

April 27, 2021

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Mr. Bharat Ramamurti
Deputy Director
National Economic Council
The White House
1600 Pennsylvania Ave NW
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Dear Mr. Ramamurti:

On behalf of the National Association of REALTORS® (NAR) and the RES Advisory Group, I thank you for meeting with us to discuss the policy priorities of the National Economic Council. We appreciated hearing your thoughts on how housing fits into President's Biden's American Jobs Plan and your acknowledgement that the wealth-building benefits of homeownership should be accessible to many more Americans. Unfortunately, there is a serious shortage of available inventory of homes to purchase. The number of housing units for sale is at its lowest in almost 50 years. The shortage makes buying a home much more expensive and out of reach to many credit-worthy Americans. This lack of affordable housing supply limits wealth building, economic growth and job creation. As promised at our meeting, we are following up with some ideas for new tax incentives that could increase the supply of homes:

Tax Credits to Lower the Cost of Converting Commercial Properties to Residential Units

The current pandemic has exacerbated the shortage of residential units for sale, but has also contributed to a rise in unused or under-utilized commercial properties in many U.S. real estate markets. Vacancy rates are bound to decline as retail establishments start operating at higher capacity, travel for pleasure or business resumes, and more workers start heading back to the office once the population is broadly vaccinated and the pandemic ends. However, the lasting effect of the pandemic on work and consumer spending patterns—a hybrid work style, virtual events, and more online shopping—could lead to the permanent underutilization of some commercial real estate properties.

NAR supports creating incentives to convert some of this unused commercial space into residential units. This could include affordable rental or owner-occupied housing, condominiums, or townhouses depending on what makes economic sense and meets the needs of the area. One such incentive could be a “commercial to residential conversion tax credit” that roughly follows the current-law rehabilitation tax credit of section 47 of



the Internal Revenue Code. While many of the restrictions of section 47 are probably unnecessary and unwise for this new incentive, it makes sense to have basic limitations to ensure against abuse. For example, limiting the credit to older and historic buildings is likely not going to achieve the full purpose of the incentive. Such a conversion tax credit, if wisely crafted, could significantly lower the cost of creating more residential units, thereby producing a four-way win by:

- Increasing the number of residential units available for sale or rent, thus making them more affordable;
- Decreasing the amount of excess commercial space, thus bolstering this sagging sector of the economy;
- Increasing economic growth and creating jobs; and
- Producing much-needed revenue at every level of government.

Capital Gains Tax Reductions to Incentivize the Sale of Investor-Owned Properties

One major reason for the record low number of homes for sale today is that millions of houses that were once owner-occupied became rental units in the wake of the housing crisis of 2008. From 2005 to 2019, the number of single-family houses that are rented grew by over 3.1 million. Naturally, when families renting a home move to another residence, the house they leave most often will see another renting family move in, while most owner-occupied homes are sold to another owner-occupant when the first owner moves away. Thus, the conversion of a single-family home from owner-occupied status to rental status has major implications on the number of homes available for sale in the future.

A relatively rapid way to increase the number of homes available for purchase would be to incentivize the reversal of this trend of owner-occupied homes moving to rental status. For example, one such incentive could be the offer of a more favorable capital gains tax rate (zero or a rate that is significantly less than current law) for investors of rented single-family homes who sell them to first-time homebuyers. Such an incentive could persuade someone who was already planning to sell the house to find a buyer who would live in it as a first-time owner-occupant instead of selling it to another landlord. Or the investor might even decide to sell the property to such a buyer under these favorable terms at a time when he or she might normally have not considered disposing of the property at all.

Given the hesitancy that some might have to reward large corporate or institutional landlords through lower taxes, the incentive could be crafted in a way that only includes individual or smaller pass-through owners as eligible for the reduced rate. This could still result in hundreds of thousands of homes moving into the for-sale inventory column and making the American Dream of homeownership much more likely for many.

We appreciate the opportunity to share our ideas for increasing housing supply in the US and are happy to answer any follow-up questions you may have. We look forward to continuing to work with you and the Biden-Harris Administration to ensure that more Americans can achieve the dream of homeownership.

Sincerely,



Charlie Oppler
2021 President, National Association of REALTORS®