability poses a serious threat to the future of our sector and our ability to deliver housing. The Fed's rate increases have contributed to a period of economic volatility, which is driving up the cost of building new housing, discouraging new investment and pushing some in our sector out of the market altogether. According to NMHC's January Quarterly Survey of Apartment Market Conditions:

- More than three-quarters of respondents (82%) reported declining sales volumes from three months prior;
- Nearly two-thirds (62%) indicated equity financing was less available; and,
- Fully 60% said it was a worse time for mortgage borrowing compared to three months earlier.

Further, we are still making up for lost housing not produced during the 2008 financial crisis, and while household formations have slowed recently, we still do not have enough housing to keep up with demand.

Research from the NMHC and the NAA estimates the U.S. needs to build 4.3 million more apartments by 2035 to make up for decades-long underbuilding, meet future demand and avoid increasingly expensive housing.

While demand for apartments in recent months has softened as a result of economic uncertainty fueled by high inflation, we caution that this is only a short-term trend. We simply do not have enough homes to meet this long-term demand—this housing shortage is immense, widespread and enduring. Some metropolitan areas will see temporary softness for higher-income households in new Class A buildings, but these units will not filter down to the millions of market-rate affordable households, unless those households choose or are forced to become more cost-burdened.

The Solution: Supply + Subsidy

It is imperative we keep building new housing despite this temporary demand lull if we want to avoid large rent increases in the future. The apartment industry stands ready to help meet the rising need for accessibly priced rental housing, but we cannot do it alone. First and foremost, we must seek solutions that support increased supply—at all price points. Without investment in our nation's housing, we will continue to face housing instability and unaffordability. But in addition to increased supply, we must also deliver short-term solutions to renter populations that need support. Increased subsidy for those struggling to make ends meet is critical to keeping families afloat.

While there is no one silver bullet, a multi-faceted approach can be effective in easing current market constraints. As such, we believe the following actions will help further our shared affordability goals:

Overcoming Regulatory Hurdles

Regulatory, administrative, and political obstacles at all levels of government prevent us from delivering the housing our country so desperately needs. Yet, even in communities that want new rental housing development, our industry faces numerous barriers that can drive up costs or halt development altogether.

NIMBYism and antiquated, discriminatory land use policies coupled with onerous local requirements (like building code provisions that have nothing to do with health or safety, land or infrastructure donation requirements and ill-fitting transportation and parking mandates) add to project costs and, ultimately, the rents American families pay.

These costs and barriers can account for an average of 40.6 percent of multifamily development costs further impacting affordability – according to research released by NMHC and the National Association of Home Builders. This research illustrates how unnecessary and duplicative regulation can negatively impact developing housing that is affordable. Although smart regulations can play an important role in ensuring the health and well-being of the American public, the NMHC-NAHB research found that many regulations can go far beyond those important goals and impose costly mandates on developers that drive housing costs higher.

Easing regulations could go a long way to address the housing affordability challenges faced by communities across the nation, especially at a time of high inflation and other cost of living challenges.

To that end, we urge the Committee to redouble its efforts to incentivize states and localities to:

- Reduce barriers to housing production and rehabilitation;
- Streamline and fast track the entitlement and approval process;
- Provide density bonuses and other incentives for developers to include workforce units in their properties;
- Enable "by-right" zoning and create more fully entitled parcels;
- Defer taxes and other fees for a set period of time;
- Lower construction costs by contributing underutilized buildings and raw land; and
- Encourage higher density development near jobs and transportation.

NAA and NMHC strongly support the Yes In My Backyard Act (S.1614/H.R. 3198), introduced in the last Congress and due to be reintroduced in the 118th Congress. This legislation requires recipients of Community Development Block Grants to provide information on how they are reducing local barriers to housing development. This will focus attention on the critical issue of enabling greater development of housing across the country.

Finally, policymakers must also avoid the lure of "quick fix" regulations such as rent control or similar rent stabilization laws that do nothing to address the underlying supply shortage. Such policies do not create a single additional home and eventually harm the very people they are trying to help by discouraging new housing construction and limiting the financial resources owners have to maintain existing communities.

Understanding Rising Construction Costs and Delays

As we look for solutions to the nation's housing supply challenges, we must also recognize the immense, practical pressures on apartment development and construction that impact our ability to deliver new housing units. Following extreme, pandemic-fueled volatility in product costs, supply chain stability and staffing constraints, the apartment construction and renovation pipeline has seen some moderation, yet continues to face difficult conditions. In NMHC's most recent Quarterly Survey of Apartment Construction and Development Activity, 84% of respondents reported construction delays while 58% reported experiencing repricing increases in projects, at an average rate of 8%. The availability of construction financing, or lack thereof, continues to be of primary concern, as 29% of respondents cited this as a contributing factor to delayed starts. Additionally, 30% of respondents attributed delays to materials sourcing and delivery challenges.

Apartment builders and developers also continue to see escalations in materials costs and mixed labor conditions. The prices of a range of critical building materials and equipment continue to rise, including exterior finishes and roofing, electrical components, appliances and insulation. In addition, 36% of respondents reported that construction labor costs increased more than expected during Q4 2022, up from 21% in the previous quarter. Forty-six percent of respondents said that costs increased as expected, while only 5% said costs did not increase, down from 11% in September.

Deploying the Administration's Housing Supply Action Plan

We applaud the Biden Administration for recognizing the nation's critical shortage of affordable housing and developing the Housing Supply Action Plan, a comprehensive package of regulatory and legislative measures to address the supply demand imbalance.

We urge the Committee to work with the Administration to implement provisions in the Housing Action Plan issued in May that aim to address the myriad challenges to the development of new housing, such as:

- Reward jurisdictions that have reformed zoning and land-use policies with higher scores in certain federal grant processes, for the first time at scale;
- Deploy new financing mechanisms to build and preserve more housing where financing gaps currently exist;
- Expand and improve existing forms of federal financing, including for affordable multifamily development and preservation; and
- Work with the private sector to address supply chain challenges and improve building techniques.

While we support the Administration's Housing Action Plan and worked in good faith with the Administration on its Resident-Centered Housing Challenge (both NMHC and NAA made commitments as part of the Challenge), we are concerned over the recently released White House "Blueprint for A Renter's Bill of Rights" which will create potentially duplicative and onerous federal regulations that interfere with state and local laws meant to govern the housing provider and resident relationship. These efforts will do nothing to address the nation's housing shortage and could, in fact, discourage much-needed investments in new housing construction.

Reforming and Fully Funding Section 8

As the COVID-19 pandemic has taught us, the most valuable short-term policy solution to the housing affordability crisis is rental assistance. The Section 8 Housing Choice Voucher (HCV) program has long served as America's primary method for aiding 2.1 million low-income households with rental assistance and has helped millions of Americans find homes in communities near good schools, jobs, and transportation services. Critical reforms to the program are urgently needed to expand private industry participation and improve housing opportunity for millions of American families.

Section 8 has enormous untapped potential to help address our nation's affordable housing needs. Unfortunately, the program has also been plagued with a flawed and inconsistent funding system that has undermined private-sector confidence in the program. The program's potential success is also limited by too many inefficient and duplicative requirements, which discourage private housing providers from accepting vouchers.

Despite previous Congressional and Administrative attempts at improving the program, it remains overly burdensome. Our groups, once again, call on the Committee and Congress to pass the Choice in Affordable Housing Act of 2023 (S.32), introduced by Senators Chris Coons (D-DE) and Kevin Kramer (R-ND). The legislation empowers PHAs to offer incentive payments for housing providers that operate in areas of opportunity; creates security deposit assistance to cover repairs and damages and to help participants better manage their risk; enables PHAs to hire "landlord liaisons" to improve communication and finally, would importantly streamline the costly and time-consuming property inspection process.

While more can certainly be done to reform the Section 8 program, the Choice in Affordable Housing Act is a critical step for Congress to take to expand housing options to American families in need of housing that is affordable.

Sustaining Funding for Federal Housing Support & Affordability Programs

Alongside inadequate funding and bureaucratic barriers in the Section 8 HCV program, for too many years, federal funding for the other primary housing programs serving low-income households has been virtually flat or declining. This has translated into waiting lists for support that can last years, pushes too many Americans into substandard housing that only exacerbates housing and racial inequities, and harms the economic potential of individuals and their overall communities.

For decades, we have advocated for increased funding for multiple critical programs that focus on housing affordability, (in addition to the Section 8 HCV program), such as Project Based Rental Assistance (PBRA), Rental Assistance Demonstration (RAD), Homelessness Programs, HOME, and Community Development Block Grants (CDGB), the Housing Trust Fund, FHA Multifamily Programs, Rural Housing Programs, and others.

Programs like Section 8 and PBRA allow low-income families to rent market rate housing, taking advantage of the broad offering of privately-owned and operated properties in a given market. Programs like HOME, CDBG, FHA Multifamily and Rural Housing programs allow developers to address financing shortfalls often associated with affordable housing properties and stimulate meaningful development and preservation activity as a result. Homelessness Assistance Programs provide funding to serve individuals and families across the nation who are affected by homelessness, while Section 811 and 202 programs provide assistance for elderly and persons with disabilities. These programs, in totality, are some of the most effective and proven means to increase housing supply across the nation, assist our most vulnerable families find stable housing and are worthy of bipartisan Congressional support.

Expanding and Enhancing the Low-Income Housing Tax Credit

The Low-Income Housing Tax Credit (LIHTC) is a public/private partnership that leverages federal dollars with private investment to produce affordable rental housing and stimulate new economic development in many communities. Since its inception in 1986, the LIHTC program has, according to the A Call To Invest in Our Neighborhoods (ACTION) Campaign, financed 3.7 million apartments and served 8 million households. The LIHTC program provides critical support to the nation's affordable housing production but could be made even more impactful.

NMHC and NAA strongly support the Affordable Housing Credit Improvement Act of 2021 (S. 1136 / H.R. 2573). Introduced last Congress by Senators Maria Cantwell, Todd Young, Ron Wyden, and Rob Portman, this bipartisan bill would, among other provisions, make permanent the 12.5 percent increase in LIHTC credit authority for 2018-2021 to enable the production of new units and further augment credit authority by 50 percent. Additionally, Congress should lower the bond financing threshold to 25 percent from 50 percent to receive the full amount of 4 percent Low-Income Housing Tax Credits.

The ACTION Campaign estimates this legislation would "result in the production of over 2 million additional affordable homes over the next decade, support the creation of nearly 3 million jobs, and generate more than $346 billion in wages and business income and nearly $120 billion in additional tax revenue."

Enacting the Middle-Income Housing Tax Credit (MIHTC) to Support Workforce Housing

Housing affordability is an issue threatening the financial wellbeing of solidly middle-income households in addition to low-income families. According to the Joint Center for Housing Studies of Harvard University, "the median asking rent for an apartment completed in the second quarter of 2021 was $1,669, a 17 percent increase from the same period in 2016."

For a renter to afford one of those units at the 30 percent of income standard, they would need to earn at least $66,760 annually. Moreover, the Joint Center reports that "Although much lower, the cost-burdened share of middle-income households increased the most in 2014-2019. The share of renters making between $30,000 and $74,999 with at least moderate housing cost burdens rose 4 percentage points to 41 percent, while the share with severe burdens rose from 7 percent to 8 percent."

Accordingly, this is an issue impacting those workers who comprise the very fabric of strong communities nationwide, including teachers, firefighters, nurses and police officers. Tax policies to spur the production of multifamily housing targeted to middle-income Americans should be a part of any legislation that seeks to address housing affordability on a comprehensive basis.

We urge Congress to strongly consider the Middle-Income Housing Tax Credit that Senate Finance Committee Chair Ron Wyden introduced last Congress as part of the Decent, Affordable, Safe Housing for All Act (DASH Act) (S. 2820) to address the shortage of workforce housing available to American households. A worthy complement of measures to expand and improve LIHTC, the Middle-Income Housing Tax Credit (MIHTC) takes over where LIHTC leaves off. LIHTC is currently designed to serve populations of up to 60 percent of area median income. MIHTC is designed to benefit populations earning below 100 percent of area median income.

Enhancing Opportunity Zones to Incentivize Rehabilitation of Housing Units

Under the leadership of Ranking Member Tim Scott (R-SC) and Senator Corey Booker (D-NJ) and enacted as part of tax reform legislation in 2017, Opportunity Zones are designed to provide tax incentives for investments in distressed communities. Opportunity Zones hold great promise for the development of multifamily housing.

While we expect the Opportunity Zones program to be beneficial in spurring the production of new multifamily housing, the program could be improved with respect to incentives for the rehabilitation and preservation of existing multifamily units. Current regulations work against using this program to rehabilitate properties for affordable housing since the developer must double their basis in the property without consideration of the cost of land. In many cases, such significant renovation is unnecessary to preserve buildings and units that might otherwise be lost to obsolescence.

Congress could leverage the Opportunity Zones program to promote the rehabilitation and preservation of multifamily units and, thereby, positively address the shortage of apartment units. NMHC and NAA recommend that Congress consider statutory modifications to reduce the basis increase necessary to qualify a multifamily rehabilitation project for Opportunity Zone purposes. It is noteworthy that to qualify for an allocation under the LIHTC, owners must commit to rehabilitations valued at the greater of: (1) 20 percent of adjusted basis of a building; 0r (2) $6,000 ($7,900 in 2023 as adjusted for inflation) per low-income unit.

Encouraging the Adaptive Reuse of Underutilized Commercial Properties into Multifamily Housing

With the COVID-19 pandemic modifying where Americans work and shop, the multifamily industry believes there is great promise in proposals to convert underutilized properties into multifamily housing. Office buildings, shopping centers, and hotels, for example, can be transformed into new units in places Americans want to live.

Notably, Senator Debbie Stabenow (D-MI), joined by Senate Banking, Housing, and Urban Affairs Committee Chair Brown (D-OH) as a cosponsor, last Congress introduced the Revitalizing Downtowns Act (S. 2511) that would provide a 20 percent tax credit to convert office buildings into other uses, including residential use. Rep. Jimmy Gomez has this Congress introduced this legislation (H.R. 419) in the House of Representatives.

The multifamily industry is interested in working with Congress on this type of proposal but would like to see it modified to enable other types of commercial properties (e.g., shopping centers and hotels) to qualify for the tax incentive, as well as to ensure REITs could utilize the benefit.

Promoting the Rehabilitation of Multifamily Housing Located Near Transit

NMHC and NAA strongly support bipartisan legislation that would provide a new tool aimed at encouraging greater community development and inclusive neighborhood revitalization. Introduced last Congress by House Ways and Means Committee member Earl Blumenauer and cosponsored by committee members Mike Kelly, Dan Kildee, and Darin LaHood, the Revitalizing Economies, Housing and Business Act (REHAB Act) (H.R. 1483) provides:

NAA NATIONAL APARTMENT ASSOCIATION NMHC NATIONAL MULTIFAMILY HOUSING COUNCIL

- a 15 percent tax rehabilitation credit for buildings that are more than 50 years old, not certified historic structures, and are within one-half of a mile of a public transportation station;
- expanded credit eligibility to include building expansion on the same block; and
- a bonus credit of 25 percent for expenses related to public infrastructure upgrades and rent-restricted housing.

Conclusion

On behalf of the multifamily industry and the millions of renters we house, we applaud the Committee's efforts to explore solutions to the nation's most significant housing challenges. Across all markets, the supply of multifamily rental housing at a variety of price points will play a vital role in promoting economic growth, encouraging household stability for all American families and we look forward to working together as legislation to further these efforts is introduced.

Sincerely,

Robert Pinnegar
President & CEO
National Apartment Association

Sharon Wilson Géno
President
National Multifamily Housing Council

Statement submitted by Zillow

STATEMENT FOR THE RECORD

SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

HEARING ENTITLED: "STATE OF HOUSING 2023"

FEBRUARY 9, 2023

State of the Housing Market

The COVID-19 pandemic hit the U.S. housing market just as the prime moving and first-time buying population, roughly ages 25 to 45, began to reach its peak size with the aging of the massive millennial generation. Record low mortgage rates (the result of liquidity support from the Federal Reserve) on a 30-year fixed rate loan meant serious insulation from rising prices that locked-in affordability and financial stability for households. Add remote work and you've got the ability to buy or rent where you want or where you can actually afford it.

For those with the knowledge, money, or tooling to compete against other buyers in a fast moving market, primary and second homeownership and residential real estate investment offered real wealth building potential.

2022 was the year that the script flipped. Monthly affordability replaced intense competition as the acute buyers' challenge. In an abrupt runup, mortgage rates spiked to 7.08% for prime borrowers[1] in late Fall 2022, a 5 full percentage points up from only 2.98% just twelve months before, an increase of $658 a month for the mortgage on a $329K home (current U.S. typical home value) with 10% down.

Today, there is increasing confidence that inflation pressures are easing – particularly in shelter costs (the Zillow Observed Rent index slowed dramatically this year) – enough to warrant less aggressive contractionary monetary policy in future FOMC meetings. That's caused some mortgage rate relief and bolstered the idea that the trough in home sales caused by the mortgage rate spike is already behind us.

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[1] Freddie Mac Primary Mortgage Market Survey

However, the pool of ever-active inventory has struggled to return. This stabilizes prices so that only mild price declines are expected relative to the value run up in 2020 and 2021. In other words, even motivated sellers should be able to harvest most of their current home equity.

From the buyers perspective, that means monthly affordability for available housing will remain a challenge. Buyers with a long run investment in mind or a "fundamental" reason to move (like having kids, getting divorced, changings jobs) will at least benefit from more time to consider available inventory, fewer competing bids, and a much less risky buying environment, though listings still go under contract faster than pre-pandemic.

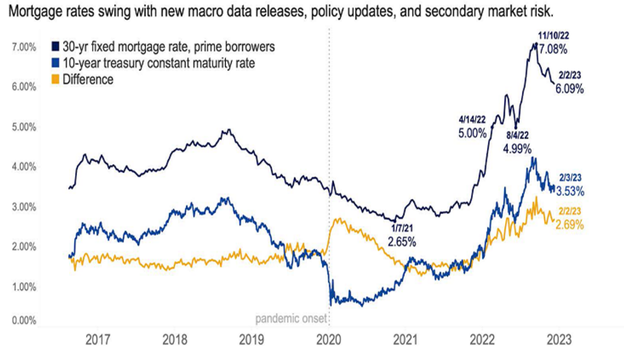
We expect 2023 to bring lower sales volume with housing market participants worried about mortgage rate volatility and affordability challenges, finding available inventory in a broad array of options, neighborhoods and price point, resetting their expectations about how fast homes should sell and at what kind of prices, and seeking out solutions to better navigate stress filled markets.

Expected Interest Rates, Fed Policy and Housing Forecasts

Mortgage rates should now bounce between 5.5 and 6.5% for prime borrowers – high enough to keep volumes low and prices stable or falling in most markets, depending where the rate falls within that range and local supply and demand conditions.

Mortgage rate forecasts are driven by expectations around Federal Reserve policy and long-run economic risks (reflected by the 10-year treasury yield too) as well as stressors and frictions in the secondary mortgage market (reflected in the spread between the 10-year treasury yield and the average 30-year fixed mortgage rate for prime borrowers).

Mortgage rates swing with new macro data releases, policy updates, and secondary market risk.

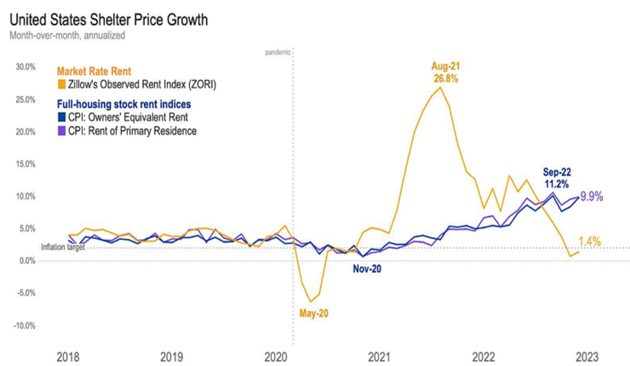


Source: 30-year fixed rate mortgage average in the United States produced by Freddie Mac and market yield on U.S. Treasury securities at 10-year constant maturity, both retrieved from FRED, Federal Reserve Bank of St. Louis; http://fred.stlouis.org

Financial and mortgage markets have now absorbed the Federal Reserves' most recent guidance that inflation pressure has eased and that the pace of Fed Funds Rate increases could slacken.

As discussed by Fed Chair Jerome Powell in the February FOMC conference call, some of the strongest evidence of relaxed overall price pressure comes from shelter costs, a third of the typical consumer basket. With annual leases the industry norm, market rate rent measured by Zillow's Observed Rent Index (ZORI) should lead the pressure seen on rental lease renewals by 6 to 12 months. Month-over-month ZORI hit its trough in May 2020 and shelter components of CPI did so 6 months later in November 2020. The CPI's shelter components stopped accelerating in September 2022, roughly a year after we observed a peak in ZORI's pace, an annualized month-over-month of almost 27% in August 2021.

ZORI's slowdown from that incredible pace to an annualized market rate rent growth of only 1.4% by December – below the pre-pandemic pace and below the Federal Reserve inflation target – provides strong confidence that CPI's sizeable and slow-to-respond rental components will soon begin to do more than stabilize, but slow down, and with it, overall inflation too.



Source: CPI produced by the U.S. Bureau of Labor Statistics (BLS). All non-Zillow series drawn from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org. Zillow Observed Rent Index (ZORI) is a repeat listed rent index trained on Zillow rental listings and weighted by the structures propensity in the overall rented housing stock.

More mild inflation numbers in November and December, reinforced by early signals on leading market rate rent in ZORI, are encouraging developments that should lead to more mild but still contractionary monetary policy in the near future. Labor markets are still persistently too tight for more accommodating monetary policy; the national unemployment rate repeated its record low again in December 2022; the ratio of jobs openings to unemployed also increased again to 1.9. This suggests that the Federal Reserve will likely continue to put mild pressure on rates for several months to come.

Other mortgage rate relief could also come from resolving elevated risk in the secondary mortgage market like the repayment risk to MBS holders and mortgage servicers or the Federal Reserve's effort to unwind their balance sheet (quantitative tightening) and potentially compete with primary mortgage providers in the MBS market.

As inflation continues to come under control and mortgage rates come down from extremes, monetary policy and financial markets' response will stabilize and risks will ease. The premium of the average prime mortgage rate above the 10-year U.S. Treasury Bill yield should approach normal – a potential improvement of up to a full percentage point for borrowers.

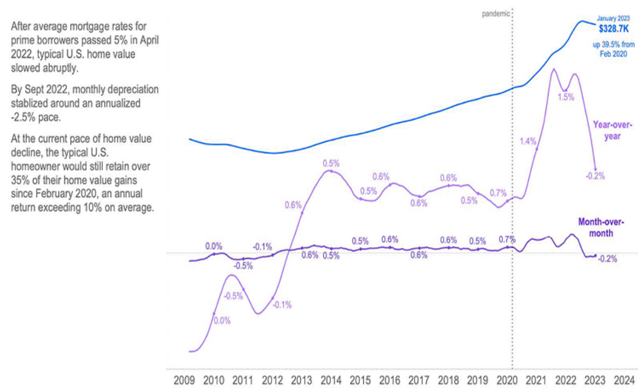
Because of improvement to inflation and inflation predictors (ZORI) and our read on secondary mortgage markets, our preferred macro-scenario to implement in our formal long run forecasting assumes mortgage rates will drift slowly below 6% by the end of the year.

However, that reality, nor even the most pessimistic of our other macro-scenarios, can't come to bear if Congress fails to raise the U.S. debt-ceiling. Because a vast majority of the U.S. mortgage market is backed by the U.S. government, by government sponsored entities (GSEs) who guarantee loans and buy mortgage-backed securities on the secondary market, the U.S. government defaulting on its loans would be an event so destabilizing as to risk the collapse and permanent harm of the U.S. mortgage markets or any other financial market backed by the full faith and credit of the U.S. federal government.

Home values and sales: 2023 forecast

Zillow Analytics is very excited by the introduction of a Zillow Home Value Index (ZHVI) built on new neural Zestimates, Zillow's most market-responsive and accurate automated home price valuation model to date.

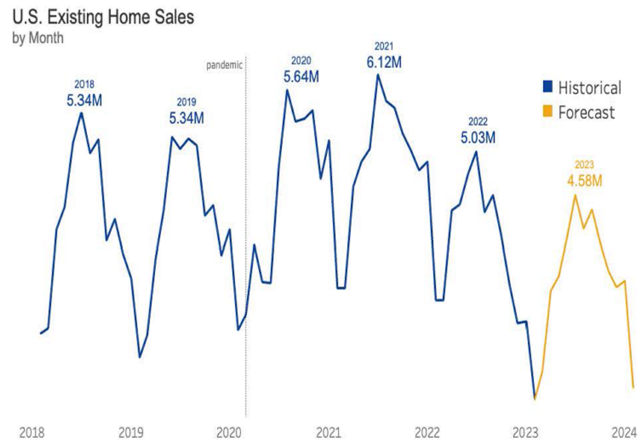
U.S. home value trends as captured by the Zillow Home Value Index, now built on neural Zestimates



According to our formal forecasting models, U.S. home prices should continue to decline into 2023, hitting negative year-over-year values by April 2023 and bottoming out at -2.4% YoY in June, afterwhich price growth should improve, for ultimately flat home value over 2023. Putting the home price forecast in perspective, even after such a decline, the median home value will still exceed its February 2020 value by close to 40%, still managing average annual returns in excess of 11% over the previous 3 years.

Luckily, with the worst of mortgage rates likely behind us, the trough in home sales should be near as well. We forecast only 4.58 million existing homes sales in 2023[2], down from 5.03 million in 2022 and 6.1 million in 2021. (In the years prior to the pandemic, the U.S. housing market roughly averaged around 5 and a half million home sales a year.)

[2] To match industry standards and reporting, we forecast the commonly reported NAR estimates for home sale.



While 2023 annual sales will be down in total from 2022, forecasted monthly home sales should begin out-pacing the prior year again by October 2023. Trends should improve in the second half of 2023 and by December could provide around 10% higher sales than this past December in 2022.

These forecasts leverage demand and supply signals in user activity and listing behavior. In forecasting home prices, the most powerful leading indicators include the share of listings on Zillow with a price cut as well as the competitive signal from the number of submissions to contact an agent per listing. In forecasting future home sales, submissions to contact an agent, mortgage applications, and pending listings are important.

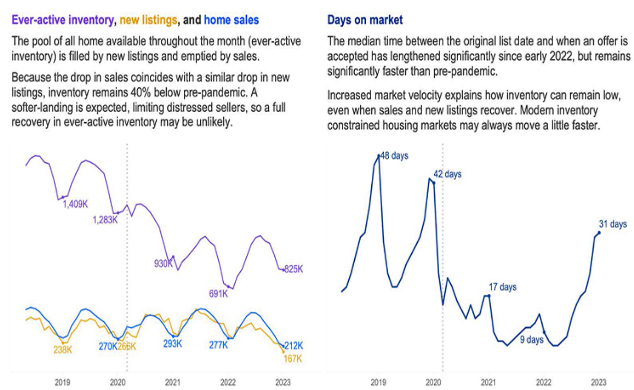
For longer run forecasts (3 to 24 months), more than needing just momentum, the relationship *between* housing, demographics and the macro environment also becomes important. Because of that our long-run model is more structural, ingesting our baseline macro scenario (mortgage rates decline below 6% by the end of the year, only minimal lift to the unemployment rate, etc) as well as accounting for the increasing size of the 25-45 year old population into 2023.

Current buyer and seller experiences in the existing for-sale market

This intense competitive pressure over 2020 to mid-2022 went above and beyond what we would have seen with just the demographic fundamentals of two massive generations needing the same underbuilt infrastructure at the same time. Because of record low mortgage rates and the opportunities provided by remote work, the for-sale market offered a financial opportunity of a lifetime for early pandemic movers – but accessing that opportunity was an incredible challenge in the fastest national housing market ever tracked.

During peak competition, the median national listing went pending in less than a week and only 1 in 10 listings needed a price reduction to sell on the seller's timeline. A story of supply versus demand, the surge in sales volumes harvested ever-active inventory down to record low levels early on, despite an increase in the number of new listings from existing homeowners during later months of the pandemic.

2022 was the year that the script flipped. As mortgage rates rose, home sales fell dramatically (down over 30% from pre-pandemic by January 2023), giving buyers much more bargaining power and more time to consider available inventory. Gone are the bidding wars and the pressure to take on excessive risk by waiving financing and inspection contingencies just to have an offer accepted.



Unable to price listings as they had become accustomed, over 1 in 5 sellers (and / or their agents) submitted a price cut on their for-sale listings in January 2023. Normally we would expect fewer than 1 in 6 for that time of year.

However, while time on market has more than tripled since last December, a significant and important slowdown in housing markets that were running too hot, the typical national listing still sells over a week faster than would have been normal in a pre-pandemic winter.

The primary reason for some sustained competition can be traced back to the interest rate lock-in effect on existing homeowners and the reduced rate of new listings that is keeping ever-active inventory from making a fuller recovery.

Interest rate lock-in and the pull back in new listings

Existing homeowners are currently experiencing "interest-rate-lock-in", the pressure to avoid moving due to the significant difference between the mortgage rates they currently hold on fixed-rate loans and what the rate (and mortgage payment) they could currently access in today's mortgage market.

Even after some mortgage rate relief, mortgage rates are still around three percentage points higher than during the height of pandemic "froth". Fixing the price at the current U.S. typical home value, the mortgage payment would still be up over 40% since December 2021 due to the mortgage rate alone. In contrast, the rent a single-family unit can command has also increased.

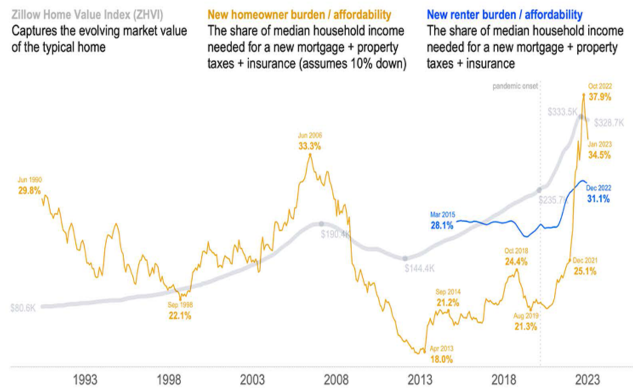
As a consequence, new listings from existing homeowners are down over 30% from what would be "normal" for the same month pre-pandemic (the 2018-2019 average). Many owners are instead choosing to simply delay and wait out the current environment, deciding to age-in-place over the long-run (perhaps with a 2021 era cash-out refinance) or becoming landlords to earn rental income. This stabilizes home price declines by limiting the ability of ever-active inventory, which remains near 40% below pre-pandemic, to rise.

Because of this balancing effect between new listings and sales and the strong financial health of recent buyers (distressed sellers are unlikely), a full recovery in ever-active inventory, extreme price declines, or a return to fully normal selling velocity (days on market) may be unlikely.

A stronger beat of sales (and new listings) will return with further mortgage rate relief or time – as more fundamental reasons to move (growing households, loss of partners, retirement, new employment, etc) push owners into the new rate environment. In the meantime, encouraged to participate by life events and high rents, first-time buyers are now taking up a larger share of active buyers than in 2021.

Affordability

Behind the tapestry of home sales, inventory counts, price cuts, page views and clicks on Zillow that make up our view of market developments and forecasting inputs, are the incentives underneath that are keenly felt by buyers when they decide to pick up that home search again or sellers when they consider whether to move on from the old family home.



While the pandemic era ultimately brought significant price growth to both the U.S. for-sale and rental markets, the most acute impact to monthly affordability came from the abrupt rate surge over 2022. New homeowner affordability – the share of median household income needed for a new mortgage, property taxes and insurance[3] on the typical U.S. home and assuming a 30-year fixed rate mortgage – eroded from only 25% of median household income in December of 2021 to almost 38% in October 2022, exceeding any record set since the 1980s and beyond the oft-cited affordability rule of thumb to not spent more than a third of your income on housing.

Individually, we can afford to fudge the rule about not spending more than a 3rd of your income on housing, especially if you have no other debt, are not a caretaker, have easy access to public transportation or other cost-saving strategies, and can access enough free amenities (like the public parks and sunshine of sunny California and Florida) to make up for skipping out on vacations.

But for national new homeowner affordability to exceed the rule-of-thumb and its previous records, indicates rising inequality and disparate access to wealth building: households earning below the national median would struggle to qualify for the nation's typical home price at current mortgage rates. That is certainly true in many coastal cities where the typical new mortgage payment can easily exceed half of local median household income and homeownership rates are much lower.

Rent affordability and years-to-save

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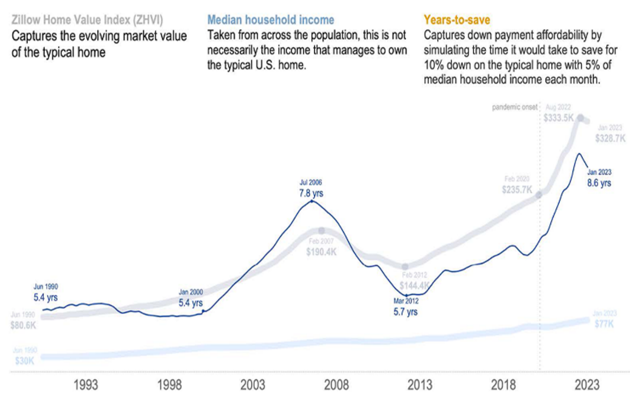
[3] Property taxes and insurance are held at a constant annual rate applied to home value, 1% of ZHVI annually in the case of property tax, and 0.5% of ZHVI annually for property insurance, regardless of jurisdiction or property risk.

Using the Zillow Observed Rent Index, which tracks average market rate listed rent weighted by the properties' propensity in renter-occupied housing (using a repeat listed rent index to chain back in time), we can build a fairly, though not perfectly, comparable measure of the burden as a new renter of market rate units. Pre-pandemic renting was more expensive than maintaining homeownership with typical market rate rent taking up 28% of U.S. median household income.

During the early pandemic, lockdowns pushed many individuals to live with family and households to double up. With rental markets frozen by eviction moratoriums and rental demand pulled back, landlords' ability to raise rent and recover losses did not take off until early-mid 2021.

By the end of 2021 national new renter burden exceeded 30% and by October 2022 it hit 31.2%. With the continued growth in national wages (Employment Cost Index for Wages and Salaries) even as market rate rent has slowed significantly, national new renter affordability improved somewhat to a new renter burden of 31.1% of median household income in January 2023.

Although much better than new homeowner affordability after the abrupt rate increase, higher monthly burdens in the rental market makes saving for a down payment much more difficult at a time when the down payment itself is radically prohibitive.



One of the easiest ways to see the increasing barriers to homeownership over generations (and the need for more housing to address them) is to remove the volatile mortgage rate from the picture and look at down payment affordability, discussed here as years-to-save: ow long it would take to independently save up for the 10% down on the typical home using 5% of median household income every month.

During the 1990s, nationally this was consistently around 5 years and 6 months. At the beginning of the pandemic in February 2020, you'd need 7 years of savings. By mid-2022, years-to-save nearly reached 9 years, and the share of first-time buyers needing a gift from family and friends increased to 40%.

By January 2023, after mild home price declines amid rising wages, years-to-save fell to 8.6 years nationally, an improvement though still a heavy barrier to homeownership. Other sources of optimism can be found in the up-and-coming supply of new rental units, which should make an impact on rental affordability and improve households ability to save for what comes.

Demographics and housing needs

In response to incredible price pressure on both for-sale and rental markets during the first two years of the pandemic, residential new construction surged. And while single family construction gets a lot of attention, rental construction continues to rally.

A market that was actually primed to grow due to the solid demographics and long but steady recovery from the Global Financial Crisis, the number of multifamily rental units starting construction each month grew fairly steadily to an almost 40 decade long record in April of 2022, almost 40% above the 2019Q4 average. Currently down over 16% year-over-year, the number of multifamily units starting construction remains 2.9% above the 2019-Q4 average. That holds further up the production pipeline as well despite the environment in financial and debt environments. The number of multifamily units permitted each month is down over 20% from last year, but that's still almost 8.5% up from the pre-pandemic 2019-Q4 average.

These units will be an important, but incomplete part of responding to rental affordability in a market that is 3.8 million units under built[4].

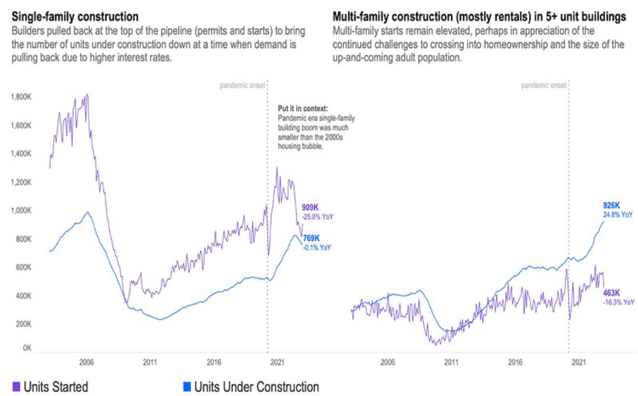
Single-family construction saw a similar boom, but currently struggle to add the units needed over the long run. New home sales hit their peak early on in the pandemic in mid-2020, but struggled under supply-chain challenges and tight labor to maintain the pace despite demand. The number of units under construction reached 828 thousand in May 2022.

When mortgage rates lifted in 2022, new home sales contracted. December 2022 new sales lagged far behind 2021 (down almost 27%) and settled back closer to, but under, pre-pandemic levels. While the number of single-family units starting construction each month is on par with pre-pandemic levels, permits have fallen over 20% below.

The year ended with 16.4% fewer new homes sold than in 2021, showing how quickly the market can change along with rising affordability constraints. But January thus far has shown promise of offering a turning point in the market, with builder sentiment up, mortgage rates down, and mortgage applications stabilizing, we might see the market thaw out before the

[4] Freddie Mac estimate for 2020.

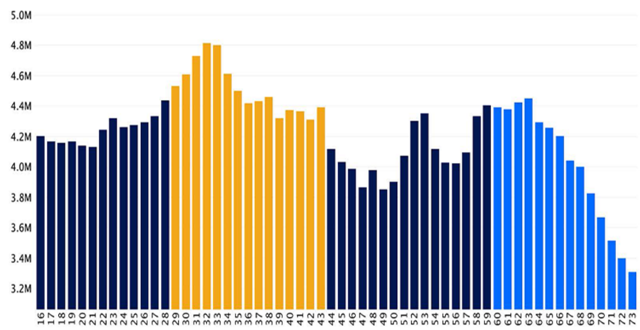
spring shopping season sets up, which will hopefully translate into more construction to add much needed housing supply when it's needed the most.



And more supply is indeed needed, despite the temporary wave of housing under construction. From 2008 to 2019, homebuilding lagged historical averages, resulting in a cumulative deficit of almost 4.5 million homes compared to the pre-2000 average pace of construction. The reduced supply of housing has cramped the housing aspirations of Americans, who are now less likely to head their own households than they were in the past: in fact, if everyone went out and headed their households at the same demographically-adjusted rates they did in 2006, there would be 5.7 million more households than we actually see today. That number reflects millions of individual instances of the American dream–a place of one's own–being delayed or compromised, whether it's a 20-something moving back into their childhood bedroom or a 30-something still bunking with roommates.

The pandemic has expanded this housing supply shortfall from a local, regional problem, to a national one. The high prices and rents, low inventory and blazing-fast home sales that once seemed like a problem confined to supercharged coastal cities like San Francisco are now plaguing previously-abundant markets like in Georgia, Texas, and Florida. The best time to start building our way out of the shortfall was 10 years ago; the second best time is right now.

Current age distribution of the U.S. adult generations



Zillow Economics analysis of 2018 ACS micro-data provided by IPUMS.

When taking into account a household's alternatives in overcoming inflation and growing their savings over time, like stock markets and renting, homeownership can still offer a financially stabilizing and wealth-building path forward for those able to access the resources, put down roots, invest socially and locally, and let the benefits of mortgaged homeownership overcome the larger upfront costs. The benefits are many – the leveraged, long run investment; the tax breaks; the insurance against rising rent; the right to change your space and its value and its capacity or function – but it's an open question whether most households will be able to access them.

According to our most recent national consumer survey, the median age of the first time home buyer in 2022 was 35 years old. The last of the massive millennial generation is entering their late twenties, the oldest is approaching their mid-40s, and the bulk will soon be hitting prime first-time, home-buying milestones. For the following ten years, two massive generations and Gen X squeezed between them, will navigate for-sale housing markets that have long resisted change, either in our built environments and the physical character of our communities or in the very way that the market functions.

Policy Solutions

Today's consumers expect transparent information, easy and secure transactions, and are concerned about access and affordability. A more efficient and simpler process can help to increase the speed and ease of buying and selling homes which can in turn boost market activity. It is critical that in addition to considering policies that can increase housing supply and responsibly expand access to credit, that Congress equally consider pro-consumer policy solutions that enable a more streamlined real estate process while ensuring stability and fairness in the market. To that end, Zillow looks forward to working with policymakers on policy solutions to meet consumer expectations and concerns.

Making the Transaction Easier

The adoption of technology and internet real estate listings websites has revolutionized the way potential home buyers, sellers, and renters access the housing market. According to the National Association of Realtors from 2022, 96 percent of home buyers used online search tools in their home search process. Real estate and lending regulations have simply not kept up – the vast majority of the myriad of regulations and laws were enacted prior to internet adoption and simply do not reflect consumer behavior or preference.

Today, a patchwork of disjointed regulations often makes it harder to shop, increases costs, and provides few real consumer benefits. We urge Congress and regulators to reimagine real estate regulation through the eyes of today's consumers, while bringing down costs and enabling exciting, long overdue innovation in the space.

Transparency in Real Estate / Listing Accessibility

It's hard to imagine that just 20 years ago, consumers had no way to freely access available home listings. The real estate market was literally a "gated community," accessible only through a real estate agent. Zillow and other online sites helped make real estate and listing data widely available on the internet, not just in the hands of individual agents and brokers. Protecting free consumer access to data from a wide range of sources is key to our mission to provide transparency that empowers consumers on their journey to rent, buy, sell and finance their next home. Recently, industry participants have announced plans to "take back control" of "their data"[5] in an effort to reassert control of listing information and create new monetization models. Zillow believes free and easy access to housing information helps level the playing field for consumers and creates an easier path to find shelter, whether one is renting or buying. Congress and regulators should ensure that consumer choice and access is not diminished through anticompetitive behavior.

RESPA Reform

The Real Estate Settlement Procedures Act (RESPA)—which was enacted nearly forty years ago—was written before email or the internet, when a mortgage loan was typically obtained by walking into a local bank or credit union and meeting with a local loan officer. The transaction was assumed to be, generally speaking, an in-person endeavor. Since then, the in-person marketplace has largely become digitized—yet requirements for the timing and manner of disclosures and how electronic transactions can be conducted have not been adapted to support modern technological capabilities and consumer expectations with regard to speed, simplicity, transparency, and equitable access.

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5 https://go.brightmls.com/rs/253-TBC-658/images/Bright-CRMLS_Open-Letter-to-the-Industry.pdf?utm_source=Article&utm_medium=Link&utm_campaign=CRMLS_OpenLetter

We encourage the Committee to examine ways to update this law to realize the full capabilities of today's tools and the expectations of empowered consumers while maintaining essential consumer protections.

E-SIGN

Similarly, the Electronic Signatures in Global and National Commerce Act, or E-SIGN Act, was enacted in 2000 when the internet and personal computers were just beginning to gain wide adoption, and before smartphones and tablets had even been invented. It has not been updated since. The law was enacted in recognition of then-current technology, to ensure that electronic agreements with electronic signatures were accorded the same validity as paper documents with wet signatures.

Today, technology has advanced far beyond what could have been foreseen at the time E-SIGN was enacted. As a result, current law does not accurately reflect the realities of modern electronic transactions and should be modernized to simplify digital transactions while maintaining important consumer protections. The law should be updated to maintain the consent requirement while simplifying the disclosure and demonstration requirements to reflect modern technological realities and how consumers actually transact online. Zillow supports the E-SIGN Modernization Act that has been introduced in previous Congresses.

Remote Online Notarization

Zillow envisions providing customers with an integrated constellation of tools to limit uncertainty, lower costs, and prevent delays to achieve a seamless real estate transaction. Remote Online Notarizations (RON) are a key digital solution to provide certainty and speed up the mortgage transaction. While the vast majority of states have authorized RON, having a uniform national standard will help increase efficiency and certainty in real estate transactions. We encourage committee members to support reintroduction and passage of the SECURE Act to ensure that buyers and sellers across the country can benefit from smart digital tools that improve the real estate transaction.

Addressing Access and Affordability

Access to Credit and Fair Housing

We thank Members of this Committee for their efforts on reforming the current credit scoring and underwriting processes to include smarter and more dynamic data points. We are also encouraged by federal housing regulators including things such as on-time rental payment history in their automated underwriting systems. Modernizing credit reporting to be more inclusive, accurate, and reflective of an individual's ability to afford a mortgage is a critical cog in a system that drives equality. Zillow looks forward to supporting and working with the Banking Committee on legislation such as the Credit Access and Inclusion Act.

Zillow prioritizes consumers by equipping our platform with tools to aid their journey to finding a home. We display down payment assistance resources on every home listing, where available, as well as a "local legal protections" tool displayed on all rental listings across the country. Based on the location of each rental listing, the home details page displays whether or not state or local law protects sexual orientation. Additionally, listings display information on source-of-income protections, including whether or not state or local law protects a rental applicant or tenant who is attempting to use a housing choice voucher to help pay the rent. This tool helps inform all rentals users of their rights under state and local law, and similarly informs landlords of their legal obligations.

Responsible Use of Automated Valuation Models

As policymakers continue to examine ways to eliminate bias in appraisals, Zillow strongly endorses consideration of the use of remote/desktop appraisals, utilization of floor plans, and 3D technology to more accurately value homeowners' assets and help address issues of capacity and potential human bias in the valuation process. Increasing the use of more data points, such as a wider geographical array of comparable homes in appraisals, allows the deployment of technology to provide more accurate home valuations. Further adoption of innovative valuation tools will have a meaningful impact on the housing market.

It should be the goal of policy makers and regulators to promote responsible innovation, not deter it. We believe that with the right framework, companies like Zillow can continue to create and evaluate new tools that can provide more efficient and accurate property valuations. We urge this Committee to work with regulators to ensure that AVM standards that give both consumers, investors, and taxpayers more confidence that property valuations are accurate, transparent, and fair.

Zillow also encourages the Committee to use its influence to encourage FHFA to consider strategies to share the significant amount of data regarding homebuyers and other stakeholders in the housing finance sector collected by Fannie and Freddie more broadly. This data is currently used by Fannie, Freddie, and FHFA to gain important insights about consumers and ensure compliance with existing laws and regulations, insights that would be beneficial to a broader set of industry stakeholders to improve the technological systems used to serve consumers. FHFA is currently doing this as it relates to making fair lending data more transparent. Sharing these data sets more broadly could allow for further refinement of the systems used by entities across the housing finance industry and lead to more sophisticated decision making and more equitable outcomes.

Increasing Supply

Zillow encourages the adoption of policies at both the state and federal levels that incentivize the production of increased affordable rental and for sale housing supply through increased construction, rehabilitation of existing housing units, and efficient land use.

The federal government should incentivize state and local zoning changes and land use regulations that promote modest density increases to promote homeownership options for a greater variety of needs and income levels.

Zillow also supports tax proposals that strengthen the Low Income Housing Tax Credit as well as proposals aimed at revitalization such as the Neighborhood Homes Investment Act. These types of proposals, coupled with zoning changes at the local level can have a very real impact on increasing the supply of affordable housing in America.

Ensuring a Secure Transaction

Federal Privacy Legislation

Trust is fundamental to Zillow's relationship with our customers. Our success hinges on our ability to meet our customers' expectations about how their personal data and information will be collected, used, retained, and shared in the course of our relationship. We are committed to transparent consumer data practices and continually refine our privacy policies to ensure that they are clear, accurate, and easily understood by all consumers. Importantly, we believe Congressional action to create one unified standard would eliminate confusion created by disparate state laws and avoid federal regulatory overreach in the absence of Congressional action.

We encourage Congressional adoption of a federal data privacy standard that provides clearly defined guidelines and standards for compliance to provide clarity and certainty to meet our obligations as a business and promote understanding among consumers of their rights related to their personal information. Zillow supports federal data privacy legislation that creates one national standard, distinguishes business affiliates from third parties, avoids the potential for nuisance litigation, is clear about any interaction with the Gramm-Leach-Bliley Act, and is clear in its requirements.

Conclusion

While housing market conditions have cooled from the record sales, speed, and price appreciation we saw during the past three years, affordability and access remain a challenge for more and more Americans. While we can easily point to the recent spike in interest rates as a reason for deteriorating affordability, we cannot ignore the underproduction of housing that has occurred over the past decade. Our country is short almost 4 million housing units, with the shortage most acute at lower price points. Through smart policy decisions, the federal government can help incentivize the production of new housing to help access and affordability, update outdated regulations to make it easier for consumers to transact, and create a national standard for data privacy and security that gives consumers great confidence when conducting more of their home shopping online. We look forward to collaborating with the 118th Congress on this important work.