THE COMMITTEE ON ENERGY AND COMMERCE

MEMORANDUM

May 31, 2013

To: Members of the Subcommittee on Commerce, Manufacturing, and Trade

From: Majority Committee Staff

Re: Hearing on "Our Nation of Builders: Home Economics"

On Tuesday June 4, 2013, at 10:00 a.m. in 2123 Rayburn House Office Building, the Subcommittee on Commerce, Manufacturing, and Trade will hold a hearing entitled "Our Nation of Builders: Home Economics." Witnesses are by invitation only.

I. Witnesses

Panel I

Rick Judson
Owner, Evergreen Development Group
Chairman, National Association of Home Builders

Curt Stevens
CEO
Louisiana-Pacific Corporation

George Kubat
President and CEO
Phillips Manufacturing Co.

Edward Martin
President and CEO
Tilson Home Corporation

Thomas S. Bozzuto
Chairman and CEO, Bozzuto Group
Chairman, National Multi Housing Council
and on behalf of
National Apartment Association

Steven Nadel
Executive Director
American Council for an Energy-Efficient Economy

Panel II

James M. "Buddy" Robinson IV
Sr. Vice President, General Counsel and Corporate Secretary
Kohler Co.

Bill Shaw
Founder
William Shaw and Associates

Mark Wilhelms
Vice President of Architectural Sales
Midwest Brick and Block

Ludy Biddle
Executive Director
NeighborWorks of Western Vermont

Brian Bovio
Operations Manager
Bovio Advanced Comfort and Energy Solutions

II. Background

Economic Impact

The housing market is fundamental to the health of the national economy. The health of the housing sector reverberates through industries such as manufacturing, construction, contracting, and home services. The construction industry in the United States accounts for 8 percent of GDP—or one out of every 10 U.S. manufacturing shipments—and one out of every 12 machinery shipments.[1] At its peak in 2005, residential investment supplied 5.1 percent of American jobs. In 2008, it supplied 3 percent.[2]

Residential Fixed Investment (RFI) comprises new single family and multifamily construction, residential remodeling, production of manufactured homes, and brokers' fees. RFI and consumer spending on housing services are the two main components of housing that contribute to the economy. According to the National Association for Home Builders (NAHB), the two combined components have historically averaged 17 to 18 percent of GDP, with some variance over the business cycle.[3] Residential investment has averaged approximately 5 percent of GDP since the mid 1990's while housing services (gross rent, owners' imputed rent, and utility payments) has averaged 12 to 13 percent of GDP. After the housing crash, however, RFI fell to a 2.8 percent share of GDP between 2008 and 2012 according to the Joint Center for Housing Studies (JCHS).[4]

The homebuilding construction industry is composed primarily of small businesses that build 10 or fewer homes per year and employ 10 or fewer workers. Based on 2008 income data, 570,987 S-corporations in the construction industry filed tax returns reporting $932 billion in gross revenue. That same year, 195,463 C-corporations (which tend to be larger) within the construction industry filed tax returns reporting $547 billion in gross revenue.[5]

Employment

According to the Bureau of Labor and Statistics (BLS) Employment Projections Program (EPP), at the peak of the U.S. housing boom in 2005, demand for residential construction supported 7.4 million jobs, or 5.1 percent of total employment, a marked increase from the 5.5

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[1] *See* "Steady Increase In Construction Activity Projected through 2014," http://www.aia.org/practicing/economics/AIAB082343 (accessed May 21, 2013).
[2] *See id.*
[3] *See* Housing's contribution to gross domestic product (GDP), http://www.nahb.org/generic.aspx?sectionID=784&genericContentID=66226 (visited May 21, 2013).
[4] *See* Joint Center for Housing Studies at Harvard University, "The U.S. Housing Stock: Ready for Renewal," http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/harvard_jchs_remodeling_report_2013.pdf (accessed May 23, 2013).
[5] Sources of Small Business Financing in the Construction Sector, Eye On Housing, NAHB, available at http://eyeonhousing.wordpress.com/2012/11/08/sources-of-small-business-financing-in-the-construction-sector/ (accessed May 28, 2013).

million jobs supported in 1996, or 4.2 percent of all U.S. employment at the time.[6] Following the housing market crash, residential construction-related employment fell to 4.5 million in 2008, just 3 percent of total U.S. employment. According to BLS estimates, the housing market collapse in 2008 pulled down total U.S. employment by 1.1 to 1.5 percent.[7]

In addition to the direct-construction jobs created, the industry creates jobs in the supply chain of related industries such as lumber, concrete, appliance manufacturing, heating and air conditioning systems, and plumbing components. According to a 2008 analysis conducted by the NAHB, each new single family house supports 3.05 full time jobs; a new multifamily rental unit supports 1.16 full time jobs; and for every $100,000 spent on remodeling, 1.11 jobs.[8] In the multifamily housing segment, the number of jobs supported by apartments is equally significant. The National Multi Housing Council (NMHC) estimated the economic impact from apartments in 2011 at 300,000 direct construction jobs, 2.3 million existing apartment operations jobs, and 22.8 million jobs from resident spending activity.[9]

However, by 2008 the industry job losses following the housing crash far exceeded the gains attributable to the boom phase of the cycle. From 2006 to 2009, due in part to the housing market collapse and the recession, downstream industries also suffered significant workforce losses. Among other industries, residential contracting, cement production, construction, and furniture retail all experienced double-digit percentage losses in employment, amounting to much greater labor losses than the manufacturing workplace as a whole, though not as significant as housing construction.[10] Complementary goods such as wood and furniture products accounted for 14 percent of total manufacturing job losses through that same period.[11] Machinery—a major downstream input—accounted for 8 percent of these losses.[12]

Forecast for the Homebuilding Industry

Housing market collapses historically indicate the onset of recessions.[13] Similarly, housing market booms tend to coincide with market-wide growth, and these industries should grow at a faster rate than the economy-wide average in a recovery. Recent signs of improvement in the housing market – including rising house prices in the first quarter of 2013 for the first time since 2006 - have strengthened the sense that the entire sector is poised for a recovery.

According to the National Association of Home Builders's (NAHB) Housing Market

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[6] Byun, Kathryn J., The U.S. housing bubble and bust: *Impact on employment* (Dec. 2010), http://www.bls.gov/opub/mlr/2010/12/art1full.pdf (visited May 21, 2013).
[7] *See ibid.*
[8] Fei Liu, Helen and Emrath, Paul. "The Direct Impact of Home Building and Remodeling on the U.S. Economy," Housing Economics.com (Oct., 2008). Available at http://www.nahb.org/.
[9] Fuller, Stephen S. Ph.D. "The Trillion Dollar Apartment Industry" (Feb. 2013). Available at http://nmhc.files.cms-plus.com/ContentFiles/General/FullerReportFinal.pdf.
[10] *See id.*
[11] *See* Manufacturing employment hard hit during the 2007-2009 recession, <http://www.bls.gov/opub/mlr/2011/04/art5full.pdf>(accessed May 21, 2013).
[12] *See id.*
[13] *See* Byun, *supra* note 6, p. 5.

Index (HMI), a seasonally adjusted index of housing market conditions, builder confidence in May 2013 has improved to its highest level since February, 2007.[14] Housing affordability is near historic highs at 73.7 for the first two months of 2013, meaning 73.7 percent of new or existing homes sold in those months were affordable to the median income holder. The index has remained high due in part to the drop in prices, favorable interest rates, and continuing market trends for the last four years.[15] The JCHS estimates a 9 percent increase in home improvement spending through 2012 and found RFI spending was already climbing at a double-digit pace into the second half of 2012.[16] Any future housing market growth, however, is also contingent upon many factors, including labor, supply, downstream structural costs, home financing availability, job and income growth, and overall health of the economy.

III. QUESTIONS FOR CONSIDERATION

- What are the obstacles and opportunities currently facing homebuilders and their major suppliers?
- To what extent do the HMI and other forecasting factors reflect actual housing demand?
- Within the current buyer's market (low interest rates, tax incentive programs, and lower housing prices), how much does any further federal intervention into the market increase demand, and is this demand "artificially inflated"?
- How might different regional market conditions affect the intentions of federal law and how might different state foreclosure laws promote or discourage homebuilding?

Please contact Brian McCullough, Gib Mullan, or Shannon (Weinberg) Taylor of the Committee staff at (202) 225-2927 with questions.

[14] *See* "Housing's Contribution to Gross Domestic Product (GDP)," http://www.nahb.org/generic.aspx?sectionID=784&genericContentID=66226 (accessed May 21, 2013).
[15] *See* "Housing Affordability Holding Strong in Early 2013" (May 14, 2013), http://www.nahb.org/news_details.aspx?sectionID=135&newsID=16306 (accessed May 21, 2013).
[16] *See* JCHS, *supra* note 4, at p. 1, 5.