**Testimony of Buddy Hughes**

**On Behalf of the**

**National Association of Home Builders**

**Before the**

**House Financial Services Committee**

**Subcommittee on Housing and Insurance**

**Hearing on**

**"Building Our Future: Increasing Housing Supply in America"**

**March 4, 2025**

***Introduction***

Chairman Flood, Ranking Member Cleaver, and members of the Subcommittee, I appreciate the opportunity to appear before you today on behalf of the National Association of Home Builders (NAHB) to share our views on how we can increase supply to make housing more attainable for homebuyers and renters. My name is Buddy Hughes, and I am a home builder and developer based in Lexington, North Carolina, with over 45 years of experience in the industry. I serve as NAHB's Chairman of the Board of Directors.

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.

Regrettably, the overarching theme of our nation's housing landscape is a deep undersupply of units—both in the single-family and multifamily markets. Our research finds that there is a 1.5-million-unit shortage across the United States.[1] This housing deficit is fueling unattainable home prices and pushing Americans away from homeownership. To illustrate this, our "Priced-Out" survey finds that nearly **77% of U.S. households are unable to afford a median priced new home.** Even incremental price increases have impactful consequences. The study further underscores that for every $1,000 increase in the median price of a new home, an additional 106,031 households are priced out of the market.[2]

Let's step back and look at the big picture: it is exceedingly costly to build housing, which limits supply, and pushes prices higher. The headwinds driving housing costs upward can be attributed to five key factors known as the "5 Ls"— lending, lots, labor, lumber (materials), and laws (regulations). Each one of these contributes to rising costs and ultimately limits the supply of new housing—making homeownership and rental housing more expensive. The sections below will break down each of the "5 Ls" and provide supporting economic data to further illustrate the headwinds home builders are experiencing.

***The "5 Ls"***

## 1. Lending (Financing)

Access to financing is a critical factor that affects both home builders and buyers. Most NAHB members are small businesses that rely on community banks to finance their home building and development activities. NAHB would like to thank full-committee Chairman Hill for his efforts to look at banking regulations that are a compliance burden on community banks and hinder their ability to meet the financing needs of small home building and development companies.

For private builders, the availability of construction loans and development financing plays a crucial role in determining how many new homes can be built. Tight lending conditions and higher interest rates discourage new construction. On the demand side, rising mortgage rates and stricter lending standards make it harder for buyers to afford homes.

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[1] The Size of the Housing Shortage: 2021 Data: https://eyeonhousing.org/2022/12/the-size-of-the-housing-shortage-2021-data/

[2] Na Zhao, Nearly 77% of U.S. Households Cannot Afford a Median-Priced New Home, https://www.nahb.org/-/media/NAHB/news-and-economics/docs/housing-economics-plus/special-studies/2024/special-study-households-cannot-afford-a-median-priced-new-home-april-2024.pdf?rev=cb6f4f7d507341cb9ece97b90b6709c3.

If financing remains difficult to secure, both supply and demand suffer, worsening the housing shortage. Home builders depend on several federal programs administered by federal agencies to help them supply new homes and apartments and build communities. Likewise, home buyers use an array of federal financing sources for their home purchase. While the following list is not exhaustive, it represents the most widely used and influential programs for NAHB members and the modest-income Americans they serve:

- Tax programs, such as the Low-Income Housing Tax Credit (LIHTC).
- FHA Mortgage Loan Insurance for single-family and multifamily housing.
- HUD's HOME Investment Partnerships (HOME) and Community Development Block Grant (CDBG) programs.
- HUD Rental Assistance, primarily Section 8 Project Based Rental Assistance (PBRA) and the Housing Choice Voucher (HCV) programs.
- USDA Rural Housing Service single-family and multifamily programs.
- Veterans Affairs (VA) Home Loan Program.

Each of these programs serves an important purpose and constituency—they are not interchangeable but are complementary. Different strategies are necessary to meet the housing needs of households with different income levels in different parts of the country. The toolkit of federal government programs that have been developed over the years in response to identified needs is essential to ensure that there are affordable options for providing housing across the country. In addition, conventional financing through Fannie Mae and Freddie Mac plays a critical role for the purchase of newly constructed homes and multifamily properties.

To ensure that home builders can continue using these resources to house low-to-moderate-income families, NAHB urges Congress and the Administration to:

- Improve the implementation and operation of these federal programs to make them more efficient and effective and to reduce regulatory burdens on housing providers.
- Provide full funding for all HUD and USDA rental assistance contracts.
- Provide robust funding in the amount of $1.5 billion in FY 2026 for HUD's HOME program, which is the largest federal block grant used exclusively for housing purposes.
- Provide strong budgets for the USDA homeownership direct loan programs and multifamily housing programs.
- Ensure borrowers continue to have access to USDA-insured and FHA-insured single-family and multifamily loans and VA homeownership programs.

*The Role of the Low-Income Housing Tax Credit in the Rental Market*

The housing affordability crisis cannot be solved without increasing rental housing supply. Nearly half of renters are cost-burdened, spending over 30% of their income on housing.[3] **Providing affordable rental housing for lower-income households is financially impossible without subsidies**, and the Low-Income Housing Tax Credit (LIHTC) is the most effective tool available.

[3] U.S. Census: Nearly Half of Renter Households Are Cost-Burdened, Proportions Differ by Race, https://www.census.gov/newsroom/press-releases/2024/renter-households-cost-burdened-race.html

Created in 1986, LIHTC has financed approximately 4 million affordable apartments, ensuring long-term rent stability. However, demand far exceeds the availability of credits. The program offers two credits: a 9% credit covering 70% of development costs and a 4% credit covering 30%, requiring developers to secure additional financing through HUD loans and programs like HOME and CDBG.

LIHTC operates as a public-private partnership**,** shifting financial risk to builders and investors rather than taxpayers. Investors cannot claim credits until after project completion, and if a project fails, the IRS can reclaim the credits. This ensures accountability and quality development.

A key strength of LIHTC is state-level flexibility in awarding credits to address local needs, such as housing for seniors, veterans, or the homeless. Despite this, demand for affordable housing still outpaces supply. LIHTC properties outperform the broader multifamily market in financial stability, with a 0.50% foreclosure rate and no reported new foreclosures in 2021 or 2022.[4] The program's success highlights its critical role in creating stable, affordable housing that strengthens communities and revitalizes neighborhoods.

- Expanding LIHTC through enactment of the bipartisan *Affordable Housing Credit Improvement Act* and ensuring HUD's continued support are essential to meeting the growing housing needs of American families.

## ***Lending Economic Data***

The Acquisition, Development & Construction (AD&C) loan is one of the most heavily used financing tools in a builder's credit toolkit. Unfortunately, borrowers and lenders agreed that credit for residential AD&C loans tightened further in the fourth quarter of 2024, according to NAHB's survey on AD&C Financing and the Federal Reserve's survey of senior loan officers.[5] **A lack of capital for home builders—particularly for smaller, private home builders – is a key constraint on housing supply**.

According to the survey, Lenders primarily tightened credit by lowering loan-to-value or loan-to-cost ratios (reported by 72% of builders and developers) and reducing the amount they were willing to lend (61%). These restrictions make it more difficult to finance new development projects, exacerbating housing supply challenges.

Despite tightening credit, interest rates on AD&C loans declined for the second consecutive quarter across all four categories tracked by the NAHB survey:

- Land acquisition loans: 8.50% (Q3) → 8.48% (Q4)
- Land development loans: 8.83% → 8.28%
- Speculative single-family construction loans: 8.54% → 8.34%
- Pre-sold single-family construction loans: 8.11% → 7.75%

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[4]Cohn Reznick publishes 2023 Affordable Housing Credit Study: https://www.cohnreznick.com/insights/cohnreznick-publishes-2023-affordable-housing-credit-study
[5] Credit for Builders Tightens, Cost Results Mixed: https://eyeonhousing.org/2025/02/credit-for-builders-tightens-cost-results-mixed/

However, the overall cost of AD&C credit remained mixed due to fluctuations in initial points charged on loans. While points decreased for land acquisition loans (from 0.77% to 0.55%), they increased for land development (0.68% to 0.75%), pre-sold single-family construction (0.26% to 0.67%), and speculative single-family construction (0.49% to 0.64%). These conflicting trends resulted in variable effective interest rates across different loan categories:

- Land acquisition: 11.17% → 10.79%
- Land development: 12.82% → 12.12%
- Speculative single-family construction: 12.61% → 12.86%
- Pre-sold single-family construction: 12.03% → 12.98%

While rates declined in some cases, overall borrowing costs remain elevated, particularly for speculative construction, where the effective interest rate has climbed since Q3.

On the homebuyer side: the NAHB/Wells Fargo Cost of Housing Index (CHI) found that in the fourth quarter of 2024, a family earning the nation's median income of $97,800 needed 38% of its income to cover the mortgage payment on a median-priced new home. Low-income families, defined as those earning only 50% of the median income, would have to spend 76% of their earnings to pay for the same new home.[6]

The figures track closely for the purchase of existing homes in the U.S. as well. A typical family would have to pay 37% of their income for a median-priced existing home, while a low-income family would need to pay 74% of their earnings to make the same mortgage payment.

There was no change in the percentage of a family's income needed to purchase a new home (38%) between the third and fourth quarters of 2024. However, the cost burden did increase slightly for low-income families, rising from 75% to 76% of their income.

In addition to affordability challenges—part and parcel of the difficulty in obtaining a mortgage is finding available and affordable insurance. Any homeowner who has a mortgage is required to obtain and maintain a certain level of insurance to cover the property. However, over the past several years, the increasing number and severity of disasters, lawsuits, reinsurance pricing, and other factors have caused many insurance companies to not renew policies, raise prices, or leave certain states altogether. This has resulted in even higher premiums, in many cases less coverage, and has placed additional pressure on the state insurance plans that provide coverage when insurance is otherwise unavailable.

## 2. Lots

The availability of buildable lots is a key underpinning holding back housing production. Metro areas across the nation face a shortage of developed land. Unfortunately, zoning laws and land-use restrictions make it highly prohibitive to convert undeveloped or underutilized land into housing. To further

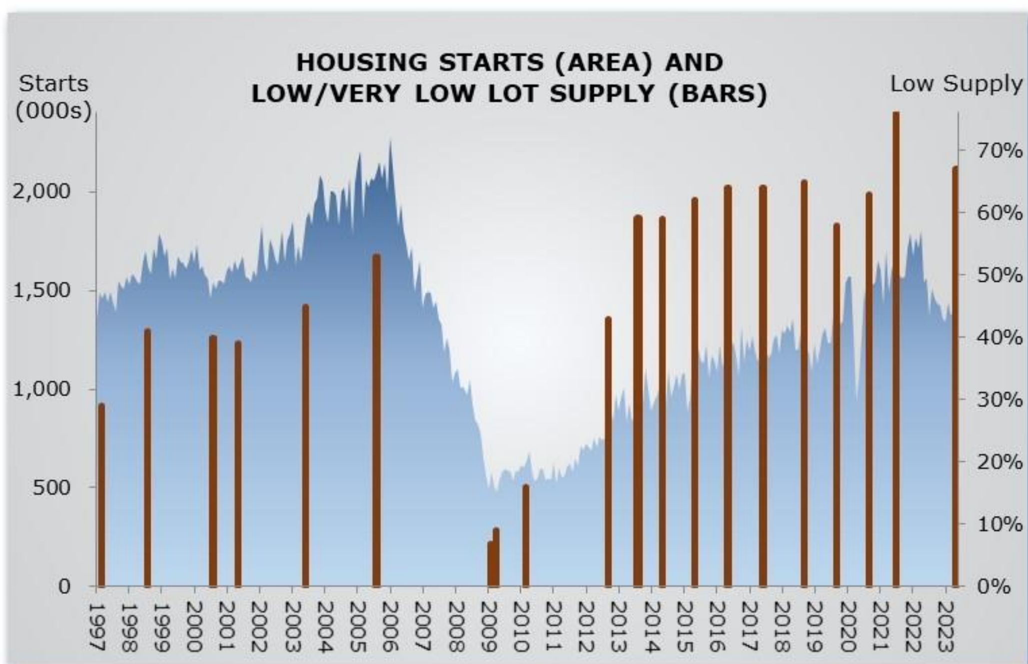
[6] NAHB/Wells Fargo Cost of Housing Index (CHI): https://www.nahb.org/news-and-economics/housing-economics/indices/cost-of-housing-index

complicate this issue, the cost of preparing lots for construction has increased due to rising land prices, impact fees and infrastructure requirements.

- This results in a bottleneck that prevents the rapid expansion of housing supply, especially for entry-level homes. To help produce more lots, all levels of government should collaborate to remove barriers. The *Identifying Regulatory Barriers to Housing Supply Act* promotes state and local governments to encourage townhouses, duplexes, and triplexes; reducing minimum lot size requirements; and allowing more density on single-family zoned areas.

## ***<u>Lots Economic Data</u>***

As detailed earlier, credit access has been a challenge for the residential construction sector. This lack of credit in turn narrows the lot development pipeline. Obtaining lots to build on remains a challenge for many of NAHB's builders, although the shortages are not quite as widespread as they were in 2021. Responding to our May 2023 survey for the NAHB/Wells Fargo Housing Market Index (HMI), 42 percent of single-family builders characterized the supply of lots simply as *low*, and another 25 percent said the supply was *very low*, **for a total of 67 percent of builders reporting some type of shortage**.[7].




[7] For Builders, Lot Shortage Eases But is Still a Problem: https://eyeonhousing.org/2023/06/for-builders-lot-shortage-eases-but-is-still-a-problem/

## 3. Labor

One of the most significant contributors to the housing shortage is the lack of skilled labor in the construction industry. The Great Recession led to a loss of 1.5 million workers from the construction sector. Additionally, fewer young people are entering the trades. The resulting shortage of skilled trades drives up wages and slows down construction timelines, leading to higher costs for builders and fewer homes being completed.

To address these challenges, NAHB strongly advocates for residential workforce development programs to help bridge these labor gaps. Developing a skilled workforce requires not just filling vacancies but ensuring a steady influx of new talent and fostering retention in the residential construction industry. Programs that offer training and career development can attract newcomers to the field, equipping them with the skills needed to succeed. Moreover, creating opportunities for career advancement and stability within the industry will help retain these workers, ensuring that the residential construction sector can grow and respond effectively to ongoing housing needs.

- NAHB continues to actively push for legislation to address these workforce challenges. For example, H.R. 1055, *the CONSTRUCTS Act*, aims to ease the severe labor shortage in the home building industry. This legislation supports new and existing residential construction education programs, helping ensure a steady supply of workers to build the homes our nation needs.

In addition to the *CONSTRUCTS Act*, NAHB strongly supports continued full funding for Job Corps, a crucial program that helps prepare young adults for rewarding careers in construction and other essential trades. To further support these efforts, Congress should encourage more robust residential workforce development programs.

### ***Labor Economic Data***

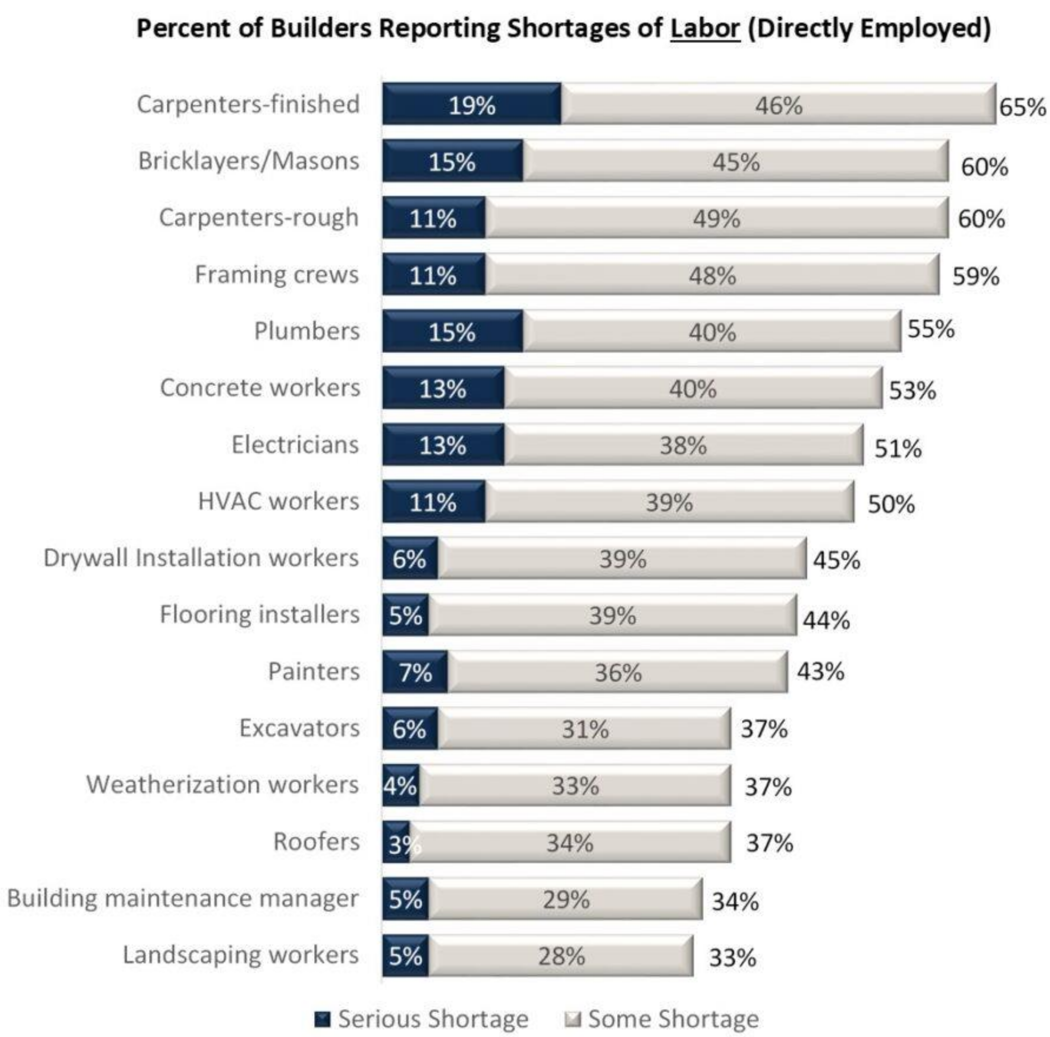
Despite some cyclical softening of the residential construction labor market, the skilled labor shortage in construction persists. Employment in the overall construction sector increased by 4,000 in January, after 13,000 gains in December.[8] While residential construction lost 200 jobs, non-residential construction employment added 4,400 jobs for the month.

Residential construction employment now stands at 3.4 million in January, broken down as 956,000 builders and 2.4 million residential specialty trade contractors. The 6-month moving average of job gains for residential construction was 1,350 a month. Over the last 12 months, home builders and remodelers added 40,100 jobs on a net basis. The unemployment rate for construction workers has remained at a relatively lower level, after reaching 15.3% in April 2020 due to the housing demand impact of the pandemic.

[8] Job Growth Slows in January: https://eyeonhousing.org/2025/02/job-growth-slows-in-january/

The number of open construction sector jobs decreased from a revised 272,000 in November to just 217,000 in December.[9] This marks a significant reduction of open, unfilled construction jobs than that registered a year ago (434,000) due to a slowing of construction activity because of elevated interest rates. Due to issues related to immigration and an expected medium-term increase for residential construction activity, job openings in construction are expected to increase in the coming quarters.

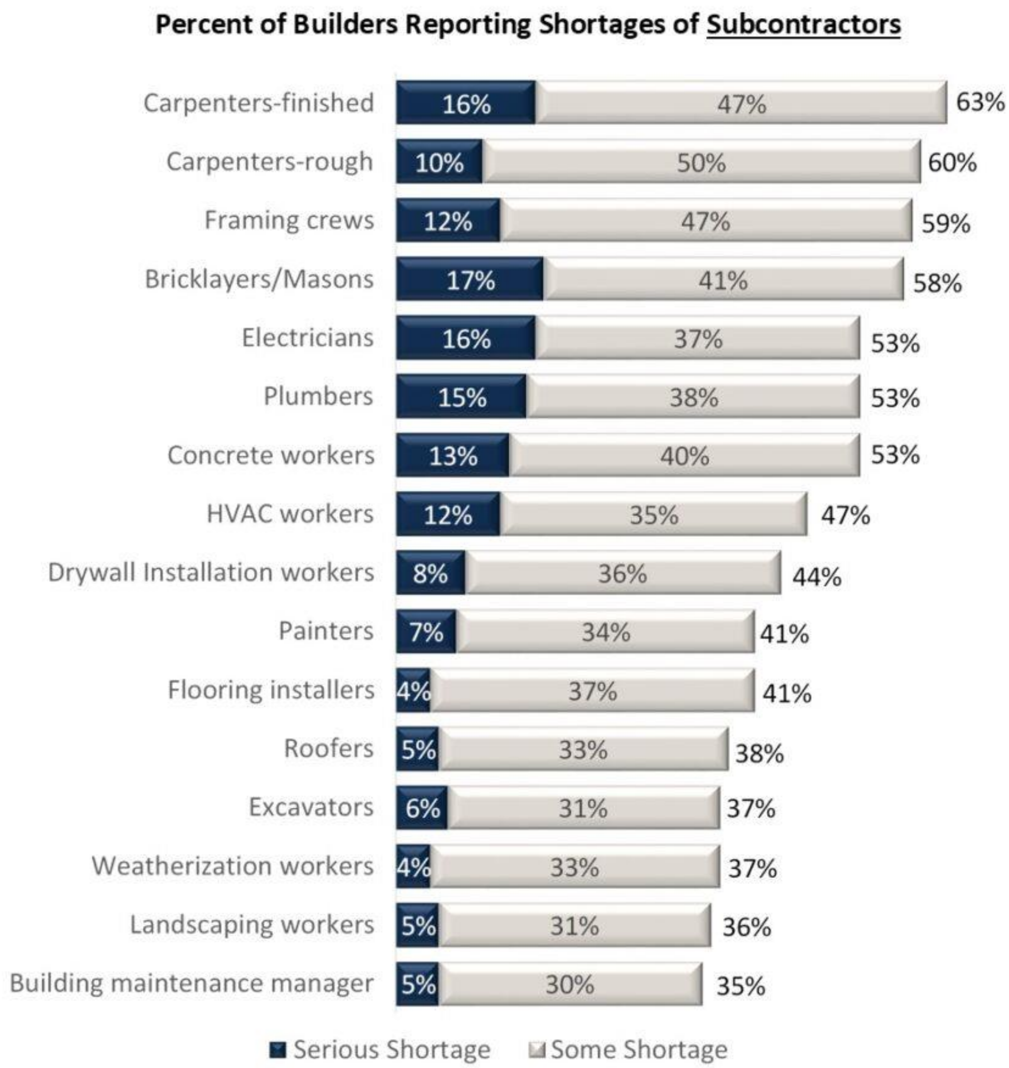
A February 2024 NAHB survey asked builders about shortages in 16 specific trades. The percentage of builders reporting a shortage (either some or serious) of labor they employ directly ranged from a low of 33% for landscape workers to a high of 65% for those performing finished carpentry.[10]




[9] Construction Labor Market Softens: https://eyeonhousing.org/2025/02/construction-labor-market-softens/
[10] Labor Shortages Ease, But Remain Worse Than in the Last Boom: https://eyeonhousing.org/2024/02/labor-shortages-ease-but-remain-worse-than-in-the-last-boom/

In the typical case, most of the physical work required to build a home is performed not by laborers employed directly by the builders, but by subcontractors. Home builders on average use 24 different subcontractors and subcontract out 84% of their total construction costs to build a single-family home.

The February 2024 HMI survey also collected information about shortages of subcontractors. The percentage of builders reporting a shortage of subcontractors ranged from 35% for building maintenance managers to 63% for finished carpenters.



## 4. Lumber (Materials)

Lumber and wood products are a major cost driver in housing affordability, accounting for approximately 15%[11] of the cost of construction for a single-family home. The availability and cost of these materials significantly impact housing production, and additional domestic supply can help stabilize what is otherwise a volatile market for wood products, giving builders greater price certainty.

While lumber prices have fluctuated, supply chain instability and tariffs on imported materials continue to create uncertainty for builders. Federal policymakers can help stabilize building material costs by increasing production of distribution transformers, ending tariffs on Canadian lumber and Chinese materials, and expanding domestic timber supply from federally owned lands in an environmentally responsible way.

- NAHB supports H.R. 471, the *Fix Our Forests Act,* which will foster better forest management with the economic benefit of increasing the supply of federal timber products. (Despite our vast timber resources, the U.S. does not produce sufficient lumber to meet our industry's demand, requiring costly imports).

### ***Lumber (Construction Inputs) Economic Data***

The cost of building materials has surged 34% since December 2020, with the four-fold lumber price spike in 2021 adding more than $30,000 to the price of an average new single-family home. The price of distribution transformers is up 71% since December 2020, and the severe shortage of transformers is delaying housing projects across the nation.

Prices for inputs to new residential construction were up 1.2% in January according to the most recent Producer Price Index (PPI) report published by the U.S. Bureau of Labor Statistics.[12] The Producer Price Index measures prices that domestic producers receive for their goods and services, this differs from the Consumer Price Index which measures what consumers pay and includes both domestic products as well as imports.

The inputs to the New Residential Construction Price Index grew 1.1% from January of last year. The index can be broken into two components—the goods component increased 2.1% over the year, while services decreased 0.3%. For comparison, the total final demand index, which measures all goods and services across the economy, increased 3.5% over the year, with final demand with respect to goods up 2.3% and final demand for services up 4.1% over the year.

The goods component has a larger importance to the total residential construction inputs price index, representing around 60%. For the month, the price of input goods to new residential construction was up 1.6% in January. Monthly growth of the index was relatively low in the past two years, as this monthly increase was the largest since March of 2022 (3.3%). The input goods to residential construction index

[11] Cost of Constructing a Home in 2024: https://eyeonhousing.org/2025/01/cost-of-constructing-a-home-in-2024/?_ga=2.243315653.1317129919.1740431202-274855501.1713786555

[12] Residential Construction Input Prices Increase to Start the Year: https://eyeonhousing.org/2025/02/residential-construction-input-prices-increase-to-start-the-year/

can be further broken down into two separate components, one measuring energy inputs with the other measuring goods less energy inputs. The latter of these two components simply represents building materials used in residential construction, which makes up around 93% of the goods index.

The 2.1% yearly growth in the goods component can be attributed to the rise in the prices of building materials, which grew 2.3% over the year. Meanwhile, the price of energy inputs was 1.6% lower than last year. Between December and January, building materials increased 1.4%, while energy inputs increased 4.3%.

At the individual commodity level, the five commodities with the highest importance for building materials to the New Residential Construction Index were as follows: ready-mix concrete, general millwork, paving mixtures/blocks, sheet metal products, and wood office furniture/store fixtures. Compared to last year, ready-mix concrete was up 4.1%, wood office furniture/store fixtures up 4.7%, general millwork up 2.4%, paving mixtures/blocks up 8.6% while sheet metal products were up 0.4%.

Lumber has been a particular challenge for home builders in the post-Covid era. The input commodity in residential construction that had the highest year-over-year percent change (across all input goods) in November 2024 was softwood lumber (not edge worked), which was 13.7% higher than November 2023.[13] This is noteworthy because none of the other top wood commodities had a year-over-year change above 3% in November. Lumber supplies have been driving prices higher over the past month as the sawmill industry continues to adjust to the mill closures that occurred earlier this year. Higher lumber demand as residential construction rebounds due to lower interest rates is likely to continue to increase lumber prices.

## 5. Laws (Regulations)

Government regulations play a crucial role in shaping housing supply. As indicated earlier, many local governments impose restrictive zoning codes, lengthy permitting processes and expensive impact fees. At the state level, builders may confront growth management requirements, stormwater management mandates, and building codes that make new construction costly and time-consuming. Federal requirements, such as those related to unpredictable environmental permitting further compound the costs and challenges of providing attainable housing. Ultimately, excessive and outdated rules, coupled with the layering of regulations from local, state, and federal governments significantly limit the number of new homes that can be built. They hinder the building of all types of housing but have a particularly significant impact on the ability to provide affordable housing.

Importantly, the conversation regarding the regulatory burden associated with residential construction has shifted in a positive direction. Elected officials, from all levels of government, are increasingly highlighting the need to reform regulatory processes to diminish the hurdles home builders face.

[13] Building Material Prices Increase in November Led by Lumber: https://eyeonhousing.org/2024/12/building-material-prices-increase-in-november-led-by-lumber/

*The HUD/USDA Minimum Energy Standards (2021 IECC) Final Determination*

There is growing concern over the increasing reliance on building codes—particularly stricter energy codes for new homes—as a "silver bullet" solution for various policy issues. This approach disproportionately burdens new construction while often failing to achieve its intended goals. NAHB is especially concerned about HUD and USDA's Final Determination, which mandates that new single-family homes financed by these agencies comply with the 2021 International Energy Conservation Code (IECC) and that multifamily homes financed by HUD programs meet the 2021 IECC or ASHRAE 90.1-2019 standards.

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. According to the NAHB "Priced-Out" data referenced earlier, around 107 million households already cannot afford the median price of a new home. Even HUD's modest estimates indicate that compliance with the 2021 IECC would raise new home prices by an average of $7,200 per single-family home, **thereby pricing an additional 724,525 households out of the market.**

With the nation facing a housing affordability crisis, it is crucial to avoid regulations that would further hinder homeownership for more Americans.

- On the legislative front, NAHB asks Congress to amend the Energy Independence and Security Act (EISA) to clarify that HUD and USDA are not required to continue updating energy standards for housing programs.

*Federal Environmental Permits*

In many areas of the country, land development and construction projects are impacted by federal laws designed to protect and preserve the nation's natural resources. While NAHB supports the intent of these laws, many of the associated permitting processes and compliance requirements are unclear, cumbersome, and/or costly and unnecessary. Two permitting processes which home builders and developers regularly encounter are the Clean Water Act (CWA) and the Endangered Species Act (ESA). Both are crucial in safeguarding the environment—however the permitting regime under these laws has become unwieldy.

For example, under the CWA, defining which water features on a landowner's property are federally jurisdictional remains ambiguous, and a "streamlined" permit takes over one year to finalize. For the ESA, the Section 7 and Section 10 consultation processes are unpredictable and can take years to complete. These uncertain regulatory pathways hamstring housing by making the permitting process untenable for small-and medium-sized home builders.

- Clarifying definitions and placing enforceable timelines on permitting will enhance predictability and certainty under the CWA and ESA permitting regimes.

***Laws (Regulations) Economic Data***

A definitive 2021 NAHB study shows that, on average, regulations imposed by government at all levels account for **$93,870 (24 percent) of the final price of a new single-family home built for sale.**[14] Of the $93,870, $41,330 is due to a higher price for the finished lot, attributable to regulations imposed during the lot's development. The remaining $52,540 is the result of regulatory costs imposed on the builder during construction, after the builder purchases the finished lot. NAHB conducts these studies every five years, with the next analysis expected in 2026.

The individual line items in the table range from under $1,000 per home for the pure cost of delay during the construction phase of the project, to more than $24,000 for changes in building codes over the past 10 years. Over time, the NAHB studies show that the cost of regulation continued to climb between 2016 and 2021, although not as fast as it did between 2011 and 2016. The current estimate of $93,870 is up 11 percent from the $84,671 in the 2016 study, and 44 percent from NAHB's 2011 estimate of $65,224.

In the multifamily market, NAHB and the National Multifamily Housing Council undertook a joint research effort to find out how much government regulation adds to the cost of building new multifamily housing via a survey distributed to multifamily developers. The research finds that an average of 40.6 percent of total development costs can now be attributed to complying with regulations imposed by all levels of government.[15]

Among the categories of regulation captured by the survey, the highest average cost is the result of changes to building codes over the past 10 years (11.1 percent of total development costs). The second highest are the costs imposed when site work begins (8.5 percent). Moreover, some types of regulatory mandates can discourage developers from building in the very marketplaces that have the greatest need for more housing. For example, 47.9 percent of multifamily developers said they avoid building in jurisdictions with policies such as inclusionary zoning, and a full 87.5 percent avoid building in a jurisdiction with rent control in place.

Regulations cover a wide range of issues, and while they may be well-intentioned, the costs and burdens of any regulation must be carefully weighed against the benefits. Few would argue, for example, that basic safety standards for structures and workers are unnecessary. But, when regulation constitutes an average of 40.6 percent of a project's development costs, this raises questions about how thoroughly governments are considering the consequences of their actions.

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[14] Regulation Now Accounts for $93,870 of the Average New Home Price:
https://eyeonhousing.org/2021/05/regulation-now-accounts-for-93870-of-the-average-new-home-price/

[15] New Research Shows Regulations Account for 40.6 Percent of Apartment Development Costs:
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

***Conclusion***

Thank you, Chairman Flood and Ranking Member Cleaver, for convening this important hearing. The “5 Ls” are significant headwinds facing the residential construction industry, but if we partner together to simultaneously address each factor, then we’ll be able to create the housing supply Americans need. These are pivotal conversations, and NAHB stands ready to work with you and members of the Subcommittee to achieve thoughtful, effective policies to address these concerns and expand the availability of attainable, affordable housing for all Americans.