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National Affordable Housing Management Association – 400 N. Columbus Street, Suite 203 - Alexandria, VA 22314
Phone 703-683-8630 - Fax 703-683-8634 - www.nahma.org

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President Biden's Housing Supply Action Plan

Background

Moody's Analytics recently estimated that the shortfall in the housing supply is more than 1.5 million homes nationwide.[1] This shortfall burdens family budgets, drives up inflation, limits economic growth, maintains residential segregation, and exacerbates climate change. Even before the COVID-19 pandemic, rising housing costs have burdened families of all incomes, particularly impacting low- and moderate-income families, and people and communities of color. In response, the Biden Administration recently issued a comprehensive proposal intended to reduce the burden of high housing costs over time by increasing the supply of quality and affordable housing in every community. This NAHMAnalysis examines the Housing Supply Action Plan (The Plan) and the legislative, regulatory and administrative actions, many of which were included in the House of Representatives reconciliation bill (Build Back Better), that are intended to help close the housing supply shortfall in five years.

The Plan includes a particular focus on building and preserving rental housing for low- and moderate-income families, incentivize local governments to build denser cities with more affordable housing, create new financing mechanisms for manufactured homes, expand federal financing and rehabilitate hundreds of thousands of homes. The Administration also believes it will also help reduce price pressures in the economy, as housing costs make up about one-third of inflation as measured by the Consumer Price Index. If aligned with other Administration policies to lower housing costs and ensure affordability, such as rental assistance and down-payment assistance, reducing the housing shortfall will ultimately lead to more affordable rents and more attainable homeownership. If aligned with other Administration policies to lower

[1] https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/16/president-biden-announces-new-actions-to-ease-the-burden-of-housing-costs/

housing costs and ensure affordability, such as rental assistance and down-payment assistance, reducing the housing shortage will lead to more attainable homeownership and much more affordable rents.

With the steps outlined in the Housing Supply Action Plan -- in partnership with state, local, for-profit, and non-profit partners -- the White House believes it can put the economy on a path to closing the housing supply gap in the next five years. The Plan's legislative and regulatory actions focus on five specific criteria:

1. Providing Incentives for Land Use and Zoning Reform and Reducing Regulatory Barriers
2. Piloting New Financing for Housing Production and Preservation
3. Improving and Expanding Existing Federal Financing
4. Preserving the Availability of Affordable Single-Family Homes for Owner-Occupants
5. Addressing Other Constraints to Supply: Materials Costs and Labor Supply

Providing Incentives for Land Use and Zoning Reform and Reducing Regulatory Barriers

Reducing regulatory barriers that hinder housing production is viewed as one of the most important steps that must occur to increase the housing supply. Exclusionary land use and zoning policies constrain land use, artificially inflate prices, perpetuate historical patterns of segregation, keep workers in lower productivity regions, and limit economic growth. To counter such barriers, the Administration plans on rewarding jurisdictions that have reformed zoning and land-use policies with higher scores in certain federal grant processes, for the first time at scale.

Specifically, the Administration seeks to utilize funding from the Bipartisan Infrastructure Law (passed earlier this year) to provide competitive grants for jurisdictions that have land use policies in place promoting rural main street revitalization, land use reform, density and transit-oriented development. The Plan also relies on the Economic Development Administration to encourage economic development projects that enhance density near the development.

The Plan calls on Congress to pass the Unlocking Possibilities Program, included in the reconciliation bill, which would provide HUD administered competitive grants to remove barriers to housing production. This includes permitting manufactured housing communities and providing additional funds for environmental planning and mitigation, and road, water, and sewer infrastructure.

Piloting New Financing for Housing Production and Preservation

To address the lack of financing available for new construction and rehabilitation, the Administration is seeking to deploy new financing mechanisms to build and preserve more housing where financing gaps currently exist. This includes manufactured housing (along with chattel loans that the majority of manufactured housing purchasers rely on), accessory dwelling units (ADUs), 2-4 unit properties, and smaller multifamily buildings.

The Plan calls on HUD to make it easier to finance new manufactured homes by increasing the usability of the Federal Housing Administrations (FHA) loan program for manufactured housing, helping manufacturers respond to supply chain issues more quickly and by expanding production. The Administration also believes that changing land-use policies to allow greater construction and preservation of ADUs is key to state and local government efforts to expand the housing supply while reducing the cost of home ownership. Such changes would potentially provide for the creation of one million ADUs in the next five years. The FHA and the Federal Housing Finance Administration (FHFA) are also seeking ways to increase financing options for single-family and 2-4 unit rehabilitation while helping lenders scale up construction and renovation financing for ADUs.

The Administration supports financing close to 1 million affordable rental units by expanding the Low-Income Housing Tax Credit (Housing Credit) for the production and preservation of affordable rental housing. This expansion was included in the House-passed reconciliation bill and NAHMA continues to advocate for increasing the annual LIHTC allocation cap.

To further strengthen the Housing Credit, the Administration also supports increasing funding for other successful housing subsidies that pair well with the tax incentive, including Housing Choice Vouchers, the Housing Trust Fund and Project Based Rental Assistance, and the HOME Investment Partnerships Program.

Additionally, to increase the supply of housing, Congress will also need to pass legislation that would create the Neighborhood Homes Tax Credit. This would provide a tax incentive aimed at revitalizing distressed urban, suburban, and rural neighborhoods by covering the gap between the cost of building or rehabilitating homes and the price at which they can be sold, thereby making such a development possible in an area that otherwise would not typically see this type of investment. However, for these tax incentives to occur, the Senate would need to pass the House-passed reconciliation bill as well as the additional proposals in the Administration's Fiscal

Year 2023 budget proposal. The President's 2023 Budget includes investments in housing that would lead to the production or rehabilitation of another 500,000 homes over the next ten years, in addition to the actions it took last September when the White House announced plans to construct and rehabilitate 100,000 homes over the next three years.

Expand and Improve Existing Federal Financing

Seeking ways to reduce transaction costs, duplications, and to accelerate development, the Plan encourages the alignment of affordable housing subsidies across numerous federal programs. This includes making Construction to Permanent loans (where one loan finances the construction but is also a long-term mortgage) more widely available by exploring the feasibility of Fannie Mae purchase of these loans; promoting the use of state and local government COVID-19 recovery funds to expand affordable housing supply; and by making reforms to the Housing Credit and the HOME Program.

The Administration also plans to have Treasury finalize the Housing Credit average income test (AIT) regulations by the end of September 2022. To qualify for the Housing Credit incentive, developers must make commitments to create housing that is affordable to households that meet specific income thresholds. The AIT allows a developer to meet the same affordability goals by taking the average of the income of all units in the property as opposed to requiring all units to meet the same threshold. This test will allow Housing Credit developments to house tenants at a variety of income levels from tenants that would otherwise not qualify for Housing Credit housing -- with incomes up to 80% of the area median income (AMI) -- to households earning far below the 80% AMI Housing Credit threshold.

NAHMA and Housing Credit stakeholder organizations expressed concerns about the proposed set-aside rule via formal written comments in 2020 and 2021. While some details of the comments varied, the organizations collectively agreed that the approach initially envisioned in the proposed rule creates a level of risk not intended by Congress that investors and developers will be reluctant to assume. The groups also agreed that the proposed rule's prohibition against modification of unit designations would make practical implementation of AIT next to impossible, especially for properties financed with multiple subsidies and/or those with rental assistance contracts.

NAHMA and industry colleagues also urged Treasury to allow owners to modify unit designations, pursuant to state agency policies. States should be able to allow unit designation modifications to enable floating units, in which the overall property average does not change, and other modifications -- even if it changes the average in the property -- as long as the average remains below 60 percent of AMI.

The Plan also seeks to improve the alignment of federal funds to reduce transaction costs and duplications, such as streamlining FHS processing of mortgage insurance applications for projects with a Housing Credit equity. To further encourage alignment of affordable housing subsidies, the Administration, HUD, Treasury and USDA will convene state housing agencies to discuss best practices on alignment of applications, reviews, and funding.

To construct an additional 8,000 rural multifamily homes, the Administration supports USDA's new fee structure allowing for lower initial and annual guarantee fees for lenders under the Section 538 program. USDA estimates that these new fee reductions will facilitate an almost 85 percent increase over the pre-fee reduction volume. In addition to the proposed changes to Section 538, NAHMA strongly urged the House Appropriations Committee in June 2022 to fund the Section 521 program at the President's proposed budget of $1.602 billion, continuing to fund and renew all contracts including those added by American Rescue Plan Act funding. NAHMA will continue to advocate with members of congress that failing to renew this rental assistance would jeopardize the housing stability of the low-income rural residents living in these units.

Additional measures include issuing new regulations to Title V, a mechanism used to create housing in places with high rates of homelessness. The goal of the regulations is to make the disposition process of federal property for use for people experiencing homelessness process easier to navigate for affordable housing developers. HUD also announced that it will seek to strengthen the process for identifying and marketing suitable properties to developers in addition to providing technical assistance.

The Administration also supports Congressional efforts to provide additional funding to bolster the construction of affordable housing by increasing Housing Credit allocations, providing additional capacity for private activity bonds to finance new affordable housing, targeting the Housing Credit to serve extremely low-income Americans, and by providing additional subsidies to developments that add net new supply.

Congress will also need to provide additional federal resources included in the Build Back Better bill to successfully pair affordable housing programs with the Housing Credit. However, Congress must also provide increased funding for Project Based Rental Assistance, Housing

Choice Vouchers, the HOME program, and the Housing Trust Fund in order to reach people with the lowest incomes and those experiencing homelessness. NAHMA continues to urge Congress to provide robust funding for housing and community development programs that help low-income households and communities and was pleased to see the House Appropriations Committee draft fiscal year (FY) 2023 funding bill included a total of $62.7 billion for HUD – an increase of $9 billion above fiscal year 2022 and $1.1 billion above the President's 2023 budget request. While the House is on track for final passage, it remains unclear, however, if the Senate will be able to pass their funding bills before the end of the current fiscal year on September 30, 2022.

The Administration also acknowledged the need for Congress to provide increased investments to rehabilitate and preserve public housing and multifamily rental properties at risk of deterioration. Congress needs to fund substantial rehabilitation and preservation in public housing while addressing critical concerns over health, safety and energy efficiencies. The Build Back Better bill also included funding to preserve more than 10,000 multifamily rental properties at risk of deterioration that did not have an alternative source of funding for repairs.

Preserving Availability of Affordable Single-Family Homes

The share of purchased single-family homes has grown recently, accounting for 25 percent of all purchases in 2021. Single-family home purchases by large investors increased the price for lower-cost starter homes and made it more difficult and far more expansive for first-time and first-generation home buyers to own a home. The Plan includes proposals that more government-owned supply of homes and other housing goes to owners who will live in them -- or non-profits who will rehab them -- not large institutional investors. Specifically, the FHA and FHFA, and other agencies across the government have been tasked with accelerating efforts to target owner-occupants and non-profits with at least 50 percent of the mortgage notes for sale. This comes on the heels of a recent FHFA announcement prohibiting Fannie Mae and Freddie Mac from purchasing investor mortgages for single-family homes. Additionally, HUD is encouraging the use of CDBG funds for local acquisition and local sales to owner-occupants and non-profits and will release updated guidance and technical assistance to promote homeownership assistance and for converting existing buildings into rental housing.

Conclusion

President Biden's Housing Supply Action Plan includes dozens of measures meant to sharply boost housing production: incentives for local zoning reform, new financing mechanisms from Freddie Mac and Fannie Mae, budget hikes for federal housing and rental assistance programs, including the Housing Credit to spur construction, efforts to promote manufactured housing and ADUs, supply chain improvements, and greater scrutiny of large investors and single-family home purchases. While a large number of the proposals would improve access to affordable housing for low-income families, which NAHMA continues to advocate for, the Plan was created to increase home construction across the board. Many of the proposals are unlikely to be enacted, including those that rely on the tens of billions of dollars of funding requests from Build Back Better, which was the reconciliation bill that did not pass in the Senate. Other items still require further analysis by HUD or the FHFA to determine if they are feasible. Indeed, several proposals have very broad directives left for state and local governments to interpret, such as the directive to streamline agency processes or promote existing programs, such as COVID relief funding that states and cities can use to develop affordable housing.

Currently, President Biden is under intense political pressure to bring down inflation and the cost of living prior to congressional elections in November. The Plan notes that tackling inflation is President Biden's top economic priority, and the proposed measures are intended to ease the burden of housing costs over time by boosting the supply of quality housing in every community. The Plan' success remains doubtful due to the wide and ranging scope of the proposals. The current political anxiety and lack of bipartisanship combined with the complexity of the housing crisis requires a comprehensive approach that Congress is unwilling or unable to display. With Senate committees poised to start their appropriations process, NAHMA continues to advocate for increased funding for affordable housing, rental assistance, and community development and will keep members updated as future negotiations unfold.