

Testimony of

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On Behalf of the
National Association of Home Builders

Before the
Subcommittee on Economic Policy
of the United States Senate Committee on
Banking, Housing and Urban Affairs

Hearing on

Drivers of Job Creation

May 7, 2014

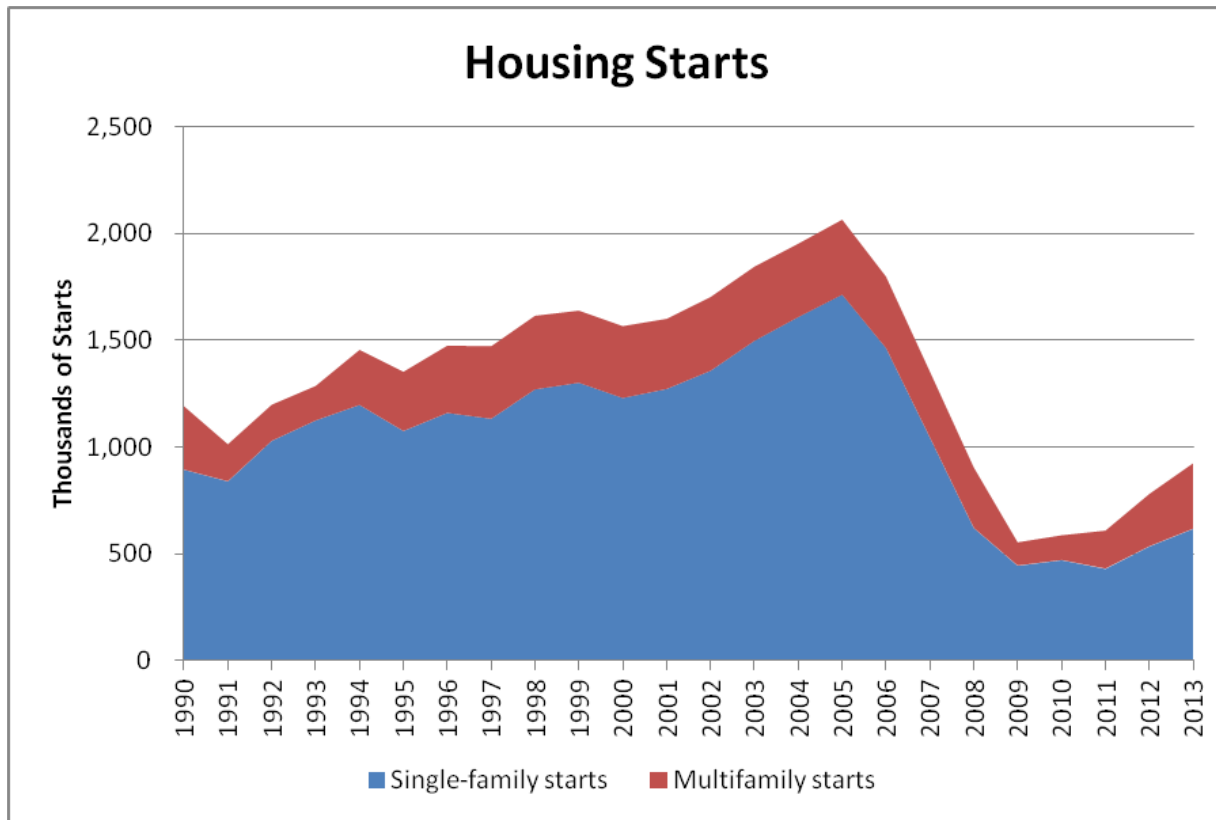
On behalf of the 140,000 members of the National Association of Home Builders (NAHB), I appreciate the opportunity to testify today. My name is Robert Dietz, and I am an economist and Vice President for Tax and Market Analysis at NAHB. My area of focus includes housing market and home building industry analysis, as well as tax and other policy issues. I received a Ph.D. in economics from The Ohio State University in 2003.

NAHB is a Washington, D.C.-based trade association whose broad mission is to enhance the climate for housing, homeownership and the residential building industry. We represent builders and developers who construct housing ranging from single-family for-sale homes to affordable rental apartments and remodelers. About one-third of NAHB's members are home builders and/or remodelers. The others are associates working in closely related specialties such as sales and marketing, housing finance, and manufacturing and supplying building materials.

The State of Employment in the Residential Construction Sector

After experiencing significant job losses during the Great Recession, the residential construction sector is adding jobs to the national economy as housing construction recovers. According to Census Bureau data, in 2005 total housing starts reached a historic high of 2.068 million: 1.716 million single-family and 352,000 multifamily homes. Leading into the housing crisis and the Great Recession, the pace of home construction declined significantly. Construction activity declined from 2006 to 2009, reaching an annual total of only 554,000 total housing starts in that year: 445,000 single-family and 109,000 multifamily.

Since that time, and particularly over the course of 2012 and 2013, home construction recovered as housing demand strengthened due to overall job growth and household balance sheet repair. For 2013, housing starts totaled 925,000: 618,000 single-family and 307,000 multifamily units.



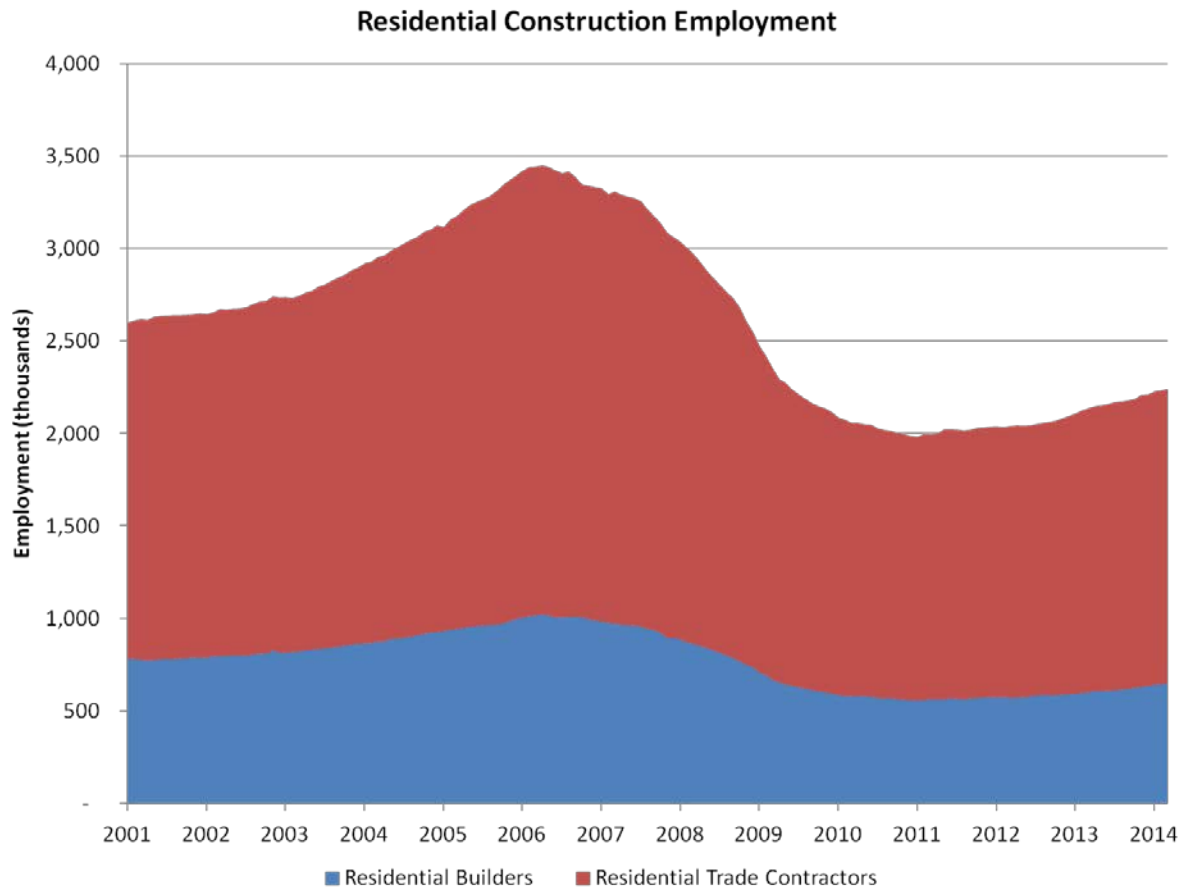
Driven by declines in home equity and the volume of existing home sales, remodeling activity also declined during the recession – although not as much – and has also begun to expand. In 2006, home improvement related spending peaked at \$144.9 billion. As the pace of existing home sales declined during the recession, remodeling felt the impact, falling to \$111.6 billion in 2010. For 2013, the sector expanded off cycle lows, reaching \$134 billion for the year.

With activity declines in all three subsectors of the residential construction industry (single-family, multifamily and remodeling), significant jobs losses were incurred. Data from the Bureau of Labor Statistics reveals that at peak employment in April 2006, the residential construction sector employed 3.45 million people (1.022 million builders and 2.428 specialty contractors).¹ From April 2006 until January 2011, the industry lost 1.466 million jobs.

Since that time, the expansion in home building and remodeling has added jobs back to the sector. Over the last two and half years, 274,000 jobs have been added by home builders and remodelers. Over the course of the last year alone, 108,000 jobs were added.² More are expected with continued gains in construction activity. Currently the industry employs 659,000 individuals in the builder category and 1.598 million as residential specialty contractors, for an industry total of 2.257 million.

¹ *Construction Job Openings Cool at the Start of 2014*. NAHB Economics and Housing Policy blog post: <http://eyeonhousing.org/2014/04/08/construction-job-openings-cool-at-the-start-of-2014/>

² BLS data and NAHB calculations. April BLS Employment report. May 2, 2014.



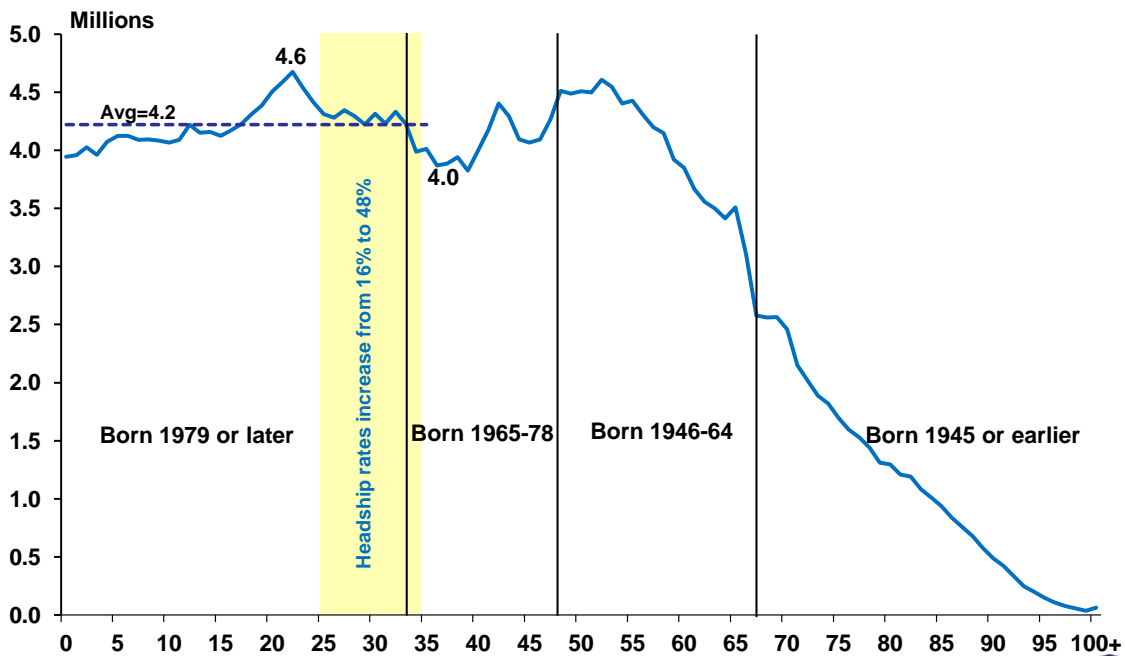
NAHB is forecasting that single-family construction activity will expand by 22% in 2014 to a total of 760,000 starts. The multifamily sector should see modest growth of 6% to a total of 326,000 starts. This represents a slightly cooling from the substantial growth witnessed during the 2011-2013 period. Finally, NAHB is forecasting that remodeling related activity will grow 3.1% during 2014, which represents a slowing of growth as existing home sales subside.

The industry still has room to grow. At its most fundamental level, the demand for new homes is determined by the growth of population and households, as well as the need to replace older housing stock or to accommodate changes in the location of regional economic activity. Thus, while the forecasted 2014 numbers for home construction represent substantial improvements over the lows set after the recession, these totals are still off from the potential or normal levels of activity.

As the following chart illustrates, the nation can expect population growth and rising household formation in the years ahead. The yellow bar in the graph highlights key ages for household formation (25-35). We are currently entering a period in which the size of the population entering these key years is on the rise, with roughly 4 million currently aged 35 but 4.6 million aged 22. These “echo boomers” will increase demand for both rental and owner-occupied housing in the years ahead.

Population by Single-Year of Age

Rising population in prime household formation years



National Association of Home Builders



NAHB estimates that total housing construction should over the next few years return to a level just under 1.7 million combined single-family and multifamily starts per year. The forecasted first quarter 2014 level of single-family construction represents only 45% of this normal or expected level of activity. By the end of 2015, NAHB is forecasting that single-family activity will have improved to approximately 93% of this benchmark.

Virtuous Circle of Housing and Jobs

Housing and jobs form a virtuous circle in which employment growth for a local economy increases the demand for home construction, which in turn creates additional jobs. NAHB has developed a model that uses government data to estimate the complete interactive economic benefits that arise with residential construction.³ The model employs the input-output accounts from the Bureau of Economic Analysis to track the impacts from home construction on other sectors of the economy. These additional impacts are traced and summed to estimate the aggregate impacts on wages, business income, jobs and taxes.

³ *Impact of Home Building and Remodeling on the U.S. Economy*. NAHB Economics and Housing Policy. <http://www.nahb.org/generic.aspx?sectionID=734&genericContentID=227858&channelID=311>

The 2014 estimates for this model find the following:

- Building an average single-family home produces 2.97 jobs (full-time equivalents)
 - \$110,957 in federal, state and local taxes
 - \$162,080 in wages and salaries
 - \$118,354 in business income

Of the 2.97 jobs per home, 1.76 are in construction, with the remainder in other sectors including manufacturing, wholesale and retail trades and other industries.

- Building an average rental apartment produces 1.13 jobs (full-time equivalents)
 - \$42,383 in federal, state and local taxes
 - \$60,877 in wages and salaries
 - \$46,838 in business income

Of the 1.13 jobs per multifamily unit, 0.68 are in construction, with the remainder in other sectors including manufacturing, wholesale and retail trades and other industries.

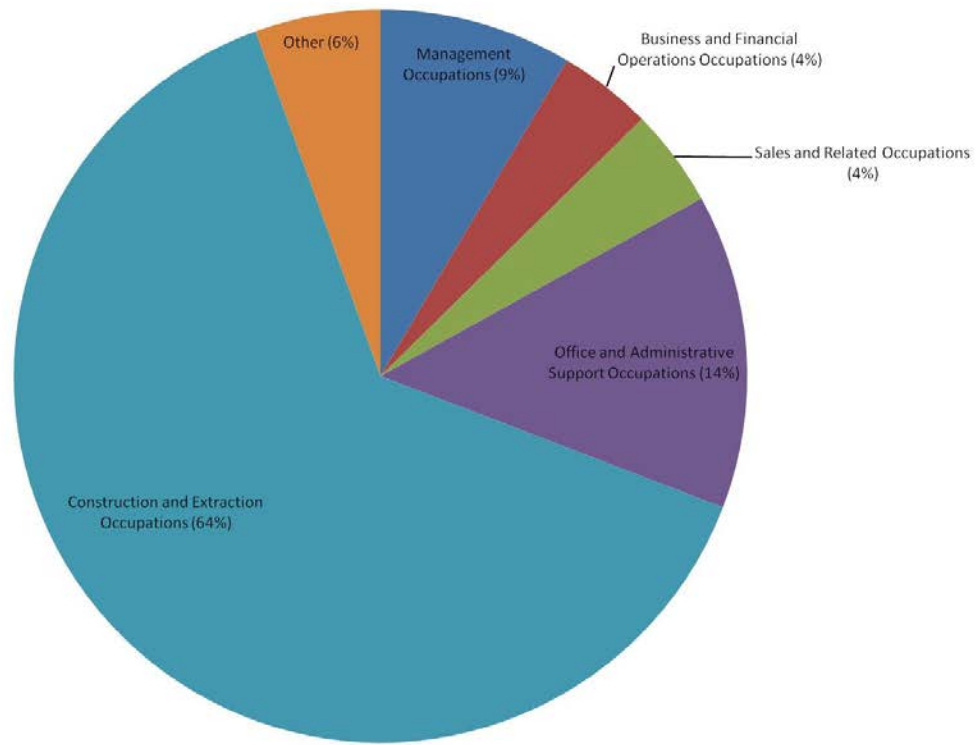
- \$100,000 in remodeling expenditures produces 0.89 jobs (full-time equivalents)
 - \$29,779 in federal, state and local taxes
 - \$48,212 in wages and salaries
 - \$35,190 in business income

Of the 0.89 jobs per multifamily unit, 0.55 are in construction, with the remainder in other sectors including manufacturing, wholesale and retail trades and other industries.

Additional data from the Bureau of Labor Statistics Occupational Employment Statistics (OES) provide details concerning the types of jobs created by home builders.⁴ The OES survey defines employment as the number of workers who are classified as full- or part-time employees. The following profile examines the Residential Building Construction industry group, which includes builders of for-sale and owner/contractor built single-family and multifamily housing, as well as residential remodelers.

⁴ *Jobs in Home Building and Remodeling. NAHB Economics and Housing Policy.*
<http://eyeonhousing.org/2014/02/11/jobs-in-home-building-and-remodeling/>

Residential Building Industry Occupations: 2012

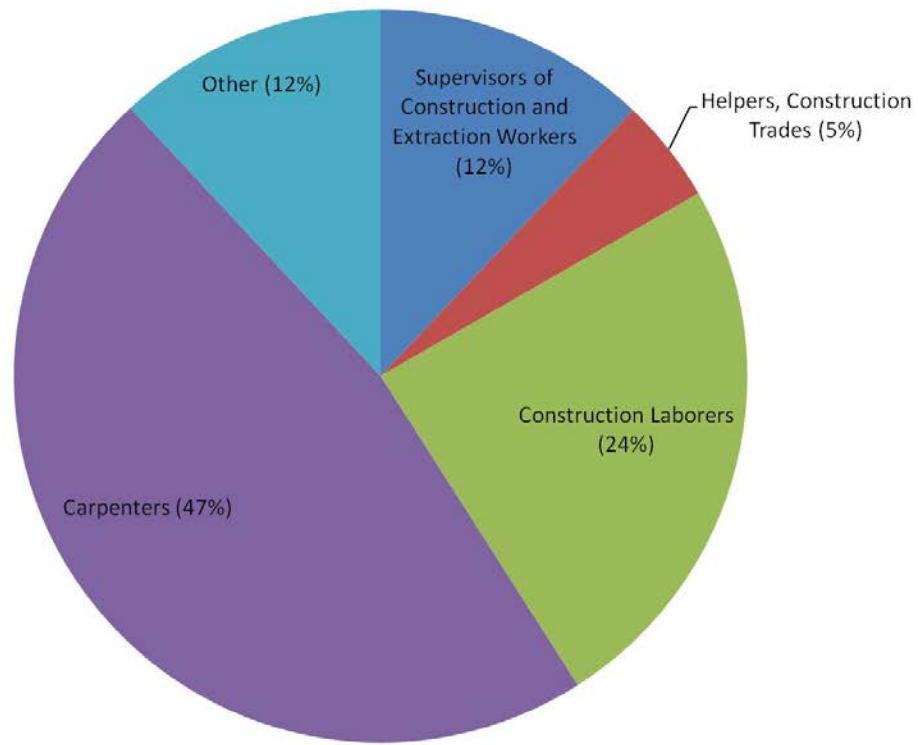


According to the 2012 OES, management jobs constituted approximately 9% of jobs in the residential construction industry, for a total of more than 48,000 positions. Office and administrative support made up the second largest category, which at just under 80,000 jobs represented 14% of sector employment. Sales staff and business/finance roles each made up about 4% of home building business jobs, each contributing approximately 24,000 jobs.

Other jobs in home building, generally representing about 6% in combination, include architects, lawyers, designers, building/grounds maintenance staff, security guards, drivers, and IT staff.

Not surprisingly, the largest share of home building/remodeling employment is concentrated in construction and extraction jobs. For 2012, more than 363,000 jobs were in such fields. The following chart provides a breakdown of these jobs.

Residential Building Construction/Extraction Occupations: 2012



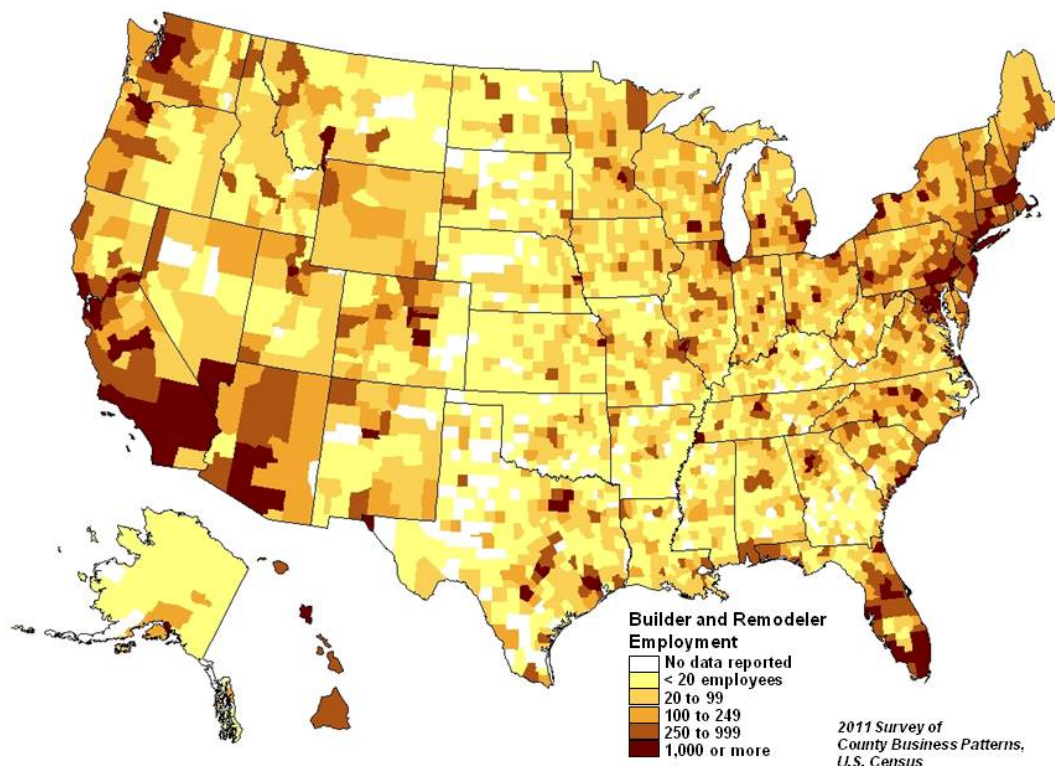
Carpenters make up almost half of construction/extraction jobs (47%), for a total of more than 171,000 jobs. The OES defines carpenters as workers who construct, erect, install, or repair structures made of wood. It also includes workers who install cabinets, drywall, siding, and insulation. Approximately 30% of carpenters nationwide are employed by the residential building construction sector.

Rounding out the construction segment of industry employment are construction laborers, worksite supervisors, brickmasons, stonemasons, carpet/tile installers, cement masons, equipment operators, drywall installers, electricians, glaziers, insulation workers, painters, plumbers, plasters, rebar workers, roofers, and sheet metal workers.

Besides involving a variety of occupations, this base of employment has wide geographic scope. The following map uses 2011 data from the U.S. Census to chart by county builder and remodeler employment across the nation.⁵

⁵ *A Nation of Builders*. NAHB Economics and Housing Policy. <http://eyeonhousing.org/2013/06/03/a-nation-of-builders/>

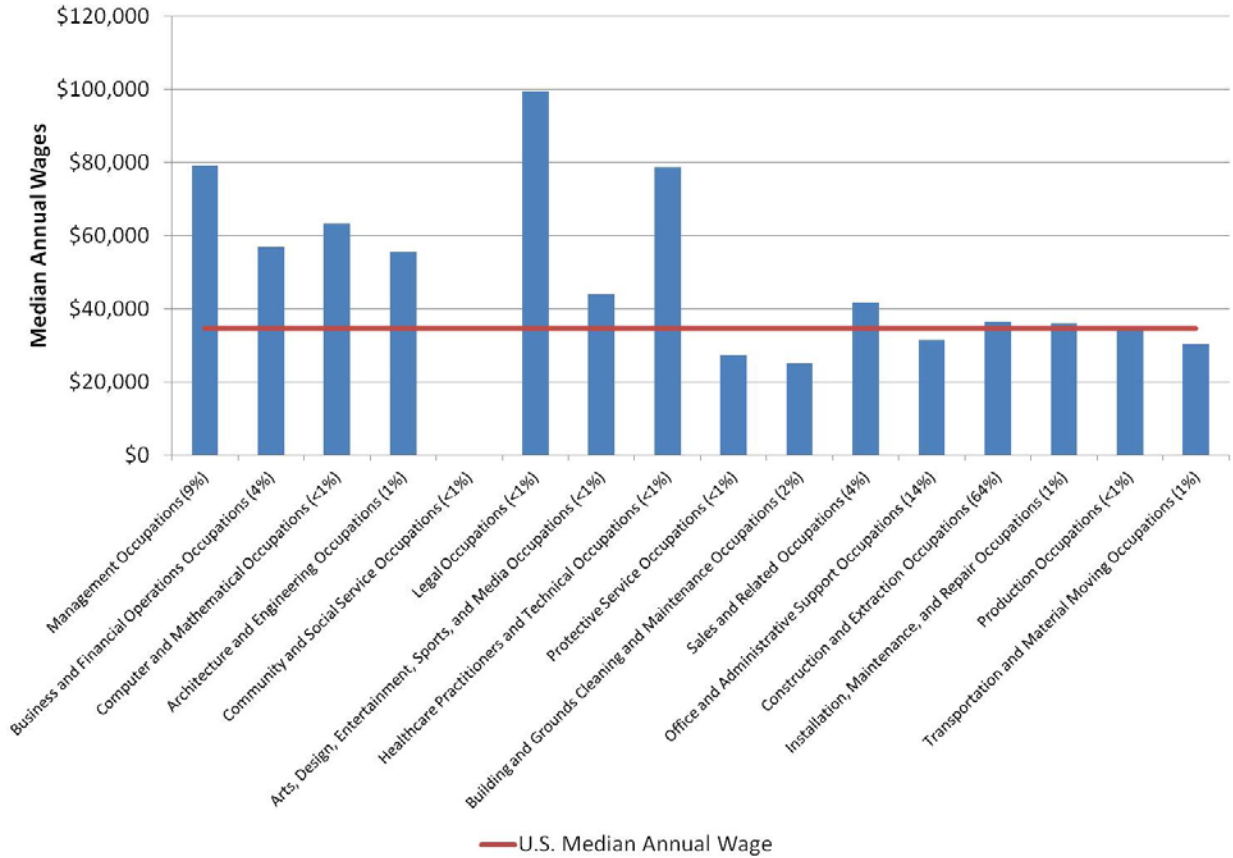
A Nation of Builders



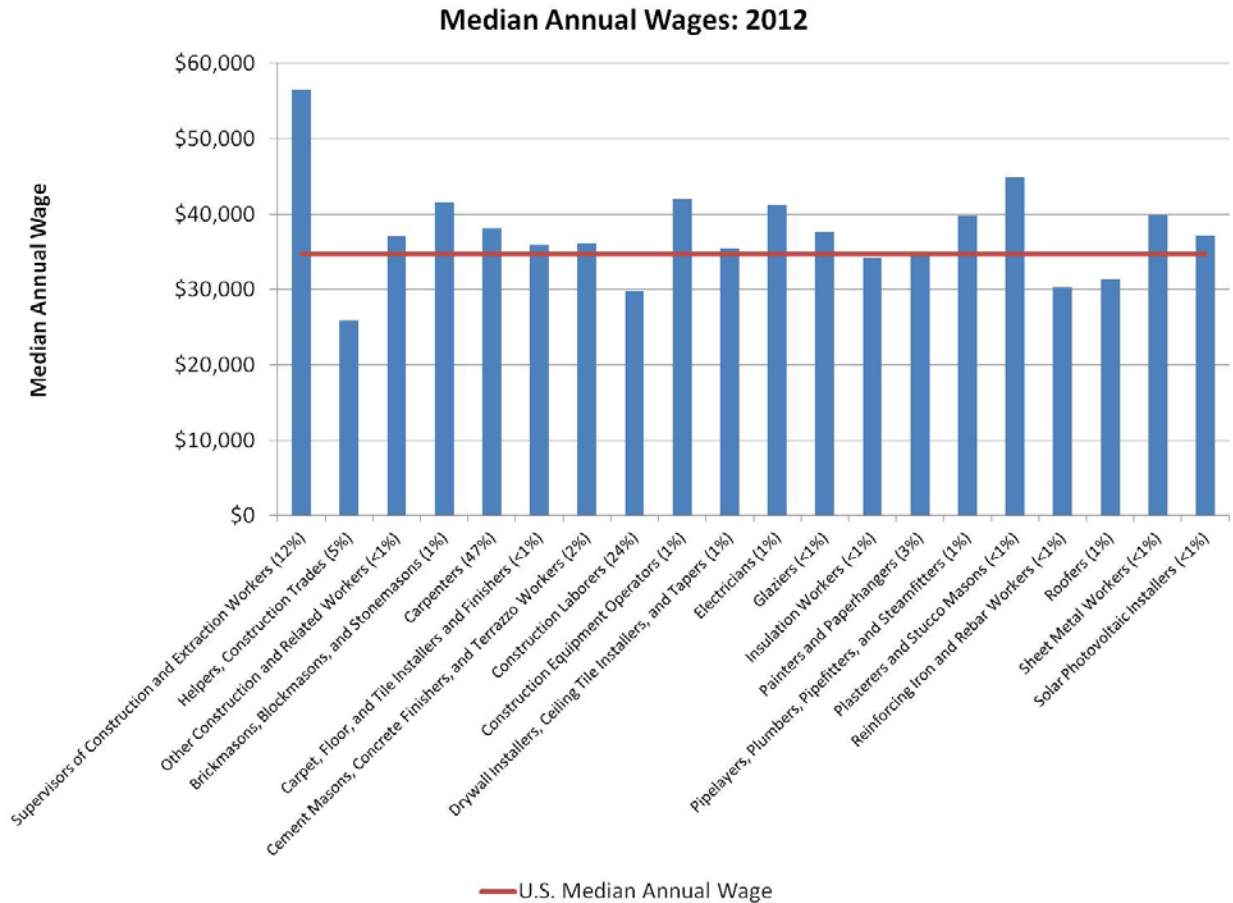
Additional data from the 2012 OES provides details concerning the wages paid by these occupations.⁶ The following charts present median wages by occupations for workers in home building and remodeling. Annual wages are calculated, by the BLS, as the hourly wage paid on a 2,800 hour annual basis. Wages are measured on a gross pay basis, but certain bonuses and employer paid benefits are excluded. Occupations with median wages in excess of the U.S. median represent approximately 80% of total employees.

⁶ *Wages in Home Building and Remodeling*. NAHB Economics and Housing Policy. <http://eyeonhousing.org/2014/02/12/wages-in-home-building-and-remodeling/>

Median Annual Wages: 2012



The second chart breaks out shares of the large element of the industry – construction and extraction occupations, which constitute 64% of industry employment. The percentages on this second chart are percentages of this 64% only.



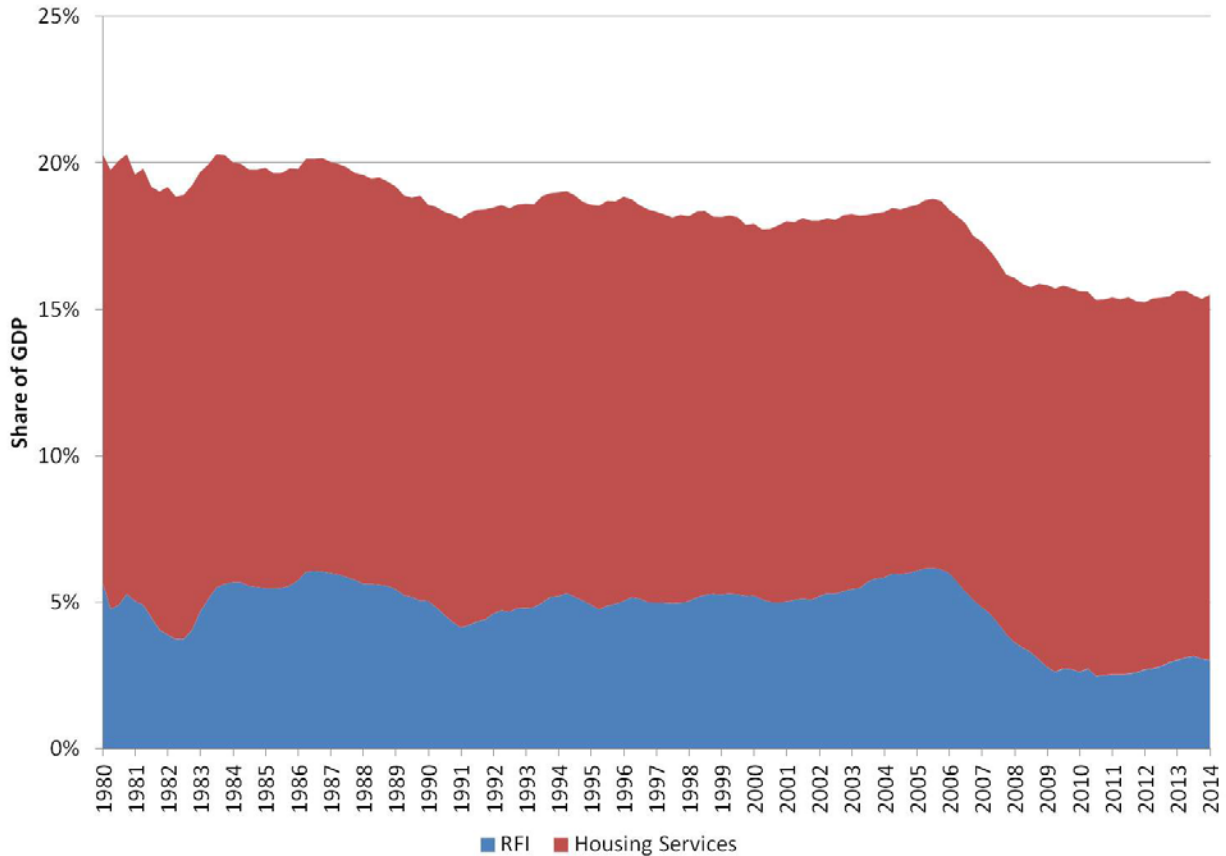
Taken together, these data demonstrate that as the residential construction sector continues its post-Great Recession recovery, hundreds of thousands of jobs will be created within the construction sector and within other sectors of the economy. These jobs will, among other economic impacts, also boost demand for rental and owner-occupied housing. For example, given NAHB’s forecast for significant single-family construction growth, approximately 420,000 jobs will be created for 2014 in the construction and related business sectors due to residential construction growth.

Housing’s Contribution to GDP and National Wealth

From a macroeconomic perspective, housing plays a key role in our nation’s economy. As of the first quarter of 2014, housing’s share of gross domestic product (GDP) was 15.5%, with home building yielding 3 percentage points of that total.⁷

⁷ *First Quarter 2014L Housing Share of the Economy at 15.5%*. NAHB Economics and Housing Policy. <http://eyeonhousing.org/2014/04/30/first-quarter-2014-housing-share-of-the-economy-at-15-5/>

Housing's Contribution to GDP



Housing-related activities contribute to GDP in two basic ways.

The first is through residential fixed investment (RFI). RFI is effectively the measure of the home building and remodeling contribution to GDP. It includes construction of new single-family and multifamily structures, residential remodeling, production of manufactured homes and brokers' fees. For the fourth quarter, RFI was 3% of the economy.

While the first quarter of 2014 was the fourth strongest level of RFI after the Great Recession (\$482 billion annualized pace), the slowing of the rate of growth for home building was a drag on quarterly GDP growth. This was the second consecutive quarter of drag after 12 straight quarters of boosting economic growth. Nonetheless, the trend in recent quarters indicates that RFI is growing faster than the economy as a whole. For example, over the last two years, the quarterly annualized measure of GDP has grown about 3.7%, while RFI is up 15.5%.

The second impact of housing on GDP is the measure of housing services, which includes gross rents (including utilities) paid by renters, and owners' imputed rent (an estimate of how much it would cost to rent owner-occupied units) and utility payments. The inclusion of owners' imputed rent is necessary from a national income accounting approach because without this measure increases in homeownership would result in declines for GDP. For the fourth quarter, housing services was 12.5% of the economy.

Historically, RFI has averaged roughly 5% of GDP while housing services have averaged between 12% and 13%, for a combined 17% to 18% of GDP. These data illustrate once again the room housing has to grow, increasing national income and creating jobs.

Homeownership also represents the most important investment and source of savings that most middle class households will undertake.⁸ Nationally, the primary residence represents the largest asset category on the balance sheets of households. At \$20.7 trillion, the primary residence accounted for almost one-third, 30%, of all assets held by households in 2010. The primary residence represented 62% of the median homeowner's total assets and 42% of the median home owner's wealth. It is also a widely held asset. A greater share of households (67%) owned a primary residence than held a retirement account (50%) or stocks and bonds (16%).

Equity in residential property tends to be a particularly important component of wealth for lower income, older households. For age 75+ households with incomes under \$35,000, the median share of net worth held as equity in a primary residence is 60 percent. Higher income households over age 75 have higher net worth and more equity in a home in absolute terms, but equity in a primary residence accounts for a smaller share of total net worth. The median residential equity share of net worth for households age 75 or older with total income between \$35,000 and \$60,000 was 47% and 36% for older households with income between \$60,000 and \$100,000. The median residential equity share of net worth for the highest-income, older households was 30%.

Housing's Social and Community Benefits

The impact of housing is not limited to savings and other economic outcomes. Be it rental or owner-occupied housing, the residential capital stock provides a basic need for shelter. There is a time to rent and a time to own a home, with the right decision determined by factors such as age, income, family size, expected length of stay in a given area, and other factors.

Hence, ensuring the availability of safe and decent rental housing is an important social policy objective. The Low-Income Housing Tax Credit (LIHTC), the nation's only affordable housing production program, serves in a critical role in this regard. Since its inception, the LIHTC has produced and financed more than 2 million affordable apartments. As LIHTC properties must generally remain affordable for 30 years, they provide long-term rent stability for low-income households around the country. But the demand for affordable housing is acute and exceeds the availability of financing through the LIHTC program.

For those ready to meet the financial obligations of owning a home, homeownership offers a wide range of benefits to individuals and households.⁹ These include increased wealth accumulation, improved labor market outcomes, better mental and physical health, increased financial and physical health for seniors, reduced rates of divorce, and improved school performance and development of children.

⁸ *Homeownership Remains a Key Component of Household Wealth*. NAHB Economics and Housing Policy. <http://www.nahb.org/generic.aspx?sectionID=734&genericContentID=215073&channelID=311>

⁹ R.D. Dietz and D.R. Haurin, The social and private micro-level consequences of homeownership, *Journal of Urban Economics* 54 (2003) 401-50.

These beneficial financial and social outcomes are due to the stability offered by homeownership, as well as the incentives created by the process and responsibilities of becoming and remaining a homeowner.

An important motivating factor in the pursuit of homeownership is the investment opportunity it offers for many families. As noted earlier, despite recent price declines, equity in a home constitutes a substantial proportion of a typical American family's wealth. According to the 2010 Federal Reserve Survey of Consumer Finances (SCF), the median family net worth of a homeowner is \$174,500; for renters, it was \$5,100.

Homeownership also provides advantages for seniors. A significant proportion of a household's wealth is in the form of equity of owner-occupied housing, and this wealth provides significant advantages in retirement. Mayer and Simons (1994) indicate that equity in the home and the use of a reverse mortgage could increase liquidity for senior households by as much as 200%.¹⁰

These data illustrate the importance of housing wealth and suggest caution with respect to policies that would reduce these wealth holdings, based on decisions made over a lifetime, via direct policy changes or indirect changes.

Overall, economists, sociologists and other social scientists have found significant, positive homeownership-related impacts on a large set of outcomes associated with households and communities.¹¹ For these and other positive impacts, homeownership has and should continue to remain an important national policy objective.

Industry Headwinds

While the housing sector has considerable room to grow given population and household growth, the ongoing recovery has seen month-to-month volatility. In fact, recent data (particularly for existing home sales, but also for housing starts) indicate that the unseasonably cold winter sapped some of the momentum that the housing market carried into 2013. Beyond seasonal factors, other headwinds will challenge the recovery in home construction. These factors include access to building lots, rising building materials, access to builder credit, and labor shortages for some tasks in some markets.

As noted earlier, housing demand is recovering in most markets. However, to meet that demand, home builders must have access to developed, ready-to-build lots. The supply of lots in many markets is low, and for smaller builders this constraint is the primary reason for not being able to build homes. Partially, the lack of lots is connected to another headwind: lack of credit. Home builders and developers must

¹⁰ C. J. Mayer, K. V. Simons, Reverse mortgages and the liquidity of housing wealth, AREUEA Journal 22 (1994) 235-55.

¹¹ Two comprehensive literature reviews detailing the impacts of homeownership are: W. M. Rohe, G. McCarthy, S. Van Zandt, The social benefits and costs of homeownership: A critical assessment of the research, Research Institute for Housing America, Working Paper No. 00-01 (2000). R. Dietz and D. Haurin, The social and private micro-level consequences of homeownership, Journal of Urban Economics 54 (2003) 401-50.

have access to credit or equity to build homes or develop lots. Such lending, which typically comes from community banks¹², is known as acquisition, development and construction (AD&C) financing.

AD&C lending was severely curtailed during the housing crisis.¹³ At the low point for lending, the stock of loans was down approximately 80%. While lending conditions have begun to ease (according to NAHB industry surveys¹⁴ and FDIC indicates that the stock of outstanding loans rose by approximately 7% over the course of 2013, a lending gap persists that is filled, when possible, by non-traditional sources of financing. Nonetheless, lending for smaller builders and developers represents a significant bottleneck for the ongoing recovery in home construction.

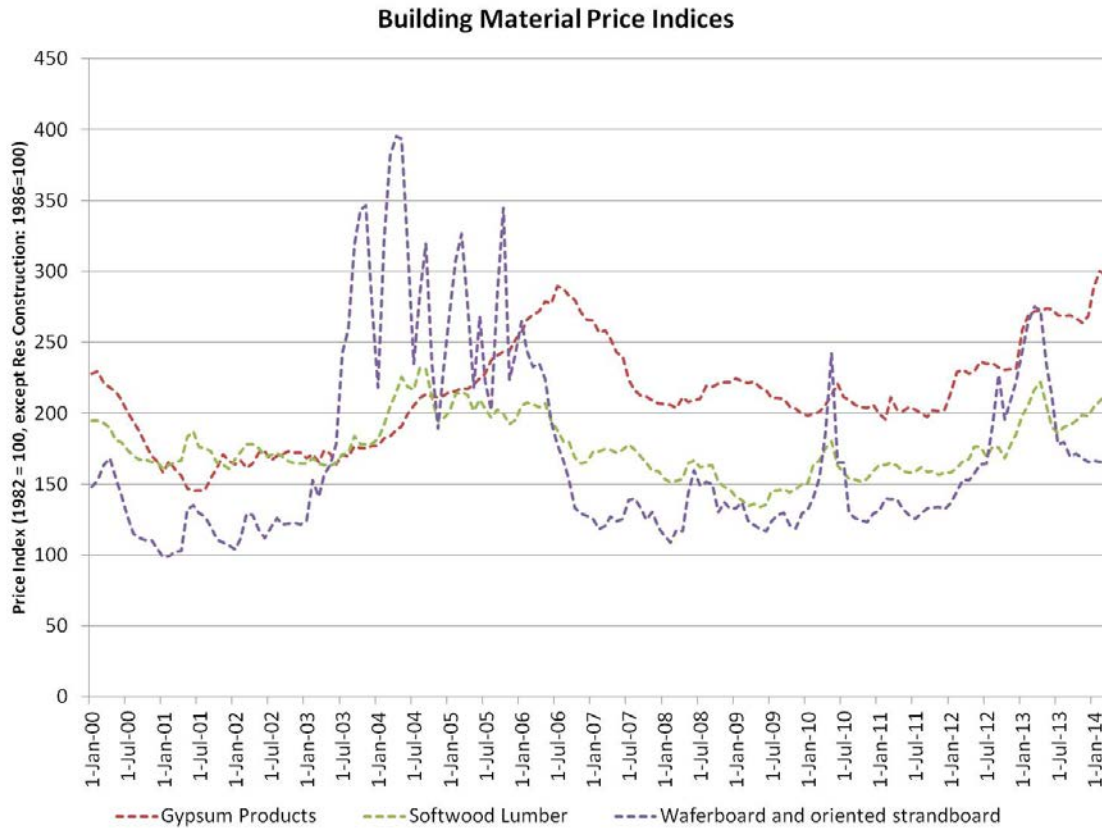
Rising building material prices are both a challenge and a sign of the recovery and growth in residential construction.¹⁵ Gypsum prices have risen by 10% to 20% at the beginning of the last three years. And softwood lumber and oriented strandboard prices have risen significantly over the last three years, with occasional spikes in prices when demand exceeds manufacturing capacity. Some easing in building material prices has been seen when new factories and material sources come online, but the rising cost of construction is a factor that keeps some building projects from proceeding.

¹² *Smaller Banks are the Largest Source of AD&C Lending*. NAHB Economics and Housing Policy.
<http://eyeonhousing.org/2014/04/21/smaller-banks-are-the-largest-source-of-adc-lending/>

¹³ *Stock of AD&C Loans Up More than 7 Percent During 2013*. NAHB Economics and Housing Policy.
<http://eyeonhousing.org/2014/02/27/stock-of-adc-loans-up-more-than-7-during-2013/>

¹⁴ *AD&C Lending Conditions Ease Slightly at the End of 2013*. NAHB Economics and Housing Policy.
<http://eyeonhousing.org/2014/02/24/ad-c-lending-conditions-ease-slightly-at-the-end-of-2013/>

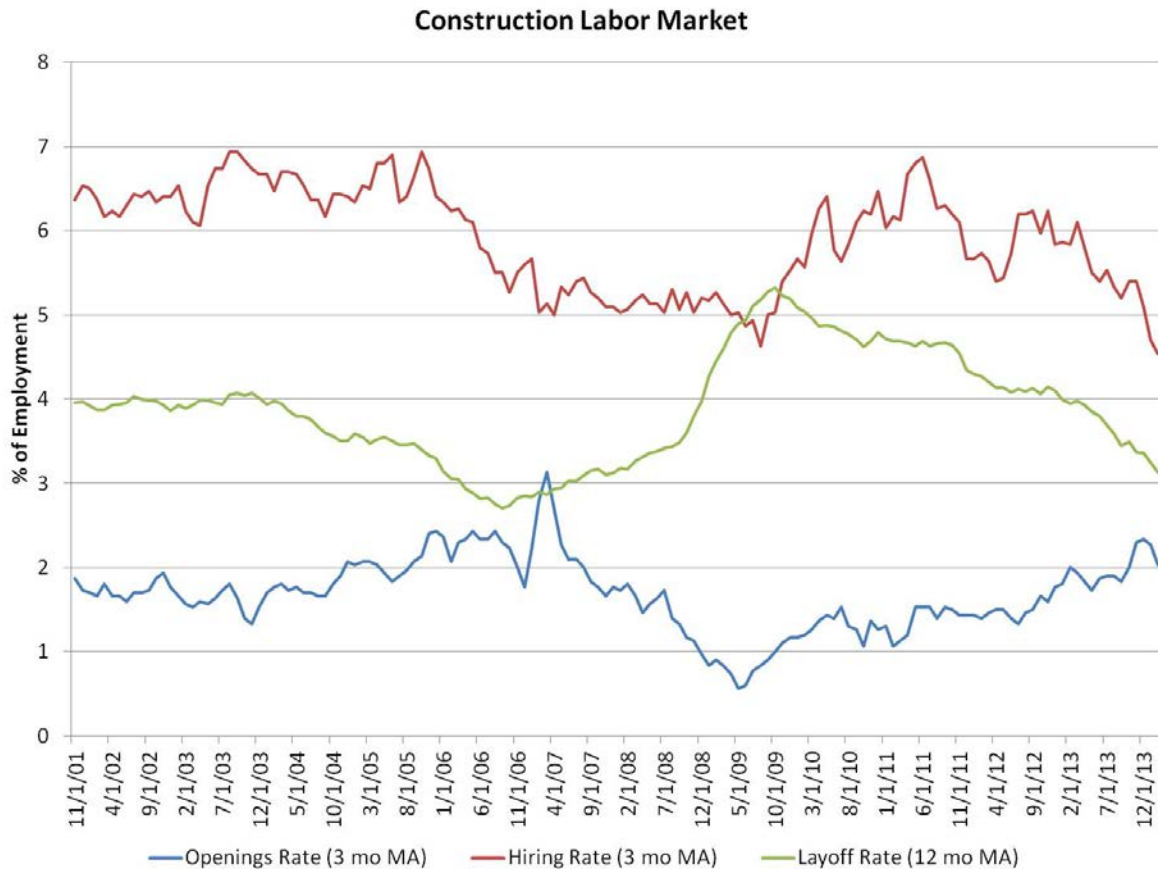
¹⁵ *Producer Price Index Up for March*. Economics and Housing Policy.
<http://eyeonhousing.org/2014/04/11/producer-price-index-up-for-march/>



Another significant headwind is local labor shortages, particularly for some skilled labor positions.¹⁶ NAHB industry surveys report that securing workers for projects for specific time periods has become increasingly difficult as the pace of home construction accelerated. Data from the Bureau of Labor Statistics Job Openings and Labor Turnover Survey (JOLTS) provides an illustration of the degree to which the rate of unfilled job openings in the construction sector is rising.

As of February 2014, the three-month moving average of the construction job openings rate stood at 2%, slightly lower than the 2.33% in December but a higher rate of unfilled jobs than any post-recession period before October 2013. Currently there are 273,000 unfilled jobs in the construction industry. The rate of open jobs in the construction industry has risen significantly since the spring of 2012.

¹⁶ *Construction Jobs Openings Cool at the Start of 2014*. NAHB Economics and Housing Policy. <http://eyeonhousing.org/2014/04/08/construction-job-openings-cool-at-the-start-of-2014/>



Finally, while housing demand should improve, given the sources of pent up demand and population growth, uncertainties with respect to the tax and finance rules that govern homebuying and home building act as additional business challenges to builders. These uncertainties include the future of housing tax rules in the Internal Revenue Code, including the mortgage interest deduction and the Low-Income Housing Tax Credit, as well as the future of the housing finance system and the secondary mortgage market. At the local level and federal levels, regulatory burdens also increase the cost of building and deter job creation.

Policy Recommendations

The home building industry can be a key engine of job creation that this nation needs. That said, certain policy decisions will help the industry play its traditional role as a job creator as the economy moves out of periods of weakness.

First, mindful of the job destroying potential of onerous regulations, ensuring that undue regulatory burdens do not hinder economic growth will ensure the sector can continue to create jobs. NAHB industry surveys and analysis shows the degree to which these regulations increase the cost of a

home.¹⁷ These estimates show that, on average, regulations imposed by government at all levels account for 25 percent of the final price of a new single-family home built for sale. Nearly two-thirds of this—16.4 percent of the final house price—is due to a higher price for a finished lot resulting from regulations imposed during the lot's development. A little over one-third—8.6 percent of the house price—is the result of costs incurred by the builder after purchasing the finished lot.

Fostering skill training and ensuring young workers are interested in the construction trades is another policy that will increase the growth of the industry, while raising wages and employment of younger workers. Multiple approaches can be taken in this regard, including job centers and protecting the role of the community college system in our nation. The BLS JOLTS data cited earlier indicates that there are currently many unfilled construction sector jobs waiting to be claimed by individuals with the right training.

At the federal level, Congress should maintain its important and historic support of homeownership and affordable housing. Protecting policies like the mortgage interest deduction and the LIHTC are critical to ensuring the growth of the middle class and access to housing. The future of the housing finance system, including enabling a liquid secondary mortgage market that serves the entire country, is also key to how people buy homes in the future. Passing comprehensive housing finance reform is a part of this process. Providing certainty with respect to these housing-related policies is an important goal.

In the short-run, one element of certainty can be obtained by passing a tax extenders bill that would extend tax rules such as the minimum 9 percent credit rate for the LIHTC and the continued existence of residential energy efficient tax credits (45L for new construction and 25C for retrofitting existing homes).¹⁸

Summary

Residential construction plays a key role in creating jobs and generating economic growth, particularly as the economy emerges from recessions. After a multiyear transition period, housing is once again playing that role and the industry is ready to get back to work. Housing creates jobs, and job growth for builders and other sectors of the economy in turn foster demand for rental and owner-occupied housing.

Given the underlying demand for new homes in the county, the industry is poised to build on the 274,000 jobs created over the last two and half years with hundreds of thousands more as housing starts return to more normal levels of production.

¹⁷ How Government Regulation Affects the Price of a New Home. NAHB Economics and Housing Policy. <http://www.nahb.org/generic.aspx?sectionID=734&genericContentID=161065&channelID=311>

¹⁸ <http://eyeonhousing.org/2013/10/23/housing-related-tax-provisions-expiring-at-the-end-of-2013-2/>