

**14<sup>th</sup> Annual John T. Dunlop Lecture  
J. Ronald Terwilliger  
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**HOUSING AMERICA'S INCREASINGLY DIVERSE POPULATION**

It is a great honor to be here tonight to deliver the 14<sup>th</sup> annual John T. Dunlop Lecture.

I believe I am the first private sector developer to give this lecture, and I know my development career has influenced my thinking. One of the first things I learned as a developer was the Developers Creed. The Developers Creed states that a dollar borrowed is a dollar earned; a dollar refinanced is a dollar saved; a dollar repaid is a dollar lost forever. We private sector developers worship leverage.

At a time when our society seems so turbulent and politics so divisive, I believe we do ourselves a service by reflecting on those qualities that made Professor Dunlop such an influential figure.

John Dunlop was a well-respected academic who lived in the world of ideas. But he was also a public leader who translated these ideas into actionable principles and policies.

He was trusted and beloved by members of both political parties: appointed to the Cabinet by a Republican President, but called upon by Democratic Presidents to solve some of our nation's most difficult problems.

A labor economist by training, he recognized the power of decent and affordable housing to transform lives.

It is also an honor to be associated with those who have delivered the Dunlop Lecture in past years. I have great respect for people like Bart Harvey, Jonathan Reckford, Jack Kemp, Henry Cisneros, Mel Martinez, and Kent Colton who have done so much to advance the cause of affordable housing, not only here in the United States but in other parts of the world. It is a privilege to be in the same company as these fine Americans.

Let me also mention how much I admire the work of the Joint Center. The Joint Center does not miss a beat: it consistently produces well-researched, well-written publications that educate and enlighten.

The Joint Center is blessed with wonderful leadership. Nic Retsinas, the Director *Emeritus* of the Center, is a remarkable individual. Over the years, I have worked with Nic on a number of different boards, and in fact succeeded him as Chairman of Habitat for Humanity International. His intelligence, common sense, and thoughtful contributions to our deliberations have always impressed me.

Eric Belsky, too, is a great asset to this institution. He's not only smart and knowledgeable; he's effective. So, thank you, Eric, and many thanks to the entire Joint Center staff for your work.

In 1968, when I enrolled at the Harvard Business School after nine years as a Naval Academy mid-shipman and then an active duty officer, little did I know that I would spend more than four decades of my life in housing. At Harvard Business School I took the one real estate course offered at that time. Needless to say, I became intrigued with real estate, and began to think of it as the industry in which I wanted to pursue my career.

My big break in business came in 1979, when I joined Trammell Crow Residential as CEO of Crow Terwilliger Company, an east coast focused residential developer. In 1986 I became National CEO for Trammell Crow Residential, and for more than thirty years at Trammell Crow I worked with a team of incredibly talented men and women to develop residential buildings that have housed hundreds of thousands of families in cities throughout the United States. I'm proud to say that many of the properties we built were called home by some of the most critical members of America's workforce – teachers, nurses, municipal employees, police officers and fire fighters.

### **The Special Status of Housing**

My remarks this evening will focus on the housing challenges and opportunities arising from the demographic trends that are transforming America. I believe these new demographic realities require us to fashion a more balanced federal housing policy, one in which federal resources are targeted to assist those who are most in need of help, both homeowners and renters.

While I recognize there are many homebuilders in the room, I hope you will not misunderstand my remarks to be anti-homeownership. I am a homebuilder myself, having built thousands of single and multi-family homes for sale. I have simply come to believe that our federal housing policy today is antiquated and out of step with current realities.

Before we dive deeply into this subject, I think it's important to put housing and housing policy into an appropriate context. The great author and social critic George Orwell once remarked: "Sometimes the first duty of intelligent men is the restatement of the obvious."

So let me start by stating the obvious: food, clothing and shelter are universally recognized as basic human needs.

The essential truth of this statement becomes clearer when you try to imagine what life would be like *without* a home: Imagine not having a place to rest after a hard day at work. Imagine not having the ability to provide adequate shelter for your children.

We also know that a home is the platform from which we engage our neighbors and our communities. It is our entry point to the world itself. If your home is well located, it will provide hope and opportunity for the future with access to jobs, critical services like health care, and a decent education. As I often say, it is unlikely that a family living under a bridge is going to have good health and education outcomes for their children.

There is also a deeper, almost spiritual, aspect to housing that often goes unmentioned. Our home is a sacred space. It is a place where families grow together, where children retreat, study and can feel safe.

So housing is not just a commodity or an “asset class.” It is at times a place of shelter and refuge, a platform for engagement with the broader community, a generator of significant social benefits, and an engine of economic opportunity and growth.

For those less fortunate among us, hope for a better future often begins with access to a decent, affordable home. This is a universal truth, and not unique to the United States.

For more than a decade I have been privileged to serve on the Board of Habitat for Humanity International, including serving two years as its Chairman. I led Habitat for Humanity's \$4 Billion Global Capital Campaign – A World of Hope It Starts at Home – whose goal was to assist some of the more than 1.6 billion people worldwide who live in substandard housing.

I have seen housing conditions in more than 20 countries in my travels with Habitat. Governmental support for housing varies dramatically, and where the government is not involved, housing circumstances are frequently abominable. I have come to believe that the only way a country can effectively attack a housing deficit is with sustained governmental support and subsidy. Both federal, state and local governments need to be engaged.

### **A Brief History of Federal Housing Policy**

Because housing is so critical for families' stability and growth, I believe it deserves the concerted attention of *our* nation's leaders. Meeting this country's considerable housing needs must not be an afterthought, but a top priority -- a matter of urgent and continuous national concern.

For most of our country's history, housing has been on the policy backburner. During my adult lifetime I don't remember political candidates, when running for office, talking about housing; and it rarely makes the platforms of our two major parties.

It wasn't until the Great Depression, as unemployment, foreclosures and homelessness spread like a virus throughout the country, that our nation's leaders came to a fuller understanding of the vital role of housing in our society. The result was a flurry of legislative activity.

As the Great Depression swept the nation, housing values declined by as much as 50 percent. Banks were unwilling to refinance the mortgages on these underwater homes. Credit dried up.

In response, Congress established the Federal Home Loan Bank System in 1932 to increase the supply of mortgage funds available to local banks and to function as a credit reserve. This was followed up with the creation of the Federal Housing Administration in 1934 to help stabilize the mortgage market through its insurance programs. The Federal National Mortgage Association was then chartered in 1937 to create a secondary market for FHA-insured loans.

As World War II drew to a close, our nation's leaders shifted their policy focus to housing once again – this time in response to the urgent need to provide housing for our nation's returning war veterans.

In 1944, the VA loan guaranty program was enacted as part of the GI Bill. Five years later, Congress passed the Housing Act of 1949, which authorized production of more than 800,000 housing units. In the Act's preamble, Congress articulated for the first time a clear national housing policy: "the realization, as soon as feasible, of the goal of a decent home and suitable living environment for every American family."

It is noteworthy that Congress focused on the home being located in a suitable place, since a home's location is what truly provides hope and opportunity for that family, particularly its children. The notion that "decent and suitable" housing should also be "affordable" was a key element of later federal initiatives that reaffirmed the 1949 Act's basic policy goal.

The 1960s was another era of housing policy innovation – spurred in part by civil unrest in our nation's cities, and a greater recognition of the government's responsibility to provide a safety net for our nation's most vulnerable citizens.

A new Cabinet agency -- the U.S. Department of Housing and Urban Development -- was established in 1965. During that period, the FHA experimented with new approaches to help low-income families purchase a home of their own.

This commitment to helping the less fortunate found resonance in subsequent decades: In 1974, the Housing and Community Development Act created the section 8 program, our nation's most important rental assistance program. Twelve years later, the Low Income Housing Tax Credit program was established as part of the Tax Reform Act of 1986.

The point of this whirlwind tour through the history of housing policy is to show that our nation's leaders have had the courage in the past to tackle our nation's housing challenges with conviction and vigor, particularly for the less fortunate in our society.

### **America's Demographic Transformation: A New Inflection Point**

Andy Grove, one of the founders of Intel, often talks about "strategic inflection points." According to Grove, these are events -- the introduction of a new technology, a shift in customer preferences, an alteration of the regulatory environment -- that force businesses to change the way they think and act. Nothing less than a fundamental change in strategy is required for a business to survive when it confronts one of these inflection points.

As I see it -- the Great Depression, the return of millions of veterans following the conclusion of World War II, the unrest of the 1960s -- were all events that changed the way we thought and acted about housing. They were strategic inflection points that spurred new thinking and new approaches.

*Today, we find ourselves at another strategic inflection point: Our nation is undergoing a profound demographic transformation. We are becoming older and more racially and ethnically diverse. At the same time, many of our nation's young adults, the 65 million Echo Boomers born between 1981 and 1995, are beginning to form households for the first time. Annual immigration, which plunged during the Great Recession, is also likely to rise to a level that at least matches its pre-recession average of approximately 1 million new residents per year.*

These demographic trends will alter the types of homes Americans will choose. They will have enormous implications for housing affordability. And I believe they will require fundamental changes in housing policy to match the new realities in the marketplace.

### **The Key Demographic Trends**

Key demographic developments, now just beginning to unfold, will radically change the housing landscape. They will challenge us to be more creative in fashioning effective

responses, and in this way should push us to a higher level of performance in meeting our country's evolving housing needs.

But there's no escaping the fact that America's demographic transformation will also force us to make some tough policy choices. In my judgment, it will require a fundamental rethinking of how we allocate limited federal housing resources.

Let's take a moment to look at these demographic trends in a bit more detail.

### *The Baby Boomers*

The Baby Boomers are one of the largest demographic cohorts ever in American history. According to the Census, the number of Americans aged 65 or older will more than double from 35 million in 2000 to nearly 77 million in 2030. Surveys show that most Baby Boomers wish to remain in their homes and age in place. In fact, a 2011 AARP survey indicated that nearly 90 percent of seniors wished to remain in their homes permanently.

For many seniors with the physical capacity to stay home, this makes great financial sense. It is also a boon to our medical system and to society, as the cost of taking care of someone at home is far lower than in a nursing home or assisted-living environment.

But the desire to age in place runs into a very harsh reality: Our homes were designed and built at a much earlier time before anyone thought much about the needs of Baby Boomers once they became senior citizens.

So responding to the desire of tens of millions of seniors to age in place will be a huge undertaking. It will require an extensive effort to modify existing homes to enable senior living.

### *The Echo Boomers*

In many respects, the Echo Boomers are the future of the housing market. For the past six years, many have been sitting on the sidelines, waiting for the economy to improve. This “wait and see” approach, while understandable, has had a very negative effect on new household formations.

To put this in perspective, from 2000 to 2007, the number of new households formed each year averaged 1.2 million. Yet, as the recession took hold, new household growth declined dramatically, averaging only 500,000 annually from 2007 to 2010.

With the economy improving ever so slowly, the Echo Boomers are wading into the market and forming households. Lacking the resources for homeownership, most are seeking rental housing, often in metro areas and in multifamily settings. In many markets, vacancy rates are dropping and rents are increasing in response to the heightened demand.

A recovery in multifamily rental production is now underway with multi-family developers expecting to start 300,000 new units in 2013. In my view, the demand for rental housing we are now seeing is just the beginning of a longer-term trend, the first few ripples of a much more powerful wave of new, young and largely minority renters.

#### *Increasing Diversity*

Adding to the ranks of the renter population are the millions of minority families who have dropped out of homeownership. Many of these families will seek housing in single-family rental homes.

A major factor driving this growth is the burgeoning Hispanic community. As of 2011, there were nearly 52 million Hispanics in the United States constituting 16.7 percent of the population.

Homeownership rates for African-Americans and Hispanics have dropped to pre-bubble levels – well below 50 percent -- and are unlikely to rise anytime soon. Looking ahead, tighter mortgage underwriting standards will constrain homeownership opportunities, but there's a larger factor at work: Minority household wealth is very low. In fact, it is shockingly low.

As I read the Joint Center's most recent *State of the Nation's Housing* report, these facts jumped out at me:

In 2010 median household wealth was just \$2,100 for African-American renters, \$4,500 for Hispanic renters, and \$6,000 for white renters.

Cash savings account for less than \$1,000 of this net worth, leaving all these renters with virtually no cushion against an emergency, let alone funds for a down payment on a home.

So these facts lead me to one inescapable conclusion: *As the minority share of the population increases, as more and more young people form households and enter the market, so too will the demand increase for affordable rental housing. For many, homeownership will simply be out of reach because it will be prohibitively expensive, particularly as interest rates inevitably rise.*

Now, don't get me wrong. I strongly support homeownership and appreciate the immense benefits it can offer to both families and the larger community. Nor do I believe that a high down payment is the best indicator of someone's suitability to assume a mortgage. We have seen millions of families become responsible homeowners after putting just a small amount down. The key remains proper underwriting, as well as counseling, to make sure low wealth homeowners can meet their mortgage obligations.

*My point here is that years of stagnant incomes, limited job opportunities and lackluster economic growth have taken their toll. It's hard to see how we can return to the days of a homeownership rate approaching 70 percent when so many of our fellow citizens have so little. Incidentally, our homeownership rate today is approaching 64 percent, which was the average homeownership rate between 1965 and 1995 - before the Federal government began a push to increase it, and before we became so diverse. I believe the new paradigm for homeownership will be closer to 60%, considering the increasing growth of low wage jobs combined with minority household growth.*

### **Today's Housing Environment**

*The most immediate danger we face today is that renting is also becoming prohibitively expensive for too many Americans, particularly for those at the bottom of the income*

*ladder. Renters make an average of \$31,000 per household, less than half of homeowners average income of \$64,000 per household.*

The Section 8 Rental Assistance Program was established in 1974 to supplement what low-income renters could pay for housing. Unfortunately, today this program serves only 25 percent of those eligible due to lack of adequate funding. In many communities, there are long waiting lists to obtain a Section 8 voucher, and in some areas, vouchers are allocated by lottery.

With rental demand increasing, more and more lower-income renters are spending unsustainable amounts of their incomes on housing. HUD tells us that “worst case” housing needs for renters are at their highest level ever – more than 25 percent of unassisted renter families spend 50 percent or more of the income just on housing, and more than 50 percent of renter household spend more than 30 percent of their income on housing. Incidentally, today there are more than 9 million homeowners who also spend more than 50% of their income on shelter.

One of our biggest challenges today is the shortage of rental homes affordable to those families with low incomes. According to HUD, there are only 65 affordable and available units for every 100 “very low-income” renters. For “extremely low-income” renters, those making less than 30 percent of the area median income, the scarcity

problem is even worse – there are only 36 available and affordable rental homes for every 100 of these households.

### **A National Housing Policy Commensurate with Today's Challenges**

In the past, national policymakers departed from the prevailing orthodoxies when America's housing needs and economic circumstances were changing, and action was necessary in the face of these "strategic inflection points." Today, we must show similar flexibility and vision.

In my view, the 1949 Act's call for a "decent home and suitable living environment for every American family" should be at the core of our national policy. It was important then, and it remains important today.

But, in light of the dramatic demographic changes that are now taking place, achieving this goal will require a far more balanced approach to the way we allocate limited federal housing subsidies.

To put it simply, we should focus *less* on subsidizing higher-income homeowners and *more* on helping lower-income renters as well as low wealth homeowners.

Today, the federal government spends approximately \$200 billion annually to support housing through a combination of tax expenditures and direct appropriations. About

three-quarters of this spending is devoted to supporting homeownership, despite the fact that they have more than twice the income of renters on average. This makes no sense, in my opinion.

I recently had the privilege of serving as a Housing Commissioner on the Bipartisan Policy Center Housing Commission. We adopted 5 Principles at the outset to guide our work. Included in these Principles was an affirmation of the goals of the 1949 Housing Act, additionally that the primary focus of Federal Housing Policy should be to help those most in need, and finally that Federal Housing Policy should strike an appropriate balance between homeownership and rental subsidies.

Of course, the biggest federal subsidy for housing is the mortgage interest deduction – with a projected cost of between \$70 billion and \$100 billion annually. Under current law, interest on mortgage debt up to \$1 million is deductible. So, too, is interest on home equity lines of credit up to \$100,000. Interest on mortgages for second homes is also deductible, as are real estate taxes. Profit on the sale of primary residences is also exempt from taxes up to \$500,000.

There's been plenty written about how the mortgage interest deduction disproportionately benefits the wealthiest of Americans. According to a recent study by the Center on Budget Policy and Priorities, 77 percent of the benefits from the deduction go to homeowners with incomes above \$100,000, while 35 percent go to homeowners with incomes above \$200,000. Virtually none of these households have

severe housing cost burdens, and could undoubtedly purchase a home without deducting their mortgage interest.

Today, only about 30 percent of taxpayers claim the mortgage interest deduction, mostly higher income individuals with larger mortgages. Close to half of homeowners with mortgages — most of them middle- and lower-income families — receive no benefit from the deduction, often because they do not itemize on their tax returns.

It's sometimes said that changing the mortgage interest deduction will negatively affect the homeownership rate, but many first-world countries without mortgage interest deductibility like Canada and Australia have higher homeownership rates than we do. In fact, the United Kingdom phased out its own mortgage interest deduction, and the share of households owning homes in the U.K. rose from 53 percent to 68 percent during that period. A recent survey of homeownership rates in 42 countries found that the U.S. ranks 34<sup>th</sup> in homeownership despite our considerable subsidies.

Of course, I wish our federal government had more resources to support housing *in all its forms*, so that making tough trade-offs would not be necessary.

But I recognize we not only have a rental affordability crisis in this country; we have a fiscal crisis, too. Resources are tight. So what's in the federal budget for housing must be spent more wisely and effectively, targeted to those most in need.

### **A Balanced Housing Policy for the U.S.**

For me, the path forward is clear: we should reform our approach to subsidizing home ownership, directing the home ownership subsidy we can afford to those who truly need help in purchasing and sustaining a home suitable for their family. I believe we should provide down payment assistance as well as subsidize interest rates for first time low wealth homeowners. We should then put to work the significant savings that result in both supporting *the production of hundreds of thousands of new affordable rental homes, and substantially increasing the “demand side” support for renters who have housing cost burdens.*

This should be done gradually, over time, by phasing in changes so as to limit disruption to the housing markets.

As we move in this direction, it's important to recognize that many of today's renters will be tomorrow's homeowners. Creating new, more affordable opportunities for renter households will allow them to establish good credit histories and create more stable living environments that should promote both work and education, and for many, ultimately homeownership.

As an immediate response to our considerable need for more affordable rental housing, Congress must preserve -- and expand -- the Low-Income Housing Tax Credit program.

As someone who has been in the multifamily business for more than three decades, let me tell you: the Housing Credit works.

Without question, it's been our nation's most effective tool in supporting the production of rental housing for low and moderate income families. One of the best features of the Housing Credit is that it engages private market forces, while minimizing risk to the federal government and the taxpayers. It is a true public-private partnership.

The facts speak for themselves: More than 2.6 million affordable rental homes built or preserved since 1986. More than \$100 billion in private investment equity harnessed. Hundreds of thousands of jobs and billions of dollars in tax revenue generated by the Housing Credit's "multiplier effects."

Congress is just beginning to consider tax reform, and there's been some discussion that the Housing Credit might be eliminated. That would be a colossal mistake.

On the contrary, federal funding for the Housing Credit should be expanded to the greatest extent tax credit investors will allow. The cost to the federal government today represents just three percent of the current subsidies for housing, so there is plenty of room for growth.

With this increased funding, I believe the program should be made more flexible to allow the Housing Credit to finance mixed-income developments affordable to workforce families with incomes up to 120 percent of the area median. This approach is particularly appropriate for projects in our country's high-cost metro regions.

Properly targeted, we can reallocate the housing subsidy we currently spend to satisfactorily address both the demand and supply side needs for affordable rental housing, while currently supporting an expansion of homeownership opportunities to those who truly need assistance with homeownership.

## **Conclusion**

In conclusion, I consider myself one of the luckiest people on the planet. I was born in the United States in the middle of the last century, a time of immense promise as the United States emerged on the world stage as a global power.

I was raised by a hard working family in Arlington, Virginia, making my way through the public school system and able to afford college only because of an athletic scholarship. My father earned a very modest income, but was able to provide a comfortable 900 square foot house, typical of the time, where my brother and I were raised.

I believe I have lived the American Dream, achieving upward mobility in our capitalist democratic society through hard work and a fair amount of good luck.

But, after decades of experience in both the for-profit and not-for-profit sectors of our nation's housing economy, I am convinced the most significant impediment to achieving the American Dream for many low-income families is the lack of suitably located, affordable housing.

While the United States may be the most powerful nation in the world, we are far from the best housed. Today, fewer and fewer families can afford a home in a decent neighborhood, connected to good schools, transportation, health care, shops and services.

Although we are one of the most philanthropic countries in the world, very little philanthropy is directed toward housing, leaving it up to government to help achieve the goals of the 1949 Housing Act. Today, as we work to meet these goals, the federal government spends a significant sum annually on housing subsidies, but, in my judgment, these investments are grossly mistargeted and fall far short of serving those low-income renters and would-be homeowners who need help the most.

So, in my view, it's time to rethink our federal housing policy and the subsidies that support it. As America's demographic make-up changes, as the demand for rental

housing increases, we need to muster the political courage to ensure we are spending our limited federal resources more wisely and effectively.

So how should this great country measure the success of its housing policies? Rather than celebrate the highest possible homeownership rate, I believe we should measure the effectiveness of our housing policies by how many families remain with housing cost burdens that make it difficult for them to afford other necessities of life.

The potential upsides of a new more balanced and targeted approach are great:

By directing subsidies to those who truly need help, I am confident we can significantly reduce the number of homeless in America and provide more stable, affordable housing situations for millions of low-income families. This, in turn, will improve education and health care outcomes for these families, potentially enhance the job prospects for those who work in these households, give them an even stronger sense of attachment to our society, and provide a platform to renters for one day entering the homeownership ranks.

Ultimately, a society that calls itself fair and just must ensure that all its citizens have access to decent, affordable housing. Today, we are far from achieving this goal, but it is one we must continue to pursue with renewed vigor and determination.

Thank you for your attention.