



Summary

There is a chronic shortage of housing in the U.S. that is driving up housing prices and making it more difficult for lower-income individuals to find safe, affordable housing. Housing production in the U.S. is not keeping pace with expanding housing needs. The underbuilding gap in the U.S. now totals more than 5.5 million housing units. The impact of this growing problem of an under-supply of affordable housing is far-reaching and undermines economic growth—particularly in urban areas.

Key Takeaways

- **Safe, decent, and affordable housing is critical to the well-being of America's families, communities, and businesses.** The COVID-19 pandemic intensified the nation's persistent housing crisis and heightened the need to expand the supply of affordable housing.
- Having a robust housing finance system is critical to meeting the nation's longstanding goal of ensuring decent and affordable housing for all. Debate over reforms to the government-sponsored enterprises (GSEs) continues, but no legislative proposals are currently under consideration.
- Confronting the housing crisis requires a **national transformation in housing policy**, including a **strategic plan to expand the supply of affordable housing**.
- Policymakers should look at the full scope of tools available to bridge the underbuilding gap as part of this national strategy, including:
 - Yes In My Backyard (YIMBY) policies;
 - Property conversion incentives;
 - Reforms to zoning and permitting rules;
 - Reforms to the GSEs that continue to protect financial stability and access to affordable mortgages;
 - Extending and improving Opportunity Zones (OZs);
 - Enacting the *Housing Affordability Act*; and
 - Expanding the Low-Income Housing Tax Credit (LIHTC).
- RER has partnered with 16 other national real estate organizations to jointly advocate for policies that will help to **increase housing supplies, grow jobs, and modernize our nation's critical infrastructure**.

Background

The Underbuilding Gap

- A persistent underbuilding gap over many decades has left the U.S. with fewer housing units than needed, leading to higher home and rent prices and lower affordability.
- Housing supply was also significantly impacted by the Global Financial Crisis (GFC) in 2008 and disruptions caused by the COVID-19 pandemic. The construction industry was particularly affected due to higher labor and material costs, worsening the underbuilding gap.
- Most of the new housing units in recent years have been single-family homes. Through the end of 2023, production of new single-family homes reached more than 1 million annually in 2022 and 2023 for the first time since the housing bubble burst in 2007.



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- Apartment construction is also at historic levels, with 438,500 units built last year, the highest level since 1987. The number of apartments under construction at the end of the year, about 981,000, was an all-time high since the survey began in 1969.
- With no change in current housing policy, we can expect annual production of approximately 1,515,000 units, including an estimated 1 million single-family units, some 440,000 multifamily units, and approximately 75,000 manufactured homes. Yet, even at the current pace, this level of production remains far below the 5.5 million housing units the U.S. is currently estimated to need.
- A quarter of American renter households spend more than 50 percent of their income on housing expenses. More than 10 million low-income households spend more than half of their monthly income on rent, according to Harvard's Joint Center for Housing Studies.

Recommendations

Enact Federal YIMBY Legislation: Proposed legislation like the bipartisan *Yes in My Backyard (YIMBY) Act* would help eliminate discriminatory land use policies and remove barriers to production of affordable housing.

- RER and 17 other national organizations submitted a [letter](#) in strong support of a version of the bill introduced in the 118th Congress, [H.R. 3507](#).
- The *YIMBY Act* requires recipients of certain federal grants to submit public reports about their implementation of specific land-use policies, such as policies for expanding high-density single-family and multifamily zoning.

Implement Property Conversion Incentives: The bipartisan *Revitalizing Downtowns and Main Streets Act of 2025* ([H.R. 2410](#)) would create a market-based tax incentive for converting older commercial buildings to residential use.

- By incentivizing residential conversions, the bill would help modernize U.S. real estate, create new and affordable housing, and strengthen cities and neighborhoods that continue to suffer from the aftereffects of the pandemic.
- The bill would create a new and temporary 20 percent tax credit for qualified property conversion expenditures, modeled after the historic rehabilitation credit. The total credit authority would be limited to \$15 billion, allocated by state housing finance agencies based on feasibility and impact.

Reform Zoning and Permitting Rules: Restrictive zoning and permitting rules create prohibitive barriers to constructing affordable housing and are exacerbating the housing crisis.

- Exclusionary zoning policies, such as prohibitions on multifamily homes, constrain housing construction. Streamlining permitting and zoning processes can unlock new housing supply.

Extend and Improve OZs: Opportunity Zone (OZ) tax incentives have successfully mobilized private investment in historically underserved communities. Long-term extension and targeted reforms are essential.

- Since their enactment in 2017, OZs have spurred billions in private investment to revitalize distressed communities, finance affordable housing, and create jobs. Under current law, the OZ tax benefits are phasing down and will expire altogether for new investments made after December 31, 2026.
- 72 percent of U.S. counties contain at least one OZ. Recent estimates suggest OZs have attracted over [\\$120 billion](#) in capital.

Expand the LIHTC: The LIHTC is a critical federal tool for addressing the widespread lack of affordable rental housing. Expansions to the program are critical to maximizing its impact.

- The 12.5 percent increase in LIHTC allocations to states will expire at the end of 2025 and should be extended.
- Legislation has been previously proposed to strengthen the LIHTC, including the *Affordable Housing Credit Improvement Act (AHCI)*, which would make it easier to combine LIHTC with other sources of capital, and the *Decent, Affordable, Safe Housing for All (DASH) Act*, which would offer a new Middle-Income Housing Tax Credit (MIHTC).



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Pass the Housing Affordability Act: Senators Ruben Gallego (D-AZ) and Dave McCormick (R-PA) introduced the bipartisan *Housing Affordability Act* to expand the supply of affordable housing by increasing Federal Housing Administration's (FHA) outdated multifamily loan limits.

- Without this fix, most areas are misclassified as "high-cost," limiting HUD's ability to support new multifamily developments and deepening the national housing crisis.
- If enacted, it will increase apartment construction, add supply, and help bring down housing costs, making housing more available and affordable for millions of American families.
- The *Housing Affordability Act* has the broad support of a number of real estate industry organizations, including RER, NAHB, NAR, NMHC, NHC, NAA, IREM, NAHMA, NLHAC, NAHC, and others.



Summary

The U.S. faces a severe shortage of affordable housing. Current production has just not kept up with demand. At the same time, certain other commercial real estate assets like office buildings are under significant stress due to pandemic-related issues, including employers' greater reliance on remote work arrangements. **RER is encouraging lawmakers to help revitalize cities, boost local tax bases, and address housing challenges** by enacting a tax incentive and federal loan support for converting older, underutilized buildings to housing. RER also supports a meaningful expansion of the low-income housing tax credit (LIHTC).

Key Takeaways

- Congress should help expand and grow the supply of affordable and workforce housing by investing greater resources in time-tested tax incentives like the LIHTC and adopting creative new approaches that support the conversion of underutilized, existing buildings to housing.
 - The conversion of underutilized and often vacant buildings offers a tremendous opportunity to improve the built environment and lift the surrounding locality. Property conversions are a cost-effective means to develop new housing supply, create jobs, and generate critical sources of local property tax revenue.
 - The LIHTC is an efficient, market-based housing solution that relies on the private sector to finance, build, and operate affordable housing by creating a federal incentive for new construction and redevelopment.
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Background

Property Conversions

- Bipartisan legislation introduced by Representatives Mike Carey (R-OH) and Jimmy Gomez (D-CA), the *Revitalizing Downtowns and Main Streets Act of 2025* (H.R. 2410), would create a new tax credit to reduce the costs associated with converting older office buildings to housing or other uses. The legislation is supported by a broad coalition of pro-housing and real estate-related organizations.
- Conversion projects can occur in a variety of settings, from central business districts and suburban office parks to rural communities and industrial facilities. The repurposing of existing structures can save energy while reinvigorating communities and reigniting economic growth where it is most needed.
- The inherent risks and elevated costs associated with property conversions, combined with the numerous social and economic benefits of conversions that flow to the broader community, justify proactive government policies that incentivize owners to adapt existing properties to new uses.

The LIHTC

- Since its inception in 1986, the LIHTC has financed the development of nearly 3.5 million affordable rental homes that house over 8 million low-income households. Proposed legislation would make major new investments (\$29-32 billion) in expanding and improving the LIHTC.
- Under the successful LIHTC program, states can award housing credits based on their own affordable housing priorities. They can target credits to housing units dedicated to certain populations such as seniors or veterans, or to specific regions most in need of affordable housing.
- The Tax Cuts and Jobs Act of 2017 (TCJA) indirectly diminished the value of low-income housing credits because the corporate tax cut reduced the underlying tax liability of many tax credit purchasers, thereby decreasing demand for the credits in the marketplace.
- The *Tax Relief for American Families and Workers Act* (H.R. 7024), passed by the House in early 2024 and supported by RER, would expand LIHTC. The bill would temporarily increase credit allocations to states and lower the amount of private activity bond financing that an affordable housing project must receive in



order to receive credits outside of the capped state allocation process.

- The Trump administration's position on the expansion and improvement of the LIHTC is not yet clear.

Recommendations

Implement Property Conversion Incentives: Congress should pass the *Revitalizing Downtowns and Main Streets Act of 2025* (H.R. 2410) to incentivize property conversions, increase the housing supply, and revitalize downtowns.

- The bill would create a 20 percent tax credit for the costs associated with converting older commercial buildings to housing, provided the housing includes a significant set-aside for affordable rental units.
- The new administration should also build on the progress made in the last administration, based on RER input and listening sessions, to streamline federal agency loan programs to provide financial support for CRE conversions.
- In particular, the administration should gear Department of Transportation loans for transit-oriented development (RRIF and TIFIA) to better enable commercial-to-residential building conversions.

Expand the LIHTC: Congress should significantly expand LIHTC, along the lines of the *Affordable Housing Credit Improvements (AHCI) Act* (S.1136, H.R. 2573 in the last Congress).

- The *AHCI* would create and preserve more than 2 million affordable homes, support three million jobs, and generate \$119 billion in sustainable tax revenue.

Support a Robust Single-Family Rental (SFR) Market: The SFR market holds great promise to increase the nation's housing supplies.

- Studies show that SFRs provide opportunities for upward social and economic mobility to households that are unable to buy homes but can rent in neighborhoods with better school districts.
- On March 24, 2025, RER responded to the FTC's request for public comment regarding the impact that large-scale SFR operators and institutional investors are having on home prices and rents in single-family housing. Institutional capital is essential to expanding housing supply and addressing the chronic housing shortage affecting affordability nationwide.



Summary

In response to the Global Financial Crisis in September 2008, the U.S. Treasury placed Fannie Mae and Freddie Mac into conservatorship under the oversight of the Federal Housing Finance Agency (FHFA). This action was intended to stabilize the mortgage market and restore confidence in the government-sponsored enterprises (GSEs). It also involved an injection of \$190 billion of capital, while creating an explicit U.S. government guarantee. The ongoing conservatorship means that the government has total control over these huge government-backed mortgage enterprises, with \$7.7 trillion in combined assets.

Conservatorship was not meant to be indefinite. More than 17 years later, the GSEs are in a much stronger financial position and have repaid the \$187 billion used to preserve Fannie and Freddie during the financial crisis. Yet, retiring the government's preferred and common equity stake would require a refinancing of massive scale, a taxpayer gift from the U.S. Treasury of tens of billions of dollars to Fannie and Freddie, or both.

Policymakers have increasingly discussed various reform proposals, including ending the conservatorship, full privatization, hybrid models, and continued government backing with additional safeguards.

As policymakers consider privatization or structural reforms, it is essential to the real estate industry and the broader economy to **preserve a well-functioning housing finance system that supports homeownership, expands affordable housing supply, and sustains economic growth.**

Key Takeaways

- GSE reform will involve transitioning these government-sponsored enterprises to private entities, which necessitates significant recapitalization, potentially through an Initial Public Offering (IPO), to meet regulatory capital requirements and address outstanding liabilities.
- As a practical matter, it will be challenging for Fannie and Freddie to exit conservatorship and remain effective in the marketplace without a government guarantee. Determining the cost of this guarantee is one of the key challenges of reform.
- An explicit guarantee, similar to Ginnie Mae, might be one solution, but this would likely require an act of Congress and a fee paid to the Treasury for assuming the risk. This could increase costs for underlying borrowers.
- If Fannie and Freddie are transitioned to private ownership, the process must ensure **financial stability, avoid market disruptions, and protect access to affordable mortgages.**
- Reforms to the GSEs should be part of a **larger national transformation in housing policy** to unleash a wave of new housing construction and fully address the underbuilding gap, including Yes In My Backyard (YIMBY) policies, property conversion incentives and reforms to zoning and permitting rules, Opportunity Zones, and the Low-Income Housing Tax Credit (LIHTC).

Background

Fannie Mae and Freddie Mac

- The Federal National Mortgage Association (FNMA), known as Fannie Mae, was chartered in 1938 to support the housing market during the Great Depression. In 1968, Fannie Mae was removed from the federal budget and became a federally chartered, stockholder-owned corporation. The Federal Home Loan Mortgage Corporation (FHLMC), or Freddie Mac, was chartered in 1970 to further expand the secondary mortgage market.
- Both of these entities enjoyed an "implicit guarantee" that the government would not allow such important institutions to fail or default on debt, enabling them to borrow in the credit markets at lower rates than other financial institutions. They have played a vital role in the U.S. residential single-family and multifamily



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mortgage market. As of December 2024, Fannie Mae and Freddie Mac collectively guarantee \$6.6 trillion in Agency Mortgage-Backed Securities (MBS), or some 50 percent of all outstanding U.S. mortgage debt.

- Since 2019, the GSEs have been authorized to retain profits to build capital. As of the third quarter of 2024, the Treasury's liquidation preference for the senior preferred shares stands at \$340 billion. This would need to be addressed as part of any privatization plan.
- As a result of retaining capital, Fannie Mae and Freddie Mac increased their combined net worth to \$147 billion as of the third quarter of 2024. Despite this steady growth, the GSEs remain well below the minimum regulatory capital framework requirements set by the FHFA in 2020. As of September 30, 2024, Fannie Mae's capital requirement is \$187 billion, while Freddie Mac's is \$141 billion, resulting in a combined total requirement of \$328 billion.
- Privatization efforts languished under the former Biden administration, but Trump administration officials, including U.S. Department of Housing and Urban Development (HUD) Secretary Scott Turner, FHFA Director Bill Pulte, and Treasury Secretary Scott Bessent, have expressed a desire to end the conservatorship. Yet, a key consideration of ending the conservatorship for Bessent is the potential impact on mortgage rates. He has indicated that any plan to release the GSEs from government control must carefully assess potential effects on mortgage rates to ensure that homeownership remains affordable.
- On Dec. 9, 2024, House Financial Services Committee Chairman French Hill (R-AR) commented on the potential for reform: "Although some changes can be achieved through administrative actions, certain important reforms are only possible through statutory changes."

Recommendations

Preserve Market Liquidity: Reforms that directly affect or result in changes to the GSEs' market activities must ensure that there continues to be sufficient liquidity to maintain a well-functioning housing finance system. Less liquidity and higher costs could reduce investment in new housing supply and exacerbate the housing shortage.

- The GSEs serve a vital purpose in the U.S. housing market, helping to keep mortgage rates relatively low and encouraging financial institutions to finance single-family and multifamily housing.
- Fannie Mae and Freddie Mac support around [70 percent](#) of the mortgage market, and in the first half of 2024, were responsible for [48 percent](#) of newly originated apartment loans.

Support Affordable Housing Goals: GSE reforms should ensure that Fannie and Freddie continue to maintain a strong emphasis on affordable housing and underserved markets.

- GSE-backed financing assists in the construction of new affordable housing, which is essential to address the chronic housing shortage. The estimated gap of [5.5 million](#) housing units in the U.S. undermines affordability and economic growth—particularly in urban areas.
- As part of their mission, Fannie and Freddie purchase [multifamily loans](#) which support affordable and workforce housing. The GSEs' loan purchases are overseen by the FHFA, which sets volume caps based on market forecasts.

Ensure Soundness and Stability: Any privatization or restructuring must ensure that the GSEs maintain financial strength, mitigate risk to taxpayers and support long-term market confidence.

- Fannie Mae and Freddie Mac held approximately [21 percent](#) of total multifamily real estate mortgages as of 2023. Reforms should ensure that the soundness of these and other loans continue to meet standards while providing sufficient liquidity to meet the market's needs, particularly in the affordable sector.
- The Enterprise Regulatory Capital Framework ([ERCF](#)), adopted by the FHFA as part of the conservatorship, established risk-based capital standards for the GSEs that exceed the statutory minimum leverage requirements. Reforms to Fannie and Freddie's capital requirements should ensure that they continue to be well-capitalized and can withstand economic distress.

Enhance Private Market Capacity: GSE financing efforts should focus on affordable and workforce housing and avoid crowding out private-sector financing and investment in class "A" market-rate apartments. However, reforms must appropriately calibrate any restrictions on multifamily lending to avoid any unintended consequences to aggregate credit capacity—particularly in times of economic distress.