



National Association of Home Builders

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Government Affairs and Communications

James W. Tobin III
Executive Vice President & Chief Lobbyist

August 2, 2022

The Honorable Charles E. Schumer
Senate Majority Leader
S-221 Capitol Building
Washington, DC 20510

The Honorable Mitch McConnell
Senate Minority Leader
S-230 Capitol Building
Washington, DC 20510

Dear Majority Leader Schumer and Minority Leader McConnell:

On behalf of the more than 140,000 members of the National Association of Home Builders (NAHB), I am writing to express our opposition to the *Inflation Reduction Act of 2022*. The legislation fails to address housing affordability and ease the inflationary pressures on housing, arguably the nation's number one economic concern. The proposed changes impacting the taxation of real estate and new building and energy code requirements would be detrimental to the housing industry.

Housing costs account for 40% of the Consumer Price Index (CPI). With home prices and rents rising even faster than inflation, rising interest rates, and a growing scarcity of both entry-level owner-occupied housing as well as affordable rental units, Americans are being squeezed hard. Rent inflation increased in June at the fastest pace since 1986, yet the bill fails to include any resources to expand the supply of housing, including badly needed affordable rental housing.

The taxation of a capital gain due to a carried interest is an important issue for the real estate industry and particularly for the multifamily housing sector. Despite efforts to lessen the impact of the new carried interest rules on real estate, the bill includes substantial changes that will affect real estate, including how the holding period is calculated, as well as indirect effects to the treatment of Section 1231 gains. These changes will affect existing real estate partnership agreements at a time when housing has entered an industry recession, putting financial stress on projects already experiencing significant construction challenges due to rising building material prices.

NAHB supports the long-term extensions included for many of the existing energy tax incentives. However, we oppose leveraging the tax code to expand prevailing wage requirements, which will have inflationary effects across a range of industries. NAHB also opposes the structural changes made to the Section 45L new energy efficient home tax credit. Energy efficiency will not be served by relying on Energy Star for New Residential Construction as the sole means to qualify for the 45L tax credit.

Every builder is familiar with energy codes, which have been the basis of qualifying for Section 45L since its inception. In contrast, Energy Star is a niche market—less than 10% of single-family and multifamily units were certified in 2020. The program has its merits but will never be adopted widely. Developers have indicated that the paperwork burden is onerous and would create an unnecessary layer of bureaucracy. Energy Star also adds restrictions on design choices that go beyond energy efficiency metrics.

NAHB opposes using federal grants to pressure state and local governments to adopt a specific building code (Section 50131). NAHB supports the adoption of cost-effective, modern energy codes; however, the grants provided in this bill lack flexibility and fail to consider local autonomy when adopting the 2021 edition of the IECC for residential buildings and the ANSI/ASHRAE/IES Standard 90.1-2019 for commercial buildings. The legislation will prevent state and local governments from evaluating and amending updated editions of a consensus-based code prior to adoption. Such flexibility ensures that a building code properly addresses the needs of the community and factors in a thorough consideration of risks, costs, technology, and resources.

NAHB is also concerned with grant programs that promote adoption of 'net zero' provisions. These provisions in the 2021 IECC do not meet cost-effectiveness criteria for the consumer and are not appropriate or cost-effective for many jurisdictions. Incentivizing consumers via the tax code, as the bill does for net zero ready homes within the Section 45L tax credit, rather than mandates through building codes, appropriately balances pushing the barriers on energy efficiency with housing affordability.

The adoption of a federal, one-size-fits-all approach to energy codes will exacerbate the current housing affordability crisis and limit energy choices for consumers. Rather, the Department of Energy should help states advance the codes in a manner that best fits the needs of state and local governments. Additionally, NAHB believes states should have a role in 'matching' federal grants provided for in this section; the legislation proposes eliminating the state's cost share requirement.

Again, I reiterate NAHB's opposition to the *Inflation Reduction Act of 2022*. The legislation does nothing to address the housing supply crisis facing American families. Rather the bill will disincentivize multifamily construction, increase the cost of new homes through higher energy code requirements, and inflate labor costs. The new domestic minimum tax could increase costs on building material manufacturers and further exacerbate supply chain disruptions, adding to inflationary pressures on home prices and construction costs. For these reasons, we urge you to oppose the *Inflation Reduction Act of 2022*.

Thank you for your consideration of our concerns.

Sincerely,

A handwritten signature in black ink, appearing to read 'James W. Tobin III', written in a cursive style.

James W. Tobin III

Cc: United States Senate