

October 6, 2022

The Honorable Brian Deese
National Economic Council
1600 Pennsylvania Avenue NW
Washington, D.C. 20500

Dear Director Deese:

On behalf of the National Association of REALTORS® (NAR) 1.5 million members, I appreciate the opportunity to participate in the recent roundtable discussion of housing leaders to ensure that finding solutions to the historic supply shortage affecting Americans' affordability remains a top priority of the Administration.

Making up nearly 20 percent of the U.S. economy, the housing industry and specifically the REALTORS® that serve residential and commercial property buyers and sellers are vital to promoting homeownership that is the foundational bridge to financial security for consumers. With the current market challenges of low inventory, rising prices, and increasing interest rates, we must work together to find practical and tangible solutions to continue supporting the American Dream.

To address the ongoing issues plaguing consumers and the housing market, NAR offers support for the following proposals that will spur federal action and incentivize state and local governments, and private actors, to boost supply and affordability; particularly for first-time and first-generation buyers, and middle-income Americans. It is these groups facing rising rents and a lack of long-term affordable housing opportunities that would benefit most from direct and immediate action. We encourage the Administration to take the necessary steps to improve the outlook for these consumers and we look forward to working together to tackle these challenges.

FEDERAL FIXES

On the federal level, there is bicameral, bipartisan legislation that can be passed and updates to existing administrative programs that can be made to increase housing production, enhance housing assistance, and encourage rehabilitation and re-use of existing properties.

To that end, NAR supports the following legislative proposals that would accomplish these goals:

- The *Neighborhood Homes Investment Act* (S.98/H.R. 2143) offers the possibility to make an appreciable difference in housing inventory by mobilizing private investment to build and substantially rehabilitate 500,000 affordable homes for moderate- and middle-income homeowners over the next 10 years.
- The *GREATER Revitalization of Shopping Centers Act* (H.R. 5041) would provide federal grants for adapting shopping centers.
- The *Revitalizing Downtowns Act* (S. 2511/H.R. 4759) would expand the historic building rehabilitation tax credit to add a qualified office conversion credit to encourage the conversion of office buildings to another use, including residential. NAR proposes expanding this concept to incentivize the conversion of

any kind of commercial property to residential use that would encourage bipartisan support.

- The *Affordable Housing Credit Improvement Act* (S. 1136 / H.R. 2573) improves the way the Low-Income Housing Tax Credit (LIHTC) works and should be included in any lame-duck session tax bill. This legislation is sponsored by more than a third of the Senate and nearly half the House. Moreover, the LIHTC is broadly regarded as the most successful resource for creating affordable housing in U.S. history.
- The *Choice in Affordable Housing Act* (S.1820) would expand and improve the Section 8 Housing Choice Voucher Program to incentivize landlord participation via one-time incentive payments to landlords, security deposit payments, and bonuses to public housing agencies that employ landlord liaisons.

NAR further recommends the following changes to existing administrative programs and encouraging the Government Sponsored Enterprises (Fannie Mae and Freddie Mac) to improve flexibility with financing, for an even more immediate impact on the supply and affordability challenges constraining buyers.

- To increase the purchasing power for first-time and low- to moderate-income (LMI) buyers, the annual mortgage insurance premium for homeowners with FHA backed mortgages should be reduced. By lowering monthly insurance payments, affordability is expanded, and more housing options are available in more markets.¹
- After the *Neighborhood Homes Investment Act* (S.98/H.R. 2143) is enacted, the Federal Housing Finance Agency could consider allowing Fannie Mae and Freddie Mac to purchase bonds issued under the Act as a way of improving liquidity in this market.
- Fannie Mae and Freddie Mac could improve the financing of accessory dwelling units to better incorporate rental income they generate as well as a means to finance their construction.
- The Federal Housing Administration could consider increasing its maximum share of commercial space in projects that it will finance. This change would expand options for homebuyers and the potential market for developers of mixed user projects with condominium units.

There are also a number of tax-specific proposals that could provide relief and incentivize actions to spur building and increase supply for purchase. For example, NAR supports:

- Tax credits to alleviate the labor shortage could support the training and hiring of more construction workers. Such credits could allow a company to hire untrained workers and pay for training or attendance at trade schools.
- Tax incentives for construction projects that focus on lower cost builds on a larger scale such as modular/factory-built housing, ADUs, etc., would also improve the lack of residential supply. To lower land costs, the federal government could further support the enhancement of charitable contribution deductions of land to state or local housing agencies for the creation of more affordable housing.

¹ NAR recently was joined by several industry partners including the Mortgage Bankers Association, the National Association of Homebuilders, and the Manufactured Housing Institute, in advocating for this adjustment in order to help LMI and first-time homebuyers compete with the rising interest rates and rising home prices. See <https://www.nar.realtor/washington-report/nar-urges-reduction-of-fhas-mortgage-insurance-premium>.

- Tax incentivizes to encourage large investors to sell rental homes to first-time or first-generation homebuyers who would occupy them instead of turning them into rentals would increase supply, especially in areas that are highly concentrated with minority families who are facing unprecedented difficulties in acquiring their first home.² Many of those investors see the annual rent increases they can charge as a hedge against inflation, further impacting potential homebuyers' ability to save money for down payments.

STATE AND LOCAL SUPPORT

The Administration also has the power to encourage reform at the state and local levels to ensure tailored changes are made to best overcome the barriers in individual communities. We appreciate the U.S. Department of the Treasury's support of American Rescue Plan funds to be used by state, local, and tribal governments toward the development, repair, and operation of affordable housing units. This added flexibility creates opportunities for more communities to leverage their existing expertise and programs to support their own unique local housing needs.

Zoning is a local issue, but it is an area where the Administration may make the most progress in terms of stimulating significant reforms through innovative federal incentives. More specifically, the Administration can spur state and local action by tying federal funding to various goals including reducing regulatory barriers, lowering fees, and promoting greater density, however modest, in areas that can support more housing. To this effect, we recommend actions that:

- Support state/local assessments on inventory to identify areas that can support greater density and where properties can be rehabilitated, or areas rezoned to add units.
- Evaluate state and local comprehensive planning efforts – offer federal matching for larger budget needs on housing (while avoiding raises in property taxes, transfer taxes, taxes on services to prevent displacement).
- Identify federal incentives to support state and local efforts to lower the cost of permitting and the time it takes to approve plans for new construction.
- Incentivize/support state/local assessments of zoning for states and local governments to identify property that can be repurposed and other reforms.
- Develop federal incentives to support state and local efforts that lower the cost of permitting and the time it takes to approve plans for new construction and offer waivers for development fees.
- Reward jurisdictions that have reformed zoning and land-use policies with higher scores in certain federal grant processes (such as funding for transportation or other supporting infrastructure).
- Reward state and local governments that speed up the zoning process by allowing them to issue a new kind of tax-exempt bond that would make the funding of certain capital projects undertaken by the governmental entity less expensive. To earn the ability to issue the new bonds, the state or local government entity would have to demonstrate meeting stated criteria that the process has been streamlined.

² "Impact of Institutional Buyers on Home Sales and Single-Family Rentals," NAR Research (May 2022). <https://www.nar.realtor/research-and-statistics/research-reports/impact-of-institutional-buyers-on-home-sales-and-single-family-rentals>.

CONCLUSION

NAR appreciates the Administration's engagement to directly address the impact of this historic housing shortage on affordability for many Americans. We welcome a continued discussion on how the Administration, Congress, and industry groups can and should partner on practical, bipartisan solutions to control these market constraints and improve the outlook for more consumers.

Sincerely,

A handwritten signature in brown ink that reads "Leslie Rouda Smith". The signature is written in a cursive style with a large initial 'L'.

Leslie Rouda Smith
2022 President, National Association of REALTORS®