NATIONAL MULTIFAMILY HOUSING COUNCIL

NATIONAL APARTMENT ASSOCIATION
We Lead the Way Home

January 11, 2023

Chairman Patrick McHenry
House Financial Services Committee
2128 Rayburn House Office Building
Washington, D.C. 20515

Ranking Member Maxine Waters
House Financial Services Committee
4340 O'Neill House Office Building
Washington, D.C. 20515

Dear Chairman McHenry and Ranking Member Waters,

On behalf of the nearly 100,000 combined members of the National Multifamily Housing Council (NMHC)[1] and the National Apartment Association (NAA)[2], we are writing in advance of the hearing titled, "Oversight of the Department of Housing and Urban Development (HUD) and the Federal Housing Administration (FHA)" to share the views of the multifamily housing industry. We are committed to working together with policymakers and the Administration to support the critical work of HUD and address America's housing affordability crisis.

As the Committee 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[3] and continue to make significant contributions to the growth of our economy, which currently stands at $3.4 trillion annually.[4]

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.

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.

[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 93,000 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".

[4] Hoyt Advisory Services, National Apartment Association and National Multifamily Housing Council, "The Contribution of Multifamily Housing to the U.S. Economy", https://weareapartments.org/pdf/Economic_Impact.pdf

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 higher 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, continued economic instability poses a serious threat to the ability of housing providers to leverage the private-market capital necessary to generate needed housing. Higher interest rates 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 October 2023 Quarterly Survey of Apartment Market Conditions also indicates the following troubling statistics, all of which worsened from its July 2023 Quarterly Survey:

- Over half of respondents (57 percent) reported lower sales volume from three months prior.
- 64 percent of respondents reported equity financing to be less available than three months ago, marking the seventh straight quarter of less availability; and
- 83 percent said it was a worse time for mortgage borrowing compared to three months earlier, the ninth 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:

---

[5] NMHC tabulations of 1985 American Housing Survey microdata, U.S. Census Bureau; 2021 American Housing Survey; U.S. Census Bureau.

- **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.

Operational Costs Continue to Rise

Operating apartments has become increasingly challenging, highlighted by rising expenses. Industry data shows an average expense increase of 9.3% for the 12 months ending June 30, 2023, with insurance, state and local taxes, repairs/maintenance, administrative and payroll costs taking the lead.[6] Other cost drivers seeing significant increases, especially in urban markets, are utilities and the provision of security.

One of the most challenging operational costs that has increased dramatically in recent years is insurance. The lack of affordability and availability of 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. Two new data sets show the significant impact of insurance costs on housing operations and affordability. First, NMHC released the State of Multifamily Risk Survey & Report in June of 2023 which looked across all types of multifamily housing and showed, on average, property insurance premiums soaring 26 percent year-over-year. Yet, 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 problematic as this has been across the broader housing ecosystem, the challenge is even more daunting in the affordable and middle-income housing space. A new survey and report released in September, commissioned by the National Leased Housing Association (NLHA), and supported by NMHC, NAA and other affordable housing organizations, focused on the impact of the current insurance market challenges on affordable housing providers. The survey found that rental housing businesses are facing much higher premiums—nearly one in every three policies had rate increases of 25% or more. 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.

Insurance is not the only area of property operations seeing an acute increase in costs. Based on data from NAA's Income/Expense IQ, property taxes have surged by an average of 6.5% from

6 https://www.yardimatrix.com/Publications/Download/File/4486-MatrixResearchBulletin-Expenses-September2023

2021 to 2022. Notably, cities like Orlando, Norfolk, Va., Minneapolis, Riverside, Calif., and Salt Lake City have experienced double-digit increases.

Data from the 2022 Income/Expense IQ also revealed that costs for utilities experienced the highest increase, up 14.3% year-over-year. Natural gas and heating fuel came out on top, increasing by 41.8% and 19.1%, respectively. Additionally, Electricity, internet/wireless and water/sewer all rose by double digits. Total repairs and maintenance were up 13.7% with a median cost of $950, driven by appliances, painting/decorating, and general repairs, all of which increased by 20% or more.

Payroll and other administrative expenses increased by 8.5% for the rental housing industry. Labor market challenges have plagued the industry for years, particularly for on-site staff, but the red-hot job market that was kickstarted by the pandemic recovery and stayed strong through 2022, only exacerbated the problems.

It is critical that HUD, members of the Committee and policymakers at all levels of government understand the significant financial headwinds facing housing operators that are negatively impacting housing affordability and explore consensus-driven solutions to alleviate these pressures.

The Regulatory Environment is Increasingly Challenging

Despite the economic and market headwinds facing multifamily housing developers, owners and operators, as part of the White House's Blueprint for a Renters Bill of Rights, federal regulators have recently moved forward with proceedings that aim to upend the existing, and appropriate, state and local regulation of housing.

The Blueprint recognizes more than two dozen commitments from agencies and Fannie Mae and Freddie Mac (collectively "the enterprises") to examine and potentially implement sweeping changes to federal housing policy in line with Blueprint principles. These include a commitment by the Federal Housing Finance Agency (FHFA) to consider federalizing landlord and tenant laws, including possible rent control for enterprise-backed properties. This would have devastating impacts on housing markets and ultimately result in even fewer quality and affordable, rental housing options for renters. NMHC and NAA have continued to engage with the Administration on these proposals and filed joint comments as well as led a coalition of 18 national real estate organizations expressing deep concern with this approach.

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 this Committee and HUD 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.

Whether pursuing federal rent control or other policies that inhibit efficient business practices that ensure the continued viability of multifamily properties and the overall asset class, it's crucial for HUD and this Committee to understand that implementing additional layers of federal regulation on top of what is already an overly complicated set of regulations and landlord-tenant laws at the state and local levels is ill advised and will ultimately hurt our nation's renters.

Opportunity Abounds: Sustainable Solutions to Housing Affordability

The good news: There is a clear path to solving many of these challenges and for HUD to lead local, state and federal lawmakers to prioritize increased housing supply and pro-housing policies. 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 2023, 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 Committee looks at the housing challenges facing our nation and explores what steps HUD and the federal government can take to improve affordability and drive new supply.

Deploy the Housing Supply Action Plan

NMHC and NAA urge the Committee to continue working with HUD and the Biden Administration to implement provisions in their Housing Supply Action Plan 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. HUD, like other 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, we urge the Committee and HUD to support the Pro Housing Grant Program and redouble its efforts to incentivize states and localities to remove or mitigate local barriers to development of rental housing. Examples include:

- 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;

To this end, **NMHC and NAA strongly support the Yes in My Backyard (YIMBY) Act (H.R. 3507/S. 1688).** This legislation would help eliminate barriers to development by requiring Community Development Block Grant (CDBG) recipients to report periodically on the extent to which they are removing discriminatory land use policies and promoting inclusive and affordable housing. Exclusionary land use policies like zoning and density restrictions, onerous parking requirements and other development regulations exacerbate both the housing supply and affordability crisis. **We urge this Committee and HUD to support the YIMBY Act.**

Improve the Section 8 Housing Choice Voucher (HCV) Program

Since developing new housing can take some time due to the number of barriers to development, improving existing government subsidy programs is an important step to increase housing affordability in the short-term.

NMHC and NAA strongly support the Section 8 HCV Program, which has long served as America's primary method for aiding 2.1 million low-income households with rental assistance. This public/private partnership helps millions of Americans find homes in communities near good schools, jobs, and transportation services, but reforms are needed to expand private industry participation.

NAA recently surveyed frontline rental housing providers about their experiences, challenges and recommendations regarding the HCV program. The survey findings revealed five key reasons why housing providers are leaving the HCV program[7]:

1. The administrative burden and paperwork requirements were the most significant challenge that led to rental housing providers leaving the HCV program.
2. Burdensome inspection and approval processes ranging from inconsistent inspection processes to lengthy application processes.
3. Inefficient communication and a lack of timely responses from PHAs as major stumbling blocks in their interactions.
4. Systemic issues associated with the voucher program such as liability for damages and repairs in residences occupied by voucher recipients.
5. Increased administrative costs to accept vouchers increased financial strain caused by higher insurance costs attributable to accepting vouchers.

To address these concerns and bring private sector participants back to the Section 8 program, **NMHC and NAA strongly support the bipartisan and bicameral Choice in Affordable Housing Act (H.R. 4606; S. 32)**, which would enact common-sense reforms that could help improve the program for both renters and property owners and increase housing provider participation overall. Key elements of this legislation include:

- Enabling PHAs to make one-time incentive payments to recruit housing providers into the program;
- Allowing PHAs to pay for security deposits for voucher holders;
- Awarding bonus payments to PHAs that hire "landlord liaisons" to contact, recruit, retain and generally support private housing providers;
- Permitting units in buildings that have been inspected in the last year under other federal housing programs to meet the HCV inspection approval;
- Expediting the inspection progress by creating a 60-day "pre-inspection" approval for housing providers who anticipate participating in the HCV Program;

[7] https://www.naahq.org/unveiling-reality-rental-housing-providers-insights-housing-choice-voucher-program

We strongly encourage the Committee and HUD to support the Choice in Affordable Housing Act.

Return Housing and Eviction Policy Back to the State and Local Level

The CARES Act established a temporary 120-day moratorium on evictions due to nonpayment of rent, applicable to federally backed and federally assisted housing. This section of the CARES Act also instituted what should have been a temporary notice procedure, requiring housing providers to notify covered residents 30 days before filing for eviction after the moratorium ended on July 24, 2020.

Throughout the pandemic, rental housing professionals worked to both help residents resolve their hardships and to advance policies to provide renters with essential resources to meet their housing needs. Now that Congress and the President have terminated the federal COVID-19 public health emergency, it is time to end the CARES Act 30-day notice-to-vacate requirement. **We urge this Committee and HUD to support H.R. 802, the Respect State Housing Laws Act,** returning eviction policies back to the state and local level. Further, HUD should avoid pursuing similar policies that are duplicative, costly and ultimately can deter needed investment in housing production and preservation.

Conclusion

This is the bottom line: there is no silver bullet, but we think a multi-faceted approach to improving housing affordability and increasing housing supply 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 both the Committee and HUD for their shared commitment to finding solutions to the nation's most significant housing challenges.

Sincerely,

Sharon Wilson Géno
President
National Multifamily Housing Council

Robert Pinnegar
President & CEO
National Apartment Association

cc: Members of the House Financial Services Committee