

March 21, 2023

The Honorable Ron Wyden
Chairman
Senate Committee on Finance
215 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Mike Crapo
Ranking Republican
Senate Committee on Finance
215 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Wyden and Ranking Member Crapo:

On behalf of the more than 1.5 million members of the National Association of REALTORS®, thank you for holding the March 7, 2023, hearing entitled “Tax Policy’s Role in Increasing Affordable Housing Supply for Working Families.” Few issues in our Nation are more topical and urgent than finding effective ways to reduce the dire shortage of places for American families to live.

There is little or no debate around the question of whether the U.S. has a shortage of residential units. Rather, the question is how large the supply gap is. Estimates of the gap vary from about 3.8 million units to over 7 million.

But even if we could wave a magic wand and have this many additional housing units appear overnight, many experts believe we would still face an affordability issue. Thus, the number of additional homes needed to provide safe and affordable places to live for all who need and want them is likely a multiple of the numbers above.

Perhaps even more vital is the question of how best our national policies can be changed to begin to meet these needs. And specific to this Committee, how can tax policies be changed to incentivize the creation of more affordable housing units?

REALTORS®, who consider the lack of supply of housing as an issue of the highest order, are heartened to learn that the lack of supply is recognized by members of the Finance Committee and other policymakers in Congress as a grievous problem. And we are also relieved to see that this recognition is bipartisan.

We urge you to consider the following ideas as components of an overall plan of Federal tax changes to incentivize the creation of more housing units for Americans:

- **Enact tax credits to lower the cost of converting unused commercial real estate to residential units.** These properties can be warehouses, offices, shopping malls, or even old schools. And they can be found in cities, suburban areas, as well as in small towns and rural parts of the Nation. Each residential unit thus created would assist with the housing shortage. And it would provide the additional bonuses of shoring up the commercial markets, boosting the economy and creating new jobs.
- **Provide a capital gains tax rate reduction** (perhaps 50 percent of the current rate) to owners of residential rental properties who sell a unit to a first-time buyer who will occupy it as their home. Some 10 million owner-occupied homes were purchased by investors of all types and sizes and converted to rentals in the wake of the housing crisis of 2008, significantly lowering the supply of available homes for purchase. This incentive could be limited to small investors, who still own the

great majority of all rental homes. Because this would not require new construction, this idea could likely create new ownership opportunities for first-time buyers more quickly than any other incentive idea.

- **Increase the exclusion on the gain on sale of a principal residence.** Record jumps in home prices over the past few years has disincentivized older homeowners from selling their homes in order to move to smaller ones or to retirement facilities, simply because the resulting capital gains tax would leave too little to afford to replace the sold home. The result is that there are fewer homes available for younger or newer homeowners to move into, thus driving demand and prices even higher.
- **Pass the Affordable Housing Tax Credit Improvement Act.** This bipartisan legislation would improve the way the Low Income Housing Tax Credit works by increasing the credit allocation by 50 percent while making other improvements to what many regard as the most successful affordable housing program in the Nation's history. These changes are projected to provide over 2 million additional affordable homes over the next 10 years.
- **Approve the Neighborhood Homes Investment Act.** This legislation, which also enjoys broad bipartisan support, would make an appreciable increase in the housing supply over the next 10 years by mobilizing private investment to build or rehabilitate as many as 500,000 affordable homes for moderate- and middle-income homeowners in distressed neighborhoods.

These tax incentive ideas would go a long distance toward creating a strong down payment on the new affordable residential units that we need to stave off an even deeper crisis of under-housed Americans.

Again, thank you again for holding this hearing and expressing publicly the urgency of these needs. We look forward to continuing to work with you and your colleagues on this most important issue.

Sincerely,



Kenny Parcell
2023 President, National Association of REALTORS®