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TAX POLICY'S ROLE IN INCREASING AFFORDABLE HOUSING SUPPLY FOR WORKING FAMILIES

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TUESDAY, MARCH 7, 2023

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:05 a.m., in Room SD–215, Dirksen Senate Office Building, Hon. Ron Wyden (chairman of the committee) presiding.

Present: Senators Stabenow, Cantwell, Menendez, Carper, Cardin, Warner, Whitehouse, Hassan, Cortez Masto, Warren, Crapo, Grassley, Thune, Young, Johnson, and Tillis.

Also present: Democratic staff: Ursula Clausing, Tax Policy Analyst; Alice Lin, Senior Tax Policy Advisor; Sarah Schaefer, Chief Tax Advisor; Joshua Sheinkman, Staff Director; and Tiffany Smith, Deputy Staff Director and Chief Counsel. Republican staff: Jamie Cummins, Senior Tax Counsel; Kate Lindsey, Tax Policy Advisor; and Gregg Richard, Staff Director.

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The Finance Committee will come to order. In recent memory, the Finance Committee has a proven record of working together, Democrats and Republicans, to solve big national challenges. Recently, we helped more Americans save for a dignified retirement. We cut taxes for families and small businesses. We updated the Medicare guarantee with the CHRONIC Care Act. We made progress on helping Americans get mental health care when they need it. And we passed the historic Family First Act with groundbreaking new policies to promote kinship care.

I strongly believe the next opportunity for a big, bipartisan initiative is affordable housing. Few things unite Americans quite like the feeling that the rent is too damn high or saving for a down payment is a pipe dream. This is an issue in all 50 States: in big urban downtowns, medium-sized cities, in the suburbs, even in smaller communities and rural areas.

Let's look at what 5 years of rent increases have done in a handful of cities relevant to this committee. In my hometown of Portland, data from Zillow shows the average monthly rent jumped by $335, nearly 23 percent; Charlotte, NC, $558 increase or 46 percent; Memphis, TN, a $428 increase or nearly 50 percent; Boise, ID, a $639 increase, sending monthly rates 57 percent higher.

The outlook isn't much better for people looking to buy a home, particularly young people looking to buy a first home. According to a new report from the National Association of Realtors, the share of sales going to first-time home buyers fell last year to the lowest level on record. Whether it's unaffordable rents or unattainable mortgages, oftentimes it is Blacks and Latinos who are hit the hardest. So how should Congress go about solving this challenge?

For a long time, you were pretty much breaking the rules if you said you had some supply-side ideas. I want everybody to know I'm a supply-sider when it comes to housing, colleagues. We have to create more housing supply.

Now, for many years Senator Cantwell has been the champion of the Low-Income Housing Tax Credit, what's known as LIHTC. It is the most successful Federal program for affordable housing that there is. The bill she and Senator Young have put forward, the Affordable Housing Credit Improvement Act, would expand LIHTC to create 2 million new units nationwide.

Yesterday, Senator Cardin and Senator Young introduced the Neighborhood Homes Investment Act, which is all about giving a private investment boost for housing in blighted and struggling neighborhoods that need it most. I am pleased to be a cosponsor of both of their bills. They're both priorities that we include in a comprehensive bill I've offered called the DASH Act, the Decent, Affordable, and Safe Housing for All Act. I am reintroducing DASH today.

Another component of DASH is what I have named the Middle-Income Housing Tax Credit, so we would have LIHTC in America, but for firefighters and nurses and teachers and all these hard-hit middle-income folks we'd have MIHTC. And I've heard so often at home, particularly in Portland, but all around the State, how important middle-income housing is.

America has fallen behind in building housing for decades, and the housing shortage has extended into the middle class, so I want to see middle-income housing supplement low-income housing, what's known as LIHTC. If a given State housing agency wants to use its MIHTC credits for low-income housing, my bill says it could allow those resources into LIHTC.

And I'd just like to say, colleagues—and we're going to be talking, I think, a lot about this—it's my view that in 2023 providing the States with this kind of flexibility is absolutely essential to increasing housing supply where it is needed most. You can't talk now about housing without addressing homelessness, a priority in the DASH Act.

It's clear that those experiencing homelessness need more help than they're getting. Furthermore, building more affordable housing today is going to reduce homelessness tomorrow, which would prevent a lot of individual suffering and save taxpayers' dollars.

I know we're also going to talk about the importance to keep pushing State and local authorities to cut back on the thicket of zoning rules that get in the way of building the housing that is so essential. This is another area Senator Crapo and I have talked about, essentially all these areas where there's an opportunity for bipartisan agreement in the tradition of those several bills that I talked about in my opening statement. These restrictive zoning laws can hurt local economies—and what is even worse, they often amount to a back-door method of segregation.

So, there's lots for the committee to talk about today. My view is, along with mental health care, rural health, and a number of other topics, affordable housing is one of the areas where this committee, as has been our tradition, can come together in a bipartisan way and make real progress.

[The prepared statement of Chairman Wyden appears in the appendix.]

The CHAIRMAN. Senator Crapo?

OPENING STATEMENT OF HON. MIKE CRAPO, A U.S. SENATOR FROM IDAHO

Senator CRAPO. Thank you very much, Mr. Chairman, and you have well laid out the issue today. I appreciate not only your focus on this issue and supply-side solutions, but the fact that you recognized the bipartisan work that we do in this committee and identify this as one of the key areas where we ought to be able to accomplish similar solutions.

When this committee held a hearing on housing last summer, we had just learned that consumer price inflation had spiked to 9.1 percent, the highest in more than 40 years. The shelter component of the consumer price index was up 5.6 percent relative to a year earlier, and rents were up by nearly 6 percent.

Unfortunately, for renters and potential homeowners, the mislabeled Inflation Reduction Act did nothing to address inflation and rising costs, but is in fact projected to exacerbate inflation in the near term. As the Federal Reserve attempts to control price growth with interest rates hikes, mortgage rates have hit highs not seen since the 2008 financial crisis and are now hovering at 6.5 percent, slowing investment in the housing market and pricing many buyers in Idaho and all across the country out of the market.

January's overall consumer price inflation is still significantly above normal, hitting 6.4 percent annually. Shelter accounts for over half of the core increase, up 7.9 percent over the last year. Inflation is also eating away at the value of wages. Real hourly earnings have declined 1.8 percent. Across the country, Americans are faced with unaffordable housing. Specifically, lower-income Americans are facing a shortage of about 7 million affordable homes, and the supply of affordable housing continues to fall short of demand, with the gap increasing every year.

One tax tool used to address the supply shortage and incentivize builders to create affordable homes is the Low-Income Housing Tax Credit, or LIHTC. It is responsible for generating a majority of all affordable rental housing created in the United States today and generally enjoys bipartisan support in Congress. Several members of this committee have been working across the aisle to find affordable housing solutions.

Senator Wyden has very well described those efforts. Again, these proposals include changes to LIHTC and new tax incentives. Senators Young and Cantwell, as well as several other members, are working to reintroduce the Affordable Housing Credit Improvement Act, which would bolster LIHTC for developing and preserving affordable housing.

Senators Young and Cardin introduced the Neighborhood Homes Investment Act, which would create a Federal tax credit to finance home building and rehabilitation in urban and rural neighborhoods. Other Finance Committee members have expressed interest in addressing the affordable housing supply shortage, including one of our newest members, Senator Blackburn. And obviously, as he indicated, our chair, Senator Wyden, has introduced the Decent, Affordable, and Safe Housing for All (or DASH) Act, which brings the concept of middle-income housing tax credits into play. I thank you all for your hard work.

Targeted tax policies such as LIHTC are an important part of solving housing affordability and supply issues, but we must also address the drivers that are raising the cost of housing generally. When input and regulatory costs are high, LIHTC is less effective. Zoning laws and regulatory barriers are often uncoordinated, unnecessary, or overly cumbersome, and can ultimately work against the goal of providing affordable housing by creating excessive development costs.

States and localities with the most restrictive zoning laws and regulatory barriers often have the most severe shortages in affordable housing. As a result, Federal, State, and local leaders must work together to reduce regulatory barriers, and they should look to success stories around the country.

In Houston, local leaders reduced the minimum lot size from 5,000 to 1,400 square feet. After initial success, the reform was expanded to cover the entire city. Due in part to the ability for small-lot construction, Houston's median house price is below the national median. Further, it is estimated the average Houston household benefited from this reform by roughly $18,000.

In order to make it economically viable to build across price points in the market, these supply-side factors need to be addressed. Overall tax costs, regulations, supply chain bottlenecks, and financing expenses all enter into investment decisions. Overall, there is no better cure to housing affordability than a healthy, thriving economy. The pro-growth policies in Republicans' 2017 tax reform led to one of the strongest economies in decades: low unemployment, a low poverty rate, strong wage growth, high median incomes, increased investment, and record Federal tax revenues.

We should preserve these policies and explore additional opportunities to promote growth, increase investment, and encourage research and development in the United States. I look forward to discussing with today's witnesses ways to ensure that affordable housing is accessible and that the American dream of home ownership remains attainable.

Thank you, Mr. Chairman.

[The prepared statement of Senator Crapo appears in the appendix.]

The CHAIRMAN. Thank you, Senator Crapo, and I especially appreciate the fact that, as we get out of the gate in this new Congress, on housing we've got a lot of opportunities to bring the committee together in our long-time tradition.

Let me introduce our witnesses. Our first witness will be Ms. Denise Scott. She's president of Local Initiatives Support Corporation, where she has investments nationwide, with over 3 decades of experience in community development. She's also a member of the board of directors of the Federal Reserve Bank of New York and has taught at Columbia University.

Next, I'm pleased that we've got our colleague from Washington, who is noted for and has been a long-time advocate of these crucial issues, and she's going to introduce our next witness, Steve Walker.

OPENING STATEMENT OF HON. MARIA CANTWELL, A U.S. SENATOR FROM WASHINGTON

Senator CANTWELL. Thank you, Mr. Chairman. I thank you and Senator Crapo for having this important hearing and for all the work last year when we engaged in conversations, both on the Chips and Science Act and year-end packages to try to get the Low-Income Housing Tax Credit addressed, and I look forward to working with you this year.

We're here today to listen to Steve Walker, who's executive director of the Washington State Housing Finance Commission and he has been working on affordable housing projects for 30 years. In 1996, he joined the Washington Housing Finance Commission and oversaw the financing of affordable apartments and projects for families, and became their executive director in 2019.

As you both mentioned, the shortage of 7 million rental homes nationwide is extremely important for low-income renters. And last week the Washington State Department of Commerce reported that our State will need to add 1.1 million homes over the next 20 years, and more than half of those must be affordable for residents at the lowest income levels to meet our population growth.

I can't tell you how astounding that is just to hear, because we already knew in Washington that we need an incredible investment in workforce housing. I think, if anything, our committee could address the challenges that our economy faces by making sure that we have workforce housing to make sure that people can afford to live where the jobs are. And that is part of the efforts in the expansion of Chips and Science, or just in general, as our economy returns.

So together—you mentioned our colleagues, Senators Young and Blackburn and myself, continuing to work on this legislation. I look forward to working with both of you, but Mr. Steve Walker will address the Low-Income Housing Tax Credit, tax-exempt Private Activity Bonds, and how they've played a crucial role in providing housing to millions of families.

So, thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Cantwell. And you're spot-on about the urgency of this workforce issue. I was home for town meetings recently—got some more coming up this weekend—and when I walked into a room where I expected a host of kind of economic issues I'd heard before, I was told by school officials that school districts are having to actually buy houses—buy houses—so they can make them available to their teachers. So the urgency you have stressed is spot-on.

We're very pleased that the committee is going to be joined by Sharon Wilson Géno, president of the National Multifamily Housing Council. She also brings an extensive background: three decades working various areas of housing law. She also teaches courses on housing law at George Washington and Georgetown.

Next is Mark Calabria. He's a senior advisor at the Cato Institute. He served as Director of the Federal Housing Finance Agency, as Chief Economist to Vice President Pence, and as an aide to the Banking Committee here in the Senate.

Garrett Watson is a senior policy analyst and modeling manager at the Tax Foundation, where he conducts research on Federal and State tax policy.

Ms. Scott, we're glad you're here, and we'll begin with your testimony.

STATEMENT OF DENISE SCOTT, PRESIDENT, LOCAL INITIATIVES SUPPORT CORPORATION (LISC), NEW YORK, NY

Ms. SCOTT. Thank you, and good morning, everyone. I'm really pleased to be here. Mr. Chairman and Ranking Member Crapo and members of the committee, I'm honored to join you this morning to discuss the urgent need to expand our Nation's affordable housing supply and the measures this committee must take to address the housing crisis.

My name is Denise Scott, as you heard, and I work for LISC, one of the largest nonprofit housing community development organizations in the country, and we're also a certified CDFI. And I thank you, Senator Crapo, for joining Senator Warner in founding the Senate's Community Development Finance Caucus. LISC has offices in over 38 urban markets, stretching from Richmond to Toledo, Houston, and Seattle. And we also have a rural program reaching 2,000 rural counties in 49 States and including Puerto Rico.

If there is one unifying truth across all these markets, it's that the lack of housing supply is hampering the ability of families of modest means to achieve financial stability. Nearly half of all renters are cost-burdened, meaning that rent eats up at least 30 percent of their monthly income; and one in four renters pays more than 50 percent of their income in rent, leaving little money available each month for groceries, medicine, child care, and other basic necessities.

And it's not just the lowest-income populations that are struggling, as you have heard, although they are feeling the greatest pain. We are also hearing from municipalities around the country that they're having difficulty housing teachers and firefighters and health-care workers. And we know that an inadequate supply of quality, affordable housing in many rural communities is hampering their ability to attract employers.

In addition, historic home prices since the pandemic have combined with high interest rates and limited supply to keep home ownership out of reach for far too many families. This is effectively shutting down the main path to wealth across generations, particularly households of color. The good news is that this committee has under its jurisdiction powerful tools to address the housing crisis and there is bipartisan support to do so.

First and foremost, the committee can enhance the Low-Income Housing Tax Credit. The Housing Credit is the Nation's most successful housing tool. It has been responsible for the production of most of the country's affordable housing, and more than 50 percent of the households in tax credit properties are extremely low-income families.

Congress could spur the creation of over 2 million more rental units over the next decade by enacting the Affordable Housing Credit Improvement Act, bipartisan legislation introduced last session by Senators Cantwell and Young; and by restoring the 12.5-percent increase to the formula to the allocated tax credits—an increase that was enacted through bipartisan legislation in 2018, but expired in 2021.

As detailed in my testimony, the committee could consider other measures to improve the program that emphasize long-term preservation of affordability, including the Qualified Contract and the right of first refusal provisions. In addition, Congress can pass the Neighborhood Homes Investment Act, which would create 500,000 new homes over the next decade. This bipartisan legislation, just introduced by Senators Cardin and Young, would attract private capital to support investments in single-family homes in rural and urban communities suffering from displacement and high vacancies.

In these communities, the cost of developing and rehabilitating homes often exceeds the value of the homes. The Neighborhood Homes Tax Credit fills the gap between the cost of construction and the value of the property. It would therefore fill a void in our affordable housing tax financing ecosystem, providing an effective and necessary tool for revitalizing and repopulating communities, while also providing affordable home-ownership opportunities for first-time, first-generation home buyers.

In closing, there is a supply gap of approximately 3.8 million homes in this country, more depending on how you count. And this gap is only likely to grow in the near term in light of high interest rates and the spike in the cost of construction. Enacting both the Housing Credit Improvement Act and Neighborhood Homes will spur the production of 2.5 million housing units over the next decade, cutting into a sizable portion of that supply gap and getting us much closer to ensuring that all families in this country are able to enjoy the health, well-being, and financial security that an affordable home provides. We just need Congress to act and to act quickly.

Thank you, and I'm happy to answer any questions that you may have.

[The prepared statement of Ms. Scott appears in the appendix.]

The CHAIRMAN. Thank you very much, Ms. Scott.

Mr. Walker from the Northwest.

STATEMENT OF STEVE WALKER, EXECUTIVE DIRECTOR, WASHINGTON STATE HOUSING FINANCE COMMISSION, SEATTLE, WA

Mr. WALKER. Good morning. Thank you for convening this hearing, Chairman Wyden and Ranking Member Crapo. And thank you, Senator Cantwell, for your years of steadfast leadership in affordable housing. It's an honor to be here. My name is Steve Walker. I currently have the privilege of serving as the executive director of the Washington State Housing Finance Commission.

I am a public servant with the charge of meeting my State's affordable housing challenges, and our number one challenge is the lack of enough decent, affordable apartments that low-income folks can reasonably afford. My peers, the officials who run their own State housing finance agencies, would say the same thing.

The Housing Credit program is our Nation's most effective tool. It's not the only tool, but it is the most effective tool for this challenge: building affordable housing. And the truth is that the private sector simply cannot and does not produce apartments at rents that low-income folks can afford.

Low-income folks include people like baristas and warehouse workers, bank tellers, teachers, and retired seniors. In Washington State, as in many others, the shortage of housing has caused rents to rise so far out of proportion to incomes that thousands of families, especially families of color, are being pushed further and further away from their jobs and from their communities in search of affordable rents.

Rents take up a larger and larger part of the household budget. Those who are struggling can easily fall into homelessness, and they do, at rates that we have not ever seen before; yet the majority of apartments coming online today, almost anywhere you look, are only affordable to the top of the market. Simply providing rental vouchers, as some have suggested, would do nothing to change this dynamic.

We need to produce affordable housing, and that's what the Housing Credit does. In fact, the credit is the only Federal program that makes it economically feasible for developers to do that. It made possible 3.7 million apartments for low-income households across the U.S., 130,000 in Washington State alone.

As in other States, you will find these homes in urban, suburban, and rural neighborhoods in every part of Washington. They include family-sized apartments in our agricultural Yakima Valley, studio apartments in downtown Seattle and in Spokane, senior buildings with health-care clinics on site, and family buildings with child care on site.

Many of you have seen these successes with your own eyes and have met residents who share how having a safe, affordable apartment has changed their lives. That is why the Housing Credit has earned so much support in Congress for nearly 40 years, because members clearly see the benefit to their States and to their districts from this highly effective, proven tool.

Literally, hundreds of Democrats and Republicans in both chambers have cosponsored bills to expand and strengthen the program; 252 members in the last Congress alone. Because the Housing Credit is working, we simply need more of it. Unfortunately, in the last few years we've gone the other way—for example, letting the temporary increase to the credit lapse.

The good news is that Senator Cantwell from my State—along with Senator Young, Senator Blackburn, and Chairman Wyden—is poised to reintroduce the Affordable Housing Credit Improvement Act. Cosponsoring this bill is the single most important thing each member of this committee and every member of the Senate can do to support affordable housing in your State.

I ask that you support complementary legislation. Chairman Wyden, Senator Cortez Masto, Senators Cardin and Young have introduced legislation that would support both affordable rental housing and affordable home ownership. Because safe, affordable housing is the most important foundation that families and communities can have, I urge you to support the Affordable Housing Credit and ensure that all communities throughout our country can build on this foundation.

Thank you for this opportunity to testify.

[The prepared statement of Mr. Walker appears in the appendix.]

The CHAIRMAN. Thank you very much.

Next is Ms. Géno.

STATEMENT OF SHARON WILSON GÉNO, PRESIDENT, NATIONAL MULTIFAMILY HOUSING COUNCIL, WASHINGTON, DC

Ms. GÉNO. Chairman Wyden, Ranking Member Crapo, members of the committee, thank you for the privilege of testifying on behalf of the National Multifamily Housing Council and the National Apartment Association.

My name is Sharon Wilson Géno, and I'm the president of NMHC. For more than 30 years, NMHC and NAA have partnered to provide a single voice for the American apartment industry that provides apartment homes for 38.9 million Americans, accounting for almost one-third of the U.S. housing stock and contributing $3.4 trillion of economic value to our economy annually.

America is facing a housing affordability crisis without a doubt. While challenges differ from community to community, many families, seniors, and people with disabilities are unable to rent homes due to increased 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 percent of their income—has increased dramatically over the last several years as wages have not kept pace with costs, while others are priced out of communities all together.

Put simply, we have a housing supply shortage. And while it's taken decades to get to this point, it will take time to reverse. We must begin addressing this issue today. NMHC and NAA estimate the U.S. needs to build 4.3 million more apartment homes by 2035 to make up for decades-long underbuilding to meet future demand and avoid increasingly expensive housing.

We have kicked the can down the road long enough. We urge Congress to act on a variety of legislative proposals that will generate housing resources for Americans of today and tomorrow. The apartment industry stands ready to help meet the rising need for attainably priced rental housing, but we cannot do it alone. It requires strong partnership between the public and the private sectors.

There is no magic silver bullet here, but a multifaceted approach can be effective in easing current market conditions. On the tax policy front, we strongly recommend passage of the Affordable Housing Credit Improvement Act of 2021, as this bipartisan bill would increase the availability of Low-Income Housing Tax Credits to develop nearly 2 million homes, and would help across the U.S. in rural, urban, and suburban communities.

In addition to the acute need for low-income housing, affordability also threatens the middle-income tier, including teachers, firefighters, nurses, and police officers. That group has an increasing percentage of folks who are cost-burdened right now—up to 26 percent of that population.

We urge Congress to finance an additional 344,000 affordable homes by enacting Chairman Wyden's proposed Middle-Income Housing Tax Credit, which builds off the success of the Low-Income Housing Tax Credit.

Additionally, NMHC and NAA support proposals that would build on Senator Tim Scott's Opportunity Zones proposal, as well as Senator's Stabenow and Brown's legislation to encourage adaptive reuse of underutilized commercial space. While tax laws would help spur development and preservation of affordable housing, we must also deliver short-term solutions and enhance assistance for residents who are struggling. This includes increasing the supply of section 8 housing choice vouchers, as well as other supports for families in need.

Regulatory obstacles at all levels of government also prevent us from delivering housing our country so desperately needs. NIMBYism and antiquated and discriminatory zoning laws make it difficult for developers to develop in many communities across the country, thereby impeding our ability to increase supply.

There are a number of proposals to cut some of the regulatory red tape in the administration's Housing Supply Action Plan issued last May. These efforts, among other things, would reward jurisdictions that have reformed zoning and land use policies with higher scores in certain Federal grant processes and deploy new financing mechanisms to build and preserve more housing where financing gaps currently exist.

Access to stable quality housing in communities of choice has been proven time and time again to be critical to achieving economic stability, positive health outcomes, educational attainment, good nutrition, and other indicators. For that reason, it has always been a bipartisan issue. For the sake of the residents who live in rental housing today and those who don't have access to it, we urge you to work across the aisle with urgency to enact these proposals and others described in our testimony.

Thank you, Mr. Chairman, and I look forward to hearing the committee's questions.

[The prepared statement of Ms. Géno appears in the appendix.]

The CHAIRMAN. Thank you for finishing with urgency, because that's what we're trying to convey.

Dr. Calabria?

STATEMENT OF MARK A. CALABRIA, Ph.D., SENIOR ADVISOR, CATO INSTITUTE, WASHINGTON, DC

Dr. CALABRIA. Thank you, Chairman Wyden, Ranking Member Crapo, and distinguished members of the committee. Thank you for the invitation to appear at today's hearing.

Too many working families face significant housing cost burdens. The dramatic increase in mortgage rates, along with inflation and building and materials costs, have created historic price pressures. Let me also say, while I come from a Banking Committee background, I've always been impressed with the Finance Committee's commitment to housing.

I will note we have the unique advantage that the chairman and ranking member of Banking are also members of Finance, so perhaps we can not only have something bipartisan, but bi-committee working across housing issues. I think this is particularly important, because the development of assisted housing has become so overly complex, with multiple layers of subsidies, different rules, different application cycles.

For instance, most tax credit developments are often used in conjunction with non-tax subsidies such as HOME or CDBG. Considerable expense is incurred coordinating, combining these various subsidies. Perhaps you would like to think about it this way. I'm suggesting we put a few lawyers out of work and maybe streamline some of these programs so we can actually deliver those benefits to the renters themselves.

So I would really encourage any changes to the tax credit to be coordinated with other housing programs under the jurisdiction of the Banking Committee, particularly section 8, which is widely used by tax credit renters. I would also urge the committee to take a broader perspective of where we may be in the multifamily construction cycle. To quote a recent Freddie Mac report, multifamily is at an inflexion point.

The bulk of evidence suggests the national rental market has been softening, and we may be entering an actual oversupply of multifamily—I do want to emphasize an oversupply at these price points; not a structural oversupply, but more a cyclical oversupply. And while of course forecasting is always difficult, most indicators suggest that rents will decline over the next 12 to 18 months. So, I would just urge some cautiousness to thinking about adding stimulus to additional construction at a time when we are likely passing the peak of this cycle.

The primary drivers, of course, of housing costs nationally are land cost, labor costs, material costs. And I would really urge Congress—perhaps out of the jurisdiction of this committee—but one area where Congress can make a really big difference is to convert federally held land into land that could be used to develop housing. I would urge members to take a look at the model that's been used in Nevada. Las Vegas would be considerably more expensive if we did not have former Senator Reid to thank for helping convert Federal lands to developed lands—again, outside the jurisdiction of this committee, but an important ability to add supply to the marketplace.

A little bit back to the jurisdiction of this committee, I think we can make a big difference in material costs if we can make some differences and resolve some of our trade disputes, particularly with Canadian lumber and aluminum. And while I would mostly recommend caution at this point in the cycle, if the committee were to revisit the legislative framework for the tax credit, I would make the following recommendations.

First, I would make the tax credit look a little bit more like HUD's HOME program. The purpose for this is that HOME offers a wide variety of uses. It can pay for security deposits, it can pay for rental assistance; and really keep in mind, while we do have a national housing crisis, every market is different.

And to me, the more flexibility we can have for local market conditions, the better in terms of meeting needs on the ground. And so that's just an important consideration, from my perspective. I also want to first commend the number of State housing finance agencies that go above and beyond the Federal income targeting requirements in the tax credit, but my view is I think we can make additional success in helping prioritize those families most in need.

And while of course there are rental burdens across the income spectrum, those at the bottom are so severely out of line with those in the middle or the top. I would urge the committee, for instance, to consider the addition of a sub-goal of having a certain percentage of units going to households under 30 percent of area median income.

As one of the Banking Committee staffers responsible for drafting and negotiating the 2005 reauthorization of the Violence Against Women Act, I do want to be very clear that I'm disappointed in Treasury's slow movement in meeting its obligations under VAWA in response to tax credit properties.

Let me also say there are a large number of rental units outside of the footprint of the tax credit, and we have a large number of vacant properties. So one of the things I would lastly suggest is, let's ask about how we get all of these small properties—half of renters live in units and properties under five units. How do we start bringing them into the cycle? And one thing I would suggest is we directly allow, say, the first $500 in monthly rent to be tax-free so as to encourage those subsidies beyond the traditional tax credit, higher-density properties.

Again, I thank you for your time this morning and look forward to your questions and comments.

[The prepared statement of Dr. Calabria appears in the appendix.]

The CHAIRMAN. Thank you.

Mr. Watson?

STATEMENT OF GARRETT WATSON, SENIOR POLICY ANALYST AND MODELING MANAGER, TAX FOUNDATION, WASHINGTON, DC

Mr. WATSON. Chairman Wyden, Ranking Member Crapo, distinguished members of the Senate Finance Committee, thank you for the opportunity to provide testimony on how to improve tax policy to increase affordable housing supply and serve working families. I'm Garrett Watson, senior policy analyst of the Tax Foundation, where I focus on how we can improve our Federal tax code.

Today I'll recommend ways to improve the Low-Income Housing Tax Credit, known as LIHTC, to ensure that it is effective at providing affordable housing to low-income Americans. I'll also discuss how broader improvements to the tax code, such as providing better cost recovery for residential structures, would be an effective way to grow the supply of affordable housing.

We should consider three big picture points when evaluating the effectiveness of LIHTC as a tool to help working families and low-income households. First, while LIHTC has helped expand housing affordability, the credit's administration could be improved. More detailed information could be provided on the credit's effectiveness, as recommended in a 2018 report by the Government Accountability Office.

Notably, GAO recommends that policymakers designate an agency to collect data to better understand project development costs. Such data would help inform future reform efforts, ensuring agencies impose limits on costs, root out fraud, and reform often opaque and discretionary credit allocation processes.

The data we have so far, for example, shows that developments supported by the credit can suffer from higher than average constructions cost. A 2017 GAO study, for example, found that only 30 percent of allocating agencies at the State level put limits on development costs. That potentially undercuts the credit's efficiency.

While the U.S. Department of Housing and Urban Development provides valuable project-level data, additional data such as information on fees paid to developers and syndicators, as well as outcomes for properties and tenants over time, will be valuable for assessing LIHTC.

Second, it's important to evaluate LIHTC's broader policy effectiveness before considering options to expand LIHTC. One area of concern is how much of LIHTC's benefit goes to low-income households. Several studies have found that between one-third and three-quarters of the subsidy provided by LIHTC does go to low-income households, while the rest accumulates to other stakeholders in the process, such as developers and investors.

Similarly, LIHTC projects can tend to be located in higher-poverty neighborhoods, which deprives tenants of the benefit of living in places with more opportunity and more amenities.

Finally, many of LIHTC's administrative challenges are rooted in using the tax code to tackle important social problems that may be outside the proper scope of the tax system. The array of programs that we have supporting housing—ranging from Federal grants, tax credits for historic rehabilitation, and tenant-facing assistance—all overlap with LIHTC, both in their policy goals and benefiting stakeholders.

That overlap can make it harder to evaluate the effectiveness of the credit compared to alternatives such as housing vouchers, an option considered by CBO and many others going back decades. In addition to LIHTC, a supplementary approach to expanding the supply of affordable housing is to reduce the tax burden of investment in housing.

One way to reduce that tax burden is increasing or improving the cost recovery of structures in the Federal tax code. Currently, investors in residential structures must depreciate those structures over periods of up to 27½ years, which limits the economic value of depreciation allowances.

Ideally, all investments should be fully and immediately deducted from taxable income, but this can pose a challenge for structures that create a net operating loss, given the large size of that investment. One solution is to provide neutral cost recovery, which adjusts depreciation deductions to maintain their value in real terms. This would improve the economic incentive to invest in structures, expand the housing supply, while also avoiding the challenges posed by fully expensing those types of investments.

According to the Tax Foundation's estimates, providing neutral cost recovery to residential structures could lead to the construction of up to 2.3 million additional housing units in the long run, lower construction costs by about 11 percent, and raise long-run economic output by 1.2 percent.

Pairing better cost recovery with efforts to improve land use and zoning rules at the State and local levels, as has been already mentioned today, would magnify the positive effects of both LIHTC and neutral cost recovery. Reforming LIHTC and providing neutral cost recovery for residential structures are just two important steps that policymakers can take to ensure the Federal tax code is not a barrier to solving America's affordable housing challenge.

Thank you, and I look forward to answering any questions.

[The prepared statement of Mr. Watson appears in the index.]

The CHAIRMAN. All right. Thank you all. You all have been very helpful.

Let me begin, if I might, and I'm going to ask this of you, Ms. Géno, because I was struck—Dr. Calabria says we're passing through a cycle. Basically, "All you Congress folks shouldn't get too worked up, because we're passing through a cycle."

Now, I've had the honor to represent Oregon for a while in the U.S. Congress. I have never in my time in public service seen school districts having to buy houses to rent to their employees because the housing crunch is so serious. So I think it is kind of disconnected from the facts to say that we're passing out of a cycle. And I want to follow up on a point I heard you make, because your views—and particularly representing such a major business association—are very valuable.

I gather you think that the number of firefighters and middle-income people who are—I guess the technical housing jargon for it is "cost-burdened"—is increasing, and is not increasing by a modest amount. It's increasing in a significant way. So, can you sort this out, because what you said surely doesn't seem to me like we're passing through a cycle. I think your comments reflect what I'm hearing in town hall meetings, what my colleagues are hearing, which is that middle-income people—and I just hate the idea of a policy debate that would pit the needs of middle-income people against the needs of low-income people. My goodness, that's the last thing we need in America. We've got to get shelter to people who need it. So tell us your assessment of how serious the situation is for the missing middle; let's refer to it that way.

Ms. GÉNO. Sure. I appreciate your question. And I agree, in part, with my colleague Dr. Calabria's assessment: there are parts of the real estate segment that are passing through a cycle, mostly on the higher end of the income scale. We are seeing a supply of housing that had been delayed due to COVID that will be coming on the market in 2023.

We're already seeing rents start to come down in that segment as it's pushing down the line. But to your point, Senator, there is simply not enough at the low- and middle-income levels. We are not building for those components, other than housing that is being supported by the Low-Income Housing Tax Credit. And what happens often in this case—and I've operated this housing before—is that as families start to have the opportunity to save a little bit because they've been supported through the Low-Income Housing Tax Credit or some other subsidy and they're moving up the economic scale, they get priced out of those markets.

That happens to families that are taking advantage of job opportunities. It happens sometimes to veterans whose benefits just exceed a qualifying income level. It happens sometimes to seniors who have a small pension from a prior job opportunity, but their pension has not kept pace with the cost of housing. So, for those kinds of groups, there really is no support, and the Middle-Income Housing Tax Credit would truly provide an opportunity to create housing for those groups of people.

The CHAIRMAN. So your judgment, again, is this question of being cost-burdened is basically you can't afford to start becoming part of the American dream. I mean the American dream has always been to work hard and play by the rules and get that first home and get started. And unless I'm missing something, your testimony indicates that that problem is getting more serious. It is more serious today than it was before.

And yes, I'm sure that some people can still get housing, but I appreciate your making the case for the missing middle because, based on what I hear at home, so many people who work hard want to have a chance. That's one of the reasons we give the tax break for your first home. They want to make a difference.

One question, if I might, very quickly for you, Mr. Walker. The DASH Act closes some pretty serious loopholes. We closed the Qualified Contract and right of first refusal loopholes in order to protect low-income housing long-term. How important is that?

Mr. WALKER. Well, I'll start by saying "very important," and I appreciate you putting a bright light on it. The right of first refusal, both of these are long-existing parts of the statute that was created in the mid- to late 80s, and what we have seen is, we've seen some bad behavior—some ambiguities in both the statute and some imprecise language in the partnership agreements.

The right of first refusal, which was anticipated when there was a nonprofit partner alongside the investor owning and operating these properties—at year 15, the investor would quietly exit under a formula. And the behavior that we are seeing is that either that investor—or actually an investor that has stepped in the shoes of that investor—getting close to that 15th year, is starting to really jam the exit strategy and trying to extract quite a bit of capital out of the deal. And the effect of that is either litigation—which is very expensive and jeopardizes both the nonprofit operator and the property itself—or simply having to acquiesce to those demands, which again jeopardizes the property and ultimately puts at risk the residents for whom the property is intended to be——

The CHAIRMAN. My time is up, but obviously we're also concerned about it in the context of the trend of private equity firms acquiring housing and taking advantage of these loopholes, so I appreciate your response.

Senator Crapo?

Senator CRAPO. Thank you, Mr. Chairman.

And, Dr. Calabria, industry's decision to invest in new housing is the culmination of many factors we've discussed today: input costs, impact on the return of investment, along with rent and sales prices. Regulations, taxes, and financing are all components of the calculation.

Dr. Calabria, how does the overall state of the economy impact the decision to invest, and how can Congress support housing affordability without contributing to inflationary pressures?

Dr. CALABRIA. Thank you, Senator Crapo. That's a terrific question, and let me emphasize, to clarify something Senator Wyden raised. Just because you may be in a cycle doesn't mean you don't do anything. It just means you may do something different. When we tend to see changes in the cycle, we tend to see shifts where income burdens—people lose their jobs, people suffer income losses, and so you may have a different style of support in a weaker economy than you would have in a booming economy.

But I do think we need to be concerned about—go back to Econ 101. Since the number one constraint structurally in the housing market is a lack of supply, we need to be cautious about adding demand subsidies that simply run up prices, which is how we've gotten the inflationary pressures we face today. So we need to be cautious about how we think about this in an economic sense so that we're actually achieving our objectives.

Senator CRAPO. Well, thank you very much.

And, Mr. Watson, as mentioned in your testimony, LIHTC is an important tax tool to encourage investment in affordable housing. However, as you noted, there are ways to improve this credit and its administration and oversight. Could you just give us a review of the specific recommendations you have to improve the credit's efficiency that Congress should consider in future LIHTC legislation?

Mr. WATSON. Thank you, Senator, for that question. I think one major theme when looking at credit effectiveness is, we really need to have a clear understanding of the baseline—from the data—of how the credit is doing and how it's actually connecting the credit with outcomes for low-income tenants and for folks who own those developments. And so, I think we have a good base with what HUD is already collecting. There's a lot of great information there that has been leveraged in research and elsewhere, but we can really build on that, I think, by providing more granular data to be able to answer some of these questions about how the credit is doing and building on either reform efforts considered now or reforms in the future to ensure that we're maximizing the amount of benefit that's actually going to those tenants, rather than all the folks who are in that process who are necessary, but could be doing a better job of passing through more efficiently.

Senator CRAPO. Thank you.

And, Ms. Géno, do you believe that addressing affordable housing supply requires pro-growth tax policies more generally, in addition to housing-specific initiatives? And if so, can you discuss some of the recent proposals before Congress in the tax arena that could actually negatively impact the supply of affordable housing?

Ms. Géno. Sure. So absolutely, the private market simply cannot afford to provide housing in the amounts that we need it in the lowest-income tiers and also in the middle-income tiers. So those tax incentives are incredibly useful. I was looking at some recent data from HUD that $8 billion annually is generated from the Low-Income Housing Tax Credit in budget authority. That is critically important to offsetting what the true cost of developing that housing is and making it affordable for folks who need it.

Senator CRAPO. And so, are there tax policies that you've seen proposed here in Congress that could actually undercut that?

Ms. GÉNO. Well certainly, anything that's going to adjust the tax rates will make a difference in the use of the Low-Income Housing Tax Credit. We saw a little bit of that happen when the corporate tax rate was adjusted downward. Now the market has adjusted for that, but we're not seeing the full value of what the tax credit could be and could generate now as we had previously before the corporate tax rate dropped. So that is one issue that does impact the Low-Income Housing Tax Credit.

Senator CRAPO. All right. Thank you.

And finally, Mr. Walker, aside from the increases to LIHTC, are there any reforms to the program that would be helpful to you and fellow State housing authorities in administering the credit?

Mr. WALKER. Thank you for that question. I think stepping back and looking for opportunities to improve a 40-year-old program is always important to do, and Congress has done that a few times over the years. I think there's legislation speaking to the student rule to recognize that folks living in credit housing often need to go back to school or retool their skills. And so, both HUD and the credit have two different definitions of the student rule.

I think there's been testimony today about bringing things into alignment, but opening up that is an example of how we can improve the program. So I think there are always opportunities to look at doing that. Right now, because it's such a proven tool, I think the opportunity on the table is to make it the power tool that it needs to be.

Senator CRAPO. Thank you. I see my time is up.

The CHAIRMAN. Tools and power tools. Okay. Thank you.

Senator Stabenow?

Senator STABENOW. Well, thank you, Mr. Chairman and Ranking Member. Such an important topic.

I was not long ago up in Traverse City, MI meeting with 15 different chambers of commerce all across northern Michigan. The number one priority was housing, and for so many reasons. I mean, we can see this, whether it's in Detroit or northern Michigan or any part of our State certainly.

I do have a question, Ms. Géno, that relates to where we're going after the pandemic as it relates to remote work because, on top of everything else, we are seeing certainly different ways in which people want to work, which creates challenges, underutilized office buildings, but also opportunities to convert some of those buildings to residential, as you know, and create more housing.

And so, to capitalize on this, I appreciate your mentioning our bill, the Revitalizing Downtowns Act, which would create a tax credit to help convert commercial buildings into affordable housing and mixed-use properties. So I know that your Housing Council recently released an in-depth report on the feasibility of converting commercial real estate to multifamily and that you detail many of the challenges of that. So I wonder if you might describe some of the biggest obstacles to doing that and also speak to how tax policy could address some of these obstacles and how we can capitalize on the opportunity to create more affordable housing through this process?

Ms. GÉNO. Sure. Thank you for that question. The National Multifamily Housing Council in partnership with the Urban Land Institute, as you mentioned, recently issued a study. It's really a case study report on different ways that developers have been able to convert office properties to multifamily residential.

There is opportunity to do that. The challenges include, in some cases zoning, in some cases just the way the buildings are constructed. A lot of office buildings are not constructed for residential use. Therefore, the cost of doing those conversions, which could be critically important to the revitalization of communities downtowns, may be cost-prohibitive.

That's why the tax incentive is very important. This is not just about creating housing, which is a really important component, but it's also about revitalizing communities that are going to need that economic support. Our organization and NAA look forward to working with you and your staff. We think there are some opportunities to even expand and grow that, ensuring that REITs can use those tax incentives, and ensuring that shopping malls and other retail uses can be converted. We look forward to working with you.

Senator STABENOW. Well, thank you so much. And we really are at a point where we need to be leaning in on all of these changes and creating opportunities, whether it's big cities or small towns, and we really need to be doing that. I look forward, Mr. Chairman and Ranking Member, to working on this particular policy of how we do this kind of conversion.

And then quickly to Ms. Scott, I think it's so important we're talking about the Low-Income Housing Tax Credit and the fact that it has produced over 4 million affordable housing units and housed 8 million low-income families. I wonder if you might talk a little bit more about the connection, not only of housing, but the connection between housing and jobs and what access to affordable housing means to families and their ability to find and maintain a job?

Ms. SCOTT. Thank you, Senator, for that question. I think this is a very important issue, and I would approach it from two angles. First of all, that stable housing provides for families the opportunity to achieve tenure in jobs that they have. Many employers are telling us that they're having difficulty maintaining a workforce that's housed unstably, that people have to move around frequently and so they're unable to move up in the jobs that they have.

Another side of the jobs issue is that the housing production actually creates jobs, both short-term and long-term jobs. And the numbers are something we could give you, share with you, but it's substantial in terms of the volume of activities that housing production produces. So it's both the individual family that benefits, but it's also the broad economy that is benefiting from the production of housing.

Senator STABENOW. Okay.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Stabenow.

Senator Grassley is next.

Senator GRASSLEY. Thank you, Mr. Chairman.

I'm going to start out with Ms. Géno. At my request, the Government Accountability Office issued two reports on the Low-Income Housing Tax Credit. Their reports found there is a minimum of Federal oversight of the program and lack of quality data. As a result, it was difficult to evaluate efficiency and effectiveness of the program.

To address this, the Government Accountability Office recommended designating HUD to assist IRS in oversight of the program and to collect project cost data. Would you support HUD being designated as a joint administrator to the program, and if not, what would you recommend to be done to increase Federal oversight and ensure data collection necessary to evaluate the program?

Ms. GÉNO. Well, thank you for that question. I believe a lot of data is actually already collected, but it's collected, to your point, at the State level with the State housing finance agencies. There isn't a centralized funnel on all of it for the Federal Government to take a look at it. I would suggest continuing to work with those State agencies in partnership with them to be sure that those data points are collected at the Federal level, through the Internal Revenue Service and/or through HUD. The data that HUD has collected, I think, has been effective. The National Council of State Housing Finance Agencies also has a series of best practices for State housing finance agencies to report data, and following those, I think, would also be an effective tool.

Senator GRASSLEY. Okay.

Dr. Calabria, you expressed concern that this tax credit is too focused on large, multiunit structures in urban areas. In my home State of Iowa, we have many small towns and rural communities that are sorely in need of housing. In fact, I don't know how many times I hear this when I'm going around in my county meetings, particularly from employers that are looking for more employees, and housing is an impediment. How could the tax credit be improved to better serve the needs of suburban and rural communities?

Dr. CALABRIA. Great question, Senator. As I mentioned, about half of renters live in properties with under five units, so again, the average tax credit is for about 40 units. So one option would, of course, be a set-aside for a certain number of units. You could require that a third of tax credit dollar volume goes to either units under 20 or 10. I mean, this is certainly something where you can look at where the touch point is, but I think ultimately—and again, I don't want to dismiss the efforts that housing finance agencies are taking, but I think, at this point, having a set-aside for smaller properties is appropriate.

Senator GRASSLEY. Mr. Watson, one recommendation you made to increase available housing at lower costs was to shorten the cost recovery period for residential structures. Specifically, you expressed support for providing neutral cost recovery. Can you elaborate on what you mean and how it would work?

Mr. WATSON. Thank you, Senator, for the question. So, under neutral cost recovery—it effectively is emulating providing the full value of the depreciation deduction for those types of investments. Because right now, when you make that investment and you have this deduction against your income because you have that big expense, you could take that over 27 years. And both because of inflation and because the value of a dollar is higher now than it would be in the future, the real value of those deductions is eroded.

Of course, we saw this through other types of investments by just allowing folks to immediately expense those investments, as was done with the bonus depreciation measures adopted in 2017. That's really hard to do with structures, given how large they are. And there's concern about—for example, we tried this in the early 80s, and there were some distortions in the market.

Neutral cost recovery is a way to get around that by just allowing for an adjustment to preserve the real value of those deductions without needing to expense them. And that would of course increase the incentive to invest and preserve the value of those deductions over time.

Senator GRASSLEY. Dr. Calabria, although there are housing shortages across the country, it's clear that some States and localities are doing worse than others. Governments and States like Iowa have encouraged development in the construction sector. One town like Pella, IA has even gained national recognition for private efforts to increase housing availability. However, other areas have gone the other direction and increased barriers to building or renovating homes.

Federal programs do have an impact, but it is ultimately these local decisions that have the greatest effect. What should State and local governments do to ensure that our Federal housing programs work as intended and bring down the cost of housing?

Dr. CALABRIA. That's a great question, Senator, and I think we should commend those States that are making progress. I think just this week Washington State, for instance, made a change—or at least the Senate made a change—to its environmental approval process for housing. Obviously, Minnesota has made a number of changes. There have been great examples of where States have been leaders, and I think many other States should follow those examples.

Senator GRASSLEY. Okay.

Thank you, Mr. Chairman.

The CHAIRMAN. Okay. Thank you, Senator Grassley.

Senator Johnson would be next.

Senator JOHNSON. Thank you, Mr. Chairman.

Full disclosure: I'm not a real fan of using the tax code to socially and economically engineer. I think we oftentimes do far more harm than good, and I want to lay out an example. In Milwaukee—for Mr. Watson, because you kind of touched on this—there was a great program, this was a number of years ago, called the ACTS, ACTS, Housing program.

There was an opportunity, because there were all these homes built in the 20s, 30s, wonderful construction, but they were in foreclosure. And so this program could buy these homes, literally for a few thousand dollars. Then, working with the banks making low-interest loans available to low-income individuals, literally, for 30, 40 thousand bucks, they could renovate a home, put a lot of sweat equity in—and it worked great.

I mean, they were cutting their rental payments by hundreds of dollars a month. It was a great program working. When I visited them a couple years ago, they were complaining that these tax credits, Federal tax credits going in the pockets of developers, were causing developers to dramatically increase the cost of that housing. And that was going to mean more gentrified neighborhoods, and all of a sudden, they couldn't buy these homes. It was really hampering a really successful program. That's just one example.

But I want to focus my questions on, I think a statement that Ms. Géno made about how we simply can't—the market simply can't supply low-cost housing. Why? Again, I see the cost. You've got land. You've got labor. You've got construction. Let's go through that. I mean, for example, in Wisconsin the average cost for a family home is somewhere around 250,000 bucks.

With the trade wars, the cost of lumber was a year or so ago—$35,000 was the increase per new home construction. The lack of workers—so again, Mr. Calabria, can you just talk about those factors? What is government potentially doing that is making it impossible for the marketplace, which should not be impossible?

Dr. CALABRIA. I very much share your frustration, Senator. Let's set aside the number of households that would have zero or near zero income, who can't afford anything—and we'll come back to them—but the reason the market is not filling the needs of affordable housing is because we aren't letting it. And we need to remove those barriers, predominately at the State and local level, some at the Federal level.

And then for those households that could not afford it because their income is zero or near zero, we could——

Senator JOHNSON. Let's zero in on those barriers. I mean, how much do we drive up construction costs by all of the environmental regulations we've put on products, driving up the cost of a washing machine or a range or whatever? Again, the trade wars and driving up the price of lumber—can you specifically talk about how government drives up the cost of every component of construction?

Dr. CALABRIA. So, a recent National Association of Homebuilders study, I think done in association with Sharon's organization, found that the cost of regulation was about 40 percent of the cost of development of multifamily housing. Personally, I think that's probably an underestimate in terms of taking zoning into account. But we can see——

Senator JOHNSON. Put that in dollar terms: 40 percent. So, if a standard multi is a million bucks, I mean that's $400,000 added cost that wouldn't have to be there. Now some of those regulations may be necessary; you know, maybe the cost of some. I'm not sure all.

Dr. CALABRIA. I think a good way of looking at this is, we can see very similar units in places like Texas that are built for $200,000 that in places like California may even approach $1 million, as you've mentioned. So there are places where we've shown that you can build houses, and you can build them affordably. You can be accessible. We know how to do this.

Senator JOHNSON. So again, just for ease of calculation, let's say a million-dollar piece of property, if the cost of regulation is $40,000, what is the benefit of a tax credit, Mr. Watson?

Mr. WATSON. So, clearly the low-income tax credit and these other credits are just offsetting some of these regulatory costs.

Senator JOHNSON. That's the point I'm trying to make here. We're a dog chasing its tail.

Mr. WATSON. Exactly.

Senator JOHNSON. We're causing the problem, driving up the cost by 40 percent, and then we're offering what percent relief from that burden? That's the question I'm asking. Can you put a percentage to it?

Mr. WATSON. I'm not sure there's a strict percentage. I think you mentioned this is not only that there are the regulatory and these other costs, material costs, but we really should be talking policies that magnify that. I think you mentioned the trade war being one, and others that are just going to erode the value of the credit. And I think the zoning issue is really important too because—and Dr. Calabria said this—the supply is constrained. That may actually magnify the amount of the benefit that's just going to the developers and not to the low-income housing.

Senator JOHNSON. So it's extremely important to put numbers to this so we can understand the root cause so, again, we're not chasing our tails. And again, the root cause is regulation increasing this, trade wars, a worker shortage. We need to focus on all that. And by the way, a simpler and more rational tax code would also reduce costs for people as well. So, rather than make it more complex—add another barnacle under the ship of the state, slow it down even further—we ought to talk about scraping the barnacles off.

Thank you.

The CHAIRMAN. Thank you, Senator Johnson.

Senator Carper is next.

Senator CARPER. Thank you, Mr. Chair. Welcome, one and all. Welcome to Delaware. It's an outpost here. [Laughter.] Thank you for joining us. Thank you for your interest in housing people in this country.

I'm a recovering Governor, and some of my colleagues are also recovering Governors. And I know when I was Governor, we created something called the Family Services Cabinet Council with about seven different departments of State government that focused on helping families, strengthening families, and one of those was our State housing authority.

We focused for 8 years on trying to make home ownership a priority and a possibility for all kinds of people. I think when I stepped down as Governor, in terms of the level of home ownership, I think we might have been number one, and I'm very, very proud of that.

There's a great scripture in the Bible. I think it's in Matthew: "When I was hungry, did you feed me? When I was naked, did you clothe me? When I was thirsty, did you give me to drink? When I was a stranger in your land, did you welcome me?" It doesn't say anything about "when I didn't have a house to live in or I was living in somebody's apartment or I was living under a bridge or in a car," but I think the inference is the same: did we do anything about it?

And it's not just on the Federal Government. It's not just our responsibility. It's not just on the State Governments or county or local governments. It's not just the nonprofits. It's not the church community. It's really all of us. This is a team sport and a shared responsibility, and part of that responsibility is ours. And everything I do, everything we do, I know we could do better.

The Constitution of our country, which Delaware was the first State to ratify, starts off with a preamble that says, "We the people of the United States, in order to form a more perfect union"; that's what it says. "We the people of the United States, in order to form a more perfect union," and our founding fathers knew everything they did, we could do better, and we know the same is true today. So hopefully, this hearing today—and I commend the chairman and ranking member for putting this together.

This is a topic for me and a whole lot of folks that I represent—and others my colleagues do. I think in Delaware we've made a fair amount of progress in recent years, including investing some $78 million from the American Rescue Plan in affordable housing. While these investments are a big step forward, I continue to hear from communities in Delaware—and actually outside Delaware—that need us to do a bit more. And I'm encouraged that there's bipartisan support on this committee, as there are on many issues, to tackle this challenge.

We ought to figure out what works and do more of that. When I was Governor, I was chair of the National Governors Association. We had an entity within the NGA called Center for Best Practices. We used to share ideas with one another, steal ideas from other States that worked. Fortunately, we have a number of proven tools to address those challenges, including tax incentives, including grants, and other financing options. And these tools often complement each other, working hand in glove to support new housing construction.

I have a question for—and I hope I don't screw up your name, Ms. Géno. Has your name ever been mispronounced?

Ms. GÉNO. Just once or twice.

Senator CARPER. Okay. How about today? Hopefully not.

You, Ms. Géno, and also Ms. Scott: what are some of the existing gaps in financing the development of affordable housing, and what types of Federal investments will give us the best, if you will, bang for our bucks to address this challenge? Ms. Scott, do you want to go first?

Ms. SCOTT. Sure. Thank you, Senator.

Senator CARPER. Where are you from, Ms. Scott?

Ms. SCOTT. New York.

Senator CARPER. Welcome.

Ms. SCOTT. Thank you. Not far from you.

Senator CARPER. Good. That's true.

Ms. SCOTT. In terms of the gaps, I think the biggest gap—we've talked about it—is our inability to achieve affordability across a broader spectrum of people, and that the range of families that are experiencing unaffordability is growing. And so, all of the housing programs—the tax programs and the other housing programs—that exist that provide for subsidies, for tax credits, and all of that are necessary. But in addition to everything, we also have the growing concern today about the rising cost of construction, the cost of labor; you've heard the list of things. And so I think what we need to do is to find ways to really increase the value of the credit and make sure that we can really reach more households. I think the best programs, the Low-Income Housing Tax Credit, CDGB and HOME, and a host of other programs like that are providing the kind of resources we need. It's just that the scale of the problem is significant, and so we end up with the gaps that we're talking about in our ability to achieve the greater outcomes that we're looking for.

Senator CARPER. Okay. Thank you.

Ms. Géno, please; same question.

Ms. GÉNO. Again, I agree with Ms. Scott's response. I've been at this for 30 years, and I wish we'd found the magic bullet already, but we haven't.

Senator CARPER. Would that be since birth? [Laughter.]

Ms. Géno. Hardly. But we need every tool in the toolbox and more of them. And given your experience as Governor, I'm sure you know that all markets are different. Even within the smaller State of Delaware, a number of the housing markets are different. So, the ability to have different tools—both subsidy tools as well as tax tools as well as, to Dr. Calabria's point, the ability to be flexible about local and State regulation—is critical. All those things need to be available, and we need to piece them together in different communities to make them work for people who need housing.

Senator CARPER. Good.

Mr. Chairman, my time is up. Can I have 15 seconds to just say one other thing? One of the things we did in Delaware when I was the Governor is, our State housing authority said for folks who were on welfare and went to work and started making money, that they did not have to pay taxes on the beginning of their earnings. That went into a separate fund. They could use that money for down payments on either an apartment to move into or a house to buy. So that's just one of the many ideas that I think are worth pursuing.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Carper, for your help today with very good proposals.

Senator Cardin?

Senator CARDIN. Well, thank you, Mr. Chairman. And I just really want to underscore the point that we do not have enough stock of affordable housing. Supply and demand issues—it's just not affordable. So, I first want to thank you, and I want to thank Senator Young and Senator Cantwell on the Low-Income Housing Tax Credit. It's an extremely important tool. It's the strongest tool we have to date, but in and of itself, it's not enough. So it's usually combined with Historic Tax Credits or some other stakeholders' investments in order to move forward with an affordable housing plan in our communities.

So I know in Maryland, we've been able to use the Low-Income Housing Tax Credits, the Historic Tax Credits. We've had philanthropic help, the nonprofit community, all combined in order to deal with affordable housing in our communities. But one of the things we could do is try to preserve communities so that we can maintain affordable housing that's commensurate with the income of the people who live in that community, and that's been a challenge.

That's why I thank you, Mr. Chairman. I thank Senator Young in regard to the introduction of the Neighborhood Homes Improvement Act, because it is aimed at those areas where we have strong neighborhoods, we have the incomes of that neighborhood, of the people who live there, are not adequate in order to renovate or to construct or to buy homes in that community. So the Neighborhood Homes Investment Act is aimed at dealing with that.

So, Ms. Scott, if I might, I'm going to start with you. Tell me how you think such an appraisal gap credit can help in regard to maintaining the strength of communities and dealing with the wealth gap that we have here in America.

Ms. SCOTT. Thank you. Thank you, Senator, and thank you for your sponsorship of Neighborhood Homes. The bottom line is that, in the communities that we're talking about, the cost to build far exceeds the value in the market, and so there's just no way to get at building these homes without addressing the gap. And so the credit enables us to do that.

This credit will enable us to probably build, reconstruct, and rehab about 500,000 homes over the next decade. That's a big deal in these communities where lower-income families will benefit—both urban and rural communities. And many of these neighborhoods are already suffering from the blight of vacancy and dilapidated homes, so it will go a long way to improve conditions in the neighborhood.

We estimate about $125 billion of total development activity. That's going to help in terms of local economy, $26 billion in Federal tax revenue, and another $12 billion in State and local government revenue. So this credit is going to spur the market and then generate tax revenue across the layers of government.

Senator CARDIN. I thank you for that.

I want to talk a little bit about the wealth gap, because home ownership is one of the areas that we deal with in trying to reduce the wealth gap in this country. Tell us how home ownership can help us deal with the wealth gap by preserving communities?

Ms. SCOTT. Right. Well, as we know, housing is the primary source of wealth building for generations. And for many of the families who cannot afford a home, they don't have any other opportunity, unless you own a business, in order to generate wealth. So enabling first-time home buyers, first-generation home buyers, many of whom are in Black and Latino communities—the tax credit is really aimed at the census tracts that in many cases are majority minority communities, and so it will also attract, we believe, families from those census tracts who would benefit from this credit and be able to buy a home.

Senator CARDIN. I want to move to a second subject which deals with the urgency of action by Congress. And I appreciate so many of my colleagues who have legislation here. I can tell you, the waiting lists in Maryland are long for affordable housing. The options are not really bright today. So, anyone on the panel, talk about the urgency of us dealing with these issues. We missed an opportunity in the last Congress. How urgent is it for Congress to strengthen the tools?

Ms. GÉNO. I'm happy to take that on, Senator. Again, coming out of COVID, we really put a spotlight on the importance of housing, for health and for all sorts of other outcomes. People are still struggling now, and it takes a long time to put these deals together. I worked on them for many years as a lawyer myself. You have to start today in order to get housing built.

Frankly, if you enacted this bill today, it would take 3, 4, 5 years to truly see the housing on the ground to serve residents. We know we're already falling behind, so if we don't act very quickly to bring more resources to the table, we're going to fall even further behind in the future. And the population of our Nation is still growing. We are anticipating—we're at 330 million Americans today. We're going to be at 400 million Americans by the middle of this century. They all need to live somewhere, so we really need to start this now.

Senator CARDIN. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Tillis is next.

Senator TILLIS. Thank you, Mr. Chairman, and thank you to the witnesses for being here. I hope you're not as cold as I am, but I suspect a couple of you are. Mark, it's good to see you. I thank you for the work you did at FHFA, and I appreciate you being here today.

I had the opportunity to really start getting my understanding of what you need to do to build affordable housing back in my time in the Statehouse, and we made some progress. The progress we made there was always balanced between tax incentives, but also a very healthy focus on impediments to affordable housing. First among them are regulations.

I remember vividly a town in my legislative district. I spent 45 minutes of an hour-long meeting talking about affordable housing and then they shifted to agenda item 2, and it was to authorize their local government to mandate sprinkler systems in all single-family dwellings. I said, "Guys, we just spent 45 minutes talking about affordable housing and you've just proposed something that would increase the cost of an affordable home by 10 to 15 percent. How does that work?" So that didn't happen.

But when we're talking about—and I think the chairman and this committee had a lot of opportunities for proposals in the last Congress to come together and really make headway here. But I, for one, think if we want a good, strong bipartisan, bicameral outcome, we have to get to the point of recognizing that there are regulations that are either outdated or need to be modernized. To what extent—Mr. Watson, I want you to opine on this. Anyone can. To what extent do we think, Dr. Calabria, we need to have that balanced approach for anything we do here? If we do tax incentives, are we really doing something that's going to provide a sustainable, long-term opportunity for people in the affordable housing space?

Mr. WATSON. Yes. I was just going to add that part of this is, yes, there is a major risk that you're effectively pushing on a string if you only rely on tax credits because, similar to what was mentioned earlier, if you have regulations, if you have zoning restrictions, if you have other barriers, there's a higher risk that a lot of those credits will be——

Senator TILLIS. I'll give you another example. I want you all to continue to answer. I want to keep in my time. But I'll give you another example. The more recent promulgation of WOTUS is far better than where it started, but I talked to bipartisan groups and county commissioners most recently over the last month who say that it's going to be a real problem for development. And if you think about the development of certain properties, it may even be disproportionately so for ones that would make projects work.

So, I think I hear agreement here. If we want something where we're not coming back every Congress and having the same discussion, we need to come up with a more rational, sustainable framework, and I think then that requires a look at regulations. Not to get rid of them. You want them to be safe. You want them to be environmentally sound, but I think there's a lot of work we can do there.

One question, and, Dr. Calabria, do you have something to add?

Dr. CALABRIA. I was going to say part of the process is just getting certainty. I mean, the worst example of this may be the environmental review process in California, where you can be fully entitled to the land. You can be zoned. You can set up all of these things and then you have year after year of it being litigated. And so again, we can debate what the right zoning should be for a certain area. We can debate how to protect the environment, but I think what developers need most is knowing there's a light at the end of the tunnel.

Senator TILLIS. Right. And I, for one, think that Federal funding and Federal support should go to the jurisdictions that have proven responsibility on regulatory execution. We're not going to have enough money to address it nationally. So, if certain States and local jurisdictions want to overregulate and make the barriers to affordable housing high, then until we have all the money that we need for everybody who requests it, we should put a priority on jurisdictions that are getting it right, managing all the right outcomes for safety, health, but getting it right. And I already see with the CHIPS Act—I voted for the CHIPS Act, $52 billion.

Now, we've got guidance put out by the Department of Labor that's going to discount that $52 billion by a double-digit percentage because of structural costs. Those are the things we need to avoid when we get to a bipartisan outcome, and I think we will.

Mr. Watson, if you could, just tell me a little bit about LIHTC and how we can do a better job of balancing urban and rural areas. I'm a 50/50 State. I've got the problems of big cities and the problems of rural areas. What do we need to do there? Thank you.

Mr. WATSON. Yes, I would echo a lot of what Dr. Calabria had said earlier about how we need to create incentives for providing LIHTC for smaller unit sizes. There should be more accommodating to rural areas. I think that would be helpful.

Going back to the data side of things, I think if we get more information from HUD—or if they come in and be more of an active participant in some of these things—that would also help us understand where those disparities may lie across different localities. I think it was a really great suggestion made earlier to try to bring in State FHAs and others who may have that data and information so that we can come to some conclusions about what the right policy recommendations are to help rural areas.

Senator TILLIS. Thank you.

Thank you, Mr. Chair.

The CHAIRMAN. Senator Tillis, before you go, I'm very interested in your ideas for cleaning out needless red tape and just bureaucratic water torture to me. I mean, it just goes on and on. The challenge, of course, is nobody wants Federal zoning. In other words, nobody wants to say, "Hey, let's write a whole bunch of rules for America here."

Senator TILLIS. Nor do I.

The CHAIRMAN. Nobody wants to go there, so I look forward to your ideas and suggestions. Thank you.

Okay; Senator Hassan is next.

Senator HASSAN. Well, thank you, Mr. Chair. And to you and Ranking Member Crapo, thank you for holding this hearing. And thanks to all the witnesses for being here.

Ms. Géno, I want to start with a question for you. In New Hampshire, I hear from families about the burden that rising housing costs have had on their ability to live and work in our State, and it also, obviously, hurts businesses. The story I'm hearing repeatedly right now is, "We've made an offer to a really valuable recruit to come into the State and work for our business, and they not only can't afford a place to live, they can't find a place even if they could afford it."

So, part of the reason that we're seeing rising housing costs in New Hampshire and around the country is obviously a lack of supply, and that's why additional Federal support for programs to support housing construction, like the Low-Income Housing Tax Credit, is critical. Can you discuss how States can use programs like the Low-Income Housing Tax Credit to address the shortage of workforce housing?

Ms. GÉNO. Sure. We talked earlier about the MIHTC proposal that Chairman Wyden has introduced. And that really is an important tool to capture that group that doesn't qualify for the Low-Income Housing Tax Credit and is trying to move up the economic scale, but whose wages are not keeping pace with the increased cost of housing.

Again, housing isn't the only sector of our economy that is experiencing incredible cost increases. Particularly since COVID, food, energy, and other sectors are seeing rising prices as well. We've seen those more in real time because they're implemented pretty quickly when those costs increase.

In the housing sector, however, it's much more of a lagging indicator, particularly on the rental side and, in part, because people sign 1-year leases. They get renewed at different times. So, those costs from COVID are really just hitting our sector right now, and we need as many tools in the toolbox as we can have to develop and increase supply in communities—suburban, urban, and rural.

Senator HASSAN. Well, thank you.

And I want to turn to the issue of rural housing now. And, Ms. Scott, I have a question for you, and I know Senator Grassley and I just heard Senator Tillis talk a little bit about it too.

Ms. Scott, in your testimony you note that investment in quality housing not only supports families, but also strengthens the economy and supports employment. I hear from constituents all across my State, including those in rural areas like our north country, that expanding housing options is necessary to expand economic opportunity. How can we leverage the tax code and expand existing Federal housing programs to help make housing more affordable for rural families?

Ms. SCOTT. Thank you, Senator, for that question. For one, we can provide a basis boost for the projects in rural communities. This would go a long way to help deals pencil out that currently do not. We can align the income limit requirements. There's a difference between the income limit requirements to rural communities between the Housing Credit and Private Activity Bonds, and that difference leads also to a gap in terms of how we can finance.

And then lastly, I would say that providing the basis boost for projects serving Native communities would also help in terms of—we should require States, I think, to provide a selection preference that allows more projects to serve Native communities. When you combine fixes like that, I think we begin to get to addressing some of the gaps in providing housing in both rural communities and Native communities and the like.

Senator HASSAN. That's very helpful. Thank you.

An additional question for you, Ms. Scott. In addition to increasing the supply of housing, it's essential that we provide additional support for families working to achieve home ownership. That's why last Congress I introduced bipartisan legislation which was called the Middle-Class Mortgage Insurance Premium Act to provide tax cuts for middle-class home buyers who use mortgage insurance. Can you discuss how mortgage insurance can make home ownership more accessible, and how else can we continue to cut housing costs for families?

Ms. SCOTT. Sure. The issue there is that home buyers who can't afford the 20-percent down payment are required to purchase mortgage insurance, and that requirement prohibits a lot of families from actually going forward with home ownership. So, first-time home buyers, minority home buyers, those are the ones that we really, really want to focus on. And I think that, as noted earlier in the testimony, the gaps in terms of the limits in income and the limits in savings—this will help us to address that gap and make home ownership more available to many more families.

This is also why we support increasing funding to other housing programs that can provide down payment assistance as well like, for example, CDBG and HOME, and the USDA Rural Housing Service single-family programs. So, we say combine all of those other resources to increase the availability of home ownership down payment assistance.

Senator HASSAN. Well, thank you very much. That's very helpful.

And thank you, Mr. Chair.

The CHAIRMAN. I thank my colleague.

Here is where we are. I'm going to run and vote and then free Senator Crapo up, and I do have a family commitment at noon that I can't break. So we'll go with Senator Cantwell, and then we'll go with Senator Young. With a little bit of luck, others will come in after they vote, but it's going to be a little bit of a juggling act. And Senator Crapo and I will call some audibles.

Senator Cantwell?

Senator CANTWELL. Did my colleague, Senator Young, want to go?

Senator YOUNG. I'm prepared to. Thank you. Thank you, Senator Cantwell.

Senator CANTWELL. I'm yielding to my colleague who is working so diligently with me to get an increase in the tax credit.

Senator YOUNG. Thank you to the great Senator from the State of Washington with Hoosier roots. I appreciate that.

I mean, this is a timely hearing, and I've enjoyed working with Senator Cantwell and others, and I look forward to working with the ranking member on housing affordability challenges. I dare say we're in the midst of a national crisis right now. I mean, we've experienced consumer inflation across a number of areas in the economy in recent years, but this is one that really, going back to when I entered the U.S. House of Representatives in 2011—as I travel around the State of Indiana, I've heard a lot about housing affordability.

I've tried to trace the roots and primary drivers of this challenge, and they are manifold. It's labor challenges. Many contractors who went out of business during the financial crisis a number of years ago still haven't come back. Oftentimes we have input challenges, on and on and on, but by any stretch, this is a market failure. Yes, I used the term deliberately, but I also use it carefully. After study, it's pretty clear we have a market failure, some of which has been the result of government failures or government excesses, whether it was through the over-subsidization of mortgages, or zoning or land use policies over the years, but in the end, the market hasn't worked.

So we can do that, I think, in some instances by, at the very least, shining a light on some of the government policies that distort markets and make affordable housing out of reach for some people. And I try to do that through my YIMBY Act, which through a light touch approach, would require localities to make clear when they are implementing land use and zoning policies which historically exclude certain peoples and/or drive up the cost of housing. So that's a priority.

But what I'm most excited about today—and I know all of you want to hear about this—are some things that I am working on with my good friend from the State of Maryland, Senator Cardin. We have introduced legislation we are calling the Neighborhood Homes Investment Act. Now, this is a reintroduction; Senator Portman collaborated with Senator Cardin on this legislation. But it would address the value gap between the cost of renovating a house and the market price in low-income census tracts.

So, if you go through any major city in the United States, many small towns, you will see what is loosely called blight: unsightly homes. I've traveled around these neighborhoods, tried to figure out how we can make it economical to remove these homes to allow others to put others in their place or to renovate those structures. And Senators Portman and Cardin were able to crack that nut, and I'm carrying the ball this Congress.

The NHIA will not only increase access to affordable housing, it will also increase jobs and provide economic development around the country. The estimated impact of this bill over 10 years in the State of Indiana alone is remarkable. Approximately 9,500 homes will be built or substantially rehabilitated, and about $2.5 billion of total development activity will occur in the State of Indiana alone over 10 years.

Over 16,000 jobs in construction or construction-related industries will be created; over $900 million in wages and salaries will be generated; and nearly $250 million in Federal, State, and local tax revenues and fees will eventuate if we can get this done, as I think we will this Congress.

So, these are the sorts of things that I think we ought to be working on during a time of what is called divided government, but I see us coming together on important priorities like this that don't have a red or blue hue to them. And I thank all of you much for being here.

And with that, I will just look forward to following up with our witnesses. I won't be asking any questions of you today. So, with that, thank you, Mr. Ranking Member.

Senator CRAPO. Senator Cantwell?

Senator CANTWELL. Thank you, Senator Crapo. Thank you so much.

I want to go back to this workforce housing issue that I brought up, and I know some of my colleagues did. This workforce housing—I'm hearing that hospitals are paying for affordable housing, that insurance—I see nods—insurance is paying for affordable housing, that people are finding it just better to build affordable housing than incur the cost of unhoused individuals.

I also wonder if I could get people to comment on the fact that the LIHTC program is also so successful in rural areas that, even while it may make sense in Seattle that health care or insurance might pay for housing as a better way to deal with the population, we're also seeing the need for affordable housing in rural economies, and that's why this legislation on increasing the tax credit is so important. And the fact that in 2018 we secured a bump that ran through 2021, but now is expired—what impact that is having? So, Mr. Walker, do you want to start and try to address those issues?

Mr. WALKER. Sure. I'd be happy to. Starting with the second one on the bump, that juiced the production at a very important time. And, as we've seen over the last handful of years related to the pandemic, we now have lost that 12-percent increase at a time when costs have gone way, way up in a short amount of time. So, we're playing catchup. We're trying to fill gaps in a lot of financed deals that can't either get off the ground or get completed without some additional funding. So, losing that 12-percent could not have happened at a worse time.

On your first question about rural areas, as has been discussed, rents are lower in rural areas—and the cost of materials is not much different—and so that creates a real paradigm and a challenge for developing in those communities. And the credit program, especially the 9-percent program that has a much larger equity component to it, is so key to addressing the affordable housing needs that are equally large in our rural areas.

I might also add that what we are seeing converging and colliding really is, we need to produce new units. And as the credit program approaches 40 years old, we are also under a lot of pressure to get back to those older deals and preserve and do some rehabilitation and recapitalization work. So there are two pressures on every dollar of credit that we have available to us, both because of the success of the program and all the units that we have built, as well as the housing crisis that we are in right now—and needing to produce additional units, both in rural areas as well as our urban areas.

Senator CANTWELL. Does anybody else—Dr. Calabria, I see you and others nodding your head. I still don't feel like we've calibrated this issue so that everybody gets it. It is a supply issue. We are not keeping pace with demand. And to your point, Mr. Walker, we literally had supply come out of the system because it went to market-based rates on pressure, so what should we do? Yes, Dr. Calabria or Mr. Walker?

Dr. CALABRIA. Thank you. I will maybe take a little bit of a different—yes, the tax credit is used in rural and suburban areas, but certainly, just looking at the distribution of the stock, there is still a heavily urban bias to the program. And again, as Mr. Walker alluded to, the economics of the program are harder in rural areas. That's absolutely true, and that's why I'm generally of the view that we probably should have a rural set-aside in the program to nudge housing finance agencies to do the projects that are harder there.

Senator CANTWELL. Thank you.

Mr. Walker?

Mr. WALKER. I don't think it's been acknowledged yet, and I think it's important to acknowledge that we have under-built for now 2-plus decades, and we are in a deep, deep hole at a time when the wealth gap is widening. And so this is a multifaceted challenge, and I would not say that the credit program is perfect, but it is very good, and the Credit Improvement Act, in particular when we think about rural areas, has a component of a basis boost in rural areas that is going to really help close the financing gap that presents itself in many of our rural areas.

Senator CANTWELL. How much have we under-built?

Mr. WALKER. I don't know how to put a figure on that. I feel like we're in such a deep hole that just seeing the break-even point is really, really challenging. But I'd love to get back to you on that, if you would like.

Senator CANTWELL. We've asked this question of other witnesses. I've heard 300,000 units. I've heard different numbers. I think people have admitted that the downturn basically just kind of put a halt to a lot of things. And those were significant years where supply was not meeting the market demand, and then we've had other issues. So anyway, I'd like to get this number, because I think if we could show our colleagues exactly how much supply has not been put in to the system, then these other issues like you're saying—the pandemic and supply chains—we all know how much that increased cost of materials.

And then you take out the one bump we were able to get, so yes, there's probably a huge swing in the amount of costs that are now making it more expensive, again tacked onto to this decade-plus where we didn't keep pace with supply. Then you can see really why we're in this hole, and I think that will motivate people.

I'm very interested in looking at the rural credit issues; so, thank you.

Senator CRAPO. Thank you.

Senator Warren?

Senator WARREN. Thank you, Mr. Chairman.

So, I'm going to pick up actually where Senator Cantwell left off, and that is, for decades the country has underinvested in our housing supply, and the data I see suggests we're now facing a shortage of as many 7 million affordable homes. But the bottom line is that we need more housing for everyone, for renters and first-time home buyers and veterans and people living with disabilities and families experiencing homelessness. You name it, we need more housing.

So, tax policies can be a way to address housing shortages. The Low-Income Housing Tax Credit is not perfect, but it helps drive the development of affordable rental homes. But some of our tax policies may actually make the problem worse. Wall Street money managers have fanned out across the country buying and converting what little supply of affordable homes remain, and they get tax breaks to do that.

Ms. Scott, you are an expert on community development, so let me start by asking you about the impact of more Wall Street investors moving into the housing market. Big corporate landlords, often acting through investment vehicles known as Real Estate Investment Trusts, or REITs, have bought up hundreds of thousands of homes across our country over the past decade.

Now, some of these folks argue that REITs and other investors encourage investment in supply and neighborhood quality. Is that what you've seen?

Ms. SCOTT. Thank you, Senator, for this focus in your question. We're not opposed to REITs, per se, but we are very concerned about the institutional investor in housing markets in our communities. LISC did a research paper focusing in on New York City that you may have seen. And in certain instances when these investors acquire properties, they refinance them so they're extracting money from the real estate and taking it out of the community rather than reinvesting it in the housing that they purchase.

Oftentimes, we find that in the housing that has been purchased, the rents are increased and the existing tenants may even lose their housing. They may be evicted. We see that the quality of maintenance goes down, and overall there aren't the capital improvements.

And on the single-family side, we see something similar happening, where these investors are snapping up homes to rent at much higher rates than the market has generally supported, and so you see less opportunity for first-time home buyers. This is the stock, and the community is being denied wealth. Wealth is coming out of the community. The housing is dilapidated, and oftentimes the institutional investors are not easily identified, and so it's not clear who the players are, where the money is coming from—and it's changing the face of many of our communities.

Senator WARREN. So that's a pretty grim picture about what's going on, and it's particularly alarming because, in 2021, investors bought up one-quarter of all single-family homes that were on the market. And no surprise, the places where the biggest of these investors went—those that owned thousands of properties—have been the places where home prices have increased the most.

Now, these same biggest investors are collecting record profits while they are subsidized by government financing and tax breaks. So, I just want to take a quick look at these tax breaks.

Mr. Watson, we're going to be limited on time, so let's see if we can do these as true/false. You are an expert on Federal tax policy at the Tax Foundation. Let's just talk about a few of the tax breaks. Wall Street investors have exploited them to hoover up homes, make the supply crisis worse, and drive up costs for families. True or false?

Many REITs are billion-dollar companies, including some of the biggest corporate landlords in the United States: Invitation Homes, American Homes 4 Rent, and Mid-America Apartments. But they generally do not pay corporate income tax if they meet certain conditions; is that right? True or false?

Mr. WATSON. If they deduct it from their income, they would not.

Senator WARREN. True. Okay.

So, let's do another. The 2017 Tax Cuts and Jobs Act allows investors to deduct 20 percent of their pass-through business income, such as dividends they might receive from REITs. True or false?

Mr. WATSON. True.

Senator WARREN. True. All right.

Let's keep going here. I like the way you're doing this. The CARES Act allowed all business losses to be carried back for 5 years. True or false?

Mr. WATSON. That's true.

Senator WARREN. That's true. And that change resulted in billions of dollars in tax benefits that went largely to the wealthiest in the country, including Wall Street real estate investors.

So let's do one more. Real estate investors can avoid paying taxes on profits from the sale of a property if those profits are used to buy another property, a process known as like-kind exchanges. True or false?

Mr. WATSON. That's true.

Senator WARREN. Okay. This loophole is expected to provide investors with $134 billion in tax breaks over the next 10 years. I just want to say our tax policies reward giant real estate investors who raise fees, jack up rents, and evict families. Americans are already suffering from severe lack of affordable homes, and any taxpayer money spent on housing should go toward fixing the problem, not making it worse.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Warren, because of her collegiality, we will have Senator Brown, then we will have Senator Cortez Masto. And then we're going to wrap up because I have to deal with William Peter Wyden, age 15, in a couple minutes. Okay.

Senator Brown?

Senator BROWN. Is he a relative of yours?

The CHAIRMAN. Yes; a son.

Senator BROWN. I knew that.

Senator Cortez Masto, thank you for your graciousness.

Dr. Calabria, good to see you again. Glad you're here. Thank you.

Ms. Scott, in this committee and the Banking and Housing Committee, we've heard time after time how difficult it is for first-time home buyers and families to find a place they can afford. Yesterday I joined Senators Cardin and Young and Wyden and Warner in reintroducing the Neighborhood Homes Investment Act. I know Senator Cardin and Senator Young raised this with you earlier.

Ms. Scott, how would the Neighborhood Homes Investment Act help expand the supply of safe, affordable homes and open up home-ownership opportunities for families in Ohio and across the country?

Ms. SCOTT. Thank you, Senator, for this question. Essentially, what the credit is going to do is to enable us to build housing, because we'll be able to fill the gap between what it costs to build and what the home is actually valued at. In the communities that you're referring to, in Ohio for example, the value of the home is less than the cost of the construction. So once we close that gap, we get to a place where we can build more homes. We expect that we can build another 500,000 new homes under this program over the next 10 years. And the Neighborhood Homes credit is targeted to census tracts that will assist many low-income families and minority families, both in urban and rural communities.

Senator BROWN. Thank you.

Mr. Walker, last Congress I introduced the bipartisan Housing for Homeless Students Act with my colleague from Ohio, Senator Portman, and Senator King of Maine. This bill ensures that students and veterans who have experienced homelessness are eligible to reside in Low-Income Housing Tax Credit, LIHTC, funded affordable housing while pursuing an education full-time.

Currently, these students are not eligible for LIHTC-financed housing. This creates a Catch-22 for students forced to make an untenable choice between a roof over their heads and full-time status. What would it mean to students and veterans experiencing homelessness to be eligible for affordable housing through LIHTC while pursuing their education, and would streamlining the student rule also make LIHTC easier to use?

Mr. WALKER. Thank you for the question, and thank you for your leadership on this issue. I think the student rule is a concept of decades ago, and I think both the credit program—my experience is that we can improve on that by opening up the housing that we are creating for students, whether they are homeless students or students of families that have experienced homelessness, or whether they're working families that are having to retool for industry changes.

We've learned as we've gone, and both your legislation and the Credit Improvement Act include some modifications to really reconcile the shortcomings of limiting access to the affordable housing that we're creating for students.

Senator BROWN. Thank you.

And back to you, Ms. Scott. I want to follow up a bit on Senator Warren's questions and comments. We've seen what institutional out-of-State investors are doing to communities in Ohio and everywhere else. My office is inundated with complaints from Ohio renters, from local officials who see investors jacking up rents, filing eviction after eviction, letting homes fall apart to the point where they're uninhabitable. Your comment about the renovation costing more than it's worth is particularly incisive, I think. How are these investors affecting renters, aspiring homeowners, and their communities? Talk a bit more about that, if you would.

Ms. SCOTT. So essentially what happens here is, especially on the single-family home-ownership side, this housing is swept off of the market as a resource for first-time home buyers, first-generation home buyers. The prices, if they are on the market for sale, are at a much higher rate than the market can bear, than the families can pay, and so we're basically losing inventory that is affordable in these markets. And then we're also having the negative impact of the inventory that stays as rental that is, as I said, dilapidated, oftentimes not kept up, and so it's a problem that crosses multiple layers of housing inventory.

Senator BROWN. Thank you.

One of my favorite religious philosophers, Rumi, once said, "In generosity in helping others, be like a river," and that's what Senator Cortez Masto is. So thank you for yielding for a moment.

The CHAIRMAN. And I thank my colleague, who also is going back to the Banking Committee, but it is a committee that also works very extensively on housing issues, so we're very glad to be able to be partners.

Senator Cortez Masto?

Senator CORTEZ MASTO. Thank you, Mr. Chair, and thanks to everybody here. It is just appropriate we're having this conversation right across the way from the Chair of the Federal Reserve. This is a question I asked him—about housing and the impact the Federal Reserve is having on access to housing.

Mr. Walker, let me start with you. And thank you for including your support of my bill, the Affordable Housing Bond Enhancement Act, in your opening statement. This legislation that I've introduced will expand the supply of affordable homes and improve access to home ownership for low- and moderate-income home buyers and improve our mortgage revenue bonds and Mortgage Credit Certificate program.

Among other things, it raises the home improvement limit from $15,000 to $50,000, allows refinancing, and simplifies the Mortgage Credit Certificate calculation. So my question to you, Mr. Walker, is, how would this legislation help working families buy and sustain home ownership?

Mr. WALKER. Well, today's marketplace emphasizes the importance of mortgage revenue bonds and Mortgage Credit Certificates by being able to provide lower cost to borrowing and helping folks who otherwise would not have the access to the dream of home ownership. And so, both of these tools are incredibly valuable, and I think your legislation helps to enhance these tools.

Secondly, being able to improve homes, keeping people housed—people who have the opportunity to own a home, but are struggling to maintain that home—is an important component as well. And so, whether it's an elderly couple that needs to do some modifications to their existing home so that they can age in place—again, a very important component of our housing continuum.

Senator CORTEZ MASTO. Thank you, and I so appreciate the chairman and the ranking member having this hearing, because there are a number of things that we have introduced that can help not only the home-building side and the financing to pencil out, but on the home ownership and helping those who want access. And I'm hopeful after this—we do have this group of bills that we're putting forward that really are going to make a difference here. I hear it in Nevada so often, because we have affordable housing issues on so many levels.

Dr. Calabria, it's good to see you again. Thank you. Congratulations on your new book that has come out.

Dr. CALABRIA. Thank you.

Senator CORTEZ MASTO. I look forward to reading it. Let me ask you this—and thank you for serving as the FHFA Director. In my research on the Federal Home Loan Banks, it has become clear that the Federal Home Loan Banks have access to the type of financing that affordable housing developers need: acquisition, construction, long-term low fixed-interest rates to finance multifamily housing developments; yet, this trillion-dollar system invested less than $3 billion in these types of investments, a fraction of the more than $300 billion in advances.

And I think the FHL Bank advances could work very well with the Low-Income Housing Tax Credit. I'm a supporter of the legislation there in so many other ways. So my question to you is, right now the FHFA is undertaking a review of these Federal Home Loan Banks, and I'm curious, as a former Director, about your thoughts on that. Is that appropriate? And then what should Congress be doing once the review is finalized?

Dr. CALABRIA. Certainly, it is appropriate. I had actually started my own internal review on some of the Bank Act questions when I was there, and it's been almost 30 years since Congress made any real changes to the Federal Home Loan Bank system. So I think in a couple of months we'll see a report from the agency to Congress. Some of that will include congressional recommendations.

Senator Brown left, but maybe he's still listening, and we can suggest that perhaps the Banking Committee should have some hearings on the system and look into it, but it is absolutely appropriate and timely.

Senator CORTEZ MASTO. Thank you. And for this reason—I've heard it from so many in my State around not just helping the homeowners, but this idea of putting together this financing. And I'm going to quote one of my State Senators: "It's like lasagna.

You've got to pull all these different pieces together to make it work, and each time it's going to come out maybe a little bit differently."

Our goal here is to give them enough tools to put that lasagna together, the ingredients that they need for that financing. There's so many different ways, and this is one of them. The Federal Home Loan Bank is an important part of it.

I'm going to add one other thing that came up today, and I think it was Dr. Calabria who said this. In the West, a majority of the land is owned by the Federal Government. So, our local governments do not have the opportunity to own land, to say maybe we're going to provide this land at a cheaper rate for affordable housing. We have to go through the Federal Government to do so. There has to be a benefit for those of us—and believe me, there's bipartisan support for this—to identify Federal land in the West that can go for a cheaper rate to help us develop this affordable housing so it pencils out. So, I'm just going to put that word out there.

Thank you, Mr. Chair.

The CHAIRMAN. I thank my colleague. I'm going to have to run, and Senator Menendez is going to wrap up, and I thank him for doing so.

Senator Cortez Masto, as is usually the case, makes a good point. The ingredients are there. And to me, we've had a lot of good ideas here. I think there's a chance to build a really unique coalition here to deal with this. The only thing that's unacceptable to me is for this Congress to take a pass on housing. This is too urgent. It's too important, for all the reasons we've been talking about.

Senator Menendez, thank you for making it possible to wrap up.

Senator MENENDEZ [presiding]. Thank you, Mr. Chair, and your closing statement there is exactly my sentiment, so thank you very much.

Allowing property taxes to be fully deducted has been a bedrock principle of our tax code. It rewards States that provide services like education, public safety, and transportation that improve the quality of life. The State and local tax deduction has been critical to ensuring housing stays affordable.

Ms. Géno, your members that are C corporations are able to fully deduct State and local taxes at the entity level against their corporate taxable income; is that correct?

Ms. GÉNO. Yes.

Senator MENENDEZ. If SALT was capped for these corporations, would that likely increase the cost for tenants?

Ms. GÉNO. It could. And again, there's so many things that can be done on the State and local levels for support. But from a tax policy perspective, we're seeing State and local taxes increase dramatically in communities across the country, and that is an increasing problem that impedes multifamily development. Another thing that State and local governments can do—and the Federal Government can help incentivize—is for them to provide tax-abatement opportunities for multifamily housing developments, particularly those that include affordable units.

Again, Federal incentives for State and local governments to make those changes on the local level would truly help. We've seen that happen in certain communities across the country. More of that would be beneficial.

Senator MENENDEZ. I appreciate that. I mean, unfortunately what you described as a possibility is the unfortunate reality for middle-class homeowners in my State and many others. The 2017 Republican tax law gutted this essential deduction, not for large corporations, but for families, forcing them to be double taxed and punishing States with progressive tax codes that choose to invest in their communities.

New Jersey has some of the best schools in the Nation. It has a vast infrastructure system in terms of transportation. These are all elements that make it a desirable State to live in. Of course, you have to spend money on those investments, and gutting the State and local property taxes has been a consequence that attacks the very essence of making those investments.

Even if you have an abatement, an abatement obviously foregoes a certain revenue at the municipal level, so the deduction would be able to help towards creating stability, and it has been essential for encouraging and preserving home ownership and wealth for Black and Hispanic homeowners. Historians like Andrew Kahrl at the University of Virginia have found Black and Hispanic households have been subject to higher property tax assessments than their White counterparts.

The SALT deduction has been vital in providing relief from unjust tax assessments, which is why the NAACP passed a resolution in support of lifting the cap, so I'm going to continue to revisit this issue until we get it right.

Now, one of the greatest challenges in the current housing market—I know there's been a lot of talk about LIHTC, but I just want to add my voice to it. There are simply not enough affordable rental homes being built, and according to Secretary Fudge, even before the pandemic, we had a shortfall of 7 million affordable homes for low-income renters.

So as a Nation, we have to find ways to build more affordable homes, and part of that solution should come from our new investments. But we also need to make maximum effective use of existing tools, such as the bipartisan Low-Income Housing Tax Credit, which subsidizes the creation of 100,000 units of affordable housing a year, but I think it has the potential to do even more.

Ms. Géno, what would it mean for the development of new, multifamily buildings if Congress increased the LIHTC value and the total amount of credits as outlined in the Affordable Housing Credit Improvement Act?

Ms. GÉNO. Current estimates are that it would increase the value of the tax credit to create almost 2 million new homes, but again, as we stated earlier, we have to start today. There is a real urgency in moving this legislation forward. We are already losing ground. And if this legislation were passed today, it would take 3 years to see the benefit. So we need those additional 2 million homes, but it's going to take a minute to get there.

Senator MENENDEZ. Now, tax credits like LIHTC are vital in increasing the supply of affordable housing, but developers first need to obtain funding, financing to start construction and build homes. So institutions like Community Development Financial Institutions that deliver capital to communities where affordable housing is most needed, in my view, are a critical element of the housing ecosystem.

Ms. Scott, can you talk about how CDFIs like yours support the development of affordable housing in underserved communities?

Ms. SCOTT. Yes, Senator; thank you for this focus. The most important thing, I think, that the CDFIs are doing is really providing capital at the early stage of development when it's almost impossible to get pre-development funding to even start a project and conceive of it. The CDFIs are lending—we're taking some of the biggest risks in the continuum of building housing, and it gets us to a place where developers can apply for credits and secure them and then oftentimes are even coming back for some financing from us in order to work alongside the credit and other financing.

We're also sometimes filling gaps in terms of the timeline. Sometimes to preserve the integrity of the credit, we'll enter the tax credit deal before the credit flows, and that's another opportunity that enables a deal to go forward. We're also lending to borrowers, to developers that may not be able to secure conventional lending, and so that's another source of opportunity. So, I think the CDFI world is really providing a resource that's really helping to spur—I don't know the exact number or percentage of Low-Income Housing Tax Credit units that have been built by CDFIs or helped to be built by CDFIs, but that number is substantial. Without the CDFI community, I don't think we would see as much affordable housing production as we see now.

Senator MENENDEZ. You have a proven track record of delivering affordable housing development in underserved communities, which is why I led the effort to establish the CDFI Bond Guarantee Program, which enables CDFIs to execute large-scale development projects.

My final question is, would you agree that expanded funding for CDFIs would help expand the building of affordable housing in places where it's needed the most?

Ms. SCOTT. Simply put, Senator, yes.

Senator MENENDEZ. Okay. Sometimes "yes" is the strongest word. So I urge my colleagues to join me in strongly supporting funding for CDFIs as we deal with the 2024 appropriations.

With that, on behalf of the chairman and the ranking member, thanks to all of you for your presence and information. For information of members, questions for the record will be due at 5 p.m. next Tuesday, March 14th.

And with that, this hearing is adjourned. Thank you.

[Whereupon, at 12:13 p.m., the hearing was concluded.]

APPENDIX

Additional Material Submitted for the Record

PREPARED STATEMENT OF MARK A. CALABRIA, PH.D.,
SENIOR ADVISOR, CATO INSTITUTE

Chairman Wyden, Ranking Member Crapo, and distinguished members of the committee, thank you for the invitation to appear at today's important hearing.

It has been a great privilege to get to know and work with many members of this committee during my own years of public service. Senator Crapo's work on reforming our mortgage finance system has been critical. Of course, Senator Brown's long-standing commitment to affordable rental housing has driven his tenure as Chair of the Committee on Banking, Housing and Urban Affairs. I would also like to recognize Senator Scott's work on housing credit access and Senator Cortez Masto's work on the Federal Home Loan Banks. And last, but not least, my home State Senator Warner's work on mortgage finance reform has been an important contribution. While I haven't always agreed on the details, I have always been impressed with the sincere commitment of these, and other members, to address the pressing housing needs of our country.

While my affiliation today is with the Cato Institute, any views expressed are solely my own. In addition, I have no financial interests, other than as a taxpayer, homeowner and concerned citizen, in the issues being discussed at today's hearing, and nor do I represent any interests that do.

Let me also clearly state that neither the Cato Institute nor its scholars either endorse or oppose specific pieces of legislation. Accordingly, nothing in my prepared testimony or oral remarks should be interpreted to either support or oppose any particular legislation.

The observations and statements made in my testimony are based not only on my years of public service, but also on my read of the relevant statistical series and academic research. Others may read the same research and reach different conclusions. I've attempted to limit any observations to those generally supported by multiple researchers and data series.

Let me first state that too many working families face significant housing costs burdens. While I have never been shy when it comes to disagreeing with some of the more conventional approaches to housing assistance, my disagreement has been based in a concern that too many programs are inefficient, poorly targeted, and even occasionally counterproductive. It is not a disagreement over the importance of housing affordability. At the risk of overgeneralization, I believe that too often, too much of our housing subsidies have been captured by providers, and too little of the economic benefit not ultimately received by the intended families. I also remain concerned that too often subsidies are not focused on those most in need, this is particularly the case with housing, where despite the positive tax law changes in 2017, the bunk of the benefit of the mortgage interest deduction, for instance, is captured by wealthier households.

Let me also emphasize that the best housing policy is a jobs policy. There is simply no greater force for housing affordability than broad-based economic growth. Efforts must be made to reduce the cost of housing, especially by reducing construction costs, but it is also critical we see strong inflation-adjusted income growth for working families. Future tax reform should be foremost focused on increasing wages.

We must also recognize that the rental housing programs created in our tax code are often used by developers in conjunction with other non-tax subsidies. Considerable expense is incurred coordinating and combining these various subsidies. I would encourage any changes to the Low-Income Housing Tax Credit (LIHTC) or related programs to be coordinated with programs changes in other programs. There is far too much complexity today in affordable housing development. We should work to reduce that complexity, not add to it.

I would also urge the committee to consider where the multifamily rental market may be headed. To quote a recent Freddie Mac report,[1] "Multifamily is at an inflection point." The bulk of evidence suggests that national rental market has been softening, with some risk of actual oversupply in multifamily rental housing. While forecasting is always somewhat difficult, most indicators suggest that rents will decline over the next 12 to 18 months. The committee should be cautious as to adding any additional stimulus to apartment construction when we are likely already passing the peak of this cycle.

AMERICA'S HOUSING MARKET

America contains just under 144 million housing units. Of these, 85 million are owner-occupied and 44 million are renter-occupied. As of year-end 2022, we also had 14.5 million vacant housing units.

Of those renter households, around 2.2 million receive a Federal housing voucher, usually under section 8, another 840,000 live in federally assisted public housing, and 1.4 million live in a federally assisted, but privately owned, unit, often a project-based section 8. Just under 1 million renters live in units covered by some sort of rent control or stabilization.

Since January 2021, America has experienced a dramatic decline in housing affordability. The Federal Reserve Bank of Atlanta's national Home Ownership Affordability Monitor (HOAM) index,[2] fell from 103.6 in January 2021 to 64.7 in October 2022. The index, where higher numbers indicate more affordability, has modestly recovered to 69.6 for year-end 2022. The most recent HOAM index numbers are at their lowest level since before the 2008 crisis. The rate of decline for 2022 is unparalleled.

While the dramatic increase in mortgage rates has been the primary driver of the decline in housing affordability, high home prices coupled with weak real income growth have also added to declines in affordability. Similarly negative trends have occurred in the rental market.

Rental housing often conjures up visions of urban, high-density, apartment living. That vision fails to capture much of the character of renting. A third of rental housing is in the form of single-family units. Another fourth of rental units are in properties of under 10 units. In fact, only about 12 percent of rental units are in the higher-density, 50 or more units, one generally finds utilizing the LIHTC. If we include single-family units, approximately half of all rental units are in properties of under 5 units.

The percent of renters earning below the poverty line is only modestly lower for renters living in single-family detached housing (20 percent) relative to renters overall, 22 percent of whom earn below the poverty line.

Lack of affordable rental housing is sometimes viewed as an urban problem, yet according to the U.S. Census Bureau's Housing Vacancy Survey, suburban rental markets actually have tighter housing markets than those of central cities, 5.3 percent vacant compared to 5.9 percent vacant for central cities.

As Harvard's Joint Center for Housing Studies has noted, in recent years, new construction has predominately added to the stock of higher unit rental properties, while the number of lower unit properties, particularly those in the 2- to 4-unit range, have been on net leaving the housing stock.

A pressing policy question should be how do we leverage the large portion of small units that typically fall outside the footprint of the LIHTC? This is a particularly pressing issue in rural and suburban communities.

The "good news" is that after years of under-building, both single-family and multifamily construction is strong. The "bad news" is that we are almost certainly overbuilding in the multifamily market and are due for a sharp correction in the apart-

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[1] *https://mf.freddiemac.com/research/outlook/2023-multifamily-outlook.*

[2] *https://www.atlantafed.org/center-for-housing-and-policy/data-and-tools/home-ownership-affordability-monitor.aspx.*

ment market. Over the past year, multifamily housing starts have been at levels not seen since the early 1980s.

PRIMARY CAUSES OF RENTAL AFFORDABILITY BURDENS

The primary drivers of housing costs nationally are land costs, labor costs/ shortages, and materials costs. To a lesser extent, issues related to construction finance are also adversely impacting housing affordability.

Despite being a country rich in land, only around 2 percent is currently used for urban purposes. We, especially State and local governments, have made it increasingly difficult to use our vast land resources for housing. According to the National Association of Home Builders, regulation, mostly State and local, adds 40 percent to the cost of multifamily development.[3]

There is perhaps little that Congress can really do to substantially change local land use rules, but we must at least recognize that local supply constraints can render useless many Federal attempts at affordable housing, and in some instances actually make them worse. When supply is relatively fixed or inelastic, do not apply demand subsidies, as such only drives up prices.

One area where Congress can make considerable progress, at least for a few States, is to convert federally held land into land that can be used to develop housing. The model used by Nevada, which is 80 percent Federal land, to convert Federal land to developable uses should be a model for other States. If not for this mechanism, Las Vegas would be considerably more expensive. While few States have the degree of Federal ownership as Nevada, one of the least affordable housing markets, California, does have a Federal ownership of 45 percent. Even a modest level of converting Federal lands in California to housing would make a massive difference in housing affordability. Colorado, Arizona, Idaho, Oregon, Utah, New Mexico, and Washington State are prime examples of housing markets were much of the affordability problem could be solved by a Federal land to housing conversion. Of course, a large amount of that land would not be suitable for housing, but enough of it would be.

In relation to materials costs, we can make a significant contribution to reducing construction costs by resolving many of our outstanding trade disputes. This is especially the case with Canadian lumber and aluminum. While we have witnessed dramatic declines in lumber prices relative to those of 2021 and 2022, lumber prices still remain above their long-run averages. Similar, aluminum is down significantly from its summer 2022 highs but still remain highly elevated relative to its long-run average.

When thinking in terms of directing subsidies, I urge the committee to think clearly about which constraints are the most binding. If subsidies are not directed at those constraints, then one risks simply driving up the cost of the input in short supply. For instance, in a housing market with limited land availability, or as the economists would say an "inelastic" supply of land, then subsidies not directed at easing the supply of land will largely bid up the cost of land without increasing total units (housing) produced. For this reason, the typical use of demand side tax credits, such as the home buyer tax credit enacted in 2008 as part of the Housing and Economic Recovery Act, simply caused a short-term spurt in housing prices, that later reverted. While it was popular, it was a subsidy that was largely wasted.[4] As economist Dean Baker noted, the 2008 buyer credit "delayed the deflation of the bubble, but did not stop it."[5] We should avoid similar gimmicks this time around.

EXCESS COMPLEXITY IN AFFORDABLE RENTAL DEVELOPMENT

The most prominent rental housing program in our tax code is the Low-Income Housing Tax Credit (LIHTC). According to the U.S. Census Bureau's Rental Housing Finance Survey (RHFS), there are around 2.6 million rental units currently in the Low-Income Housing Tax Credit program (about 5 percent of the total U.S. rental stock), representing over a little less than 60,000 properties, with an average of 40 units per property.

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[3] *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.*

[4] As a Brookings Institute paper concluded, "we find evidence that the HERA home buyer tax credit, which essentially amounted to an interest-free loan, did little to stop the rapid deterioration of the housing market conditions after the bursting of the home price bubble," *https://www.brookings.edu/wp-content/uploads/2016/06/28_homebuyer_tax_credit_dynan_gayer.pdf.*

[5] *https://cepr.net/documents/publications/housing-2012-04.pdf.*

LIHTC properties often receive additional subsidies. For instance, at least a third of LIHTC properties have at least five tenants receiving a section 8 housing voucher. A full fifth of tax credit properties have a third of their tenants on section 8 housing vouchers. A considerable amount of the "affordability" of these properties is mostly, if not exclusively, provided by the section 8 voucher program. Other subsidies include: 22 percent of tax credit properties have subsidized mortgage rates; a third of LITHC developments get either HOME or CDBG; about half get State low-income housing tax credit, and another third are getting some sort of local tax relief.

If we could better streamline subsidies, my read of the literature is that we could reduce development costs somewhere between 2 and 10 percent, depending upon locality. So not a silver bullet, but worth doing, as it would require no additional funding. Not surprising, legal fees are a big cost, as often each subsidy stream performs a separate legal review. There is little market discipline among these fees, often cost-plus. Developer fees in LIHTC are usually around 10–15 percent. This is much higher than for-profit, unsubsidized development. While some higher development fees are to be expected, given the complexity, I would urge the committee to either cap development fees or have Treasury promulgate a rulemaking on "reasonable" development fees for LIHTC developments.

Another cost of subsidy-layering is that different subsidy application cycles can add time and delay. One approach would be to limit the use of other Federal subsidies on LIHTC developments, else the committee should explore avenues to better align or consolidate subsidy application cycles.

Although complexity, and its additional costs, are one concern, I am also concerned that the extent of "double-dipping" in LIHTC development reduces the amount of subsidy available to non-LIHTC developments. One avenue to minimize the current incentives for double-dipping is the approach of section 306 of last Congress's Cantwell-Young bill (S. 1136) prohibition on local contribution requirements.

In addition to the complexities of affordable housing development, the committee should also consider the tendency of LIHTC properties to, as author Richard Rothstein observed in his book *Color of Law,* reinforce existing patterns of segregation.[6] In part this effect is driven by the urban bias in site location, which is, in part, influenced by the more difficult economics of multifamily development in rural and suburban areas, due to the typically lower project density.

HOUSING TAX CREDIT REFORM

While I would mostly recommend caution at this point in the real estate cycle, if the committee were to revisit the legislative framework for the LIHTC, I would offer the following recommendations. First, make the LIHTC look at lot more like HUD's HOME program. HOME allows a wider range of uses, such as direct tenant-based assistance, so that the particular local market circumstances can be taken into consideration. Despite some convergence, housing conditions are still largely locally determined. I would particularly urge the committee to allow LIHTC funds to be converted into short-term tenant-based rental assistance.[7] There are many families who do not need permanent or even long-term assistance, but rather only a short-term bridge during periods of financial distress.

I commend those State housing finance agencies which add tighter income targeting requirements to their awarding of tax credits. That said, I believe the current Federal level income targeting requirements are insufficient to result in the prioritization of those families most in need. I am also concerned that recent efforts at "income averaging," while reducing administrative burdens, will result in weaker targeting. For most areas, the median renter income is around 60 percent of the overall median income, implying that full income averaging would result in almost no actual targeting. The committee should consider the addition of a subgoal of a certain percent of units going to households under 30 percent of area median income. The committee may also want to consider capping the percent of units that can be occupied by households over 120 percent of area median income.

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[6] *Also see* Kirk McClure, Anne R. Williamson, Hye-Sung Han, and Brandon Weiss, "The LIHTC Program, Racially/Ethnically Concentrated Areas of Poverty, and High-Opportunity Neighborhoods," 6 *Tex. A&M J. Prop. L.* 89 (2020), *https://scholarship.law.tamu.edu/cgi/viewcontent.cgi?article=1115&context=journal-of-property-law.*

[7] *See https://www.jchs.harvard.edu/research-areas/working-papers/short-term-benefits-emergency-rental-assistance.*

As one of the Banking Committee staff responsible for the drafting and negotiation of the 2005 reauthorization of the Violence Against Women Act (VAWA) and its housing title, I remain frustrated at the slow movement on the part of Treasury in meeting their obligations under VAWA, in respect to LIHTC properties.

One of the strongest, and most transparent, features of the LIHTC is its per-capita allocation formula. I would strongly encourage the committee to resist any efforts to move to a different formula. We have repeatedly seen the perverse outcome in programs like CDBG that the allocation formula results in a disproportionate percent of funding going to the richest areas of our country, often rewarding local areas for choosing high housing cost policies.

Progress has been made to broaden the ultimate investors in the LIHTC, but the program is still overly reliant on the banking industry. I will remind the committee that during the 2008 financial crisis, the market for tax credits largely disappeared when the banking industry as a whole become unprofitable. If we see a continued softening of the economy, it is highly likely that bank profitability will decline and the demand for tax credits will again fall.

BROADER RENTAL TAX REFORM

As mentioned above, there are a large number of rental units in lower-density properties that will likely never be attractive candidates for the LIHTC, at least not under current rules. Also mentioned was the over 14 million vacant housing units in the United States. How do we better leverage the millions of lower-density units, while also attracting vacant unit onto the rental market? I would suggest the committee directly examine the tax treatment of rental income. A modest proposal would be to make the first $500 in monthly rental income tax-free. In many markets, that savings would be passed along to renters. It would also encourage vacant units to enter the rental stock. As I am concerned as to our long-term fiscal situation, which I believe is unsustainable, this change could be paid for by reducing the tax expensing of mortgage interest payments of rental properties.

OTHER COMMITTEE ISSUES

While somewhat tangential, I do want to take this opportunity to alert the committee to significant vulnerabilities in the REIT sector that were witnessed in March 2020. In particular, so-called mortgage REITs were a major source of fragility in our financial markets in March 2020, resulting in both assistance from FHFA and the Federal Reserve. A small handful of REITs have moved beyond acting as passive investment vehicles and have adopted active trading strategies, not in substance different from those that contributed to the failure of Bear Stearns. As I believe these activities represent a threat to financial stability and run counter to congressional intent, I would encourage the committee to investigate this issue. If interest, I would be happy to provide the committee with additional detail.

CONCLUSIONS

The housing market has been softening and will continue to do so for at least another 18 months. Rents and prices have weakened and will continue to do so. In fact, I believe we are closer to the beginning of this housing correction than to the middle or end. Accordingly, Congress should move slowly and cautiously when it comes to providing any additional stimulus to the housing market. Such will only delay the inevitable.

Legislating is, of course, an often slow process and should focus primarily on longer-term issues. Despite the short-term outlook for an oversupply in multifamily housing, we still have longer-run cost pressures. We also have significant housing resources that are underutilized.

As the most effective housing program is a jobs and incomes program, I would encourage Congress to approach changes to our housing tax provisions within the broader context of overall tax and housing reform. I would also encourage the committee to favor simplicity over complexity, and to expand the focus of the LIHTC beyond higher-density, urban projects.

QUESTIONS SUBMITTED FOR THE RECORD TO MARK A. CALABRIA, PH.D.

QUESTION SUBMITTED BY HON. MIKE CRAPO

Question. Most of today's affordable housing is built using the Low-Income Housing Tax Credit (LIHTC). However, we know that State and local regulatory barriers can prevent developers who participate in a LIHTC project from building at a desired pace.

What are some regulatory reforms at the State and local level that should be enacted or encouraged as best practices to ensure quicker development of LIHTC projects?

Answer. Streamlining the zoning process would be foremost, especially moving to a "build-by-right" framework, where builders who meet the local/State requirements are then entitled to build. While not the case in most jurisdictions, the worst building environments are those with multiple veto-points, where the builder lacks the certainty of whether a project can even be completed.

I would also encourage jurisdictions to move from a single-limited use zoning model to the hierarchical model, where certain land uses are allowed in all zones. For instance, while a jurisdiction may not want to allow industrial or heavy commercial uses in a residential zone, it would allow residential, particularly multifamily development, to occur areas zoned industrial or commercial. Zoning should have built in flexibility that allows the property market to evolve without the need for constant updating of zoning maps.

While I love my car as much, or even perhaps more, than the next person, local jurisdictions should examine, if not reduce or eliminate, unnecessary parking space requirements for new residential construction.

In several jurisdictions, local and State prevailing wage requirements also add considerable expense to the construction of affordable housing. They may also extend development times as labor negotiations may leverage the urgency of the development process in order to extract concessions.

I would highly recommend the committee and local jurisdictions to review the various options offered in *Housing Reform in the States: A Menu of Options for 2023,* by Salim Furth and Emily Hamilton at GMU's Mercatus Center. *https://www.mercatus.org/research/policy-briefs/housing-reform-states-menu-options-2023.*

Some references for the committee to consider:

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Reid, Carolina, Adrian Napolitano, and Stambuk-Torres. "The Costs of Affordable Housing Production: Insights From California's 9% Low-Income Housing Tax Credit program." Terner Center for Housing Innovation at UC Berkeley, *http://ternercenter.berkeley.edu/development-costs-LIHTC-9-percent-california* (2020).

Kneebone, Elizabeth, and Carolina K. Reid. "The Complexity of Financing Low-Income Housing Tax Credit Housing in the United States." Terner Center, UC Berkeley. August 18 (2021): 2022.

QUESTIONS SUBMITTED BY HON. CATHERINE CORTEZ MASTO

Question. What changes do you recommend the Federal Housing Finance Agency make to improve the ability of the Federal Home Loan Banks to safely enable their member institutions to invest in housing and community economic development?

Answer. In order to assure that System advances are being used to support housing activity, I would suggest that FHFA examine the possibility of a more frequent asset test for System members. FHFA should also examine the FHLBanks' approach to managing concentration risk, as we have seen instances where a small number of advance borrowers constituted a large percent of advance activity at individual FHLBanks. FHFA should also review the FHLBanks' approach to accounting for interest rates risk in eligible collateral, such as mortgage-backed securities.

FHFA should also examine any need for System consolidation. FHFA can reduce the number of FHLBanks to eight without congressional approval. FHFA can also rationalize the existing geographic footprint of the System. If feasible, FHFA should consider reducing the System from 11 to eight banks, and draw the boundaries in a more equitable manner than is currently the case. Congress may want to consider whether the System should be consolidated into less than eight banks.

Question. When you were leading the Federal Housing Finance Agency, what efforts did you undertake to review the Federal Home Loan Bank System?

Answer. I began an internal legal and program review of the System, which was ongoing when I left the agency. I also conducted internal resolution exercises on the System, so that in the event of the failure of a FHLBank, FHFA would be able to resolve that entity without any taxpayer assistance. Those exercises also allowed FHFA to clearly identity which other financial institutions would be adversely impacted by the failure of a FHLBank. The results were shared with FSOC and the relevant primary regulators. I understood the orderly resolution of a FHLBank would require the coordination of FHFA with other financial regulators. Hence, we began an interagency dialogue on those issues. I also began a process of visiting each of the System banks and speaking with their full board of directors, as well as visiting individual AHP developments. Unfortunately, COVID interrupted those visits.

Question. What recommendations do you recommend Congress consider regarding the Federal Home Loan Banks?

Answer. One of the most concerning aspects of the Federal Home Loan Bank Act is its allowance of FHLBs to hold Fannie Mae and Freddie Mac mortgage-backed securities in unlimited amounts. Asset concentration risk is financial regulation safety 101, yet Congress has tied FHFA's hands in this regard. Such first creates a massive interconnectedness in our financial system. The very picture of systemic risk. Secondly, such allows the FHLBs to accumulate massive investment portfolios. Too much of the system has come to resemble a version of Bear Stearns: long-dated, interest-rate sensitive assets funded by short-term borrowing. This is a recipe for disaster. Congress should prohibit the system from holding any Fannie or Freddie debt, giving the system 5 years to dispose of its current holdings. Congress should also explicitly limit the ability of the FHLBs to retain large investment portfolios. While large investment portfolios were initially grown to cover the system's REFCORP obligations, over time they have grown to provide an income source for dividends to members. In order to eliminate this incentive, Congress should either tightly cap or outright eliminate the System's ability to pay dividends.

The advance activities of the FHLB system have come to be dominated the largest commercial banks. These institutions already have ready access to the capital markets, and hence, are not in need of access to the FHLB system. To keep the system focused on community institutions, Congress should limit System membership to depositories with under $10 billion in assets (can be indexed to inflation, if so desired). Of the 4,746 depositories currently insured by the FDIC, such a change would only exclude the largest 158 institutions from system membership.

To further reduce confusion as to the nature of the System debt, Congress should subject System debt to the registration requirements of the Securities Act of 1933. This should not be disruptive, as most of the System's current debt would qualify as either private placements or for a shelf registration. Congress should also remove any other System exemptions from the securities laws and as well as ending any preferences for purchase by the Federal Reserve or Treasury.

Congress should resist any calls to expand membership. In fact, Congress should tighten membership. First CDFI membership should be limited to those CDFI's that are insured depositories and regulated by the FDIC. Congress should also explicitly limit the loophole of "captive" membership, where a larger company, such as a REIT, purchases an insurance company or CDFI, as an avenue for membership. Congress may also want to limit insurance company membership to those insurance companies that are subsidiaries of financial service holding companies.

Lastly, rather than expanding the current Affordable Housing Program (AHP), Congress should eliminate AHP and substitute a direct fee on debt issuance. This fee would remit to the Treasury to be allocated by Congress for public purposes. The current AHP framework provides the appearance of meeting some vague public purpose without the reality. Congress should also reject any calls to expand the System's purposes. If interest groups would like to see an expansion of public spending on housing and community development activities, we have an entire Cabinet level department devoted to such, as well as activities at other agencies, such as the Commerce Department. Any additional funding should be provided via the congressional appropriations process, as so clearly intended under the Constitution.

PREPARED STATEMENT OF HON. MIKE CRAPO, A U.S. SENATOR FROM IDAHO

Thank you, Mr. Chairman. You have well laid out the issue today. I appreciated not only your focus on this issue and supply-side solutions, but the fact that you recognized the bipartisan work we do in this committee and identified this as one of the key areas where we ought to be able to accomplish similar solutions.

When this committee held a hearing on housing last summer, we had just learned that consumer price inflation had spiked to 9.1 percent, the highest in more than 40 years. The shelter component of the consumer price index was up 5.6 percent relative to a year earlier, and rents were up by nearly 6 percent.

Unfortunately for renters and potential homeowners, the mislabeled "Inflation Reduction Act" did nothing to address inflation and rising costs, but is in fact projected to exacerbate inflation in the near term.

As the Federal Reserve attempts to control price growth with interest rate hikes, mortgage rates have hit highs not seen since the 2008 financial crisis and are now hovering at 6.5 percent, slowing investment in the housing market and pricing many buyers in Idaho and all across the country out of the market. January's overall consumer price inflation is still significantly above normal, hitting 6.4 percent annually. Shelter accounts for over half of the core increase, up 7.9 percent over the last year. Inflation is also eating away at the value of wages; real hourly earnings have declined 1.8 percent.

Across the country, Americans are faced with unaffordable housing. Specifically, lower-income Americans are facing a shortage of about 7 million affordable homes, and the supply of affordable housing continues to fall short of demand, with the gap increasing every year. One tax tool used to address the supply shortage and incentivize builders to create affordable homes is the Low-Income Housing Tax Credit (LIHTC). It is responsible for generating a majority of all affordable rental housing created in the U.S. today and generally enjoys bipartisan support in Congress.

Several members of this committee have been working across the aisle to find affordable housing solutions. Senator Wyden has well described those efforts. Proposals include changes to LIHTC and new tax incentives. Senators Young and Cantwell, as well as several other members, are working to reintroduce the Affordable Housing Credit Improvement Act, which would bolster LIHTC for developing and preserving affordable housing. Senators Young and Cardin introduced the Neighborhood Homes Investment Act, which would create a Federal tax credit to finance home building and rehabilitation in urban and rural neighborhoods. Other Finance Committee members have expressed interest in addressing the affordable housing supply shortage, including one of our newest members, Senator Blackburn. Additionally, Senator Wyden has introduced the Decent, Affordable, Safe Housing for All—or DASH—Act.

Thank you all for your hard work.

Targeted tax policies such as LIHTC are an important part of solving housing affordability and supply issues, but we must also address the drivers that are raising the cost of housing generally. When input and regulatory costs are high, LIHTC is less effective.

Zoning laws and regulatory barriers are often uncoordinated, unnecessary, or overly cumbersome, and can ultimately work against the goal of providing affordable housing by creating excessive development costs. States and localities with the most restrictive zoning laws and regulatory barriers often have the most severe shortages in affordable housing as a result. Federal, State, and local leaders must work together to reduce regulatory barriers, and they should look to success stories around the country.

In Houston, local leaders reduced the minimum lot size from 5,000 to 1,400 square feet. After initial success, the reform was expanded to cover the entire city. Due, in part, to the ability for small-lot construction, Houston's median house price is below the national median. Further, it is estimated the average Houston household benefited from the reform by roughly $18,000. In order to make it economically viable to build across price points in the market, these supply-side factors need to be addressed. Overall tax costs, regulations, supply chain bottlenecks, and financing expenses all enter into investment decisions.

Overall, there is no better cure to housing affordability than a healthy, thriving economy. The pro-growth policies in Republicans' 2017 tax reform led to one of the strongest economies in decades: low unemployment, a low poverty rate, strong wage growth, high median incomes, increased investment, and record Federal tax revenues. We should preserve these policies and explore additional opportunities to promote growth, increase investment, and encourage research and development in the United States.

I look forward to discussing with today's witnesses ways to ensure that affordable housing is accessible and that the American dream of home ownership remains attainable.

Prepared Statement of Sharon Wilson Géno, President, National Multifamily Housing Council

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 141 State and local affiliates, NAA encompasses over 95,000 members of all sizes representing more than 11.6 million apartment homes globally.

We appreciate the Senate Finance 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 offer our perspective on efforts needed to promote workable and sustainable policies to address our Nation's housing challenges. Our ultimate goal is to be sure that apartment providers can meet long-term housing needs of the 38.9 million Americans who live in apartment homes and continue to make significant contributions to the growth of our economy, which currently stands at $3.4 trillion annually.[1, 2]

THE CHALLENGE: DECADES-LONG UNDERBUILDING HAS RESULTED IN UNAFFORDABILITY IN MANY COMMUNITIES

There is no doubt that America is facing a housing affordability crisis. Challenges are different from community to community and State to State, but facts are facts. For decades, America has witnessed the escalating challenge created by demographic shifts, short-sighted public policy decisions, and economic changes culminating in the inability of an increasing number of families, seniors, and people with disabilities to rent, buy, or maintain affordable homes that meet their needs.

Today, in more and more communities, hardworking Americans are unable to rent homes due to increased 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 percent of their income on housing) increased steadily from 28.0 percent in 1985 to 36.9 percent in 2021 and is growing, while others have been priced out of communities altogether.[3] 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

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[1] 2021 American Community Survey, 1-Year Estimates, U.S. Census Bureau, "Total Population in Occupied Housing Units by Tenure by Units in Structure."

[2] Hoyt Advisory Services, National Apartment Association and National Multifamily Housing Council, "The Contribution of Multifamily Housing to the U.S. Economy," *https://weareapartments.org/pdf/Economic_Impact.pdf.*

[3] NMHC tabulations of 1985 American Housing Survey microdata, U.S. Census Bureau; 2021 American Housing Survey, U.S. Census Bureau.

land use policies at the local level, and NIMBYism ("the behavior of someone who does not want something to be built or done near where they live, although it does need to be built or done somewhere"[4])—has led the Nation to this juncture. It has taken many decades to get to this point, and it will take time to reverse these trends, but it is critical that we start now to enact a number of different policies that will incentivize new housing production.

In addition, more recent economic instability poses a serious threat to the ability of housing providers to leverage the private-market capital necessary to generate needed housing. The Federal Reserve'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 2023 Quarterly Survey of Apartment Market Conditions:[5]

- More than three-quarters of respondents (82 percent) reported declining sales volumes from 3 months prior;
- Nearly two-thirds (63 percent) indicated equity financing was less available; and,
- Fully 60 percent said it was a worse time for mortgage borrowing compared to 3 months earlier.

Further, we are still making up for lost housing not produced during the 2008 financial crisis. Thus, we do not have enough housing to keep up with demand. Research from NMHC and 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.[6]

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 communities will see temporary softness for higher-income households in new Class A buildings, but these units will not filter down to the millions of lower- and middle-income 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 and have sufficient housing that meets the need of our growing population in the years to come. The apartment industry stands ready to help meet the rising need for attainably priced rental housing, but we cannot do it alone. It requires a strong partnership between the private and public sectors. 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 affordability challenges now and in the future. In addition to increased supply, we must also deliver short-term solutions to renter populations that need support. Increased subsidies and emergency housing support for those of modest means are critical to keeping struggling renters and their families afloat.

While there is no one silver bullet, a multifaceted approach can be effective in easing current market constraints. As such, we believe the following actions will help further our shared affordability goals. These policy proposals are presented in two parts. The first considers tax policy proposals that are within the jurisdiction of the Finance Committee. The second provides analysis of actions that the broader Congress should consider.

TAX POLICY PROPOSALS TO PROMOTE HOUSING SUPPLY

While it will take a variety of tax and non-tax approaches to increase supply, the rental housing industry believes tax policy can play a critical role in this regard. To this end, we strongly urge Congress to:

- Expand and enhance the Low-Income Housing Tax Credit;

[4] *https://dictionary.cambridge.org/us/dictionary/english/nimbyism.*
[5] *https://www.nmhc.org/research-insight/quarterly-survey/2023/nmhc-quarterly-survey-of-apartment-conditions-january-2023/.*
[6] Hoyt Advisory Services, "Estimating the Total U.S. Demand for Rental Housing by 2035." (2022), *https://weareapartments.org/pdf/NMHC-NAA-US-Apartment-Demand-through-2035.pdf.*

- Enact the Middle-Income Housing Tax Credit to support workforce housing;
- Enhance Opportunity Zones to incentivize the rehabilitation and preservation of multifamily buildings;
- Encourage the adaptive reuse of underutilized commercial properties into multifamily housing; and
- Promote the rehabilitation of multifamily housing located near transit.

Each of these proposals is briefly described in the pages that follow, and we note that many have bipartisan 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. Between its inception in 1986 and 2021, the LIHTC program has, according to the A Call To Invest in Our Neighborhoods (ACTION) Campaign, developed or preserved 3.74 million apartments, served 8.06 million low-income households, supported 6.08 million jobs for 1 year, generated $239 billion in tax revenue, and produced $688.5 billion in wages and income.[7] 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 (AHCIA) (S. 1136/H.R. 2573). Introduced last Congress by Senators Cantwell, Young, Wyden, and Portman (and cosponsored by Finance Committee Senators Blackburn, Bennet, Brown, Cardin, Carper, Casey, Cortez Masto, Hassan, Menendez, Stabenow, and Whitehouse), this bipartisan bill would, among other provisions, make permanent the now-expired 12.5-percent increase in LIHTC authority for 2018–2021 to enable the production of new units and further augment credit authority by 50 percent. Additionally, the bill would lower the private activity bond financing threshold to 25 percent from 50 percent required to receive the full amount of 4-percent Low-Income Housing Tax Credits.

In December 2022, it was estimated that over the 2023–2032 period, 1.93 million additional affordable homes, housing 4.5 million low-income people, could be financed across the United States and territories by AHICA provisions expanding LIHTC authority and reducing the Private Activity Bond financing threshold to 25 percent. Over that period, this enhanced financing could also create nearly 3 million jobs, more than $335 billion in wages and business income, and $116 billion in tax revenue.[8]

Finally, we would encourage the Finance Committee to consider increasing the Private Activity Bond volume cap to enhance the utilization of 4-percent Low-Income Housing Tax Credits. According to March 2023 data by Tiber Hudson and Novogradac, 18 States and Washington, DC, are oversubscribed. Authorizing these States to issue additional Private Activity Bonds would enable the financing of additional 4-percent LIHTC projects.[9]

Enacting the Middle-Income Housing Tax Credit (MIHTC) to Support Workforce Housing

Housing affordability is an issue threatening the financial well-being of both middle-income and low-income households across the Nation. According to the U.S. Census Bureau's Survey of Market Absorption, the median asking rent for apartment units completed in the third quarter of 2022 was $1,805, a 27-percent increase from the same period in 2017.[10]

For a renter to afford one of those units at the 30 percent of income standard, they would need to earn at least $72,200 annually. Moreover, the share of apartment households making between $30,000 and $74,999 with at least moderate housing cost burdens rose from 45 percent to 53 percent, while the share with severe burdens rose from 9 percent to 13 percent.[11]

Furthermore, based on 2021 American Community Survey data, we estimate that more than a quarter (26 percent) of middle-income renter households (81–100 per-

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[7] *https://rentalhousingaction.org/wp-content/uploads/2022/12/ACTION-NATIONAL-2022-NEW-LOGO_01.pdf.*

[8] *https://www.novoco.com/notes-from-novogradac/novogradac-estimates-193-million-additional-affordable-rental-homes-could-be-financed-if-lihtc.*

[9] Tiber Hudson and Novogradac, *Volume Cap Scarcity,* March 2, 2023.

[10] U.S. Census Bureau, Survey of Market Absorption.

[11] NMHC tabulations of American Community Survey microdata.

cent of HUD Area Median Income) were cost burdened in 2021. This amounts to more than 1.2 million households.[12]

Accordingly, this is an issue impacting those workers who comprise the very fabric of strong communities nationwide, including teachers, firefighters, nurses, and police officers whose wages are not keeping pace with costs. 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 enact the Middle-Income Housing Tax Credit (MIHTC) that Senate Finance Committee Chair Wyden introduced last Congress as part of the Decent, Affordable, Safe Housing for All (DASH) Act (S. 2820) to address the shortage of workforce housing available to American households. Estimates indicate the proposal could finance 344,000 affordable rental homes over 10 years while also creating 560,400 jobs and generating over $63.4 billion in wages and business income.[13]

Designed to complement the successful LIHTC program, the MIHTC program would enable State housing agencies to issue credit allocations to developers that would subsequently be sold to investors. Investors would receive a dollar-for-dollar reduction in their Federal tax liability over a 15-year period, and developers would invest the equity raised to build apartments. The equity raised would cover 50 percent of the cost of constructing qualifying units. A development project eligible for MIHTC would have to set aside 60 percent of units for households earning 100 percent or less of Area Median Income and must be kept affordable for up to 30 years.

Enhancing Opportunity Zones to Incentivize Rehabilitation of Housing Units

Under the leadership of Senators Tim Scott and Booker 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 should 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 100-percent basis increase excluding land 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; or (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

Given the Nation's shortage of affordable rental housing, many are considering turning unused and underutilized commercial real estate structures, including offices, hotels, and retail spaces into housing. Not only would such repurposing help address the Nation's housing supply challenge, but it would also create jobs and boost local property tax revenues.

A segment of commercial real estate space could potentially be available to be converted into housing. According to a February 2023 study by the Urban Land Institute's Center for Real Estate and Economics and Capital Markets and sponsored by the NMHC Research Foundation and the Urban Land Institute's Terwilliger Center for Housing, *Behind the Facade: The Feasibility of Converting Commercial Real Estate to Multifamily,* "JLL Research found that between the onset of the pandemic

[12] IPUMS USA, University of Minnesota, ipums.org; 2021 HUD Median Family Incomes for FMR areas, metro areas, and States.
[13] *https://www.novoco.com/notes-from-novogradac/dash-acts-middle-income-housing-tax-credit-would-finance-344000-affordable-rental-homes-households.*

and the second quarter of 2022, buildings delivered in 2015 or later had 86.8 million square feet of net absorption, while pre-2015 buildings had net negative absorption of 246.5 million square feet. Almost 80 percent of the negative net absorption was in buildings delivered in 1980 and earlier."[14]

Changing consumer preferences and online shopping are also changing the real estate landscape. Estimates show between several hundred million and 1 billion square feet of surplus and obsolete retail space. Slower post-pandemic business travel is also challenging a portion of the Nation's hotel stock.

Unfortunately, converting commercial real estate into housing can be extremely challenging and can be more complicated than typical ground-up development. Costs associated with property acquisition and conversion, including addressing structural building issues (*e.g.,* beams, columns, ceiling heights, utilities, and floor layouts), can quickly add up and make the difference between a viable or unfeasible project. This is in addition to other barriers that may arise, including permitting, zoning rules, and NIMBYism.

A Federal tax incentive to encourage property conversions would be greatly beneficial in helping to overcome these obstacles and spurring additional housing supply. In addition, it would help revitalize distressed commercial property and stabilize the surrounding communities. Notably, Senator Stabenow, joined by Senator Brown 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. This Congress, Representative Gomez has 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, among other things, enable other types of commercial properties (*e.g.,* shopping centers and hotels) to qualify for the tax incentive; ensure REITs could utilize the benefit; and clarify that the credit does not reduce other tax benefits including the Low-Income Housing Tax Credit.

Additionally, the multifamily industry would encourage Congress to explore whether tax-exempt Private Activity Bonds could be used as a means of promoting adaptive reuse. Housing finance agencies could issue such bonds to help facilitate adaptive reuse of underutilized properties, particularly in areas that have a plan to track discriminatory land use policies as envisioned by the Yes In My Backyard Act (YIMBY) Act (S. 1614/H.R. 3198) introduced last Congress by Senators Young and Schatz and Representatives Kilmer and Hollingsworth and strongly supported by NMHC and NAA.

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 Blumenauer and cosponsored by committee members Kelly, Kildee, and LaHood, the Revitalizing Economies, Housing and Business Act (REHAB Act) (H.R. 1483) provides:

- 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.

ADDITIONAL RECOMMENDATIONS FOR CONGRESS TO CONSIDER

While changes to tax laws are especially important to spurring affordable housing, the multifamily industry also urges Congress to consider additional proposals and issues relative to the production of multifamily housing. Specifically, we urge Congress to consider proposals that:

- Lower regulatory hurdles;
- Ease construction costs and delays;

[14] Kramer, Anita. *Behind the Facade: The Feasibility of Converting Commercial Real Estate to Multifamily.* Washington, DC: Urban Land Institute, 2023, pg. 5, *https://www.nmhc.org/globalassets/research--insight/research-reports/conversion/behind-the-facade_conversion-report.pdf.*

- Deploy the Housing Supply Action Plan (*e.g.,* reward jurisdictions that have reformed zoning and land-use policies with higher scores in certain Federal grant processes and deploy new financing mechanisms to build and preserve more housing where financing gaps currently exist);
- Reform and fully fund the section 8 Housing Choice Voucher Program; and
- Sustain funding for Federal housing support and affordability programs.

Lower 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, there are numerous barriers that can drive up costs or halt development altogether.

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 (NAHB).[15] 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, including via NIMBYism.

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. Three quarters of respondents to the NMHC-NAHB research reported they had encountered NIMBY opposition to a proposed development. This added an average of 5.6 percent to the total development cost and delayed the completion of those developments by an average of 7.4 months.[16]

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. It is important to keep in mind that rental housing requires significant operating expenses to maintain quality. According to research by NAA, only 9 cents of every dollar of rent goes back to the owner as profit, including the many apartment owners who are themselves small businesses and rely on this revenue to make ends meet.[17]

We urge Congress 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.

NMHC and NAA strongly support the Yes In My Backyard Act (S. 1614/H.R. 3198), introduced in the last Congress by Senators Young and Schatz and Representatives Kilmer and Hollingsworth 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.

Policymakers, at all levels of government, should 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 purport to help by discouraging new apartment housing construction and limiting the financial resources own-

[15] National Association of Home Builders and National Multifamily Housing Council, *Regulation: 40.6 Percent of the Cost of Multifamily Development, https://www.nmhc.org/globalassets/research--insight/research-reports/cost-of-regulations/2022-nahb-nmhc-cost-of-regulations-report.pdf.*
[16] *Ibid.*
[17] *https://www.naahq.org/sites/default/files/naa-documents/dollar_of_rent_2022.pdf.*

ers have to maintain existing communities. Also, rent control proposals are not targeted at those most in need of affordable housing, thus incentivizing those who could otherwise afford an unrestricted unit to remain in place. Past experiments with rent control have been shown time and time again to result in unhealthy conditions and deteriorating neighborhoods.[18]

Notably, NAA conducted interviews with professionals who own, manage, or develop rental housing properties in Santa Barbara/Santa Ana, CA, Portland/Eugene, OR, and St. Paul, MN, and garnered findings buttressing the conclusion that rent control policies negatively impact investment in existing and future multifamily housing.[19]

Ease 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. Eighty-four percent of respondents reported construction delays in NMHC's December 2022 Quarterly Survey of Apartment Construction and Development Activity. Fifty-seven percent reported experiencing repricing increases in projects at an average rate of 8 percent. The availability of construction financing, or lack thereof, continues to be of primary concern, as 29 percent of respondents cited this as a contributing factor to delayed starts. Additionally, 30 percent of respondents attributed delays to materials sourcing and delivery challenges.[20]

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 percent of respondents reported that construction labor costs increased more than expected during Q4 2022, up from 21 percent in the previous quarter. Forty-six percent of respondents said that costs increased as expected, while only 5 percent said costs did not increase, down from 11 percent in September.

Deploy the 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 Congress to work with the administration to implement provisions in the Housing Supply Action Plan issued in May 2022 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 Supply Action Plan and worked in good faith with the administration on its Resident-Centered Housing Challenge

[18] Diamond, McQuade, and Qian, *The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco, American Economic Review* 2019. *https://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.20181289.*

[19] One of the key findings from that research was that owners and operators reported that their plans to invest in or develop the market dramatically shifted after rent control laws were put into effect: more than two-thirds of housing providers have reduced or expect to reduce development or investment plans as a result of rent-control policies; and over half have considered selling off properties. This is clearly seen when building permit applications dropped by 80 percent in St. Paul when its rent-control initiative passed during a period where building permits were increasing significantly elsewhere around the country. Additionally, NAA's interviews reveal that the majority of housing providers have had to or expect to defer maintenance and improvement projects in jurisdictions where rent control is enacted.

[20] *https://www.nmhc.org/research-insight/nmhc-construction-survey/quarterly-survey-of-apartment-construction-development-activity-december-2022/.*

(both NMHC and NAA made commitments as part of the Challenge), we are concerned the recently released White House "Blueprint for a Renter's Bill of Rights" will create potentially duplicative and confusing 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 or households that are struggling financially and could, in fact, discourage much-needed private-market investment in new housing construction.

Reform and Fully Fund the Section 8 Housing Choice Voucher Program

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.

The section 8 program has additional 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 prevent private housing providers from being able to accept vouchers.

Despite previous congressional and administrative attempts at improving the program, it remains overly burdensome. Our groups, once again, call on Congress to pass the Choice in Affordable Housing Act of 2023 (S. 32), introduced by Senators Coons and Cramer. The legislation empowers public housing authorities (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.

Sustain Funding for Federal Housing Support and Affordability Programs

Alongside inadequate funding and bureaucratic barriers in the section 8 HCV program, for too many years, Federal funding for one of the 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.

CONCLUSION

On behalf of the multifamily industry and the millions of family, single, senior, student, veteran, and disabled households we serve, we applaud the committee's efforts to explore solutions to the Nation's most significant housing challenges. The increased supply of multifamily rental housing at all price points in all markets will play a vital role in promoting economic growth, encouraging household stability for all American households, and we look forward to working together as legislation to further these efforts is considered.

ADDENDUM

New Report Tracks Apartment Demand Through 2035

Spoiler: We need to build 4.3 million new apartments to close the supply-demand gap.

Amidst demographic shifts and lingering pandemic-impacts on the population and broader economy, **the U.S. faces a pressing need to build millions of new apartment homes to accommodate current and future housing demand**—according to research conducted by Hoyt Advisory Services and Eigen10 Advisors, LLC, commissioned by the National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA).

Report Highlights

4.7 million affordable apartments were lost from 2015-2020 as a result of outpricing brought on by a serious lack of supply.

We're still picking up the pieces from the Great Recession as we grapple with a 600,000 apartment home deficit resulting from that time.

Explore the full report to access data specific to your state or locality. The full report includes data from all 50 states and 50 key metro areas, including the District of Columbia.

Learn More

Visit WeAreApartments.org to dive into custom data for your area and download the full report.

LOW-INCOME HOUSING TAX CREDIT (LIHTC)

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. Between its inception in 1986 and 2019, the LIHTC program has according to the ACTION Campaign financed 3.7 million apartments and served approximately 8 million households. This development has supported 5.68 million jobs for 1 year while generating $643 billion in wages and business income and $223 billion in Federal, State, and local tax revenues.

Under the program, State housing agencies issue credit allocations to developers who then sell the credits to investors. Investors receive a dollar-for-dollar reduction in their Federal tax liability over a 10-year period, and developers invest the equity raised to build or acquire apartments. This equity allows apartment firms to operate the properties at below-market rents for qualifying families. LIHTC-financed properties must be kept affordable for at least 30 years.

The LIHTC has two components:

- A 9-percent tax credit that subsidizes 70 percent of new construction and cannot be combined with any additional Federal subsidies.
- A 4-percent tax credit that subsidizes 30 percent of the unit costs in an acquisition of a project and can be paired with additional Federal subsidies.

Given the Nation's severe shortage of affordable housing, Congress in recent years has enacted significant improvements to the LIHTC program. In December 2020, Congress established a minimum 4-percent credit rate, akin to current law's minimum 9-percent credit rate—so that investors may derive its full value. Under prior law, the 4-percent credit rate floated and was worth considerably less due to low interest rates. Additionally, in March 2018, rightly increased LIHTC authority by 12.5 percent for 2018–2021. Congress also sensibly authorized income averaging so that LIHTC could serve a wider array of households.

Congress should continue to invest in the LIHTC's success by making permanent the expired increase in program authority effective in 2018–2021, as well as further augmenting 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 LIHTC has enjoyed broad bipartisan support over the years, and Congress sensibly preserved it in the 2017 tax reform bill. It should now be strengthened to meet the continued need for affordable housing.

MIDDLE-INCOME HOUSING TAX CREDIT

The Middle-Income Housing Tax Credit (MIHTC) is a proposal to establish a public/private partnership that leverages Federal dollars with private investment to produce rental housing affordable to our Nation's workforce.

Designed to complement the successful Low-Income Housing Tax Credit (LIHTC), the MIHTC program would enable State housing agencies to issue credit allocations to developers that would subsequently be sold to investors. Investors would receive a dollar-for-dollar reduction in their Federal tax liability over a 15-year period, and developers would invest the equity raised to build apartments. The equity raised would cover 50 percent of the cost of constructing of qualifying units. A development project eligible for MIHTC would have to set aside 60 percent of units for households earning 100 percent or less of Area Median Income (AMI) and must be kept affordable for up to 30 years.

Housing affordability is a significant challenge facing many American families. The U.S. needs to build 4.3 million more apartments by 2035 to meet the demand for rental housing. This includes 600,000 units (total apartments) to fill the shortage from underbuilding after the 2008 financial crisis. Underproduction of housing has translated to higher housing costs—resulting in a decline of 4.7 million affordable apartments (monthly rents less than $1,000) from 2015–2020.

Affordability challenges are not unique to households receiving Federal subsidies. In fact, solidly middle-income households are facing constraints. According to the U.S. Census Bureau's Survey of Market Absorption, the median asking rent for apartment units completed in the third quarter of 2022 was $1,805, a 27-percent increase from the same period in 2017. NMHC calculates that for a renter to afford one of those units at the 30 percent of income standard, they would need to earn at least $72,200 annually. Thus, this issue impacts those supporting the very fabric of communities nationwide, including teachers, firefighters and nurses.

The Middle-Income Housing Tax Credit would help build housing that is affordable to a wide range of income levels at a time such housing is increasingly difficult to afford.

ADAPTIVE REUSE

Given the Nation's shortage of affordable rental housing, many are considering turning unused and underutilized commercial real estate structures, including offices, hotels, and retail into housing. Not only would such repurposing help address the Nation's housing supply challenge, but it would also create jobs and boost local property tax revenues.

A large portion of commercial real estate space could potentially be available to be converted into housing.

According to a February 2023 study sponsored by NMHC and the Urban Land Institute's Terwilliger Center for Housing, JLL Research shows that between the advent of the COVID–19 pandemic and the second quarter of 2022, office buildings delivered in 2015 or later absorbed 86.8 million square feet of space. In contrast, pre-2015 office buildings had net negative absorption of 246.5 million square feet, 80 percent of which was attributable to buildings delivered in 1980 and earlier.

Changing consumer preferences and online shopping are also changing the real estate landscape. Estimates show between several hundred million and 1 billion square feet of surplus and obsolete retail space. Slower post-pandemic business travel is also challenging a portion of the Nation's hotel stock.

Unfortunately, converting commercial real estate into housing can be extremely challenging and more complicated than typical ground-up development. Costs associated with property acquisition and conversion, including addressing structural building issues (*e.g.,* beams, columns, ceiling heights, and floor layouts), can quickly add up and make the difference between a viable or unfeasible project. This is in addition to other barriers that may arise, including permitting and zoning rules.

A Federal tax incentive to encourage property conversions would be greatly beneficial in overcoming these obstacles and spurring additional housing supply. In fact, research commissioned by NMHC/NAA shows that the Nation will need to build 4.3 million new apartment homes by 2035.

In addition to ensuring a Federal tax incentive is sufficiently robust to account for barriers to property conversions, NMHC/NAA encourage policymakers to structure a tax incentive to enable:

- All types of commercial property (*e.g.,* offices, retail, and hotels) to qualify for conversion;
- REITs, which own approximately 15 percent of U.S. commercial real estate, to utilize the incentive;
- Other tax incentives, such as the Low-Income Housing Tax Credit and energy tax benefits, to be used in conjunction with the incentive; and
- Government buildings to qualify for conversion.

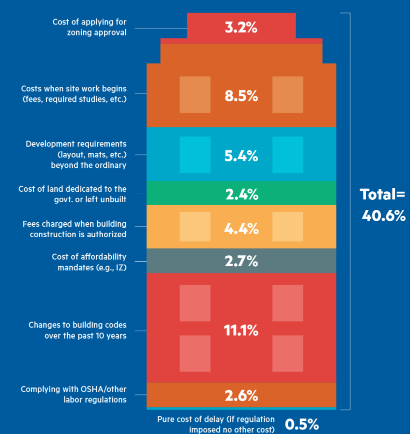
Regulations Account for 40.6% of Multifamily Development Cost, Driving Up Housing Costs and Worsening Affordability

Multifamily developers are subject to a wide range of regulations at all levels of government. While some are necessary for the health and safety of America's renters, many are not.

In addition, neighborhood opposition and affordable housing mandates can sometimes deter development altogether.

Research by the National Multifamily Housing Council (NMHC) and the National Association of Home Builders (NAHB) quantifies just how much those regulations drive up costs.

AVERAGE COST OF REGULATION AS A SHARE OF TOTAL MULTIFAMILY DEVELOPMENT COST



Note: Averages are across all multifamily properties, even those not subject to a particular type of regulation. Those are factored in as "0" when calculating.

Governments Impose Costs, But Policymakers Can Also Reduce Them Through Regulatory Reform

Examining whether some of the fees/requirements associated with these regulations are truly necessary is one way to make a dent in the affordability problem

BUILDING CODES

Changes over the past 10 years are the largest regulatory driver of development costs.

Average Cost: 11.1%

ZONING

Very little land in the U.S. is zoned for "by right" apartment development. 94% of developers reported they must dedicate resources to getting land rezoned.

Average Cost: 3.2%

PUBLIC LAND/OPEN SPACE

Local governments often require developers to donate a portion of the land for its use or leave it unbuilt.

Average Cost: 2.4%

DESIGN CHANGES

Local governments also often require developers to add certain features to their projects – such as energy-efficiency upgrades – or comply with specific design requirements.

Average Cost: 5.4%

DELAYS

Navigating the approval process, waiting for permits and inspections makes the development process take longer and time is money.

Average Cost: 0.5%

LOCAL FEES

Once developers start preparing the land for construction, local governments often impose impact fees (to be used for capital improvements, utility impact fees, specialized environmental or other impact studies).

Average Cost: 8.5%

They can also charge building permit and other fees before building construction can begin. **Average Cost: 4.4%**

Community Opposition Imposes Real Costs

75% of respondents said they encountered "Not In My Backyard" (NIMBY) opposition to their proposed development.

Confronting NIMBYISM adds an average of 5.6% to the development cost and delays completion of the housing by an average 7.4 months.

"Quick-Fix" Affordability Mandates Make Housing More Expensive and Deter Development

Inclusionary Zoning. Mandates to require a certain number of apartments to have below market rents, mean higher rents for the rest. **Cost: 7.6% Rent Increase**

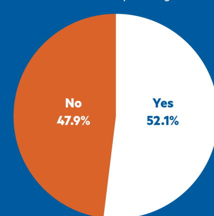
Rent Control and IZ deter some construction altogether. Developers simply avoid communities with those requirements. This translates into housing not being built in many areas where it is so desperately needed.

This translates into housing not being built in many areas where it is so desperately needed.

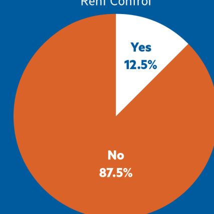
SOME MULTIFAMILY DEVELOPERS AVOID BUILDING IN JURISDICTIONS WITH THESE POLICIES

Will You Build if Affordable Housing Mandates Are Required?

Inclusionary Zoning



Rent Control



Source: NAHB and NMHC.

Identifying duplicative and unnecessary regulatory costs and combatting NIMBYism are key factors as we work to address the nation's housing affordability crisis.

Learn more at **www.nmhc.org/cost-of-regulations**

NATIONAL MULTIFAMILY HOUSING COUNCIL

NMHC.ORG

NMHC Quarterly Survey of Apartment Construction & Development Activity (December 2022)

December 19, 2022

The December 2022 Quarterly Survey of Construction & Development Activity (Construction Quarterly Survey for short) was conducted from December 5 – 15, 2022 and received 90 responses from leading multifamily construction and development firms. Historical data from 2022 surveys for all questions are also available in a downloadable spreadsheet.

Average Materials Price Change in 4Q 2022 Sr

↑ **9%**
Exterior Finishes & Roofing

↑ **13%**
Electrical Components

↑ **9%**
Appliances

↑ **9%**
Insulation

↓ **5%**
Lumber

Full Data Available here: https://www.nmhc.org/globalassets/research--insight/construction-survey/2022/nmhc-quarterly-apartment-construction-survey-data-spreadsheet-122022.xlsx

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PERMITTING AND STARTS

During the December 2022 Construction Quarterly Survey, 84 percent of respondents reported experiencing construction delays over the last 3 months. Of those experiencing delays, 84 percent reported experiencing permitting delays, and 79 percent reported delays in starts. These numbers are fairly similar to those reported last quarter, indicating that delays are still a common feature of the current development environment.

Respondents experiencing delayed starts were mostly likely to blame permitting, entitlement, and professional services as a cause (46 percent of respondents, down from 54 percent in the previous quarter). Economic uncertainty was cited as the second most common cause for delays with 39 percent of respondents reporting. Although this is down from 41 percent in the previous quarter, it still indicates that Federal monetary policy is influencing the industry at large.

Additionally, the availability of construction financing, or lack thereof, continues to be of primary concern, as 29 percent of respondents cited this as a contributing factor to delayed starts. Finally, 30 percent of respondents attributed delays to materials sourcing and delivery.

Over the past 3 months, how long, on average, have municipalities reported it would take before you receive building permits?

	June 2022	September 2022	December 2022
Up to 2 Months	13%	2%	12%
3–4 Months	23%	29%	36%
5–6 Months	37%	24%	22%
7–8 Months	10%	7%	7%

	June 2022	September 2022	December 2022
9+ Months	10%	22%	12%
N/A	7%	15%	11%

Thirty-eight percent of respondents reported jurisdictions imposing additional project requirements unrelated to actual project construction, down from 39 percent in the previous quarter. Most notably, respondents mentioned affordability requirements with some also citing public infrastructure improvements and open space preservation.

MATERIALS AND PRICING

Overall, 76 percent of respondents reported experiencing deals repricing over the last 3 months. Of those respondents, 57 percent reported that they have experienced deals repricing up, down from 76 percent of respondents who said the same in September. Of those experiencing repricing, either up or down, respondents reported an 8 percent average increase over the last 3 months, down from 9 percent in the previous quarter.

Respondents reported an average drop in lumber prices for the third straight quarter, down 5 percent over the last 3 months. Prices for other essential products continued to see increases. Over the last 3 months, respondents reported a 9 percent average increase in the price of exterior finishings and roofing, a 13-percent increase in electrical components, a 9-percent increase in appliances, and a 9-percent increase in insulation, all larger increases than reported during the previous quarter.

A sizeable portion of respondents reported using alternative brands or suppliers to mitigate price increases and supply shortages for exterior finishes and roofing (46 percent) as well as for appliances (30 percent). For the second straight quarter, respondents reported utilizing escalation clauses at lower rates than in the previous quarter for all materials. However, unlike the previous quarter, respondents reported utilizing design changes much less frequently over the last 3 months for all materials. Additionally, the share of respondents who reported that this question did not apply to them increased significantly for both insulation (an increase from 15 percent to 32 percent) and lumber (17 percent to 30 percent).

Which of these approaches have you adopted to mitigate the price increases/supply shortages for each material?

(multiple selection—totals will not equal 100%)

	Exterior Finishes and Roofing	Electrical components	Appliances	Insulation	Lumber
Used alternative brands or suppliers	46%	27%	30%	13%	6%
Used alternative product/material types	34%	22%	12%	8%	6%
Made design changes	35%	19%	10%	7%	6%
Changed purchasing schedules including pre-purchasing and/or warehousing products/materials	33%	38%	20%	13%	20%
Given greater focus on escalation clauses and acceptance of higher escalations	23%	20%	10%	8%	10%
N/A	10%	11%	20%	32%	30%

To gain further understanding of other materials of issue, respondents were asked about a more extensive list of common products and materials used in development, seen in the table below. As supply chains recover, respondents reported using fewer alterations for all products compared to last quarter except for copper and brass mill shapes and exterior finishes.

For which materials have you made alterations or used alternative products/materials?

(multiple selection—totals will not equal 100%)

	June 2022	September 2022	December 2022
Lumber	20%	22%	8%
Plywood	13%	15%	8%
Interior wood trim	23%	17%	6%
Copper and brass mill shapes	10%	2%	3%
Steel mill products	17%	12%	10%
Hardware—locks, door/window hardware, cabinet hardware	43%	32%	30%
Lighting fixtures	43%	49%	34%
Exterior finishes	43%	29%	32%
Electrical components—panels and items with chips	33%	32%	31%
Roofing	13%	34%	19%
Appliances	40%	32%	31%
Insulation	10%	17%	10%
Ready-mix concrete	3%	7%	6%
Other	7%	5%	2%

LABOR AND LOGISTICS

Almost two-thirds of respondents (64 percent) reported construction labor availability to be roughly the same as it was 3 months ago. Only 10 percent of respondents reported construction labor to be more available compared to 3 months ago, down from 11 percent in September, while 21 percent of respondents reported construction labor to be less available, down from 32 percent. All of this might suggest that the tight construction labor market is still gradually easing.

However, 36 percent of respondents reported that construction labor costs increased more than expected during Q4 2022, up from 21 percent in the previous quarter. Forty-six percent of respondents said that costs increased as expected, while only 5 percent said costs did not increase, down from 11 percent in September.

Given current challenges in the importation and transportation of goods, what are you doing to mitigate the negative impacts of these conditions?

(multiple selection—totals will not equal 100%)

	June 2022	September 2022	December 2022
Sourcing more products/materials domestically	33%	33%	30%

Given current challenges in the importation and transportation of goods, what are you doing to mitigate the negative impacts of these conditions?—Continued

(multiple selection—totals will not equal 100%)

	June 2022	September 2022	December 2022
Sourcing more products/materials from Canada	4%	4%	0%
Sourcing more products/materials locally or from specific domestic regions	11%	22%	20%
Using alternative products/materials	41%	37%	40%
Other	11%	4%	9%

Overall, there was no indication that developers are shifting greater attention to any one particular market in search of more projects. 46 percent of respondents said that the question was not applicable to them, up from 44 percent last quarter. However, 7 percent of respondents did say they were seeking out more projects in the Southeast (Atlanta, Charlotte, Orlando, etc.) and Southwest (Phoenix, etc.). Respondents commonly mentioned cities such as Charlotte, Raleigh, Tampa, Nashville, Phoenix, and Las Vegas as places of increased interest.

When asked about regions where they are no longer seeking projects, 51 percent of respondents said that the question was not applicable to them. A small portion of respondents (6 percent) said they were no longer seeking out projects in the southwest coast (LA, San Diego, etc.) and a select few (4 percent) said the same about the northwest coast (San Francisco, Seattle, etc.).

SECTION 8 HOUSING CHOICE VOUCHER PROGRAM

The section 8 housing choice voucher program has long served as America's primary method of rental assistance. Funded by the U.S. Department of Housing and Urban Development and administered by local public housing authorities, the program provides subsidized rents for qualifying low-income families in private rental housing, including apartments.

This public-private partnership has the potential to be one of the most effective means of addressing our Nation's affordable housing needs and supporting mixed-income communities. However, the program's potential success is limited by too many inefficient and duplicative requirements, which discourage private providers from accepting vouchers. These include a required three-way lease between the provider, resident and the public housing authority; repetitive unit inspections; resident eligibility certification; and other regulatory paperwork. Collectively, these make it more expensive for a private owner to rent to a section 8 voucher holder.

The program has also been plagued with a flawed and volatile funding system that has undermined private sector confidence in the program. With Congress focused on austerity measures, insufficient funding is expected to be worse in the near-term budget cycles. Common-sense reforms that could help control costs, improve the program for both renters and property owners, and increase private housing participation include: putting a reliable funding formula in place; and further streamlining the property inspection process.

It is also imperative for lawmakers to reinforce the voluntary nature of the program. Congress specifically made participation voluntary because of the regulatory burdens associated with it. However, State and Federal Government are enacting laws that make it illegal for a private owner to refuse to rent to a section 8 voucher holder. Recent examples include "source of income discrimination" provisions passed by a number of cities. While often well intentioned, such mandates are self-defeating because they greatly diminish private-market investment and reduce the supply of affordable housing.

QUESTIONS SUBMITTED FOR THE RECORD TO SHARON WILSON GÉNO

QUESTIONS SUBMITTED BY HON. MIKE CRAPO

Question. According to your organization, the National Multifamily Housing Council, "like-kind exchange rules play a crucial role in supporting the multifamily sector." Since the hearing, the Biden administration released its Fiscal Year 2024 budget, which includes a proposal to restrict like-kind exchanges.

Can you describe the impact this proposal would have on the supply of affordable housing?

Question. The Fiscal Year 2024 budget proposal would sharply curtail like-kind exchanges by limiting deferral of gain to $500,000 for single taxpayers and $1 million for married taxpayers filing a joint return. This proposal would be devastating on investment in multifamily housing, especially affordable rental housing, at a time when we need more resources to meet the need for housing. Enacting this proposal at this time would be particularly damaging to the multifamily capital markets, given the high interest rate environment that is already making it challenging to finance new multifamily housing building. The like-kind exchange provision's incentive to invest in rental housing is particularly critical given research commissioned by NMHC and NAA that shows the Nation will need 4.3 million new apartments by 2035. Disrupting the capital markets with a significant change in tax policy will interrupt new multifamily construction starts and put us even further behind in meeting the need for new apartments.

Like-kind exchange rules play a crucial role in supporting much-needed investment in the multifamily sector by encouraging investors to remain invested in real estate while still allowing them to balance their investments to shift resources to more productive properties, change geographic location, or diversify or consolidate holdings. Without like-kind exchanges, property owners are deterred for tax reasons from selling assets that are in need of capital investment. Exchange rules allow those owners to transfer the property to new owners who can invest the necessary capital to revitalize the asset. Thus, like-kind exchange rules facilitate job-creating property upgrades and improvements while also ensuring units are preserved and not lost from the affordable housing stock. Enacting the budget proposal could also result in owners needing to raise rents significantly in order to offset the tax consequences and otherwise meet their obligations to their lenders and investors.

In addition, like-kind exchanges are an especially important tool for preserving and generating new affordable housing where other incentives do not assist. For example, tax incentives like the Low-Income Housing Tax Credit do not apply to land acquisition costs. However, section 1031 can enable investors to acquire land for the development of new housing, thereby making building affordable units more financially feasible.

Finally, it should be noted that like-kind exchanges benefit other commercial real estate segments, including office buildings and senior's housing, while generating substantial economic activity. In fact, according to May 2022 EY research, *Economic contribution of the like-kind exchange rules to the US economy in 2021: An update,* like-kind exchanges are a significant contributor to U.S. economic activity. In fact, businesses that use like-kind exchanges in 2021 supported 447,000 jobs while generating $19.4 billion in labor income. Moreover, suppliers to entities using like-kind exchanges supported 529,000 jobs and $29.1 billion in labor income. On a combined basis, like-kind exchanges supported 976,000 jobs, $48.6 billion in labor income and generated $97.4 billion in value added to the U.S. economy.

Question. The Net Investment Income Tax (NIIT) serves as a surtax on small businesses. The Biden administration's Fiscal Year 2024 budget also includes a proposal to subject active business income to the surtax.

Can you explain how expanding the NIIT to include active investment income would result in higher rents?

Answer. The Fiscal Year 2024 budget proposal to subject active business income to the Net Investment Income Tax while also raising the tax rate to 5 percent would be extremely detrimental to the multifamily industry. Assuming the qualified business income deduction expires at the end of 2025 and that the Fiscal Year 2024 budget proposal to increase the top marginal income tax rate to 39.6 percent and this proposal are enacted, the top marginal income tax rate on active business income would rise from 29.6 percent to 44.6 percent. This would be a staggering 50.7-percent tax increase. In addition, the top capital gains rate would soar and more than double from 20 percent to 44.6 percent under the Biden administration's budget. Both of these proposals would significantly reduce investment returns and, therefore, incentives to invest in multifamily housing. The reduction in investment returns would likely not be borne solely by owners and investors. Instead, these tax increases would, in many cases, be passed on to residents in the form of higher rents. Finally, it must be noted that a tax increase of this magnitude would result in less after-tax income available to maintain and upgrade multifamily properties. Tax policy should be focused on promoting capital investment and housing supply.

Question. In response to the shortage of affordable housing, some States and cities have enacted rent control measures. These approaches vary, but they limit a property owner's ability to respond to market-based rents.

What effects do these policies have on the quantity and quality of housing in tight rental markets?

Answer. Rent control policies have been proven repeatedly to diminish both the supply and quality of multifamily housing. At a time that research from NMHC and NAA shows the Nation will need 4.3 million new apartments by 2035, rent control is particularly pernicious and would actually exacerbate our Nation's housing affordability challenge. Indeed, rent control does not create a single additional home and eventually harms the very people it purports to help by discouraging new apartment housing construction and limiting the financial resources owners have to maintain existing communities. Also, rent control proposals are not targeted at those most in need of affordable housing, thus incentivizing those who could otherwise afford an unrestricted unit to remain in place. Past experiments with rent control have been shown time and time again to result in unhealthy conditions and deteriorating neighborhoods. Research has also found that rent control and stabilization efforts deflate property values for surrounding homeowners and in turn, tax revenue to states and local communities resulting in fewer resources to support schools and other community infrastructure investments.

To provide additional details on these conclusions, I am attaching a study completed by the NMHC Research Foundation, *The Impacts of Rent Control: A Research Review and Synthesis,* which examines the research literature underpinning these findings.

I would also add that Lee Seltzer of the Federal Reserve Bank of New York in February 2023 issued a revised staff report, *Financing Constraints and Maintenance Investments: Evidence from Apartments,* that is instructive. The paper concludes, "more financially constrained buildings incur more code violations." Significantly, based on his review of the impact of rent control and rent stabilization programs in New York City, Seltzer finds "code violations increase for affected buildings relative to controls, and the effect is concentrated among more financially constrained buildings."

Finally, NAA conducted interviews with professionals who own, manage, or develop rental housing properties in Santa Barbara/Santa Ana, CA, Portland/Eugene, OR, and St. Paul, MN, and garnered findings buttressing the conclusion that rent control policies negatively impact investment in existing and future multifamily housing. One of the key findings from that research was that owners and operators reported that their plans to invest in or develop the market dramatically shifted after rent control laws were put into effect: more than two-thirds of housing providers have reduced or expect to reduce development or investment plans as a result of rent control policies; and over half have considered selling off properties. This is clearly seen when building permit applications dropped by 80 percent in St. Paul when its rent control initiative passed during a period where building permits were increasing significantly elsewhere around the country. Additionally, NAA's interviews reveal that the majority of housing providers have had to or expect to defer maintenance and improvement projects in jurisdictions where rent control is enacted.

The bottom line is that rent control both constrains housing supply and reduces investment in rental housing, harming residents.

QUESTIONS SUBMITTED BY HON. SHELDON WHITEHOUSE

Question. Rhode Island college graduates of the class of 2020 graduated with an average of $36,791 in outstanding student loan debt. At the same time, the National Association of Realtors reports that housing affordability reached the worst level on record in the fourth quarter of 2022. Last Congress, I introduced several bills to ease the burden of student loan debt, including canceling student loans for front-line health-care workers and teachers.

For those with tens of thousands—and in some cases hundreds of thousands—of dollars of student loan debt, how does their debt affect their ability to buy a home or afford rent?

Answer. I would like to answer your first two questions together as they relate to one another. The costs of repaying student loans and child care can undoubtedly impact the ability to afford rent or purchase a home. While I am not an expert on either child care or student loan policy, I can say that Congress should focus on policies to boost the supply of multifamily housing. More multifamily housing would translate into additional housing units that individuals and families can rent at a price they can afford. This, in turn, would leave individuals and families with added financial resources to finance the costs of student loans, childcare, and other priorities.

Research from NMHC and 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. It is imperative we build this housing, which would better guard against large rent increases in the future, as we would have sufficient housing that meets the needs of our growing population in the years to come. The apartment industry stands ready to help meet the rising need for attainably priced rental housing, but we cannot do it alone. It requires a strong partnership between the private and public sectors. 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 affordability challenges now and in the future. In addition to increased supply, we must also deliver short-term solutions to renter populations that need support. Increased subsidies and emergency housing support for those of modest means are critical to keeping struggling renters and their families afloat.

Question. Over the past 2 decades, the growing cost of child care has outpaced inflation. Child-care costs for Rhode Island families can now reach more than $10,000 per year annually for each child, and many families now are paying nearly 30 percent of their incomes on child care. At the same time, the National Association of Realtors reports that housing affordability reached the worst level on record in the fourth quarter of 2022. Indeed, according to HousingWorksRI, there are currently no communities in Rhode Island where families earning the State's median income or less can afford to buy a home, and there's only one community—Burrillville—where Rhode Islanders can affordably rent.

How does the high and growing cost of child care affect families' ability to buy a home or afford rent?

Answer. Please see response to question above.

Question. Rhode Island is the 2nd-densest State in our Union, second only to New Jersey.

For States like mine, where people live in much closer proximity to each other than elsewhere in the Nation but which still have a housing shortfall, what are the best practices and reforms for encouraging affordable housing development while still preserving livable communities and local character?

Answer. The most effective way to address our Nation's housing shortage of housing is to significantly increase housing supply. Research from NMHC and 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 I certainly appreciate concerns about preserving the local character of communities, without adequate housing supply, communities simply cannot support job creation and economic growth. Without such job creation and economic activity, communities will simply not realize their full potential in our Nation's dynamic economy. Thus, communities should adapt to current realities and do all that is possible to provide safe and decent housing to all residents at a price they can afford.

A number of States are currently considering or have enacted new legislation designed to make the development of more housing units easier, incentivize affordable housing development, and prevent the implementation of rent control by local communities that will exclude those that cannot access housing, including seniors, blue-collar workers, and people of color. The States of Florida, Colorado, and New York currently are contemplating various legislative proposals designed to support public-private partnerships that would incentivize increasing housing supply, while considering the different local conditions that vary from community to community.

Question. The Low-Income Housing Tax Credit is one of the primary Federal programs for creating and preserving affordable housing units. In Rhode Island, nearly 70 percent of new affordable units are financed using LIHTC. Last Congress, I cosponsored Senator Cantwell's Affordable Housing Credit Improvement Act, which would make a number of changes to LIHTC to further incentivize the building of affordable housing.

How would the bill bolster our affordable housing supply, and are there improvements to the program that weren't included in the bill that the Senate should consider?

Answer. The Affordable Housing Credit Improvement Act (AHCIA) would boost affordable housing supply through two primary provisions. First, it would make permanent the now-expired 12.5-percent increase in Low-Income Housing Tax Credit (LIHTC) authority for 2018–2021 to enable the production of new units and further augment credit authority by 50 percent. Second, the bill would lower the Private Activity Bond financing threshold to 25 percent from 50 percent required to receive the full amount of 4-percent Low-Income Housing Tax Credits.

These two provisions in AHCIA would have a significant impact on the ability of the LIHTC program to deliver affordable housing. In December 2022, Novogradac estimated that over the 2023–2032 period, 1.93 million additional affordable homes, housing 4.5 million low-income people, could be financed across the United States and territories. by AHICA provisions expanding LIHTC authority and reducing the Private Activity Bond financing threshold to 25 percent. Over that period, this enhanced financing could also create nearly 3 million jobs, more than $335 billion in wages and business income, and $116 billion in tax revenue.

In terms of improvements to the LIHTC program, we would be happy to discuss options in a number of areas, but most significantly, we would support increasing the Private Activity Bond volume cap to enhance the utilization of 4-percent Low-Income Housing Tax Credits. According to March 2023 data by Tiber, Hudson, and Novogradac, 18 States and Washington, DC, are oversubscribed. Authorizing these States to issue additional Private Activity Bonds would enable the financing of additional 4-percent LIHTC projects. Additionally, Congress could consider exempting from the bond cap multifamily bonds used to rehabilitate existing Low-Income Housing Tax Credit properties. This would be beneficial in preserving existing affordable housing units that are aging out of affordability restrictions.

Finally, I would add that Congress should look to other tax incentives to boost the supply of multifamily housing. In particular, I would urge Congress to:

(1) Enact the Middle-Income Housing Tax Credit to support workforce housing that Senate Finance Committee Chair Wyden has introduced as part of the Decent, Affordable, Safe Housing for All (DASH) Act (S. 680) to address the shortage of workforce housing available to American households. Estimates indicate the proposal could finance 344,000 affordable rental homes over 10 years while also creating 560,400 jobs and generating over $63.4 billion in wages and business income;

(2) Enhance Opportunity Zones to incentivize the rehabilitation and preservation of multifamily buildings. In this regard, Congress should consider statutory modifications to reduce the 100-percent basis increase excluding land necessary to qualify a multifamily rehabilitation project for Opportunity Zone purposes; and

(3) Encourage the adaptive reuse of underutilized commercial properties into multifamily housing. Notably, Senator Stabenow, joined by Senator Brown 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. This Congress, Representative Gomez has 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, among other things, enable other types of commercial properties (*e.g.,* shopping centers and hotels) to qualify for the tax incentive; ensure REITs could utilize the benefit; and clarify that the credit does not reduce other tax benefits including the Low-Income Housing Tax Credit.

Additionally, the multifamily industry would encourage Congress to explore whether tax-exempt Private Activity Bonds could be used as a means of promoting adaptive reuse. Housing finance agencies could issue such bonds to help facilitate adaptive reuse of underutilized properties, particularly in areas that have a plan to track discriminatory land use policies as envisioned by the Yes In My Backyard (YIMBY) Act (S. 1614/H.R. 3198) introduced last Congress by Senators Young and Schatz and Representatives Kilmer and Hollingsworth and strongly supported by NMHC and NAA.

QUESTIONS SUBMITTED BY HON. TODD YOUNG

Question. Later this spring, Senator Cantwell and I will be reintroducing our Affordable Housing Credit Improvement Act (AHCIA), which includes key production provisions that will help affordable housing production across the country. Additionally, the bill will enact a rural basis boost of up to 30 percent, expanding the equity available to finance important affordable housing developments in areas where production has been difficult, including so many rural Hoosier communities that many of my constituents are proud to call home.

Can you explain how this basis boost proposal, and other important provisions of the AHCIA, can help address these challenges?

Answer. The rural basis boost proposal would help boost rural housing production through the Low-Income Housing Tax Credit by increasing the amount of tax credits and resulting equity financing dollars that can flow to such projects. Put simply, the increase in basis translates into eligibility for additional credits. These credits then offset production costs and, thereby, enable the production of additional affordable multifamily housing units. NMHC and NAA strongly support this proposal and look forward to working with you to ensure that the tax credit works in all areas across the Nation, including rural areas where it can be more difficult to build housing, so that all families can find safe and decent housing at a price they can afford.

In terms of producing affordable housing more generally, the Affordable Housing Credit Improvement Act (AHCIA) is absolutely essential to enact, and the multifamily housing is grateful that you and Senator Cantwell will be reintroducing it later this spring. We strongly support this bill.

AHICA would boost affordable housing supply through two primary provisions. First, it would make permanent the now-expired 12.5-percent increase in Low-Income Housing Tax Credit (LIHTC) authority for 2018–2021 to enable the production of new units and further augment credit authority by 50 percent. Second, the bill would lower the Private Activity Bond financing threshold to 25 percent from 50 percent required to receive the full amount of 4-percent Low-Income Housing Tax Credits.

These two provisions in AHCIA would have a significant impact on the ability of the LIHTC program to deliver affordable housing. In December 2022, Novogradac estimated that over the 2023–2032 period, 1.93 million additional affordable homes, housing 4.5 million low-income people, could be financed across the United States and territories by AHICA provisions expanding LIHTC authority and reducing the Private Activity Bond financing threshold to 25 percent. Over that period, this enhanced financing could also create nearly 3 million jobs, more than $335 billion in wages and business income, and $116 billion in tax revenue.

Question. I know you have experience working with veterans through your work with Volunteers of America.

Can you please discuss the impact the Low-Income Housing Tax Credit has on safely housing and providing needed services for veterans?

Answer. The Low-Income Housing Tax Credit (LIHTC) plays a significant role in providing quality housing to our Nation's veterans. In many cases, veterans can use Veterans Affairs Supportive Housing (VASH) vouchers to secure residency at LIHTC properties. These vouchers ensure veterans can find housing and receive critical case management and clinical services provided by the Department of Veterans Affairs. I would note that Congress's enactment of so-called income averaging that enables the LIHTC program to serve individuals earning up to 80 percent of area median income was a critical step in enabling veterans using VASH vouchers to secure housing at LIHTC properties. Prior to that change, many veterans did not qualify for LIHTC housing because their incomes exceeded statutory limits.

Finally, I would note that the Affordable Housing Credit Improvement Act includes a proposal that would provide a basis boost for LIHTC projects serving extremely low-income households. Under this proposal, LIHTC projects with at least 20 percent of units serving households earning no more than 30 percent of area median gross income or whose income does not exceed the Federal poverty line, would be eligible for 150 percent of basis with respect to that portion of the project. This proposal would be beneficial in ensuring that veterans without VASH vouchers, among others, could secure housing at LIHTC properties.

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GUIDANCE

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The Impacts of Rent Control: A Research Review and Synthesis

By: Lisa Sturtevant, Ph.D.

About NMHC

Based in Washington, DC, the National Multifamily Housing Council (NMHC) is a national association representing the interests of the larger and most prominent apartment firms in the U.S. NMHC's members are the principal officers of firms engaged in all aspects of the apartment industry, including ownership, development, management and financing. NMHC advocates on behalf of rental housing, conducts apartment related research, encourages the exchange of strategic business information and promotes the desirability of apartment living. Nearly one-third of Americans rent their housing, and almost 15 percent live in an apartment (buildings with five or more units). For more information, contact NMHC at (202) 974–2300, email the Council at info@nmhc.org, or visit NMHC's website at *www.nmhc.org.*

About the NMHC Research Foundation

In 2016, NMHC formed a nonprofit (501(c)(3)) Research Foundation to produce research that will further support the apartment industry's business interests. The work supported by the NMHC Research Foundation raises the industry's standard of performance and encourage worldwide investment in the sector. The NMHC Research Foundation funds unique and original research on a wide range of topics, including issues related to development and redevelopment activity, affordable and workforce housing, demographics, tax policy, regulatory environment and zoning and land use, among others. For more information, visit *www.nmhc.org/Research-Foundation.*

About the Author

Dr. Lisa Sturtevant has been involved in research and analysis on local economic, demographic, and housing market conditions for more than 15 years. As president of Lisa Sturtevant and Associates, LLC, she leads housing needs assessments and planning projects for local communities throughout the country. In addition, she conducts special studies on housing issues for local and national organizations.

Introduction

Rent control laws limit the amount of rent a landlord can charge, either by setting a rent ceiling and/or by limiting rent increases. The latter approach is sometimes referred to as a rent stabilization policy. Most rent control or rent stabilization policies also set rules for the conditions under which a landlord can evict a tenant.

Many policies allow landlords to petition for greater rent increases if they make significant improvements to the property. New York City's rent control and rent stabilization laws are well known, but rent control has also been adopted in cities in California, New Jersey, Massachusetts, Maryland, and in the District of Columbia. There are initiatives underway presently to expand rent control in California (where rent control was restricted in 1995 by the Costa-Hawkins Rental Housing Act) as well as Illinois, Washington, and Oregon.

Renewed interest in rent control is a reaction to growing housing affordability challenges across the country and in high-cost coastal markets, in particular. As rents continue to rise, rent control is being advocated by some as a mechanism to help mitigate the rental affordability challenge and make it easier for lower-income individuals and families to find housing they can afford in high-cost regions.

Imposing limits on rents would seem to be a logical way to keep housing costs low for people who need affordable housing. However, there are significant problems associated with rent-control programs. Economists nearly universally agree that rent ceilings reduce the quantity and quality of housing and that even more moderate forms of rent stabilization have efficiency challenges and negative housing market impacts.[1]

This report synthesizes the empirical research on the effects of rent control and rent stabilization on individual renters and communities, building on prior evaluations of the rent-control literature.[2] This report does not include a review of every rent control study. Rather, the research included in this review includes only empirical studies of rent control and rent stabilization programs in the U.S. Theoretical studies were excluded, as were studies that simply provided a descriptive analysis of a rent-control program. Non-U.S. studies were excluded with the presumption that housing markets and housing policy are substantially different in other countries that have implemented rent control. The vast majority of the studies included in this synthesis were published in peer-reviewed journals, though other studies (*e.g.,* consulting reports) were included if they met the other criteria.

The earliest study included in this synthesis was published in 1972 and the latest was released in 2017. The reviewed research includes case studies of programs in a single market—New York, Boston, Los Angeles, San Francisco, Santa Monica, Washington, DC—as well as fewer studies that take a cross-sectional approach across markets. Most of the research employed various multivariate statistical techniques, while a small handful of studies were able to take advantage of a policy change that created a natural experiment (see Table 1).

Table 1. Empirical Studies of Rent Control and Rent Stabilization (By Publication Date)

Authors (Date)	Geographical Areas
Olsen (1972)	NYC
Rydell et al. (1981)	Los Angeles
Fallis and Smith (1984)	Los Angeles
Mengle (1985)	Multiple
Navarro (1985)	Cambridge, MA
Linneman (1987)	NYC
Peat Marwick (1988)	NYC
Gyourko and Linneman (1989)	NYC
Ault and Saba (1990)	NYC
Gyourko and Linneman (1990)	NYC
Levine, Grisby, and Heskin (1990)	Santa Monica
Turner (1990)	Washington, DC
Rappaport (1992)	NYC
Caudill (1993)	NYC

[1] Jenkins, Blair. 2009. Rent Control: Do Economists Agree? *Econ Journal Watch* 6(1): 73–112.
[2] In addition to Blair (2009), *see also* Turner, Bengt and Stephen Malpezzi. 2003. A Review of Empirical Evidence on the Costs and Benefits of Rent Control. *Swedish Economic Policy Review* 10: 11–56.

Table 1. Empirical Studies of Rent Control and Rent Stabilization (By Publication Date)—Continued

Authors (Date)	Geographical Areas
Honig and Filer (1993)	NYC
Moon and Stotsky (1993)	NYC
Ault, Jackson, and Saba (1994)	NYC
Nagy (1995)	NYC
Malpezzi (1996)	Multiple
Gissy (1997)	Multiple
Grimes and Chressanthis (1997)	Multiple
Nagy (1997)	NYC
Early and Phelps (1999)	Multiple
Early (2000)	NYC
Glaeser (2002)	California, New Jersey
Glaeser and Luttmer (2003)	NYC
Krol and Svorny (2005)	New Jersey
Sims (2007)	Boston
Sims (2011)	Boston
Diamond, McQuade, and Qian (2017)	San Francisco

What Is Rent Control?

Rent control often refers to laws that set caps on rents, while rent stabilization generally refers to policies that regulate how often and how fast rent levels can increase.[3] Generally adopted at the municipal level, rent control laws often are coupled with rules related to tenant eviction and to exceptions to the rent levels or increases under certain circumstances. New York City has the most established rent-control laws, but there are currently rent-control policies in place in communities in California, New Jersey, Maryland, and the District of Columbia.

Local rent control or rent stabilization polices can vary on different dimensions:

- Regulation of rent *level* or rates of rent increases and how these levels or rates are set;
- Types of residential buildings or units subject to rent control, based on the age or size of the building, and, consequently, what share of the locality's rental stock is subject to rent control;
- Rules on rent changes upon a tenant vacating a rent-controlled unit (*i.e.,* vacancy allowances/vacancy decontrol policies); and
- Eviction rules that outline the circumstances under which landlords of rent-controlled buildings can turn out a tenant.

The variation in rent control and rent stabilization policies has important implications for understanding findings from the research on policy impacts and for generalizing specific findings to other existing and potential rent control policies. Market conditions also matter when measuring the effects of rent control or rent stabilization, as does the length of time the law has been in place. Furthermore, rent control

[3] Policies are sometimes referred to as "first-generation" and "second-generation" rent control to distinguish between stricter programs with rent caps and more moderate programs that regulate rent increases and provide tenant protections. In this paper, the term "rent control" is generally used to refer to both types of programs unless otherwise specified.

is one of many different forms of regulation that can impact housing supply and price, and sometimes it can be challenging to isolate rent control's impact.

Key Findings

Even with these caveats, there are several clear and consistent findings about how rent control laws impact residents, landlords and local housing markets:

1. Rent-control and rent-stabilization policies do a **poor job at targeting benefits.** While some low-income families do benefit from rent control, so, too, do higher-income house-holds. There are more efficient and effective ways to provide assistance to lower-income individuals and families who have trouble finding housing they can afford.
2. Residents of rent-controlled units move less often than do residents of uncontrolled housing units, which can mean that rent control causes **renters to continue to live in units that are too small, too large or not in the right locations** to best meet their housing needs.
3. **Rent-controlled buildings potentially can suffer from deterioration or lack of investment,** but the risk is minimized when there are effective local requirements and/or incentives for building maintenance and improvements.
4. Rent-control and rent-stabilization laws lead to a **reduction in the available supply of rental housing** in a community, particularly through the conversion to ownership of controlled buildings.
5. Rent-control policies **can hold rents of controlled units at lower levels** but not under all circumstances.
6. Rent-control policies **generally lead to higher rents in the uncontrolled market,** with rents sometimes substantially higher than would be expected without rent control.
7. There are **significant fiscal costs** associated with implementing a rent-control program.

Impacts of Rent Control

The research on rent control and rent stabilization programs has examined the effects of those regulations in several different areas:

- **Targeting Housing Benefits:** How well do rent-control policies assist the individuals and families most in need of affordable housing?
- **Allocation of Existing Housing Units:** Do rent-control policies lengthen tenancy duration? Do they create a mismatch between units and households?
- **Maintenance and Building Quality:** Does rent control lead to a decline in building maintenance and lower building quality?
- **Housing Availability:** Does rent control reduce the overall supply of rental housing?
- **Rent Levels:** Are rents of controlled units lower than market-rate rents? Does a shortage in housing supply caused by rent control lead to higher rents in the uncontrolled market?
- **Fiscal Impacts:** Do rent control policies lead to lower levels of property tax revenue collected by the municipality? How substantial are administrative costs associated with rent control laws?
- **Homelessness:** Does rent control increase homelessness as a result of reduced housing supply?

The following review assesses the research evidence on each of these issues.

Targeting Housing Benefits

Hypothesis: Limiting rent levels or rent increases under a rent-control law allows lower-income individuals and families to gain access to housing they can afford in high-cost housing markets. Depending on how it is implemented, a rent-control strategy can create and preserve mixed-income neighborhoods and can help promote racial and economic integration.

Alternative: Because rent control creates a limited pool of below-market units, the law creates a system where landlords are incentivized to exercise greater control over tenant selection. Landlords of rent-controlled buildings could make units more readily available to households with particular characteristics (*e.g.,* higher-income households, households without children) or prospective tenants who can pay a fee to apply for rent-controlled units. As a result, rent control may not meet the needs of individuals and families most in need of affordable housing.

Overview of Findings: Rent-control and rent-stabilization policies do a poor job at targeting benefits. While some low-income families do benefit from rent control, those most in need of housing assistance are not disproportionately the beneficiaries of rent control. Furthermore, rent control generally does not lead to more economically and/or racially integrated neighborhoods.

Implications: Rent control/rent stabilization is not an efficient mechanism for helping lower-income households access affordable housing. There are more effective ways to provide assistance to lower-income individuals and families who have trouble finding housing they can afford. For example, researchers point to increasing the number of Federal housing vouchers and expanding the Low-Income Housing Tax Credit (LIHTC) program as more promising ways to create more affordable housing options.

Research Findings on Targeting Housing Benefits

Research demonstrates that New York City's rent-control and rent-stabilization laws are administered indiscriminately and benefits from the programs tend to be quite small and poorly targeted. Based on the research reviewed, the inefficiency in targeting benefits in New York has increased over time.

Using data from 1968,[4] Gyourko and Linneman (1989) found some poorer individuals were benefiting from New York City's rent-control program; however, there was no evidence that the program successfully targeted those most in need, so benefits of rent control were also enjoyed by higher-income households. Using the same data, Olsen (1972) came to a slightly different interpretation, demonstrating that renters who lived in rent-controlled apartments had significantly lower *average* incomes than those in uncontrolled units. However, Olsen (1972) concluded that there was significant variation in the distribution of the benefits of rent control and that New York City's program was "a poorly focused redistribution device."

Looking at data between 1965 and 1968, Ault and Saba (1990) found that residents of rent-controlled apartments tended to be more likely minority and elderly—two groups a rent control policy could want to target. However, over time, they found that the benefit of the rent-control subsidy in New York City was greater for higher-income households than for lower-income or minority households. Furthermore, renters with similar needs or characteristics were very unlikely to receive similar levels of benefits under New York City's rent-control law, indicating that the program did a poor job of targeting assistance.

These early studies of New York generally provide evidence from the city's rent-control law, adopted in the 1940s, rather than the later-implemented rent-stabilization law. Using 1981 data, Linneman (1987) also concluded that both the city's rent-control and rent-stabilization programs were targeted haphazardly, benefiting some low-income households, particularly seniors, but generally doing a poor job at directing housing benefits to those most in need. Early (2000) used data from 1996 and confirmed not only that rent control and rent stabilization in New York City were poorly targeted, but also that the city's laws induced landlords to change the way they recruited tenants, giving preference to older and smaller households. This observation that older households (*i.e.,* seniors) and smaller households (*i.e.,* households without children) were preferred by landlords of rent-controlled properties was also made by Linneman (1987), Gyourko and Linneman (1989), and Ault and Saba (1990).

While New York City's rent-control history is unique in many ways, the lack of efficient targeting of the potential benefits of a rent-control program is observed in other communities. In the Boston metropolitan area, Sims (2007) found that in the late 1980s and early 1990s, lower-income households were not well served by rent-control programs. Specifically, he found that about a quarter (26 percent) of rent-controlled units were occupied by tenants with incomes in the bottom quartile while 30 percent of rent-controlled units were occupied by tenants in the top half of the

[4] The New York Housing Vacancy Survey (NYHVS) was administered in 1968 and 1981 and provided detailed data on residents of rent-controlled, rent-stabilized, and uncontrolled units. Therefore, a number of studies of NYC's rent control programs use 1968 or 1981 data. The NYHVS currently is administered by the U.S. Census Bureau every 3 years to comply with New York State and New York City rent regulation laws.

income distribution. Navarro (1985) had come to a similar conclusion about rent-control programs in the Boston area, examining data from the 1970s.

In her study of Washington, DC's rent-control policy, where about two-thirds of the stock was under control during the 1980s, Turner (1990) concluded that DC's rent-control policy did not benefit renters efficiently or equitably. In particular, the policy benefited renters who remained in their units a long time (including affluent renters) and did not provide assistance to recent or frequent movers (including poor individuals and families at risk of homelessness) who were unable to pay the above-market rents landlords could charge upon a tenant's departure.

A benefit of a rent-control policy could potentially be an increase in economic and racial integration if lower-income households are able to access housing in higher-income neighborhoods. However, there is scant evidence of this benefit in the empirical research. Glaeser (2002) examined whether rent control increased residential integration in eight cities with rent control in California and in seven cities with rent control in New Jersey. In rising cost regions, such as those in California, rent control did increase lower-rent housing options; however, the occupants of rent-controlled units in California and the beneficiaries of living in higher-opportunity neighborhoods tended to be seniors rather than families with children. In New Jersey, where housing markets were on the decline, rent control was actually associated with increased economic segregation in municipalities.

Using earlier data from 1979 and 1987 to evaluate Santa Monica's rent-control policy, Levine, Grigsby, and Heskin (1990) found the city's rent-control program did provide benefits to low-income households in the city, finding no evidence that the city's rent-control policy provided a disproportionate benefit to middle- and higher-income households. However, there was no impact on economic or racial integration in the community as a result of rent control.

Sims (2011) examined whether rent control in Cambridge, MA increased economic and racial segregation and found that rent control appeared to increase the share of minority residents in the city, but it was associated with a decrease in the proportion of very low-income residents. Sims (2011) concluded that the modest impacts on racial integration in Cambridge were overshadowed by the increases in economic segregation in the community.

Allocation of Existing Housing Units

Hypothesis: Rent control acts as a price control, which limits the overall supply of housing and does not allow units to be allocated to the residents who would benefit most since price cannot be used to sort renters into different units. Renters who gain access to rent-controlled apartments stay in those units longer than they would in a market-rate unit, even if the unit is no longer appropriate for their household (*e.g.,* too big or too small, based on changes in household composition).

Overview of Findings: Residents of rent-controlled units are less mobile than residents of uncontrolled housing units, and the benefit of living in a rent-controlled unit causes tenants to remain in their units longer than they would without rent control, leading to a mismatch in unit type or size and the need of the household.

Implications: Reduced mobility caused by rent control may limit the availability of so-called "family-sized" units (*i.e.,* units with three or more bedrooms) if tenants of rent-controlled units remain in units after children have moved out on their own. There could also be instances of housing overcrowding if residents of rent-controlled units stay in homes that are too small as their family grows (*e.g.,* after the birth of a child or when a relative moves in). Reduced mobility associated with rent control could have other impacts.

Tenants of rent-controlled units may be less likely to change jobs or may be more likely to endure long commutes because they do not want to move into a new unit. Rent control may induce people to put off home ownership and to remain renters longer to take advantage of below-market rents. Finally, when residents of rent-controlled buildings stay in their units as their incomes increase, rather than move into units with higher rents, the result is a reduction in the supply of affordable housing available to those with lower incomes.

Research Findings on Allocation of Existing Housing Units

Studies on rent control and rent stabilization in New York City consistently demonstrate that these policies have been associated with reduced residential mobility and a significant "mismatch" between tenants' housing needs and the characteristics of the units. Gyourko and Linneman (1989) used 1968 data to examine the distributional consequences of rent control in New York City, demonstrating that New York

City's rent-control policy led to longer tenures and lower likelihood of home ownership among tenants in rent-controlled units. Ault, Jackson, and Saba (1994) also examined 1968 data and estimated that the typical rent control tenant remained in his or her unit about 18 years longer than an otherwise identical tenant in an uncontrolled unit.

Other research in New York City attempted to differentiate the residential mobility impacts of rent control versus the more moderate rental stabilization program by using later data. Using data from 1981, Linneman (1987) compared length of tenancy among residents living in uncontrolled units with tenancy among those living in units under the city's rent-control law and units subject to the city's later-enacted rent stabilization law.

Residents of strictly controlled rental units received significant rental subsides relative to those of the stabilized and uncontrolled sectors, and that subsidy led to these renters remaining in their units significantly longer than they would otherwise be expected. But Linneman noted that there was no significant difference in the tenancy durations of residents of rent-stabilized units and uncontrolled units. At the time of the data collection (in 1981), New York City's rent-stabilization policy had only been fully implemented for 7 years (since 1974), which may partially explain why no difference between tenants of uncontrolled and rent-stabilized units was found.

Nagy (1995) also compared residential mobility between renters living in rent-controlled units and rent-stabilized units using data from 1978 and 1987 (between 4 and 13 years after full adoption of rent stabilization in New York City). He found that tenants of rent-controlled units were, in fact, significantly less mobile than those living in rent-stabilized units; however, the differences were not so clear after accounting for the differences in the socioeconomic characteristics of the two types of renters. For example, renters living in rent-controlled units were more likely to be White and older compared to rent-stabilized renters, and those characteristics themselves are associated with reduced mobility.

Rappaport (1992) examined the effects rent control had on the probability of rental vacancies and occupant turnovers in New York City, which is a slightly different way of looking at residential mobility and length of tenure. She found that compared to uncontrolled units, a rent-controlled apartment was about 8 percent less likely to turn over in a 3-year period.

Lower levels of residential mobility and longer tenures in current units suggest that tenants of rent-controlled units would be more likely to live in housing that is not optimal either in terms of size or amenities. Using data from the 1990 Census and comparing the New York City apartment market to comparable areas that had not adopted rent control, Glaeser and Luttmer (2003) found that between 15 and 21 percent of New York City apartment renters lived in larger or smaller units than they would if they were living in a city without rent control or rent stabilization (with the range depending on whether unit size was measured by rooms or bedrooms). The authors cautioned that in New York City there also is a "housing misallocation" among both renters in uncontrolled buildings and owners when compared to other markets, suggesting that the New York City market may be generally inducing misallocation of units.

In 1994, San Francisco adopted rent-control protections for small multifamily housing (four units or less) built prior to 1980. Diamond, McQuade, and Qian (2017) compared outcomes for tenants and landlords of small pre-1980 buildings and post-1980 buildings to estimate the impact of rent control on residential mobility. The authors found that residents of rent-controlled buildings were between 10 and 20 percent more likely to stay in their current unit over the study period, with the effects significantly stronger among older households and among households that already had a long tenure in their current unit, two groups that have lower levels of residential mobility even absent having access to a rent-controlled unit.

Washington DC's rent-control law was adopted in 1985 and applied limits on rent increases to all units in buildings built before 1975. In an evaluation of rent control in DC, Turner (1990) found that tenants of rent-controlled units moved less frequently than tenants of other units, concluding that the city's rent control program contributed to the very low rates of residential mobility observed in the city. Turner (1990) did not find evidence of reduced probabilities of home ownership associated with rent control in Washington, DC.

Krol and Svorney (2005) examined the impacts on residential mobility of rent-control programs in New Jersey more implicitly by examining the links between length of commute and presence of rent control. Using data from the 1980, 1990, and 2000 censuses, the authors found a positive and statistically significant relationship between the presence of rent control in a city and commute times for workers who lived in those cities. The municipalities with the most restrictive regulations were associated with the longest average commute times. Krol and Svorney (2005) suggested that in New Jersey, a lack of household mobility was the driver of the longer commute times and concluded that the relative immobility of the population was the factor underlying the relationship they observed between rent control and commute times.

Maintenance and Building Quality

Hypothesis: Limiting rents through a rent-control or rent-stabilization law reduces the return on investments in rental housing and will cause landlords to choose to undermaintain their properties until the output of housing services (as measured by housing quality and amenities) declines to the level that is supported by the below-market rents.

Alternative: Even as rent control may limit landlords' desire to maintain their properties, other local ordinances that require landlords to maintain units to certain standards, to repay tenant maintenance expenditures, and/or to permit rent increases for well-maintained or upgraded units could counteract the potential negative impacts on housing quality associated with rent control.

In addition, a rental subsidy in the form of rent control could encourage tenants to contribute to maintenance and upkeep, counteracting any possible deferred maintenance on the part of the landlord.

Overview of Findings: There is no clear association documented in the empirical research between rent control and building quality, particularly if other ordinances, requirements, or incentives are present to have landlords maintain buildings.

Implications: Rent-control laws in communities that have comprehensive requirements related to building maintenance may mitigate any potential negative impacts on housing quality. However, without appropriate incentives or requirements, landlords of rent-controlled buildings will be unlikely to make improvements to buildings. Furthermore, tenants of rent-controlled buildings may feel obligated to take on more maintenance responsibilities and costs, which ends up reducing the benefits of the rent-control subsidy.

Research Findings on Maintenance and Building Quality

Earlier studies of rent control in New York City did find a negative relationship between rent control and building quality, but researchers noted that it is difficult to isolate the rent control impacts since the law applied to older and often lower-quality buildings. Using data from 1968, Gyourko and Linneman (1990) found that New York City's rent-control law had a large and significant negative impact on the quality of rental buildings, but the impact was primarily for non-high-rise buildings and buildings that were already in a state of disrepair when rent control was adopted. In the same study, Gyourko and Linneman (1990) provided modest evidence that rent control in New York City induced maintenance and upkeep on the part of individual residents of controlled units.

The relationship between rent control/stabilization and building quality in New York City is even less clear cut in later years. Moon and Stotsky (1993) offered mixed evidence that rent control led to a decline in housing quality in New York City over the 1978 to 1987 period. While there was a possibility of the quality of rent-controlled units to decline over time, Moon and Stotsky (1993) found that maintenance and improvements occurred in rent-controlled buildings when other economic conditions were favorable to induce landlords to renovate. For example, if landlords were able to offer a payout to existing tenants and/or were able to capitalize on higher rents when existing tenants moved out, they could be incentivized to maintain their buildings. This research also found that longer-term tenants of rent-controlled units in New York City were incentivized to provide maintenance and upkeep of their property even if the landlord did not.

Rent control was ended in Massachusetts in 1995, and the termination of rent-control laws in cities in the Boston metropolitan area provided a type of natural experiment to examine the impacts of rent control. While Sims (2007) primarily focused on impacts of rent control on housing supply, the findings from this research also suggested that in the late 1980s and early 1990s, rent control in Boston was associated with modest deterioration in the quality of the rental housing stock without a counteracting tenant-supplied maintenance and upkeep. Similarly, while not the primary outcome analyzed in their evaluation of rent control in Los Angeles, researchers at RAND (Rydell et al. 1981) found evidence of deferred maintenance and upkeep in rent-controlled buildings.

However, after 15 years of rent control in Washington DC, Turner (1990), found no evidence of a decline in housing quality and, in fact, documented that units exempt from rent control in DC had more maintenance issues than rent-controlled buildings. She concluded that other local policies helped to ensure building quality in the city.

Looking across the country at other communities with rent control, Mengle (1985) attempted to examine the relationship between housing quality and rent control across eight metropolitan areas in the mid-1970s, with a dataset that included four metropolitan areas where rent control was present and four where rent control was not present. While Mengle (1985) found evidence of reduced residential building quality in the metropolitan areas with rent control, it was noted that rent-control laws varied considerably across municipalities in the study, but the model did not explicitly attempt to account for those policy differences or attempt to ascertain other regulations or ordinances that could incentivize building maintenance.

Housing Availability

Hypothesis: Regulations that limit rents could reduce the availability of rental housing in both the short and long term. Rent control could induce landlords of properties covered by the law to convert their buildings to condominium ownership, thereby taking rental units off the market. The supply of affordable rental housing could also be diminished if landlords redevelop their properties such that the new units are not subject to rent-controlled laws. Longer-term, while rent-control regulations almost always exclude new construction, if rent control puts downward pressure on market rents or if developers fear that in the future new units will be subject to controls, they may not build new housing.

Overview of Findings: Rent-control and rent-stabilization laws generally led to a reduction in the available supply of rental housing because landlords were induced to convert their properties into condominiums or to redevelop into housing not subject to rent-control regulations. The impact of rent control on new construction is less clear-cut in the empirical research.

Implications: Rent control incentivizes landlords to convert their rental properties into condominiums, particularly when there is strong demand for and a lack of home-ownership opportunities in a community. New housing construction may be negatively impacted if developers are uncertain about future applications of rent-control and rent-stabilization policies.

Research Findings on Housing Availability

While there is a substantial body of theoretical work on the relationship between rent controls and housing supply, there is surprisingly little empirical research on the impacts.

In a study of San Francisco over the 1995 to 2012 period, Diamond, McQuade, and Qian (2017) found that, overall, landlords with properties covered by rent control were more likely than other property owners to convert their units to condominiums or to redevelop their buildings, which reduced the supply of available rental housing in the city. Diamond, McQuade, and Qian (2017) estimated that the reduced supply of rental housing—in just this one segment of the multifamily housing stock; that is, properties with four or fewer units—led to a seven percent increase in city-wide rents.

Sims (2007) came to a similar conclusion in Boston. While he found no significant relationship between the presence of rent control and the level of new housing construction in the Boston area, rent control was associated with a shift from units offered as rentals to those offered as ownership, with landlords of rent-controlled buildings converting their units to condominium. In the Boston region, therefore, it was estimated that rent control kept thousands of rental units off the market.

In California and New Jersey, over the 1970 to 1990 period, Glaeser (2002) found mixed results on the relationship between rent control and housing supply. In California, the supply of housing in cities with rent control increased more slowly than it did in cities without rent control; however, the difference was not statistically significant until Glaeser (2002) controlled by initial city size. In New Jersey, there was a significant impact of rent control on the housing stock, with the overall supply of housing actually declining in cities that had adopted rent control. However, that effect disappeared when city size was controlled for. Thus, these findings suggest no clear-cut relationship between rent control and housing construction but also suggest that rent control impacts housing availability differently in different kinds of markets.

Rent Levels

Hypothesis: Rent control will keep rents of units in controlled buildings lower than market rents, but if rent control results in a decline in the rental housing supply, then rents for uncontrolled units will be higher than what they would be without a rent-control program in place.

Alternative: Depending on the vacancy decontrol policy, landlords of rent-controlled buildings could set initial rents higher than market rents to compensate for lower future rents allowed under rent control. Furthermore, tenants would be willing to pay higher rents initially if they knew that rent increases would be capped over time.

Overview of Findings: Units subject to rent control usually have rents that are lower than market rents, which provide a benefit to tenants of those units, often inducing them to stay longer than they would otherwise. However, when a rent-control policy includes a vacancy decontrol or vacancy allowance condition, new residents of controlled units could actually pay more than market rates initially.

Rent-control policies generally lead to higher rents in the uncontrolled market, with rents sometimes substantially higher than would be expected without rent control (*i.e.,* between 10 to 25 percent higher). Over time, if rent control does not apply to new construction, there is some evidence that the impact on uncontrolled rents diminishes.

Implications: Rent-control policies can hold rents of controlled units at lower levels and benefit some tenants, particularly those who do not move often. However, adopting a rent-control law will lead to rent increases in the unregulated market, which reduces the well-being of residents of uncontrolled units and can actually diminish the overall welfare of all residents. Attempting to moderate a rent-control policy by implementing a vacancy decontrol provision could actually increase the rents of controlled units in the short-term.

Research Findings on Rent Levels

There is general consensus that rent control policies without vacancy allowances do lead to lower rents for units in rent-controlled buildings. Gyourko and Linneman (1989) found that rent control resulted in significantly lower rents for controlled units. In fact, they estimated that the reduced rents created a substantial subsidy for beneficiaries of rent control, possibly as high as 27 percent of renters' total annual income. In a study of Los Angeles rent control over the 1969 to 1978 period, Fallis and Smith (1997) documented that rent control was, indeed, responsible for keeping the rents of controlled units low.

Newer rent-control and rent-stabilization policies typically have a vacancy decontrol or vacancy allowance policy that makes it more difficult to be certain that units in buildings subject to rent control will have below-market rents. Under New York City's rent-stabilization program, when a tenant vacates a unit, the landlord can reset the rent level, increasing it by up to 20 percent. Rent increases as allowed under the rent-stabilization policy then apply to this new, higher rent.

This vacancy allowance feature could result in some tenants of rent-stabilized apartments paying higher-than-market rents, at least initially. Nagy (1997) found that in 1981, tenants of rent-stabilized units paid higher rents than did tenants of similar, uncontrolled apartments. However, tracking tenants over time, Nagy (1997) found that rent-stabilized tenants had below-market rents 6 years later (assuming they remained in the rent-stabilized unit.)

A bigger concern among policymakers has been whether adopting rent control will lead to increases of rents in the unregulated market, typically through a reduction in the supply of rental housing. Caudill (1993) analyzed the New York City rental market in 1968 and concluded that rents of uncontrolled units in the city were between 22 and 25 percent higher than they would have been had rent control not been in place.

Early (2000) used New York City data from 1996 to demonstrate that rent control drove up rents of uncontrolled units in the city and that the increase in rents in the overall rental market actually made tenants of rent-controlled units worse off than they would have been if rent control had not been in place. Lower rents in the broader uncontrolled market would have given rent-control tenants more opportunities to live in a unit that was a better fit for their needs, and their overall utility would have been increased.

Fallis and Smith (1997) found that 2 years after the adoption of rent control in Los Angeles, uncontrolled rents increased more than three times faster than rent-controlled units, and the researchers concluded that it was the rent-control policy itself—and not other characteristics of the uncontrolled units or market—that led to the significantly greater rent increases.

In Boston, Sims (2007) documented a more complicated relationship among rent control, building quality, and rent levels to find that rent levels of unregulated units declined in buildings near rent-controlled buildings that were of lower quality.

There have been attempts to examine the link between rent control and market rents in cross-sectional studies. While there are unanswered issues related to the endogeneity between rising rents/rent levels and adoption of rent control, Malpezzi (1996) used data for 54 metro areas to demonstrate a positive, significant relationship between the presence of a rent-control policy and median rent in the metropolitan area. Early and Phelps (1999) examined the impact of rent control on uncontrolled rents in 49 metropolitan areas over the 1984 to 1996 period.

Results from this analysis suggested a positive and statistically significant relationship between the presence of rent control and uncontrolled rents—specifically, the introduction of rent control increased median uncontrolled rent levels by more than 13 percent. However, if rent control did not apply to new construction, the effect diminished over time, and between 2 and 3 decades after adoption of rent control, there is no significant relationship between the presence of rent control and rent levels in the uncontrolled market. (Like other cross-sectional studies, there was no attempt in either of these two studies to account for the variability in rent-control programs and the fact that policies are often only in place in select municipalities within a region.)

Fiscal Impacts

Hypothesis: Because rent control limits investment return, and potentially building quality, it can also reduce the value of the property and, as a result, lower the amount of property tax revenue collected from the property owner. In addition, rent control increases public expenditures through administrative procedures to implement and oversee the rent-control program.

Overview of Findings: While there is very little empirical research on the topics, rent-control laws can reduce the amount of property tax revenue collected on rental properties and can be associated with fairly high administrative costs.

Implications: There can be significant costs to the municipality (and potentially to the State) of implementing rent control.

Research Findings on Fiscal Impacts

There is very little empirical research on the relationship between rent control and local property tax revenue. In his analysis of rent control in Cambridge, MA, Navarro (1985) concluded that the city lost out on between $5 and $10 million per year in property tax revenue as a result of lower property values induced by rent control. In New York City, a study conducted by the accounting firm Peat Marwick (1988) estimated that there was a loss in taxable assessed property values attributable to rent control at approximately $4 billion in the late 1980s, which meant that the city lost out on an estimated $370 million annually in property tax revenue.

Rent-control regulations create administrative processes that would not be required without the law. As a result, there is a cost to the municipality (and potentially to a State) to implement, administer, and enforce a rent-control program. In Cambridge, Navarro (1985) estimated that the public costs to administer the city's rent-control program totaled about $40 per unit. Linneman (1987) concluded that the administrative costs associated with New York City's rent stabilization policy were "substantial and inefficient."

Homelessness

Hypothesis: Rent control reduces the availability of housing and, therefore, can increase homelessness in a community.

Overview of Findings: There is no consistent relationship observed between rent control and the prevalence of homelessness.

Implications: Given the complex causes of homelessness, a rent-control policy has an unknown effect on a community's homeless population, but if it reduces the availability of affordable housing in that community, the homeless population will be better served by programs that are more specifically targeted.

Research Findings on Homelessness

In a review of the relationship between homelessness and rent control in metro areas across the country, Honig, and Filer (1993) found no significant association either between the presence of a rent-control policy and homelessness or between rent control and incidences of overcrowding. Early and Olsen (1998) found that rent control was associated with decreased rental vacancy and increased rents, which could increase homelessness; however, they found that those potential effects were more than offset by other effects that decreased homelessness. Using 1990 data, Grimes and Chressanthis (1997) found a significant though very small impact of rent control on the level of homelessness, though as Gissy (1997) also concluded, it is possible that underlying factors related to both the likelihood of adopting rent control and level of homelessness could be an intervening factor explaining the relationship.

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Prepared Statement of Denise Scott, President, Local Initiatives Support Corporation (LISC)

Chairman Wyden, Ranking Member Crapo, and members of the committee, I thank you very much for the opportunity to speak with you today, at a time when the Nation's affordable housing crisis continues to deepen, to discuss the critical role that Federal tax policy plays in supporting the development and preservation of affordable rental and home-ownership housing throughout the country. I recognize that the committee has a broad jurisdiction and will be addressing many important issues this Congress, and I applaud you for your focus on affordable housing so early in this legislative session.

My name is Denise Scott, and I am the president of the Local Initiatives Support Corporation (LISC). LISC is a nonprofit housing and community development organization and certified Community Development Financial Institution (CDFI) with offices in 38 cities throughout the country, and a rural network encompassing 146 partners serving 49 different States, the U.S. Virgin Islands and Puerto Rico. LISC's work supports a wide range of activities, including affordable housing, economic development, building family wealth and incomes, education, community safety, and community health. LISC and its affiliates raise and deploy well over $2 billion annually in grants, loans and equity capital into distressed urban and rural communities. In 2022, this included over $1.2 billion of equity capital deployed by our affiliates, the National Equity Fund (NEF) and the New Markets Support Company (NMSC), utilizing Federal Low Income Housing Tax Credits (Housing Credits) and New Markets Tax Credits (NMTCs), respectively.

LISC believes that a safe, affordable home is one of the basic requisites of life—a key to individual health, well-being and financial security. We also believe that investments in quality, affordable housing have benefits that extend beyond the walls of a home and the experience of the people who live there to the community at large. It can stimulate spending and employment in the local economy, revitalize and bring revenue to the community, and build community wealth.

In this testimony, I will discuss: (i) LISC's role in supporting affordable housing; (ii) the current state of the housing market; (iii) the unique and essential role of Housing Credits in increasing the supply of affordable rental housing, and steps Congress can take to strengthen the program; (iv) the need for Congress to enact the Neighborhood Homes Investment Act; and (v) other actions Congress can take to spur responsible investments in affordable housing through the tax code.

I. LISC'S ROLE IN SUPPORTING AFFORDABLE HOUSING

LISC provides support relating to all components of the affordable housing financing ecosystem. We raise capital and manage the assets of Housing Credit investment funds; provide training and technical assistance grants to nonprofit housing developers; provide debt capital for multifamily housing projects; administer off-balance-sheet funds on behalf of municipalities, private-sector organizations and foundations; support single-family housing development and rehabilitation; and support rural housing initiatives, both single-family and multifamily.

Housing Credit Investments

The National Equity Fund (NEF) is the largest nonprofit syndicator of Housing Credits in the country. NEF serves as the bridge between developers and Housing Credit investors—helping to place equity capital at tax credit properties throughout the country, managing investor funds, providing compliance monitoring services, and facilitating the transfers of properties to new ownership at the conclusion of the 15-year tax credit compliance period. Since its founding in 1987, NEF has invested more than $22.7 billion, which represents 231,500 new affordable homes for individuals, families, and communities in need across the country. In 2022, NEF deployed $2.1 billion in affordable housing investments, including $1.2 billion in Housing Credit investments. NEF has also raised over $130 million in committed Opportunity Zone investments to support multifamily affordable housing.

NEF is also an industry leader in creating targeted funds focusing on high-needs populations. Its "Bring Them Homes" initiative provides veterans of the U.S. military with high-quality affordable housing. Over the past decade, NEF has invested $800 million in 80 projects that provide a veteran's preference, alongside over $9 million of grant funding to help provide on-site supportive services. These combined efforts created and/or rehabbed nearly 13,000 units of affordable housing, including 7,500 units targeting veterans and veteran families. And in 2021, NEF raised more than $112 million to support its new Emerging Minority Developer Fund to empower the next generation of developers of color to overcome high barriers of access to Housing Credits.

Multifamily Housing

LISC provides a range of grants, loans, and equity for nearly every aspect of development, from planning and acquisition to construction and renovation, to both nonprofit and for-profit developers. We offer technical assistance, data, and mapping tools to community-based organizations working to improve the supply and condition of affordable housing in their neighborhoods, helping to equip developers and small businesses with the resources they need to grow and thrive. We are intentional in our efforts to bring these resources to communities and businesses overlooked by conventional financing channels.

Lending is an essential instrument in LISC's community development toolkit. As one of the largest CDFIs in the Nation, we work in partnership with local grassroots groups, for-profit developers and government agencies to finance programs and projects that will have a positive, long-term impact. LISC offers a wide range of loans, from pre-development to permanent financing, and we finance a variety of asset classes, from large affordable housing to community facilities to small business loans. In 2022, LISC closed over $360 million in total loan commitments, providing $131 million to 62 affordable rental housing projects and 14 affordable homeownership projects, supporting a total of 5,200 affordable homes.

In addition, LISC's Loan Fund Management (LFM) group is charged with designing, launching, and managing successful place-based impact funds and innovative capital vehicles across the country. Created in 2018 and operating under LISC's

Strategic Investments arm, LFM is currently managing 10 funds with $865 million of assets under management and has closed close to 3,000 loans through the end of 2022. LFM is currently managing $620 million of investments in four place-based affordable housing funds in the Bay Area, Charlotte, Dallas, and Detroit, which have collectively supported over 6,000 affordable housing units. LFM also invests in affordable housing projects through its national and regional funds, like the Black Economic Development Fund, which has supported over 1,000 units of affordable housing.

Single-Family Housing

In addition to providing loans to support developers of single-family homes in our communities, LISC has more recently developed a new product to support owner-occupied home rehabs. Pioneered in 2015 by our Detroit LISC office, we are offering 10-year, interest-free loans ranging from $5,000 to $25,000 to complete home repairs, fix structural defects, and resolve health and safety issues such as lead, mold, and asbestos contamination. The Detroit program has provided $13.6 million in financing to 688 homeowners, 95 percent of whom are Black, and 71 percent of whom are low-income households. The loan fund structure draws upon three sources of financing—CDBG funds, private loan capital and grant funding—and we are in the process of building out similar programs in Memphis and other cities across the country.

Rural Housing

LISC has a strong commitment to improving rural communities and in 1995, launched Rural LISC, a national program created to expand our reach beyond urban areas. Today, Rural LISC partners with 146 rural community-based organizations, including five financial intermediaries, helping each organization identify challenges and opportunities, and delivering the most appropriate support to meet those local needs. Over half of our partners provide housing assistance to the small towns they serve. LISC has renewed our commitment to rural communities through our Rural LISC Promise, our pledge to catalyze at least 20 percent of the community development impact that LISC makes, in any year, in rural communities.

Our experience supporting local nonprofit housing organizations working in rural communities has shown us the importance of Federal affordable housing programs, including the Housing Credit. A recent survey of our Rural LISC partners indicated that Housing Credits are being utilized to finance 106 development projects in their pipelines, totaling more than 7,000 units.

Many of our partners utilize Housing Credits to preserve and recapitalize U.S. Department of Agriculture's section 515 multifamily housing properties and for USDA section 514 and 516 farm labor housing. These resources are essential for preserving what is often some of the only affordable rental housing in small towns.

II. CHALLENGES IN THE AFFORDABLE HOUSING MARKETS

In the past few years, our Nation has experienced large swings in the housing market due to the economic impacts of the pandemic and consistent underproduction of housing supply. These impacts have been disproportionately felt by lower-income families and households of color, which experienced housing constraints before COVID. LISC has seen throughout our national footprint that the greatest housing challenges are primarily related to affordability, in both the multifamily and single-family markets.

Multifamily Housing

The multifamily rental market has experienced historic rent growth, triggered by strong overall demand and low vacancy rates. Rents increased a record 11.6 percent at the end of 2021 and remained at an elevated pace during the first quarter of 2022.[1] This was the largest year-over-year increase in 2 decades and more than three times the 3.2-percent average annual rise in the 5 years preceding the pandemic.[2] For the first time, the median asking rent in the 50 most populous metropolitan areas is more than $2,000.[3] Rent growth has recently declined in response to the Federal Reserve's efforts to slow inflation by raising interest rates. By the

[1] Harvard University. *State of the Nation's Housing, https://www.jchs.harvard.edu/state-nations-housing-2022.*

[2] *Ibid.*

[3] National Low Income Housing Coalition. *Out of Reach, https://nlihc.org/sites/default/files/oor/2022/OOR_2022_Mini-Book.pdf.*

end of 2022, rents were up three percent although it would take far more declines to counteract the overall historic gains.[4]

These historic increases in rental housing costs have also occurred during years of higher multifamily construction costs, challenging affordable rental housing providers. The sector has experienced increased costs for construction materials, labor, insurance, and recently mortgage interest rates.[5] The price of inputs to new residential construction (excluding capital, labor, and imports) was up 20 percent year over year in February 2022.[6] LISC finances affordable rental housing projects across the country, and in markets of all types, and has seen firsthand the additional financing gaps created by these inflationary pressures. These can threaten the likelihood of a project going to completion if additional sources of scarce affordable housing funding can't be secured.

High rent burdens contribute to housing instability for underserved families. In no State, metropolitan area, or county in the U.S. can a worker earning the Federal or prevailing State or local minimum wage afford a modest two-bedroom rental home at fair market rent by working a standard 40-hour work week.[7] In addition, nearly half of all renters are now considered cost-burdened since they spend at least 30 percent of their income on housing.[8] The unaffordability of the rental market also disproportionately harms Black and Latino households because they earn disproportionately less income than White renters and are more likely to be renters. Thirty percent of White households are renters, compared with 58 percent of Black households and 46 percent of Latino households.[9]

While the most severe affordability challenges continue to be at the lowest end of the income spectrum, there have been growing challenges felt by middle-income households, particularly in high-cost markets. Our Nation's underproduction of housing is increasing housing affordability challenges for teachers, firefighters, nurses, and others. City leaders from across the country have shared with LISC their struggles with housing their municipal workforce, and related challenges in attracting talent to both public- and private-sector jobs due to inadequate supply of quality affordable housing. Renter cost burdens increased across all income levels in 2021, although they were the largest among middle-income groups.[10] It is estimated that our Nation has underproduced on almost 3.8 million units of housing, which drives up housing costs and contributes to inflationary pressures for low- and moderate-income families.[11]

Relatedly, LISC is supportive of local efforts to reduce land use and regulatory barriers which restrict housing supply for low- and middle-income families and has seen these efforts in some of our local office markets, including Charlotte, Twin Cities, our offices in California, and others.

Lastly, we've also seen firsthand how increases in natural disasters fueled by climate change are impacting affordable housing properties and creating housing instability for low-income families. Research has shown that our Nation's affordable housing stock is at higher risks from disasters compared to other housing types.[12] These disasters are also reducing our Nation's affordable housing supply and displacing residents from their communities.[13] It can be difficult for owners to rebuild due to inadequate insurance and reserves, while low-income tenants have fewer financial resources to cope with the loss of their homes.[14]

[4] Dr. Christopher Herbert. Senate Banking Committee Testimony, *https://www.banking.senate.gov/download/herbert-testimony-2-9-23.*

[5] Fannie Mae. *COVID–19 and Multifamily Construction Costs, https://multifamily.fanniemae.com/news-insights/multifamily-market-commentary/covid-19-and-multifamily-construction-costs.*

[6] Harvard University, *State of the Nation's Housing, https://www.jchs.harvard.edu/state-nations-housing-2022.*

[7] National Low Income Housing Coalition. *Out of Reach, https://nlihc.org/sites/default/files/oor/2022/OOR_2022_Mini-Book.pdf.*

[8] Joint Center on Housing Studies Blog, *https://www.jchs.harvard.edu/blog/number-renters-burdened-housing-costs-reached-record-high-2021.*

[9] National Low Income Housing Coalition, *Out of Reach, https://nlihc.org/sites/default/files/oor/2022/OOR_2022_Mini-Book.pdf.*

[10] Christopher Herbert. Senate Banking Committee Testimony, *https://www.banking.senate.gov/download/herbert-testimony-2-9-23.*

[11] *https://upforgrowth.org/apply-the-vision/housing-underproduction/.*

[12] *https://preservationdatabase.org/wp-content/uploads/2021/06/Taking-Stock.pdf.*

[13] *https://www.bisnow.com/national/news/affordable-housing/disasters-like-ian-punish-affordable-housing-stock-especially-hard-115855.*

[14] *https://shelterforce.org/2023/02/17/how-the-inflation-reduction-act-can-protect-low-income-renters-from-climate-change/.*

Single-Family Homes

Similar to the rental housing market, single-family homes have experienced historic price increases since the pandemic. Home price appreciation nationwide hit 20.6 percent in March 2022—topping the previous high of 20.0 percent in August 2021 and marking the largest jump in 3 decades.[15] Home price increases have cooled since the Federal Reserve began raising interest rates, although prices generally remain high, and elevated interest rates make it more difficult for first time home buyers to purchase a home. Just 42.2 percent of new and existing homes sold between the beginning of July and end of September 2022 were affordable to families earning the U.S. median income of $90,000.[16] This was the second consecutive quarterly record low for housing affordability since the Great Recession.

Home-ownership disparities between racial and ethnic groups stubbornly persist. In the second quarter of 2022, the home-ownership rate for White households was 75 percent compared to 45 percent for Black households, 48 percent for Hispanic households, and 57 percent for non-Hispanic households of any other race.[17] These gaps in home-ownership rates have changed little over the last 3 decades. In fact, the Black-White gap in home-ownership rates was the same in 2020 as it was in 1970, just 2 years after the passage of the Fair Housing Act of 1968, which sought to end racial discrimination in the housing market.[18] These disparities limit the ability of families of color to achieve their home-ownership goals and limits asset building opportunities, contributing to our Nation's racial wealth gap.

Many communities have also been significantly impacted by real estate investors purchasing single-family housing properties for rental housing. Increases in investor-owned properties are associated with rising rental prices, particularly in the most affordable segment of the housing market. These investor purchases reached a record high in 2021,[19] are geographically concentrated in the South and Southwest sections of the Nation and are primarily in low-cost neighborhoods with a majority of households of color.[20] Between 2010 and 2021, the share of homes purchased by investors in majority Black ZIP codes has increased from 13 percent to 30 percent; compared to increases from 7 percent to 12 percent in other ZIP codes.[21] LISC has seen the impacts of these practices in several of our local office markets, including Atlanta, Charlotte, Jacksonville, Phoenix, Detroit, and others. Increased investor activity has been linked with troubling property management practices and, as critically, it limits the ability of first time and minority families to purchase homes and build wealth.[22]

III. AFFORDABLE HOUSING TAX CREDITS

Overview

The Housing Credit is the Nation's most successful tool for the production and preservation of affordable rental housing, responsible for nearly all of the affordable housing built and preserved since the program's creation in the Tax Reform Act of 1986. There are two types of housing credits: those allocated by State agencies from their annual Housing Credit volume cap (the "9-percent" credit); and those that are utilized by States to accompany projects funded by multifamily Housing Bonds (the "4-percent" credit).

The power of the program is that it is a private sector affordable housing development program, subsidized with Federal tax credits and administered by State housing finance agencies. Through each State's credit allocation process, developers are

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[15] Harvard University, *State of the Nation's Housing, https://www.jchs.harvard.edu/state-nations-housing-2022.*

[16] *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.*

[17] *https://home.treasury.gov/news/featured-stories/racial-differences-in-economic-security-housing#:~:text=housing%20equity%20wealth.-,Homeownership,households%20of%20any%20other%20race.*

[18] *Ibid.*

[19] Schaul, Kevin and O'Connell, Jonathan, "Investors bought a record share of homes in 2021. See where," *Washington Post.* February 16, 2022.

[20] Dr. Desiree Fields, Senate Banking Hearing: How Private Equity Landlords Are Changing the Housing Market, *https://www.banking.senate.gov/download/fields-testimony-10-21-21.*

[21] Schaul and O'Conell.

[22] Frankel T. and Keating D. (2018), *Eviction filings and code complaints: What happened when a private equity firm became one city's biggest homeowner, The Washington Post, https://www.washingtonpost.com/business/economy/eviction-filings-and-code-complaints-what-happened-when-a-private-equity-firm-became-one-citys-biggest-homeowner/2018/12/25/995678d4-02f3-11e9-b6a9-0aa5c2fcc9e4_story.html.*

awarded Federal tax credits based on their ability to satisfy the affordable housing priorities identified by the State in its Qualified Allocation Plan. The public policy benefit of this approach is that it enables States to address their affordable housing needs by setting up a competition for the award of credits, ensuring that only the most capable developers (both for-profit and nonprofit) are selected.

The results are impressive. The Housing Credit has produced just under 4 million affordable homes, serving more than 8 million households, supporting approximately 6 million jobs annually, and generating approximately $250 billion in taxes and $700 billion in wages and business income. The Housing Credit has been critical in helping approach the end of veterans homelessness, it has enabled the redevelopment of distressed public housing, has been a critical source of funding for elderly housing, and provided critically needed housing for the disabled. What's more, properties financed with the Housing Credit must remain affordable for a period of at least 30 years, and longer in certain States.

The success of the Housing Credit program can be measured not only by the number of units of affordable housing it has produced, but also by the financial strength of the properties developed. According to periodic analysis by the national accounting firm CohnReznick, the cumulative rate of foreclosure on Housing Credit properties is lower than any other real estate asset class, well below 1 percent. This is a tribute to the quality of underwriting at the original financing as well as the multiple eyes on the development by the State housing finance agency, local governments, lenders, equity providers and developers.

While development deals are complex, the essence of the Housing Credit is actually quite simple. Federal tax credits enable developers to raise equity capital from investors. Because the investor's return is generated primarily through the tax credits and associated losses, as opposed to income generated from the property, the developer can take on significantly less debt and thereby offer much lower rents. The Federal statute requires all subsidized Housing Credit units to be rented to tenants with incomes at or below 60 percent of area median income (AMI), with limited reach to tenants up to 80 percent of area median income (provided the overall average of the development is still at or below 60 percent of AMI), and the rents charged may not exceed 30 percent of the applicable median family income.

In practice, however, a significant percentage of Housing Credit units are rented and affordable to tenants with considerably lower incomes. According to recent HUD data on Housing Credit resident demographics, 53 percent of all households living in Housing Credit apartments are extremely low-income, meaning they earn 30 percent of AMI or less; and another 31 percent of households are classified as very low-income (earning less than 50 percent of AMI). This deep targeting is in large part due to the requirements in Federal law that creates a preference for developments that commit to deeper income targeting. The Housing Credit is best able to reach the poorest households when rental assistance is available, as the rents these families can afford to pay often cannot support basic operating costs, let alone debt service. LISC is supportive of efforts to increase rental assistance since only one out of four eligible households receive it, and since these resources are so critical for housing extremely low-income families.[23]

Current Challenges to Tax Credit Development

In spite of its tremendous successes over a period approaching 4 decades, the Housing Credit program faces serious challenges as the affordable housing community seeks to respond to the overwhelming shortage of affordable housing. In almost all areas of the Nation, we face a substantial supply-demand imbalance. As noted earlier, there is simply not enough affordable housing to serve families in need.

This supply imbalance has been exacerbated by sharp increases in development costs throughout the United States. In a report issued last fall, the National Council of State Housing Agencies examined a number of their member housing finance agencies (HFAs) and found average construction cost increases of approximately 30 percent since the pandemic. This problem has been compounded by higher debt costs, which further exacerbate financing gaps. Because cost increases have been so rapid and unexpected across the board, a significant number of affordable housing deals had to be put on pause last year after developers received their credit allocations.

[23] *https://www.cbpp.org/research/housing/families-wait-years-for-housing-vouchers-due-to-inadequate-funding.*

Recommendations for the Committee

1. Restore the 12.5-percent increase to the formula for the 9-percent credit allocation. In 2018, to help address the growing affordable housing shortage, Congress enacted on a bipartisan basis a 12.5-percent increase in the State allocation formula for the 9-percent credit. This provision expired at the end of 2021, meaning that at a time when rents are skyrocketing and supply is limited, we are actually experiencing a *cut* to affordable housing production. At least 55,000 shovel ready affordable homes are expected to remain unbuilt unless this provision is restored.

2. Enact the Affordable Housing Credit Improvement Act (AHCIA). This legislation was sponsored by Senators Cantwell and Young in the last Congress (S. 1136), and we anticipate will be reintroduced shortly. The legislation garnered 43 Senate cosponsors in the last Congress, including 15 from the Finance Committee. We strongly support all two dozen of the provisions in that legislation, including:

- *Increasing the 9-percent formula allocation by an additional 50 percent over the 2021 baseline figure, adjusted for inflation.* This additional allocation would increase affordable rental housing production and preservation by about 300,000 more homes over a 10-year period.
- *Lowering the threshold for the minimum amount of multifamily Private Activity Bonds that must be used to finance a property to be eligible for the 4-percent housing tax credit.* The legislation would reduce the minimum threshold from 50 percent of development costs to 25 percent. This would both facilitate property development and have the indirect effect of expanding the private activity cap by requiring less of it to be used for each Housing Credit development. According to a 2021 estimate, lowering the bond financing threshold from 50 percent to 25 percent could produce or preserve about 1.5 million additional affordable rental homes over a 10-year period.
- *Creating additional basis boost.* We support provisions adding additional eligibility for more credits for units in projects targeting extremely low-income families, for rural projects, for projects serving Native American communities, and also for certain 4-percent projects.
- *Reducing regulatory and cost burdens on affordable housing development by taking away the ability of local and other elected officials to effectively veto affordable housing development.* There is bipartisan concern across the country that local and State governments impose a variety of regulatory burdens that impede housing development and add unnecessary costs that price people out of rental markets.
- *Simplifying and clarifying rules relating to resyndication of LIHTC properties.* In order to preserve older Housing Credit properties, HFAs will sometimes provide a new allocation of tax credits (called resyndication) so that the property can undergo substantial rehabilitation and be put into a new 30-year affordability restriction. The statute needs to be amended so that investors that may have participated in the original syndication of the credits will not be precluded from providing new tax credit investments at the time of resyndication.

3. Adopt policies to prevent the loss of existing affordable housing properties and resources. There are two issues with the Housing Credit program that we believe are critical for Congress to address, although they were not included in the AHCIA in the last Congress. These issues have been before Congress for several years, but enactment has been elusive in spite of the efforts of Chairman Wyden, most recently in the Decent, Affordable, Safe Housing for all Act, the DASH Act. The first issue is the Right of First Refusal in section 42(i)(7) of the code. The second issue is the Qualified Contract provision in section 42(h)(6)(E)(i)(II).

Right of First Refusal. Current law permits Housing Credit limited partnership agreements to include a right of first refusal (ROFR) in the name of a qualified nonprofit organization, typically the sponsor of the property development. Because of ambiguities in the law, further reflected in imprecise language in partnership agreements, numerous legal disputes have arisen across the country, several resulting in drawn out litigation. This situation has been driven not by initial Housing Credit investors, but rather by outside capital that has come into the industry by buying up control of syndication funds and individual investor partnerships. The business purpose of these entities is to generate revenues by insisting on back-end cash payments from nonprofits as a condition to leaving the partnership. These legal disputes over the meaning of right of first refusal language have resulted in the unintended transfer of hundreds of millions of dollars from affordable housing properties, nonprofit affordable housing sponsors, and residents (subject in some cases to higher rents).

We strongly urge the committee to pass legislation to address this issue, by permitting nonprofits to have a simple purchase option covering all of the assets of the partnership.

Qualified Contracts. Under the Qualified Contract provision in section 42, owners are permitted to approach the HFA after year 14 and give the agency 12 months to find a buyer for the property at a price established in the statute. Since the statutory price is so high and bears no relationship to the fair market value of the property with the rent restrictions, HFAs are rarely able to secure a buyer—which then permits the owners to convert their Housing Credit properties to market rents after as little as 15 years of affordability. This loophole burdens low-income renters and frustrates congressional intent. While most HFAs require developers to waive their right to utilize a Qualified Contract at the time credits are awarded, too many do not require such waivers, especially in the 4-percent credit program.

According to the National Council of State Housing Finance Agencies, more than 100,000 affordable housing units have been lost as a result of this. Closing the Qualified Contract loophole would not only protect lower-income residents, but it would also save the Federal Government money. According to the Joint Committee on Taxation, the provision in the Build Back Better bill would raise $468 million over 10 years. We urge Congress to repeal the Qualified Contract provision as soon as possible.

4. Exempt from a State's Private Activity Bond cap any bond authority used for the recapitalization and resyndication of Housing Credit developments. Each year, States receive a finite amount of tax-exempt Private Activity Bond (PAB) authority to be used for certain eligible activities, including multifamily housing, lower rate mortgages for low- and moderate-income home buyers, industrial development, student loans, and other uses. In most States due to the significant need for affordable rental housing, a large majority of PAB authority is dedicated to multifamily housing bonds.

Recently, more and more States have become bond cap-constrained, meaning that they have far more need for bond authority than what they have available to them under the PAB cap. Nearly half of States report being bond cap constrained, and others report that if trends continue as they have in recent years, they too soon will be bond cap constrained.

With bond resources inadequate to meet the need, States are forced to make difficult decisions. One such decision is how much bond authority to commit to resyndication of older Housing Credit properties, as the more authority that is used for resyndication, the less that is available for new construction, for preservation of other aging affordable housing projects originally funded with legacy HUD programs, and for conversion of distressed public housing projects into privately managed housing under HUD's Rental Assistance Demonstration (RAD) program.

Given the need to rehabilitate older Housing Credit properties, and the public benefits associated with resetting the long-term affordability requirements of properties aging out of affordability restrictions, an exemption from the private activity bond cap should be enacted for multifamily bonds used to rehab existing Housing Credit properties.

Notably, there is precedent for excluding certain activities from the PAB cap. Under current law, private activity bonds not subject to cap include bonds issued by 501(c)(3) institutions; as well as bonds used to finance airports, docks and wharves, government-owned solid waste disposal facilities, highway or surface freight transfers facilities, among other priority investments. Rehabilitation of affordable housing should also be a priority investment that is exempt from the Private Activity Bond cap.

IV. NEIGHBORHOOD HOMES INVESTMENT ACT

LISC, along with over two dozen other national organizations and trade associations focused on housing and community revitalization, is calling for the enactment of the Neighborhood Homes Investment Act ("Neighborhood Homes"), to be introduced in the 118th Congress by Senators Ben Cardin and Todd Young. This legislation has wide bipartisan support. Similar legislation introduced in the Senate last year was cosponsored by 24 Senators, including seven members of the Finance Committee. The companion bill in the House was cosponsored by 109 Representatives in the 117th Congress.

Neighborhood Homes addresses the need for revitalization and repopulation in rural and urban communities suffering from home foreclosures and vacant properties. Vacant properties inflict heavy costs on American communities: blight, crime, lowered home values, and decreased property tax revenue. There are mounting costs and difficulties associated with vacant and abandoned properties, especially when concentrated within neighborhoods. These neighborhoods are trapped in a cycle where low property values prevent the construction of new homes and the renovation of existing homes, and where the absence of these investments keeps property values unsustainably low.

Similarly, rural communities that don't have a decent stock of single family homes have difficulty attracting employers to their region, creating additional headwinds for economic development and leading to further decline in population and home values.

Neighborhood Homes is designed to attract private capital to support investments in single family homes in these communities—where the costs of developing and rehabilitating homes exceed the value of the home. Neighborhood Homes would provide the developer or investor with a tax credit to cover this "value gap." The tax credit would work as follows:

- State allocating agencies (most likely the same State HFAs that administer the Housing Credit) would be provided with a per capital formula allocation Neighborhood Homes Tax Credits, with smaller States receiving a minimum allocation.
- The credits would be awarded by the State agencies to eligible entities through an annual competition. The eligible entity would identify a strategy for developing or rehabilitating properties in eligible communities, either for new homes, existing owner-occupied homes, or for homes that are vacant and will be brought to market.
- States would allocate only the tax credits reasonably needed for financial feasibility, determined both at the time of application and again when homes are sold or owner-occupied rehabilitations are completed.
- The maximum value of the credit would be 35 percent of construction, substantial rehabilitation, and building acquisition and demolition costs in the case of for sale homes; and 50 percent of eligible project costs in the case of owner-occupied rehabs.
- The maximum home sales price could not exceed four times the area's median family income.
- The eligible entities would have 5 years to complete the homes, and investors cannot claim the credits on a home until the construction is completed and the home is occupied by an eligible homeowner.

Neighborhoods characterized by some combination of high poverty, low median family income and low home values would be eligible for investments. Neighborhood Homes Credit agencies would also have additional flexibility to serve rural communities, as well as communities impacted by natural disasters, that may not otherwise have qualified based on the initial Neighborhood Homes requirements.

As noted above, Neighborhood Homes would fill the gap between the cost of construction and the value of the property, with the private market bearing construction and marketing risks—much as is done with the Housing Credit. However, the Housing Credit, which was designed to create affordable rental housing for low- and very-low-income families, cannot readily be utilized to support home-ownership housing. And while tax-exempt Private Activity Bonds and mortgage credit certificates (MCCs) do support home buyers by reducing mortgage interest costs, these incentives do not address supply-side development cost gaps.

Neighborhood Homes would therefore fill a missing void in our affordable housing tax financing ecosystem, providing an effective and necessary tool for revitalizing communities and providing affordable home-ownership opportunities for first time and minority home buyers. Over the next 10 years, it is projected that Neighborhood Homes will result in:

- 500,000 homes built or substantially rehabilitated.
- $125 billion of total development activity.

- 861,000 jobs in construction and construction-related industries.
- $56 billion in wages and salaries.
- $26 billion in Federal tax revenue.
- $12 billion in State and local government revenue.

We therefore strongly urge Congress to pass the Neighborhood Homes Investment Act and thank Senators Cardin and Young for their leadership on this very important legislation.

V. OTHER RELATED TAX ITEMS THE COMMITTEE SHOULD CONSIDER

In addition to the recommendations above pertaining to the Housing Credit and to Neighborhood Homes, LISC recommends that the committee consider other actions that can be taken to ensure portions of the tax code are better aligned to support affordable housing, including:

1. Making the New Markets Tax Credit (NMTC) program permanent.

NMTCs are predominantly used to support commercial revitalization, businesses and community facilities in lower income communities, and are one of the most effective of all Federal economic and redevelopment programs—spurring over $120 billion of investments in distressed communities and creating over 1 million jobs to date. LISC has deployed over $1 billion in NMTC financing since the program's inception, and we have seen firsthand how our investments in businesses, commercial real estate, and community facilities have complemented our housing work and improved the lives of residents in our communities.

Though NMTCs cannot be used to support residential rental properties, some NMTC investments have nonetheless supported housing activities—principally through investments in mixed-use commercial redevelopment projects that include on site housing, and to a lesser extent, home-ownership activities. According to the Treasury Department, NMTCs have helped to finance over 18,000 affordable homes.

The NMTC program is set to expire in 2025. Congress needs to enact the New Markets Tax Credit Extension Act of 2023 (S. 234), which was introduced by Senators Cardin and Daines last month and already has 10 other co-sponsors, including six others from the Finance Committee. This legislation would make the NMTC program permanent at $5 billion per year with annual inflation adjustments, and also allow it to be used to offset the Alternative Minimum Tax.

2. Including restrictions to Opportunity Zone funding so that it doesn't support luxury housing or displacement of community residents.

LISC supports the bipartisan Opportunity Zones Transparency, Extension, and Improvement Act (S. 4065) introduced by Senators Corey Booker and Tim Scott in the 117th Congress. We particularly appreciated the sunsetting of certain higher income census tracts, the requirement that Qualified Opportunity Funds report richer data to the Treasury Department, and the establishment of the State and Community Dynamism Fund. We welcome all of these improvements.

However, we believe any future version of this legislation should also include guard rails to prevent Qualified Opportunity Funds from supporting luxury housing. High-end housing doesn't need Federal subsidies and may in some instances lead to the displacement of long-time community residents who deserve to be able to stay in the community to enjoy the benefits of redevelopment. We would therefore encourage Congress to include affordability restrictions on multifamily housing properties financed by Opportunity Funds (for example, by requiring that at least 50 percent of the units must be affordable to low-income families, and that the remaining units must be affordable to families making less than 120 percent of AMI); and to incentivize localities to develop anti-displacement strategies in their Opportunity Zones, including through the submission of requests for funding under the State and Community Dynamism Fund.

CONCLUSION

There can be little doubt we are currently in an affordable housing crisis. Rents have been rapidly climbing, supply has been tightening, costs of construction have been increasing, and we have underproduced roughly 3.8 million homes. On the single-family side, home prices have cooled of late but still remain historically high, and elevated interest rates make it even more difficult for first-time home buyers to purchase a home. And sadly, home-ownership disparities between racial and ethnic groups stubbornly persist, with little gains made over the past 3 decades.

The good news is that solutions are out there, and they have wide bipartisan support in Congress. Restoring the lapsed 12.5-percent increase to the formula allocation for the 9-percent Housing Credits and passing the Affordable Housing Credit Improvement Act will create 2 million *additional* affordable rental homes over the next decade than would otherwise be built, while also supporting nearly 3 million jobs and bringing in $120 billion in additional tax revenue. Enacting the Neighborhood Homes Investment Act will create 500,000 new starter homes, providing homeownership opportunities for first-time and minority home buyers while simultaneously repopulating and revitalizing under-resourced rural and urban communities.

I thank you again for this opportunity to testify. I hope that the conversations we have today will bring us closer to enacting these critical housing bills and put us on a path to ensuring that all families in this country will be able to enjoy the health, well-being and financial security that an affordable home provides.

QUESTIONS SUBMITTED FOR THE RECORD TO DENISE SCOTT

QUESTIONS SUBMITTED BY HON. SHELDON WHITEHOUSE

Question. Rhode Island college graduates of the class of 2020 graduated with an average of $36,791 in outstanding student loan debt. At the same time, the National Association of Realtors reports that housing affordability reached the worst level on record in the fourth quarter of 2022. Last Congress, I introduced several bills to ease the burden of student loan debt, including canceling student loan debt for front-line health-care workers and teachers.

For those with tens of thousands—and in some cases hundreds of thousands—of dollars of student loan debt, how does their debt affect their ability to buy a home or afford rent?

Answer. The rise in student loan debt impacts access to affordable rental housing and home-ownership opportunities. Research has shown [1] that a $1,000 increase in student loan debt lowers the home-ownership rate by about 1.8 percentage points for public 4-year college-goers during their mid-20s, equivalent to an average delay of about 4 months in attaining home ownership. The same research also indicates that higher student loan balances have an impact on credit scores, due to increased probability of student loan delinquencies, which makes obtaining a mortgage more difficult. According to the Urban Institute,[2] as student loan debt has increased, the home-ownership rate has decreased for people ages 24 to 32, falling by 9 percentage points—nearly double the drop as that for the overall population. This has an impact on our Nation's racial home-ownership gap since Black students take on greater debt, hindering their access to home-ownership opportunities.

Higher amounts of student debt often cause these borrowers to rent for longer periods of time due to credit score challenges and insufficient resources to enter the housing market, including a lack of down payment and closing costs. As rental housing demand has risen, and outpaced supply, prices have increased. Census bureau data [3] has shown that renters are more likely than homeowners to be cost burdened.

Question. Over the past 2 decades, the growing cost of child care has outpaced inflation. Child-care costs for Rhode Island families can now reach more than $10,000 per year annually for each child, and many families now are paying nearly 30 percent of their incomes on child care. At the same time, the National Association of Realtors reports that housing affordability reached the worst level on record in the fourth quarter of 2022. Indeed, according to HousingWorksRI, there are currently no communities in Rhode Island where families earning the State's median income or less can afford to buy a home, and there's only one community—Burrillville—where Rhode Islanders can affordably rent.

How does the high and growing cost of child care affect families' ability to buy a home or afford rent?

[1] *https://www.journals.uchicago.edu/doi/full/10.1086/704609.*
[2] *https://housingmatters.urban.org/articles/how-student-loan-debt-affects-racial-homeownership-gap.*
[3] *https://www.census.gov/library/stories/2022/12/housing-costs-burden.html.*

Answer. The high cost of child care—which adjusted for inflation, has increased by 49 percent[4] over the last 25 years—leaves families with less money to buy or rent a home and makes it very difficult to save money for home ownership or rent larger homes for their growing households. Research by the Department of Labor[5] has documented that the cost of child care consumes a significant percentage of median family income across all care types, age groups, and county population sizes, making it challenging for families to accrue savings and more difficult for many working parents to reenter or remain in the workforce. The impact of the cost of care is felt most profoundly by women, and by low-income families whose child-care costs represent a greater proportion of their household income. Families that pay for care for multiple children have even greater expenses and effectively face even greater barriers to home ownership and rental affordability. These problems are compounded by insufficient Federal assistance for child care and affordable housing needs.

Fortunately, there are ways that the Federal Government can begin to address the important linkages between child care and housing in order to improve the overall economic and social circumstances of families struggling to find affordable care. The development of affordable housing in high-need communities can be leveraged to increase access to quality care for children and families, most notably by constructing affordable housing that incentivizes center and home-based providers to "co-locate" on site.

Additionally, we need dedicated, stand-alone Federal funding to support the acquisition, construction, and renovation of child-care facilities to help alleviate some of the cost burden shouldered by child-care providers seeking to serve additional families. Rhode Island has a model that could be replicated in other places to address facilities needs. LISC Rhode Island operates the Rhode Island Child Care and Early Learning Facilities Fund (RICCELFF)[6]—a public-private partnership designed to help child-care and early learning programs develop safe, high-quality learning environments—indoors and outdoors. As part of the Fund, LISC offers various opportunities for funding for planning, improvement and expansion of child care spaces.

Question. Rhode Island is the second-densest State in our union, second only to New Jersey.

For States like mine, where people live in much closer proximity to each other than elsewhere in the Nation but which still have a housing shortfall, what are the best practices and reforms for encouraging affordable housing development while still preserving livable communities and local character?

Answer. Communities of all types desperately need additional affordable housing. There are numerous strategies for increasing affordable housing supply, including in older, higher-density communities. For instance, many localities provide modest density bonuses, which allow developers to build more units than normally allowed in exchange for committing a certain percentage as affordable. Other strategies include taking actions at the local level which reduce construction costs for affordable housing production, including expedited permitting, less parking requirements for developments near transit, tax abatements, and reduced fees. In addition, many municipalities are making it easier for homeowners to build accessory dwelling units (ADUs) or to subdivide lots to create more housing opportunities. These strategies work best through robust community engagement efforts.

Something to watch at the Federal level is a new pilot program at HUD, called the "Yes In My Backyard"[7] initiative, that will provide $85 million in competitive grants to municipalities to encourage them to pursue innovative land use and zoning policies to promote the development of more affordable housing.

Question. What programs are most effective for creative reuse of existing structures?

Answer. Adaptive reuse of vacant and abandoned buildings is essential for revitalizing and repopulating communities, attracting commercial businesses, and increasing the municipal tax base for further investments in schools and public services.

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[4] *https://freddiemac.gcs-web.com/news-releases/news-release-details/freddie-mac-insight-shows-impact-child-care-costs-housing.*

[5] *https://www.dol.gov/sites/dolgov/files/WB/NDCP/WB_IssueBrief-NDCP-final.pdf.*

[6] *https://www.lisc.org/rhode-island/our-work/child-care-and-early-learning-facilities/.*

[7] *https://www.planetizen.com/news/2022/12/120612-congressional-spending-bill-includes-first-ever-federal-yimby-grant-program.*

However, these types of projects tend to be more expensive than new construction projects, given that the buildings in many instances are older, need to be repurposed, and often have environmental remediation issues than need to be addressed. The Federal housing and community development tax credits have been essential tools in financing adaptive reuse housing properties. The Low-Income Housing Tax Credit, often used in conjunction with Historic Tax Credits, has proven to be a very effective source of financing for converting former industrial facilities, schools, hotels, and office space into affordable housing for low-income families. Similarly, New Markets Tax Credits, which can also be utilized in conjunction with Historic Tax Credits, have frequently been used to convert abandoned buildings into mixed use properties with housing built atop retail stores or community facilities.

The National Equity Fund (NEF), LISC's tax credit syndication arm, is in the process of closing on a mixed use project that will support 70 units of housing, including 55 units of LIHTC housing, across three adjacent properties in the Island Place Historic District along the Blackstone River in Woonsocket. All three buildings are former industrial buildings which were originally constructed in the late 1800s and are now being converted to properties with affordable housing placed atop commercial facilities. The properties are very proximate to public transportation and other neighborhood amenities, and residents will be provided extensive supportive services including credit counseling, after-school programming, health referral services, and access to free or inexpensive high-speed Internet.

Though not technically adaptive reuse, older apartment buildings can fall into such disrepair that the only way to restore the properties to productive use is through extensive and substantial rehabilitation. In these instances, Low-Income Housing Tax Credits are often paired with resources from the U.S. Department of Housing and Urban Development's HOME Investment Partnership Program, Federal Home Loan Bank Affordable Housing Program, city and State tax credit and loan programs, and private debt to renovate existing buildings. Developers will often build additional affordable multifamily housing units at these properties while they are undergoing renovation and rehabilitation, if financially feasible and allowed by local zoning.

In Providence, LISC/NEF is helping to finance 36 units of LIHTC housing as part of 79 units of housing developed as part of the Joseph Caffey apartments and Jordan Caffey townhomes. This project is on the former site of Barbara Jordan Homes, a property that consisted of 26 vacant and dilapidated homes that had gone into foreclosure in 2015 and had sat vacant since then. The 79 units will be spread among 11 different buildings. Residents will be able to enjoy a community center and will have access to a computer lab.

Question. The Low-Income Housing Tax Credit is one of the primary Federal programs for creating and preserving affordable housing units. In Rhode Island, nearly 70 percent of new affordable units are financed using LIHTC. Last Congress, I cosponsored Senator Cantwell's Affordable Housing Credit Improvement Act, which would make a number of changes to LIHTC to further incentivize the building of affordable housing.

How would the bill bolster our affordable housing supply?

Answer. The AHCIA includes close to two dozen provisions that would enhance and improve the Low-Income Housing Tax Credit. According to estimates provided by Novogradac and Associates,[8] there are two provisions in particular that would create close to 2 million additional units of affordable housing over the next 10 years, helping to house close to 4.5 million people:

1. Lowering the bond financing threshold for 4-percent Housing Credits from 50 percent of project costs to 25-percent of project costs (section 313). State housing finance agencies (HFAs) can issue "4-percent credits," which typically cover about 25–30 percent of total financing costs, to help fill equity gaps in projects that are financed by Private Activity Bonds. However, by statue, HFAs can only issue 4-percent Housing Credits to projects in which at least 50 percent of the costs are financed by Private Activity Bonds. In many instances, developers will seek bond financing even though it may be more expensive than other sources of debt solely because it will trigger the equity from the tax credits.

A growing number of States have become "bond cap-constrained" in recent years, meaning they have more demand for affordable housing than they are able to fi-

[8] *https://www.novoco.com/notes-from-novogradac/novogradac-estimates-193-million-additional-affordable-rental-homes-could-be-financed-if-lihtc.*

nance with their existing PAB volume cap authority. Because of the high bond financing threshold, States are forced to put more of a scarce and needed resource into each individual property than what that property actually needs, just to unlock the full amount of 4-percent credits. In effect, the 50-percent threshold limits States' ability to build and preserve affordable housing.

By lowering the bond financing threshold from 50 percent to 25 percent, States that are bond-constrained will now be able to use these scarce resources to finance additional housing properties and, as critically, supplement this financing with additional allocations of 4-percent credits to those properties. *It is estimated that this would result in an additional 1.48 million homes being produced over the next 10 years.*

2. Increasing the formula for the 9-percent credit (section 101). States are allocated 9-percent credits based upon a per capita formula, with a minimum formula amount provided to States with smaller populations. This formula allocation was increased by 12.5 percent for each year from 2018–2021, but this increase has now expired. The AHCIA would permanently extend this increase, and also provide an additional increase to the formula of 50 percent, phased in over 2 years. *It is estimated that this provision would result in an additional 450,000 homes being developed over the next 10 years.*

Question. Are there improvements to the program that weren't included in the bill that the Senate should consider?

Answer. Yes. As noted in our long form testimony, we believe that Congress can do more to help prevent the loss of existing affordable housing properties and resources. There are two issues in particular with the Housing Credit program that we believe are critical for Congress to address that were not included in the AHCIA in the last Congress. These issues have been before Congress for several years, but enactment has been elusive in spite of the efforts of Chairman Wyden, most recently in the Decent, Affordable, Safe Housing for all Act, the DASH Act. The first issue is the Right of First Refusal in section 42(i)(7) of the code. The second issue is the Qualified Contract provision in section 42(h)(6)(E)(i)(II).

Right of First Refusal. Current law permits Housing Credit limited partnership agreements to include a right of first refusal (ROFR) in the name of a qualified nonprofit organization, typically the sponsor of the property development. Because of ambiguities in the law, further reflected in imprecise language in partnership agreements, numerous legal disputes have arisen across the country, several resulting in drawn out litigation. This situation has been driven not by initial Housing Credit investors, but rather by outside capital that has come into the industry by buying up control of syndication funds and individual investor partnerships. The business purpose of these entities is to generate revenues by insisting on back-end cash payments from nonprofits as a condition to leaving the partnership. These legal disputes over the meaning of right of first refusal language have resulted in the unintended transfer of hundreds of millions of dollars from affordable housing properties, nonprofit affordable housing sponsors, and residents (subject in some cases to higher rents).

We strongly urge the committees to pass legislation to address this issue, by permitting nonprofits to have a simple purchase option covering all of the assets of the partnership.

Qualified Contracts: Under the Qualified Contract provision in section 42, owners are permitted to approach the HFA after year 14 and give the agency 12 months to find a buyer for the property at a price established in the statute. Since the statutory price is so high and bears no relationship to the fair market value of the property with the rent restrictions, HFAs are rarely able to secure a buyer—which then permits the owners to convert their Housing Credit properties to market rents after as little as 15 years of affordability. This loophole burdens low-income renters and frustrates congressional intent. While most HFAs require developers to waive their right to utilize a Qualified Contract at the time credits are awarded, too many do not require such waivers, especially in the 4-percent credit program.

According to the National Council of State Housing Finance Agencies, more than 100,000 affordable housing units have been lost as a result of this. Closing the Qualified Contract loophole would not only protect lower-income residents, but it would also save the Federal Government money. According to the Joint Committee on Taxation, the provision in the Build Back Better bill would raise $468 million over 10 years. We urge Congress to repeal the Qualified Contract provision as soon as possible.

Question. President Biden has proposed a $15,000 Federal, refundable first-time homebuyers tax credit to assist low- and middle-income families in purchasing their first homes. This tax credit would be advanceable, meaning that homebuyers would receive the tax credit when they make the purchase instead of waiting to receive the assistance when they file taxes the following year.

Would you support such a program, and how would such a program ameliorate the difficulties families today are facing when buying a home?

Answer. LISC supports more resources, including incentives in the tax code, that can support home-ownership opportunities for first-time and minority homebuyers. One of the biggest barriers to affordable and sustainable home ownership for low-income and BIPOC families is an inability to save enough for a down payment and closing costs. Small investments in down payment assistance support affordable home-ownership opportunities for families that can afford a home mortgage but lack the wealth to get their foot in the door. The Federal Government's primary tool for supporting first-time homebuyers and those with lower incomes is through the Federal Housing Administration (FHA). The FHA insures private home mortgages and, importantly, requires a down payment of only 3.5 percent and allows for lower credit scores. Even with a low down payment requirement, many families struggle to pay these costs. And while HUD's Community Development Block Grant and HOME Investment Partnership programs can be used for down-payment assistance, these block grant programs are insufficiently funded and also utilized for many other pressing needs locally.

LISC supports targeted down payment assistance programs so that more resources can be made available to support affordable home ownership for all credit-worthy families. An advanceable credit as proposed by the Biden administration would be strengthened by targeted outreach and technical assistance to ensure that families are aware of this opportunity.

QUESTIONS SUBMITTED BY HON. TODD YOUNG

Question. As you know, the Low-Income Housing Tax Credit (LIHTC) program is one of the most successful Federal housing programs. Since its creation, the LIHTC program has served over 8 million low-income households, supported 6 million jobs, and generated $239 billion in local, State, and Federal tax revenue. One of the facets of the LIHTC program that makes it so successful is the public-private partnership aspect.

Can you please discuss the importance of this partnership in making the LIHTC program as successful as it is?

Answer. We believe that first and foremost, the public-private partnership allows for more efficient and robust program oversight. Investors, with their own capital at risk, impose underwriting and asset management oversight. The investor due diligence leads to a more robust and efficient compliance monitoring system, and results in projects that are financially strong. This is likely the primary reason that Housing Credit properties far outperform other real estate classes,[9] with occupancy rates topping 96 percent nationwide and a cumulative foreclosure rate of just 0.66 percent over the program's history.

In addition, investors and developers—not taxpayers—assume the financial risks of these projects. If projects are not in compliance with statutory requirements, tax credits are forfeited back to the Treasury. In the case of the Housing Credit, investors cannot even begin claiming credits until the apartments are occupied by low-income families at affordable rents. This is in stark contrast to most Federal grant-making programs, in which grants are advanced and an agency must seek a return of funds (often after they are already spent) in the case of program noncompliance.

Question. My colleague Senator Cantwell and I are planning to reintroduce our Affordable Housing Credit Improvement Act later this spring. Can you please describe the impact the AHCIA would have on the communities you serve?

Answer. The AHCIA would have an incredible impact on the families, as well as the communities, that LISC serves.

[9] *https://financialequity.net/publications/low-income-housing-tax-credit-year-30-recent-investment-performance-2013-2014/.*

As noted in Harvard University's State of the Nation's Housing Report,[10] data indicates that our Nation is in the midst of an affordable housing crisis. Rents increased a record 11.6 percent at the end of 2021 and remained at an elevated pace during the first quarter of 2022. This was the largest year-over-year increase in 2 decades and more than three times the 3.2 percent average annual rise in the 5 years preceding the pandemic. At the same time, rising interest rates, post-COVID supply chain disruptions, and labor force shortages are significantly increasing the costs of housing production, and creating gaps in financing that threaten the ability to move forward with properties, including some properties that have already been awarded housing credits.

The AHCIA would address issues related to increased rent and lack of production in three fundamental ways:

1. **It would increase the formula for the 9-percent credit by 50 percent, phased in over 2 years.** Novogradac and Associates has estimated [11] that this will lead to an additional 450,000 homes being developed over the next 10 years. As importantly, enacting this provision would immediately provide Housing Finance Agencies (HFAs) with additional credits that, at their discretion, could be allocated to already approved projects in their pipeline that are experiencing unforeseen financing gaps or rising debt costs that could threaten project feasibility.

2. **It would lower the bond financing threshold for use of 4-percent Housing Credits from 50 percent of project costs to 25 percent of project costs.** By lowering the bond financing threshold, States that are bond constrained will now be able to use these scarce resources to finance additional housing properties and, as critically, supplement this financing with additional allocations of 4-percent credits to those properties. Novogradac estimates [12] that this would result in an additional 1.48 million homes being produced over the next 10 years.

3. **It would provide "basis boosts" to certain properties,** including projects targeting extremely low-income families, rural projects, projects serving Native American communities, and also for certain 4-percent projects. This will enable HFAs to finance those properties that may not otherwise be financially feasible, given the rising costs of production.

Beyond providing opportunities for stable and affordable housing for low- and extremely-low-income families, the Housing Credit has also proven to be a very effective tool for community revitalization. This is due in large part to a statutory preference for projects that contribute to a concerted community revitalization plan. As a result, many projects are now being evaluated by HFAs to determine whether they will contribute towards holistic community development, including, for example, through the adaptive reuse of vacant properties, co-location with community facilities, and location near transit hubs.

For example, the National Equity Fund, LISC's tax credit syndication arm, helped finance Englewood Lofts, the adaptive reuse of an historic church originally built in 1895 in Indianapolis's Old Northside neighborhood. The building sat vacant for the last several years until the sponsor, Englewood Development Company, acquired it in 2013. The property is part of the city's Old Northside Historic Area Preservation Plan, an effort to restore the community, which spans approximately 55 city blocks. The original elements of the building's facade were preserved while the interior was completely gutted and transformed into 15 one-bedroom residences configured in a combination of flats and lofts in addition to nine two-bedroom flats. Rents are affordable to families' earning 30–60 percent of Area Median Income, with 10 percent set aside for people with special needs. Huser SpecialCare, a family-owned provider of services for children and adults with developmental disabilities, provides referrals and a range of services tailored to the disabled residents including shopping and housekeeping assistance, in-home health care, fitness instruction and nutrition counseling.

Question. I appreciate LISC's support of the Neighborhood Homes Investment Act (NHIA), which Senator Cardin and I recently introduced.

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[10] *https://www.jchs.harvard.edu/state-nations-housing-2022.*

[11] *https://www.novoco.com/notes-from-novogradac/novogradac-estimates-193-million-additional-affordable-rental-homes-could-be-financed-if-lihtc.*

[12] *https://www.novoco.com/notes-from-novogradac/novogradac-estimates-193-million-additional-affordable-rental-homes-could-be-financed-if-lihtc.*

Can you please describe the impact the NHIA would have on the communities you serve? Why is it important that we not only support affordable rental housing, but also affordable home ownership?

Answer. Neighborhood Homes addresses the need for revitalization and repopulation in rural and urban communities suffering from home foreclosures and vacant properties. Vacant properties inflict heavy costs on American communities: blight, crime, lowered home values, and decreased property tax revenue. There are mounting costs and difficulties associated with vacant and abandoned properties, especially when concentrated within neighborhoods. These neighborhoods are trapped in a cycle where low property values prevent the construction of new homes and the renovation of existing homes, and where the absence of these investments keeps property values unsustainably low.

Similarly, rural communities that don't have a decent stock of single-family homes have difficulty attracting employers to their region, creating additional headwinds for economic development and leading to further decline in population and home values.

Neighborhood Homes is designed to attract private capital to support investments in single family homes in these communities—where the costs of developing and rehabilitating homes exceed the value of the home. Neighborhood Homes would provide the developer or investor with a tax credit to cover this "value gap." We believe an incentive like Neighborhood Homes is critically needed now, to spur construction of starter homes in lower-income communities.

LISC believes that it is critical to support home-ownership housing, as this is the primary path to wealth building in this country. It's noteworthy that close to two-thirds of NHIA eligible communities are majority-minority communities, creating an opportunity to significantly cut into the home-ownership gap. According to the Treasury Department,[13] in the second quarter of 2022, the home-ownership rate for White households was 75 percent compared to 45 percent for Black households, 48 percent for Hispanic households, and 57 percent for non-Hispanic households of any other race. These gaps in home-ownership rates have changed little over the last three decades. In fact, the same Treasury report noted that the Black-White gap in home-ownership rates was the same in 2020 as it was in 1970, just 2 years after the passage of the Fair Housing Act of 1968, which sought to end racial discrimination in the housing market. These disparities limit the ability of families of color to achieve their home-ownership goals and limits asset building opportunities, contributing to our Nation's racial wealth gap.

Prepared Statement of Steve Walker, Executive Director, Washington State Housing Finance Commission

Mr. Chairman, Ranking Member Crapo, and members of the committee, thank you for this opportunity to testify on the vital role tax policy—specifically the Low-Income Housing Tax Credit (Housing Credit) and tax-exempt private-activity Housing Bonds—play in combating the housing crisis that low-income working households face. These programs are by far the most important tools we have to increase the supply of affordable housing—both through new production and preservation—and help low- and moderate-income families become home buyers.

I am Steve Walker, executive director of the Washington State Housing Finance Commission (WSHFC), which is the State of Washington's Housing Finance Agency (HFA). HFAs are State-chartered, mission-driven agencies that address the full spectrum of affordable housing need, from homelessness to home ownership. For more than 50 years, HFAs have played a central role in the Nation's affordable housing system, delivering more than $700 billion in financing to make possible the purchase, development, and rehabilitation of more than 8.1 million affordable homes.[1]

On behalf of the HFAs' national trade association, the National Council of State Housing Agencies, I want to begin by thanking you, Mr. Chairman, for being a steadfast champion of the Housing Credit and Housing Bonds for many years. We

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[13] *https://home.treasury.gov/news/featured-stories/racial-differences-in-economic-security-housing#:~:text=housing%20equity%20wealth.-,Homeownership,households%20of%20any%20other%20race.*

[1] *State HFA Factbook: 2021 NCSHA Annual Survey Results,* The National Council of State Housing Agencies, 2022.

particularly appreciate your vision for solving the affordable housing crisis, as outlined in the Decent, Safe, Affordable Housing for All (DASH) Act. I also want to thank you, Senator Crapo, for always being a supporter of State HFAs, and in particular for your support of tax-exempt Housing Bonds. Lastly, I want to acknowledge Senators Maria Cantwell (D–WA) and Todd Young (R–IN) for their leadership as the sponsors of the Affordable Housing Credit Improvement Act, passage of which is the most important thing Congress could do to address the imbalance between supply and demand for affordable rental housing.

INSUFFICIENT SUPPLY IS OUR NATION'S MOST SIGNIFICANT AFFORDABLE HOUSING CHALLENGE

While the housing crisis is multifaceted, I am pleased this hearing focuses squarely on the biggest driver of that crisis: the inadequate supply of affordable rental and for-sale homes. This is certainly the case in Washington State where every part of our State—especially, but not only, the Seattle area—is experiencing unprecedented housing instability driven by a growing gap between incomes and housing costs. According to the National Low Income Housing Coalition, our State would need to build almost 160,000 apartments just to fulfill today's immediate need for housing for the lowest-income families—to say nothing of those with higher incomes who are struggling to find appropriate housing.

America has been in the midst of a housing crisis for a long time, but never has the need been more acute than it is today. In particular, and especially since the Great Recession when many developers left the industry, our Nation has drastically under-produced both rental and for-sale housing. We are currently seeing the repercussions of the extreme mismatch between supply and demand.

Meanwhile, in the 2-year period from early 2020 to early 2022, the number of renter households grew by 1.1 million to 44.2 million.[2] With rising interest rates and escalating home prices, would-be homeowners are stuck renting at the same time millennials, many of whom put off household formation, are now entering the rental market.

The sheer number of new renters, without corresponding housing production, has driven historically low vacancy rates and skyrocketing rents, with rents in most major markets spiking by double digits between 2021 and 2022.[3]

Demand-side programs, such as Housing Choice Vouchers, and supply-side programs, like the Housing Credit, play different and complementary roles in meeting affordable housing needs. Rental assistance works most effectively in markets with an adequate supply of quality housing and landlords willing to rent to voucher holders. Those well-supplied markets are certainly not to be found in Washington State, or in many areas of the country.

In fact, lack of supply has become a significant problem everywhere in urban, suburban, and rural areas. In Seattle, housing construction has lagged so far behind the growing population that rents have skyrocketed out of reach of all but the highest-paid workers. Families, especially families of color, have been pushed farther and farther out of the metro area in search of affordable rents. Suburban areas in turn are rapidly becoming less affordable, and rural areas also feel the pinch. Every part of Washington is experiencing similar dynamics. Unfortunately, a rental voucher is only helpful if a unit can be found.

Instead, in these areas with tight housing supplies, programs like the Housing Credit are essential. They not only generally expand supply in tight markets, they also produce housing for households with special needs, build properties in areas experiencing job growth, recapitalize and preserve aging properties, and revitalize communities victimized by systemic racism.

Ideally, both supply- and demand-side resources would be available as needed in communities across the Nation: supply-side programs to ensure we can build and preserve the housing we need, and demand-side programs so that the most vulnerable among us will not be rent-burdened.

[2] *The State of the Nation's Housing 2022,* Joint Center for Housing Studies of Harvard University, June 2022.
[3] *Ibid.*

THE CRITICAL ROLE OF THE HOUSING CREDIT AND MULTIFAMILY HOUSING BONDS

There is a fundamental market failure when it comes to affordable housing supply. It simply costs too much to build housing to rent it at rates low-income people can afford absent a financial incentive such as the Housing Credit. Developers will tell you it is economically infeasible for them to build rental housing without the equity derived from the Credit unless they charge rents that are well out of the reach of low-income families.

The Housing Credit and Housing Bonds are by far the state HFAs' most essential production tools. The Credit is a highly successful public-private partnership that draws on state HFAs' sophisticated underwriting, asset management, and oversight capacity, as well as private-sector experience and investment. It is the most efficient means of increasing rental housing supply, while transferring risk to private-sector investors rather than taxpayers. Since the Credit's establishment in the Tax Reform Act of 1986, it has financed more than 3.7 million affordable rental homes for low-income families, seniors, veterans, and those with special needs.[4]

In recent years, more than half of Housing Credit homes have been financed with the help of multifamily Housing Bonds, which trigger the 4-percent Housing Credit. In Washington State, multifamily Housing Bonds play an even more outsized role as we have maximized this critical resource, partnering closely with both nonprofit and for-profit developers.

Together, Housing Credits and Housing Bonds are helping low-income working families, seniors, people with disabilities, and those who have experienced homelessness. While the Housing Credit program generally serves low-income households earning 60 percent of area median income (AMI) or less, with congressional direction to serve the lowest income households possible, in practice the program reaches families with incomes much lower than its top-most statutory limits. In fact, 53 percent of households living in Housing Credit apartments are extremely-low-income, meaning they earn 30 percent or less of AMI, and another 31 percent are very-low-income, earning between 30 and 50 percent of AMI.[5]

A study by Freddie Mac found that the average Housing Credit rent payment was 38 percent lower than the market-rate rent for a comparable apartment in an analysis of nine metropolitan areas across the Nation. This is certainly indicative of what we see in Washington. In December, we approved financing for several apartment buildings where the proposed rents were up to 60 percent lower than market rents.

Moreover, the benefits of the Housing Credit go beyond the savings it provides to low-income households. Rigorous academic research has quantified many of these indirect benefits.

- Stanford researchers assessed the impact of the Housing Credit and found "an affordable housing development in a low-income area improves welfare by $23,000 per local homeowner and $6,500 per local renter, with aggregate welfare benefits to society of $115 million.[6]
- Cornell analysts studied the Credit and found "low-income housing development in the poorest neighborhoods brings with it significant reductions in violent crime."[7]
- Research from the University of Michigan quantifying the spatial improvement effects of Housing Credit development found "Black high-poverty neighborhoods receiving the [Housing Credit] investment have experienced the most positive change."[8]

[4] *State HFA Factbook: 2021 NCSHA Annual Survey Results,* National Council of State Housing Agencies, 2022.
[5] *Tenants in LIHTC Units as of December 31, 2019,* U.S. Department of Housing and Urban Development, Office of Policy Development and Research.
[6] *Who Wants Affordable Housing in Their Backyard? An Equilibrium Analysis of Low Income Property Development,* Diamond and McQuade, July 2015.
[7] *Low-Income Housing Development and Crime,* Journal of Urban Economics, Freedman and Owens, 2011.
[8] *Low-Income Housing Tax Credit Developments and Neighborhood Change: A Case Study of Miami-Dade County,* Deng, 2011.

- Analysis from a Georgetown University and Joint Committee on Taxation researcher showed "growing up in [Housing Credit] housing has a large positive effect on both education and earnings."[9]
- A review of 16 studies of Housing Credit-financed development found, in part, that the program generally resulted in lower crime and higher property values in distressed neighborhoods.[10]
- Research by the Federal Reserve Bank of Boston found that, at the county level, Housing Credit projects significantly reduce homelessness.[11]

THE IMPACT OF RISING COSTS ON DEVELOPMENT OF AFFORDABLE RENTAL HOUSING

Unfortunately, the economic fallout of the COVID–19 pandemic has made it even harder to produce rental housing. The costs of many commodities necessary for construction have gone up drastically, while supply chain disruptions create development delays that further increase costs, and developers struggle to find skilled workers and subcontractors.

According to the National Association of Home Builders, since Spring 2020, prices have gone up for frame lumber by 25 percent, copper by 187 percent, aluminum by 72 percent, steel mill products by 79 percent, plastic construction products by 55 percent, brick by 25 percent, interior paint by 47 percent, and exterior paint by 62 percent.[12]

Some have criticized the Housing Credit by claiming that up-front costs for the program are higher than those for market-rate housing. However, a 2018 report by Abt Associates found that Housing Credit new construction between 2011 and 2016 averaged $190,804 per unit.[13] Data from Dodge Data and Analytics on the multifamily market as a whole over the same time period suggests that the average per-unit cost for new construction was approximately $188,710.[14]

Furthermore, affordable housing produced with the Housing Credit and other governmental programs has certain up-front development costs that market-rate housing does not have. Unlike market-rate developers, Housing Credit developers do not make a profit by charging high rents or by selling a property once it has appreciated in value. Instead, they are compensated for their work by receiving a developer fee, which is factored into the total development cost on the front end.

Affordable housing developments that have certain HUD financing may also be subject to prevailing wage requirements. Housing Credit investors also require reserves capitalized on the front end so that owners would be able to respond to maintenance and future operational needs over the affordability period. Sadly, neighborhood opposition to affordable housing in some locations can result in delays, leading to increased costs. These factors contribute to why a simple comparison of Housing Credit and market-rate development costs without context is not a reasonable analogy.

CONGRESSIONAL ACTION IS NEEDED TO ADDRESS THE RENTAL HOUSING CRISIS

Despite the vast and growing need and the escalating costs of production, the Housing Credit has suffered a recent cut to resources. A hard-won increase in Housing Credit resources, which Senator Cantwell was instrumental in achieving in 2018, expired at the end of 2021. That means State HFAs have fewer Credits to provide to developers now, at a time when their costs have gone up substantially and demand is unprecedented.

Costs are rising so quickly that projects in the pipeline often must be re-underwritten before completion, sometimes several times, to address financing gaps. This has caused tremendous problems as States and their developer partners try to find creative ways of filling these unexpected, gaping holes in project financing.

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[9] *Does Growing Up in Tax-Subsidized Housing Lead to Higher Earnings and Educational Attainment?,* Derby, 2021.
[10] *The What, Where, and When of Place-Based Housing Policy's Neighborhood Effects,* Dillman, Horn, and Verrilli, 2017.
[11] *Do Increases in Subsidized Housing Reduce the Incidence of Homelessness? Evidence from the Low-Income Housing Tax Credit,* Jackson and Kawano, 2015.
[12] Data provided by the National Association of Home Builders to the National Council of State Housing Agencies.
[13] *Variation in Development Costs for LIHTC Projects,* Abt Associates, 2018.
[14] *Historical Starts Information: Multifamily Starts—U.S. Summary, Annual Totals,* Dodge Data and Analytics, August 2018.

In some cases, developers of projects that were initially provided Credits in prior years try to fill the gaps by asking for a subsequent allocation of Credits from the state's current-year authority. Even if this is possible, backfilling older deals means the State will have far less Credit authority with which to fund new proposals.

Another reason cost increases are particularly problematic is that bond-financed projects risk missing the 50-percent threshold requirement for maximizing Housing Credit resources (discussed further below). With prices going up quickly, some projects risk failing this threshold test and thus failing to trigger the full amount of critical Housing Credit.

The Federal Government has delayed far too long in taking the steps our Nation needs to address the housing crisis. We are now seeing the repercussions of that delay in rapidly escalating rents, and it is our most vulnerable residents who pay the price.

The good news is, we know what works, and we have the right tools in hand. By far, the most impactful thing Congress could do to meet the need is to pass Senator Cantwell and Senator Young's Affordable Housing Credit Improvement Act (AHCIA). More than half of this committee cosponsored this legislation in the 117th Congress, and I urge all to do so upon its reintroduction this year.

The AHCIA is comprehensive legislation that would expand and strengthen the Housing Credit. While it includes many policy changes—some of which are no-cost, common-sense, good governance improvements based on over 3 decades of program administration—I'd like to focus on how the bill would expand the Housing Credit, as these are the provisions that add to supply.

The AHCIA would make a significant increase in Housing Credit allocation authority for what we call the "9-percent" Housing Credit. The 9-percent credit is the component of the program that provides the more substantial subsidy to developments. These Credits are highly competitive, and States often use them to finance the most challenging and needed properties for the highest-risk populations. In Washington, we have prioritized this deeper-subsidy program for supportive housing, which provides both housing and essential services for the homeless and most vulnerable. This kind of housing supports special-need populations not only in Seattle but also in communities of every size across Washington. This is also the program most impacted by the expiration of the 2018 expansion to the program—which allowed us to build three more of these critically needed properties each year for which it was in place.

The other major provision in this legislation that would substantially increase supply is the reduction of the bond financing threshold, sometimes called the 50-percent test. For Washington, this is probably the most impactful action Congress could take to increase supply.

To maximize the 4-percent credit equity available to an individual deal, developers must use multifamily bonds to cover at least 50 percent of the development cost. That means to unlock the 4-percent credits, States need to make a significant investment of our Federal Private Activity Bond (PAB) cap in each development.

In Washington State, we have long prioritized our Federal PAB cap for housing, using every dollar of this finite resource. Yet in our most recent competitive round for this funding, we received $1 billion in requests for shovel-ready housing projects, while having only $250 million to allocate. This has become typical: over the past 5 years, three to four times as much bond authority has been requested as we could fulfill—all viable, fully ready housing projects that must wait on the shelf as construction costs continue to rise. More and more States are like Washington in this regard: according to research by Novogradac and Tiber Hudson, 18 States were oversubscribed for PAB cap as of March 2023.

Covering at least 50 percent of a project's total cost with multifamily bonds, which contribute debt, makes no sense from a financing perspective. Because the project cannot support that much debt over the long run, the developer must refinance the project to pay off the bond debt to put in place permanent financing at a much lower debt level that the project can reasonably support. This practice is inefficient, adds cost, and prevents States from spreading bond resources to more quality affordable housing projects.

If instead this bond-financing threshold was lowered to 25 percent, half the bond cap would be needed to access the same amount of Housing Credits for individual properties—effectively allowing us to double total Multifamily Bond production. According to an estimate by Novogradac, a reduction to a 25-percent threshold would finance 51,800 additional affordable homes in Washington State over the 10-year period beginning in 2023. It is this type of common-sense reform to the Housing Credit and Multifamily Bond programs that will allow Washington and other States to dramatically scale production to address supply challenges.

The AHCIA also includes other provisions that would increase production by providing basis boosts for properties in rural areas, those benefiting tribal populations, and those housing extremely low-income households, as well as expanding the number of areas where basis boosts are allowed because the area qualifies as a Qualified Census Tract or Difficult Development Area. The AHCIA also gives States discretion to provide a 30-percent boost to 4-percent credit properties as needed for financial feasibility.

PROTECTING TAXPAYERS' INVESTMENT BY COMBATING THREATS TO LONG-TERM AFFORDABILITY

Without question, we need to build more affordable housing. But we also need to preserve the affordable properties in which the taxpayer has already invested through the Housing Credit and Multifamily Bonds. Housing Credit properties are expected to remain restricted for at least 30 years. However, there is a loophole in the law that allows owners to terminate the affordability restrictions any time after the 15th year through a process called Qualified Contract.

Under the Qualified Contract provision of the tax code, an owner of a Housing Credit property may, after Year 14, require that the State Housing Credit Agency find a buyer for the property willing to pay the Qualified Contract price to purchase the property. This request begins a 1-year period during which the State seeks a qualified buyer to purchase the property and maintain it as affordable for the duration of the extended use period. The required purchase price for a Qualified Contract, stipulated by section 42, was designed in 1989 to prevent backend windfalls to owners and investors by limiting them to an inflation-adjusted return on the original equity contribution at a time when the Housing Credit was an unproven and temporary program.

In practice, Qualified Contracts have come to function as a nearly automatic affordability opt-out after just 15 years. This is because the Qualified Contract formula price in nearly all cases significantly exceeds the market value of the property as affordable housing. As a result, it is rare for the State to find a buyer willing to pay the Qualified Contract price. If the State fails to find a qualified buyer within 1 year, the property is released from the affordability requirements of the Housing Credit program. At that point, the owner is free to either sell the property at market value without any deed restrictions or continue to own the property and charge market rents after a 3-year rent protection period for existing tenants.

NCSHA data indicates that the Qualified Contract process is resulting in the premature loss of approximately 10,000 units annually. As of 2021, more than 100,000 apartments nationwide had already been lost from the Housing Credit inventory before what would have otherwise been the full affordability period for those homes.

Washington State has long had a policy of requiring owners to waive their right to a Qualified Contract as a condition of receiving Housing Credits, and thus my State has not lost units to Qualified Contracts. However, many of my colleagues did not put such policies in place until much later. Waiver requirement policies will not impact Qualified Contract losses until 15 years after they are adopted, which means many States are still losing Housing Credit properties to early termination due to the Qualified Contract loophole.

Congress can prevent these losses now by closing this loophole in the law. Senator Wyden's DASH Act has included a provision that would fix this by eliminating the Qualified Contract provision in section 42 for properties financed after the date of enactment and modifying the Qualified Contract price for existing properties such that it would be fair market value of the property, taking into consideration the property's deed restrictions. We strongly urge all members of the committee to support this change.

Another essential step Congress can take to ensure long-term affordability of properties is to protect nonprofit sponsors seeking to exercise the right of first refusal in their partnership documents as allowed under section 42. This right has been challenged in recent years by some investors, primarily outside entities who have obtained control of investor partnerships from the original investors after all tax credits have been claimed. These entities—often called "aggregators"—demand a payoff not contemplated in the partnership agreement as a condition of exiting the partnership. This has led to scores of legal disputes and, in many cases, costly litigation.

Nonprofits that do not have the financial wherewithal to fight the limited partner in court are forced to acquiesce to unexpected investor monetary demands which may undermine the long-term financial viability of the property or force the nonprofit to raise rents, decrease resident services, defer maintenance, or even sell the property to cover the pay-off.

In Washington State, because of the significant rise in property values and thus the potential for profits, we represent a prime target for aggregators looking to quickly maximize profit from housing properties at the expense of serving residents and communities over the long term, not to mention protecting the assets our Federal investments have created. That's why we call on Congress to protect the nonprofit right of first refusal.

Again, Senator Wyden has been a leader in rectifying this problem. His DASH Act would provide clarity to the tax code by defining "property" to include all partnership assets, not just the physical structure of the development, and stipulating that, unless the partnership agreement provides otherwise, no offer from a third party is required to trigger the right of first refusal; limited partner consent is not required to exercise the right of first refusal; and the right of first refusal may be initiated by an offer from any entity, including a related party. Further, to improve this process in the future, the DASH Act would replace the right of first refusal with a purchase option for projects financed after the date of enactment. Again, I urge all committee members to support this change.

THE HOUSING CRISIS IS IMPACTING HOME OWNERSHIP OPPORTUNITIES, TOO

Our Nation's critical affordable housing shortage is not limited to rental housing. According to a recent analysis by Freddie Mac, the United States would need to construct nearly 3.8 million for-ownership homes to meet demand.[15] Insufficient supply has substantially increased sale prices of single-family homes, pricing many working families out of the market. Moreover, recent dramatic increases in mortgage interest rates have exacerbated affordability challenges. The average home payment for a new home buyer was up 68 percent year over year in the fourth quarter of 2022,[16] putting home ownership out of reach for many households.

Another significant challenge facing low- and moderate-income households seeking to become homeowners is the lack of starter homes on the market. For some time, builders have reported that building smaller homes is cost-prohibitive, therefore most new construction is of larger luxury homes because that is the only way for developers to make the economy of scale work. The median sale price for a new home in 2022 was $455,800, a nearly 15-percent increase over 2021.[17] Just 15 percent of new homes sold in January 2023 were priced under $300,000, compared to around 30 percent in January 2021.[18] Moreover, development costs for single-family homes are also subject to the same market dynamics as multifamily production, including significant inflation of common construction materials, supply chain delays, and workforce disruptions.

These market developments have made it harder to address the longstanding home-ownership gap between White households and households of color. At the end of 2022, 74.5 percent of White households owned their home, compared to 61.9 percent of Asian American households, 48.5 percent of Hispanic American households, and 44.9 percent of African American households.[19]

A recent study found that, in each of the Nation's 50 largest metro areas—including Seattle—African American residents own a disproportionately small share of homes compared with their population.[20] One of the biggest factors historically preventing minority families from purchasing a home is a lack of accumulated wealth

[15] *One of the Most Important Challenges Our Industry Will Face: The Significant Shortage of Starter Homes,* Sam Kater, Freddie Mac, April 2021.
[16] *Homeownership Rate Remains High, Despite Ongoing Affordability Pressure,* Hannah Jones, *Realtor.Com* February 10, 2023.
[17] *Monthly New Residential Sales, January 2023,* U.S. Census Bureau, February 24, 2023.
[18] *Ibid.*
[19] *Housing and Homeownership: Homeownership Rate,* Federal Reserve Bank of St. Louis.
[20] *Black Americans Own Disproportionately Small Share of Homes in 50 Largest U.S. Metros,* Jacob Channel, Lending Tree, April 5, 2022.

compared to White households, a legacy of our Nation's discriminatory redlining policies.

The current surge in pricing has worsened these disparities by making it even harder for minority households to amass the necessary savings to pay for the up-front costs of purchasing a home. While State HFA down payment assistance programs offer an affordable and sustainable option for such borrowers, we need a more comprehensive solution that helps increase supply and improve other home-ownership tools.

A healthy and affordable home purchase market is crucial for economic growth. Home ownership is many working families' primary means of building generational wealth. Further, an active home purchase market would open up more rental opportunities for those wishing to rent as new home buyers leave their apartments.

CONGRESSIONAL ACTION TO ADDRESS THE NEEDS OF HOME BUYERS

While addressing these issues will take concerted and multifaceted action, there are two legislative proposals the Finance Committee can take up in this Congress to expand the supply of affordable homes and improve access to home ownership for low- and moderate-income home buyers. These are the Affordable Housing Bond Enhancement Act and the Neighborhood Homes Investment Act.

I want to thank committee member Senator Catherine Cortez Masto (D–NV) for introducing the Affordable Housing Bond Enhancement Act (AHBEA) in the last Congress. This important bill would enact simple and impactful improvements to two essential tax incentives that help first-time low- and moderate-income home buyers: the Mortgage Revenue Bond (MRB) and Mortgage Credit Certificate (MCC) programs. NCSHA looks forward to the bill's reintroduction this year.

MRBs historically have been HFAs' primary tool for financing low-interest mortgages for low- and moderate-income home buyers. Investors are willing to accept a lower rate of return for Housing Bonds than they would get on other investments because the interest on the bonds is exempt from Federal income tax. The lower rate is then passed on to lower the interest rate paid by lower-income home buyers.

In total, MRBs have helped more than 3.4 million working households become home buyers. The median income of MRB loan borrowers in 2021 was 64 percent of the national median income. WSHFC utilized MRBs to help more than 400 Washington families achieve the dream of home ownership in calendar year 2021, supporting more than $103 million in loans for low- and moderate-income home buyers.[21]

In addition, HFAs can use their MRB authority to issue Mortgage Credit Certificates, which provide a nonrefundable Federal income tax credit for part of the mortgage interest qualified home buyers pay each year. State HFAs have used MCCs to provide critical tax relief to more than 386,000 families. WSHFC has issued MCCs to nearly 17,000 home buyers.

AHBEA would improve MRBs and MCCs by, among other changes:

- Increasing the MRB home improvement loan limit;
- Allowing MRBs to be used for refinancing loans;
- Providing HFAs additional flexibility in how they utilize housing bond authority;
- Simplifying how a borrower's MCC benefit is calculated;
- Reducing the time period for the MRB and MCC recapture tax from 9 years to 5;
- Extending the amount of time HFAs can use converted MCC authority from 2 years to 4; and
- Allowing HFAs to reconvert MCC authority back into MRBs 2 years after the conversion, rather than one.

This legislation is a cost-effective way to improve the MRB and MCC programs. I urge all committee members to cosponsor this legislation when it is reintroduced.

Lastly, I'd like to express support for the Neighborhood Homes Investment Act (NHIA). In many census tracts and rural areas, developers cannot sell homes for what it costs to construct or substantially rehabilitate them, known as the "value

[21] *State HFA Factbook: 2021 NCSHA Annual Survey Results,* National Council of State Housing Agencies, 2022.

gap." This is a problem for which we currently do not have a solution. We need a new tool in our box.

The NHIA would establish a new tax credit, the Neighborhood Homes Credit, modeled after the highly successful Housing Credit. It would incentivize developers to construct new or substantially rehabilitate housing by closing the value gap, up to 35 percent of eligible development costs. It is estimated that the equity raised by the Neighborhood Homes Credit would finance the building and substantial rehabilitation of 500,000 affordable homes for low- and moderate-income homeowners over the next 10 years.

I encourage the committee to take up and advance both of these bills as quickly as possible.

The housing crisis will not get better unless Congress acts. Enactment of the bills I've addressed in this testimony—the Affordable Housing Credit Improvement Act, provisions of the DASH Act that would close the Qualified Contract loophole and protect nonprofit housing credit sponsors, the Affordable Housing Bond Enhancement Act, and the Neighborhood Homes Investment Act—would truly address the affordable housing crisis for both renters and homeowners. WSHFC and all HFAs, through our national association, the National Council of State Housing Agencies, urge the committee to act on these bills and Congress as a whole to enact them this year.

Thank you for your commendable efforts to support affordable housing. I am honored to have had this opportunity to testify before the committee.

Questions Submitted for the Record to Steve Walker

Questions Submitted by Hon. Todd Young

Question. In your testimony you highlighted the importance of the Neighborhood Homes Investment Act—legislation I reintroduced with my Senate Finance Committee colleague, Senator Cardin—in addressing the value gap between rehabilitation costs and home values.

Can you please discuss further why this legislation is so critical and how this credit will build upon the important work done through the Low-Income Housing Tax Credit (LIHTC) program?

Answer. Thank you for your leadership on the Neighborhood Homes Investment Act (NHIA), which would create a new tax credit tool designed to make it possible to revitalize thousands of communities across the nation. The NHIA would solve two of our most pressing housing and community development problems simultaneously.

The first problem is an extreme shortage of starter homes in good condition. Home ownership is the primary means of building wealth and financial security for most families. Yet market-based forces in the current economic environment are such that it is often not financially feasible for single-family developers to produce or rehabilitate modest for-sale properties that most first-time homebuyers can afford. This means that many households are locked into renting when they are otherwise good candidates for home ownership, putting added pressure on the rental market.

The second problem is one of neighborhood conditions in many areas. Across the nation, thousands of once-thriving communities now suffer from blight, vacancy, and abandonment because of dilapidated single-family housing stock. This undermines neighborhood stability and the local tax base and makes it difficult for these communities to attract and retain working families. It also harms existing homeowners in these communities, often African American families, whose property values are tied to the degradation of their neighborhoods.

This is why NCSHA and its HFA members strongly support the NHIA, which is designed to close the value gap to allow for reinvestment in chronically underserved communities, helping low- and moderate-income homebuyers and homeowners to improve property values and increase family wealth.

The Neighborhood Homes Credit is modeled after the highly successful and proven Low-Income Housing Tax Credit (Housing Credit). Structured as a public-private partnership, the program would be administered by State HFAs, which have the capacity and experience to efficiently run such programs. Like the Housing Credit, HFAs would develop a qualified allocation plan for the Neighborhood Homes Credit, developers would apply for credit authority to attract investors, who would provide the equity needed to fill the value gap and jumpstart neighborhood revitalization. Those investors, and not the federal government, would assume the risk associated with the development.

Question. As we continue to evaluate the ways State and local governments can assist in addressing the housing affordability crisis, one area of concern is over-burdensome permitting restrictions that slow the supply of housing and drive up the market value of homes.

Can you please discuss any work you have done in Washington to encourage State and local governments to streamline permitting restrictions?

Answer. Several local jurisdictions in Washington have implemented innovative policies and taken actions to deal with housing affordability in their communities. Some examples include enacting a density bonus to encourage affordable housing development in Bellingham, waiving impact fees for affordable housing developments in Kirkland, and decreasing parking requirements to reduce construction costs in Bellevue and Renton.

Additionally, Seattle has eliminated the lengthy design-review process for affordable housing to help streamline permitting. The goal is to assist in the production of low-income housing by exempting these projects from Design Review and allowing for a waiver of certain development standards for these projects. The impact accelerates the permitting of city-funded affordable housing projects, thereby reducing costs and decreasing the time needed for new affordable units to enter into service.

This year's State legislative session (still underway) includes additional legislative efforts to address permitting restrictions. The following bills have all advanced out of house of origin:

- *E2SSB 5045*—Allows counties to offer to exempt the value of the ADU (up to 30 percent of original structure) if it's rented to a low-income household (up to 60 percent AMI) and charge no more than 30 percent of the tenant's monthly income. Exemption remains for as long as it's rented to a LI household.
- *HB1110*—Requires cities to allow for middle housing (townhomes, 2-6plexes, cottage housing) in areas traditionally dedicated to single-family detached housing that are close to transit and served by urban infrastructure. Prohibits onerous requirements on middle housing, allows for administrative permitting review process and adds requirement of affordable housing for certain additional units.
- *SSB5235*—Requires the consideration and utilization of ADU's as a housing option within comprehensive planning. Requires attached ADU's to have a substantial share within the other housing unit and shared structural elements. Requires adoption in next comprehensive plan and prohibits cities and counties prohibiting ADU construction within urban growth areas as well as imposing restrictions on ADU development or requiring covenants or ownership requirements.
- *ESSB 5466*—Prevents city planning under the Growth Management Act (GMA) from prohibiting multifamily residential housing on parcels near transit station areas, where any other residential use is permissible (with some exceptions). Also prohibits city planning under the GMA from imposing a maximum residential density in transit-station areas or requiring off-street parking in these areas, with some exceptions.

QUESTIONS SUBMITTED BY HON. SHELDON WHITEHOUSE

Question. Rhode Island college graduates of the class of 2020 graduated with an average of $36,791 in outstanding student loan debt. At the same time, the National Association of Realtors reports that housing affordability reached the worst level on record in the fourth quarter of 2022. Last Congress, I introduced several bills to ease the burden of student loan debt, including canceling student loans for front-line health-care workers and teachers.

For those with tens of thousands—and in some cases hundreds of thousands—of dollars of student loan debt, how does their debt affect their ability to buy a home or afford rent?

Answer. Increasing student loan debt can impact consumers' housing options over both the short and long term. In the short term, it reduces the amount of income new graduates can use to pay for housing. This limits the options available to them as they search for their first apartment, and increases competition for more modestly priced units, increasing competition for the Nation's shrinking stock of affordable homes.

In the longer term, high student loan payments make it difficult for household to save up to purchase a home. Student loan debt can also negatively impact consumers credit scores, which restricts the types of mortgage loans available to them.

From a housing policy perspective, the most important step Congress can take is to help increase the supply of affordable homes by passing legislation such as the Affordable Housing Credit Improvement Act and Neighborhood Homes Investment Act, as well as funding the HOME Investment Partnership program. All of these programs will bolster the supply of available homes, helping to reduce costs for all renters and homeowners.

Another step Congress could take is to increase access to down payment assistance. State housing finance agencies (HFAs), including WSHFC here in Washington, administer robust down payment assistance programs to help credit-worthy households who can't afford to save up for a down payment assistance, either because of student debt obligations or other reasons, realize the dream of home ownership. In 2021, HFAs provided down payment assistance to nearly 120,000 homebuyers. WSHFC provided such assistance to more than 7,300 Washington State families that year, accounting for 98 percent of program borrowers. We currently offer a variety of down payment assistance options, including five programs targeted to residents of high-cost jurisdictions in the State, such as Seattle and Clark County.

Question. Over the past 2 decades, the growing cost of child care has outpaced inflation. Child-care costs for Rhode Island families can now reach more than $10,000 per year annually for each child, and many families now are paying nearly 30 percent of their incomes on child care. At the same time, the National Association of Realtors reports that housing affordability reached the worst level on record in the fourth quarter of 2022. Indeed, according to HousingWorksRI, there are currently no communities in Rhode Island where families earning the State's median income or less can afford to buy a home, and there's only one community—Burrillville—where Rhode Islanders can affordably rent.

How does the high and growing cost of child care affect families' ability to buy a home or afford rent?

Answer. As with student loan debt, any increase in household costs will reduce the amount of money available for families to spend on housing, reducing their options and increasing competition for more modestly priced homes. This underscores the need for Congress to support initiatives that will increase housing supply and expand access to down payment assistance.

Question. Rhode Island is the 2nd-densest State in our Union, second only to New Jersey.

For States like mine, where people live in much closer proximity to each other than elsewhere in the Nation but which still have a housing shortfall, what are the best practices and reforms for encouraging affordable housing development while still preserving livable communities and local character?

Answer. One of the keys to the Housing Credit program's long success is how it has been used to build affordable homes that fit in with the local character of the community. Housing Credit properties come in all shapes and sizes. In some places the program finances larger multistory properties, in others, it finances garden-style apartments. In some communities, it is used to build townhouse style or even single family scattered site rental homes. Developers have great flexibility in how they design their projects to best meet the context of the surrounding neighborhood and are mostly limited only by cost-effectiveness.

Question. The Low-Income Housing Tax Credit is one of the primary Federal programs for creating and preserving affordable housing units. In Rhode Island, nearly 70 percent of new affordable units are financed using LIHTC. Last Congress, I cosponsored Senator Cantwell's Affordable Housing Credit Improvement Act, which would make a number of changes to LIHTC to further incentivize the building of affordable housing.

How would the bill bolster our affordable housing supply?

Are there improvements to the program that weren't included in the bill that the Senate should consider?

Answer. Thank you for your support of the Affordable Housing Credit Improvement Act (AHCIA), passage of which is the single most important thing Congress could do to address the severe imbalance between supply and demand for affordable rental housing. As I noted in my testimony, our Nation has drastically underproduced housing for decades, but especially since the Great Recession when many developers exited the industry. This has left us with a 7.3 million rental home shortage just for extremely low-income households (those at or below the Federal poverty level or earning no more than 30 percent of their area median income, whichever is greater). When combined with rental housing production needed to house other low-income households who earn just slightly more, the supply gap is staggering.

While there are several proposals in the AHCIA that would bolster production, the two that have the most substantial impact are the increase in credit authority for the 9-percent component of the program and lowering the bond financing threshold from 50 percent to 25 percent for the 4-percent component of the program. Together, these two changes are estimated to finance 1.93 million additional homes between 2023 and 2032, housing an additional 4.5 million people and generating nearly 3 million jobs, more than $335 billion in wages and business income, and nearly $116 billion in tax revenue.

The AHCIA is comprehensive legislation, and while the two primary production provisions noted above are the most essential for increasing supply, the bill takes a soup to nuts approach on program modifications that would strengthen its administration and improve program outcomes.

That said, there are additional critical proposals before Congress that would greatly improve the Housing Credit that are not included in the AHCIA, but are in Senator Wyden's Decent, Affordable, Safe Housing for All (DASH) Act. The DASH Act would protect taxpayers' investment in Housing Credit properties by combating two threats to long-term affordability.

First, the DASH Act would close the qualified contract loophole, which allows owners to terminate the affordability restrictions on a Housing Credit property long before the end of the property's affordability period. The qualified contract process is outlined in my written testimony; however, in summation, this practice has come to function as a near automatic affordability opt-out after just 15 years unless the owner has waived their right to the qualified contract, while Congress envisions this program as one that provides affordability for at least 30 years, and many States, including Washington, often require longer affordability periods than that.

NCSHA data indicates that the qualified contract process is resulting in the premature loss of approximately 10,000 units annually. As of 2021, more than 100,000 apartments nationwide had already been lost from the Housing Credit inventory before what would have otherwise been the full affordability period for those homes.

Second, the DASH Act would protect nonprofit sponsors of Housing Credit properties seeking to exercise the right of first refusal in their partnership documents as allowed under section 42. This right has been challenged in recent years by some investors, primarily outside entities who have obtained control of investor partnerships from the original investors after all tax credits have been claimed. These entities—often called "aggregators"—demand a payoff not contemplated in the partnership agreement as a condition of exiting the partnership. This has led to scores of legal disputes and, in many cases, costly litigation, often undermining the long-term financial viability of the property or force the nonprofit to raise rents, decrease resident services, defer maintenance, or even sell the property to cover the payoff.

QUESTIONS SUBMITTED BY HON. MARIA CANTWELL

Question. As we discussed at the hearing, we have been facing the housing affordability crisis for too long—both in cities like Seattle and in rural areas. The pandemic and inflation have made it clear that it is beyond time that we take the necessary steps to truly address the housing supply problem.

We all know a shortage of affordable housing is a crisis in every State—in fact, not one has enough affordable housing for the lowest-income renters. Heightened demand for rental housing has made rental markets extremely tight, and new additions to the rental supply have not kept up with demand.

You mentioned in the hearing that we have under-built housing for over 20 years. It clear that this housing supply shortage has only increased the cost of rent relative to median income.

Between 2006 and 2015, the median income in Washington State increased three percent, but the median rent increased by 18 percent. Nearly 230,000 Washingtonians pay more than half of their monthly income on rent. Among extremely low-income renters in the State, 68 percent pay more half or more of their monthly income on rent.

Together with Chairman Wyden and Senators Young and Blackburn, we are working to take this issue head-on by expanding and strengthening the Low-Income Housing Tax Credit (LIHTC) by reintroducing the Affordable Housing Credit Improvement Act (AHCIA).

As I mentioned in the hearing, I would like to determine just how much we have under built housing in recent decades because I think it can show exactly how much this is a supply issue. It is critical that we invest in LIHTC this Congress to address increasing housing costs and demand for affordable housing.

Supply of affordable housing is not meeting market demand. How much have we under built affordable housing?

Answer. According to research by the National Low Income Housing Coalition, our Nation has a shortage of 7.3 million rental homes affordable and available to renters with extremely low incomes, defined as those with incomes at or below either the Federal poverty level or 30 percent of median income for the area in which they live. As staggering as this statistic is, it does not even reflect the need for affordable housing for other low-income households whose incomes, while not as low as those considered extremely low-income, are insufficient to afford rent on the private market.

Washington State alone, according to a report released just last month by the State Department of Commerce, will need to add more than 1 million homes in the next 20 years. More than half of these need to be affordable for residents at the lowest income levels. Based on census data and the Office of Financial Management's population projections, these final housing projections illustrate that Washington needs more than 50,000 new units annually to keep pace with expected population growth.

Question. How far behind are we in terms of meeting rural housing need? Urban?

Answer. The affordable housing supply challenges are not limited to any one type of area. The crisis spans urban, suburban, and rural communities in every State in the Nation. While I do not have a breakout of exactly how the supply needs can be divided across these differing geographies, I can tell you that we have underbuilt nearly everywhere.

According to CohnReznick, the median physical vacancy rate of Housing Credit properties was just 2.5 percent. This is consistent with regular turnover of units, and essentially means properties are fully occupied. In my experience, these properties typically have long waiting lists because so many people need the lower rents they can provide.

Question. In your testimony, you and Mark Calabria both spoke about the need to address the financing gap for rural areas, in particular. Can you expand on the nature of the challenges for affordable housing in rural areas?

Answer. Financing affordable housing in any area with very low area median incomes is particularly challenging because Housing Credit rents and income limits are set based on the area median income (AMI). Lower AMIs result in lower rents and less cashflow. That means these properties can support less debt because cashflow may not be sufficient for debt service. Even operating costs can make properties cost-prohibitive if cash flow is insufficient.

According to research by the Housing Assistance Council, there were 377 "persistently poor counties" in 2020 based on Census Bureau data. These are counties in which 20 percent or more of the population has lived in poverty over the past 30 years. Approximately 81 percent of these counties are in rural areas.

A second challenge to financing affordable housing production in rural areas is the lack of economies of scale. Larger properties typically cost less per unit than smaller properties. However, rural areas, with their smaller populations compared to urban and suburban areas, typically cannot support very large properties.

Your legislation, the Affordable Housing Credit Improvement Act, would make the Housing Credit a more effective tool in rural areas. First, it would allow States to provide a basis boost for properties located in rural areas. That would mean we could further reduce the amount of debt these properties must support. Second, it would make a technical change to the way income limits are calculated for bond-financed properties in rural areas, expanding the pool of households eligible to live in in them, which helps to address the economies of scale challenges they face. (Congress made this change to the 9-percent program when it passed the Housing and Economic Recovery Act in 2008. Your bill provides parity between the 9-percent and 4-percent components of the program.)

Housing supply challenges in rural areas are exacerbated by preservation needs, as much of the existing rental housing stock is old, sometimes substandard, and in desperate need of recapitalization and rehabilitation. There are over 1.5 million occupied substandard housing units in rural areas, and over 750,000 of those even lack piped water.

At its peak in the 1970s, the U.S. Department of Agriculture subsidized the production of more than 30,000 units per year in rural communities. By 2011, when the last of the USDA construction loans were issued, that number had slid to less than 1,000 units. According to the Housing Assistance Council, an average of 2,000 units per year will leave the program between 2022 and 2027.

With dwindling resources from USDA, rural areas are more and more dependent on the Housing Credit for both new production and for the preservation of older properties originally funded by USDA programs.

Question. LIHTC is a critical tool for producing workforce housing. What would be the impact for employers and working families if we do not make critical investments in LIHTC?

Answer. Thank you for this question, as you and I agree that households living in Housing Credit properties are largely working households. Those who do not work are often seniors on fixed incomes or those with severe barriers to employment who need housing and services. Too often the term "workforce housing" is used as a proxy for housing affordable only to middle-income families and above, but the implication is that poor people do not work, and nothing could be further from the truth. Often low-income households are working two or three jobs just to make ends meet.

The availability of affordable housing is key to economic growth for any community, and something that employers consider when they are determining where to locate. When the local workers can't find housing they can afford, the entire community can suffer. If rents are too high near places of employment, low-income workers often must move further away and commute longer distances to work, impacting traffic congestion and quality of life for everyone. Businesses, like restaurants, child-care centers, and those in the travel and tourism industry often have a hard time finding workers at all. And as workers spend more of their paychecks on housing, there is less available to them to spend on goods and services in the local economy.

The AHCIA would give State HFAs the resources we need to build more affordable housing. Our process for selecting proposals for these finite resources can help us to incentivize siting of these properties in areas where there is economic growth and access to the amenities workers need.

Question. As you are aware, housing supply shortages, higher interest rates, and increased costs of financing construction are driving up inflation. Increased lumber costs alone have added an estimated $7,300 to the average per unit construction cost, resulting in higher rents.

At the same time, LIHTC allocations have declined with the expiration of the 12.5-percent allocation increase that I helped secure in 2018. I am concerned that, without increased investments in LIHTC, housing costs and shortages will continue to increase as the demand for affordable housing continues to outpace supply.

The bipartisan AHCIA would not only increase affordable housing supply by over 2 million affordable rental homes over the next decade—something that goes directly to the impacts of inflation and the increased costs our constituents are facing—it would also support 3 million jobs, provide $345 billion in wages and business income, and generate $119 billion in tax revenue.

We have seen time and time again how the AHCIA and LIHTC have helped ease the supply shortage in communities across the State of Washington.

In Snohomish County, for example, where families often move to if priced out of neighboring King County, Housing Hope has continued to utilize the Low-Income

Housing Tax Credit to build 60 units of affordable housing, half of which are designated for families transitioning directly from homelessness.

The other 30 units are permanently accessible for low-income families who will never pay more than 30 percent of their income on rent.

It's critical to act on housing supply to make any meaningful dent on inflation—in particular, by increasing the supply of affordable housing. Housing costs are far too large of a component of the Consumer Price Index (CPI) to not act.

From your experience as the Executive Director of the Washington Housing Finance Commission, what has been the impact of inflation on housing supply? How could the AHCIA help improve the situation?

Answer. The current economic conditions are causing major challenges in the construction industry, not just for Housing Credit development but for all types of housing production, both affordable and market-rate, rental and for-purchase. Lumber is certainly one construction commodity that has seen severe volatility, but we also hear from developers about cost increases for everything from transformers to steel, to paint. Not only are we facing inflation, supply chain disruptions, and workforce shortages, but we face these challenges in an environment in which interest rates have been rapidly rising.

Last summer, NCSHA commissioned an independent third-party study of cost increases in Housing Credit production since 2019. It found that nearly all deals awarded credit authority from 2019 through the summer of 2021 faced significant and unexpected cost increases after having been awarded credits. As a result, many—if not most—projects had to seek additional credit authority, soft funding, or other resources from HFAs and other funders to close the funding gaps. These cost increases were consistently about 30 percent over the originally anticipated project costs.

The expiration of the 12.5-percent cap increase at the end of 2021 came at the worst possible time, given these cost increases. Your legislation, by restoring the cap increase and building a 50-percent increase on top of it would give us the resources we need to keep building 9-percent deals.

Another challenge associated with cost increases is that some bond-financed projects may not be able to pass the 50-percent test because the amount of bonds initially authorized for the project no longer covers 50 percent of the total cost. This is devastating for a project and essentially means it will not be able to move forward. By lowering the 50-percent test to 25 percent, these projects will no longer be in jeopardy.

Question. What other steps do you recommend Congress take to help address the inflated costs of affordable housing?

Answer. I would suggest that Congress weigh in on regulatory issues such as the implementation of the new Community Reinvestment Act regulations under consideration, to impress upon bank regulators the importance of protecting Housing Credit investment in any new system of CRA regulation.

Prepared Statement of Garrett Watson, Senior Policy Analyst and Modeling Manager, Tax Foundation

REFORMING THE LOW-INCOME HOUSING TAX CREDIT AND IMPROVING COST RECOVERY FOR STRUCTURES IS VITAL FOR EXPANDING AFFORDABLE HOUSING

Chairman Wyden, Ranking Member Crapo, and distinguished members of the Senate Finance Committee, thank you for the opportunity to provide testimony on how to improve tax policy to increase affordable housing supply and serve working families. I am Garrett Watson, senior policy analyst at the Tax Foundation, where I focus on how we can improve our Federal tax code.

Today, I will recommend ways to improve the Low-Income Housing Tax Credit (LIHTC) to ensure it is effective at providing affordable housing to low-income Americans. I will also discuss how broader improvements to the tax code, such as providing better cost recovery for residential structures, would be an effective way to grow the supply of affordable housing.

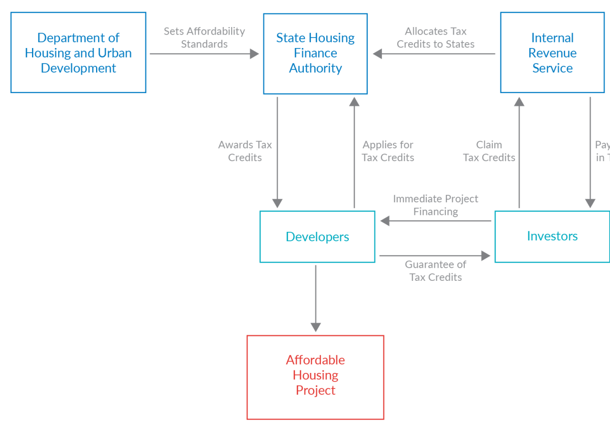
LIHTC is the largest source of affordable housing financing in the United States, using about $13.5 billion in forgone revenue each year on average. LIHTC has supported the construction of more than 3 million housing units since its creation in 1986 through 2020.[1]

LIHTC provides developers with transferable, nonrefundable tax credits for the construction of affordable housing developments, which include limits on tenant income and housing costs.[2]

We should consider three big-picture points when evaluating the effectiveness of LIHTC as a tool to help working families and low-income households.

Low-Income Housing Tax Credit Involves Multiple Public and Private Actors

Structure of Low-Income Housing Tax Credit



Source: Author's design (2020).

First, while LIHTC has helped expand housing affordability, the credit's administration could be improved. More detailed information should be provided on the credit's effectiveness, as recommended in a 2018 report by the Government Accountability Office (GAO).[3]

Notably, GAO recommends that policymakers designate an agency to collect data to better understand project development costs. Such data would help inform future reform efforts, ensuring agencies impose limits on costs, root out fraud, and reform opaque and discretionary credit allocation processes. The data we have so far has shown, for example, that developments supported by the credit tend to suffer from higher-than-average construction costs. A 2017 GAO study found that only 30 per-

[1] U.S. Congress, "Estimates of Federal Tax Expenditures for Fiscal Years 2022–2026," Joint Committee on Taxation, December 22, 2022, *https://www.jct.gov/publications/2022/jcx-22-22/*. *See also* Mark P. Keightley, "An Introduction to the Low-Income Housing Tax Credit," Congressional Research Service, January 6, 2023, *https://sgp.fas.org/crs/misc/RS22389.pdf* and Department of Housing and Urban Development, Office of Policy Development and Research, "Low-Income Housing Tax Credits," June 5, 2020, *https://huduser.gov/portal/datasets/lihtc.html*.

[2] Everett Stamm and Taylor LaJoie, "An Overview of the Low-Income Housing Tax Credit," Tax Foundation, August 11, 2020, *https://taxfoundation.org/low-income-housing-tax-credit-lihtc/*.

[3] Daniel Garcia-Diaz, "Low-Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management," Government Accountability Office, September 2018, *https://gao.gov/assets/700/694541.pdf*.

cent of allocating agencies at the State level put limits on development costs, potentially undercutting the credit's efficiency.[4]

While the U.S. Department of Housing and Urban Development (HUD) provides valuable project-level data, additional data such as information on fees paid to developers and syndicators as well as outcomes for properties and tenants over time would be valuable for assessing LIHTC.[5]

Second, it is important to evaluate LIHTC's broader policy effectiveness before considering options to expand LIHTC. One area of concern is how much of the LIHTC's benefit goes to low-income households. Several studies have found that between one-third and three-quarters of the subsidy provided by LIHTC goes to low-income households, with the rest accumulating to other stakeholders such as developers and investors.[6]

Similarly, LIHTC projects tend to be located in higher-poverty neighborhoods, depriving tenants of the benefits of living in places with more opportunities and amenities.[7]

Finally, many of LIHTC's administrative challenges are rooted in using the tax code to tackle important social problems that may be outside the proper scope of the tax system. The array of programs supporting housing, ranging from Federal grants, tax credits for historic rehabilitation, and tenant-facing assistance, all overlap with LIHTC both in policy goals and benefiting stakeholders. That overlap makes it harder to evaluate the effectiveness of the credit compared to alternatives, such as housing vouchers, an option considered by the Congressional Budget Office as far back as 1992.[8]

While it is important to consider options to improve LIHTC's administration, oversight, and efficiency, many challenges could be resolved by reconsidering whether the tax code is specifically the best place to support housing projects and low-income tenants.

PRO-GROWTH TAX POLICY AS A TOOL TO EXPAND THE SUPPLY OF AFFORDABLE HOUSING

In addition to reforms to LIHTC, a supplementary approach to expanding the supply of affordable housing is to reduce the tax burden on investment in housing. One way to reduce the tax burden is by improving the cost recovery of structures in the Federal tax code.

Currently, investors in residential structures must depreciate structures over periods up to 27.5 years long, limiting the economic value of the depreciation allowances. Ideally, all investments would be fully and immediately deducted from taxable income, but this can pose a challenge for structures that create a net operating loss for investors given the large size of the investment.

One solution is to provide neutral cost recovery, which adjusts depreciation deductions to maintain their value in real terms. This would improve the economic incentive to invest in structures, expanding the housing supply while also avoiding challenges posed by fully expensing such large investments.

According to the Tax Foundation's estimates, providing neutral cost recovery to residential structures would lead to the construction of up to 2.3 million housing

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[4] Michael Eriksen, "The Market Price of Low-Income Housing Tax Credits," *Journal of Urban Economics* 66:2 (September 2009): 141–49, and Garcia-Diaz, "Low-Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management."

[5] Congressional Research Service, "The Low-Income Housing Tax Credit: Policy Issues," October 17, 2019, *https://crsreports.congress.gov/product/pdf/IF/IF11335.*

[6] Ed Olsen, "Does Housing Affordability Argue for Subsidizing the Construction of Tax Credit Projects?", American Enterprise Institute, March 24, 2017, *https://www.aei.org/wp-content/uploads/2017/07/Ed-Olsen-AEI-Housing-Affordability.pdf,* and Gregory S. Burge, "Do Tenants Capture the Benefits from Low-Income Housing Tax Credit Program?", December 1, 2010, *https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1540-6229.2010.00287.x.*

[7] Congressional Research Service, "The Low-Income Housing Tax Credit: Policy Issues"; A related policy concern is to what extent LIHTC crowds out development that would have happened absent the credit: a 2005 study found that 30 to 70 percent of LIHTC-supported housing would have been built without the program, a finding echoed by a separate 2010 study identifying similar displacement of private construction.

[8] Congressional Budget Office, "The Cost-Effectiveness of the Low-Income Housing Tax Credit Compared with Housing Vouchers," April 1, 1992, *https://www.cbo.gov/publication/16375.*

units in the long run, lower construction costs by about 11 percent, and raise long-run economic output by 1.2 percent.[9]

Pairing better cost recovery with efforts to improve land use and zoning rules at the State and local levels would magnify the positive effect of neutral cost recovery.

CONCLUSION

Reforming LIHTC and providing neutral cost recovery for residential structures would tackle the problem of housing affordability in a complementary fashion. Neutral cost recovery expands housing supply and lowers the cost of construction and rents, which can help LIHTC fund more below-market-rate projects.

These reforms are two important steps that policymakers can take to ensure the Federal tax code is not a barrier to solving America's affordable housing challenge.

QUESTIONS SUBMITTED FOR THE RECORD TO GARRETT WATSON

QUESTIONS SUBMITTED BY HON. TODD YOUNG

Question. To effectively solve the housing affordability crisis, we must address burdensome local zoning and land use regulations which stifle housing production and drive up housing prices across the country. Therefore, I will soon reintroduce my Yes In My Backyard Act to encourage communities to cut these burdensome regulations and bring a new level of transparency to the community development process.

Can you please discuss the negative impact restrictive zoning and land use policies have on effectively addressing the housing affordability crisis?

Answer. Zoning and land use policies have significant effects on housing supply and affordability in the United States. For example, one study found that about 20 percent of the differences in housing growth between metropolitan areas are explained by differences in density regulations.[1]

In addition to driving up the cost of housing, restrictions to housing supply likely have broader economic harm by limiting the productivity of workers who would benefit from urban labor markets. One estimate suggests restrictions on housing supply could have lowered total U.S. economic growth by up to 36 percent between 1964 and 2009.[2]

Onerous zoning and land use rules reduce the effectiveness of tax incentives to expand affordable housing. The restrictions add financial constraints and veto points to block qualifying development, which reduce the number of viable projects for developers to pursue even with tax incentives. It is a missed opportunity and a waste of taxpayer resources if tax incentives merely blunt cost increases driven by supply restrictions.

Encouraging States and localities to streamline their land use and zoning rules complements efforts to expand affordable housing incentives and improve the tax treatment of investment in housing.

Question. During the hearing, some of my colleagues raised concerns regarding data reporting and transparency in the administration of the Low-Income Housing Tax Credit (LIHTC) program. I am interested in addressing those concerns when Senator Cantwell and I reintroduce our Affordable Housing Credit Improvement Act (AHCIA) later this spring.

Do you have any specific legislative solutions or suggestions to improve LIHTC's existing data reporting framework? What would you recommend Senator Cantwell and I focus on for reintroduction of the AHCIA?

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[9] Erica York, Alex Muresianu, and Everett Stamm, "Estimating Neutral Cost Recovery's Impact on Affordable Housing," Tax Foundation, August 7, 2020, *https://taxfoundation.org/estimating-neutral-cost-recoverys-impact-on-affordable-housing/*. *See also* Erica York, "Options for Improving the Tax Treatment of Structures," Tax Foundation, May 19, 2020, *https://taxfoundation.org/neutral-cost-recovery-for-buildings/*.

[1] Keith R. Ihlanfeldt, "Exclusionary Land-use Regulations within Suburban Communities: A Review of the Evidence and Policy Prescriptions," *Urban Studies* 41:2 (February 2004), *https://journals.sagepub.com/doi/abs/10.1080/0042098032000165244.*

[2] Chang-Tai Hsieh and Enrico Moretti, "Housing Constraints and Spatial Misallocation," *American Economic Journal: Macroeconomics* 11:2 (2019), *https://pubs.aeaweb.org/doi/pdfplus/10.1257/mac.20170388.*

Answer. One way to improve Low-Income Housing Tax Credit (LIHTC) data collection would be to designate a specific agency to collect and maintain data on project costs from credit-allocating agencies. This idea is the top outstanding matter for congressional consideration recommended by the Government Accountability Office (GAO) in their 2018 report assessing oversight of LIHTC.[3]

Credit-allocating agencies often provide data on project costs, but GAO reports that the lack of a coordinating agency to standardize data collection and maintenance results in "inconsistent data quality and formats among allocating agencies."[4] Designating a specific owner for LIHTC data collection could help with analysis of cost drivers and help increase LIHTC's efficiency.

Once cost data is standardized and collected effectively, the effort could be expanded to include data on outcomes for properties and tenants over time, helping to ensure that LIHTC is meeting its ultimate goal of providing affordable housing for low-income households.

Prepared Statement of Hon. Ron Wyden, a U.S. Senator From Oregon

In recent memory the Finance Committee has a proven record of working together, Democrats and Republicans, to solve big, national challenges. We've helped more Americans save for a dignified retirement, cut taxes for families and small businesses, updated the Medicare guarantee with the CHRONIC Care Act, made progress on helping Americans get mental health care when they need it, and passed the Family First Act with groundbreaking new policies to promote kinship care.

I strongly believe the next opportunity for a big, bipartisan initiative is affordable housing. Few things unite Americans quite like the feeling that the rent is too damn high, or that saving enough for a down payment is a pipe dream.

This is an issue in all 50 States; in big, urban downtowns, medium-sized cities, and in the suburbs—even in smaller communities and rural areas.

Let's look at what 5 years of rent increases have done in a handful of cities relevant to this committee. In my hometown, Portland, OR, data from Zillow show the average monthly rent jumped by $335, nearly 23 percent. Charlotte, NC: a $558 increase, or 46 percent. Memphis, TN: a $428 increase, or nearly 50 percent. Boise, ID: a $639 increase, sending monthly rents 57 percent higher.

The outlook isn't much better for people looking to buy a home, particularly young people looking to buy for the first time. According to a new report from the National Association of Realtors, the share of sales going to first-time homebuyers fell last year to the lowest level on record. And whether it's unaffordable rents or unattainable mortgages, oftentimes it's Black and Latino families hit hardest.

So how should Congress go about solving this challenge? For a long time, you were breaking the rules as a Democrat if you talked about supply-side ideas. But the fact is, there is no substitute for increasing the supply of affordable housing.

For many years now, Senator Cantwell has been the champion of the Low-Income Housing Tax Credit, or LIHTC. It's the most successful Federal program for affordable housing there is. The bill she and Senator Young have put forward, the Affordable Housing Credit Improvement Act, would expand LIHTC to create 2 million new units nationwide.

Yesterday Senator Cardin and Senator Young introduced the Neighborhood Homes Investment Act, which is all about giving a private-investment boost for housing in blighted and struggling neighborhoods that need it most.

I'm a cosponsor of both of those bills, and they are both priorities in my comprehensive DASH Act, which stands for Decent, Affordable, and Safe Housing for All. I am reintroducing the DASH Act today.

Another component of DASH is what I've named the Middle-Income Housing Tax Credit, or MIHTC. The idea behind MIHTC comes from conversations I've had many

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[3] Government Accountability Office, "Low-Income Housing Tax Credit: Improved Data and Oversight Would Strengthen Cost Assessment and Fraud Risk Management," September 18, 2018, *https://www.gao.gov/products/gao-18-637.*

[4] *Ibid,* 65.

times with housing authorities and middle-class Oregonians back home, particularly in Portland and Bend.

Because America has fallen behind in building housing for decades, the housing shortage has extended into the middle class too. Firefighters, nurses, teachers, and their families are all finding it more and more challenging to cover rent and make ends meet. MIHTC would help fill that gap, and I want to emphasize, it would supplement LIHTC.

If a given State housing agency wanted to use its MIHTC credits for low-income housing, my bill says it could plow all those resources into its LIHTC program. Providing the States with that kind of flexibility is key to increasing housing supply where it's needed most.

You can't talk about housing without addressing homelessness, which is another major priority in my DASH Act. It's clear that people experiencing homelessness need more help than they're getting.

Furthermore, building more affordable housing today will reduce homelessness tomorrow, which will prevent a lot of individual suffering and save taxpayer dollars.

Members of Congress also need to keep pushing State and local authorities to cut back on the thicket of zoning rules that get in the way of building the housing Americans need. That's another area of bipartisan agreement, because restrictive zoning laws can hurt local economies, and even worse, they often amount to a backdoor method of segregation.

So there's a lot for the committee to discuss today. My view is, along with mental health care, rural health, and several other topics, affordable housing is an area where this committee can bring together a bipartisan coalition for real progress.

Every member has an interest in getting more affordable housing built back home. It's a priority that cuts across State lines and political lines, and it's clear there are already bold, bipartisan ideas on the table. So I look forward to our discussion.

COMMUNICATIONS

AFFORDABLE HOUSING TAX CREDIT COALITION

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The Affordable Housing Tax Credit Coalition (AHTCC) is a national trade association comprised of nearly 250 housing organizations advocating to expand and strengthen the Low-Income Housing Tax Credit (Housing Credit), our nation's primary tool for financing affordable rental housing. We thank Chairman Wyden, Ranking Member Crapo and the Senate Finance Committee for holding this hearing highlighting our nation's urgent need for more affordable housing and the integral role of tax policy, particularly the Housing Credit program, in addressing this shortage. We appreciate the opportunity to provide our perspective on the importance of expanding and strengthening the Housing Credit to increase affordable housing production at a time when it is needed more than ever.

The need for affordable housing has skyrocketed—at the end of 2022, our country was **3.8 million homes short** of meeting the housing needs of Americans overall,[1] and **7 million homes short of housing to serve extremely low-income renters.**[2] The Housing Credit offers a highly successful solution with a proven track record to address this urgent issue. Since its inception in 1986, the Housing Credit has helped produce or preserve more than 3.7 million safe, decent, affordable rental homes for more than 8 million low-income Americans. The majority of the households served by the program (52.6%) are considered extremely low-income being at or below 30% of Area Median Income (AMI) and nearly 70% of the households served are at or below 40% of AMI.[3] Despite the growing need for more affordable housing and the strong support for the program on both sides of the aisle, however, the Housing Credit is facing an unprecedented cut at a time when it is needed now more than ever before. Meanwhile, we are turning away shovel-ready developments; demand for the credit outstrips supply 2.5 to 1 nationwide.

The Affordable Housing Credit Improvement Act (AHCIA) is broadly supported legislation to expand and strengthen the Housing Credit. The AHCIA has had strong bipartisan support since it was first introduced in 2016, and in the 117th Congress the legislation was co-sponsored by over 200 members of the House, 44 members of the Senate, and **nearly half of Congress at large.** This legislation is expected to be reintroduced in both chambers this spring, and we're grateful to have the support of Senators Maria Cantwell (D–WA), Todd Young (R–IN), Chairman Ron Wyden (D–OR), and Marsha Blackburn (R–TN) as the lead sponsors on the Senate version of the legislation.

This legislation has become even more urgent as we have incurred a **cut** to affordable housing production at this time of unprecedented and growing need. A 12.5 percent Housing Credit allocation increase enacted in 2018 expired at the end of 2021, and state housing agencies have far too few resources available to sustain prior levels of affordable housing production. Though there was broad support to include the provision during negotiations surrounding year-end omnibus legislation last year

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[1] Up for Growth, *Housing Underproduction™ in the U.S.,* 2022. Available at: *https://upforgrowth.org/apply-the-vision/housing-underproduction/#:~:text=Housing%20Underproduction%20occurs%20when%20communities,need%20and%20total%20housing%20availability.*

[2] National Low Income Housing Coalition, *The Gap: A Shortage of Affordable Homes,* 2023. Available at: *https://nlihc.org/gap.*

[3] HUD LIHTC Tenant Data 2019, *https://www.huduser.gov/portal/Datasets/lihtc/2019-LIHTC-Tenant-Tables.pdf.*

(including a bipartisan letter from House lawmakers signed by 54 lawmakers[4]), it has not yet been enacted and the timing could not be worse. Not only does the status quo need to be restored, as explained above, but an increase in the Housing Credit allocation as proposed in the AHCIA is critically needed to actually begin to tackle our nation's shortage of affordable housing.

The AHCIA also included a proposal to lower the 50 percent bond financing threshold for developments financed with private activity bonds ("50 percent test"), which would unlock Housing Credit equity to increase affordable housing supply further. This proposal also has broad bipartisan support and enacting these two priority proposals—lowering the 50 percent and increasing the Housing Credit allocation—would have increased affordable housing production by more than 2 million additional affordable homes over the next 10 years[5] than otherwise possible, while also supporting 3 million additional jobs annually.[6] This also comes at a time when more than half of states in the country are nearing or have already hit their Private Activity Bond cap.

The AHCIA also contains other provisions that would further increase affordable housing production and preservation, allowing the Housing Credit to better serve Americans who are disproportionately impacted by the affordable housing crisis, including extremely low-income families, seniors and people with disabilities, veterans, and people experiencing homelessness or living in hard-to-reach rural areas. It would also remove barriers to affordable housing preservation and streamline program rules and promote efficiency. Passage of the AHCIA will also help address the urgent need for stable workforce housing in a broad range of areas of need, from cities to rural areas in need of farm-worker housing while supporting economic growth and opportunity in communities nationwide. Investing in the Housing Credit is critical to addressing America's affordable housing crisis. Expanding and strengthening the Housing Credit by enacting the essential priorities discussed above will support the production of more affordable rental housing, and help Americans all across the country have safe, decent, and affordable places to call home. We urge you to support the AHCIA and to ensure that the bill's key provisions, particularly the proposals to increase the Housing Credit allocation and lower the 50 percent test, are included in any tax legislation or other possible legislative vehicle that emerges this year. We thank you for your continued leadership and look forward to continuing to work with you and all the members of the committee on these priorities in the 118th Congress.

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Statement of Steve Beck, President and CEO

Chairman Wyden, Ranking Member Crapo, and Members of the Committee, AHEPA Senior Living (ASL), a mission-driven nationwide provider of affordable multifamily senior living communities, commends the Committee for holding a hearing to examine the role of tax policy in increasing affordable housing supply and appreciates the opportunity to provide our perspective on this very important and timely topic.

We echo the strong support by senators on both sides of the aisle, and from certain witnesses, for the Low-Income Housing Tax Credit program (LIHTC). A model public-private partnership, LIHTC is our nation's primary tool for incentivizing and encouraging private investment in the production and preservation of affordable housing and vital to job creation. Since 1986, the affordable housing credit has leveraged billions in private dollars to build and preserve affordable housing in every single state. Furthermore, it represents a significant and cost-effective investment in affordable housing for older adults. Of the Housing Credit's 3.5 million homes built and preserved since the program's inception, about 1.1 million Housing Credit homes are headed by older adults.

[4] Reps. DelBene and Wenstrup Letter, November 2022, *https://delbene.house.gov/uploadedfiles/delbene_wenstrup_lihtc_letter_final_with_signatures3.pdf.*
[5] Novogradac Data April 2021, *https://www.novoco.com/notes-from-novogradac/2021-affordable-housing-credit-improvement-act-could-finance-more-2-million-additional-affordable.*
[6] *Ibid.*

We also sincerely thank and applaud Chairman Wyden, Ranking Member Crapo, and several Senate Finance Committee members, for demonstrating the important need to strengthen the Housing Credit through the introduction, or pending introduction, of legislation. For example, when reintroduced, and if fully enacted, the Affordable Housing Credit Improvement Act (AHCIA) would support nearly three million jobs and generate $346 billion in wages and business income and nearly $120 billion in tax revenue. AHCIA's enactment would lead to the production of an estimated two million more affordable homes.

We also applaud Chairman Wyden's reintroduction of the Decent, Affordable, Safe Housing for All (DASH) Act. This comprehensive legislation would, like AHCIA, expand the 9% Housing Credit and lower the financing threshold for private activity bond financing from 50% to 25%. The DASH Act also would create other tax credit programs that support affordable housing.

Why the Housing Credit Is Important to Our Mission

We also want to convey the important role LIHTC plays in the production and preservation of affordable housing for older adults. Recent policy and administrative developments pertaining to the U.S. Department of Housing and Urban Development's Section 202 Supportive Housing for the Elderly program have made LIHTC even more vital to our mission.

Almost our entire affordable housing portfolio is comprised of affordable independent senior living communities administered by HUD's Section 202 Supportive Housing for the Elderly program. We manage 87 HUD Section 202 properties in 19 states, totaling 4,467 units. We own six of the 87 properties. *(Although not tax policy related, it should be noted that according to the American Association of Service Coordinators,* ***taxpayers save 66%*** *when older adults live independently with the assistance of a service coordinator as is the case with the 202 program.)*

In recent years, HUD has resumed issuing Notices of Funding Opportunity (NOFOs) that provide capital advances to nonprofits for the construction of new Section 202 units. These capital advance funds often must be augmented, or supplemented, with gap financing to help complete the capital stack. One key financing mechanism utilized to complete the stack is the Housing Credit.

- In September 2021, we were thrilled HUD awarded us two Section 202 Supportive Housing for the Elderly program grants, totaling $16.7 million to support the development of new affordable seniors housing communities in Des Moines, Iowa, and South Bend, Indiana.
- The capital stack for each of these two deals will include 4% LIHTC financing.

Furthermore, As HUD Section 202 communities have aged, the ability to finance major renovations to preserve affordable housing for older adults, used to be a challenge. However, in the FY2018 Omnibus appropriations bill, Congress provided authority for Section 202 communities with Project Rental Assistance Contracts ("202/PRACs") to participate in HUD's Rental Assistance Demonstration (RAD) to facilitate the preservation of these homes. This policy change provided HUD 202 PRACs with the ability to utilize RAD to access private capital for the rehab and preservation of our properties. Here, again, a key financing mechanism utilized in this process is the Housing Credit. Thus, will rely upon a strong Housing Credit to help us address our preservation needs.

- In fact, we have "RAD for PRAC" deals in the works for three properties in Montgomery, Alabama, and three properties in Mobile, Alabama—and they all involve 4% LIHTC.

Finally, the Housing Credit benefits the development of affordable assisted living communities. We proudly utilized LIHTC to bring affordable assisted living services to very low-income older adults and people with disabilities in Indiana. There, the Housing Credit played an important role with our efforts to expand our mission to include the development of four affordable assisted living communities, totaling 532 units. Here, the Housing Credit was blended with multifamily housing revenue bonds to provide financing. Today, we own and manage all four properties, and we aim to grow the affordable assisted living model with the help of a strong Housing Credit, which is complemented with a state's strong Medicaid Waiver program.

Additional Examples

We are pleased to share a few more examples of how the Housing Credit has help us meet our mission.

The Housing Credit helped us to complete development of a HUD Section 202 property in Ohio. By the time of the project's initial closing, it was advisable to utilize 4% Housing Credit bonds to augment the original grant provided in the HUD award to provide the upgrade needed for construction materials and to meet Greening Guidelines.

In 2014, we utilized the 4% Housing Credit and revenue bonds to rehab and add much needed common area space to two of our HUD 202 properties in Mobile, Alabama.

In Michigan, the 4% Housing Credit helped us to renovate a HUD Section 202 property when it was blended with funding from the Michigan State Housing Development Authority.

The Need and Demand

We would be remiss if we did not share our experiences with the clear need and demand for affordable senior housing with the Committee. They demonstrate why strong tax incentives, such as LIHTC, are vital. When older adults do learn about our HUD Section 202 communities, they are oftentimes confronted with the harsh realities of lengthy wait-lists and wait times, unfortunately.

To demonstrate, our nationwide wait-list at our HUD Section 202 communities is **4,760** submissions, an **increase of 459** submissions since a year ago. Nationwide, we have 4,467 units. The wait time for our applicants range from six months to three years.

In addition to our alarming nationwide wait-list and wait times, here is what we are hearing from our professionals out in the field:

> Some inquiring people don't even request an application because our waiting lists are too long. They want and need immediate housing.
>
> The number of seniors unable to afford a safe place to live in many areas will continue to rise. They are most often faced with choosing between healthcare and paying rent.

Unfortunately, these sentiments expressed by seniors that amplify our wait-list and wait time statistics will continue as an increased demand in HUD-assisted housing, especially for the 202 program, is expected. A May 2020 Government Accountability Report (GAO) report on Rental Housing found, "The late middle-aged group (50–64 years) experienced the largest estimated increase in the number of renter households—an increase of 4 million households—and accounted for more than half of the total increase in renter households from 2001 through 2017."[1] The GAO noted many of these households have not recovered from the financial crisis, and the GAO cited a Harvard Joint Center for Housing Studies report that this group has lower incomes and higher rentership rates than previous generations. Moreover, HUD's *Worst Case Housing Needs 2021 Report to Congress* found that 2.24 million very low-income elderly households have worst-case housing needs, paying more than 50% of their income in rent.[2] Finally, a 2021 Urban Institute report predicts there will be 13.8 million new older adult households between 2020 and 2040; 40% of which (5.5 million) will be renter households.[3]

Chairman Wyden, Ranking Member Crapo, and Senate Finance Committee members, AHEPA Senior Living thanks the Committee for the opportunity to share our views on how and why tax policy is important to affordable housing, specifically for our nation's older adults, through the HUD Section 202 Supportive Housing for the Elderly program. We welcome the opportunity to work with the Committee to ensure older adults have access to the safe and dignified housing they need to age in place, live independently, and thrive; and the role tax incentives play in providing it. Thus, it is imperative that Congress pass bipartisan-backed legislation such as the AHCIA that strengthens programs such as the Low-Income Housing Tax Credit to help providers like us to meet the need and demand. Thank you.

About ASL

AHEPA Senior Living is a mission-driven, nationwide provider of affordable independent senior living and affordable assisted living communities. ASL has developed and manages 87 affordable independent senior living communities in 19 states, to-

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[1] *https://www.gao.gov/products/gao-20-427.*

[2] *https://www.huduser.gov/portal/sites/default/files/pdf/Worst-Case-Housing-Needs-2021.pdf.*

[3] *https://www.urban.org/research/publication/future-headship-and-homeownership.*

taling 4,467 units, that are administered by the U.S. Department of Housing and Urban Development's Section 202 Supportive Housing for the Elderly program.

AHEPA Senior Living also owns and manages four affordable assisted living communities with 532 units located in Indiana that are supported by the Low-Income Housing Tax Credit.

ASL is based in Fishers, Indiana.

AMERICAN UNIVERSITY, KOGOD TAX POLICY CENTER

Professor Caroline Bruckner, Senior Professorial Lecturer, Accounting and Taxation; Managing Director, Kogod Tax Policy Center

Chair Wyden, Ranking Member Crapo, U.S. Senate Committee on Finance (the "Committee") Members and Staff, thank you for holding a full committee hearing on March 7, 2023, titled, "Tax Policy's Role in Increasing Affordable Housing Supply for America's Working Families." My name is Caroline Bruckner and I am a tax professor on the faculty at American University Kogod School of Business. I also serve as the Managing Director of the Kogod Tax Policy Center (KTPC), which conducts non-partisan policy research on tax and compliance issues specific to small businesses and entrepreneurs. The KTPC's mission is to develop and analyze research and policy recommendations for tax-related problems faced by small businesses, and to promote public dialogue concerning tax issues critical to small businesses and entrepreneurs.

Since 2015, I have focused our research agenda, in part, on the tax and compliance issues impacting self-employed small business owners as well as the need for increased tax data transparency. In connection with the March 7th hearing, I wanted to raise two important issues that are relevant to the Committee's critical work on studying tax policy's role in increasing affordable housing for working families. First, more people are working from home—both as small business owners and employees. Second, tax expenditure policy discussions need to include inclusive tax data in order for the Committee to engage in effective policymaking and conduct proper oversight.

1. People Are Increasingly Working From Home

In recent years, more and more Americans are supplementing their incomes by working outside of traditional employment.[1] This is a trend that tax data research has documented.[2] Following the onset of the COVID–19 pandemic, private sector research has found that the trend for independent work has even accelerated. For example, in 2022, MBO Partners found that the number of independent workers, "soared" by 26% to 64.4 million, which was up from 51.1 million in 2021. This notable increase followed 2021's "unprecedented" 34% year-over-year increase.[3] In addition, a McKinsey report from last year confirmed that "[i]n the latest iteration of McKinsey's American Opportunity Survey (AOS), a remarkable 36 percent of employed respondents—equivalent to 58 million Americans when extrapolated from the representative sample—identify as independent workers."[4] But it's not just that more people are working independently, it's that more people are working from home. In fact, the latest U.S. Census data shows the number of people working from home tripled from 9 million in 2019 up to more than 27 million in 2021. States with the highest percentage of home-based workers include Washington (24.2%), Maryland (24.0%), Colorado (23.7%) and Massachusetts (23.7%).[5]

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[1] Caroline Bruckner and Jonathan B. Forman, Women, Retirement, and the Growing Gig Economy Workforce, 38 *Ga. St. U. L. Rev.* 259 (2022).

[2] *See, e.g.,* Katherine Lim, Alicia Miller, Max Risch and Eleanor Wilking, *Independent Contractors in the U.S.: New Trends from 15 Years of Administrative Tax Data* (July 2019) (unpublished manuscript), *https://www.irs.gov/pub/irs-soi/19rpindcontractorinus.pdf.*

[3] MBO Partners, *Happier, Healthier and Wealthier: State of Independence in American 2022, https://info.mbopartners.com/rs/mbo/images/MBO_2022_State_of_Independence_Research_Report.pdf.*

[4] McKinsey and Company, Freelance, side hustles, and gigs: Many more Americans have become independent workers (August 23, 2022), *https://www.mckinsey.com/featured-insights/sustainable-inclusive-growth/future-of-america/freelance-side-hustles-and-gigs-many-more-americans-have-become-independent-workers.*

[5] U.S. Census Bureau, "The Number of People Primarily Working From Home Tripled Between 2019 and 2021." Press Release (September 15, 2022), *https://www.census.gov/newsroom/press-releases/2022/people-working-from-home.html.*

Affordable housing tax policy needs to reflect these massive workforce changes. One tax expenditure the Committee should consider for improvement is the home office deduction, which has been a critical support for small, lower-income businesses. Tax data from 2018 found that "about 70% of the home office deduction dollars went to businesses with annual receipts of less than $100,000."[6] At the same time, meeting the requirements of the home office deduction can be unnecessarily challenging for small business owners. For example, the deduction requires that, "in all cases, a home office must be used regularly and exclusively to conduct business."[7] As a result, using dining room tables for work purposes during the day or "spreading work out on the kitchen table does not qualify, even if it happens every day, because the area is not exclusively used for work."[8] Moreover, employees that work from home are denied any benefit of the deduction altogether in circumstances where employers provide "access to suitable space on the employer's premises for the conduct by an employee of particular duties."[9]

These kinds of limitations do not make sense given the Committee's goals of supporting small businesses and working families, and should be reconsidered specifically in the context for improving tax policy for affordable housing. Homes are no longer exclusively use for residential purposes. Millions of low- and middle-income Americans can and do work from home to start their side hustle or save on commuting costs or to spend more time with their families. As a result, the home office deduction can and should be improved to reflect the reality of how people work today.

2. The Ongoing Need for Tax Data Transparency

As this Committee has noted in prior hearings, the U.S. tax system reflects racial, ethnic and gender bias and "adds to inequality in this country."[10] The pervasive nature of the bias in the U.S. tax system is compounded by the fact that for the most part, civil rights protections and data transparency guardrails that require federal agencies to collect data on beneficiaries of federally-funded programs don't expressly apply to "tax expenditures" (*i.e.,* the special provisions that provide some taxpayers "more favorable treatment than regular income tax").[11] In other words, civil rights laws don't mandate Treasury or IRS collect demographic data on who benefits from tax expenditures.[12] So, for example, while federal and state housing agencies are required to track and publish data on the race, ethnicity, family composition, age, income, use of rental assistance, disability status, and monthly rental payments of households residing in low-income housing tax credit properties,[13] neither Treasury nor the Committee has any idea of what the equity implications are for the corporations that are profiting from them.[14]

In recent decades, Congress has increasingly turned to tax expenditures to deliver critical anti-poverty, health care or housing programming for taxpayers or to stimulate business activity through deductions for accelerated depreciation and individuals with business income. As you know, for budget purposes, tax expenditures are similar to direct spending programs that function as entitlements.[15] However, the absence of inclusive demographic data on taxpayers that claim tax expenditures

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[6] Cilluffo, Anthony A., The Home Office Tax Deduction, Congressional Research Service Insight (September 1, 2021), *https://crsreports.congress.gov/product/pdf/IN/IN11736.*

[7] Dayna E. Roane, Deducting Home Office Expenses, *Journal of Accountancy* (May 15, 2020), *https://www.journalofaccountancy.com/issues/2020/may/deduct-home-office-expenses-coronavirus-remote-work.html.*

[8] *Id.*

[9] Joint Committee on Taxation, *Present Law and Background Relating to Residential Real Estate* (JCX–4–23), March 3, 2023, *https://www.jct.gov/publications/2023/jcx-4-23/.*

[10] U.S. Senate Committee on Finance, "Wyden Statement at Finance Committee Hearing on Inequality in the U.S. Tax Code." Press Release (April 20, 2021), *https://www.finance.senate.gov/imo/media/doc/042021%20Wyden%20Statement%20at%20Finance%20Committee%20Hearing%20on%20Inequality%20in%20the%20U.S.%20Tax%20Code.pdf.*

[11] Joint Committee on Taxation, Estimates of Federal Tax Expenditures for Fiscal Years 2022–2026 (JCX–22–22), December 22, 2022, *https://www.jct.gov/publications/2022/jcx-22-22/.*

[12] Bearer-Friend, Jeremy. Should the IRS Know Your Race? The Challenge of Colorblind Tax Data (August 14, 2018). 73 *Tax Law Review* 1 (2019), Available at SSRN: *https://ssrn.com/abstract=3231315.*

[13] U.S. Department of Housing and Urban Development, Low-Income Housing Tax Credit (LIHTC): Tenant Level Data, Office of Policy Development and Research (2019), *https://www.huduser.gov/portal/datasets/lihtc/tenant.html#data.*

[14] JCX–4–23, *supra* n. 9 at 69 (stating that "the largest tax expenditure related to rental housing is the low-income housing tax credit, with a tax expenditure estimate of $65.0 billion. Approximately $64.1 billion of the $65.0 billion is attributable to corporations.").

[15] JCX–22–22, *supra* n. 11 at 3.

raises both equity issues and oversight challenges for Congress. How can Congress know if the programs funded through the U.S. tax code are working as intended if they don't track who benefits? How can the Committee effectively conduct its oversight function of these "entitlement" programs absent inclusive tax data?

Notwithstanding these challenges, legal researchers have been using data from the private sector and federal agencies—other than IRS—to estimate the discriminatory racial and gender implications for various tax expenditures.[16] Economists and leaders on this Committee have been increasingly insistent on the need for additional research and demographic data on how taxpayers benefit from—or are penalized by—different tax provisions and administrative policies.[17] Recently, researchers at Treasury and IRS are stepping up and working to enable tax expenditure data transparency.[18] However, Congress needs to do its part and incorporate and normalize the use of inclusive tax data in the legislative process. In connection with this, the Committee should work with Treasury and the Joint Committee on Taxation to include demographic distribution data when preparing estimates of housing tax expenditures in connection with the work on improving tax policy for affordable housing.

Updating housing-related tax expenditures to better reflect how American families work today along with the Committee's ongoing work combatting inequality in the U.S. tax system will require sustained commitment. Holding this housing affordability hearing is an important step. I stand ready to help the Committee with its work. Feel welcome to contact me with questions regarding the foregoing.

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Statement of Michael G. Bindner

Chairman Wyden and Ranking Member Crapo, thank you for the opportunity to add to the record on affordable housing. This committee last held hearings on this issue in July 2022, *The Role of Tax Incentives in Affordable Housing.* The Ways and Means Committee also held hearings a week earlier, entitled *Nowhere to Live: Profits, Disinvestment, and the American Housing Crisis.* Rather than rehash these issues, I will simply serve the leftovers in an attachment and highlight a few points.

Point 1: Housing is primarily an income issue.

The best cure for housing affordability is higher income. The President's budget is on the right track regarding the Child Tax Credit. I would treble down on his amounts and distribute these funds through Old-Age, Survivors, Disability and Unemployment Insurance payouts or with wages. Note that dependent children would only get the $1000 per month CTC.

Adult and Emancipated Juvenile Students, from ESL to Associates Degree, should be paid for pursuing their educations at a minimum wage level of at least $10 per hour (which had been the Republican counter-offer to a $15 wage). Take the deal and plan on an increase to $12 or just to $11 if the standard work week is cut to 28 hours—seven per day, not including lunch. Immigrant minors who have been trafficked to the United States and paroled to relatives or sponsors have had to go to work. Their only work should be education. **No one should be brought in as a member of a permanent underclass!**

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[16] *See, e.g.,* Bearer-Friend, *supra* n. 12; Brown, Dorothy A., The Whiteness of Wealth: How the Tax System Impoverishes Black Americans and How We Can Fix It (Crown, 2022). Bruckner, Caroline, Doubling Down on a Billion Dollar Blind Spot: Tax Reform and Women Business Owners, *American University Business Law Review,* Vol. 9, Issue 1 (2020), *https://digitalcommons.wcl.american.edu/aublr/vol9/iss1/1/.*

[17] *See, e.g.,* Neubig, Thomas, *Disparate Racial Impact: Tax Expenditure Reform Needed.* March 2021. *https://www.cepweb.org/wp-content/uploads/2021/03/Neubig-2021.-Disparate-Racial-Impact-Mar21.pdf;* U.S. Senate Committee on Finance, "Wyden Statement on GAO Report on Tax, Demographic Data," Press Release (May 18, 2022), *https://www.finance.senate.gov/chairmans-news/-wyden-statement-on-gao-report-on-tax-demographic-data.*

[18] Julie-Anne Cronin, Portia DeFilippes, and Robin Fisher, *Tax Expenditures by Race and Hispanic Ethnicity: An Application of the U.S. Treasury Department's Race and Hispanic Ethnicity Imputation,* U.S. Department of the Treasury, Office of Tax Analysis Working Paper 122 (January 2023), *https://home.treasury.gov/system/files/131/WP-122.pdf.*

The other income issue is how we distribute cost of living raises to government workers, beneficiaries, government contractors and in the private sector. While we cannot do much for the last one (except for offering paid education), the other three are firmly under government control.

The source of inequality, aside from abandoning the 91% top marginal tax rate, is granting raises at an equal percentage rather than by an equal amount. When this started, incomes were fairly equal, so it was not an issue. Fifty years later, the issue is huge, but not insurmountable.

From here on in, award raises on a per dollar an hour rather than on a percentage basis (or dollars per month or week for federal beneficiaries). Calculate the dollar amount based on inflation at the median income level. No one gets more dollars an hour raise, no one gets less dollars per hour in increases. Increase the minimum wage as above and consider decreasing high end salaries paid to government employees and contractors. Even without decreases, simply equalizing raises will soon reduce inequality. Why is this necessary?

Prices chase the median dollar. The median dollar of income is actually at the 90th percentile, rather than the 77th percentile (which is about where the median is). This strategy would reduce inflation in both the long and short terms.

Let me repeat this—prices chase income dollars, not income earners.

On the tax side, limit bracket indexing in the same manner—by dollars per bracket, not percentages.

Point Two: Abandon the idea of tax incentives for development.

Urban renewal, which relocates poor and largely non-white people, leads to redevelopment that chases the 90th percentile. The tax incentives in the President's budget are exactly the wrong approach. Instead, reform the entire tax system so that most families do not have to file income taxes. By most, I mean 99%.

If an asset value-added tax is adopted rather than capital gains taxes then other income taxes, taxes could be replaced with goods and services taxes on consumption and subtraction value-added taxes on net business receipts—so that wages and profits would be taxed at an equal rate, with higher income surtaxes for individuals who receive wages and/or dividends over the 90th percentile of income at graduated rates up to $450,000, with a top rate of 25% over the base rate.

Income over $500,000 would be taxed between an additional 5% up to an additional 25%, with tax prepayment being an optional bond purchase for years in advance. If enough people or firms shift from holding marketable debt to tax prepayments, the debt can be reduced more rapidly and interest costs saved.

Thank you for the opportunity to submit these comments. Please feel free to contact me further for more detailed discussions, especially regarding the automatic inequality sourced in bad math.

ATTACHMENT—TAX INCENTIVES IN AFFORDABLE HOUSING, July 2022

HOUSING ISSUES

The Housing Market

Building scientist Belinda Carr highlights why the current economy is similar to 2005 in a recent YouTube video at *https://www.youtube.com/watch?v=77g6jRBG1cI&list=WL&index=4&t=570s.* Her five main points against an actual housing shortage are:

1. Declining population growth: Low birth rate, higher death rates. Permits are meeting population growth rates.
2. People per unit has declined.
3. Number of rental units—large number of investor units, especially in minority neighborhoods. Investors driving out individual buyers.
4. Low interest rates have driven up prices, driving up investor incentives.
5. Mismatch of housing types and locations. The rise of remote work and possibility of large firms linking wages to housing prices if a recession occurs (because, as monopsonies, they can).

I recommend asking her for comments or testimony. At least circulate the YouTube link.

Her research is in keeping with other analyses, including my own, on the prospect of a housing recession.

Starting in 2009, properties that have been seized in foreclosure have been purchased with private equity and are so heavily leveraged that they cannot be sold until the holding company files for bankruptcy in the next Great Recession. See *Homewreckers: How a Gang of Wall Street Kingpins, Hedge Fund Magnates, Crooked Banks, and Vulture Capitalists Suckered Millions Out of Their Homes and Demolished the American Dream* by Aaron Glantz. The C–SPAN Book TV discussion with Mr. Glantz will give the committee a heads-up on what such testimony would include. See *https://www.c-span.org/video/?465567-1/homewreckers.*

The long and short of it is that many now have to rent or own leveraged properties. Our absentee landlords have cashed out and left servicing companies to bleed us dry. They essentially own us because we have to work harder and longer to have a place to live while those who have cashed out live in gated and high-end assisted living communities. In the last year, Exchange Traded Funds have been all the rage. Who wants to bet on where the latest pool of junk is hiding?

In 2008, the Troubled Asset Recovery Program was enacted, promising aid to homeowners. The next year, CNBC Rick Santelli had his "rant of the year" which put the kibosh on any aid to homeowners, although there was little appetite to provide it from the Larry Summers wing of Obama economic team anyway. They did, however, stay behind bailing out the holders of the bad paper.

Let us not repeat (or rather continue to repeat) the bad practices that left the economy in the doldrums. During the pandemic, the Federal Reserve has purchased bad paper, but without benefit to those whose debts are held in those bonds.

This time around, credit card balances and back rent should be forgiven when the Federal Reserve buys the bonds that hold the debt. Loans could also be written down, which would stop bondholders from benefiting from issuing bonds that should never have been issued in the first place. Renters of both commercial and residential property should be offered the chance to purchase their locations and homes, with assistance from Government Sponsored Enterprises, with their paper replacing the debt paper that has been securitized in Exchange Traded Funds.

ETFs may take a hit, but what was falsely sold as AAA paper would actually become what was sold. Bad landlords, and Glantz demonstrates that Mr. Mnuchin and Mr. Ross truly are bad landlords, degrade properties so that the bonds that were issued for them to cash out are nowhere near the value at issue.

In 2009, the United States aided and abetted those who created the crisis. We are currently repeating the mistake. When the inevitable crisis occurs again, doing the right thing will also be the right medicine for the economy.

The Opportunity Zone Program and Who It Left Behind (November 16, 2021)

Opportunity zones are the flavor of the decade, proceeding from enterprise, urban renewal and the destruction of neighborhoods in order to bring Interstate Highways to cities.

Worse than redlining and segregation, urban renewal, which the civil rights community calls Negro Relocation. Hispanic neighborhoods are also suffering the same fate. Time and again, poorer residents are moved to the suburbs so that coffee shops, high end grocery stores and luxury apartments can be built for professionals, also known as the creative class. In short, young and middle aged white people with high incomes.

Developers bridge the gap between property acquisition and sale so that those who are displaced leave with lower payments while the developers benefit from any increase in property values. Such actions are why Henry George proposed pergovian land value tax, collecting 100% of land value each year and then distributing a citizens dividend to everyone (so that poorer people benefit from the price loss experienced by high end developers.

I usually do not endorse Georgism as the sole solution to inequality. Creating cooperatives that democratically give members control of the means of production, consumption, human services and finance is more my speed; but even I would have the cooperative pay a land value tax to fund services for those who continue to live in a Smart Growth area dominated by such a cooperative. It would continue to fund services after any relocation (unless families wish to join the cooperative.

In the interim, Opportunity Zone provision should be repealed. We need no more displacement from here on in. **This Type of Tax Incentive Is Counterproductive.**

Fair Housing Enforcement

There is a similar matter that needs mention—Fair Housing (especially considering recent campaign bloviating). In light of recent Supreme Court rulings including sexual orientation in sex for employment law—there is no reason to believe that this revised definition does not apply to every part of the Civil Rights Act—as well as the Fair Housing Act.

Are civil penalties enough to force compliance? Experience shows that they do not. A former roommate, who got his Section 8 before I did, was exposed to possible discrimination couched in the language of credit. He complained to the Housing Office and the landlord caved in. This was 2018 in liberal Montgomery County. The continued need for training by the Patricia Roberts Harris National Fair Housing Training Academy (where I also worked) is less anecdotal.

When I was the Ward 3 Community Relations Representative in the D.C. Office of the Ombudsman, we were given a talk by the Solid Waste Management office. Their motto was that there is no better education than a ticket. This would be equally true in fair housing, as well as all other civil rights enforcement. It is time to quit talking about reform and to actually start doing it.

Bias in Housing Policy

When dealing with federal housing, and income support in general, the desire for economic justice and environmentalism sometimes conflict. Anti-poverty programs are notorious for not funding those with the father in the home. This is the result of both racism and the desire to limit the number of clients. In short, the Zero Population Growth mentality has made it into housing and income support policy.

There should be no conflict here. The ZPG/racist and cost control arguments are simply unworthy of American Society, while being endemic within them. All people of good conscience should resist such nonsense and I will do so with my last dying breath.

Prior to the Wars on Drugs and on Poverty (the Poor?), the model for housing in modern America was the three bedroom house. This included a bedroom for parents, one for the boys and one for the girls. An oldest child may eventually get his or her own room at some point if there were a four bedroom or basement/attic space that could be used as a bedroom.

Aside from the war on the poor, there is no reason that publicly funded housing should have departed from this norm. This includes Section 8 assistance. If public housing included three bedroom units, there would not be a drive toward driving families toward ownership that they cannot afford over the long term.

Federal low and moderate income housing, including the low income housing my family participated in during the 2000s, gave generous assistance to get us in, but was not adequate to keep us there. We mistakenly borrowed using a step-up mortgage. This would have been fine if the payment itself, rather than the mortgage rate, had "stepped up" by inflation each year. What we received was unsustainable, which ended in foreclosure, bankruptcy and divorce. I doubt we were the only ones. See the above discussion on the 2008 bailout for other difficulties which could have been dealt with via public policy.

Federal rental and purchase support should be two sides of the same program. As with Medicare, some participants should be dual eligible for both downpayment assistance and rental assistance. Indeed, everyone approved for one must be declared eligible for the other. If this were the case, my family may have stayed in more affordable housing.

The surest way to help federal housing beneficiaries escape the need for rental assistance, indeed any assistance—including bankruptcy protection—is to make sure that families have adequate incomes. The entire low income housing program—from mortgage subsidies to Section 8, as well as most other statutory low income support benefits—could be decreased or curtailed with adequate support for families through adequate wages, training programs, child tax credits, and the other elements of the Build Back Better proposals.

Fix income inequality with higher minimum wages and child tax credits and the free market will respond to the real needs of families. Two parent families with more than two kids should be able to demand three bedroom apartments, all things being equal. End the bias against two-parent families in current programming and creativity will take care of the rest.

INCOME SECURITY

It is time to end the two-tier economy. No one should have to work in what Michael Harrington called The Other America. With the end of welfare as we knew it, circumstances have actually gotten worse since Harrington's seminal work. The rise of delivery services, which require drivers to earn tips, and the gig economy, which prevents easy tipping, has made things even worse in the name of progress. We are working harder for less. This Committee can start the ball rolling to fix this.

Minimum Wage

The best option for food security and low income housing is to increase incomes by increasing the minimum wage and the child tax credit and indexing them to inflation.

Increasing the minimum wage to $10 wage should take effect immediately, phasing to $12. You can argue about a $15 or $18 minimum after the midterm elections. Higher minimum wages increase job growth, as lower wage employees spend every dime of the increase, as do higher wage workers below the middle-management level whose wages will also rise.

Provisions should also be included in law to hold franchisees harmless if minimum wage increases impact their own livelihoods. The conditions of franchise employment and agreement deserve attention as well in terms of agreed to standards, payment of franchise owners in low wage industries and the ability of workers to organize. If some firms decide to turn franchise employment into full-time employment, so much the better.

It is indeed a poor job where the physical productivity of workers in comparison with other factors is under this level, especially when child tax credits are excluded from the equation. The intermediate goal should be either a $12 minimum wage (so that it is comparable to the buying power experienced in 1965) or an $11 wage with a 32 hour work week.

The perception that doing the right thing makes a business non-competitive is the reason we enact minimum wage laws and should require mandatory leave. Because the labor product is almost always well above wages paid, few jobs are lost when this occurs. Higher wages simply reduce what is called the labor surplus, and not only by Marx. Any CFO who cannot calculate the current productive surplus will soon be seeking a job with adequate wages and sick leave.

The requirement that this be provided ends the calculation of whether doing so makes a firm non-competitive because all competitors must provide the same benefit. This applies to businesses of all sizes. If a firm is so precarious that it cannot survive this change, it is probably not viable without it.

Childcare and Paid Leave

Childcare is best provided by the employer or the employee-owned or cooperative firm. On-site care, with separate spaces for well and sick children, as well as an on-site medical suite to treat sick employees, will uncomplicate the morning and evening routines. Making yet another stop in an already busy schedule adds to the stress of the day. Knowing that, if problems arise at a work-based daycare, they can be right there, will help parents focus on work.

Larger firms and government agencies can more easily provide such facilities. Indeed, in the Reeves Center of the District Government, such a site already exists. Smaller firms could make arrangements with the landlord of the building where offices or stores are located, including retail districts and shopping malls. For security reasons, these would only serve local workers, but not retail customers.

A tax on employers would help society share the pain for requiring paid leave. Firms that offer leave would receive a credit on their taxes (especially low wage firms). Tax rates should be set high enough so that.

Child Tax Credits

The Child Tax Credit should support the income of each dependent child at median wage levels and be fully refundable. If a parent participates in education and training, their child tax credit should be paid with a training stipend set to the minimum wage. Including these benefits with pay reduces the need for a $15 minimum wage. $12, which is in line with historical averages prior to 1965, should be adequate.

There are two avenues to distribute money to families. The first is to add CTC benefits to unemployment, retirement, educational (TANF and college) and disability benefits. The CTC should be high enough to replace survivor's benefits for children.

The second is to distribute them with pay through employers. This can be done with long term tax reform, but in the interim can be accomplished by having employers start increasing wages immediately to distribute the credit to workers and their families, allowing them to subtract these payments from their quarterly corporate or income tax bills.

Tax Reform

Tax reform will help both low wage and gig/1099/staffing services workers who are essentially full-time but are not treated as such. Because these "vendors" would have to pay the tax and receive the breaks, client firms would have the incentive to hire them instead.

Our tax reform plan, which was last adjusted on June 10th of this year, features a Subtraction Value-Added Tax. This tax can serve as an employer-based vehicle for distributing child tax credit, healthcare and childcare benefits.

The S–VAT could be levied at both the state and federal levels with a common base and tax benefits differing between the states based on their cost of living (which would be paid with the state levy). The federal tax would be the floor of support so that no state could keep any part of its population poor, including migrants. It is time to end the race to the bottom and its associated war on the poor.

Between the CTC and the Earned Income Tax Credit, the CTC is to be preferred. Applying for an EITC is part of why it is expensive to be poor. For most, outside help is needed to calculate it. Having to get such help is a "poor tax." Our proposed changes to individual payroll taxes propose a way to end this credit while assuring adequate retirement savings and family income. The following paragraphs are an excerpt from our current tax reform plan.

Subtraction Value-Added Tax (S–VAT). These are employer paid Net Business Receipts Taxes. S–VAT is a vehicle for tax benefits, including

- Health insurance or direct care, including veterans' health care for non-battlefield injuries and long-term care.
- Employer paid educational costs in lieu of taxes are provided as either employee-directed contributions to the public or private unionized school of their choice or direct tuition payments for employee children or for workers (including ESL and remedial skills). Wages will be paid to students to meet opportunity costs.
- Most importantly, a refundable child tax credit at median income levels (with inflation adjustments) distributed with pay.

Subsistence level benefits force the poor into servile labor. Wages and benefits must be high enough to provide justice and human dignity. This allows the ending of state administered subsidy programs and discourages abortions, and as such enactment must be scored as a must pass in voting rankings by pro-life organizations (and feminist organizations as well). To assure child subsidies are distributed, S–VAT will not be border adjustable.

The S–VAT is also used for personal accounts in Social Security, provided that these accounts are insured through an insurance fund for all such accounts, that accounts go toward employee ownership rather than for a subsidy for the investment industry. Both employers and employees must consent to a shift to these accounts, which will occur if corporate democracy in existing ESOPs is given a thorough test. So far it has not. S–VAT funded retirement accounts will be equal-dollar credited for every worker. They also have the advantage of drawing on both payroll and profit, making it less regressive.

A multi-tier S–VAT could replace income surtaxes in the same range. Some will use corporations to avoid these taxes, but that corporation would then pay all invoice and subtraction VAT payments (which would distribute tax benefits). Distributions from such corporations will be considered salary, not dividends.

Individual payroll taxes. Employee payroll tax of 7.2% for Old-Age and Survivors Insurance. Funds now collected as a matching premium to a consumption tax based contribution credited at an equal dollar rate for all workers qualified within a quarter. An employer-paid subtraction value-added tax would be used if offsets to private accounts are included. Without such accounts, the invoice value added tax would collect these funds. No payroll tax would be collected from employees if all contributions are credited on an equal dollar basis. If employee taxes are retained, the ceiling would be lowered to $85,000 to reduce benefits paid to wealthier individuals and a $16,000 floor should be established so that Earned Income Tax Credits are no longer needed. Subsidies for single workers should be abandoned in favor of radically higher minimum wages. If a $10 minimum wage is passed, the employee contribution floor would increase to $20,000.

Pro-Life Scoring

The following paragraphs should be familiar to members and staff. Now that *Roe v. Wade* has been overturned, they should be made available to everyone.

These reforms MUST be scored as pro-life legislation and be funded more broadly than the President has promised. Having served on the staff of a major abortion rights organization in the past, I can assure you that no such organization **would ever oppose higher living standards for women and their families!**

The chief obstacle for funding families is not the feminist movement. It is the so-called right to life movement who would rather women be penalized for having abortions than subsidized so that they are not necessary. Over the course of many decades, I have had conversations with conservative members of the pro-life community. When push comes to shove, they oppose the measures above because their objections to abortion are more about sexuality than the welfare of children.

In the pro-choice movement, many jump to the defend women's bodies argument before first addressing the need for adequate family income. Doing so now will shame the leadership of the pro-life movement into supporting these provisions to Build Back Better.

Many in the pro-life movement already do. Catholic Charities USA, NETWORK and the Catholic Health Association all stand with working and poor women. They must be very publicly leveraged to get the U.S. Conference of Catholic Bishops behind them as well—and to have the bishops insist that these measures be considered must-pass legislation for the computation of pro-life voting records.

Catholic members of Congress and the President should also lead on this effort. It is time to stop grandstanding on this issue. These measures must pass—and on a larger scale than provided for in Build Back Better.

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The Manufactured Housing Institute (MHI) is pleased to submit this statement for the record for the March 7, 2023, Senate Finance Committee Hearing on "Tax Policy's Role in Increasing in Affordable Housing Supply for Working Families."

MHI is the only national trade association that represents every segment of the factory-built housing industry. Our members include home builders, suppliers, retail sellers, lenders, installers, community owners, community operators, and others who serve the industry, as well as 48 affiliated state organizations. In 2022, our industry produced nearly 113,000 homes, accounting for approximately 11 percent of new single-family home starts.

MHI appreciates that Chairman Wyden and Ranking Member Crapo are holding this important hearing assessing the role of tax policies in increasing the supply of affordable housing. With our nation facing an affordable housing shortage, manufactured housing is one solution that can help address this need. Manufactured housing is the most affordable homeownership option available for low- and moderate-income families in America. The median household income of a manufactured home resident is around $35,000—while the median household income of a site-built homeowner is around $76,000. Commonly, manufactured homes are less expensive to own than renting.

Manufactured housing is the most effective source of unsubsidized housing that serves low- and moderate-income families. Our homes are built in a controlled factory environment in accordance with a federal building code administered by the U.S. Department of Housing and Urban Development (HUD). Unlike site-built homes, which are subject to numerous differing state and local regulations, manufactured homes are built to just one uniform federal preemptive code. In place since 1976 pursuant to the National Manufactured Housing Construction and Safety Standards Act (MHCSS) of 1974, the HUD Code provides a single uniform regulatory framework for home design and construction of manufactured homes, including standards for health, safety, energy efficiency, and durability. This has enabled manufacturers to ship homes across interstate lines and achieve economies of scale that have brought high quality affordable homes to millions of people.

As the Committee develops tax incentives to increase the affordable housing supply, we ask that you ensure that manufactured housing is an eligible form of housing under such incentives. With respect to specific proposals and programs, we offer the Committee the suggestions below.

MHI continues to be very supportive of Chairman Wyden's proposal to create a first-time home buyer tax credit. The increase in mortgage rates over the last year has exacerbated homeownership affordability challenges. Adoption of this provision is potentially even more important than when the Chairman first proposed it.

MHI also asks the Committee to explore ways to make current tax incentive programs more effective in generating investments for manufactured home communities. Manufactured home communities are a critical affordable housing model. Because of the financial and lifestyle benefits of owning a manufactured home versus the limitations that come with renting an apartment or buying a condominium or other site-built home, millions of individuals and families have chosen to live in land-lease manufactured home communities. There are more than 43,000 land-lease communities in the country with almost 4.3 million homesites. Today, half of new manufactured homes are placed in land-lease communities. Demand for living in land-lease manufactured home communities continues to rise because these communities provide an effective way for residents to become homeowners without the substantial barrier to entry posed by the down payment necessary for the purchase of land. In the aftermath of the pandemic, where families are seeking their own outdoor space and neighborhood amenities, the popularity of land-lease communities is growing, and occupancy rates are high.

As the Committee analyzes the supply of affordable homeownership in America, we believe land-lease communities offer a positive example of what affordable housing should look like. Land-lease communities provide much more than affordable housing. They offer a sense of neighborhood and often feature a range of amenities—such as swimming pools, clubhouses, and playgrounds—and events and activities to support residents' sense of community. In active senior lifestyle communities, residents enjoy resort-style amenities and an array of planned events and activities. In all-age communities, neighborhood settings with playgrounds, sports courts, and clubhouses offer families a place to thrive. Many offer events and programming, including after school programs.

In addition to high occupancy rates and increased demand demonstrating its attractiveness, the successful hybrid homeownership model of land-lease communities is also evidenced in consumer research that shows that residents who live in these communities are highly satisfied with their housing choice. U.S. Census data and independent research conducted by MHI shows that manufactured housing residents report high levels of satisfaction and that they are likely to recommend it to others. To read more about this research, please visit *https://www.manufacturedhousing.org/commresearchresults-2/*.

Many existing land-lease communities were built several decades ago and need an infusion of funds from new investors to address long neglected capital improvements like roads, sewer, and water. When properties are not being maintained, they are at risk for closure because adequate property standards are not being met. In addition, as surrounding property values rise, some localities are deciding to buy the land and use it for retail or other uses, removing a significant source of affordable housing.

Opportunity Zone tax incentives can currently be used to make these critical investments. However, their use and availability for this purpose is very limited by the requirement that funds must be a reinvestment of capital gains from sales taking place within the previous 180 days. One option to facilitate more investments in affordable manufactured home communities would be for Congress to fund additional investments in high poverty Opportunity Zones. Such funds could be allocated to states, which would re-allocate and target their use to high priority activities within existing Opportunity Zones, including workforce housing through investments in manufactured home communities.

A second option would be a narrowly targeted change to allow Opportunity Zone tax incentives within existing Opportunity Zones for investments in affordable manufactured home communities, notwithstanding the current restriction that this must be a reinvestment of a recent capital gains transaction.

In addition to making Opportunity Zones more effective in supporting manufactured housing communities, we believe the Low-Income Housing Tax Credit program could also be improved to facilitate the preservation and development of manufactured home communities. Funding from the Low-Income Housing Tax Credit (LIHTC) has not historically been directed toward the development or preservation of manufactured home communities. We ask the Committee to consider specifically naming development of and preservation of manufactured home communities as eligible activities under the program. Such provision should allow all eligible community owners to obtain financing to preserve manufactured home communities. This could be done as a part of the Committee's consideration of expanding the credit to increase affordable housing investments proposed by Senators Cantwell and Young in "The Affordable Housing Credit Improvement Act," which MHI has endorsed.

Finally, we would ask the Committee to consider incentives for the replacement of mobile homes with HUD Code manufactured homes. Manufactured homes built prior to 1976 are known as "mobile homes." In June 1976, the Federal Manufactured Home Construction and Safety Standards Act (also known as the HUD Code) went into effect, which established federal standards for manufactured housing design and construction, strength and durability, transportability, fire resistance, energy efficiency and quality. The HUD Code also sets performance standards for the heating, plumbing, air conditioning, thermal and electrical systems.

Because mobile homes were not built to the HUD Code, many of these homes do not meet today's rigorous standards and owners of mobiles homes would benefit from replacing and/or retrofitting their current homes to HUD Code homes. However, owners of these homes are typically low- and moderate-income families that lack the resources of financing options to update their homes to meet today's construction standards. A tax incentive for repair or replacement could be very impactful to ensure people have access to resilient, efficient, and quality homeownership.

Thank you for the opportunity to share our views on the important matter of preserving and increasing affordable housing across the country. Increased federal support for boosting the supply of manufactured housing will not only strengthen homeownership opportunities for millions of Americans but also provide more options to consumers hurt by unaffordable rents and the shortage of adequate housing options. Land-lease communities are critically important to the availability of affordable housing in America, and we look forward to working with you on ways to increase and preserve this attainable homeownership option for more families.

NATIONAL ASSOCIATION OF FEDERALLY-INSURED CREDIT UNIONS
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March 6, 2023

The Honorable Ron Wyden Chairman U.S. Senate Committee on Finance Washington, DC 20510	The Honorable Mike Crapo Ranking Member U.S. Senate Committee on Finance Washington, DC 20510

Re: Tomorrow's Hearing: "Tax Policy's Role in Increasing Affordable Housing Supply for Working Families"

Dear Chairman Wyden and Ranking Member Crapo:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in conjunction with tomorrow's hearing, "Tax Policy's Role in Increasing Affordable Housing Supply for Working Families." As you are aware, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 135 million consumers with personal and small business financial service products. We would like to take this opportunity to highlight our support for the Neighborhood Homes Investment Act and Affordable Housing Credit Improvement Act, as these two pieces of legislation would help address America's housing affordability crisis and provide commonsense housing solutions for underserved communities. Credit unions continue to focus on serving rural, low-income, and underserved communities and increasing our presence in these areas.

The housing market is a critical aspect of our nation's economy, and the future availability of affordable housing is of great importance to our nation's credit unions and their 135 million members. In the years since the Great Recession and hardships during the COVID–19 pandemic, it has become increasingly clear that the status quo is an unsustainable long-term option. Before, during, and after the financial crisis and COVID–19 pandemic, credit unions provided and continue to provide quality loans through solid underwriting practices, and we look forward to continue being a part of affordable housing solutions.

Neighborhood Homes Investment Act

In urban, rural, and all underserved areas, the absence of quality homes undermines both neighborhood stability and the opportunity for families to build wealth through homeownership. Too often the major impediment to building new homes or rehabilitating abandoned or deteriorated ones in these communities is that the cost exceeds the homes' market value upon completion. The Neighborhood Homes Investment Act would address this problem by providing a tax credit to cover a portion of the construction and rehabilitation costs of homes for owner-occupancy.

The new tax credits would be administered by state agencies through annual competitive application rounds. Tax credits would only be available for modestly priced homes in communities characterized by high poverty, low incomes, and low home values. The credits could not be claimed until the construction is completed, and the home is occupied by an eligible homeowner, and would only cover the difference between the eligible development costs and the final sales price. We ask for your support of this commonsense measure aimed at increasing accessibility and the volume of quality homes in underserved communities.

Affordable Housing Credit Improvement Act

This bill would help address the affordable housing crisis by building or preserving an estimated two million additional affordable homes through an expansion of the Low-Income Housing Tax Credit. Specifically, this legislation would increase the current annual Low-Income Housing Tax Credit allocation by 50 percent, allow for a more efficient use of bond resources resulting in even more Low-Income Housing Tax Credit production and preservation, and boost resources for states to better serve rural, tribal, and underserved communities.

Since the Low-Income Housing Tax Credit's inception in 1986, it has been responsible for virtually all the production and preservation of affordable housing in the United States. NAFCU urges you to support the expansion of this tried-and-true method for increasing and preserving affordable housing.

We thank you for your leadership and appreciate the opportunity to share our thoughts on improving housing affordability. Should you have any questions or require any additional information, please contact me or Jake Plevelich, NAFCU's Associate Director of Legislative Affairs, at jplevelich@nafcu.org.

Sincerely,

Brad Thaler
Vice President of Legislative Affairs

NATIONAL ASSOCIATION OF REALTORS
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March 21, 2023

The Honorable Ron Wyden	The Honorable Mike Crapo
Chairman	Ranking Republican
U.S. Senate	U.S. Senate
Committee on Finance	Committee on Finance
215 Dirksen Senate Office Building	215 Dirksen Senate Office Building
Washington, DC 20510	Washington, DC 20510

Dear Chairman Wyden and Ranking Member Crapo:

On behalf of the more than 1.5 million members of the National Association of Realtors®, thank you for holding the March 7, 2023, hearing entitled "Tax Policy's Role in Increasing Affordable Housing Supply for Working Families." Few issues in our Nation are more topical and urgent than finding effective ways to reduce the dire shortage of places for American families to live.

There is little or no debate around the question of whether the U.S. has a shortage of residential units. Rather, the question is how large the supply gap is. Estimates of the gap vary from about 3.8 million units to over 7 million.

But even if we could wave a magic wand and have this many additional housing units appear overnight, many experts believe we would still face an affordability issue. Thus, the number of additional homes needed to provide safe and affordable places to live for all who need and want them is likely a multiple of the numbers above.

Perhaps even more vital is the question of how best our national policies can be changed to begin to meet these needs. And specific to this Committee, how can tax policies be changed to incentivize the creation of more affordable housing units?

Realtors®, who consider the lack of supply of housing as an issue of the highest order, are heartened to learn that the lack of supply is recognized by members of the Finance Committee and other policymakers in Congress as a grievous problem. And we are also relieved to see that this recognition is bipartisan.

We urge you to consider the following ideas as components of an overall plan of Federal tax changes to incentivize the creation of more housing units for Americans:

- **Enact tax credits to lower the cost of converting unused commercial real estate to residential units.** These properties can be warehouses, offices, shopping malls, or even old schools. And they can be found in cities, suburban areas, as well as in small towns and rural parts of the Nation. Each residential unit thus created would assist with the housing shortage. And it would provide the additional bonuses of shoring up the commercial markets, boosting the economy and creating new jobs.
- **Provide a capital gains tax rate reduction** (perhaps 50 percent of the current rate) to owners of residential rental properties who sell a unit to a first-time buyer who will occupy it as their home. Some 10 million owner-occupied homes were purchased by investors of all types and sizes and converted to rentals in the wake of the housing crisis of 2008, significantly lowering the supply of available homes for purchase. This incentive could be limited to small investors, who still own the great majority of all rental homes. Because this would not require new construction, this idea could likely create new ownership opportunities for first-time buyers more quickly than any other incentive idea.
- **Increase the exclusion on the gain on sale of a principal residence.** Record jumps in home prices over the past few years has disincentivized older homeowners from selling their homes in order to move to smaller ones or to retirement facilities, simply because the resulting capital gains tax would leave too little to afford to replace the sold home. The result is that there are fewer homes available for younger or newer homeowners to move into, thus driving demand and prices even higher.
- **Pass the Affordable Housing Tax Credit Improvement Act.** This bipartisan legislation would improve the way the Low Income Housing Tax Credit works by increasing the credit allocation by 50 percent while making other improvements to what many regard as the most successful affordable housing program in the Nation's history. These changes are projected to provide over 2 million additional affordable homes over the next 10 years.
- **Approve the Neighborhood Homes Investment Act.** This legislation, which also enjoys broad bipartisan support, would make an appreciable increase in the housing supply over the next 10 years by mobilizing private investment to build or rehabilitate as many as 500,000 affordable homes for moderate- and middle-income homeowners in distressed neighborhoods.

These tax incentive ideas would go a long distance toward creating a strong down payment on the new affordable residential units that we need to stave off an even deeper crisis of under-housed Americans.

Again, thank you again for holding this hearing and expressing publicly the urgency of these needs. We look forward to continuing to work with you and your colleagues on this most important issue.

Sincerely,

Kenny Parcell
2023 President

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Statement of Jeff Burum, Chairman of the Board of Directors

On behalf of National Community Renaissance ("National CORE") I am pleased to have the opportunity to submit this statement for the record for the March 7, 2023 Senate Finance Committee Hearing on "Tax Policy's Role in Increasing Affordable Housing Supply for Working Families."

The construction of new affordable rental housing units is a significant challenge, necessitating entities like National CORE to obtain substantial amounts of equity from a range of sources, including federal sources such as housing tax credits and HUD HOME and CDBG funding. These challenges are particularly difficult in high-cost areas, such as California, where National CORE is active.

I am writing to suggest the Committee explore opportunities to create targeted capital gains exemptions for long-time holdings of rental housing developments, contingent on donation of such properties to a non-profit affordable housing developer/owner that covenants to keep and maintain the housing units affordable for an extended period.

An unutilized opportunity to more efficiently create affordable rental housing occurs when an owner of existing rental housing properties, where the owner has held the property for a long period of time, and currently has an exceptionally low tax basis, both because the property has appreciated and because the owner has taken significant deprecation. In such cases, it is common for older owners of such properties not to sell the properties, but instead wait to obtain the stepped-up basis at death, in order to avoid paying capital gains and recapture taxes.

Our proposal would be to provide targeted tax relief from capital gains, including depreciation recapture. This would incentivize such owners to donate the property to a qualified non-profit affordable housing owner who agrees to keep the units affordable. We believe the tax costs would be very low or de minimis, because as noted above, owners in such situations typically do not sell these properties, but wait for the step-up basis.

We note that the Commonwealth of Massachusetts has adopted a similar concept, creating a donation tax credit (DTC), similarly designed to incentivize donation of rental properties for affordable housing use. However, a federal tax incentive would be even more dynamic and broad-based.

At National CORE, we have developed and modeled such tax incentive options at the federal level, and would be happy to discuss our findings with the Committee.

NATIONAL LOW INCOME HOUSING COALITION
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Chair Wyden, Ranking Member Crapo, and members of the Committee, thank you for the opportunity to submit a statement for the record on the role of tax policy in increasing affordable housing supply.

The National Low Income Housing Coalition (NLIHC) is dedicated to achieving racially and socially equitable public policy that ensures people with the lowest incomes have quality homes that are accessible and affordable in communities of their choice. NLIHC members include state and local affordable housing coalitions, residents of public and assisted housing, nonprofit housing providers, homeless service providers, fair housing organizations, researchers, faith-based organizations, public housing agencies, private developers and property owners, local and state government agencies, and concerned citizens. While our members include the spectrum of housing interests, we do not represent any segment of the housing industry. Rather, we work on behalf of and with low-income people who receive, as well as those who need, federal housing assistance, especially extremely low-income people and people who are experiencing homelessness.

Even before the pandemic, millions of extremely low-income households—disproportionately people of color—were struggling to remain housed, always one financial shock away from falling behind on rent and being threatened with eviction and, in the worst cases, homelessness. On any given night, more than half a million people experienced homelessness, and millions more were at risk.[1]

The underlying cause of America's housing and homelessness crisis is the severe shortage of homes affordable and available to people with the lowest incomes and the widening gap between incomes and housing costs. There is a national shortage of 7 million homes that are affordable and available to America's lowest-income renters—those with incomes less than either the federal poverty guideline or 30% of their area median income (AMI), whichever is greater. The severe shortage of affordable and available homes for extremely low-income renters is a structural feature of the country's housing system, consistently impacting people in every state and nearly every community.[2]

Housing costs are out of reach for too many of the lowest-income renters.[3] Rents are far higher than what the lowest-income and most marginalized renters, including seniors, people with disabilities, and working families, can spend on housing. Despite the clear and urgent need, Congress only provides housing assistance to one in four eligible households.[4]

Without affordable housing options, 10 million of the lowest-income renter households pay at least half of their income on rent, leaving them without the resources they need to put food on the table, purchase needed medications, or otherwise make ends meet.[5] Paying so much of their limited income on rent leaves the lowest-income families always one financial shock—whether from a sick child, broken-down car, high heating bill, or other unexpected expense—away from facing eviction and, in the worst cases, homelessness.

Now, renters are faced with increased inflation, higher rents, eviction filing rates that are reaching or surpassing pre-pandemic averages, and, in many communities, worsening homelessness. Rent increases are exacerbating our country's affordable housing crisis, pushing more people into homelessness each year.

To help end our nation's housing and homelessness crisis, Congress must increase investments in long-term solutions to the underlying shortage of affordable, accessible homes and improve renter protections for the lowest-income people. This should include making rental assistance universally available to everyone in need, preserving and expanding the supply of homes affordable to people with the lowest incomes, preventing evictions and homelessness, and strengthening and enforcing renter protections. These solutions must be paired with reforms to break down barriers that prevent access to critical resources and that deepen racial disparities.

This year, the Senate Finance Committee has the opportunity to improve our nation's response to the housing crisis by expanding and reforming the Low-Income Housing Tax Credit (LIHTC) so that it better reaches those households with the greatest, clearest needs. LIHTC is the primary source of financing for the construction and preservation of affordable housing. While it is an important resource, LIHTC, on its own, rarely builds or preserves homes affordable to households with the lowest incomes. To ensure that the tax credit program better serves people experiencing or at risk of homelessness, **Congress should pair any expansion of LIHTC with key reforms,** including those included in the bipartisan "Affordable Housing Credit Improvement Act" (AHCIA) and other legislation.

Moreover, **Congress should reject any proposal to create a new tax credit to build housing affordable to middle-income households, such as the proposal introduced by Chair Wyden.** As outlined below, this proposal is misguided and wasteful, essentially subsidizing developers to build market-rate housing. To meet the housing needs of middle-income households, Congress should instead incentivize or require communities to address zoning and land use barriers that restrict the ability of the private sector to build apartments, increasing rental costs

[1] National Alliance to End Homelessness, (2021). *State of Homelessness: 2021 Edition,* retrieved from: *https://endhomelessness.org/homelessness-in-america/homelessness-statistics/state-of-homelessness2021/.*

[2] National Low Income Housing Coalition (2022), *The Gap: A Shortage of Affordable Homes,* Washington, DC, retrieved from: *https://nlihc.org/gap.*

[3] National Low Income Housing Coalition (2020), *Out of Reach: The High Cost of Housing,* retrieved from: *https://nlihc.org/oor.*

[4] Fischer, W. and Sard, B. (2017), *Federal Housing Spending Is Poorly Matched to Need,* Center on Budget and Policy Priorities, retrieved from: *https://www.cbpp.org/research/housing/federal-housing-spending-is-poorly-matched-to-need.*

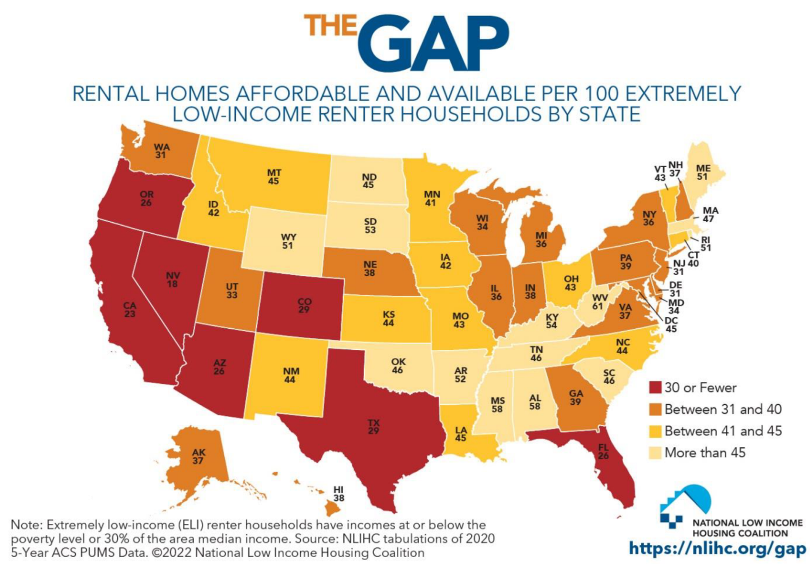
[5] National Low Income Housing Coalition (2022), *The Gap: A Shortage of Affordable Homes,* Washington, DC, retrieved from: *https://nlihc.org/gap.*

for everyone. Limited federal resources should be directed towards those with the greatest and clearest needs, and for whom the private market on its own cannot build an operate homes affordable to them: extremely low-income households.

Underlying Causes of the Housing Crisis

Shortage of Affordable Housing for the Lowest-Income Renters

Even before the COVID–19 pandemic, the country was in the grips of a pervasive affordable housing crisis, impacting rural, suburban, and urban communities alike. An underlying cause of America's housing crisis is a market failure that results in a severe shortage of rental homes affordable to people with the lowest incomes. Nationwide, there is a shortage of 7 million homes affordable and available to extremely low-income renters, whose household incomes are at or below either the federal poverty guideline or 30% of their area median income (whichever is greater). For every 10 of the lowest-income renter households, there are fewer than four homes affordable and available to them.[6]



The shortage of affordable and available homes for the lowest-income renters ranges in severity depending on state and congressional district, but there is no state or district with enough affordable homes for its lowest-income renters. For example, in Chair Wyden's state of Oregon, there are just two affordable homes available for every 10 of the lowest-income renter households. Ranking Member Crapo's state of Idaho faces a similar situation, with only four available homes for every 10 of the lowest-income renters.[7]

Systemic racism, past and present, has led to significant racial disparities in both renter demographics and adverse outcomes experienced by renters, such as cost burdens, evictions, and homelessness. The unaffordability of the rental market disproportionately harms Black and Latino households because they are more likely at all income levels to be renters: 30% of white households are renters, compared with 58% of Black households and 46% of Latino households.[8]

Moreover, renters of color are much more likely than white households to be extremely low-income renters. Twenty percent of Black households, 18% of American

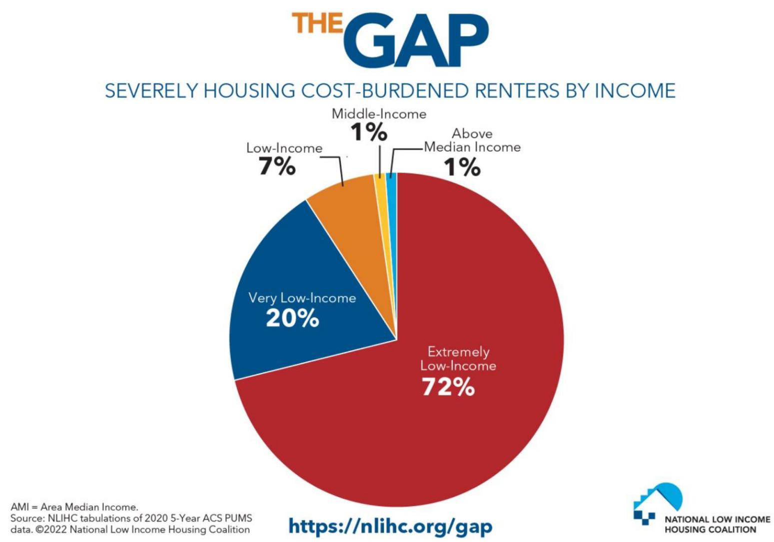
[6] National Low Income Housing Coalition (2022), *The Gap: A Shortage of Affordable Homes,* Washington, DC, retrieved from: *https://nlihc.org/gap.*

[7] National Low Income Housing Coalition (2022), Congressional District Housing Profiles: Oregon, Idaho, Washington, DC, retrieved from: *https://nlihc.org/gap.*

[8] U.S. Census Bureau (2022), 2020 American Community Survey 5-year Subject Tables [Data set], retrieved from: *https://data.census.gov/cedsci/table?q=United%20States.*

Indian or Alaska Native (AIAN) households, 15% of Latino households, and 10% of Asian households are extremely low-income renters, compared to only 6% of white non-Latino households. Renters of color are also more likely to experience housing cost burdens than white, non-Latino renters. While 43% of white renters are cost-burdened, 53% of Latino renters and 55% of Black, non-Latino renters are cost-burdened. Thirty-one percent of Black, non-Latino renters and 28% of Latino renters are severely cost-burdened, compared to 22% of white, non-Latino renters.[9]

Nationwide, 10 million of the lowest-income renters pay at least half of their income on rent, leaving them without the resources they need to make ends meet. Housing cost burdens are concentrated among the lowest-income renters. Eighty-six percent of extremely low-income renters are cost-burdened, and 72% of extremely low-income households are severely cost-burdened.[10] Research indicates that the lowest-income households spend significantly less on other necessities—such as food, clothing, transportation, and healthcare—when they are forced to spend more than half of their income on rent and utilities.[11]



The Gap between Incomes and Housing Costs

A major cause of housing instability is the fundamental mismatch between growing housing costs and stagnant incomes for people with the lowest incomes. NLIHC's *Out of Reach: The High Cost of Housing*[12] annual report estimates each locality's "Housing Wage"—the hourly wage a full-time worker must earn to afford a modest apartment without spending more than 30% of their income on housing. In 2022, the national Housing Wage was $25.82 per hour for a modest two-bedroom rental home and $21.25 per hour for a modest one-bedroom rental home.

Eleven of the 25 largest occupations in the U.S. pay a lower median hourly wage than the wage a full-time worker needs to earn to afford a modest one- or two-bedroom apartment at the national average fair market rent. More than 24 million people work in the five lowest-paying occupations—retail sales, food and beverage services, food preparation, home health aide and personal care services, and build-

[9] National Low Income Housing Coalition (2022), *The Gap: A Shortage of Affordable Homes,* retrieved from *https://nlihc.org/gap.*

[10] National Low Income Housing Coalition (2022), *The Gap: A Shortage of Affordable Homes,* retrieved from *https://nlihc.org/gap.*

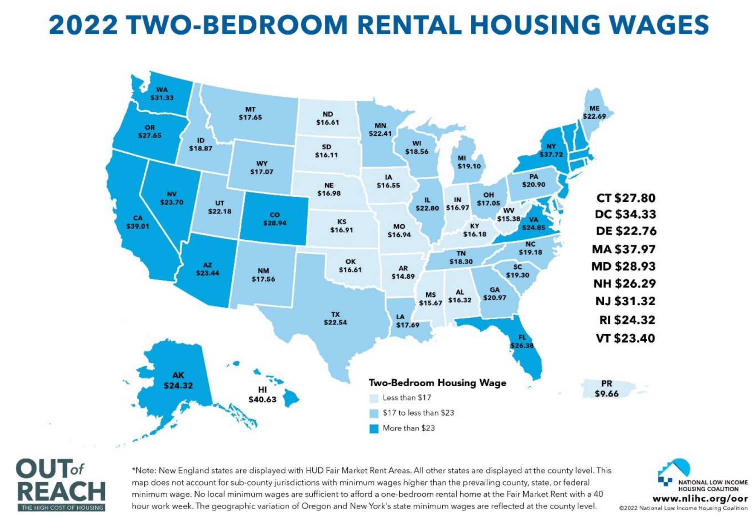
[11] Joint Center for Housing Studies of Harvard University (2022), *America's Rental Housing 2022,* Cambridge, MA, retrieved from: *https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_Americas_Rental_Housing_2022.pdf.*

[12] National Low Income Housing Coalition (2022), *Out of Reach: The High Cost of Housing,* retrieved from: *https://nlihc.org/oor.*

ing cleaning. Workers in these occupations earn median wages that fall more than $6 short of what a full-time worker needs for a one-bedroom apartment.[13]

The average minimum wage worker must work 96 hours per week (nearly two and a half full-time jobs) to afford a two-bedroom rental home, or 79 hours per week (two full-time jobs) to afford a one-bedroom rental home at the fair market rent. People who work 96 hours per week and need eight hours per day of sleep have around two hours per day left over for everything else—commuting, cooking, cleaning, self-care, caring for children and family, and serving their community.

Low-wage workers are not the only renters who struggle to afford their housing. Housing is unaffordable for low-income families in a variety of circumstances. Three-quarters of the nation's 4.4 million senior renters with incomes less than 50% of AMI are housing cost-burdened. Over 2 million households are very low-income, have a disability, and are not in the labor force, with most of these households paying more than 30% of their income toward rent. Of the country's approximately 850,000 very low-income householders who are single-adult caregivers or students, 93% are cost-burdened.[14, 15]



Lack of Federal Resources

The shortage of rental homes affordable to the lowest-income people is caused by market failures and the chronic underfunding of solutions. Government intervention, in the form of subsidies, is necessary to fill the gap between what the lowest-income people can afford to pay and the costs of developing and operating rental homes. Congress has consistently underfunded housing subsidies such that only one in four households eligible for housing assistance receives any.[16] Millions of families are placed on wait-lists for housing assistance, many of them faced with homelessness or overcrowding while they wait.[17]

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[13] National Low Income Housing Coalition (2022), *Out of Reach: The High Cost of Housing,* retrieved from: *https://nlihc.org/oor.*

[14] U.S. Census Bureau (2022), 2016–2020 American Community Survey Public Use Microdata Sample [Data set].

[15] National Low Income Housing Coalition (2022), *Out of Reach: The High Cost of Housing,* retrieved from: *https://nlihc.org/oor.*

[16] Fischer, W. and Sard, B. (2017), *Federal Housing Spending Is Poorly Matched to Need,* Center on Budget and Policy Priorities, retrieved from: *https://www.cbpp.org/research/housing/federal-housing-spending-is-poorly-matched-to-need.*

[17] Acosta, S. and Guerrero, B. (2021), *Long Waitlists for Housing Vouchers Show Pressing Unmet Need for Assistance,* Center on Budget and Policy Priorities, retrieved from: *https://*

Critically Needed Reforms to the Low-Income Housing Tax Credit

Deeper Income Targeting

To address America's housing crisis, Congress must prioritize federal housing investments to address the severe shortage of homes affordable and available to our nation's lowest-income and most marginalized households.

Despite the incredible need, the nation's primary source of financing to build and preserve affordable homes—LIHTC—is not sufficient on its own to build homes affordable to extremely low-income households. LIHTC is targeted to build homes affordable to households earning up to 50% or 60% of the area median income. As a result, extremely low-income households generally can only afford rent in a LIHTC development if they receive rental assistance. The majority (58%) of extremely low-income renters living in LIHTC developments who do not receive rental assistance are severely cost-burdened, paying more than half of their limited incomes on rent.[18] One emergency or unexpected expense could send these households into homelessness.

To help increase the supply of deeply affordable housing for America's lowest-income households, Congress should include in any housing supply tax legislation:

- **A 50% basis boost for housing developments where at least 20% of units are set aside for households with extremely low incomes or those experiencing homelessness.** This reform, as included in the Affordable Housing Tax Credit Improvement Act, would help facilitate the development of more affordable housing for populations with special needs, such as formerly homeless individuals and people with disabilities.
- **A 10% set-aside of tax credits to help offset the costs to build these homes, as proposed by Chair Wyden (D–OR) in the "Decent, Affordable, Safe Housing for All (DASH) Act."** To ensure that more housing developments built using LIHTC serve extremely low-income households, Congress should set aside 10% of the program's resources for developments where at least 20% of units are set aside for households with extremely low incomes or those experiencing homelessness.

Improved Access in Rural and Tribal Communities

Likewise, rural communities face unique barriers to developing affordable rental homes, including lower incomes, higher poverty rates, and lack of access to private capital. Indigenous people have some of the worst housing needs in the U.S. They face high poverty rates and low incomes, overcrowding, lack of plumbing and heat, and unique development issues. Despite the growing need for safe, decent homes, however, federal investments in affordable housing on tribal lands have lagged for decades, particularly in more rural and remote areas. As a result, far too many rural families live in rental homes that are unaffordable or are in substandard condition. To address the significant housing needs for Indigenous people and those in rural America, Congress should include in housing supply tax legislation:

- **Changes to designate tribal communities as "Difficult to Develop Areas" (DDAs).** Most tribal areas do not qualify under current DDA standards. This reform, as proposed in the Affordable Housing Credit Improvement Act, would make housing developments in tribal communities automatically eligible for a 30% basis boost, making it more financially feasible for developers to build affordable homes in these areas.
- **Changes to designated rural communities as "Difficult to Develop Areas" (DDAs),** making housing developments in rural America automatically eligible for a 30% basis boost.

Preservation of LIHTC Developments

Congress must use LIHTC to ensure long-term affordability of LIHTC properties.

- **Eliminate the "Qualified Contract" loophole from the LIHTC program,** as proposed in the DASH Act. Under the Qualified Contract loophole, LIHTC owners can avoid federal and state affordability restrictions after just 15 years, rather than the 30-year minimum requirement. The QC loophole has led to a

www.cbpp.org/research/housing/long-waitlists-for-housing-vouchers-show-pressing-unmet-need-for-assistance.

[18] O'Regan, K.M. and Horn, K.M. (2013), *What Can We Learn About the Low-Income Housing Tax Credit Program by Looking at the Tenants?* Housing Policy Debate, 23, 597–613, retrieved from: *https://nlihc.org/sites/default/files/Improving-Low-Income-Housing-Tax-Credit-Data-for-Preservation.pdf.*

substantial loss of affordable rental homes, harming low-income residents and wasting scarce federal investments.

- **Clarify and strengthen the "right of first refusal" (ROFR) for nonprofit owners,** as proposed in the DASH Act. By statute, Congress provides nonprofit organizations with a ROFR to help facilitate their ability to purchase LIHTC developments. In recent years, some private investors have challenged the ROFR in hopes of preventing the preservation sale in order to raise rents or of extracting additional payments from the nonprofit. This puts the long-term financial health and condition of the properties at risk.

Other Needed Reforms

Other reforms are needed to provide greater oversight and transparency of LIHTC and ensure renter protections for those living in these homes.

- **Provide HUD access to IRS data on LIHTC properties.** HUD's LIHTC database, the primary data source about LIHTC properties, includes critical information needed to protect residents and preserve federal investments. However, the database is incomplete and some data points can be unreliable. While HFAs report critical property-level data to IRS, federal law does not allow IRS to share this data with HUD. Without more accurate and complete data, long-term tracking of LIHTC properties and the ability to preserve these homes is more difficult.
- **Extend renter protections to tenants living in LIHTC properties.** Tenants in LIHTC properties have few protections, placing tenants and applicants in a vulnerable position, as they may be evicted or denied admission for arbitrary or unlawful reasons.

Opposition to the Middle-Income Housing Tax Credit

During today's hearing, Chair Wyden may bring attention to his DASH Act. While some provisions in the DASH Act provide critically needed resources to help struggling households, other measures—such as a proposal to create a Middle-Income Housing Tax Credit (MIHTC)—are misguided and wasteful. NLIHC is eager to work with Chair Wyden, and the Finance Committee, and craft legislation to ensure that tax legislation addresses the needs of the lowest-income renters.

The DASH Act includes several housing provisions that would help address America's housing crisis. By fully funding rental assistance and investing robust resources in the national Housing Trust Fund, the bill would ensure that millions of households can afford their rent. The bill also includes an innovative proposal to create a new project-based renters' tax credit that could be layered onto LIHTC to ensure that homes built with the tax credit are affordable to people living in poverty. Among other important reforms, the legislation would close loopholes in the LIHTC program that developers have exploited to convert federally assisted properties to market rate and prevent nonprofit organizations from preserving the properties as affordable.

NLIHC strongly opposes any efforts to create a tax credit for middle-income households, as there is no sound rationale for using scarce federal resources for this purpose. The DASH Act would create a new federal tax credit to incentivize developers to build and preserve market-rate apartments—housing that is affordable to families earning 100% or below of the area median income (AMI). Research shows, however, that middle-income families comprise less than 1% of those facing significant housing challenges, while 92.5% of these households have very low or extremely low incomes and would not be served by this new tax break for investors. At a time when there are more than four times as many homeless households as there are severely cost-burdened middle-income renter households, we must target federal funding to where it is most needed: making homes affordable for the lowest-income and most marginalized people.

To address the housing needs of middle-income households, Congress should instead incentivize or require state and local governments that receive federal transportation and infrastructure funding to eliminate restrictive zoning rules that increase the cost of development, limit housing supply for all renters, and reinforce segregation and structural racism in housing and other systems. Local communities can and must do their part in eliminating the exclusionary zoning policies that put pressure on middle-income renters in a handful of metro areas.

Other Innovative Tax Approaches

To address the housing crisis, Congress should expand rental assistance to make it universally available to all eligible households in need. Making rental assistance available to all eligible households is central to any successful strategy for solving the housing crisis. Rental assistance is a critical tool for helping the lowest-income people afford decent, stable, accessible housing, and the program has a proven record of reducing homelessness and housing poverty. A growing body of research finds that rental assistance can improve health and educational outcomes, increase children's chances of long-term success, and advance racial equity.

The Senate Finance Committee should consider legislation to use the tax code to help bridge the gap between incomes and housing costs. NLIHC supports the creation of a renters' tax credit, like the programs proposed in both the "Rent Relief Act of 2022" (S. 4728, H.R. 8357) introduced in the 117th Congress by Senator Raphael Warnock (D–GA) and Representative Danny Davis (D–IL), and the "Housing, Opportunity, Mobility, and Equity Act" (S. 5228, H.R. 9466) introduced in the 117th Congress by Senator Cory Booker (D–NJ) and Representative Jim Clyburn (D–SC).

A new, refundable tax credit could put more money in the pockets of families at a time when growing inflation is making housing even more unaffordable, particularly for people with the lowest incomes, who are disproportionately people of color. Based on the success of the Child Tax Credit, a renters' tax credit should provide monthly support to the lowest-income renters who spend at least 30% of their gross income on rent and utilities. Through this design, a renter's tax credit could help serve the three in four households eligible for rental assistance who are unable to receive assistance because of chronic underfunding by Congress.

Conclusion

Thank you again for the opportunity to submit a statement for the record for this hearing on tax policy's role in affordable housing. By holding this hearing, the Committee is taking important steps in using the tax code to increase housing supply. NLIHC will continue to support efforts to expand and reform the Low-Income Housing Tax Credit so that it better meets the needs of extremely-low income families. We look forward to working with members of the Committee to enact vital tax policy that improves families' access to affordable housing.

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Does Housing Affordability Argue for Subsidizing the Construction of Tax Credit Projects?

The low-income housing tax credit program (LIHTC) is the largest and fastest growing low-income housing program in the U.S. It subsidizes the construction and renovation of more units each year than all other government housing programs combined. The tax credits themselves involved new commitments of about $20 billion in 2021 (U.S. Congress, Joint Committee on Taxation, 2022, Table 4).[1] However, these projects received substantial additional subsidies from federal, state, and local governments. The magnitude of these additional subsidies has not been documented for the entire country since the early years of the program (Cummings and DiPasquale 1999), but a recent study of tax credit projects in California indicated that the tax credits accounted for only half of total subsidies (Lang and Olsen 2023).[2] If this result applied to the entire country, the taxpayer cost of providing housing in projects that were allocated tax credits in 2021 would have been about $40 billion. Adding tenant rents to public subsidies yields a total cost of about $55 billion to provide housing in the projects approved in 2021 over their 30-year use agreements.

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*This submission reflects the views of its author. It does not represent the official position of the University of Virginia. The University has an official position on low-income housing policy.

[1] The tax credits awarded in a year are claimed in ten equal installments. The amounts reported in this source refer to the amounts that will be claimed in a single year. These amounts must be multiplied by ten to obtain the total commitment.

[2] About half of the additional subsidies are rental assistance payments received by developers who have renovated older HUD and USDA housing projects that continue to receive deep subsidies from the programs involved.

Proposed legislation [3] in the Senate would greatly expand the tax credit program. This is billed as a solution to a housing affordability problem described in terms of the many families that devote a large fraction of their income to housing, and many argue that the expansion is necessary to house the homeless. Neither argument withstands scrutiny.

Building new projects is a very expensive solution to the housing affordability problem described. We don't need to build new housing projects to help families that spend a large fraction of their income on housing. They are already housed. If we think that their housing is unaffordable, the cheapest solution is for the government to pay a part of the rent. HUD's housing voucher program does just that at a much lower cost than the tax credit program.

Furthermore, it's neither necessary nor desirable to construct new units to house the homeless. The number of people who are homeless is far less than the number of vacant units—indeed, far less than the number of vacant units renting for less than the median rent. In the entire country, there are less than 600,000 homeless people [4] on a single night, and because some are families with children and couples without children, less than 470,000 units are needed to house them. Although the vacancy rate is relatively low now, there are more than 2.7 million vacant units [5] available for rent. All homeless people could easily be accommodated in vacant existing units, and that would be much less expensive than building new units for them. The reason that they are homeless is that they don't have the money to pay the rent for existing vacant units. A housing voucher would solve that problem. A major HUD-funded random assignment experiment called the Family Options Study [6] compared the cost and effectiveness of housing vouchers and subsidized housing projects for serving the homeless. Short-term housing vouchers were as effective and much less expensive than transitional housing projects.

The evidence indicates that the tenant-based housing voucher program is by far the most cost-effective approach to delivering housing assistance.[7] The best study of HUD's largest program that subsidized the construction of privately owned projects indicated that the total cost of providing housing under this program was at least 44 percent greater than the total cost of providing equally good housing under the housing voucher program (Wallace and others [8] 1981). This translated into excessive taxpayer cost of at least 72 percent for the same outcome. It implies that housing vouchers could have served all the people served by this program equally well and served at least 72 percent more people with the same characteristics without any increase in public spending.

We don't have a cost-effectiveness study of this quality for the LIHTC program. The best national evidence available suggests that tax credit projects cost 16% more than the voucher program to provide units with the same number of bedrooms in the same metro area (GAO 2001).[9] This is almost surely an underestimate because it omits some of the public subsidies to developers of tax credit projects such as land sold or leased to them by local public agencies at below-market prices, local property tax abatements received by some developers, and subsidies for renovating the projects during the initial use agreement. A recent study of the tax credit program in California revealed that the total taxpayer cost of providing housing in tax credit projects is at least a third greater than the cost of assisting the same families with standard housing vouchers (Lang and Olsen 2023).

The best evidence available also indicates that occupants of tax credit projects capture a small fraction of the subsidies provided to developers. Burge (2011, p. 91) finds that the present value of the rent saving to tenants (the difference between the market rent of the unit and the rent paid by its tenant) is only 35% of the present value of the tax credits provided to developers. Combining this result with Cummings and Di Pasquale's finding that tax credits account for about two-thirds of development subsidies for tax credit projects leads to the conclusion that tenants capture at most 24% of the development subsidies. Combining Burge's result with Lang and Olsen's finding that tax credits account for only half of the taxpayer cost

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[3] *https://www.congress.gov/bill/117th-congress/senate-bill/1136.*

[4] *https://www.huduser.gov/portal/sites/default/files/pdf/2022-AHAR-Part-1.pdf.*

[5] *https://fred.stlouisfed.org/series/ERENTUSQ176N.*

[6] *https://www.huduser.gov/portal/sites/default/files/pdf/Family-Options-Study-Full-Report.pdf.*

[7] Olsen (2008, pp. 9–15) summarizes the evidence, *http://eoolsen.weebly.com/uploads/7/7/9/6/7796901/final.olsenpaper-1.pdf.*

[8] *https://eoolsen.weebly.com/housing-policy-info.html.*

[9] *https://www.gao.gov/assets/gao-01-901r.pdf.*

of tax credit projects leads to the conclusion that tenants capture only 18% of the public subsidies.

A PBS Frontline documentary called Poverty, Politics, and Profit[10] illustrates one of the reasons for this outcome, namely, LIHTC fraud. A follow-up piece[11] with NPR, Department of Justice news releases,[12] and articles[13] in *The Miami Herald* provide more details. One investigation[14] of several developers revealed excess subsidies of $36 million for 14 projects. Because subsidies are proportional to construction cost, developers have an incentive to overstate them. In the fraud uncovered in this investigation, the developer who was awarded tax credits persuaded contractors to provide inflated invoices for their work combined with kickbacks to the developers. Due to the difficulty of determining true construction cost and perhaps lax enforcement by some state housing agencies, developers succeed in greatly overstating them. The documentary indicated that the developer of one project overstated its development cost by 17%. Because the fraud involved is difficult to detect, the few cases uncovered so far are surely the tip of the iceberg. Recent investigations have uncovered fraud in Los Angeles,[15] New York City,[16] Dallas,[17] and Maine,[18] and other investigations[19] are underway.

The reasons for the excess cost of tax credit projects go beyond fraud. The program contains incentives that lead to housing with a low market value compared with its cost. Because the tax credit subsidies are proportional to construction cost and developers receive a substantial bonus for locating their projects in the poorest neighborhood, developers have an incentive to build expensive new buildings on inexpensive land. This is not done in the private market because the rents that tenants are willing to pay for these units falls well short of their cost. And due to the program's rent ceilings, owners have no incentive to provide routine maintenance.[20] The developer cannot charge higher rents for better maintained units unless the market rent falls below the ceiling rent. In that event, the unit provides no subsidy to its tenant.

Another reason for the excess cost of tax credit projects is the cost of soliciting subsidies from multiple sources and adhering to their restrictions. Developers are willing to incur the extra cost because it enables them to produce projects with higher market values and they own the project. Building a more expensive project also leads to higher developer fees. The cost of soliciting subsidies from multiple sources and adhering to their restrictions adds to the cost of the project beyond the cost of the inputs used to produce or renovate housing.

It's often argued that the large expense of subsidizing the construction of new tax credit projects is justified by low vacancy rates that prevent potential recipients from using housing vouchers. On this argument, subsidized construction is necessary to serve additional families in the tightest housing markets. Table 1 shows that the location of new tax credit projects is inconsistent with this justification. The construction of tax credit projects is not focused on metro areas with low vacancy rates. Over the decade studied, most tax credit units were built in metro areas with vacancy rates in excess of 8%. Almost 40% of all tax credit units were built in metro areas with vacancy rates greater than 10%. McClure (2019, Table 6) produces similar results at the census tract level. About half of tax credit units are in tracts with vacancy rates greater than 7% even though only 42% of census tracts are in this category. Furthermore, new construction projects are not concentrated in census

[10] *https://www.pbs.org/video/poverty-politics-and-profit-bhkmpo/.*

[11] *https://www.npr.org/2017/05/09/527046451/affordable-housing-program-costs-more-shelters-less.*

[12] *https://www.justice.gov/usao-sdfl/pr/seven-defendants-sentenced-federally-their-role-36-million-fraud-scheme-involving-low.*

[13] *http://www.miamiherald.com/news/local/community/miami-dade/article29949909.html.*

[14] *https://www.justice.gov/usao-sdfl/pr/seven-defendants-sentenced-federally-their-role-36-million-fraud-scheme-involving-low.*

[15] *https://www.latimes.com/local/lanow/la-me-ln-housing-indictment-20160205-story.html.*

[16] *https://www.justice.gov/usao-edny/pr/real-estate-developer-sentenced-6-months-imprisonment-soliciting-300000-kickbacks-nyc.*

[17] *https://www.justice.gov/archive/usao/txn/PressRel10/DCC_potashnik_brian_cheryl_sen_pr.html.*

[18] *https://www.pressherald.com/2016/04/14/maine-man-admits-embezzling-80000-in-low-income-housing-funds/.*

[19] *https://www.bizjournals.com/southflorida/news/2017/06/16/federal-investigation-widens-into-affordable.html.*

[20] The property's owner does have an incentive to make repairs that avoid major damage to the property because he or she will own it without restrictions at the end of the use agreement.

tracts with the lowest vacancy rates, and rehabilitation projects are not concentrated in tracts with the highest vacancy rates.

Furthermore, low vacancy rates do not prevent potential recipients from using housing vouchers. Many are used in the tightest housing markets—more than 200,000 in the New York metro area, 100,000 in metro Los Angeles, and 50,000 in metro San Francisco. When the Housing Authority of the City of Los Angeles opened its voucher waiting list for two weeks in October 2022, about 223,000 families[21] applied. This has happened throughout the country when voucher waiting lists have been opened to new applicants. Why would so many apply if housing vouchers could not be used?

How are voucher recipients able to use vouchers in the tightest markets? Many families offered vouchers already occupy housing meeting the program's standards. We don't need vacant units for these families. They can participate without moving. Other families offered vouchers live in housing that doesn't meet program's minimum housing standards, but their landlords are willing to repair them to meet the standards in exchange for higher rents. In the tightest housing markets, it is more difficult for subsidized and unsubsidized families to find a unit preferred to their current housing. However, some families with and without vouchers do it. In some cases, voucher recipients find units that meet the program's minimum housing standards. In other cases, they find apartments that do not initially meet the standards but are upgraded to meet them. About half of the units occupied by voucher recipients have been repaired to meet the program's minimum housing standards (Kennedy and Finkel 1994). They did not meet minimum housing standards when first inspected but were repaired to meet them. The tenant-based voucher program substantially increases the supply of apartments meeting minimum housing standards without building new units for the families involved.

The Housing Assistance Supply Experiment of the Experimental Housing Allowance Program (EHAP) provides additional evidence on the ability of tenant-based vouchers to increase the supply of apartments meeting minimum housing standards.[22] The Supply Experiment involved operating an entitlement tenant-based housing allowance program in two metropolitan areas for ten years. During the first five years of the experiment, about eleven thousand dwellings were repaired or improved to meet program standards entirely in response to tenant-based assistance (Lowry 1983, p. 24). This represented more than a 9 percent increase in the supply of apartments meeting minimum housing standards in these two metro areas.

Contrary to popular perceptions, programs that have subsidized the construction of privately owned low-income housing projects have had little effect on the size of the housing stock. The evidence indicates that these programs have crowded out unsubsidized construction to a considerable extent (Murray 1983, 1999, Malpezzi and Vandell 2002, and Eriksen and Rosenthal 2010). The most recent study finds that LIHTC has almost no effect on the number of units built. Tax credit projects have almost completely crowded out unsubsidized apartment buildings. The unsubsidized construction crowded out would not be housing built for low-income families. It would be built for families with higher incomes that are willing and able to spend more on their housing. However, when these middle-income families vacate their existing units to move into newly built housing, their existing units would become available to families with lower incomes. This is the normal mechanism through which the private market provides housing to low-income families (Rosenthal 2014). LIHTC doesn't add to housing supply to any significant extent. Instead, it increases the number of low-income families living in newly built units and decreases the number of middle-income families living in such units.

Finally, evidence indicates that tenant-based vouchers lead to a larger increase in the number of occupied housing units than construction programs (Sinai and Waldfogel 2005). It's reasonable to believe that all subsidized housing programs lead to some increase in the number of occupied dwelling units by increasing the demand for distinct units. The offer of housing assistance of any type induces some individuals and families living with others to move to their own units. Abt (2006) indicates that about 26 percent of the families on the housing voucher waiting list were living with friends or relatives and 2 percent were living in a homeless shelter or transitional housing, and voucher usage resulted in corresponding decreases in these

[21] *https://laist.com/news/housing-homelessness/section-8-housing-choice-voucher-los-angeles-city-applications-lottery-hacla-affordable-homelessness.*

[22] Olsen and Zabel (2015, pp. 903–904) provide a brief account of the experiment and its main results.

numbers. Since doubling up and homelessness are more common among the poorest families, the programs that serve them will have the greatest net effect on the number of occupied housing units. The voucher program serves somewhat poorer families than HUD's privately-owned subsidized projects and much poorer families than LIHTC (O'Regan and Horn 2013, Table 2).

Given the available evidence on program performance, we should certainly not expand the tax credit program. The existing evidence argues for terminating it or phasing it out. If we want to serve additional families, we should expand the much more cost-effective housing voucher program. If the tax credit program is retained, Congress should insist on independent analyses of the highest quality that compare the cost-effectiveness of housing vouchers with the different types of low-income housing tax credit projects, including ones that renovate private and public housing projects built under HUD and USDA programs.

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Table 1. Tax Credit Units v. Vacancy Rates

75 largest metro areas, HVS vacancy rates, 2005–2014

Vacancy Rate (%)	Tax Credit Units Placed in Service	Tax Credit Units as % of Occupied Rental Units
2.0–3.9	13,931	0.24
4.0–5.9	117,729	0.20
6.0–7.9	145,076	0.27
8.0–9.9	84,894	0.21
10.0 –	223,220	0.25
Total	584,850	0.24

Note: Each observation refers to a single metro area in one year.
Sources: Vacancy rates, *https://www.census.gov/housing/hvs/data/ann15ind.html.*
Tax credit units placed in service, *https://www.huduser.gov/portal/datasets/lihtc.html.*
Occupied rental units, *http://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml.*

UMH PROPERTIES
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Statement of Sam Landy, President and CEO

I am pleased to submit this statement for the record for the March 7, 2023, Senate Finance Committee Hearing on "Tax Policy's Role Increasing in Affordable Housing Supply for Working Families."

I am submitting this statement in order to request that the Committee consider adoption of legislation to amend the existing Opportunity Zone statute to promote affordable workforce housing.

I am the President and CEO of UMH Properties Inc., one of the premier owners and operators of manufactured home communities in the Nation. UMH Properties is publicly traded on the New York Stock Exchange. We currently own 135 manufactured home communities in 11 states with approximately 25,700 developed homesites. Seven of our communities are currently located in Opportunity Zones. I have worked in the manufactured housing industry since 1985 and have been President of UMH Properties since 1994.

UMH Properties has a 55-year history of providing quality affordable housing in manufactured home communities. Videos of our communities are available on our website and showcase the high-quality affordable housing that can be delivered through investment in manufactured home communities. We rent 1,000 sq. ft. three bedroom, two bath, modern, energy efficient, vinyl sided, shingle roofed homes on 5,000 sq. ft. lots for $800 per month and up, to families with household income of $32,000 and up. We also sell both single section 1,000 sq. ft. homes and 1,800 sq. ft. multi-section manufactured homes to people who buy the home and rent the lot. Those homes sell from $80,000 to $250,000 and have lot rents as low as $400 per month in our community.

Manufactured housing is the most affordable homeownership option available for low- and moderate-income families in America. The average income of a manufactured home buyer is $35,000—while the average income of a home buyer buying a site-built home is over $100,000. Residents of manufactured home communities consist of people of all ages, family status, and incomes. We find that many residents seek manufactured housing based on the lower monthly payment derived from owning a financed manufactured home and renting a lot in a community as compared to owning land for the home and paying a mortgage and taxes on that land or renting an apartment or buying a house. Other residents use the proceeds of the sale of an existing home to pay all cash for a manufactured home and then only pay the lot rent. And other residents do not have the down payment or other ability to qualify for financing the purchase of a manufactured home and chose to rent the manufactured home. Further many people see themselves as needing a short term, less then three-year, affordable housing solution and see renting a manufactured home in a community as the best lowest cost solution. Since 2011 we have rented over 9,000 manufactured homes for monthly rent as low as $800 per month.

Manufactured home communities—also known as land-lease communities—are a critical model for the delivery of affordable manufactured homes, 51% of new manufactured homes are currently being placed in manufactured home communities. There are more than 43,000 land-lease communities in the U.S., representing almost 4.3 million homesites. These communities offer sites for families to place their manufactured homes, with professional management of the community and amenities that go with it.

One of the greatest challenges facing older manufactured home communities is the need for an infusion of funds to address neglected capital improvements like roads, sewer, and water. UMH Properties has been highly successful in purchasing aging manufactured home communities in need of significant capital repairs—in order to modernize them and thereby protect the value of the investments of the manufactured homeowners living in those communities at affordable land lease rental rates. Further we add rental homes to fill the vacant lots in those communities and increase the supply of affordable work force housing in the community.

These purchases and improvements of aging communities require significant investments. UMH Properties has a total market capitalization of approximately $2 billion, with gross revenue of over $190 million per year. UMH invests over $70 million a year in new rental homes and capital improvements to improve our manufactured home communities. These investments allow us to provide our residents with the highest quality affordable housing at the most reasonable rates. UMH shareholders include the pension funds that our residents have equity interests in.

UMH has successfully renovated and upgraded seven manufactured home communities in opportunity zones and sees the brilliance of the idea of tax incentives attracting capital to previously underinvested areas of the country. UMH's experience in opportunity zones and renovating communities in Nashville and Memphis convince us that the concept of providing investors who make ten-year investments in affordable housing in opportunity zones with tax benefits results in the increased supply of badly needed affordable housing and further attracts employers and additional jobs and tax revenue to areas of the country that previously suffered from economic stagnation.

UMH believes that the current opportunity zone fund law could be amended slightly so that far more meaningful investment is made in affordable housing in opportunity zones. Our experience is that the existing law inadvertently limits the pool of capital available to create affordable housing in opportunity zones by requiring those funds come from existing capital gains. That requirement is the basis for the criticism of the opportunity zone program only being available to the wealthy who have capital gains. We believe opening up affordable housing investments through opportunity zones to all investors will greatly increase the pool of capital flowing into opportunity zones to create affordable housing.

It is our opinion that the greater the supply of funds invested in affordable housing in opportunity zones the quicker the area will become economically able to be self-sufficient from growing tax revenue that employers seeking the quality work force a supply of affordable housing will bring to the areas provide.

We therefore seek removal of the existing opportunity zone requirement that investments be a reinvestment of funds from a capital gain realized in the preceding 180 days provided the investment is for affordable housing through manufactured homes in opportunity zones. With this amendment any funds invested in affordable housing in opportunity zones should receive a stepped-up basis if the investment is held for ten years or longer. Legislatively, this could be achieved in a simple manner, by creating a short new subsection in the statute that would grant authority for this. We have attached a draft of our proposal.

With this change, we are confident that UMH Properties and other manufactured home community operators could access significant new investment funds to help build and modernize communities in opportunity zones nationwide that facilitate the most affordable housing option available, manufactured homes.

This approach is narrow and targeted. It would not facilitate investments that could be criticized as deviating from the objectives and intent of the Opportunity Zone program. It is limited to investments that facilitate affordable manufactured housing- a high priority for Congress and the Administration and an important public policy objective.

Finally, it would not allow investors to access the deferment and potential permanent elimination for capital gains that have already taken place. Since the latter is the most costly component of Opportunity Zone tax treatment and since the proposed flexibility is narrowly targeted to a specific limited activity, we believe the tax scoring cost of this provision would be very small, while the societal and economic benefits would be substantial.

I also understand that inflation is currently creating hardship for some resident homeowners in manufactured home communities due to rent increases and I'd like to address that issue based on my 47-year experience in the industry. The solution to the problem regarding newly built communities is to follow the Florida policy of requiring a prospectus from the community owner disclosing all potential fees and rent increases before a person purchases a home or moves it into a community. That prospectus coupled with a long-term lease that matches the term of the loan on the home results in fairness for the community owner and the resident. In the case of UMH new home buyers are offered a long-term lease, usually 20–25 years, that allows rent increases of CPI or 5%, whichever is more, plus pass through of increases in water, sewer, garbage and taxes. This results in reasonable rent increases that cause minimal to no friction between UMH and our residents. Except for the 2009–2011 period anyone who bought a home from UMH was able to sell it for more than they paid us for it, provided they properly maintained it.

Regarding existing communities there are laws on the books in most states prohibiting unconscionable rent increases. Further there is a covenant of good faith and fair dealing in all contracts. There are 43,000 existing communities and I am certain the problems you hear about pertaining to rent increases are coming from a very small percentage of those communities.

In closing, I thank the Committee for the opportunity to submit this statement and I would be happy to make myself available to Committee staff to discuss this initiative in more detail.

Appendix

Draft Legislative Language to Opportunity Zone Statute

26 US Code 1400Z–2 is amended by adding the following new subsection (and renumbering the subsequent subsections):

"(d) Additional Flexibility for Investments in Manufactured Home Communities

Investments in manufactured housing communities that meet all other requirements of this section shall be eligible for the tax treatment in subsection (c), notwithstanding a failure to meet the requirements of subsection (a)(1)(A) of having a gain during the 180-day period prior to such investment."

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Currently housing cooperatives are effectively excluded for the federal government's only significant support for affordable housing, the **Low-Income Housing Tax Credit (LIHTC) program.** This is because in **LIHTCs currently require a syndication,** usually 99.9% owned by a for-profit entity with significant taxable income, to own the project for the first 15 years, in order to take advantage of the tax credits. This partnership means that a participating housing co-op would only have a chance of truly owning the property after 15 years and the obstacles to cooperative ownership a bridge too far to call homeownership for most residents.

Direct Pay Investment Tax Credits (ITCs) for sustainable energy projects were included in the IRA (Climate Bill) that Congress recently passed. The National Rural Electric Cooperative Association (NRECA) had made the inclusion of Direct Pay tax credits their top legislative priority. **With Direct Pay the electric co-ops can file tax returns directly with the IRS for refunds of these energy tax credits without having to partner with for-profit entities,** through such vehicles as power purchase agreements, in order to take advantage of the federal incentives. Here is a link to an article on the importance Direct Pay from NRECA. At the bottom of the article is a video, *https://www.electric.coop/house-passes-direct-pay-incentives-for-co-ops.*

If Direct Pay for LIHTCs was available, housing co-ops would, similar to the electric co-ops, be able to file tax returns with the IRS and receive refunds of the tax credits. This would provide much needed equity into projects.

Also, many states require that projects they finance qualify for and receive LIHTCs, effectively excluding most housing co-ops.

One difference with Direct Pay, both for electric co-ops and if passed for housing co-ops, is that projects that might rely on tax credits would not be able to gain any value from depreciation costs, which is a significant part of the value in the syndication of tax credits. Therefore, **a benefit** from a federal standpoint is that the cost of these project would actually be less since there would be **no additional forfeited federal tax revenue on these projects.** A second benefit of this change is that **no new federal budget authority** (either expenditure or forfeited tax revenues) would be required since it would not call for an expansion of the LIHTC program. The final benefit for the federal government is that it would **allow LIHTCs to be used to support permanently affordable housing** rather than the current system which requires not only co-ops but also non-profits and governments to grant project ownership to for-profit entities in order to participate in the LIHTC program.

In summary, **Direct Pay LIHTC would be a similar "game changer" for housing co-ops** as NRECA envisions Direct Pay will be for electric co-ops. With the support of other co-ops, the non-profit development community and local governments, **we could see a new era for housing co-ops.**

Peter Dean
Director, National Cooperative Community Services

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March 21, 2023

The Honorable Ron Wyden Chairman U.S. Senate Committee on Finance 219 Dirksen Senate Office Building Washington, DC 20510	The Honorable Mike Crapo Ranking Member U.S. Senate Committee on Finance 219 Dirksen Senate Office Building Washington, DC 20510

Dear Chairman Wyden and Ranking Member Crapo:

U.S. Mortgage Insurers (USMI) appreciates the opportunity to submit this letter for the record for the Committee on Finance's March 7th hearing titled "Tax Policy's Role in Increasing Affordable Housing Supply for Working Families." We are very pleased that the committee held a hearing on this important topic and USMI believes that there are tax policies that can be improved in order to help families achieve the American Dream of homeownership. More specifically, we strongly support the tax deduction for qualified mortgage insurance (MI) premiums and USMI encourages Congress to reinstate and enhance the impact of this important middle class tax deduction.[1] Our industry applauds Senator Hassan for her work, including bipartisan legislation last Congress, the Middle Class Mortgage Insurance Premium Act of 2022 (S. 3590), to make the deduction permanent and expand taxpayer eligibility.

USMI is a trade association comprised of the leading private MI companies in the U.S. and represents an industry dedicated to a housing finance system backed by private capital that enables access to prudent and affordable mortgage finance for borrowers while protecting taxpayers.[2] Our member companies are focused on ensuring that home-ready borrowers have access to affordable and sustainable mortgages within a well-functioning U.S. housing finance system. The private MI industry has a 67-year track record of underwriting and actively managing single family mortgage credit risk in order to facilitate access to low down payment conventional mortgages. Since 1957, private MI has helped more than 38 million families pur-

[1] 26 U.S.C. 163(h)(3)(E). The tax deduction currently does not apply to amounts paid or accrued after December 31, 2021.

[2] USMI membership comprises: Enact Mortgage Insurance; Essent Guaranty, Inc.; Mortgage Guaranty Insurance Corporation; National Mortgage Insurance Corporation; and Radian Guaranty, Inc.

chase a home or refinance an existing mortgage, including more than 1 million families in 2022 alone.[3]

Low down payment mortgages are critical for many families, most notably first-time, lower wealth, and minority homebuyers, to secure mortgage financing. Affordability remains a persistent barrier to homeownership across the country due to rising interest rates, high home prices, and constrained housing inventory, and MI helps bridge the down payment gap for borrowers who lack the resources for large down payments. In 2022 alone, nearly 2.5 million families obtained mortgages with some form of MI, including more than 1 million conventional mortgages with private MI, more than 850,000 mortgages insured by the Federal Housing Administration (FHA), and nearly 600,000 mortgages guaranteed by the U.S. Department of Veterans Affairs (VA).[4] Further, the vast majority of borrowers with MI are first-time homebuyers, traditionally the driving force of the housing market. For purchase mortgages originated in 2022, more than 60% of mortgages with private MI, 80% of FHA-insured mortgages, and 50% of VA-guaranteed loans went to first-time homebuyers.[5]

In order to make homeownership more affordable, USMI has long supported the tax provision allowing a deduction for MI premiums paid in connection with a mortgage on a qualified residence. Since 2007, the MI Deduction has been a powerful tool in prudently promoting homeownership for low- and moderate-income (LMI) families. The provision has been extended several times with broad bipartisan support, including most recently in the Further Consolidated Appropriations Act of 2020.[6] During the time period when MI premiums have been deductible, the deduction was claimed over 43 million times by qualified homeowners for an aggregate $61.6 billion in tax deductions.[7] For 2020, the most recent tax year for which detailed Internal Revenue Service (IRS) data is available, nearly 1.4 million households benefited from the MI deduction, for an average tax deduction of more than $2,100.[8]

However, two key aspects of the MI deduction diminish its effectiveness: (1) its temporary nature; and (2) its relatively low Adjusted Gross Income (AGI) phaseout and cap. Bipartisan legislation last Congress from Senators Hassan and Blunt, the Middle Class Mortgage Insurance Premium Act of 2022 (S. 3590), would have addressed both those shortcomings and expanded taxpayer eligibility by raising the income level at which the phaseout begins, specifically increasing the income phaseout trigger to $200,000 for joint filers and $100,000 for single filers. This would be the first AGI adjustment for the MI deduction since it took effect in 2007 and be a welcome statutory change to take into account the natural erosion of the reach of this deduction with the passage of time.

The MI deduction is a sound and targeted tax policy that provides meaningful benefits to hardworking families across the country and should be a permanent part of the U.S. tax code. Homeownership remains the primary vehicle for families to enter the middle class and build long-term generational wealth, and the MI deduction is an important tool for policymakers to support homeownership opportunities for more Americans. In fact, data from the Federal Reserve indicates that the median net worth of a homeowner is more than 40 times that of a renter.[9]

Senator Hassan's bill from last Congress is included as Annex A and on March 7, 2023 Representatives Buchanan and Panetta reintroduced bipartisan legislation, H.R. 1384, in the House of Representatives. In addition, a November 2022 letter from 14 housing organizations to the Committee on Finance in support of Senator Hassan's bill is attached as Annex B.

USMI thanks you for devoting needed attention to the extremely important issue of housing, especially around tax policies that promote affordable and sustainable homeownership, and stands available as a resource to the committee. We appreciate the opportunity to discuss the MI deduction, a tax policy that has long enjoyed bipartisan support, and requests for additional information may be directed to

[3] GSE aggregate data.
[4] GSE aggregate data, VA Lender Loan Volume Reports, and FHA Single Family Monthly Production Reports.
[5] GSE aggregate data and eMBS data.
[6] Pub. L. 116–94 (December 20, 2019).
[7] IRS, Statement of Income Tax Stats—Historical Table 2.
[8] *Id.*
[9] Federal Reserve, 2019 Survey of Consumer Finance (SCF). The median net worth of a homeowner was $254,900 in 2019 dollars compared to $6,270 for a renter.

Brendan Kihn, USMI's Senior Director of Government Relations, at bkihn@usmi.org or 202–280–1820.

Very truly yours,

Seth D. Appleton
President
U.S. Mortgage Insurers

Annex A

117TH CONGRESS
2D SESSION

S. 3590

To amend the Internal Revenue Code of 1986 to increase the income cap with respect to the mortgage insurance premium deduction, and to make such deduction permanent.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 7 (legislative day, FEBRUARY 3), 2022

Ms. HASSAN (for herself and Mr. BLUNT) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To amend the Internal Revenue Code of 1986 to increase the income cap with respect to the mortgage insurance premium deduction, and to make such deduction permanent.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Middle Class Mortgage Insurance Premium Act of 2022".

SEC. 2. INCREASING THE INCOME CAP FOR AND MAKING PERMANENT THE MORTGAGE INSURANCE PREMIUM DEDUCTION.

(a) IN GENERAL.—(1) Section 163(h)(3)(E) of the Internal Revenue Code of 1986 is amended—

(1) in clause (ii), by striking "$100,000 ($50,000" and inserting "$200,000 ($100,000", and

(2) by striking clause (iv).

(b) EFFECTIVE DATE.—The amendments made by this Act shall apply to taxable years beginning after December 31, 2021.

Annex B

November 17, 2022

The Honorable Ron Wyden
Chairman
U.S. Senate
Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Mike Crapo
Ranking Member
U.S. Senate
Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Wyden and Ranking Member Crapo:

The undersigned organizations, representing a diverse coalition of stakeholders in the housing finance system of lenders, real estate professionals, homebuilders, mortgage insurers, and affordable housing advocates, are writing regarding the tax treatment of mortgage insurance premiums. We appreciate the opportunity to provide our collective perspective on this important tax provision and encourage congressional action to support existing homeowners and prospective homebuyers by modifying current law to make the mortgage insurance premium tax deduction permanent and increase its income phaseout. The tax deduction for mortgage insurance premiums has long enjoyed bipartisan support and, as Congress considers any year-end tax package, our organizations firmly believe this deduction is both good tax policy and housing policy.

Affordability remains a persistent barrier to homeownership across the country due to rising interest rates, strong home price appreciation, and limited housing supply.[10] Since this time last year, the average interest rate for a 30-year fixed-rate mortgage has more than doubled and currently stands at nearly 7%,[11] the most recent CoreLogic Home Price Index shows nationwide prices rose 11.4% from September 2021 to September 2022,[12] and, while housing inventory has improved from a historical low point, the current 3.2 months of supply[13] is still well below pre-pandemic and long-term historical levels. Despite these challenges, each year mortgage insurance helps bridge the down payment gap for millions of borrowers who lack the resources for a 20% down payment or have less than perfect credit. Low down payment mortgages—including conventional mortgages with private mortgage insurance and loans insured or guaranteed by the Federal Housing Administration (FHA), U.S. Department of Veterans Affairs (VA), and U.S. Department of Agriculture Rural Housing Service (RHS)—have proven critical for many first-time, low- and moderate-income (LMI), and minority homebuyers to secure financing and attain the American Dream of homeownership. Using low down payment mortgages allows families to buy homes sooner than they otherwise would be able and to reap the benefits of homeownership, including financial stability and building intergenerational wealth.

In 2021 alone, approximately 4.6 million families obtained mortgages with some form of mortgage insurance, including nearly 2 million conventional loans with private mortgage insurance, nearly 1.4 million FHA-insured mortgages, and nearly 1.3 million VA-guaranteed mortgages.[14] Further, the vast majority of borrowers with mortgage insurance are first-time homebuyers, traditionally the driving force of the housing market.[15] Low down payment lending options are critical for these first-time homebuyers, as evidenced by the fact that in recent years approximately 80% of first-time homebuyers relied on low down payment options to purchase homes.[16]

Since 2007, the tax code has treated mortgage insurance premiums as qualified residential mortgage interest and they have been tax deductible, subject to an income phaseout for taxpayers with adjusted gross incomes (AGI) over $100,000 ($50,000 if single or married filing separately).[17] During the time period that mortgage insurance premiums have been tax deductible, millions of LMI homeowners have benefited from this provision of the tax code. Based on the most recent estimate from the Internal Revenue Service (IRS), more than 1.3 million households benefited from the mortgage insurance deduction for tax year 2020 for an average deduction of more than $2,100.[18] As you know, the Tax Cuts and Jobs Act of 2017 (TCJA)[19] modified numerous aspects of the tax code and doubled the standard deduction.

[10] Mortgage Bankers Association Purchase Applications Payment Index (PAPI). The national median payment was $1,941 in September 2022, a 40% increase since the beginning of the year.
[11] Freddie Mac Primary Mortgage Market Survey (PMMS) for 30-Year Fixed-Rate Mortgages, 3.10% for the week ending Thursday, November 18, 2021, and 6.61% for the week ending Thursday, November 17, 2022.
[12] CoreLogic "U.S. Home Price Insights—November 2022" (November 1, 2022).
[13] National Association of Home Builders (NAHB), New Existing Home Sales, Updated October 26, 2022, for data through September 2022.
[14] GSE Aggregate Data, HUD quarterly reports to Congress on the "Financial Status of the Mutual Mortgage Insurance Fund," and VA Lender Loan Volume Reports.
[15] For purchase mortgages originated in 2021, nearly 60% of mortgage with private mortgage insurance, approximately 85% of FHA-insured mortgage, and 50% of VA-guaranteed loans went to first-time homebuyers. GSE Aggregate Data and eMBS.
[16] Enact MI First-Time Homebuyer Market Reports.
[17] 26 U.S.C. 163(h)(3)(E).
[18] Internal Revenue Service (IRS), SOI Tax Stats: Table 2.1 (Estimates Based on Samples for Tax Year 2020). 1,344,179 tax returns that claimed the mortgage insurance premiums deduction for an aggregate amount of $2,834,901,000.
[19] Pub. L. 115–97 (December 22, 2017).

Prior to the enactment of the TCJA, more than 4 million taxpayers claimed the deduction each year and the number of households eligible to benefit from the deduction are sure to increase upon the expiration of the TCJA individual tax policies at the end of 2025.

Our organizations have long supported the mortgage insurance premium tax deduction as a means to support homeownership for LMI households, but two key aspects of the current tax code hamper its effectiveness: (1) its temporary nature; and (2) its relatively low AGI phaseout and status as the only itemized deduction subject to an AGI cap and/or phaseout. The current AGI phaseout represents a burdensome eligibility criterion for American families to claim the mortgage insurance deduction and many more hardworking families would benefit from a permanent extension that increases the AGI phaseout. The AGI cap has remained the same since the deduction took effect in 2007 and an increase is warranted to account for the natural erosion of the value of the dollar with the passage of time.

Senators Maggie Hassan and Roy Blunt have introduced S. 3590, the Middle Class Mortgage Insurance Premium Act of 2022, and we encourage the Committee on Finance to consider this bipartisan legislation for inclusion in any final 2022 tax package. Thank you for your consideration of our recommendation that the tax deduction for mortgage insurance premiums be made permanent and that the AGI phaseout be increased. We welcome the opportunity to further engage on this important issue to support access to affordable and sustainable homeownership for American families.

Very truly yours,

American Bankers Association
Asian Real Estate Association of America
Community Home Lenders of America
Housing Policy Council
Independent Community Bankers of America
Leading Builders of America
Manufactured Housing Institute
Mortgage Bankers Association
National Association of Federally-Insured Credit Unions
National Association of Hispanic Real Estate Professionals
National Association of Home Builders
National Association of Realtors®
National Housing Conference
U.S. Mortgage Insurers

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JARED POLIS	**MARK GORDON**	**JACK WALDORF**
GOVERNOR OF COLORADO	GOVERNOR OF WYOMING	EXECUTIVE DIRECTOR
CHAIR	VICE CHAIR	

March 8, 2023

The Honorable Ron Wyden	The Honorable Mike Crapo
Chairman	Ranking Member
United States Senate	United States Senate
Committee on Finance	Committee on Finance
219 Dirksen Senate Office Building	219 Dirksen Senate Office Building
Washington, DC 20510	Washington, DC 20510

Dear Chairman Wyden and Ranking Member Crapo:

In light of the Committee's March 7, 2023 hearing, Tax Policy's Role in Increasing Affordable Housing Supply for Working Families, attached please find Western Governors' Association Policy Resolution 2023–04, Housing Is Foundational to the Success of the West.

This policy resolution addresses the challenges of increasing the availability and affordability of housing in the West. It highlights the need to pass legislation lowering the threshold of Private Activity Bond financing from 50 percent to 25 percent, ensure that the Low Income Housing Tax Credit (LIHTC) Program works more effectively for underserved communities, and review and adjust the formulas for the LIHTC Program.

I request that you include this document in the permanent record of the hearing, as it articulates Western Governors' policy positions and recommendations related to this urgent issue.

Thank you for your attention to this matter and your consideration of this request. Please contact me if you have any questions or require further information.

Sincerely,

Jack Waldorf
Executive Director

Attachment

Western Governors Association

Policy Resolution 2023–04

Housing Is Foundational to the Success of the West

A. BACKGROUND

1. The West has undergone extraordinary growth in recent years. According to the 2020 U.S. Census, the region has experienced population growth of 9.2 percent from 2010 to 2020, the second highest rate nationally, with more than 78 million new residents. The three fastest growing states by percentage—Utah, Idaho, and Colorado—are all western states. In addition, towns with less than 5,000 people in the Rocky Mountain and coastal areas of the West have experienced the highest nationwide population growth rates at 13.3 percent.

2. The COVID–19 pandemic accelerated and spurred several noteworthy trends. Over the past 10 years, moves to large and expensive cities have plateaued in favor of smaller cities and suburbs. The U.S. Census reports that while overall moving rates continued to decline, starting in 2021, the West began to see a dramatic increase in net migration to the region. During the public health crisis, people fled big cities at increased rates for less dense areas that offered warmer weather, more outdoor recreation activities, and greater opportunities to safely social distance as telework became the new normal and employees were no longer tethered to a physical office. The Pew Research Center estimated that 1 in 5 adults, especially young professionals, relocated during the pandemic or know someone who did.

3. This growth in the West has led to housing shortages in communities large and small. Shortages have been exacerbated by Great Recession development delays and stops and a lack of workforce, which have resulted in a housing slump and left communities across the West struggling to keep up with demand and a near-record rise in the number of American homeowners. As the market began to recover, the spread of COVID–19 hit builders with similar issues, including supply chain delays and a workforce deficit.

4. According to the Federal Reserve, while home sales have boomed, the number of active housing listings in January 2022 dropped to its lowest in at least five years—60 percent below the number on the market just two years previously—causing home sale prices to skyrocket. Nationally, prices have increased by nearly 20 percent, with the West seeing some of the greatest increases.

5. The West's natural beauty brings people from across the nation and globe. While western states welcome the growth in remote workers and visitors to tourism and outdoor recreation-based economies such as resort towns and gateway communities, unmanaged growth has caused "big city" issues for some areas. Additionally, many residences have been converted into temporary rental units through services like Airbnb and VRBO. The unchecked proliferation of these rentals can heighten housing shortages, drive costs higher, and diminish the availability of places for residents and workers to call home. Long-time community residents and workers are often forced to move out of the communities they grew up in and are culturally connected to, exacerbating disparities and making

it difficult for social services, businesses and government to retain and attract employees from within the community. Rapid population influxes also strain existing infrastructure and resources in areas that already have limited planning capacities.

6. Rural communities face unique challenges when addressing housing issues. Construction costs in rural areas are often higher than in urban areas and are further compounded by a lack of critical infrastructure. There are limited numbers of investors and contractors who are willing to mobilize or invest in small communities, making the cost of new or improved housing too high for middle-income residents. Rural areas can also lack access to lenders and credit, which reduces funding for the production of new units and the maintenance of existing housing stock. As a result, a disproportionate amount of the nation's occupied substandard housing is in rural communities. According to the U.S. Department of Agriculture (USDA), approximately half a million of its multifamily housing properties will need a total of $5.6 billion in investments to maintain suitable living conditions for residents.
7. Despite a recognized need for more housing and housing of different types, existing homeowners often oppose increasing the housing supply in their communities, especially the construction of denser housing. This opposition, and the signal it sends to city leaders, zoning boards, and planning commissions, represents a significant impediment to addressing the housing shortage and can lead to restrictive local land use regulations. Some western communities are addressing these challenges in part through the development of communities that combine housing of different types and sizes with commercial properties in ways that promote affordability, walkability, diversity of homeowner type, and a higher quality of life.
8. In downtown submarkets and dense neighborhoods, apartment absorption rates show that landlords are quickly leasing vacant apartment units, driving strong rent costs. From October 2020 to October 2021, rental costs increased 15.9 percent, with the median cost of advertised rentals rising to above $2,000 for the first time. Rental occupancy, new lease signings, and lease renewal rates show strong growth, indicating an increase in rental demand across the market. The West plays a strong role in this growth, with half of the top twenty predicted strongest markets in 2022.
9. All available data suggests that homelessness, including among families with children, has risen during the current housing crisis, likely attributed to surging rents, which compound personal and societal causes of homelessness. Homelessness and housing instability make it harder to find and keep a job, treat or manage medical conditions, and learn in school. It destabilizes communities and lowers outcomes across public systems. No one institution can end this issue on its own.
10. Housing is foundational to economic development and community vitality. In the long run, it is more cost effective for public systems to house those in need with wrap around service. Models like permanent supportive housing or transitional housing with supportive services keep residents off the streets and provide upstream interventions that lessen costs for justice and health systems. The need for a greater diversity of housing options goes beyond the obligation to treat people with dignity, as it is also cost effective for governments.
11. The HOME Investment Partnerships Program (HOME) and the Housing Trust Fund are federal housing programs administered by the Department of Housing and Urban Development (HUD). HOME is the largest federal block grant to state and local governments for affordable housing. It provides formula grants for building, buying, and rehabilitating affordable housing or direct rental assistance to low-income households. The Housing Trust Fund provides grants to states to develop and preserve affordable housing for extremely low-income households. Although both programs are administered by the same agency, they have separate environmental review requirements. Some projects utilize both programs, resulting in a taxing process that can yield conflicting results.
12. Section 3 of the Housing and Urban Development Act of 1968 (12 U.S.C. 1701u) requires recipients of HUD funding to direct employment, training, and contracting opportunities to low-income individuals and the businesses that employ these persons. Davis-Bacon and related acts require federal government construction contractors on covered public buildings and public works to pay the "prevailing wage" to laborers. Applying Section 3 or Davis-Bacon to multifamily

projects significantly increases the administrative burden of projects. In tight construction markets in the West, affordable multifamily projects often struggle to find contractors willing to accept the regulatory burden. These projects receive far fewer bids than non-federal projects and frequently face higher construction costs. An Oregon affordable housing cost driver study found that prevailing wage determinations, some related to Davis-Bacon, increased costs by 9 percent when controlling for other factors.

13. The Federal Housing Administration (FHA) insures mortgages on single family homes, multifamily properties, residential care facilities, and hospitals and is critical to sustaining and financing affordable housing across the nation. However, it has become increasingly arduous to work with FHA and its third-party contractor. A significant amount of time and effort is expended on delinquency reporting, filing claims, and the foreclosures process due to a lack of guidance, staffing shortages, and antiquated technology. Applicants must navigate multiple systems for delinquency reporting and filing claims and interpret handbooks if they have questions, as FHA no longer has state staff to consult and is frequently unresponsive to requests for guidance.

14. FHA determines lending limits annually based on median house prices, a percentage of the national conforming limit, and the county in which the property is located. In rural areas and non-disclosure states, there may not be current sales data or information may not be public, which generally means loan limits are not raised in spite of the fact that prices have increased.

15. Private Activity Bonds (PAB) are used to develop affordable housing and provide mortgages to low- and moderate-income home buyers, allocated from the federal government with Congressionally set caps. Many states in the West have hit their PAB cap, meaning their ability to advance housing solutions and leverage state and local funds is limited. Additionally, the PAB cap restricts the use of the 4 percent Low Income Housing Tax Credit (LIHTC) because 50 percent of these developments must be funded with PAB. States that invest state and local resources in housing development are unable to fully leverage federal funds, creating the perverse disincentive of limiting how much state and local partners invest in housing.

16. The Community Development Block Grant (CDBG) Program, administered by HUD, provides flexible resources to states and localities to fund housing and economic development opportunities for low- and moderate-income communities. For single-family residential projects, HUD requires states and localities to identify all properties for funding upfront and to work on them as a single project, but this is an obstacle for small, rural communities. These communities struggle with getting contractors and finding the workforce to do everything at once. The burden of administration is also extremely high and there is a tremendous amount of risk involved with the cost of compliance for CDBG. Audits may occur years after funding has been disbursed and projects have begun, and states and localities must bear the costs if projects are not compliant.

17. Federal formulas for funding do not always function effectively for states. While costs for projects have grown significantly and federal funds are often crucially important to offsetting these extreme per unit costs for affordable units, minimum allocations have stayed relatively constant. In addition, some programs utilize formulas that have been designed for other programs. For example, the traditional Emergency Solutions Grants (ESG) Program uses the CDBG formula despite the vast differences between their program goals. Although the traditional ESG formula is effective at making allocations quickly, it does not adequately serve places with homelessness needs because it is designed to address more general community development needs. The ESG formula used for the second wave of Coronavirus Aid, Relief, and Economic Security (CARES) Act funding was more aligned with program goals and led to more targeted investments to drive improved outcomes.

18. Rural states often receive the minimum allocation of federal grant funds. Consequently, they receive a much smaller administrative allocation even though every project must follow the same steps and requires the same administrative responsibilities as more populous states. Insufficient administrative funding makes it difficult for these states to leverage federal housing programs.

19. Across the West, wildfires and other natural disasters are devastating communities and creating real and persistent impacts on the lives of Americans. Federal Emergency Management Agency (FEMA) resources do a poor job of sup-

porting those in need, particularly renters and communities with little trust in government. The federal process requires extensive documentation—which is often lost, especially in fires—and multiple rounds of applications and appeals. CDBG–Disaster Recovery (CDBG–DR) funds require Congressional allocation, which delays implementation of recovery activities. In addition, the program is not well suited to support the immediate needs of wildfire recovery. Homes are a total loss in wildfires, unlike floods or hurricanes, and infrastructure needs are beyond what CDBG–DR can support.

20. Manufactured and modular homes could help address the housing shortage in the West. These prefabricated structures are partially or fully constructed in off-site factories, which makes them affordable housing options because they are significantly less expensive and faster to build. Manufactured homes are built to HUD standards and are moveable, while modular homes are held to local, state, and regional building codes for on-site homes. While there is a huge opportunity for growth in this industry, regulatory barriers threaten to dampen or halt their expansion. A recent Department of Labor (DOL) proposal to expand the "site of work" definition for Davis-Bacon could drive up costs for manufactured and modular housing, making it harder for Americans to access affordable housing.

21. Affordable and quality housing is essential for an effective military and the recruitment and retention of military personnel and civilians. On military bases, the government provides single and unaccompanied military installation housing rent-free. There are also houses on bases, which are commonly privately-owned. The federal government provides military personnel with a Basic Allowance for Housing (BAH) to offset the costs of renting these houses or renting or buying off-base housing. Civilians do not receive a BAH, but they are allowed to utilize base housing if it is available. BAH rates are set by surveying the cost of rental properties in each geographic location. However, the Government Accountability Office (GAO) has noted that these rates do not always accurately reflect the cost of suitable housing for service members. Furthermore, GAO has reported that remote military bases typically lack critical services and amenities, prompting personnel and civilians to search for housing in communities that are farther away or to commute long distances to access them.

B. GOVERNORS' POLICY STATEMENT

1. Western Governors urge Congress to pass legislation lowering the threshold of PAB financing from 50 percent to 25 percent to infuse equity into local economies, which would result in an immediate increase in affordable housing opportunities and hundreds of thousands of additional homes being built or preserved.

2. Inflation, increased material costs, and labor shortages are already constraining affordable housing development. Western Governors urge the federal government to reduce the administrative burden associated with federal housing programs to better facilitate and expedite affordable housing development, using the U.S. Department of the Treasury's (USDT) administration of the Emergency Rental Assistance (ERA) Program as a model. Reducing administrative burdens would enable affordable housing to compete on a more even field. Specifically, Western Governors support subsidy layering review and efforts to streamline the National Environmental Policy Act or use other environmental reviews in its place and urge HUD to streamline environmental review requirements for the HOME and Housing Trust Fund Programs so that projects utilizing both programs only have to complete one review. The Governors also encourage DOL to consider providing Davis-Bacon waivers for multifamily projects in small and rural communities, which often have a limited pool of contractors.

3. Western Governors request that HUD change provisions of 24 CFR 92.241(b) requiring property rehabilitation to adhere to strict minimum property standards for the HOME Program. Flexibility and discretion for rehabilitation funding would allow states to make critical improvements to the housing stock without projects dying due to the identification of other, less critical problems during HOME assessments.

4. Western Governors urge Congress to appropriate funding to FHA to upgrade their technology and processing systems. We recommend that FHA streamline its cumbersome claim filing process by creating one efficient, centralized, and modern claim system. In addition, FHA should provide ongoing and up-to-date guidance to state and local housing authorities or authorize and train its third-party contractor to provide guidance to state and local housing authorities to

avoid costly consequences that hinder housing improvements in states. Western Governors also encourage FHA to consider having designated state staff again to improve communication and coordination between states and the federal government.

5. Western Governors request that the federal government support state housing finance and public housing agencies and explore ways to improve the services and resources provided to them.
6. Western Governors encourage HUD to review and allow for alternative processes in non-disclosure states to address the increasing price of housing and adjust loan limits accordingly.
7. The federal government should enable the LIHTC Program to work more effectively for underserved communities, including rural, tribal, high-poverty, and high-cost communities, as well as extremely low-income and formerly homeless tenants. Western Governors encourage the USDT and HUD to ensure that they better preserve the nation's existing affordable housing inventory by simplifying and aligning program rules. In addition, we recommend that the federal government reauthorize the expansion of 9 percent low-income housing tax credits that expired at the end of the 2021 and move forward by increasing Housing Credit allocations by 50 percent to help meet the need for affordable housing.
8. The federal government should review and adjust the formulas that determine minimum allocations granted to states for housing programs, including the Housing Trust Fund, the LIHTC Program, and the HOME Program, to account for the high administrative and regulatory costs associated with these programs. Increased allocations would allow the states to produce more impactful projects in our states. In addition, federal formulas should include data elements that directly relate to program goals, especially for the ESG Program, to ensure federal funding serves those who need it most.
9. Western Governors call for HUD to add a flat administrative fee for minimum allocation states in addition to the percentage amount for administration that is granted to them. Although projects in these states tend to be smaller, the administrative costs are the same as they are for larger projects and the administrative funds determined by the percentage formula is insufficient to cover these costs.
10. Western Governors request flexibility from HUD when utilizing CDBG funds for housing, which will ensure necessary adaptability in challenging rural markets. We encourage HUD to implement a similar approach to USDA and allow grantees to identify properties over the course of a project, instead of identifying all properties before a project begins. Focusing on one or a few properties at a time will open opportunities to grow and improve the housing stock, especially in rural areas. We also request ongoing guidance and communication from HUD to ensure that states are in compliance and are not surprised by updated guidance and penalized when projects are already underway or finished.
11. Western Governors recommend that the federal government make FEMA programs and CDBG–DR funds better tools for disaster relief. FEMA resources should require less documentation requirements after wildfires, given that many records are destroyed with little time for households to evacuate a fire zone. For CDBG–DR, HUD allocations should consider infrastructure needs and include additional resources to support rebuilding costs in the West.
12. Western Governors urge Congress to pass legislation facilitating the purchase of federal land by state or local governments at a reduced price for the purpose of increasing the supply of residential housing. We also request that the federal government honor existing commitments to transfer land to state or local governments in a reasonable amount of time.
13. Western Governors support manufactured and modular housing and recognize the important role they play in providing affordable housing for communities, particularly in rural areas. We encourage DOL not to expand the "site of work" definition to factory-built housing for Davis-Bacon wages, as it would significantly impact the affordability of these housing options.
14. Western Governors urge Congress and the Department of Defense to consider how housing costs affect recruiting, retention, and quality of life for military personnel and civilians, and solutions to the challenge. This should include adjusting the formula and process for determining the cost of housing on and near military installations; the process and frequency of adjusting locality pay, hous-

ing allowance, and remote site pay; the formula for deciding which services and amenities should be offered to personnel living on remote military installations; and other adjustments that could improve the affordability of housing and quality of life for both civilian and uniformed personnel.

C. GOVERNORS' MANAGEMENT DIRECTIVE

1. The Governors direct WGA staff to work with Congressional committees of jurisdiction, the Executive Branch, and other entities, where appropriate, to achieve the objectives of this resolution.

2. Furthermore, the Governors direct WGA staff to consult with the Staff Advisory Council regarding its efforts to realize the objectives of this resolution and to keep the Governors apprised of its progress in this regard.

This resolution will expire in December 2025. Western Governors enact new policy resolutions and amend existing resolutions on a semiannual basis. Please consult *http://www.westgov.org/resolutions* for the most current copy of a resolution and a list of all current WGA policy resolutions.