Taking a close look at the federal government's spending on real estate

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The following is a guest post by Alex Dodds, Online Communications Manager at Smart Growth America.

The biggest real estate investor in the United States isn't Donald Trump, and it's not a private equity firm.

Spending or committing roughly $450 billion a year, the federal government is by far and away the largest investor in real estate in the country. This spending spans 50 federal programs at half a dozen agencies, and includes everything from loans and loan guarantees to tax credits to low-income housing grants. If you include the quasi-governmental enterprises Fannie Mae and Freddie Mac, the amount of money the government spends each year on real estate is even larger.

You're probably already familiar with some of the things the government spends this money on. Low cost loans for veterans and their families, for example, tax credits to rehabilitate historic homes, or weatherization grants to support better energy efficiency. This spending helps business owners build commercial real estate, encourages developers to create affordable housing, and includes tax deductions like the home mortgage interest deduction.

All of this influences where and how real estate is developed in the United States. As an organization that works to improve community development, Smart Growth America is interested in knowing exactly how that spending influences real estate today. We share this focus with the U.S. Green Building Council's LEED for Neighborhood Development program, which helps communities understand how to design and build walkable, energy efficient and inclusive neighborhoods.

Even a cursory analysis of federal spending reveals this impact is distributed unevenly. Smart Growth America's research, which resulted in the recently released report Federal Involvement in Real Estate: A call for examination, reveals several places where federal involvement in real estate needs to be reviewed and refocused:

- Current programs favor homeowners over renters.The largest proportion of federal real estate financing is directed at homeownership, totaling about 84 percent of federal spending on housing. The mortgage interest deduction is the largest of these programs. The deduction is only used by homeowners, not renters, and only those homeowners who itemize their taxes. This skews it predominantly to higher income households. There is no similar deduction or credit for renters, nor for moderate/lower income homeowners (the majority of whom do not itemize their taxes). In addition, should a family ever lose their home through disaster or foreclosure, they lose a valuable asset and a valuable tax break, compounding their recovery challenges.

- Current programs markedly favor single-family homes. Between 2007 and 2011, the federal government spent $112 billion on loan guarantees for multifamily homes, including apartment buildings, condo buildings and duplexes. During that same period, the government spent $1.142 trillion on guarantees for single-family homes – more than ten times the investment. Both types of development are important for communities, but this drastic difference in support levels puts a heavy finger on the scale of consumers' choices.

- None of the programs adequately support existing neighborhoods. Reinvesting in existing towns or neighborhoods can cut costs for municipalities and improve value for homeowners – both valuable benefits in a tough economy. Current federal support for real estate does not provide incentives for infill development or development that uses existing infrastructure, nor does it take into account the long-term savings for communities and taxpayers that can result from this type of real estate.

These are just some of the problems Smart Growth America found with federal real estate spending. The impact of these imbalances is harder to understand, and in many ways, the recent report raises more questions than it answers.

That's why Smart Growth America is asking allies and advocates to join the call for an examination of federal real estate spending. These programs could be helping communities grow stronger, more vibrant and more energy efficient— in addition to achieving their primary goals — but Congress will need to take action in order for that to happen.

Smart Growth America and the U.S. Green Building Council both want to help communities develop in ways that are environmentally responsible and economically resilient. The federal government's investments in real estate development have huge implications for this work, and examining these programs has just begun.