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ON BEHALF OF THE
NATIONAL MULTI HOUSING COUNCIL
AND THE
NATIONAL APARTMENT ASSOCIATION

BEFORE THE
HOUSE COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON COMMERCE, MANUFACTURING AND TRADE

FOR THE HEARING
“OUR NATION OF BUILDERS: HOME ECONOMICS”

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Chairman Terry and Ranking Member Schakowsky, the National Multi Housing Council (NMHC) and the National Apartment Association (NAA) would like to thank you for this opportunity to testify on the multifamily sector's contribution to the national economy and our relationship to manufacturing. We applaud your efforts to examine all facets of the nation's homebuilding industry and your recognition of the role that housing providers play in promoting economic growth and job creation.

NMHC/NAA represent the nation's leading firms participating in the multifamily rental housing industry. Our combined memberships engage in all aspects of the apartment industry, including ownership, development, management and finance. NMHC represents the principal officers of the apartment industry's largest and most prominent firms. NAA is a federation of 170 state and local apartment associations comprised of approximately 60,000 multifamily housing companies representing more than 6.6 million apartment homes throughout the United States and Canada.

THE ECONOMIC IMPACT OF APARTMENTS

The apartment industry plays a fundamental role in providing suitable and affordable housing to millions of Americans, while significantly contributing to the American economy. In communities across the country, apartments thrive – helping people live in a home that is right for them. Whether it is young professionals, empty nesters, students, military personnel or families looking for a flexible and economical housing choice, apartment homes provide a practical option to meet their specific housing needs.

Demand for apartments continues to grow and half of all new households formed this decade are expected to rent. With 77 million Baby Boomers who may consider downsizing and nearly 80 million Echo Boomers beginning to enter the housing market, Harvard University research suggests that up to 7 million new renter households will form this decade¹.

Unfortunately, supply is already falling short of meeting this demand. An estimated 300,000 to 400,000 apartment units must be built each year to meet demand; yet just 158,000 apartments were delivered in 2012 – not enough to even replace the units lost annually through demolition,

¹ Stephen S. Fuller, Ph.D., "The Trillion Dollar Apartment Industry", in partnership with the National Multi Housing Council and National Apartment Association. February 2013. Available at: www.weareapartments.org.

obsolescence and conversion. The nation is facing a shortage of multifamily homes. This shortage is particularly acute for low- and moderate-income households. The Harvard Joint Center for Housing Studies estimates a nationwide affordable housing shortfall of 5.1 million units.

This signifies a tremendous opportunity for economic growth stemming from the apartment industry. According to George Mason University Economist Stephen Fuller, Ph.D., apartment homes and the 35 million residents that live in them already contribute \$1.1 trillion annually to the economy². That is nearly 26 million jobs in construction, operations, leasing, management and skilled trades - many at local businesses supported by apartments and the millions who live there.

New apartment construction is a significant driver of job creation and spending in communities nationwide. The economic downturn resulted in a large decline in multifamily building, with apartment starts hitting a low in 2009 of just 97,300 new units according to the U.S. Census. However, by mid-2010 new apartment groundbreakings began to trend upwards, and in 2011, 167,000 apartment units were started. According to Dr. Fuller's report, this construction activity produced \$14.8 billion in spending, and had a total economic contribution of \$42.5 billion. Further, this apartment construction spending generated \$12.7 billion in personal earnings and supported nearly 324,000 jobs in 2011. Most of these jobs were directly supported by apartment construction, including 121,000 on-site positions held by framers, electricians, plumbers, carpenters and various other trades.

However, the economic effects of apartment buildings extend far beyond the initial construction period. Apartment growth generates permanent jobs and tremendous spending related to ongoing property operations and maintenance. Beyond the routine needs of keeping a building operational, apartment firms invest annually in property repairs and improvements to attract and retain residents in a competitive environment. The multifamily industry spends nearly \$70 billion on apartment operations every year. That spending generates a total economic contribution of \$182.6 billion according to Dr. Fuller, and supports 2.3 million jobs annually.

Finally, apartment residents themselves substantially contribute to the communities in which they live. Apartment resident spending totaled \$421.5 billion, supporting 22.8 million jobs, for a total economic contribution of \$885.2 billion in 2011.

² See *id.*

By way of illustration, my company, The Bozzuto Group, has started more than three-quarters of a billion dollar's worth of projects since the end of the recession. Using economic analysis completed for NMHC/NAA³, this means we have contributed to the creation of more than 10,200 jobs nationally. Specifically, since June 2009 we have generated:

- In Maryland: Projects valued at \$518.2 million (2,245 units);
- In DC: Projects valued at \$279.3 million (707 units);
- In Pennsylvania: Projects valued at \$45 million (248 units);
- **Total: Projects valued at \$842.5 million (3,200 units).**

And, these numbers represent only projects that we started in which we have an ownership interest. Beyond this, our construction company has started an additional \$555 million worth of projects for other developers.

HOW APARTMENT DEVELOPMENT SPURS MANUFACTURING

The multifamily industry relies heavily on our manufacturing partners to both develop new apartments and maintain the country's 19 million apartment homes. Because apartments come in all shapes and sizes and each project is individualized, we depend on a full gamut of manufacturers, ranging from high-volume producers to small specialty shops.

To put this in perspective, let me illustrate how this works with a current Bozzuto construction project, Union Wharf. The \$72 million apartment community is being built on an undeveloped, former industrial, waterfront site in Baltimore's historic Fells Point neighborhood, and when completed later this year, will bring to the community 281 apartment homes, 4,500 square feet of retail and nearly 500 parking spaces. More than 600 jobs will be created by the project.

The manufacturing impact of this project is profound given the tremendous amount of building materials and products used in its' construction. This building required 14,000 cubic yards of concrete and an additional 1,000 tons of reinforcing bar (rebar) – enough concrete to fill 240 swimming pools. There is nearly 1.75 million linear feet of lumber, which end-to-end would

³ See *id.* and <http://www.weareapartments.org/calculator/search>.

span about 331 miles. The project includes 76,000 sheets of drywall, which could cover more than 42 football fields. The sprinkler system alone requires 56,250 linear feet of piping and almost 5,000 sprinkler heads. In addition, this apartment community will use 204,000 lbs of granite, 290,000 bricks, over 7,000 gallons of paint, 1,700 appliances and 3,500 cabinets.

Union Wharf also illustrates our commitment to sustainability and good environmental stewardship, and exemplifies the opportunities available for the apartment industry to spur economic growth in existing communities. This infill development project, being built on the site of a former concrete factory, restored an underutilized and vacant land parcel to productive use, promoting smart land use practices. Union Wharf was accepted into Maryland's Voluntary Cleanup Program, a program that encourages the restoration and redevelopment of industrial and commercial sites.

In addition, this project is on track to achieve LEED Gold certification from the U.S. Green Building Council. Among the green building features included in Union Wharf are: water-conserving plumbing fixtures, Energy Star appliances, high-efficiency windows, energy-saving HVAC systems and energy efficient construction materials.

More important, over 25 percent of the construction materials used were sourced within 500 miles of the project site. This reflects the possibilities available for multifamily firms to develop relationships with regional manufacturers and suppliers. More than \$1.4 million of the project's concrete was manufactured within 5 miles of the site, and an additional \$2.3 million in related concrete materials were manufactured within 500 miles of the site. Other regionally-sourced materials included the wood framing and \$700,000 worth of rebar.

This is an especially important project in that we are supporting the City of Baltimore's goal of bringing more than 30,000 new residents to Baltimore over the next decade – reversing a more than a half-century of population decline. We join Baltimore in trying to do our part to accomplish that vision.

And we cannot profitably build such large-scale multifamily developments without our longtime supplier partnerships. We have existing national contracts with U.S.-based manufacturers including Moen, Shaw, Kohler, Tyvek (a DuPont Company), Ingersoll Rand and Sherwin Williams.

We continue to expand our supplier relationships, mixing them into our existing pool of partners to ensure that we get the quality we demand at a price that is competitive.

HOMEBUILDING CHALLENGES AND POLICY OPPORTUNITIES

The apartment industry can be a robust economic engine that provides lasting job growth and spending nationwide. However, the ability of our sector to provide these benefits depends on collaboration and partnership with Congress and State and local governments to ensure that policies support the development and operation of apartment housing. The House Energy and Commerce Committee is poised to address a number of issues of concern to the apartment industry.

Energy Policy

Apartment firms have a significant business interest in both reducing the energy costs of developing and operating apartment communities and maintaining continued access to affordable fuel sources. Efficient use of resources is key to ensuring that housing and related utility expenses remain affordable for apartment businesses and residents alike.

As the Energy and Commerce Committee, and Congress in its entirety, moves forward with energy policy reform, we wish to call your attention to several issues with the capacity to either help or hinder the apartment industry in our efforts to grow our business, create jobs and spur spending while maintaining housing affordability.

Apartment homes are already a highly efficient housing choice. Data from the U.S. Energy Information Administration consistently shows that people living in apartments use less energy per household and per household member than their counterparts in single-family houses. This reflects certain efficiencies inherent in the design and operation of multifamily buildings including compact design, small unit size and limited exterior openings and exposures. Of course, new opportunities for increasing energy savings are constantly evolving. Notably, energy efficiency improvements made in apartment properties can generate significant energy reductions and impact a large number of households. Federal efforts to drive efficiency investments should therefore recognize the unique characteristics of apartment housing and support industry-specific research, technology development and demonstration programs.

Building Energy Codes:

Numerous legislative efforts have focused on reducing energy consumption through aggressive building energy codes. However, research shows that over-reaching codes negatively impact apartment affordability and could quell new apartment construction and building renovation.

NMHC/NAA have an extensive history of service in the development of national model energy codes and have served on numerous code and standard committees, including the International Code Council's (ICC) International Energy Conservation Code (IECC) and ASHRAE Standards 90.1 and 90.2. We also serve as an ICC Strategic Partner and are members of the ICC Code Technology Committee, Industry Advisor Committee and the recently formed Sustainability, Energy and High Performance Building Code Action Committee. As such, we have an explicit commitment to developing meaningful, practical and cost-effective building codes.

We recognize that the U.S. Department of Energy (DOE) also plays an important role in the code development process, and that the code committees attribute significant weight to DOE's analysis. Therefore, it is critical that any DOE recommendations, data analysis and cost calculations reflect realistic industry benchmarks, and are accurate, transparent and replicable. Importantly, DOE should recognize that multifamily development is unique in the residential sector and requires sector-specific analysis of code provisions and costs. NMHC/NAA support efforts to compel DOE to economically justify their code activity, publically vet their code proposals and collaborate with all stakeholders.

Building Energy Labeling and Energy Consumption Disclosure:

As policymakers seek ways to improve energy efficiency, some legislative and regulatory efforts aim to establish a building rating system that would grade buildings on their energy efficiency and publicly disclose that information. Most notably is the proposed DOE Asset Rating Program. Building energy labels raise valuation concerns and transactional uncertainty, especially since the accuracy of these labels is not yet proven in the apartment sector.

NMHC/NAA oppose the development of mandatory building performance labeling programs and continue to work with federal partners to expand well-known and voluntary energy management tools, such as the federal Energy Star program, to apartment properties.

Green Building Codes and Standards:

Apartment firms have increasingly established sustainability and green building goals for their portfolios. However, where policymakers seek to incorporate green building mandates into building codes or other jurisdiction requirements, the apartment industry can face significant costs and technical problems where green programs are not well tailored to multifamily construction.

The National Green Building Standard (NGBS) is the most appropriate standard for residential construction. It was developed by a diverse group of stakeholders that included state and local building code officials, representatives of the U.S. Green Building Council, real estate industry representatives, product manufacturers and other experts in green building and energy efficiency. Moreover, the standard, which covers multifamily, single-family and mixed-use development, is the only residential standard written to be seamlessly incorporated into existing building codes, and it has followed the strict standard-setting procedures established by the American National Standards Institute.

Energy Efficiency Incentives:

Instead of mandates, the apartment industry supports meaningful incentives for energy-efficiency upgrades in buildings that both promote energy savings and spur jobs. Favorable tax treatments, including enhanced depreciation schedules for certain building systems and an extension and expansion of the energy-efficient new homes and commercial buildings tax provisions, are among the tools to assist property owners in making substantial investments in newer, more efficient building systems.

Other Key Apartment Industry Priorities

More broadly, the apartment industry is affected by a host of federal policies ranging from immigration, to housing finance reform, to tax reform. While not all within the jurisdiction of this committee, there are several issues in particular that play a critical role in the health of the apartment industry:

Housing Finance Reform

The apartment industry's success depends on a stable and sufficient supply of liquid capital in ALL markets at ALL times. That capital is not only needed to enable the industry to build more apartments but also to allow existing owners to renovate and maintain their buildings and to en-

able owners to refinance maturing mortgages. An absence of such capital does not just affect apartment owners; it also affects millions of renters and the communities they live in.

Although NMHC/NAA strongly support a financing structure dominated by private capital, history has shown that even during healthy economic times the private sector has been unable to meet the industry's financing needs. All private sources of capital, from commercial banks to life insurance companies to the CMBS market, have limitations either in the terms of loans they offer, the kinds of properties and markets they target or even their capacity or willingness to lend to certain types of borrowers and in less attractive markets.

As a result, NMHC/NAA urge policymakers to maintain a federal guarantee for multifamily mortgages whether or not they choose to retain Fannie Mae and Freddie Mac in their present forms. This is crucial to ensuring that liquid mortgage capital is available in secondary and tertiary markets during all economic climates. Furthermore, providing a federal guarantee in the multifamily sector has not come at a cost to taxpayers, even during the financial collapse. Fannie Mae's and Freddie Mac's multifamily lines of business were not part of the housing crisis and have actually produced \$10 billion in net profits for the government since they were placed into conservatorship.

Reducing Regulatory Barriers

The apartment industry is a highly regulated sector, governed by a flood of regulations from agencies as diverse as the Department of Housing and Urban Development (HUD), the Environmental Protection Agency (EPA), the Department of Energy (DOE) and even the Federal Reserve. Excessive regulation and compliance uncertainty results in costly mandates that divert resources not only from the production and operation of multifamily housing, but ultimately, from job creation.

NMHC/NAA recognize the need for regulations but urge Congress to insist that new rules have demonstrable benefits that justify the cost of compliance. In addition, federal agencies should be aware that broad-stroke regulations often have disproportionate effects on various industries; therefore, those rules and regulations affecting real estate should reflect the industry's diverse business and operational structures. Finally, all regulations must be grounded in fact and rely on the latest scientific and/or economic evidence.

Tax Reform

NMHC/NAA support enacting pro-growth tax reform that does not disadvantage apartment owners and renters relative to other asset classes. Our principles for reform include insisting that Congress take a comprehensive approach and not reduce rates for corporate taxpayers at the expense of flow-through taxpayers (e.g., LLCs, partnerships and S Corporations) that dominate the multifamily sector and remit business taxes on their individual income tax returns. We also strongly support maintaining the current-law tax treatment of carried interest; the full deductibility of business interest; the Low-Income Housing Tax Credit; and the estate tax compromise agreed to in the American Taxpayer Relief Act of 2012 that calls for a \$5.12 million exemption (indexed for inflation) and a 40 percent top rate.

Immigration Reform

NMHC/NAA urge policymakers to address our national immigration policy through comprehensive federal legislation. Immigration policy is a federal responsibility with national security and economic implications that should be handled by the federal government. Comprehensive immigration reform would be a disincentive for state and local governments to enact a patchwork of laws, including those measures imposing mandates on rental housing providers to verify the immigration status of apartment residents, thereby creating greater predictability and efficiency.

We support a reliable system for employers to verify the immigration status of their employees accurately and efficiently. In addition, our industry supports a rational visa program that adequately addresses our changing workforce needs and enables U.S. businesses to attract and retain the talent necessary for growing our economy.

CONCLUSION

In closing, NMHC/NAA look forward to working with the House Energy and Commerce Committee, as well as the entire Congress, to craft policy that would promote economic growth and satisfy the nation's multifamily housing needs. On behalf of the apartment industry and our 35 million residents, we stand ready to work with Congress to ensure that the nation's policy helps bring apartments, and the jobs and dollars they generate, to communities nationwide.