October 15, 2024

The Honorable Jason Smith
Chairman
Committee on Ways and Means
U.S. House of Representatives
1139 Longworth House Office Building
Washington, DC 20515

**RE: Manufactured Housing Institute (MHI) Recommendations: Tax Teams Comment on Working Families**

Dear Chairman Smith,

The Manufactured Housing Institute (MHI) is pleased to submit the following recommendations in response to the Ways and Means Committee's solicitation of comments on legislative tax solutions to help families, workers, and small businesses that are struggling.

One of our nation's greatest challenges is the spiraling cost of housing. The cost of homeownership has increased dramatically over the last three years due primarily to a doubling of mortgage rates. We have also experienced significant increases in rents, due failures of tax and regulatory policies which have impeded the new construction and ultimately the supply of affordable rental housing. Facing such challenges, manufactured housing is the most affordable homeownership option for American families. Last year, the price for an average manufactured home was $124,300, while the average site-built home was around $409,000 (excluding land). The average income for a manufactured home buyer was about $61,000 while the average income for a site-built home buyer was over $136,000. Additionally, through the development and preservation of manufactured housing land-leased communities, we are increasingly seeing manufactured housing being used for extremely affordable rental housing – without federal subsidies – in areas where demand for rental housing is the greatest.

In this letter, MHI is recommending a number of important tax provisions to incentivize the production of affordable single family manufactured homes and rental units and for the preservation of manufactured housing land-lease communities on which manufactured housing units are sited. These recommendations reflect MHI's role as the only national trade association that represents every segment of the factory-built housing industry. Our members include builders, suppliers, retail sellers, lenders, installers, community owners, community managers, and others who serve our industry, as well as 48 affiliated state organizations. Our industry is on track to build more than 100,000 homes this year, accounting for approximately 9 percent of new single-family home starts. These homes are produced by 36 U.S. corporations in 148 homebuilding facilities located across the country. Today, MHI members represent over 90 percent of all manufactured homes constructed and we are pleased to submit the following comments on behalf of this important industry.

## *Increasing the Affordable Housing Supply for Working Families*

### 1. Extend Tax Credit Incentives for Energy Star Homes

The Energy-Efficient New Home Tax Credit (IRC Sec. 45L) provides a crucial investment for energy efficient manufactured housing and substantially eases the financial burden of energy costs on hard working American families. **Therefore, Congress should extend and make this tax credit permanent so that low- and moderate- income families are not priced out of the market for homes that are energy efficient.**

Working families significantly benefit from this tax provision, as follows:

- The assistance provided by the 45L credit is instrumental in placing energy-efficient homes within reach of low- and moderate-income families.

- Consumers living in these energy efficient homes save about $60 per month in energy costs.

- The 45L tax credit is an important, market-driven incentive that has promoted and improved energy efficiency for manufactured homes and provided significant monthly energy savings for millions of Americans residing in manufactured homes.

**2. Any Home Purchase Tax Incentives Must Apply to Manufactured Homes**

With the growing challenges of homeownership affordability, we are seeing Members of Congress proposing tax provisions for first time home purchase. **Without opining as to the merits of such proposals, MHI asks the Committee to ensure that any first-time home purchase tax proposal that might be adopted must explicitly make manufactured homes eligible for the tax incentives.** A majority of manufactured homes are structured as personal property loans, with different definitions and titling treatment. Such manufactured homes should not be inadvertently left out of proposals due to carelessness with respect to legislative language.

**3. Pre-Manufactured Home Home Replacement Program**

**MHI asks the Committee to consider incentives for the replacement of mobile homes with HUD Code manufactured homes.** Manufactured homes built prior to 1976 are known as "mobile homes." In June 1976, the Federal Manufactured Home Construction and Safety Standards Act (also known as the HUD Code) went into effect, which established federal standards for manufactured housing design and construction, strength and durability, transportability, fire resistance, energy efficiency and quality. The HUD Code also sets performance standards for the heating, plumbing, air conditioning, thermal and electrical systems.

Because mobile homes were not built to the HUD Code, many of these homes do not meet today's rigorous standards and owners of mobiles homes would benefit from replacing and/or retrofitting their current homes to HUD Code homes. However, owners of these homes are typically low- and moderate- income families that lack the resources of financing options to update their homes to meet today's construction standards. A tax incentive for repair or replacement could be very impactful to ensure people have access to resilient, efficient, and quality homeownership.

***Supporting Manufactured Housing Land-Lease Communities***

Land-lease manufactured home communities are a critical affordable housing model, that delivers the most affordable homeownership option for American working families. There are more than 43,000 land-lease communities in the country with almost 4.3 million homesites. Today, around one third of new manufactured homes are placed in land-lease communities.

Land-lease communities also offer a sense of neighborhood and often feature a range of amenities – such as swimming pools, clubhouses, and playgrounds – and events and activities to support residents' sense of community. U.S. Census data and independent research conducted by MHI shows that manufactured housing residents report high levels of satisfaction and are likely to recommend it to others. Following are MHI's tax recommendations to enhance manufactured home communities:

**1. Opportunity Zone Investments in Manufactured Home Communities**

Opportunity Zone tax incentives can currently be used to make these critical investments. **However, their use and availability for this purpose is very limited by the requirement that funds must be a reinvestment of capital gains from sales taking place within the previous 180 days. Therefore, Congress should create a narrowly targeted change to this restriction, to allow Opportunity Zone tax incentives within existing Opportunity Zones for investments in affordable manufactured home communities, notwithstanding the current restriction that this must be a reinvestment of a recent capital gains transaction.** This change could allow significant amounts of new equity capital to build or preserve manufactured home communities, creating incentives to engage in long-term policies which enhance value to the community, such as keeping land-lease rents or rental unit rents affordable to maximize occupancy and to make investments in deferred infrastructure (roads, sewer and water, others) in order to preserve both the community and the value of the homes located in the community.

A second option to facilitate more investments in affordable manufactured home communities would be for Congress to fund additional investments in high poverty Opportunity Zones. Such funds could be allocated to states, which would re-allocate and target their use to high priority activities within existing Opportunity Zones, including workforce housing through investments in manufactured home communities.

**2. Preserve Like-Kind Exchanges**

Section 1031 like-kind exchanges give investors the opportunity to defer the payment of capital gains taxes on sales of real property, if they identify a replacement property of an equal or greater amount within 45 days of the sale and purchase such replacement property within 180 days. Like-kind exchanges encourage long-term investments, which can be used among other investments to purchase and preserve aging manufactured home communities. With respect to land-lease communities, this type of incentive encourages not just a long-term investment hold but also affordable rent policies for community homeowners and for renters that maximize occupancy and long-term investment value. **Therefore, MHI opposes any legislative efforts to eliminate the ability of taxpayers to engage in Section 1031 like-kind exchanges.**

**3. Oppose Incentives Which Undermine Preservation of Communities**

There is a growing movement to encourage ownership of manufactured housing land-lease communities by resident owned communities (ROCs) or some other form of non-profit ownership. MHI appreciates that ROCs can play a role in adding to the diversity of land-leased communities. However, one of the important attributes that contribute to the long-term financial and physical health of manufactured housing land-leased communities is the ability to make continued investments in the infrastructure of the communities – roads, sewer and water lines, and other areas – in order to maintain the physical well-being of the communities and the value of underlying homes. **Therefore, MHI continues to have strong concerns about emerging legislative proposals to create preferential capital gains treatment of sale of manufactured housing land-lease communities to ROCs or other non-profits.**

Recently, we have witnessed an increasing number of Mom-and-Pop owners of older communities that lack the financial resources to make the necessary investments to maintain communities' infrastructure – and therefore sell communities to better capitalized for-profit owners that have access to equity and loan funds necessary to maintain and preserve communities. In this environment, it would be bad policy for Congress to stack the deck, through preferential capital gains incentives for non-profits to purchased older communities, without having the resources to adequately maintain aging infrastructure – and who may in turn increasingly turn to Congress for housing subsidies to maintain communities that have historically been maintained through investments by for-profit owners, on a non-subsidized basis.

**4. Oppose Eliminating Depreciation Benefits Based on Rents**

**Finally, MHI recommends against adoption of the FY 2025 budget proposal to eliminate depreciation benefits for landlords who raised rents above a certain percentage of area rents.** While the most significant impact of such a proposal would be on rental housing, it appears this would also apply to rents charged by owners of land-lease communities. This provision is unworkable and arbitrary, penalizing under national policy what has historically been under the purview of local communities. Moreover, such a back door rent control policy is also counterproductive with respective to the significant investment needs to maintain infrastructure in aging manufactured housing communities. Existing owners will be punished for making critically needed deferred infrastructure investments, by forcing owners to choose between not being able to recoup the cost of such investments (even where their rents are below market) or to give up their depreciation benefits. And new investors will be discouraged from buying older communities in critical need of infrastructure investments.

In closing, MHI appreciates the opportunity to convey our comments and recommendations as Congress begins the task of extending important tax benefits for working families and small business.

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Sincerely,

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