Dear Chairwoman Smith and Ranking Member Lummis,

On behalf of the nearly 100,000 combined members of the National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA), we are writing in advance of the hearing titled, “Housing Supply and Innovation” to share the views of the multifamily housing industry. We are committed to working together with policymakers and the Administration to address America’s housing affordability crisis.

As the Subcommittee 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.

Addressing our nation’s housing challenges, in general, and more specifically our housing affordability crisis, is crucial to promoting economic opportunity in our country and will require strong collaboration and partnership between policymakers and the private sector.

---

1 Based in Washington, D.C., NMHC is a national nonprofit association that represents the leadership of the apartment industry. Our members engage in all aspects of the apartment industry, including ownership, development, management and finance, who help create thriving communities by providing apartment homes for nearly 40 million Americans, contributing $3.4 trillion annually to the economy. 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.

2 The NAA serves as the leading voice and preeminent resource through advocacy, education, and collaboration on behalf of the rental housing industry. As a federation of 141 state and local affiliates, NAA encompasses over 3.9 million members representing more than 11 million apartment homes globally. NAA believes that rental housing is a valuable partner in every community that emphasizes integrity, accountability, collaboration, community responsibility, inclusivity and innovation.

3 2021 American Community Survey, 1-Year Estimates, U.S. Census Bureau, “Total Population in Occupied Housing Units by Tenure by Units in Structure”.

The Housing Imperative
Challenges may present themselves differently from community to community, but it will come as no surprise to Americans nationwide that we are facing a widespread housing affordability challenge.

No wonder communities are feeling pinched—we simply do not have enough housing to go around. Today, in more and more communities, hard-working 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.\(^5\) This is not sustainable, particularly in a period of stubbornly high inflation. Wage stagnation in conjunction with barriers to new supply — for instance, onerous regulatory hurdles, antiquated and often discriminatory zoning and land use policies at the local level, and local opposition to development (also known as NIMBYism or “Not in My Backyard” opposition)—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 new and innovative 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.

Increased construction, material and labor costs, significant increases in insurance costs, and state and local property taxes have made the current operating environment extremely challenging. NMHC and NAA members are reporting that current economic and regulatory challenges are causing them to cut back significantly on development activities, in some cases, by as much as 50 percent. This slowdown has long-term implications.

NMHC’s July 2023 Quarterly Survey of Apartment Market Conditions also indicates the following troubling statistics:

- Over a third of respondents (35%) reported lower sales volume from three months prior.

- 57% of respondents reported equity financing to be less available than three months ago, marking the sixth straight quarter of less availability; and

---

\(^5\) NMHC tabulations of 1985 American Housing Survey microdata, U.S. Census Bureau; 2021 American Housing Survey; U.S. Census Bureau.
• 67% said it was a worse time for mortgage borrowing compared to three months earlier, the eighth consecutive quarter in which debt financing became less available.

**Housing Affordability: Growing Demand vs. Supply Challenges**

It is essential that we build housing at all price points to meet the wide range of demand. According to research conducted by Hoyt Advisory Services and Eigen10 Advisors, LLC, and commissioned by NMHC and NAA, the U.S. is facing a pressing need to build 4.3 million new apartment homes by 2035.

Key findings include:

- **Shortage of 600,000 Apartment Homes.** The 4.3 million apartment homes needed includes an existing 600,000 apartment home deficit because of underbuilding after the 2008 financial crisis.
- **Loss of Affordable Units.** The number of affordable units (those with rents less than $1,000 per month) declined by 4.7 million from 2015 to 2020.
- **Homeownership.** Apartment demand also factors in a projected 3.8% increase in the homeownership rate.
- **Immigration.** Immigration is a significant driver of apartment demand, and levels tapered before the pandemic and have remained low. A reversal of this trend would significantly increase apartment demand.

**Opportunity Abounds**

The good news: There is a clear path to solving this challenge. Local, state and federal lawmakers should prioritize increased supply and subsidy. Deployed together, these solutions will ensure greater housing stability and affordability for renters at a variety of income levels for decades to come.

NMHC and NAA are leaders of the Housing Affordability Coalition, a group of national real estate associations that represent a broad coalition of housing providers committed to working together with policymakers and the Administration to address America’s housing affordability crisis. In May, the coalition sent a letter urging Congress to work with the Biden Administration, housing providers, lenders, and other stakeholders to pursue bipartisan solutions to increase the supply of housing in all markets and at all price points.

While there is no one silver bullet, a multifaceted approach can be effective in easing market constraints. The letter outlines bipartisan recommendations that include a combination of tax policy, regulatory reform, rental assistance and development incentives to chip away at current affordability constraints and would have a positive impact on the housing affordability crisis and help increase the nation’s housing supply.
Outlined below are policy areas that are of particular importance as the Subcommittee looks at housing affordability, supply and the need for innovation:

**Regulatory Hurdles Lower Housing Supply and Stifle Innovation**

Despite the economic and market headwinds facing multifamily housing developers, owners and operators, federal regulators have recently moved forward with proceedings that mischaracterize and misunderstand the overwhelmingly positive work done by NMHC and NAA members and rental housing operators to serve their residents. This rhetoric comes on the heels of new proposals from federal agencies in the past two years, which would make it more costly to provide housing and to adequately address the needs in our communities and of our residents. Unfortunately, we are already seeing evidence of the negative impact of current market conditions on multifamily housing finance.

While seemingly well-intentioned, many of these federal proposals combined with ever-increasing regulatory, administrative, and political obstacles at all levels of government prevents NMHC and NAA members from delivering the housing our country so desperately needs. As an example, the FHFA this year issued a request for information with respect to contemplated “tenant protections” for Enterprise-backed multifamily properties. This is despite the fact that there are already existing state and local laws addressing renter protections that cannot and should not be duplicated at the federal level. Federal proposals like these, while well-intended, would only serve to add confusion for residents facing financial hardship and exacerbate the current affordable housing crisis nationwide.

Similarly, the Consumer Financial Protection Bureau and the Federal Trade Commission have talked about adding duplicative burdens to the resident screening process, which not only harms those seeking to provide affordable housing but could jeopardize the safety of residents. Most recently, banking agencies are exploring new and burdensome capital requirements that could harm innovation and growth in this market. These are just a few of the proposals issued just this year, which could add complex new compliance requirements and other barriers to providing housing that is affordable.

**Deploy the Housing Supply Action Plan**

NMHC and NAA urge Congress to work with the Biden 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.

**Reduce Barriers to Development**

Rental housing providers stand ready to help meet current and future demand but cannot do so alone. Federal, state, and local policymakers also must play a role. Regulatory, administrative, and political obstacles at all levels of government prevent us from delivering the housing our country so desperately needs.

Even in communities that want and desperately need rental housing development, we face hurdles like zoning restrictions, rent control and other onerous local requirements (e.g., building code provisions that have nothing to do with health or safety, land or infrastructure donation requirements and ill-fitting transportation and parking mandates). All of which account for an average of 40.6 percent of multifamily costs further impacting affordability – according to research released by NMHC and the National Association of Home Builders (NAHB).

Although smart regulations can play an important role in ensuring the health and well-being of the American public, the NMHC-NAHB research found that many regulations can go far beyond those important goals and impose costly mandates on developers that drive housing costs higher.

Easing regulations could go a long way to addressing the housing affordability challenges faced by communities across the nation while making critical investments in infrastructure of all types. Looking forward, at a macro level, 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 embrace new technology driven construction advancements; and
• Encourage higher density development near jobs and transportation.

**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. Ninety percent of respondents reported construction delays in NMHC’s June 2023 Quarterly Survey of Apartment Construction and Development Activity. Forty-seven percent reported experiencing repricing increases in projects at an average rate of 9 percent. The availability of construction financing, or lack thereof, continues to be of primary concern, as 62 percent of respondents cited this as a contributing factor to delayed starts. Additionally, 10 percent of respondents attributed delays to materials sourcing and delivery challenges.

Apartment builders and developers also continue to see escalations in materials costs and mixed labor conditions. The prices of a range of critical building materials and equipment continue to rise, including exterior finishes and roofing, electrical components, appliances, and insulation. In addition, 18 percent of respondents reported that construction labor costs increased more than expected during Q2 2023, up from 12 percent in the previous quarter. Thirty-two percent of respondents said that costs increased as expected, while only 24 percent said costs did not increase.

**Price Controls are Not the Answer to Housing Affordability**

Decades of research and real-world case studies show that rent regulation devastates rental housing and harms affordability. Rent regulation will not add a single new unit of housing. In fact, it has the opposite effect. Rent controls distort the housing market by deterring or discouraging the development of rental housing and investment in maintenance and rehabilitation.

With little to no ability to earn a profit, developers and investors will shift their investments to other non-rent regulated jurisdictions—the NMHC/NAHB cost of regulations report indicated 88% of respondents avoid working in jurisdictions with rent control. In practice, these policies have the effect of increasing the cost of all housing by forcing a growing community to compete for fewer housing units and reducing the quality of rental housing. This is why NMHC, NAA and other national real estate trade organizations recently sent a letter to Federal Housing Finance Agency (FHFA) Director Sandra Thompson urging FHFA to reject imposing rent regulation as a condition of Enterprise-backed financing.

NMHC and NAA encourages lawmakers to promote proven alternatives to rent control that address the critical affordable housing shortage, making rents more affordable to lower-income residents and encouraging development of new housing at a variety of rental levels.

**Soaring Insurance Costs are Impacting Housing Operations, Supply & Affordability**

The apartment industry has faced a volatile insurance market for the better part of a decade, while the risk landscape for multifamily has only grown. Developers, owners and
operators continue to face skyrocketing insurance costs, even with significant increases in deductibles and the exclusion of some types of risk. These dynamics are impacting valuations, disrupting transactions, and putting substantial pressure on the operating budgets of multifamily properties, often resulting in significant cost-cutting in other areas of operation or growing areas of uninsured risk.

The lack of affordable insurance options for property owners, of all types, increasingly puts needed insurance coverage out of reach or limits the ability of property owners to make needed investments in their properties. In fact, a 2021 survey sponsored by NMHC, NAA, and other affordable housing focused organizations found that these conditions have led to negative impacts on both housing providers and renters, with most housing providers indicating that they would take action to mitigate cost increases due to higher insurance premiums by increasing insurance deductibles, decreasing operating expenses, and being forced to increase rent. These steps are being taken as a last resort when the multifamily housing industry is facing soaring operational costs across the board and at a time of great housing affordability challenges across the nation.

NMHC recently expanded on the 2021 research and took a broader look at costs impacting the industry in 2023—issuing the State of Multifamily Risk Survey & Report demonstrating that the impact of these soaring costs has only worsened and continue to strain property operations and negatively impact housing affordability. The NMHC survey showed property insurance premiums soaring an average of 26% year-over-year but it is not uncommon to hear of triple-digit property premium increases in certain parts of the country. Other lines of coverage are also troublesome and impacting property operations.

As Congress looks to stabilize the insurance market challenges, we have outlined and prevent growing exposure to taxpayers in the wake of unrelenting natural disasters, it will require partnership between policymakers and private sector stakeholders from real estate and insurance to advance solutions that improve climate resilience and sustainability and allow for properly functioning insurance and reinsurance markets to protect our nation’s rental housing stock and the broader economy.

**Enact and Enhance Tax Policy That Promotes 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;
- 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 below, and we note that many have bipartisan or bicameral support.

**Expand and Enhance 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 one year, generated $239 billion in tax revenue, and produced $688.5 billion in wages and income.⁶ The LIHTC program provides critical support to the nation’s affordable housing production but could be made even more impactful.

NMHC and NAA supports the Affordable Housing Credit Improvement Act of 2023 (AHCIA) (S. 1557 / H.R. 3238). Introduced by Senators Cantwell, Young, Wyden, and Blackburn, this bipartisan bill, which is supported by a total of 28 Senators and 164 Members of the House, 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 LIHTC.

Enacting the primary unit financing provisions in the Affordable Housing Credit Improvement Act could finance up to an additional 1.94 million affordable units over 10 years. Over that period, this enhanced financing could also support nearly 3 million jobs, $333 billion in wages and business income, and $115 billion in additional tax revenue.⁷ Finally, we would encourage Congress to consider increasing the private activity bond volume cap to enhance the utilization of 4 percent LIHTC. 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.⁸

---

Enacting the Middle-Income Housing Tax Credit (MIHTC)

Housing affordability is an issue threatening the financial wellbeing 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 fourth quarter of 2022 was $1,863.9

For a renter to afford one of those units at the 30 percent of income standard, they would need to earn at least $74,520 annually. Moreover, the share of apartment households making between $45,000 and $74,999 with at least moderate housing cost burdens rose from 30 percent in 2019 to 34 percent in 2021.10

Furthermore, based on 2021 American Community Survey data, we estimate that more than a quarter (26 percent) of middle-income renter households (81-100 percent of HUD Area Median Income) were cost burdened in 2021. This amounts to more than 1.2 million households.11

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 in March as part of the Decent, Affordable, Safe Housing for All Act (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.12

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.

---

9 U.S. Census Bureau, Survey of Market Absorption.
10 Harvard Joint Center for Housing Studies, State of the Nation’s Housing 2023.
11 IPUMS USA, University of Minnesota, ipums.org; 2021 HUD Median Family Incomes for FMR areas, metro areas and states.
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 recommends 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. A February 2023 Urban Land Institute study commissioned by the NMHC Research Foundation provided case study examples of successful conversions, and several large jurisdictions, including Washington, DC and New York City, have recently embarked on plans to incentivize office-to-residential conversions.13

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 LIHTC.

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 S. 1688, Yes In My Backyard Act (YIMBY Act). NMHC and NAA strongly supports this legislation which requires recipients of Community Development Block Grants to provide information on how they are reducing local barriers to housing development.

**Promoting the Rehabilitation of Multifamily Housing Located Near Transit**

NMHC and NAA strongly supports bipartisan legislation that would provide a new tool aimed at encouraging greater community development and inclusive neighborhood revitalization. Introduced last Congress by Representative Blumenauer and cosponsored by Representatives 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.

**Conclusion**
This is the bottom line: There is no silver bullet, but we think a multi-faceted approach is our best bet. The health and stability of the rental housing sector is paramount to that of our overall economy. And, importantly, the sufficient supply of quality housing is necessary in ensuring the continued economic prosperity and household stability for Americans nationwide and providing household stability. Without it, we put both at risk. Solving this challenge should be mission critical. It certainly is for our industry.

On behalf of the multifamily industry and the nearly 40 million Americans we serve, we applaud the Subcommittee’s efforts to explore solutions to the nation’s most significant housing challenges, and we look forward to working together on legislation to innovative solutions to increase housing supply. Thank you for your attention to these concerns.

Sincerely,

Sharon Wilson Géno
President
National Multifamily Housing Council

Robert Pinnegar
President & CEO
National Apartment Association