The National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA) respectfully submit this statement for the record for the Senate Finance Committee's August 1, 2017, hearing titled *America's Affordable Housing Crisis: Challenges and Solutions*.

For more than 20 years, the National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA) have partnered in a joint legislative program 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 more than 160 state and local affiliates, NAA encompasses over 73,000 members representing nearly 9 million apartment homes globally.

Rental Housing – The Supply-Demand Imbalance

Housing affordability is a significant challenge facing many Americans today who seek to rent an apartment home. The number of families renting their homes stands at an all-time high and is still growing strongly, placing significant pressure on the apartment industry to meet the demand. This is making it challenging for millions of families nationwide to find quality rental housing that is affordable at their income level.

Affordability has been a longstanding problem in housing. The total share of cost-burdened apartment households (those paying more than 30 percent of their income on housing) increased steadily from 42.4 percent in 1985 to 54.8 percent in 2015. Also during this period, the total share of severely cost-burdened apartment households (those paying more than half their income on housing) increased from 20.9 to 29.2 percent.[1] This housing cost burden also places pressure on a household's ability to pay for basic necessities, including food and transportation, and ultimately impacts their future financial success.

This issue is not unique to households receiving federal subsidies and, in fact, is encroaching on the financial wellbeing of households earning up to 120 percent of area median income. Consider that the median asking rent for an apartment constructed in 2015 was $1,396. For a renter to afford one of those units at the 30 percent of income standard, they would need to earn at least $55,840 annually.[2] As a basis of comparison, the median household income in 2015 was $56,516.[3] Accordingly, this is an issue also impacting those supporting the very fabric of communities nationwide, including teachers, firefighters, nurses and police officers.

Setting aside that real (inflation-adjusted) incomes in the U.S. have been stagnant for the past three decades – clearly the key factor driving the affordability crisis – housing industry leaders agree that promoting construction, preservation and rehabilitation are three of the vital ways to meet the surging demand for apartment homes.

Changing Housing Dynamics

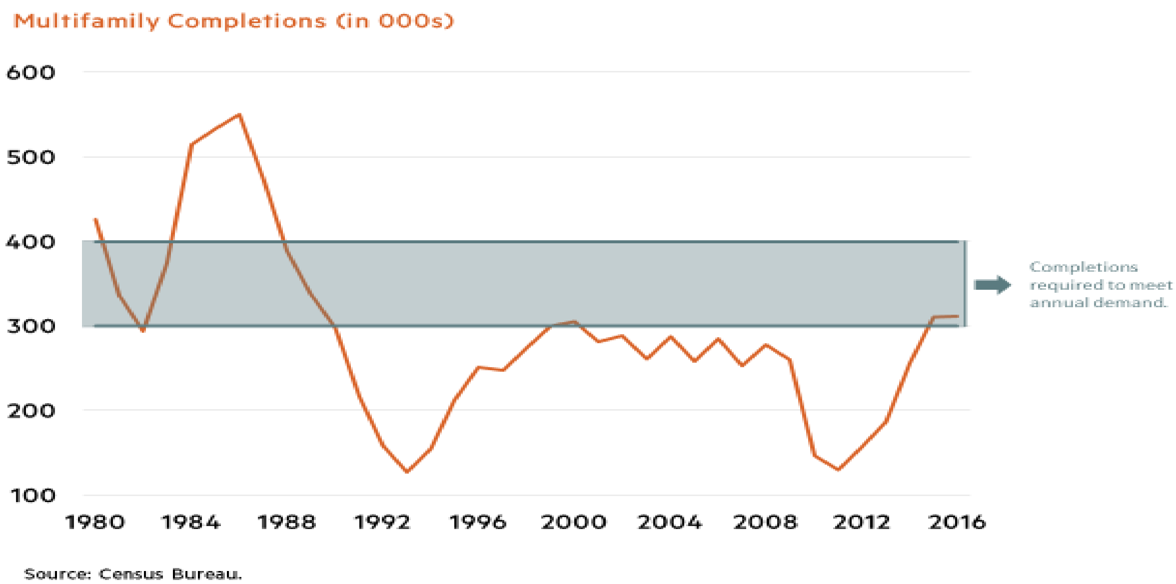
The U.S. is in the midst of a fundamental shift in our housing dynamics as changing demographics and housing preferences drive more people toward renting as their housing of choice. Today, demand for apartments is at unprecedented levels as the number of renters has reached an all-time high. Since 2010, the number of renter households has increased by an average of more than 800,000 annually – almost as much as 1.2 million a year, by some measures.[4] Meanwhile, apartment vacancy rates as measured by MPF Research fell or remained the same for seven straight years from 2009 to 2016.[5]

Changing demographics are driving the demand for apartments. Married couples with children now represent only 19 percent of households. Single-person households (28 percent), single parent households (9 percent) and roommates (7 percent) collectively account for 43 percent of all households, and these

[1] NMHC tabulations of American Housing Survey microdata (1985 – 2015).
[2] NMHC calculation based on U.S. Census Bureau, Survey of Market Absorption, Detailed Tables, Table 2.
[3] U.S. Census Bureau, Current Population Survey, 2015 and 2016 Annual Social and Economic Supplements.
[4] NMHC tabulations of American Community Survey and Current Population Survey microdata.
[5] MPF Research.

households are more likely to rent.[6] Moreover, the surge toward rental housing cuts across generations. In fact, nearly 73 million Baby Boomers (those born between 1946 and 1964), as well as other empty nesters, have the option of downsizing as their children leave the house and many will choose the convenience of renting.[7] Over half (58.6 percent) of the net increase in renter households from 2006 to 2016 came from householders 45 years or older.[8]

Unfortunately, the supply of new apartments is falling well short of demand. Just-released research by Hoyt Advisory Services, Dinn Focused Marketing, Inc. and Whitegate Real Estate Advisors, LLC, *U.S. Apartment Demand – A Forward Look*, commissioned by NMHC/NAA shows that the nation will need 4.6 million new apartments by 2030, or an average of 328,000 units a year.[9] Just 244,000 apartments were delivered from 2012-2016.[10]



Building more apartment homes will help improve the supply-demand imbalance that drives these affordability challenges, but developers and localities must work together to remove obstacles to development. Even if local officials and planning boards agree that new, affordable apartments must be built, land costs, entitlement expenditures, labor expenses, building materials and property taxes all contribute to making their construction extremely costly.

Why are Rents So High?

As the discussion above demonstrates, the nation faces a significant shortage of affordable rental housing. Addressing this challenge will require new development and the preservation and rehabilitation of the existing housing stock. Barriers to these activities, described below, only serve to slow down the market response to our housing supply challenges. Before discussing these barriers, however, it is worthwhile to

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[6] 2015 Current Population Survey, Annual Social & Economic Supplement, US Census Bureau, "America's Families and Living Arrangements: 2015: Households (H table series), table H3 / Family groups (FG series), table FG6.
[7] Annual Estimates of the Resident Population by Single Year of Age and Sex for the United States: April 1, 2010 to July 1, 2015, US Census Bureau. Baby Boomers are defined as those born 1946 through 1964.
[8] NMHC tabulations of 2016 Current Population Survey, Annual Social & Economic Supplement, US Census Bureau.
[9] Hoyt Advisory Services, Dinn Focused Marketing, Inc. and Whitegate Real Estate Advisors, LLC, *U.S. Apartment Demand – A Forward* Look, May 2017, p. 38.
[10] NMHC tabulations of 2016 Current Population Survey, Annual Social & Economic Supplement, US Census Bureau.

assess the reasons why Americans are facing high rents and why there is too little available rental housing that is affordable.

First and foremost, America's housing affordability issue is more than just a housing problem. It is not only that rental housing has gotten more expensive to produce and operate, but also that other economic factors have suppressed household income growth. On an inflation-adjusted basis, median renter household income today is little changed from its 1980 level.

Because income stagnation is such a significant part of the equation, simply building more housing cannot be the sole solution to this affordable housing shortage. In fact, in many markets where demand is strongest, even if, hypothetically, developers agreed to take no profit, the cost to build still exceeds what people can afford to pay.

Second, today's strong rent growth is a temporary situation in what is a highly cyclical market driven by factors largely outside of the industry's control. For example, the collapse of the U.S. financial markets in 2008 virtually shut down new apartment construction for a number of years, severely constricting supply right at a time when rental demand surged to levels not seen for decades. Development is only now beginning to meet the annual increase in apartment demand.

Finally, as mentioned above, apartment construction has increased. As new units are delivered, rent growth will moderate. That said, even with more apartments in the pipeline, construction activity remains, at best, at the low end of the level needed to make up for supply deficits in previous years. Many non-financial obstacles to new development continue to stifle new construction and raise the costs of those properties that do get built, contributing to higher rents for our residents. Many of these are imposed by localities and have to be addressed by those jurisdictions.

Barriers to Multifamily Development

Developing real estate, whether it is multifamily, single-family or commercial, is difficult. Production of any kind has its natural barriers. Those are, for the most part, objective barriers that can, and often do, fluctuate, but are predictable enough to still meet a pro forma. Multifamily however, brings with it a level of entitlement subjectivity layered on top of these common barriers and is much more difficult to predict.

Plainly stated, many municipalities have a development preference that works against multifamily housing production. Multifamily development often faces stiff community resistance, competes with other forms of real estate that produce sales tax revenue desired by municipalities, and is subject to increasing regulatory barriers.

Community resistance to proposed multifamily developments typically takes the form of organized community resistance efforts commonly known as "Not In My Back Yard" or NIMBY. The narrative of NIMBY typically focuses on a handful of themes outside of the normal zoning approval process, including:

- Traffic impact;
- Homeowner property values;
- School overcrowding; and
- Community character.

There is also a revenue subjectivity often found at the municipal level when it comes to multifamily versus other forms of real estate. Local governments faced with the annual task of balancing budgets feel obligated to derive as much tax revenue as possible from scarce developable land. This places multifamily in stiff competition with commercial real estate developments that produce sales tax revenue.

All these factors contribute to the uncertainty of any multifamily development. In a speech before the Urban Institute in November 2015, Jason Furman, then chairman of The White House Council of Economic Advisers for President Obama, said that the U.S. could build a lot more apartments, but noted "multifamily housing units are the form of housing supply that is most often the target of regulation." As an industry, we agree with this assessment.

Below is a brief summary of the most notable barriers to development within several broad categories: location, time, bureaucracy, cost and environmental assessment. Also included is a brief review of affordability mandates, which can actually depress development of new multifamily homes.

Location

- **Land Cost:** In an attractive market—take any major metropolitan area as an example—land can account for a significant portion of total development costs. This cost increase can stretch or stress other financial assumptions and, in some extreme cases, even make the property impossible right out of the gate.

- **Zoning Laws**: Zoning laws impact what is permitted to be built at a site. In some places, zoning requirements can make it extremely difficult to build new multifamily housing. Changing zoning can be onerous and expensive if it is even possible.

Time

- **Entitlements:** The entitlement process, which covers approvals, zoning and nearly everything in between, is an amalgam of outright costs, additional fees, land-use regulation and code compliance. During the navigation of this often-lengthy process, an apartment developer bears both direct and indirect costs with no assurance of a successful outcome. The long lead time and significant upfront investment required to obtain entitlement on land is leading some investors to rethink continued interest in multifamily development. Reduced investor demand for multifamily development may lead to fewer units delivered in the future and increased cost per unit delivered as remaining investor capital becomes scarce.

Bureaucracy

- **Regulations:** Like all of real estate, the apartment industry is governed by a flood of regulations issued by many diverse federal agencies, as well as state and local governments. Excessive regulation and compliance uncertainty results in costly mandates that divert resources from the production and operation of multifamily housing.

  Regulations must have demonstrable benefits that justify the cost of compliance, and federal agencies should be aware that broad-stroke regulations often have disproportionate effects on various industries. Therefore, those rules and regulations affecting housing should reflect the industry's diverse business and operational structure and must rely on the latest scientific and/or economic evidence.

Cost

- **Construction Costs**: The cost of construction in terms of labor and materials is a critical component to the cost of building apartments. Depending upon market and materials used, these have a significant impact on the viability of a given project.

- **Cost of Capital:** New regulatory regimes, such as Dodd-Frank and Basel III, are making access to capital more difficult and costlier. Increased capital requirements and conflicting new regulations are driving up the cost of borrowing from banks, as well as constricting lending in certain markets.

- **Labor Costs:** Federal building programs, as well as some state level programs, require the use of prevailing Davis-Bacon wages that have proven to be difficult to manage, complex to accurately incorporate in preliminary planning and often do not reflect the going market. Additionally, as a result of the economic downturn, skilled labor migrated away from the construction industry, producing an environment today where wages have increased well in excess of inflation, which directly impacts the cost of development.

- **Impact Fees:** Impact fees are payments required of new development by local governments to providing new or expanded public capital facilities required to serve that development. These fees typically require cash payments in advance of the completion of development, are based on a methodology and calculation derived from the cost of the facility and the nature and size of the development, and are used to finance improvements offsite from, but to the benefit of, the development.

- **Linkage Fees:** A linkage fee is assessed on a development to pay for the cost of providing a public service. These fees are attributed to select developments to pay for a benefit deemed outside of what is recovered from property taxes.

- **Business License Taxes:** These are additional municipal taxes assessed on property owners that are not assessed on other forms of housing. They are used to justify the cost of impacts not covered by property tax assessments.

- **Assessment and Inspection Fees:** These are additional municipal fees assessed on property owners to inspect rental housing for habitability. While these fees are often assessed annually, the rental housing communities often do not realize additional benefits reflecting the cost.

- **Parking Space Requirements:** The requirement to build or offer parking spaces, especially in urban settings, can significantly impact site use and cost.

Environmental Assessment

- **Environmental Site Assessment:** An environmental site assessment is a report that identifies potential or existing environmental contamination liabilities. In many local jurisdictions, each development site requires an environmental site assessment, the results of which could require costly remediation and/or project reconfiguration. Additionally, these assessments have been used by development opponents to frustrate planning and can serve to severely hamper or defeat the entitlement process.

Affordability Mandates

- **Rent Control:** There are various forms of rent control outside of the traditional version that most are accustomed to seeing: a rent control board that sets maximum rent for a unit or the maximum amount that rent can be raised annually. Rent control, in this context, is any mechanism that obligates a property owner to set rental rates for all or a portion of the units on a property. In any form, this policy works as a disincentive to investing and developing the diversity of housing units that a community requires. There are alternatives to rent control, such as mandatory inclusionary zoning, that take slightly different approaches but have the same effect.

- **Mandatory Inclusionary Zoning:** Mandatory inclusionary zoning refers to municipal and county planning ordinances that require a given share of new construction to be affordable to people with low to moderate incomes without an investment from the municipality. It is normally a condition of approval of the development. Depending on the requirements, the overall feasibility of a project could be threatened.

Bottom Line for Policymakers

The bottom line is that policymakers at all levels of government must recognize that addressing local housing affordability needs requires a partnership between government and the private sector. Municipalities have the difficult task of trying to most efficiently manage their resources to the greatest benefit of their constituents, often challenged with balancing shrinking budgets and growing needs. However, local governments also have a tool box of approaches they can take to support affordable housing production. They can do this by incentivizing for-profit entities to produce the necessary multifamily units at a price point that households can afford.

Municipalities can defer taxes and other fees for a set period of time to help the developer reduce the price point. They also own tangible assets – buildings, raw land and entitled parcels – some of which can be leveraged to bring down the cost of construction or redevelopment. Finally, they can help streamline the development and approval processes with fast-tracking programs.

As is outlined in the following section, however, the Federal Government also has a key role to play. When both the public and private sides bring all their tools and assets into play, there will be a greater likelihood of finding viable solutions to meet our rental housing challenges.

Key Federal Solutions to the Nation's Housing Challenges

The nation's challenge is to reduce the barriers and obstacles that inhibit the expansion of the housing stock. While the preceding section made it clear that new construction is often impeded at the local level, there are federal solutions that may be beneficial as well. At NMHC/NAA, we believe the solution at the federal level requires a **three-pronged** answer of new development, preservation and rehabilitation:

1. **New development is absolutely critical to address the scarcity of units available for the population of Americans whose household incomes are below the average for their areas – and the one receiving much of attention and criticism.**

2. **Preservation means ensuring that the financing and subsidy programs that currently keep units available at below market rents continue to be there in the future, providing some degree of certainty in the affordable housing market.**

3. **Rehabilitation is vital because it can keep existing apartment stock from dwindling further.**

Federal Initiatives and Programs Vital to Addressing Affordability

Congress should play an integral role in addressing housing affordability. The Senate Finance Committee has jurisdiction over the Low-Income Housing Tax Credit (LIHTC), the nation's singular tool for developing new affordable housing. The Finance Committee is currently also keenly focused on tax reform. In the sections below, NMHC/NAA make recommendations with regard to both the LIHTC and tax reform. We also then examine programs outside of the Finance Committee's jurisdiction.

Programs within the Finance Committee's Jurisdiction

Expand and Enhance the Low-Income Housing Tax Credit (LIHTC) and Enact the Middle-Income Housing Tax Credit (MIHTC) to Support Workforce Housing

The Low-Income Housing Tax Credit (LIHTC) has a long history of successfully generating the capital needed to produce low-income housing while also enjoying broad bipartisan support in Congress. This public/private partnership program has led to the construction of nearly 3 million units since its inception in 1986. It is the nation's principal driver of new affordable housing.

The LIHTC program also allocates units to low-income residents while helping to boost the economy. According to a December 2014 Department of Housing and Urban Development study, *Understanding Whom the LIHTC Program Serves: Tenants in LIHTC Units as of December 31, 2012*, the median income of a household residing in a LIHTC unit was $17,066 with just under two-thirds of residents earning 40 percent or less of area median income.[11] Finally, the National Association of Home Builders reports that, in

[11] Department of Housing and Urban Development, *Understanding Whom the LIHTC Program Serves: Tenants in LIHTC Units as of December 31, 2012*, December 2014, p. 23.

a typical year, LIHTC development supports approximately: 95,700 jobs; $3.5 billion in federal, state and local taxes; and $9.1 billion in wages and business income.[12]

Maintaining and bolstering the LIHTC's ability to both construct and rehab affordable housing is critical given acute supply shortages. Indeed, the Harvard Joint Center for Housing Studies estimated that there were only 45 affordable units for every 100 very low-income households (those earning up to 50 percent of area median income) in the United States in 2015.[13]

First and foremost, Congress should retain the LIHTC as part of any tax reform legislation. In so doing, Congress must take care to offset any reduction in equity LIHTC could raise attributable to a reduction in the corporate tax rate. Furthermore, NMHC/NAA reminds Congress that tax-exempt private activity multifamily housing bonds are often paired with 4 percent tax credits to finance multifamily development, and that such tax-exempt bonds should be retained in any tax reform legislation as they play a critical role in making deals viable to investors.

Second, Congress should also look to strengthen the credit by both increasing program resources so that additional units can be developed or redeveloped and making targeted improvements to the program to improve its efficiency. Congress could increase program authority by allocating additional tax credits. Further, program rules should be adjusted that require owners to either rent 40 percent of their units to households earning no more than 60 percent of area median income (AMI) or 20 percent to those earning no more than 50 percent of AMI. If program rules were revised to allow owners to reserve 40 percent of the units for people whose *average* income is below 60 percent of AMI, it could serve a wider array of households.

In this regard, the multifamily industry strongly supports the *Affordable Housing Credit Improvement Act of 2017* (S. 548) and commends Senator Cantwell and Chairman Hatch for its introduction. We also thank Finance Committee Senators Wyden, Bennet, Heller, Isakson and Portman for their cosponsorship. This legislation, which would increase tax credit allocations by 50 percent, would enable LIHTC to help build or preserve 1.3 million units over 10 years, 400,000 more units than is possible under current law. The measure also includes the income averaging proposal.

Finally, we would also urge the Committee to strongly consider the *Middle-Income Housing Tax Credit Act of 2016* (S. 3384) that Ranking Member Wyden introduced during the 114th Congress to address the shortage of workforce housing available to American households. A worthy complement of measures to expand and improve LIHTC, the Middle-Income Housing Tax Credit (MIHTC) takes over where LIHTC leaves off. LIHTC is currently designed to serve populations of up to 60 percent of area median income. MIHTC is designed to benefit populations earning below 100 percent of area median income. In fact, approximately 40 percent of renter households earning between $35,000 and $49,999 were cost burdened in 2015. This population is exactly the one Ranking Member Wyden's legislation would serve.

Tax Reform Must Not Disrupt the Industry's Ability to Construct and Operate Housing Across All Income Levels

Congress is rightly continuing to develop proposals to reform the nation's overly complex tax code to foster economic competitiveness and economic growth. That said, much is potentially at stake for the apartment industry and its ability to meet the nation's multifamily housing needs given that apartment firms pay tax when they build, operate, sell or transfer communities to their heirs. We believe that any tax reform legislation should not disrupt the industry's ability to construct and operate affordable and workforce housing and, therefore, must:

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[12] Robert Dietz, *The Economic Impact of the Affordable Housing Credit*, National Association of Home Builders, Eye on Housing, July 15, 2014. http://eyeonhousing.org/2014/07/the-economic-impact-of-the-affordable-housing-credit/.
[13] NMHC tabulations of 2015 American Community Survey public use microdata, IPUMS-USA, University of Minnesota, www.ipumgs.org.

- **Protect Flow-Through Entities.** The multifamily industry is dominated by "flow-through" entities (e.g., LLCs, partnerships, S Corporations, etc.) instead of publicly held corporations. This means that the company's earnings are passed through to the partners who pay taxes on their share of the earnings on their individual tax returns. Accordingly, Congress must not reduce corporate tax rates financed by forcing flow-through entities to pay higher taxes through subjecting them to a corporate-level tax or by denying credits and deductions.

- **Maintain Like-Kind Exchanges.** Like-kind exchange rules enable property owners to defer capital gains tax if, instead of selling their property, they exchange it for another comparable property. These rules encourage property owners to remain invested in the real estate market while providing them with the flexibility to shift resources to more productive properties, different geographic locations or to diversify or consolidate holdings. Any proposal to revise or restrict like-kind exchanges may have a significantly harmful effect on the value and trading of property. As a result, Congress should not change present law.

- **Ensure Depreciation Rules Avoid Harming Real Estate.** Cost recovery rules should reflect the life of properties. Depreciation periods that overstate economic lives would reduce development and investment, leading to lower real estate values and stifling the industry's role in job creation. Tax reform should reflect the critical role cost recovery plays in our ability to create new jobs.

- **Retain the Deduction for Business Interest.** Efforts to prevent companies from overleveraging are leading to calls to scale back the current deduction for business interest expenses. Unfortunately, reducing this deductibility would greatly increase the cost of debt financing necessary for large-scale projects, curbing development activity when the nation is suffering from a shortage of apartment homes.

Programs Outside of the Finance Committee's Jurisdiction

GSE Reform

While outside of the Finance Committee's purview, the first and foremost priority to addressing housing affordability is getting multifamily right in housing finance reform and recognizing its unique characteristics; it is the single most important factor to ensuring that the apartment industry can meet the nation's growing rental housing demand.

The very successful multifamily programs of the Government-Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, were not part of the 2008 financial meltdown and have actually generated over $26 billion in net profits since the two firms were placed into conservatorship. Preservation of the mortgage liquidity currently provided by the GSEs in all markets during all economic cycles is critical. NMHC/NAA urge lawmakers to recognize the unique needs of the multifamily industry.

We believe the goals of a reformed housing finance system should be to:

- **Maintain an explicit federal guarantee** for multifamily-backed mortgage securities available in all markets at all times;

- **Ensure that the multifamily sector** is treated in a way that recognizes the inherent differences of the multifamily business; and

- **Retain the successful components** of the existing multifamily programs in whatever succeeds them.

These principles can be achieved through a reformed structure that preserves the high quality and value of the current multifamily secondary mortgage market's activities.

Multifamily Federal Housing Administration (FHA) Programs

FHA Multifamily is best known for offering an alternative source of construction debt to developers that supplements bank and other private construction capital sources. It also serves borrowers with long-term investment goals as the only capital provider to offer 35-40-year loan terms. FHA lending is essential to borrowers in secondary markets, borrowers with smaller balance sheets, new development entities, affordable housing developers and non-profit firms, all of which are often overlooked or underserved by private capital providers.

It is important to the apartment industry that FHA continues to be a credible and reliable source of construction and mortgage debt. FHA not only insures mortgages, but it also builds capacity in the market, providing developers with an effective source of construction and long-term mortgage capital. The FHA Multifamily Programs provide a material and important source of capital for underserved segments of the rental market, and do so while maintaining consistently high loan performance standards. NMHC/NAA encourage Congress to continue funding FHA's Multifamily Programs.

Finally, we believe a special note is warranted regarding the 221(d)(4) program. Providing flexible loan terms, is beneficial in supporting the development of workforce and affordable housing. However, we note that the program includes a bevy of restrictions, including loan size, allowable prevailing Davis-Bacon wage requirements, and other associated fees and disbursement restrictions. We ask to have a dialogue with Congress regarding feasible ways to make modest modifications to this program to make it even more effective in encouraging the production of workforce and affordable housing.

Funding for Affordable Housing Programs

Housing costs continue to grow, demand for rental housing continues to escalate, but incomes for many low-income families remain stagnant. Given these realities, demand for subsidized affordable housing has increased dramatically through the economic crisis and into the recovery years since. However, federal funding for the primary programs serving low income households has been virtually flat or declining.

Programs like Tenant Based Section 8 and Project Based Rental Assistance 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. Meanwhile, programs like HOME and CDBG allow developers to address financing shortfalls often associated with affordable housing properties, and stimulate meaningful development and preservation activity as a result. To address housing affordability challenges for all Americans, across the income spectrum, adequate funding for these programs is essential.

Section 8 Housing Choice Voucher Program

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.

It is also imperative for lawmakers to reinforce the voluntary nature of the program. Congress specifically made participation voluntary because of the regulatory burdens inherent in the program. However, state and local governments 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.

Rental Assistance Demonstration (RAD) Program

NMHC/NAA support RAD, which was established in 2011 as an affordable housing preservation strategy for public housing authorities (PHAs). The program allows PHAs to convert public housing properties at risk of obsolescence or underfunding into project-based vouchers or rental assistance contracts under the Section 8 program. Once the units are re-designated from public housing (Section 9 of the 1937 Housing Act) to Section 8 housing, housing authorities are able to leverage private capital to address capital needs. This allows housing authorities to work with private sector developers and managers to preserve their affordable housing stock. RAD is designed to reverse the trend of lost affordable units by accessing private capital to make up for related funding shortfalls.

Government-Supported Preferred Equity

Investor equity for development transactions is the most expensive type of capital. Reducing the required return for this portion of capital would reduce the cost of developing multifamily units and could help spur the construction of additional workforce housing. NMHC/NAA would like to work with Congress on a plan that would enable a federal entity to provide developers with preferred equity to help offset the cost of workforce housing production. NMHC/NAA believe that such a program could be integrated into the very successful multifamily programs run by Fannie Mae and Freddie Mac and implemented at minimal cost.

Modifying the Community Reinvestment Act

The CRA could be modified to include greater incentives for banks to provide loans for multifamily apartments that include workforce and affordable housing. CRA guidelines currently allow banks to obtain Community Development (CD) credit for multifamily units serving occupants with incomes of up to 80 percent of area median income. While this level captures a significant portion of workforce and affordable households, the rules themselves make it difficult to obtain the CD credit due to a requirement to report incomes, information that is not captured.

Davis-Bacon Wage Determination

Under current law, developers must adhere to Davis-Bacon wage rates for construction financed by federal dollars. Unfortunately, the Department of Labor's methodology of determining these so-called prevailing wages suffers from structural defects related to the availability of data. For example, the methodology frequently produces wage rates that exceed prevailing market-based wages, which only exacerbates the cost of developing multifamily housing. NMHC/NAA request that Congress urge the Department of Labor to reexamine and modify its methodology.

Conclusion

In closing, NMHC/NAA look forward to working with the Finance Committee and the entire Congress to address the nation's affordable workforce housing challenges. On behalf of the apartment industry and our 38.8 million residents, we stand ready to work with Congress to ensure that every American has a safe and decent place to call home at a price that enables individuals to afford life's necessities.