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On Behalf of the

National Association of Home Builders

Before the

Senate Banking, Housing and Urban Affairs Committee

Hearing on

“The State of Housing 2023”

February 9, 2023

Introduction

Chairman Brown, Ranking Member Scott, I am pleased to appear before you today on behalf of the National Association of Home Builders (NAHB) to share our views on the state of housing and the barriers our industry faces to increase the production of quality, affordable housing. My name is Robert Dietz, and I am the Chief Economist and Senior Vice President for Economics and Housing Policy for NAHB.

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 construct approximately 80% of all new housing in the United States each year.

The primary and persistent challenge of the housing market in 2023 is a lack of attainable, affordable housing in the single-family and multifamily markets, both for-rent and for-sale. The fundamental cause of this housing challenge is a lack of construction during the decade prior to the coronavirus pandemic that began in 2020.

The causes of this underbuilding are multifaced and complex. These supply-side headwinds, which I have denoted as the 5 L's (labor, lots, lumber/materials, lending for development/construction, and legal/regulatory barriers) limited the amount of housing placed in service, producing declines for housing affordability. The brief and now completed housing boom of 2020 and 2021 illustrated these limits as housing construction increased due to historically low interest rates, but prices for lumber skyrocketed, lot supplies dwindled, and the skilled labor shortage intensified.

Despite the increase in construction during the post-pandemic period, a structural deficit of housing persists. Recent NAHB research places this deficit at 1.5 million residences using 2021 data[1]. This structural deficit is a mismatch between the size of the population in the U.S. and the available housing stock, which is determined by the volume of residential construction. Solving the fundamental challenges of the home building sector – primarily the lack of attainable, affordable housing in both the single-family and multifamily markets -- will be a significant undertaking, requiring policy action at all levels of government. NAHB's research finds that there is no simple, scalable solution that will provide the supply necessary to eliminate this deficit and improve overall housing affordability conditions. Productive action will need to be taken to address all the limiting factors on the often neglected supply-side of the industry.

Congress Can Ease the Nation's Housing Affordability Crisis

Improving housing affordability for renters and home buyers will help to fight inflation. With this goal in mind, Congress should pass legislation that will help the home building industry increase much needed housing supply. The lack of skilled labor, the high cost of building materials, challenging access to affordable construction financing, burdensome federal regulations, and local land use policies that restrict home and apartment construction are the main drivers of low housing supply and high housing costs. Passing legislation to alleviate these supply-side bottlenecks would increase home construction, expand housing inventory, and lower inflation. If action on these issues is delayed however, housing costs, which are roughly 40% of the Consumer Price Index, will continue to be persistent drivers of inflation, as well remain as a burden on American families.

[1] https://eyeonhousing.org/2022/12/the-size-of-the-housing-shortage-2021-data

Housing Affordability Is a Major NAHB Priority

Safe, decent, and affordable housing provides fundamental benefits that are essential to the well-being of families, communities, and the nation. For these reasons, housing affordability is NAHB's top advocacy issue. NAHB has called on Congress and the Administration to make housing affordability a national policy priority. Likewise, federal, state, and local officials should work in partnership with the private sector to help hard-working Americans purchase or rent affordable homes. Through these actions, we will also create jobs and move the economy forward.

NAHB's research shows that housing affordability in the single-family market is at its lowest level since NAHB began tracking it on a consistent basis in 2012 as rising mortgage rates, ongoing building material supply chain disruptions, high inflation and elevated home prices pushed the housing market into a recession. According to the NAHB/Wells Fargo Housing Opportunity Index (HOI), just 38.1% of new and existing homes sold between the beginning of October and end of December 2022 were affordable to families earning the U.S. median income of $90,000[2].

Owning or renting a suitable home is increasingly out of financial reach for many households. According to Harvard's Joint Center for Housing Studies, in 2020, the nationwide share of cost-burdened households paying more than 30% of their incomes for housing stood at 30%. Moreover, 14% of all households were severely burdened and spent more than half their incomes for shelter[3].

As a nation, we can and must do better. American home buyers and renters at all socioeconomic levels should have a choice in securing safe, decent, and affordable housing in quality neighborhoods. Low -and moderate-income families, including members of the armed forces, teachers and first responders, should be able to afford to live in a home or apartment in the communities they serve. NAHB strongly believes that increasing the inventory of new single-family and multifamily housing is a key to improving housing affordability. Builders simply have not been able to construct the necessary number of units to balance the supply and demand for affordable housing.

Factors that Affect Housing Affordability

Ongoing job creation and solid household formations are driving strong demand for housing. Unfortunately, rising costs are constraining builders' ability to construct new homes and apartments at affordable prices to meet the demand. NAHB believes that an insufficient supply of housing is at the root of much of the affordability crisis.

Several supply-side factors account for the increased building costs and insufficient supply of new housing, such as regulations, availability of buildable lots, lack of skilled labor, cost of building materials and financing expenses. These costs are having a direct negative effect on housing affordability. NAHB's "Priced Out" Estimates for 2022 show that 117,932 households would be priced out of the housing market if the median U.S. new home price rises by $1,000.[4]

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[2] https://www.nahb.org/news-and-economics/press-releases/2022/11/housing-affordability-falls-to-more-than-10-year-low-as-rising-interest-rates-take-a-toll

[3] https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_State_Nations_Housing_2022.pdf

[4] https://www.nahb.org/-/media/05E9E223D0514B56B56F798CAA9EBB34.ashx

As a benchmark, 87.5 million households (roughly 69% of all U.S. households) are not able to afford a new median priced new home. Similarly, an analysis using 2018 data found that a $1,000 increase in the cost of building a new rental unit will price out almost 20,000 renters for that apartment;[5] the household would be rent-burdened after the rent increase, but not before.

In order for developers who plan to build new single-family homes or apartments to move ahead with a project, they must be sure that there is demand for new housing in the local market area and that they can build homes buyers or renters can afford. A developer must demonstrate that these factors can be achieved in order to obtain financing.

Additionally, multifamily developers cannot secure financing unless they can demonstrate to lenders that the rents will be sufficient to cover costs and pay off the loans. The builder/developer needs the mortgage to construct the property, and the loan underwriting requires rents that produce enough revenue to pay the mortgage. If the builder/developer cannot charge the rents that are necessary to pay back their construction loans, cover costs and ensure the properties are financially sustainable over the long term, the deal is infeasible, and it simply will not be done. This dynamic explains why the majority of new multifamily construction over the past several years has been limited to luxury properties in strong markets.[6]

The single-family market presents similar challenges to building for low- to moderate-income home buyers. Construction costs are high, and interest rates are increasing, which leaves many low- and moderate-income buyers on the sidelines, unable to afford new homes. If the builder cannot sell the new homes at the projected price points, he or she faces considerable financial losses.

I cannot stress enough that the shortage of new housing units affordable to low- and moderate-income families reflects market realities, not a lack of interest in serving low- to moderate-income renters and home buyers. Builders and developers would be glad to serve families at all income levels if they could simply make the numbers work.

Unfortunately, it is impossible to build new apartments affordable to low-income families without some type of government assistance to increase equity, such as the Low-Income Housing Tax Credit, financing via the tax-exempt bond programs or deep rental subsidies.

Historic Background – How Did We Get Here?

Home building in the 2010s was a story of the Long Recovery. After the Great Recession, the number of home builders declined significantly and the availability of financing for acquisition, development and construction (AD&C) activities was severely constrained. These factors significantly limited the production of new housing at a time when housing demand was increasing. This underproduction of new homes caused a structural housing deficit in the U.S., which NAHB estimates to be 1.5 million residences. This deficit of housing in the United States continues to exist because of persistent supply-side headwinds for builders, creating a critical housing affordability challenge for renters and home buyers.

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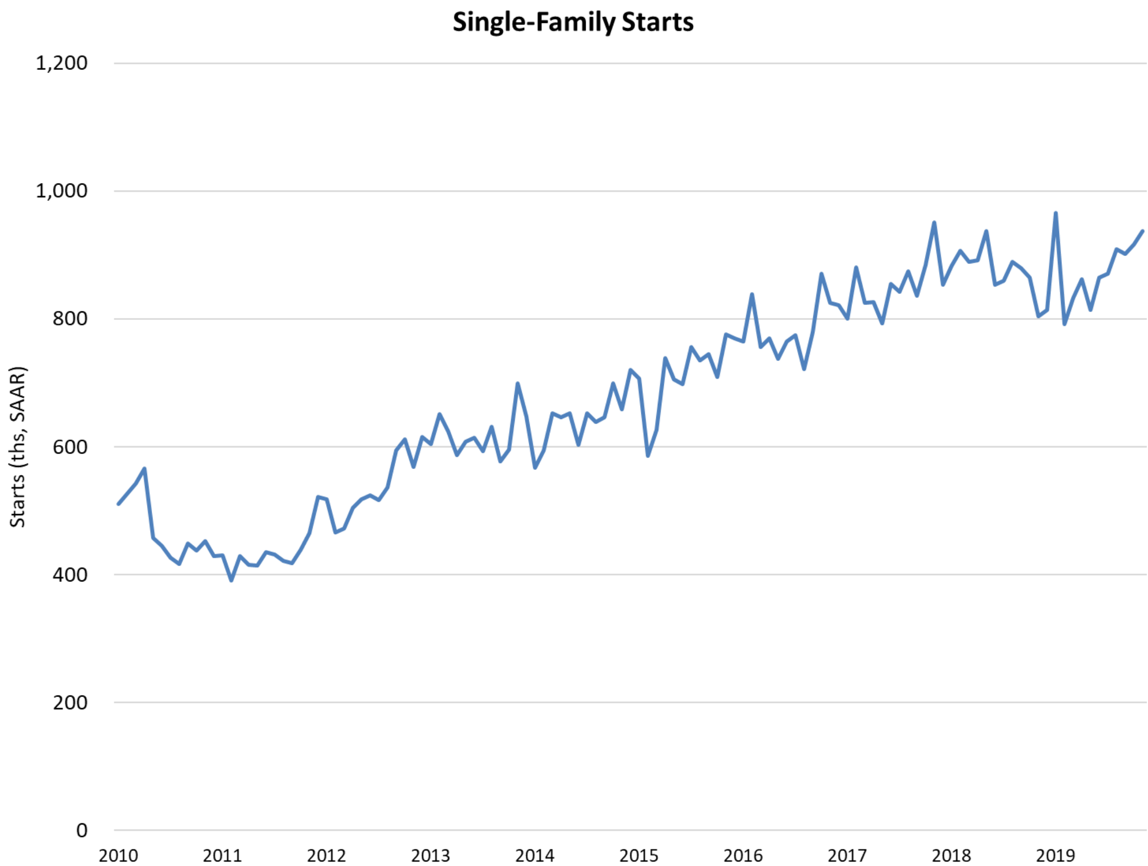
[5] Based on the 2018 median rent of $2,189, a $1000 increase in the cost of building a new apartment unit would price out 19,617 renters.

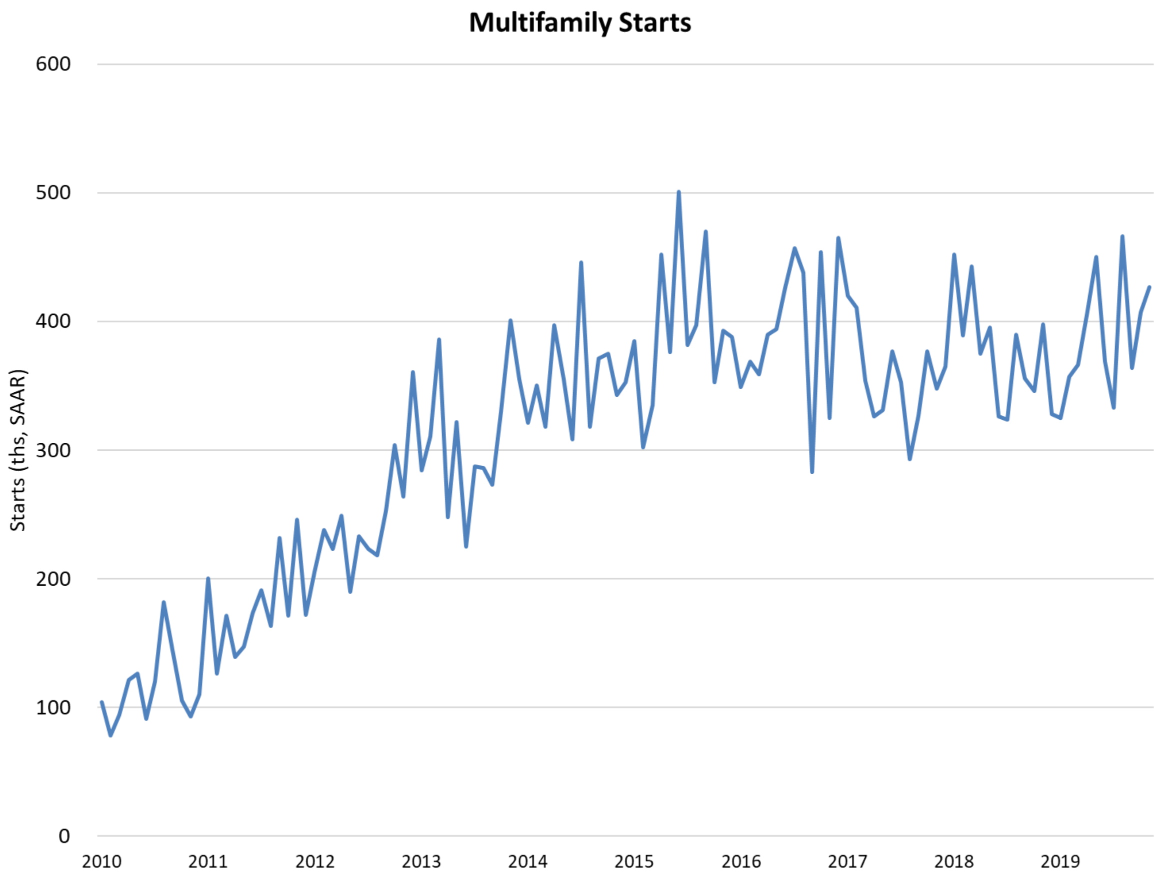
[6] Only 6% of the unfurnished apartments completed in 2017 has asking rents under $850 per month. U.S. Census Bureau, Characteristics of Apartments.

The Housing Market Conditions of 2010-2019

Between 2010 and the end of 2019, there were 6.8 million single-family housing starts. That total included 1.53 million custom home building starts; 827,000 townhouses starts (single-family attached); and 300,000 single-family built-for-rent (SFBFR) starts. More than half (54%) of single-family starts occurred in the South region, and nearly a quarter (23%) were in the West. The Midwest and Northeast regions accounted for 15% and 8% of starts, respectively. Overall, single-family starts grew modestly over that period of time. That expansion was curbed by occasional soft patches, the first occurring in mid-2010 with the cessation of the stimulus era home buyer tax credit.



Multifamily starts during the 2010s totaled 3.1 million. Most (2.98 million) were built in properties of five or more units, while just 123,000 were in 2- to 4-unit buildings. Only 7% (229,000) were built-for-sale condos, compared to a historical average share of 20%. The overall multifamily building sector peaked in 2015 and then leveled off in succeeding years.



Remodeling activity expanded in the 2010s, though it slowed in 2019 with the declines in existing home sales. Approximately 150 million home remodeling projects occurred during the decade. Total spending on improvements made by remodelers to existing, owner-occupied homes eclipsed $1.5 trillion.

The home building declines of the Great Recession had a large impact on the industry's labor force. The sector suffered a net loss of 1.5 million jobs between 2005 and 2010. After reaching a low point in 2011, employment in the industry slowly increased with nearly 940,000 net jobs by the end of 2019, further illustrating what the housing industry means to the U.S. economy.

In terms of overall economic impact, the home building component of Gross Domestic Product, residential fixed investment (RFI), totaled 3% of GDP over the last decade. This share accounted for approximately $5 trillion of economic activity from 2010 through the end of 2019. There was a significant amount of underbuilding during 2010-2019 compared to prior decades. Consider the following decade-based totals for single-family home construction:

1960s: 9.3 million starts

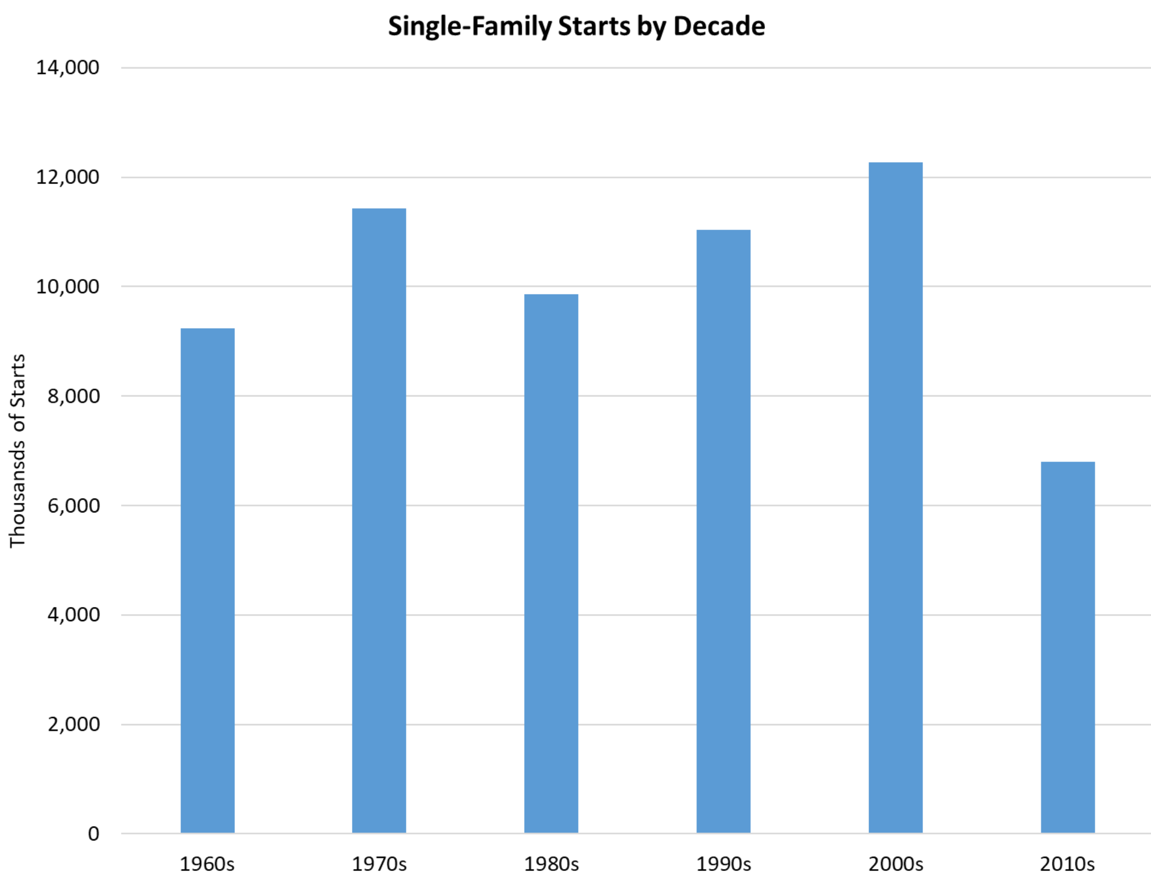
1970s: 11.4 million starts

1980s: 9.9 million starts

1990s: 11.0 million starts

2000s: 12.3 million starts

2010s: 6.8 million starts



The reduced amount of single-family home construction over the last decade is even more striking when considering the U.S. population has continued to increase over time. For example, here are the production numbers as measured in terms of starts per million population (averaged over the decade).

1960s: 47,997 starts

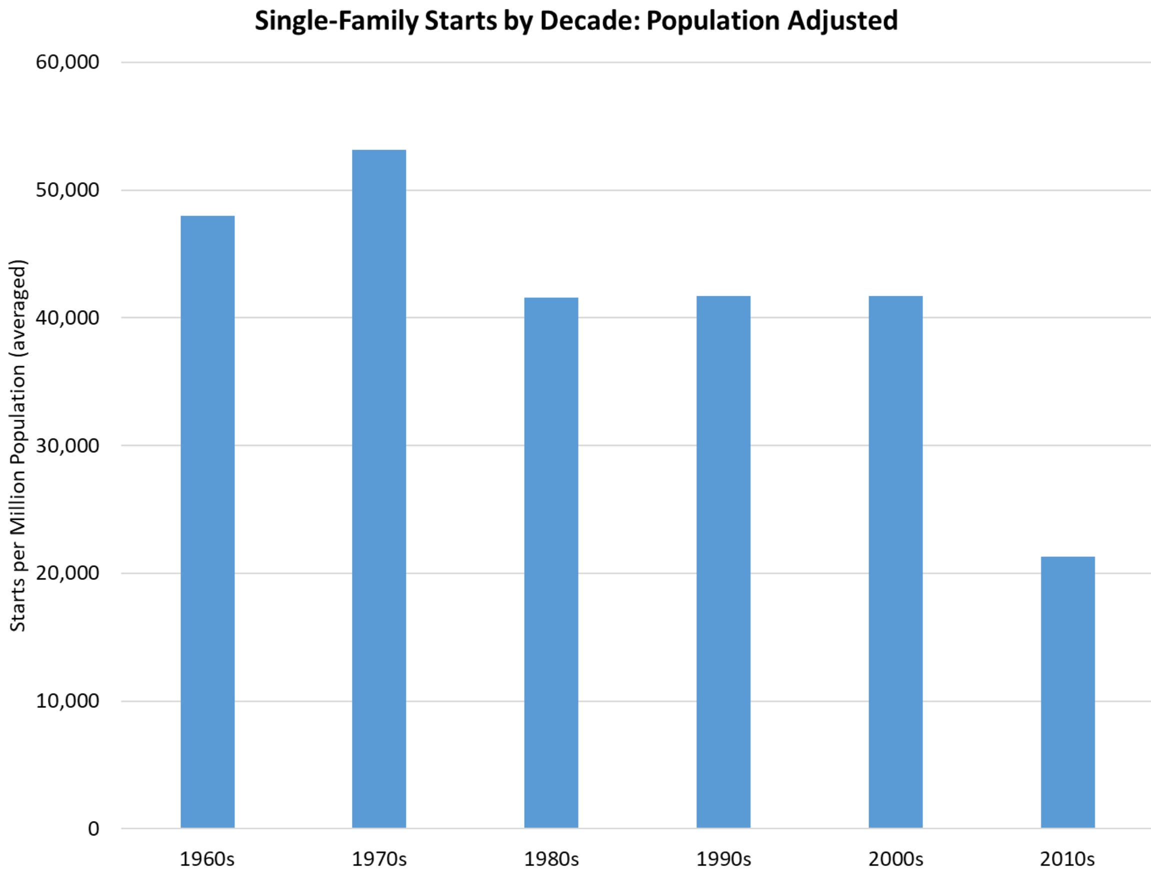
1970s: 53,138 starts

1980s: 41,588 starts

1990s: 41,710 starts

2000s: 41,671 starts

2010s: 21,288 starts



After a downshift following the Baby Boomer induced single-family home construction wave of the 1970s, the population-adjusted pace of single-family construction was remarkably constant, despite year-to-year ebbs and flows. In fact, over the period of 1980 through the end of the 2000s, single-family construction averaged just higher than 41,000 starts per million of population. The 2010s stand out as the exception to this general benchmark, with single-family construction operating near 50% of this pace following the demand-side and supply-side impacts of the Great Recession.

Why Were the 2010s Different?

It is tempting to attribute the relative construction weakness over the last decade to purely demand-side variables, namely the residual uncertainty caused by the Great Recession and a falloff in demand due to the smaller size of Generation X. Clearly, reduced demand compared to decades past had an important role in holding back home building, particularly in the first half of the decade, but this occurred during a period of rapid price growth. The low levels of production also occurred with falling vacancy rates, declining housing affordability, and rising building costs. These supply-side headwinds held back home construction in the 2010s and resulted in a net housing deficit for the U.S.

Consider population growth over the last decade. The U.S population expanded by more than 20 million during the 2010s. While this represents a slower rate of growth than that of the 2000s (with a gain of more than 24 million), this increase still marks a solid level of demand for new home construction with a gain of approximately 10 million households.

End of Homeownership Declines

Despite the country's ever-growing population, the momentum for housing demand was primarily within the rental market during the first half of the decade. The homeownership rate fell from 67.1% at the start of the decade to a post-recession low of 62.9% during the second quarter of 2016. As a result of this demand environment, multifamily construction was the first sector of the industry to recover to relatively normal conditions, which were achieved in construction terms by 2015.

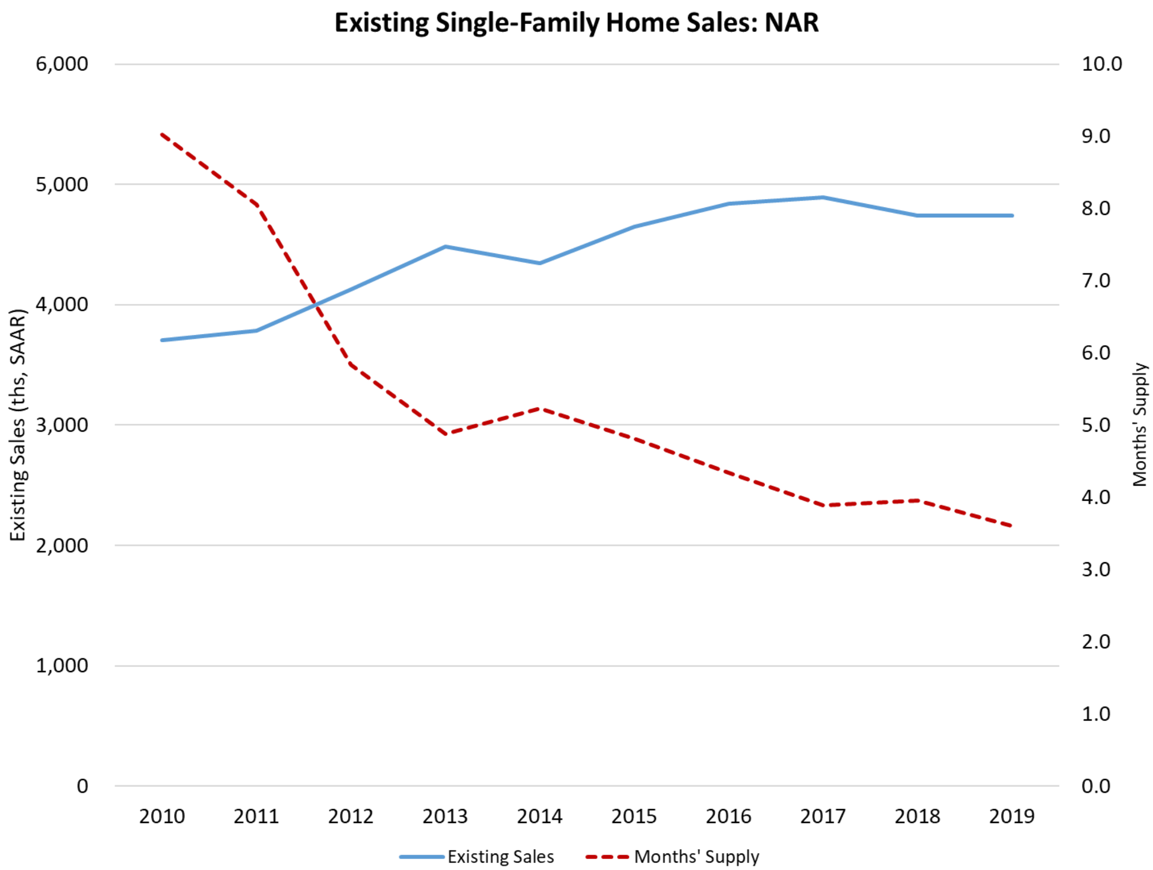
During the second half of the decade, the homeownership rate rebounded to 64.8% by the third quarter of 2019. This is higher than many expected, as some analysts had forecasted the rate slipping below 60% due to national demographic changes and faltering demand for for-sale housing due to the Great Recession. However, NAHB consumer preference surveys from earlier in the decade showed homeownership had remained a goal for most households.

Interest Rates Impacts on Affordability

While the general preference for homeownership remains solid, the impact of housing cost is key. And the cost of buying a home depends on a number of factors, including interest rates. For much of the past decade, accommodative monetary policy supported low mortgage interest rates. For example, from late 2008 until late 2015, the Federal Reserve held the key federal funds rate near 0%. From 2012 until the passage of the tax reform law of 2017, mortgage rates remained near 4%. A notable rise in rates, which caused a soft patch for housing, occurred with the "taper tantrum" of 2013, as rates increased due to the announcement by the Federal Reserve that it would reduce the scale of bond purchases as a part of ending Quantitative Easing. The negative bond market reaction was a sign that financial markets were sensitive to monetary policy changes, an outcome that would repeat again in 2018 and foreshadow the large negative impacts for housing affordability in 2022.

Years of population and household formation growth, combined with relatively reduced levels of home building, have left the market with a critical supply shortage. As estimated by the National Association of Realtors (NAR), existing home sales growth has lagged while inventory declined. In fact, as of December 2022, inventory now stands at a still critically low 2.9-month supply, where a 6-month supply would represent a balanced market (although there are good arguments that the 6-month benchmark is somewhat too high in today's marketplace).

The following graph notes how the NAR measure of months' supply inventory plunged during the prior decade as home construction lagged. This set the market up for substantial scarcity when interest rates declined after the initial weeks of the COVID-19 pandemic, leading to a surge in home prices.

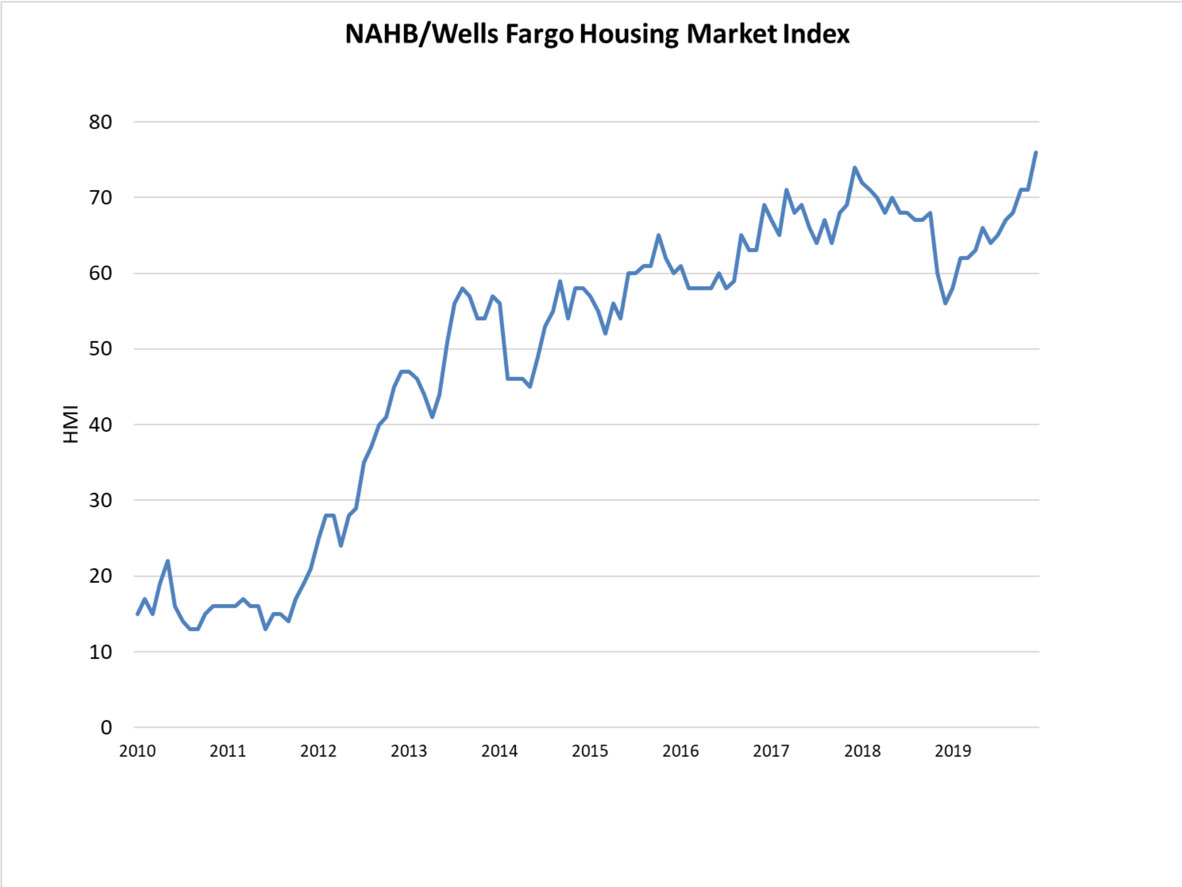


Builder Optimism

Low resale inventory and generally healthy economic conditions — including the longest economic expansion in American history — lifted builder sentiment during the prior decade. At the start of the decade, builder confidence, as measured by the NAHB/Wells Fargo Housing Market Index (HMI), was just 15 on a 100-point scale (any score below 50 indicates the majority of builders are reporting poor market conditions). Confidence increased to 25 at the start of 2012, as the post-stimulus era recovery for home building began.

By June of 2013, the HMI finally exceeded a level of 50, the first time since the Great Recession. In 2014, the HMI briefly fell below 50, as a result of the taper tantrum and housing soft patch of 2013-2014. After that slight decline, the HMI trended higher due to lack of market supply and declining interest rates. The HMI reached a level of 72 at the start of 2018.

As noted earlier, a challenging period occurred in late 2018, prior to the stock market declines at the end of the year, as the HMI fell from 69 in October to 56 in December. This was a clear sign that the Federal Reserve policy of higher rates, and the corresponding rising risk of a recession, was a concern for the building industry. But over the course of 2019, the HMI increased on lower rates, reduced macro concerns, and positive labor market conditions. In December, the index reached a level of 76, the highest reading since the summer of 1999. The industry was confident, but that level of sentiment did not translate into substantial increases for home construction.



Matters of Supply and Demand

The paradox of declining inventory, rising home prices, and underperforming single-family construction has been the most important home building research focus of the last decade. Traditional demand-side housing analyses are insufficient to explain these market conditions. The lack of building is rooted in a set of supply-side headwinds that limit home construction in expanding markets.

Since 2015, NAHB's explanation and forecasts have referred to this complex set of limiting factors as the five Ls: lack of labor, lots/land, lumber/materials, lending for builders, and laws/regulatory burdens. No single factor alone can sufficiently explain the housing supply equation of the last decade. And to a certain degree, the challenges offered by this set of issues are rooted in consequences of the Great Recession on the structure, organization, and enforced policies on the housing industry in the 2010s. Some details on each are useful for understanding the challenges of the 2010s.

Labor —Residential construction faces a persistent labor shortage, which has resulted in higher costs and longer construction times. The effort to replace the 1.5 million workers lost during the Great Recession has been difficult. In fact, the skilled labor shortage has been cited as either the No. 1 or No. 2 business-related challenge for builders stretching back to 2015.

As hiring has progressed and many organizations in the housing sector have enacted programs to recruit, train and retain workers in the home building and remodeling sectors, the pace of those efforts has not kept up with demand. As of the end of 2022, there were 413,000 open jobs in the construction sector. And for the last six years, the open jobs rate has been higher than the peak rate during the building boom of the last decade— a clear sign of the ongoing labor shortage in home building.[7]

Land — Access to land and lots for building has also limited aggregate building volume since 2012. As of the Fall of 2021, almost eight out of ten home builders indicated that lot supplies were low or very low[8]. Low lot supplies are due to a reduced number of land development companies, as well as tighter rules regarding zoning for housing and land development.

Lumber and materials — Lumber price volatility and access and cost of other building materials have also acted as a headwind for home construction. For example, in 2018 lumber prices expanded by 63% at their peak, adding thousands of dollars to the cost of a typical newly built home. And of course, all housing analysts are aware of what happened to lumber prices after the pandemic resulted in a surge of housing demand, increasing from roughly $350 per thousand board feet to more than $1,500, adding tens of thousands of dollars of cost to the price of a typical home[9].

Lending — Access to builder and developer financing is also a key ingredient for housing supply. Discussions of housing and lending are often exclusively focused on mortgage financing, but a buyer cannot buy a home before financing is ready for construction. Typically, small and regional builders rely on debt financing from banks. Such acquisition, development and construction (AD&C) lending was improving but tight in the 2010s[10].

Laws and regulations — Finally, regulatory burdens increased during the 2010s. NAHB analysis finds that approximately 24% of the price of a typical newly-built single-family home is due to the broad set of regulatory burdens imposed by state, local and federal governments[11]. Moreover, between 2011 and 2016, such costs increased by 29%, faster than inflation and economic growth. Such burdens are high for apartment construction as well, as an updated joint study by NAHB and the National Multifamily Housing Council found that up to 41% of apartment costs are due to regulatory costs[12].

A Perfect Storm

The prior decade legacy of what Federal Reserve Chair Jerome Powell referred to as a “perfect storm” for home builders in terms of the supply-side headwinds and the impacts of the Great Recession have resulted in years of underbuilding, declines for vacancy rates, and increasing housing affordability burdens.

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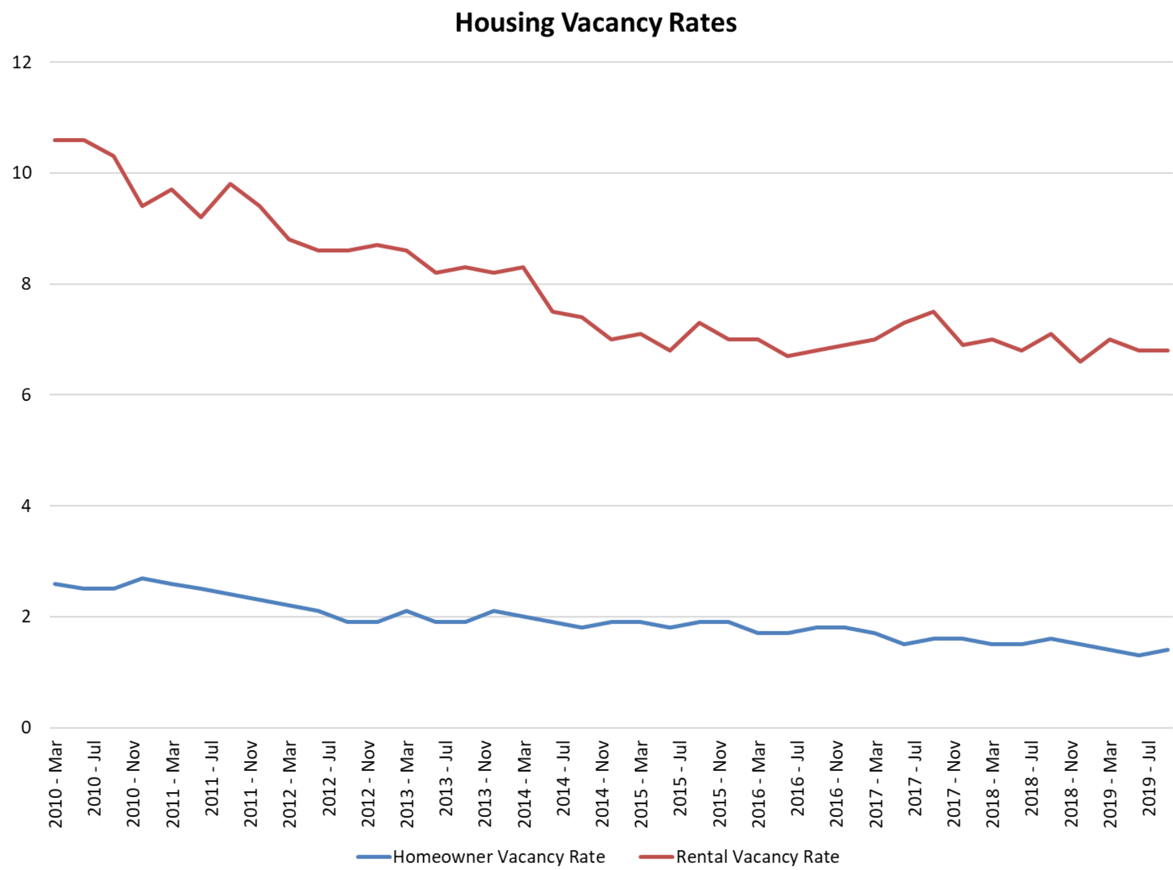
[7] https://eyeonhousing.org/2023/02/uptick-for-construction-job-openings-in-december/
[8] https://eyeonhousing.org/2021/10/problems-with-lot-availability-worse-than-ever/
[9] https://eyeonhousing.org/2022/02/lumber-prices-in-2020-and-2021-set-record-highs-even-when-adjusted-for-inflation/
[10] https://eyeonhousing.org/2022/11/credit-conditions-for-builders-and-developers-continue-to-worsen/
[11] https://eyeonhousing.org/2021/05/regulation-now-accounts-for-93870-of-the-average-new-home-price/
[12] 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



For example, the vacancy rate for for-sale housing at the start of 2010 was 2.6% per Census data, and ended the decade near 1.4%. The decline was even larger for rental properties, which started the decade with a 12.2% vacancy rate and ultimately declined to 6.8% by the end of 2019.

These declines point to the degree of underbuilding of housing for the U.S. in the 2010s. A 2023 NAHB analysis found that the country is short 1.5 million total homes due to building conditions over the last decade. Other estimates are larger. Freddie Mac places the total close to 4 million.

Lack of supply increased affordability challenges over the 2010s. According to the NAHB/Wells Fargo Housing Opportunity Index (HOI) approximately 79% of new and existing home sales were affordable for the typical family in 2012 (the start of the new HOI benchmarking). As of the third quarter 2019, that share had fallen to 64%. When interest rates were higher in late 2018, the HOI was near a decade low at 57%.

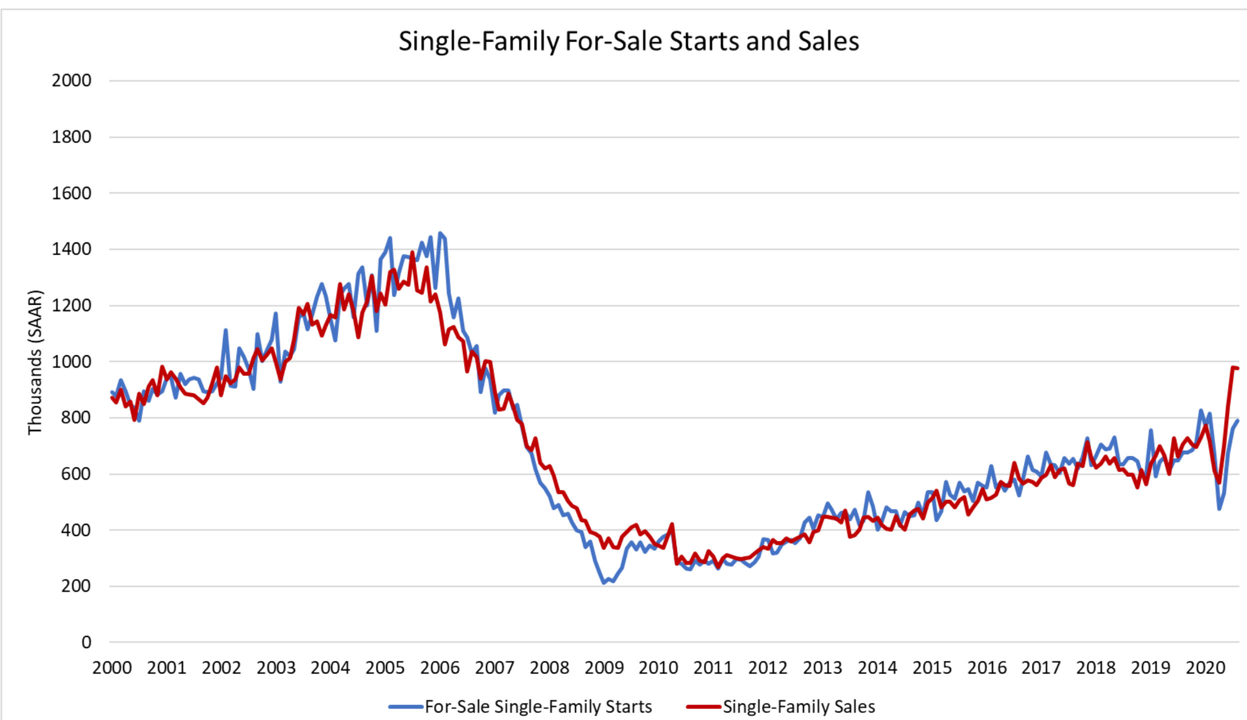
The Impact of Covid – Home Building Dynamics Since 2020

Given the underbuilding of the 2010s, home building looked forward to a dynamic decade in 2020s. Despite an increasing amount of attention given to Millennials, it was expected that about half of newly-built homes will be built for members of the generally overlooked Gen X (the latchkey kids become turnkey construction buyers). And Gen Z would enter apartment markets in greater numbers as this younger generation produces new households. Policy was expected to play a critical role. From supporting and expanding the LIHTC, to improving access to affordable rental housing, as well as improving land use and zoning decisions to increase housing supply, and offering additional workforce development resources, housing issues are at the forefront of community development.

No one expected what happened next. But the root causes of the last three years for housing were set in place by the housing market conditions of the 2010s. As a result of the covid pandemic, economic policy and consumer preferences shifted. Mortgage interest rates plummeted, falling to a historic low of 2.65% in January 2021. Prospective home buyers, who in larger numbers were working from home at least a few days a week, wanted more space and, due to changes in commuting patterns, were willing to seek out housing farther from urban cores.

Consequently, after a sharp decline in the spring of 2020 due to covid-era uncertainty, home building staged a dramatic rebound. In fact, supported by low mortgage rates, an evolving geography of housing preferences, and favorable demographic tailwinds, housing demand improved so quickly that the current difference between the pace of newly-built single-family home sales and for-sale single-family construction starts has reached a historic level, with sales outrunning the ability to build the homes. This change in demand confirmed the structural, supply-side limitations impeding housing supply.

Nonetheless, housing supply increased in response to the new era of demand. After reaching 682,000 in 2019, new home sales jumped to 821,000 in 2020 and remained strong at 771,000 in 2021. Sales fell back in 2022 to 645,000 due to declining affordability conditions. Single-family construction starts struggled to keep pace. Single-family starts totaled 888,000 in 2019, the best year since the Great Recession. Construction starts increased to 991,000 in 2020. Note that sales in 2020 increased by 20%, while starts lagged with a gain of just 12%. More building was needed to align starts and sales. In 2021, single-family construction starts increased to 1.13 million. And then, with the impact of higher interest rates, starts fell back to approximately 1 million. An additional decline is expected this year as sales have fallen in 2022.



And the geography of the demand has shifted multiple times over this period. First to lower density markets, such as exurbs, outer suburbs, and rural areas in the immediate aftermath of the pandemic. Then demand shifted back into the inner suburbs as metro areas reopened. And now back out to lower cost, lower density areas as higher mortgage rates (reaching 7.1% in October 2022) priced buyers out of the market. In fact, NAHB estimates that the increase in interest rates in 2022 priced 18 million households out of the for-sale market[13].

Using the NAHB Home Building Geography Index, we can estimate the share of single-family and multifamily construction that occurs by economic geographies (as opposed to state or metro totals). For example, large metropolitan statistical areas (MSA) (more than one million residents) core areas and inner suburbs hold 16.3% of single-family construction and 38.4% of multifamily construction in the third quarter of 2022. Suburbs of large MSAs host 25% of single-family construction and 27.6% of apartment construction. Exurbs of large MSAs hold 9.5% of single-family home building and just 3.6% of apartment construction. Medium-sized cities (MSAs with less than one million of population) contain 38.2% of single-family construction and 26.7% of multifamily construction. And rural areas have 11% of single-family home building and 3.6% of apartment construction.

Multifamily construction increased as well, as household formation jumped during the post-pandemic period. Apartment construction totaled 402,000 in 2019 and fell back in 2020 due to construction delays and the shifting of the geography of demand, to 389,000. Following the increase in single-family construction, multifamily development increased as well, rising to 474,000 in 2021 and 545,000 in 2022. This was the strongest year since 1986. Moreover, the apartment construction pipeline has surged. As of December 2022, there are 943,000 apartment units under construction, the highest total since 1973. As a result, NAHB is expecting apartment construction starts declines in 2023.

Due to this surge in construction activity, the supply-side challenges were revealed. Lumber prices surged. Reports of delays and higher costs of building materials increased, extending construction times. Residential construction material costs increased 36% since the start of 2020. Concerns over low supply of building lots also increased. As a result of these higher construction costs, median new home prices increased from $328,900 in January 2020 to $442,100 in December 2022.

Higher costs, higher prices, higher interest rates and longer construction times all priced out home buyers and cooled the market in 2022. Home builder confidence, as measured by the NAHB/Wells Fargo HMI, fell 12 straight months in a row, settling in at a low level of 31 in December 2022. Due to a recent retreat for long-term interest rates, the HMI increased for the first time in a year in January 2023, rising to 35. There is a sense that builders are expecting a rebound later in 2023, provided supply-side factors ease as well. Nonetheless, additional construction declines are expected for the coming quarter. Multifamily construction will cool due to expected job losses and a wave of apartment completions out of the construction pipeline.

A rebound for single-family construction is coming later in 2023. It will be driven by a sustainable fall back for mortgage rates and the underlying structural housing deficit. Yet, the strength of that recovery will depend on housing affordability conditions for buyers and renters. Watching the homeownership rate will be a key measure of how affordability conditions have changed since 2020. The rate stands at 65.9% at the start of 2023. NAHB expects the rate to decline given the weakening of housing demand in the second half of 2022. Particular attention should

[13] https://eyeonhousing.org/2023/01/how-many-households-are-priced-out-by-higher-mortgage-rates-in-2022

be paid to communities and groups that have lacked access to homeownership in the past. For example, the black homeownership for the fourth quarter of 2022 was 44.9% and for Hispanics 48.5%.

Increasing attainable housing for-sale supply is a key way to address these unequal outcomes. And it is important to recall that homeownership offers critical benefits for communities and families. Homeowners are more active in social and civic activities. And homeowners have, on average, 40 times the wealth of a renter ($255,000 vs. $6,300 in 2019 per the Federal Reserve's 2019 Survey of Consumer Finances). It has become more difficult for younger households to attain homeownership, due in part to the difficulty building entry-level construction. For example, in the year 2000, the homeownership rate for heads of households under age 35 was 41%. By the year 2017, it had fallen to just 35%, before rebounding to 38% in 2021 per Census Bureau estimates.

What's Missing?

Much attention has been given to the missing middle, a useful if somewhat incomplete concept. While the market could certainly use more townhouses and low-rise apartments, the overall housing market is starved for the homes that became the hardest to build in the 2010s due to supply-side headwinds: entry-level, single-family detached homes.

In 2010, 59% of new single-family homes were smaller than 2,400 square feet, per Census data. By 2018, that share declined to 51%. The numbers are starker at smaller sizes. In 2010, 32% of new homes were smaller than 1,800 square feet. That share fell to just 24% by 2021, the latest year for which there is data.

Identifying Solutions to Improve Affordability

Part of the process of the Long Recovery is rebuilding the industry's infrastructure: its labor force and reliable sources of lending and building materials. Policy improvement is needed at all levels of government. Congress can improve housing affordability conditions by passing legislation that will help the home building industry increase much-needed housing supply in this country. Federal and state regulations should be examined for their impact on housing affordability. Communities need to reduce the cost of producing new housing by fighting impact fee increases and enabling building with density where the market demands it. These actions will allow more construction of housing affordable to entry level home buyers and create more equitable housing market.

Conclusion

Whether they rent or own, Americans want to choose where they live and the type of home that best meets their needs. Thank you, Chairman Brown and Ranking Member Scott for convening this important hearing on the state of housing and the barriers our industry is facing to build quality, affordable housing. NAHB stands ready to work with you to achieve thoughtful, effective policies to expand the availability of affordable housing.