National Multifamily Housing Council
And
National Apartment Association

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The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Hensarling:

The National Multifamily Housing Council (NMHC) and National Apartment Association (NAA) applaud your leadership in holding several hearings on affordable housing issues. We are pleased that you recognize the need for new ideas on how best to fight the problems of poverty and housing affordability. To that end we are writing to make our contribution to this critical discussion.

For more than 20 years, NMHC and 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 nearly 170 state and local affiliates, NAA is comprised of over 68,000 members representing more than 7.86 million apartment homes throughout the United States and Canada.

Our sector is a competitive and robust industry that helps today's 38 million renters live in a home that is right for them.

Rental Homes: The Nation's Changing Housing Preferences and Dynamics

There's no question that the nation is on the cusp of fundamental change in housing dynamics as shifting demographics and housing preferences drive more people away from the typical suburban house. In just the past five years, the number of renters is up nearly 4.2 million and the number of homeowners is down by 900,000.

Rising demand for rental apartments is not just a consequence of the bursting of the housing price bubble. The growing demand for rental housing began well before the foreclosure crisis. Going back 10 years, before the recession, **there were eight million new renter households and just 500,000 new owner households.**

These changing demographics *demand* a fresh look at our nation's housing policy. The following statistics help explain:

- **Married couples with children, the most likely single-family residents, are now only 20% of households, down from a high water mark of nearly 50%**. Single-person households (28%), single parent households (18%) and roommates (7%) collectively account for 53% of all households, and these households are more likely to rent.[1];

- **Eighty million echo boomers** are beginning to enter the housing market, primarily as renters[2]. Harvard's Joint Center for Housing Statistics (JCHS) estimates that Millennials will create 24 million new households between 2015 and 2025.[3]; and

- **More than 77 million baby boomers** have the option of downsizing as their children leave the house and many will choose the convenience of renting.[4]

Importantly, the rising demand for rental housing is expected to continue into the future. Harvard's 2013 *America's Rental Housing* report estimates that the **number of renter households is expected to rise by 4 to 4.7 million from 2013-2023** (depending upon the rate of immigration)[5].

Rental Home Demand Across the Country is Outstripping Supply

This growing demand is taking place in a supply-constricted market after new construction virtually shut down during the housing crisis. The following statistics provide an overview of todays' apartment stock:

- **We need to build an estimated 300,000 to 400,000 apartment units a year to meet expected demand.** Yet, just 255,600 apartments were delivered in 2014. While this is up 37% from 2013 it is still a far cry from the level needed.[6]

- In addition, **the existing apartment stock is aging and at risk of being lost.** According to the JCHS (2013), a large share of apartments were built during the construction booms in the 1960s and 1970s, in order to accommodate the large number of Baby Boomers that were beginning to move out on their own.[7] Almost one-third (31%) of all occupied apartments in the U.S. were built between 1960 and 1979.[8]

Rental Housing: An Economic Boom

The good news is that the rental housing industry is stepping up to meet this rising demand, and that activity is contributing significantly to our economy, driving dollars and jobs that strengthen local communities.

- Apartments and their residents **contributed $1.3 trillion to the national economy** in 2013[9].

- All the economic activity supports **12.3 million jobs.**

- The economic impact from apartment operations alone totaled $69.1 billion in direct spending in 2013[10].

The Affordability Struggle

Because rental housing construction is unable to keep up with demand, there is a shortage of affordable housing.

- The total number of "severely cost-burdened households" (those paying more than half their income on housing) for low-income households with someone working full-time increased from 38.6 to 42.4 % from 2007 to 2011.[11]

- The JCHS estimated that there were only 58 affordable units for every 100 very low-income households in the United States in 2013[12].

- Over 27% percent of renters are severely cost-burdened, which is more than twice the rate for homeowners.[13] Only about a quarter of households eligible to receive federal assistance actually received subsidies.[14]

We understand that you are looking for solutions to the problems of poverty and housing affordability – these are very difficult issues and we recognize that policies need to be developed to address this growing need. NMHC and NAA agree that affordable housing is a significant and growing challenge for American families. As a result, we are working with our members to help develop creative ways for policy makers to engage the private sector to advance the shared goal of delivering safe, affordable housing.

Once our committees have developed policy recommendations we will forward them to you. In the meantime, we refer you to the attached letter we submitted to the Committee for the October 22 hearing entitled, "The Future of Housing in America: 50 Years of HUD and Its Impact on Federal Housing Policy."

In the letter, we discussed the affordability challenges in more detail. Additionally, we included a number of suggestions aimed at streamlining existing programs that can address our affordability issues, such as the Section 8 Housing Choice Voucher program, the Low Income Housing Tax Credit, Multifamily Federal Housing Administration Programs and more.

Like you, however, we understand that the demand for affordable housing cannot be met by government programs alone. In fact, the reality of shrinking federal resources dictates that we develop creative ways for policymakers to engage the private sector. Local, state and federal collaborations, and partnerships between the public and private sectors, are critical. But for those to be successful we must address the burdensome regulations, rules and mandates that limit the private sector's ability to develop and preserve affordable housing.

NMHC and NAA want to be at the forefront of developing solutions to help legislators create a balanced housing policy, one that reflects our nation's need to establish policies for a variety of housing choices to meet citizens' financial and lifestyle needs. We look forward to being a resource and partner to the Committee in identifying new solutions to address the changing housing challenges.

Sincerely,

Doug Bibby
President
National Multifamily Housing Council

Doug Culkin
President and CEO
National Apartment Association

cc: The Honorable Maxine Waters, Ranking Member Financial Services Committee

[1] 2014 Current Population Survey, Annual Social & Economic Supplement, US Census Bureau.

[2] Annual Estimates of the Resident Population by Sex, Single Year of Age, Race Alone or in Combination, and Hispanic Origin for the United States: July 1, 2012, US Census Bureau. Echo Boomers are defined as those born 1977 through 1994.

[3] Harvard Joint Center for Housing Studies, "The State of the Nation's Housing" (2014), available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/sonhr14-color-ch3.pdf, p. 16.

[4] Annual Estimates of the Resident Population by Sex, Single Year of Age, Race Alone or in Combination, and Hispanic Origin for the United States: July 1, 2012, US Census Bureau. Baby Boomers are defined as those born 1946 through 1964.

[5] Harvard Joint Center for Housing Studies, "America's Rental Housing" (2013), available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs_americas_rental_housing_2013_1_0.pdf, p. 14.

[6] US Census Bureau, New Residential Construction, updated 6/2014.

[7] Harvard Joint Center for Housing Studies, "America's Rental Housing" (2013), available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs_americas_rental_housing_2013_1_0.pdf, p. 15.

[8] 2013 American Community Survey 1-Year Estimates, US Census Bureau, "Tenure by Units in Structure by Age", updated 10/2014.

[9] National Apartment Association and National Multifamily Housing Council, "The Trillion Dollar Apartment Industry"

[10] National Apartment Association and National Multifamily Housing Council, www.weareapartments.org

[11] Harvard Joint Center for Housing Studies, "The State of the Nation's Housing 2013: Housing Challenges" (2013), available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/son2013_chap6_housing_challenges.pdf. [12] Harvard Joint Center for Housing Studies, "The State of the Nation's Housing 2015: Housing Challenges" (2015), available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs-sonhr-2015-ch6.pdf [13] Harvard Joint Center for Housing Studies, "The State of the Nation's Housing" (2014). Available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/sonhr14-color-ch6.pdf, p. 27.

[14] Harvard Joint Center for Housing Studies, "The State of the Nation's Housing" (2014). Available at http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/sonhr14-color-ch6.pdf, p. 30

October 21, 2015

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on House Financial Services
4340 O'Neill Federal Office Building
Washington, DC 20515

Dear Chairman Hensarling and Ranking Member Waters:

The National Multifamily Housing Council (NMHC) and National Apartment Association (NAA) applaud your leadership in holding a hearing entitled, "The Future of Housing in America: 50 Years of HUD and Its Impact on Federal Housing Policy." NMHC/NAA offer our congratulations to the agency and staff on the 50th Anniversary and thank the committee for addressing housing affordability – an issue that is very important to our nation's 38 million renters.

For more than 20 years, NMHC and 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 nearly 170 state and local affiliates, NAA is comprised of over 68,000 members representing more than 7.86 million apartment homes throughout the United States and Canada.

Rental Housing – The Supply-Demand Imbalance

America is facing significant challenges when it comes to providing our citizens with affordable housing. This is making it impossible for millions of families nationwide to find quality, affordable rental housing. For many families, the shortage of affordable rental housing creates significant hurdles that make it even more difficult to pay for basic necessities like food and transportation. Ultimately, this also impacts their future financial success.

According to a recently released report by Harvard's Joint Center for Housing Studies, in 2013 more than one in four renter households – approximately 11.2 million – paid more than half of their income for rental housing. Setting aside that real incomes in the U.S. have not risen in over three decades – clearly the key factor driving the affordability crisis – housing industry leaders agree that promoting construction is one of the vital ways to meet the surging demand for apartment homes.

The U.S. is on the cusp of fundamental change in our housing dynamics as changing demographics and housing preferences drive more people away from the typical suburban house. Rising demand is not just a consequence of the bursting of the housing bubble. In the five years ending 2014, the number of renter households was up by 4.7 million; while the number of homeowner households was down by almost 600,000. Going back 10 years, there were 8 million new renter households and just 900,000 new owner households.

Today, 38 million Americans call an apartment home. Over the next decade, there could be as many as four million additional renter households. It takes between 300,000 and 400,000 newly constructed apartments each year to keep up with demand, yet just 255,600 apartments were delivered in 2014. While this is up 37 percent from 2013, it remains a far cry from the number of apartments needed to meet a growing and serious shortage of rental housing across the country.

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 and property taxes all contribute to making their construction extremely costly.

Key Solutions to the Nation's Housing Challenges

The nation's challenge is to overcome these obstacles and expand the housing stock. At NMHC/NAA, we believe the solution requires a **three-pronged** answer of preservation, rehabilitation and new development:

1. **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.** This means not only stemming budget cuts for local, state and federal housing programs, but also continuing to support programs like the Low-Income Housing Tax Credit (LIHTC).

2. **Rehabilitation is vital because it can keep existing apartment stock from dwindling further.** Every year, the industry loses between 100,000 and 150,000 units to obsolescence and other factors. Most lost units are likely at the lower end of the market, disproportionately hurting the affordable portion of the market. Consider also that the nation's apartment stock is aging; in fact, more than half (51.9 percent) of all apartments were built before 1980. Without resources dedicated to support rehabilitation efforts, more stock will evaporate from the available pool.

3. **New development is the third strategy for addressing the scarcity of units available for the population of Americans whose household incomes are below the average for their areas – and the one garnering a lot of attention and criticism.** There are too many instances where communities acknowledge that they have an affordability problem, but then hide behind "Not in My Back Yard" rhetoric to prevent the development of much-needed apartment homes. States and local communities can work together with the private sector to identify and quantify the costs associated with building affordable rental housing. Then, local officials and developers can help reduce the barriers and encourage new construction.

Congress should play an integral role in addressing housing affordability. NMHC/NAA support the initiatives and programs outlined below designed to address the shortage of affordable housing:

GSE Reform: The first and foremost priority 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 bursting of the housing bubble exposed serious flaws in our nation's housing finance system. The Government-Sponsored Enterprises' (GSEs) very successful multifamily programs were not part of the meltdown and have actually generated over $24 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 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.

In normal capital markets, FHA plays a limited, but important, role in the rental housing sector. During the economic crisis, however, FHA became virtually the only source of apartment construction capital. Applications have increased from $2 billion annually to $10 billion, and HUD anticipates that demand for FHA multifamily mortgage insurance will remain high for the next several years.

FHA's Multifamily Programs have continually generated a net profit, and have met all losses associated with the financial crisis with reserves generated by premiums paid through the loan insurance program structure. Because premiums have consistently reflected the risk associated with the underlying loans, and because underwriting requirements have remained strong within the program, FHA's Multifamily Programs are able to operate as self-funded, fully covered lines of business at HUD. Some programs have struggled during the real estate down turn; however, any losses have been covered by the capital cushion the multifamily programs collectively generate.

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, including:

- HUD 221 (d)(4) Multifamily Loans – New Construction and Substantial Rehabilitation of Multifamily Properties
- HUD FHA 223 (f) Multifamily Loans for the Refinance or Acquisition of Multifamily Properties
- HUD FHA 241(a) Supplemental Loans
- HUD FHA 223(a)(7) Refinance of an Existing FHA Insured Multifamily Mortgages and Healthcare Mortgages

Multifamily Transformation Initiative: NMHC/NAA support and encourage HUD to complete the Multifamily Transformation Initiative. HUD's Office of Multifamily Programs provides mortgage insurance to HUD-approved lenders to facilitate the construction, substantial rehabilitation, purchase and refinancing of multifamily housing projects. Completing the Transformation Initiative will restructure the organization and improve transactional and operational efficiency, enhance risk management tools and implement procedures that will result in significant savings across the organization.

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.

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: (1) putting a reliable funding formula in place; (2) streamlining the property inspection process; (3) simplifying rent and income calculations; (4) reducing costly Limited English Proficiency (LEP) translation requirements; and (5) extending the contract term for project-based vouchers from 15 to 20 years. NMHC/NAA support the common sense provisions included in HR 3700, the "Housing Opportunity through Modernization Act of 2015," and we urge Congress to enact this legislation without delay. We hope that Congress will consider additional measures that will reduce inefficiencies and burdensome regulatory requirements.

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 federal 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 the Rental Assistance Demonstration that 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.

Low-Income Housing Tax Credit (LIHTC) Program: While we understand the LIHTC program is not under the House Financial Services Committee's purview, we encourage Congress to take immediate action by passing tax extenders legislation that would renew several key provisions to support affordable housing. This includes making the development of affordable rental housing more possible by modifying and enhancing the LIHTC program.

Since 1986, the LIHTC program has leveraged federal dollars with private investment to produce nearly 2.8 million affordable units. It remains the most successful federal program for creating affordable housing. Beyond tax extenders, Congress should look to further enhance the program by increasing program resources so that additional affordable rental housing can be built. Additionally, lawmakers should modify LIHTC rules to help enable more households that earn less than the area median income to qualify for the program.

Affordable housing is a significant and growing challenge for American families. The demand for affordable housing cannot be met by government programs alone. Local, state and federal collaborations, and partnerships between the public and private sectors, are critical in addressing this issue. NMHC/NAA wants to be in the forefront, helping to develop creative ways for policymakers to engage the private sector to advance the shared goal of delivering safe, affordable housing.

Sincerely,

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cc: Members of the Financial Services Committee