VALUE OF NAHB MEMBERSHIP IN 2016

Estimates Produced by the
NAHB Economics and Housing Policy Group

January 5, 2016

Total Estimated Value of 16 Items in 2016

$7.17 billion, or $5,707 per housing start

This document provides an analysis of additional revenue and cost savings that NAHB members will realize in 2016 due to NAHB's advocacy efforts in 2015 and other select member benefits.

To convert total dollar estimates for 2016 to dollars per start, all totals are divided by 1,256,739, NAHB's forecast for total housing starts in 2016 as of December 31, 2015.

1. FHA Mortgage Insurance Premium Decrease

Estimated value: *$1.81 billion in total revenue to builders in 2016. $1,440 per housing start*

In a victory for NAHB, President Obama announced in January 2015 that the Federal Housing Administration (FHA) would reduce its annual mortgage insurance premiums by 0.5 percentage points, from 1.35 percent to 0.85 percent. For the typical first-time home buyer, FHA estimates this reduction translates into a $900 reduction in their annual mortgage payment.

During the financial crisis, FHA played a crucial role in keeping the mortgage market afloat, which came at a steep cost to the agency's capital reserve. NAHB supported FHA as it increased the annual insurance premiums by nearly 150 percent starting in 2011 in an effort to return the agency's capital reserve back to congressionally mandated levels.

As the housing market improved and FHA strengthened its financial health through growing reserves, NAHB's Senior Officers met with HUD Secretaries Donovan and Castro, the FHA Commissioner and FHA Deputy Assistant Secretary for Single-Family Housing to stress the need to reduce the mortgage insurance premiums to increase access and reduce costs to creditworthy borrowers. NAHB also was active in industry coalition efforts and strongly supported a letter to Secretary Castro from U.S. Senators calling for a reduction in the mortgage insurance premium

NAHB estimates that with the FHA-backed share of the new home market at 22 percent, the premium reduction will increase demand for that part of the market by 2.2 percent, resulting in the construction of an additional 4,500 or more single-family homes in 2016 and increasing builder revenue by $1.29 billion. A further boost of 1,800 single-family homes will be built due to the ripple effect of move-up buyers being able to sell their existing homes to first-time buyers so they can purchase new ones, producing another $520 million in industry revenue.

2. NAHB Defeats Proposal to Raise Mortgage Guarantee Fees

Estimated value: *$886 million in total revenue for builders in 2016. $689 per housing start.*

In an important victory for NAHB and home owners, the association was able to ensure that a five-year highway bill did not use guarantee fees (g-fees) collected by Fannie Mae and Freddie Mac to pay for transportation programs.

NAHB led the charge to strip a provision from the legislation that would have used g-fees to help offset a funding shortfall. To help fund the long-term transportation bill, lawmakers proposed a four-year extension to a previously-imposed g-fee increase of 10 basis points. Extending the 10 basis point fee increase for an additional four years would have amounted to a $1.9 billion tax on home owners.

NAHB estimates that by defeating the proposal, more than 3,000 new home sales were preserved in 2016, saving the industry more than $866 million in revenue.

3. PMI Tax Deduction Extended

Estimated value: *$325 million in total revenue for builders in 2016. $259 per housing start.*

H.R. 2029, the Protecting Americans from Tax Hikes Act of 2015, extended the deduction for mortgage insurance for 2015 and 2016, including mortgage insurance fees paid for FHA and VA loans. Such deductions reduce the after-tax cost of purchasing a home with a low downpayment, which is common among first-time home buyers.

Based on IRS data, NAHB estimates that the loss of the deduction would eliminate about 1.6 percent of home purchases by buyers expecting to use the deduction. We estimate approximately 1,210 potential lost new home sales if the deduction had not been extended for 2016, reducing industry revenue by approximately $325 million.

4. Key Housing Tax Credit Rules Permanently Extended

Estimated value: *$52 million in total investment in affordable housing in 2016. $41 per housing start.*

H.R. 2029, the Protecting Americans from Tax Hikes Act of 2015, contained two important rule extensions related to the Low-Income Housing Tax Credit. The first permanently extended the fixed 9 percent credit rate, which provides a greater flow of equity into affordable housing development. The second permanently extended the military base housing allowance exception for certain areas.

We estimate that these revenue provisions will increase equity investment in affordable housing, providing an industry benefit of $52 million in 2016.

5. Energy Efficient Home Tax Credit for Builders Extended

Estimated value: *$361 million in tax savings for builders in 2016. $287 per housing start.*

The 45L credit provides builders with a $2,000 tax credit for the sale of homes that achieve a 50 percent improvement in energy efficiency over the 2006 International Energy Conservation Code. Congress extended the credit for 2015 and 2016 under H.R. 2029, the Protecting Americans from Tax Hikes Act of 2015.

In 2016, home builders are expected to qualify for $361 million in tax savings due to 45L, according to estimates from the congressional Joint Committee on Taxation.

6. Energy Efficient Remodeling Tax Credit Extended

Estimated value*: $450 million in total revenue for remodelers in 2016. $358 per housing start.*

The 25C tax credit provides consumers a tax credit of up to $500 for the purchase of qualifying energy-efficient products. The 25C tax credit supported almost 140,000 jobs in remodeling in 2009. Government data indicates that the typical energy-efficient remodeling project costs a little more than $2,800.

NAHB estimates that nearly 9 percent of these remodeling projects would not have occurred without the credit. Using tax data and NAHB estimates, the expected extension of the 25C credit for 2016 results in an additional $450 million in remodeling revenue for the industry.

7. Fannie Mae and Freddie Mac Multifamily Loan Volume Preserved

Estimated value: *$210 million in total cost savings plus increased development in 2016. $167 per housing start.*

FHFA's 2013 Conservatorship Scorecard required Fannie Mae and Freddie Mac to reduce their volume of new multifamily business by 10 percent relative to 2012. In August 2013, former FHFA Acting Director DeMarco expressed intent to further reduce Fannie Mae's and Freddie Mac's multifamily businesses in 2014.

The 2014 Scorecard, the first issued under Director Mel Watt, called for the Government Sponsored Enterprises to maintain the dollar volume of new multifamily business at or below the 2013 caps (excluding loans for affordable rental housing, small multifamily properties and manufactured rental housing communities). Fannie Mae's multifamily lending purchases reached $30 billion in 2014, and Freddie Mac's reached $26 billion.

In January, FHFA issued the 2015 Scorecard, which directed the Enterprises to maintain the dollar volume of new multifamily business for each Enterprise at $30 billion or below, again excluding affordable housing loans, loans to small multifamily properties and loans to manufactured rental housing communities. To mitigate concerns of reaching the caps and cutting off multifamily loan purchases before the end of the year, both Enterprises began slowing their purchases by increasing their prices.

Fearing the potential impact of market disruptions as the Enterprises approached their volume limits, NAHB and other industry groups called on FHFA to take the steps necessary to restore stability in the multifamily lending market.

On May 5, 2015, FHFA responded by announcing that the $30 billion limits would remain in place for both Enterprises, but affordable lending exclusions from the volume caps would be expanded. The following revisions and additional exclusions to the affordable housing lending categories will not count against the 2015 multifamily volume caps:

- A pro rata portion of multifamily loan amounts purchased by the Enterprises will be excluded from the caps based on the percentage of units in a property affordable to renters at 60 percent of the area median income.

- In higher cost areas, the income threshold for affordability will be increased to 80 percent of area median income.

- For very high cost markets, the income threshold for affordability will be increased to 100 percent of area median income.

- Assisted living units for seniors will be excluded from the caps as long as they are affordable at 80 percent of area median income.

- The calculation of specific loan amounts excluded from the caps for mixed-income targeted affordable housing properties will also be modified.

Estimates suggest these exclusions will free at least $7 billion worth of additional loan volume for each Enterprise.

NAHB estimates that this additional $14 billion in multifamily lending will have two sets of impacts. First, the expansion of lending enables development of properties, particularly affordable rental housing that could not secure financing outside the GSE channels. We conservatively estimate this share at 10 percent of the total, which is equal to the affordable multifamily share for early 2015.

Second, the expansion of GSE lending reduced the cost of financing for the remainder of the lending relative to market-rate capital sources. We estimate that this effect reduced financing costs by 100 basis points. Together, these two effects will yield an industry benefit of $210 million in 2016.

8. Senate Proposal to Gut the HOME Program Averted

Estimated value: *$663 million in total housing industry revenue in 2016. $528 per housing start.*

In FY 2015, Congress provided $900 million in funding for the HOME Investment Partnership Program. This funding is flexible, and states use it to subsidize single-family and multifamily construction or rehabilitation, downpayments or rental payments for home buyers and tenants, all of which translate into revenue for businesses in the housing industry.

The Senate's version of the Omnibus spending bill for FY 2016 cut this to $66 million. NAHB strongly opposed this drastic cut, and achieved a major victory when the final version of the bill increased funding for HOME in FY 2016 to $950 million—or $884 million more than the Senate version. We pro rate this to $663 million to account for the fact that only three-fourths of the federal government's fiscal year overlaps with calendar year 2016.

9. Onerous OSHA Silica Requirements Delayed

Estimated value: *$1.54 billion in total cost savings for the home building industry in 2016. $1,223 per housing start.*

OSHA has been working for eight years on a rule to minimize the release of crystalline silica particles on construction work sites. During that time, NAHB has communicated frequently with OSHA, emphasizing that proposed requirements for frequent worker monitoring and reporting and/or tracking the silicate content in every substrate that every employee works on would be very costly. Without continual action by NAHB, OSHA would certainly have issued the final rule by now.

Participating with a coalition, NAHB contracted with an independent economist to estimate the cost of the proposed rule. The resulting estimate for the entire construction industry was $4.9 billion in 2009. About 42 percent of this falls on the residential sector (including residential building construction, land subdivision, and allocating the costs to trade contractors based on the ratio of residential to total private fixed investment in 2009).

NAHB's economic forecast dated 12/31/2015 projects that, in real terms, residential fixed investment will be 41.9 percent higher in 2016 than in the trough of 2009. The forecast also projects that the general price level (measured by the CPI for all urban consumers) will be 12.2 percent higher in 2016 than in 2009. Adjusting for real growth plus inflation produces an estimate that OSHA's proposed silica rule would cost the residential construction industry $3.07 billion in 2016 if the rule as proposed were in place at the start of the year.

We know OSHA is striving to respond to public comments and issue a final rule as soon as possible. Minimal lag for the rule to be issued and take effect would be six months from the start of the year, probably longer. Thus, a conservative estimate is that NAHB actions have at least saved the residential construction industry half of the estimated cost of the rule in 2016, or $1.54 billion. Savings would be greater in the likely event it takes more than six months for a rule to be issued and take effect, or if NAHB's comments are successful in persuading OSHA to modify the rule so compliance is less costly.

10. NAHB Resources Help Members Prepare for New TRID Rule

Estimated value: *$79 million in total savings due to speedier closings in 2016. $63 per housing start.*

The TILA-RESPA Integrated Mortgage Disclosure (TRID) rule took effect on October 3, 2015. According to NAHB Housing Finance staff, the industry consensus was that implementation of the new rule could delay closings by a month.

To help clarify and prepare members to potentially avoid delayed closings, NAHB conducted a webinar and created a Web page dedicated to the topic. There were 147 participants in the webinar and over 23,000 views of the web page (making this one of NAHB's most-viewed web pages). We assume that the web participants and one-fourth of the views (accounting for the possibility that an NAHB member may view more than once and some views may be short and casual) can use the information provided by NAHB to alleviate delays.

According to NAHB's 2014 Member Census, NAHB single-family builders on average build 25 homes a year. This implies a little over 149,000 homes a year built by members benefitting from NAHB's educational material on TRID. To estimate the value, assume that NAHB's information and guidance on average allows a builder to save half of the industry-consensus one-month delay in closing. The result is an aggregate 74,600 months saved (closings occurring faster than they would without the NAHB-provided material).

To monetize the value of reduced delay, begin with NAHB's 2013 Construction Cost breakdown, showing that the average financing cost for the typical single-family home built by NAHB members responding to the survey is $5,479. According to NAHB tabulation of data from the Census Bureau's Survey of Construction, it took an average of 5.15 months to build the new single-family homes sold in 2014. Implied financing costs for the average home are $1,064 per month of construction. Multiplying this by aggregate months saved produces an estimate of $79.4 million in savings due to avoided delays.

11. Final Clean Power Plan Includes NAHB-Backed Change

Estimated value: *$364 million in total single-family construction in 2016. $289 per housing start.*

Key changes championed by NAHB on behalf of our members are included in new regulations released August 3, 2015 by President Obama and Environmental Protection Agency (EPA) Administrator Gina McCarthy that are aimed at reducing greenhouse gas emissions from the utility sector.

This package includes the final Clean Power Plan, which establishes provisions to control power plant emissions. EPA has established targets for each state, and states must now develop an implementation plan to meet the EPA-established emission reduction goals that are consistent with guidelines included in the new rule.

NAHB raised concerns during the public comment process that focused on the agency's limited authority under the Clean Air Act, as well as the proposal's detrimental impact on voluntary energy-efficiency programs, energy-related building codes, and ultimately, housing affordability.

Importantly, EPA's final rule is substantially different from what it originally proposed.

Of significant note to home builders: EPA made several key changes to how programs that target consumer energy usage but affect home construction are treated.

The most noteworthy revisions:

- EPA removed energy efficiency from the calculations used to determine greenhouse gas emission reduction potential and state emission reduction performance goals. This move acknowledges that the proposed rule exceeded EPA's authority and will allow states to maintain their existing energy-efficiency programs.

- EPA altered the guidelines that states must follow when developing their emissions reduction plans, effectively removing any chance that demand-side energy-efficiency programs – such or purchasing incentives for certain appliances or peak pricing — or energy-related building codes will be a part of the mandatory federally enforceable state plan. This ensures that EPA will not be able to enforce energy-efficiency measures it has no experience with or authority to implement.

While energy efficiency remains a compliance option for states and power plants to meet their emission goals, the final rule significantly limits the rule's potential impact on the residential construction industry. As a result of these changes championed by NAHB, states will have less incentive to further ratchet up energy-related building codes or impose other onerous requirements on builders.

NAHB staff continues to evaluate all of the changes EPA has incorporated into the final regulation in order to assess potential impacts the final rule will have on the residential construction industry moving forward.

The EPA estimated that the increased compliance cost for the original proposal would total $7.4 billion for a year if put into place in 2020. These costs would be passed on to consumers, thereby raising energy costs. Assuming this cost would be the same if the proposal had gone into effect for 2015, this would increase electric costs by 0.9 percent annually. If the proposal had gone into effect, it is estimated that these increases for housing-related expenses would reduce new single-family construction by almost 1,300 homes, thus reducing industry revenue by $363.7 million in 2016.

12. New York State Rejects Sprinkler Mandate

Estimated value: *$87 million in total savings to builders in 2016. $69 per housing start.*

NAHB helped the New York State Builders Association score an important victory when the New York State Code Council voted against a proposal that would have required home builders to install fire sprinklers in all new one- and two-family homes and townhouses built in the state.

NAHB testified on the issue in Albany at the beginning of the year, performed custom tabulations based on the Department of Homeland Security's fire incidence data for the state, provided cost estimates and compiled information from other states that had experience with the issue.

Based on NAHB's state housing forecast, this will save builders the cost of installing sprinkler systems in 11,500 single-family homes in 2016. The average cost of a sprinkler system in the NFPA Research Foundation's *Home Fire Cost Assessment Study-2013* was a little over $6,000 (including costs of design, permits, additional equipment required, increased tap and water fees, but no mark-up from the builder to the ultimate home buyer). The total savings on all homes built in 2016 works out to $69.3 million.

Total of additional new construction and remodeling is a little over $1.1 billion per year. Dividing by NAHB's forecast dated 1/01/15 of 992,508 housing starts for 2016 generates an estimate of $1,125 per start.

13. NAHB Helps North Carolina HBA Enact Cost Saving Property Tax Rule

Estimated value: *$145 million in total additional revenue for builders in 2016. $115 per housing start.*

The North Carolina Home Builders Association achieved a significant victory with the enactment of HB 168, Exempt Builders' Inventory legislation.

The legislation exempts from local property tax improvements to land being developed for residential purposes as well as the construction of single-family and duplex dwellings being offered for sale.

The builder/developer must apply for the exemption annually; it ends when the property is sold or after three years, whichever occurs first. NAHB's Economics and Housing Policy Group assisted in this state-level victory by producing an economic analysis detailing the economic benefits of the tax change, including jobs gained and tax revenue impacts. NAHB estimated a state-level benefit of $145 million as part of this analysis.

14. NAHB Helps EPA Simplify Stormwater Permitting Process for Small Builders

Estimated value: *$8 million in total costs saved by single-family builders in 2016. $6 per housing start.*

Currently, most builders who purchase a single lot from a developer need to perform all of the Construction General Permit (CGP) permitting steps, like developing a Stormwater Pollution Prevention Plan (SWPP) and completing the corresponding paperwork as the developer for the same parcel of land.

NAHB has lobbied for a "single lot permit," and EPA has shown NAHB a single lot permit template that, if finalized, would greatly simplify the process for single lot builders. Moreover, EPA has given NAHB every indication that this will be finalized by the end of the year.

To estimate the number of builders likely to benefit, results from NAHB's 2014 Member Census and Development Projects Survey imply that the average single-family general contractor (GC) builds in 2.45 subdivisions per year. There are a little over 3,100 GCs who build 12 or fewer homes a year. If these were spread evenly across the average number of subdivisions, all of these homes would be in the general category of five or fewer homes per subdivision that qualifies for the simpler permit (if spread unevenly, some of these lots would be purchased more than five at a time, but lots purchased by larger CGs may also be spread unevenly, with some purchased five or fewer at a time, which would offset this).

The average of 4.16 homes per year built by these smaller GCs implies that a total of 13,000 single-family lots were sold to builders in groups of five or fewer per builder per subdivision in 2014. Inflating this by NAHB's housing forecast for single-family starts implies about 17,000 lots in subdivisions sold to individual builders in groups of five or less in 2016 (when the simpler permit is likely to be available).

Just over 500 of these will be in the five states where EPA runs the stormwater program, but EPA will encourage other states to adopt it. Given the tendency of these states to follow EPA procedures, we use half of the homes built in subdivisions in these states as a conservative estimate of the ones subject to the simpler permitting process and generate an estimate of 8,700 lots that potentially benefit in 2016.

We reduce this to 7,755, assuming 11 percent are in environmentally sensitive areas where the new permit does not apply (a percentage calculated from EPA's data from the states where it runs the program). NAHB contacted a consultant who works in this field who reported that the savings per lot will range from $500-$1,500. Using the midpoint of the range produces an estimate of $7.8 million in cost savings in 2016, primarily to smaller single-family general contractors.

15. NAHB Designations Boost Members' Business

Estimated value: *$202 million in total business in 2016. $160 per housing start.*

NAHB members continue to invest time, effort and money to attain professional designations offered by NAHB, which they clearly wouldn't do unless they believed the designations provided value. There is further evidence in NAHB's latest consumer survey, where 64 percent of recent and prospective home buyers agreed that contractors with such specialized professional designations are "worth paying a higher price for."

A simple way to assign a rough value to a designation is to look at the revenue differential between businesses of members with and without the designation. It is possible to do this by matching records of builders and remodelers who have earned NAHB professional designations to NAHB's 2014 Member Census. The results are as follows:

- Companies of builder members with one of NAHB's builder designations, Certified Graduate Builder (CGB) and Graduate Master Builder (GMB), had revenues that averaged $792,077 more than companies of builder members without one of those designations. (Note: there are too few members with GMB designations to analyze separately.)

- Companies of members holding the Certified Green Professional™ (CGP) designation averaged $518,795 more.

- Companies of remodeler members with a Certified Graduate Remodeler (CGR) or Graduate Master Remodeler (GMR) designation averaged $700,848 more than companies of remodeler members without one of these designations.
- Companies of members with the Certified Aging-in-Place Specialist (CAPS) designation averaged $108,334 more.

In 2015, 731 NAHB members earned one of these designations. This implies designations earned during the year will ultimately result in an aggregate value of $201.5 million per year, which we apply to the following year (2016).

16. Affinity Programs Save NAHB Members Money

Estimated value: *$14 million in total savings for members in 2016. $11 per housing start.*

NAHB members have access to various discounts and savings opportunities offered by many top companies.

According to NAHB's Marketing and Business Development Group, $14 million in total savings for members is a conservative projection for 2016.