Testimony of Steve Martinez

On Behalf of the

National Association of Home Builders

Before the

House Small Business Committee

Hearing on

"Main Street Realities: Examining the Current Economic Landscape in America"

July 10, 2024

Introduction

Chairman Williams, Ranking Member Velázquez, and members of the Committee, I appreciate the opportunity to testify today on behalf of the National Association of Home Builders (NAHB) to share our views on the current economic landscape in America and the headwinds builders face in addressing the persistent undersupply of housing that is fueling a national housing affordability crisis. My name is Steve Martinez and I am a home builder from Boise, Idaho.

NAHB represents more than 140,000 members who are involved in building single-family and multifamily housing, remodeling, and other aspects of residential and light commercial construction. NAHB's members, most of whom build 10 or fewer homes per year, construct approximately 80% of all new housing in the United States each year.

Housing is by far the largest single expense for American households and rising costs are putting the nation in an untenable situation. A 2024 report by Harvard's Joint Center for Housing Studies found that a record-high 22.4 million households are paying more than 30% of their income on rent and that among those renters, more than 12 million are paying more than half their income on housing, also an all-time high.[1] And a newly released housing affordability index by NAHB shows that in the first quarter of 2024, 38% of a typical family's income was needed to make a mortgage payment on a median priced new single-family home in the United States.[2] Keep in mind that if an owner or renter is paying more than 30% of their gross income on housing, they are cost burdened, and if they are paying more than 50%, they are severely cost burdened.

And things aren't getting any better. Shelter inflation – rent and homeownership costs – is still rising well above a 5% rate driven in large part by a nationwide shortage of 1.5 million housing units. The only way to tame inflation and ease the nation's housing affordability crisis is to build more homes.

All of these rising costs for consumers are tied to rising business costs. Like home buyers seeking a mortgage, home builders and developers rely on banks for financing to build new homes and housing developments. Banks posted a decline in the volume of total outstanding acquisition, development and construction (AD&C) loans during the fourth quarter of 2023 as interest rates increased and financial conditions tightened. Tighter and more expensive lending conditions for AD&C loans are making it more difficult for builders and developers to finance new housing. In today's market, a limited supply of land, inefficient local zoning rules, permitting roadblocks and delays, and rising fees are all contributing to increased construction costs that make it increasingly difficult to boost the supply of housing.

[1] https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_Americas_Rental_Housing_2024.pdf
[2] https://www.nahb.org/news-and-economics/housing-economics/indices/cost-of-housing-index

I am here today to urge members of this committee and all of Congress to support policies that will allow home builders to construct more homes and apartments to provide better, more affordable housing opportunities for all American households. Sensible policy solutions include reducing excessive regulations, promoting careers in the skilled trades to address a severe labor shortage in the construction industry, and fixing building material supply chains to name just a few. NAHB has released a more comprehensive, 10-point plan (attachment) to address the nation's housing affordability challenges for a more in-depth look.

As a nation, we can and must do better. All home buyers and renters in America should have a choice in securing safe, decent and affordable housing where they want to live. America's workforce families, including members of the armed forces, teachers and first responders, should be able to afford to live in homes or apartments in the communities they serve. NAHB strongly believes that increasing the inventory of new single-family and multifamily housing is key to improving housing affordability. To do this, we must remove the barriers that are preventing home builders from increasing housing production.

Regulatory Barriers

Regulatory costs, which include complying with building codes, make up nearly 25% of the cost of a single-family home[3] and more than 40% of the cost of a typical apartment development.[4] Increased regulations, especially energy building code requirements, are making it harder and harder for home builders and multifamily developers to build housing that is attainable and affordable for American families.

Although referencing model building codes in federal legislation and regulatory programs is not new, over the past few years, the breadth of programs and issues for which more stringent building codes are purported to be the answer is raising growing concern. In a move that will curb new construction and harm housing affordability nationwide, the U.S. Department of Housing and Urban Development (HUD) and U.S. Department of Agriculture (USDA) recently issued a final determination that will require all HUD- and USDA-financed new single-family construction housing to be built to the 2021 International Energy Conservation Code (IECC) and HUD-financed multifamily housing be built to 2021 IECC or ASHRAE 90.1-2019.

Without adequate review or consideration of how it will affect home buyers or renters, HUD and USDA have rammed through this mandate that will do little to curb overall energy use but will exacerbate the housing affordability crisis and hurt the nation's most vulnerable house hunters and renters. HUD and USDA are supposed to help the most vulnerable home buyers and renters — not price them out of the housing market. This

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[3] https://www.nahb.org/blog/2021/05/Regulatory-Costs-Add-a-Whopping-93870-to-New-Home-Prices
[4] https://www.nahb.org/news-and-economics/press-releases/2022/06/new-research-shows-regulations-account-for-40-point-6-percent-of-apartment-development-costs

nationwide codes mandate will significantly raise housing costs — particularly in the price-sensitive entry-level market for starter homes and affordable rental properties — and limit access to mortgage financing while providing little benefit to new home buyers and renters. It will also compel more buyers and renters to stay in their current, less efficient homes.

This ill-conceived policy will act as a deterrent to new construction at a time when the nation desperately needs to boost its housing supply to lower shelter inflation costs. What's more, this problem may soon grow.

During the April 18, 2024 hearing before the U.S. Senate Committee on Banking, Housing, and Urban Affairs entitled "Oversight of Federal Housing Regulators", Federal Housing Finance Agency (FHFA) Director Sandra Thompson confirmed that FHFA is considering applying the same standards recently adopted by HUD and USDA for new homes and apartments financed by Fannie Mae and Freddie Mac (the Enterprises). The Enterprises provide 72 percent of financing for new home purchases.[5] Therefore, any requirements established by the Enterprises largely dictate the rules for the housing finance market overall. This is true today for underwriting and appraisal standards. If FHFA were to move forward and require a specific energy code, it would become a de facto national standard.

NAHB is particularly concerned that FHFA has not provided a compelling reason why the Enterprises should consider requiring new single-family and multifamily homes be built to the updated energy codes to be eligible for Enterprise financing, especially given that research has determined these codes are cumbersome and not cost effective. The Enterprises were created to provide liquidity, stability, and affordability to the U.S. housing market. Any mandate by FHFA that limits the availability of Fannie Mae and Freddie Mac financing for new construction to only those homes that meet the 2021 IECC is counter to their charge and would severely disrupt the construction of new homes, exacerbate the housing supply shortage and negatively impact the affordability of newly constructed homes. Such a mandate would not only increase the cost of new housing but would also create conflict between mortgage program requirements and local energy codes since most jurisdictions have not adopted the 2021 IECC. Equally important, it would decrease affordable financing options for first-time and low- to moderate-income home buyers who want to purchase newly constructed homes and leave them only with the option to consider the existing housing stock, which is far less energy efficient than new homes.

Increased regulations including building code requirements, among other things, add significant costs to homes and further harm housing affordability. Accordingly, NAHB has long support legislative efforts to ensure that all regulations are designed with small businesses in mind, that regulatory rulemaking agencies are required to consider the true cost of regulations on small businesses (and their consumers), and that regulatory rulemaking agencies comply with the letter and intent of the law in crafting new

[5] 72 percent of newly constructed homes were purchased with conventional financing in 2022. Share of Non-Conventional Financing Holds Steady in 2022 | Eye on Housing

regulations. Given this NAHB is proud to support and urges Congress to pass legislation such as H.R. 358, the Small Business Regulatory Flexibility Improvements Act.

Labor Barriers

A severe shortage of labor in the construction industry is worsening the housing affordability crisis through higher home building costs and construction delays. In the construction industry, we can expect almost 400,000 open and unfilled jobs in any given month and NAHB research suggests that we will need 2.2 million workers in the next three years just to meet existing home building demand. This places upward cost pressures on existing home prices and rents and pushes the dream of homeownership out of reach for potential homeowners and renters.

Job Corps

Federal workforce development programs, like Job Corps, can help make the difference in bolstering our nation's depleted labor pipeline. For nearly 50 years, Job Corps has been the nation's most successful career preparation program for at-risk youth. Each year, Job Corps equips 60,000 students with the skills they need to succeed in high demand industries like construction, manufacturing, and IT. Continued funding for this critical program means that home builders have access to the qualified and skilled labor they need to get projects off the ground. Moreover, a fully funded Job Corps ensures that at-risk youth are brought into the workforce and placed on pathways to economic prosperity.

It is encouraging to see that Job Corps was fully funded under the House's Fiscal Year 2025 appropriations bill for the Department of Labor, Health and Human Services, Education, and Related Agencies. At a time of endemic labor shortages, it is heartening to see Congress signal to the small business community that strengthening the workforce pipeline is a budgetary priority.

Adverse Rulemaking from the Department of Labor

In the last year, Department of Labor (DOL) rulemaking has worked against the small business community. The home building industry is characterized by many relatively small firms that operate over limited geographic areas and rely heavily on subcontractors. More than 95 percent of NAHB's builder members are small businesses, as defined by the U.S. Small Business Administration. As such, small home building firms lack the operational capacity to meet the demands of complex overregulation and are overexposed to legal and financial liability.

Furthermore, the DOL has moved to subvert the authority of home builders on job sites by targeting aspects of their business operation, including the employer-worker relationship and how employers manage their job site.

The Independent Contractor Rule

In March, DOL finalized a rule that would overturn existing methodology for determining employee or independent contractor status for workers. The new rule eliminates clarity and certainty by establishing a six-factor test which will force employers to measure workers against ambiguous criteria and create uncertainty for the thousands of independent entrepreneurs supporting the home building industry.

The home building industry is highly decentralized, supporting a large number of smaller, competitive firms. Besides being a sector that supports local small businesses, having a significant number of such small firms operating in the same industry promotes competition, providing a benefit for prospective home buyers. However, the ever-evolving liability that the worker classification standard has created for longstanding contractor-subcontractor relationships may lead to a point where utilizing these local businesses may not be legally or fiscally viable.

The Walk-Around Rule

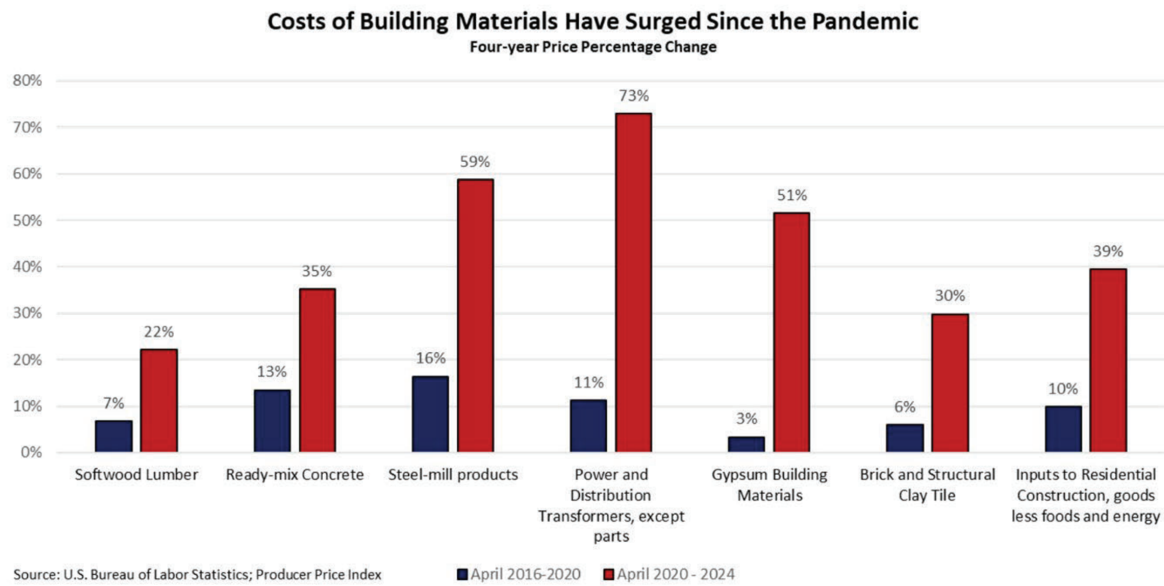
In May, another rule took effect that would impact a home builder's ability to effectively manage their job site. The Occupational Safety and Health Administration's (OSHA) "walk around" rule would expand the type of third-party individual that may accompany an OSHA inspector on a site during a health and safety inspection.

While third parties have only been allowed to participate when the individual "is reasonably necessary to the conduct of an effective and thorough physical inspection of the workplace," the new rule would allow union organizers, community activists, or other third parties to accompany an inspection of a workplace if employees request they do so. This rule exposes a job site to the potential ulterior motives of the requested third party, whether it be to instigate unionization, pursuing public pressure campaigns against the company, attempting to obtain or exploit employers' proprietary information, or seeking to target the workers themselves for any number of reasons.

The DOL must look closely at the unintended consequences of its rulemaking to ensure that small businesses are not constrained by regulation, but rather given the opportunity to grow and provide unlimited economic opportunity for their workforce and consumers.

Supply Chain Barriers

Since the pandemic, the cost of building materials has surged 38%.The rise in building material costs is harming housing affordability as the cost of lumber, steel, aluminum and other imported materials and equipment exacerbate price volatility and drive up housing costs.



The rising material costs are made worse by uncertainties within the production process and when supplies will be available to complete homes in a timely manner. Another key concern is whether the homes will appraise at the correct price to reflect these rising costs.

Builders are doing everything possible to avoid pricing consumers out of homes while still maintaining competitive prices necessary to operate their businesses — especially given the potential long-term impacts on consumers.

Of particular concern is the price and availability of distribution transformers. Since February 2020, the price of distribution transformers is up 72% and NAHB members continue to report that wait times for transformers often range from 12 to 24 months. In some isolated cases, the lag time approaches three years.

Unprecedented demand for critical electrical grid components remains and is expected to continue for the foreseeable future. According to the National Renewable Energy Laboratory, this demand will be driven largely by replacement of aging infrastructure and investments in electrification, such as data centers, electric vehicles, and heat pumps.

Congress must help mend faulty building material supply chains and ease price spikes and volatility by investing in the domestic production and/or reducing barriers to trade of sorely needed building materials including distribution transformers.

Conclusion

Thank you, Chairman Williams and Ranking Member Velazquez, for convening this important hearing and allowing NAHB to share our views on the state of the housing industry and how to help ease the nation’s housing affordability crisis. Home builders are not looking for hand-outs, but we are calling on policymakers to help remove the barriers that are impeding our ability to increase the production of quality, affordable housing.

These are important conversations, and NAHB stands ready to work with you and members of the committee to achieve thoughtful, effective policies to expand the availability of attainable, affordable housing for all Americans.