

**THE AMERICAN BUILDER ACT:
Restoring the Ladder of Ownership**

A Market-Based Framework to Build 500,000 Starter Homes Without New Spending

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1. EXECUTIVE SUMMARY

America faces a persistent housing deficit with estimates ranging from 3.7 million to 7 million homes, a scarcity that has transformed the American Dream of homeownership into a mathematical impossibility for working families.¹ This shortage is not merely a social crisis; it is a profound regulatory failure that is acting as a drag on national solvency. By restricting the supply of entry-level housing, we are inadvertently subsidizing a neo-feudal economy where capital collects rent rather than creating equity.

While federal policy has historically focused on subsidizing demand and constructing rentals, the tax code has effectively prioritized commercial assets over the creation of starter homes. When the Tax Cuts and Jobs Act created Opportunity Zones (OZs), the Treasury regulations were naturally designed for assets that are held for long periods -- like hotels and apartment towers -- creating a "Commercial Cliff" where building for-sale housing became financially toxic.

Even in the One Big Beautiful Bill Act (OBBBA), which delivered many enhancements to the OZ program -- now referred to as OZ 2.0 -- there were no meaningful changes to advance the Administration's goal of increasing homeownership.

Consequently, the most powerful development incentive in history was simply not calibrated to produce inventory for homeownership. The American Builder Act (ABA) is the evolution of this policy: an enhancement to the "OZ 2.0" framework. It is not a new spending program, but a revenue-neutral update to the OZ operating system. By authorizing a specific "Build-to-Own" pathway, creating a "Rural Fast-Track" that bypasses urban red tape, and protecting neighborhoods from institutional speculators with strict deed restrictions, this proposal realigns the tax code with the goal of an Ownership Society.

This framework does not require waiting for a divided Congress. The core mechanism -- the "Build-to-Own" inventory classification -- can be activated immediately through Treasury guidance and IRS Revenue Procedures, creating a shovel-ready stimulus for the housing sector. Simultaneously, we are proposing a statutory amendment to the Opportunity Zone legislation to be included in the **FY 2026 Reconciliation** process to codify these changes.

Our economic modeling indicates that these changes will unlock the private capital capacity to finance 300,000 new attainable homes annually at full scale, and up to 500,000 homes provided the alignment of favorable market conditions such as interest rates, materials pricing, and expedited permitting.² It functions as the necessary supply-side partner to the President's recent January 20th Executive Order "STOPPING WALL STREET FROM COMPETING WITH MAIN STREET HOMEBUYERS." While the EO shields Main Street from Wall Street buyers, this Act arms Main Street with new inventory.

2. INTRODUCTION: THE UNINTENDED LANDLORD

In 2017, the Tax Cuts and Jobs Act created the most significant community development incentive in a generation: Opportunity Zones. The policy was predicated on the idea that if the government

removed the friction of capital gains taxes, private investment would flow into America's most distressed zip codes, revitalizing local economies through market-based capital rather than government mandates.

The engine worked. Capital flowed. However, a review of the first seven years of Opportunity Zone activity reveals an anomaly in the built environment. While the program successfully spurred the development of commercial assets -- hotels, industrial facilities, and large-scale multifamily complexes -- it produced almost zero inventory for homeownership.

This outcome was not a failure of the market, but a reflection of the regulatory incentives. The Treasury regulations governing OZs were drafted with "held" assets in mind. Rules regarding "substantial improvement," "original use," and the 10-year holding period were designed for properties that generate recurring rental income.³

Consequently, the tax code created a "Commercial Cliff." A developer seeking to utilize OZ capital found it financially viable to build a 100-unit rental tower, but provided zero incentive to build 100 starter homes for sale. The intent of OZ regulations was not to build for-sale housing but rather to generate economic activity in the community. Thus, most OZ capital flowed into rental properties for residential and commercial use. The unintended consequence: in the very communities the OZ policy was designed to empower, we are using tax incentives to turn potential homeowners into permanent tenants. The ABA seeks to turn renters into homeowners, establishing individual wealth and communities with stronger anchors.

We rarely do the math on the structural cost of tenancy. Rent is effectively a mortgage with a 100% interest rate and zero principal accumulation. For working families, rental expense is pure consumption; for owners, it is asset accumulation. This accumulation is the only baton a parent can pass to a child, and its absence is the primary driver of the wealth gap. Further, while rents reset annually -- increasing more often than decreasing -- a 30-year fixed mortgage acts as a deflationary shield for the American homeowner. It freezes the largest component of the household budget for decades, providing the stability necessary for long-term financial planning and accumulation of individual wealth.

What's more, the current tax incentives and regulatory frameworks distort market efficiency by encouraging the construction of workforce rental housing at a **significantly higher cost per unit** than single-family starter homes. This cost differential is amplified by land economics: the tax code effectively steers capital toward expensive, densely populated parcels suited for 100-unit rental buildings, while sidelining the lower-cost land ideally suited for 100 single-family starter homes. We are overpaying for density when we should be incentivizing affordable homeownership in areas that have room for population growth. While affordable rental properties remain a necessity, the Act will level the playing field to support homeownership.

The One Big Beautiful Bill Act (OBBBA), signed July 4, 2025, already created an incentive for OZ investments in qualified rural census tracts by reducing the requirement for the substantial improvements test from 100% to 50%. The ABA takes the next step in this progression by creating a pathway to transition from affordable "rentership" to affordable homeownership in qualified low-income suburban and rural areas.

In the 1980s, corporate consolidation changed the character of rural America by wiping out the family farm. Today, institutional capital, often managed by algorithms in server farms, is changing the character of our neighborhoods by wiping out the family home. We are subsidizing the "Rentership Society" at the expense of the "Ownership Society."

To fix this, we do not need to dismantle the OZ program. We simply need to update its operating system. We need a framework that recognizes the sale of a home to a working family not as a "disposition of assets," but as the fulfillment of the program's mission.

3. THE PROPOSAL: THE AMERICAN BUILDER ACT

The American Builder Act is not a new government program requiring vast administrative oversight. It is a targeted set of regulatory clarifications designed to remove the "Commercial Cliff" and allow the market to function efficiently. It rests on four pillars, which operate in concert to align investor incentives with community needs.

Pillar 1: "Qualified Homeownership Property" & The Virtuous Cycle

The Act creates a specific "Qualified Homeownership Property" designation within the OZ code. This modifies the "original use" requirement to explicitly authorize Qualified Opportunity Zone Funds (QOFs) to develop residential inventory (1-4 unit properties) for the purpose of immediate sale to end-users.

Critically, the Act allows the QOF to treat the sale to the owner-occupant as a qualifying event that retains the tax efficiency for the investor, provided the capital proceeds are reinvested by the QOF or Qualified Opportunity Zone Business (QOZB) into any Qualified Opportunity Zone Property (QOZP) within 12 months. This increases the velocity of capital, replacing the stagnation of a 10-year hold with the dynamism of a 6-12 month build cycle.

Once reinvested, the capital is subject to standard Opportunity Zone regulations. This ensures funds can seed a neighborhood with housing and then recycle that capital to build local businesses or infrastructure, creating a virtuous cycle of community investment. The housing attracts the residents; the recycled capital builds the businesses that employ them.

Pillar 2: The "Either/Or" Qualification Standard

To ensure this policy serves the diverse needs of the American landscape -- from inner-city Detroit to rural Maine -- the Act establishes a flexible "Either/Or" qualification standard. To qualify for the Build-to-Own tax benefit, a project must meet either of the following criteria:

- **Option A: The Urban Workforce Standard.** In urban Opportunity Zones, homes must be sold to owner-occupants earning up to 160% of Area Median Income (AMI). This expanded cap ensures we are serving the "Missing Middle" -- the nurses, firefighters, and teachers who are currently priced out of the cities they serve.

- **Option B: The "Zoom Town" Incentive (Rural Vitality).** In federally designated Rural Opportunity Zones, the income cap is defined as 160% of the GREATER of Area Median Income (AMI) or State Median Income (SMI). This formula allows developers to build high-quality housing for the rural professional class -- doctors, engineers, remote tech workers, and small business owners -- without being constrained by depressed local income data. It acknowledges the remote work revolution, allowing small towns to attract the "Zoom Class" and revitalize Main Streets.
- **Option C: Rural FHA / VA Limits.** To further incentivize rural economic development, policymakers should consider adopting a third qualification standard that extends Opportunity Zone benefits to for-sale housing inventory within Designated Rural OZs, provided that such units are priced below the local Federal Housing Administration (FHA) or Veterans Affairs (VA) loan limits.

Pillar 3: The Anti-Speculator Guardrail

To prevent "leakage" to speculators, the Act mandates a "Protective Stewardship Covenant" attached to every deed. This recorded restriction prohibits the leasing of the primary residence for a period of five years. For the buyer, it ensures the home is purchased for utility and equity building. For the market, it renders the asset toxic to institutional landlords and global asset managers, who cannot tolerate a five-year liquidity lock. Even with these restrictions, there should be exceptions for owner-occupants in unforeseen circumstances (e.g. needing to move after loss of employment; temporary work or military assignments away from the area).

Pillar 4: The Transparency Trade (Data for Deregulation)

For years, the OZ program has faced criticism regarding opacity and a lack of measurable impact data. (This has recently changed with the OBBBA which instructed Treasury to collect information on creation of residential units, jobs, etc.) The American Builder Act tackles this head-on by establishing a "Data for Deregulation" standard. In exchange for the regulatory flexibility to build and sell "Qualified Homeownership Property," participating funds must agree to report the following specific metrics annually:

- **Unit Production:** Total number of new homes completed and sold.
- **Affordability Delta:** The sale price of the home relative to local Area Median Income (AMI).
- **Beneficiary Profile:** Demographic data on the first-time homebuyers served (anonymized), as validated and tracked by the state or local housing authority.

This ensures the Act becomes the first "proven" asset class within the OZ framework, providing the Treasury with real-time data on policy efficacy.

4. THE PATH TO IMPLEMENTATION: REGULATORY VS. LEGISLATIVE

Unlike complex new entitlements, The American Builder Act can be advanced in phases, allowing the Administration to claim immediate victories while working with Congress on permanent codification.

Phase 1: Immediate Treasury Guidance (Executive Action)

- **Revenue Procedure 1:** The Treasury Department can exempt interim gains from sales of Qualified Homeownership Property by establishing a "Safe Harbor" for the 12-month recycling of capital proceeds from inventory sales. This would allow OZ funds to achieve tax-exempt sales of i) new construction qualified starter homes; or ii) existing qualified starter homes with renovations that increase the adjusted cost basis by 50% for a single house or by an average minimum 50% across a portfolio of houses (e.g. consistent with the new Rural OZ substantial improvements test).
- **Revenue Procedure 2:** Treasury should clarify that rent-to-own transactions by a QOZB are not considered an immediate sale of the house (e.g. not treated as a finance lease) or installment obligation (e.g. nonqualified financial property). This is important because it provides certainty that would allow QOZBs to provide downpayment assistance and discount the sale price by the previously paid rent without jeopardizing OZ qualification.
- **Update "Active Trade or Business" Definition:** Regulations can be updated to explicitly clarify that the development of for-sale housing constitutes an active "Section 162 trade or business" for OZ compliance, provided the Stewardship Covenant is in place.

Phase 2: Statutory Codification (Legislative Action)

We propose the following specific amendments to be included in the 2026 Reconciliation package:

- **Legislative Specification:** Amend IRC § 1400Z-2 to include a new subsection authorizing "Qualified Homeownership Property."
- **Recycling Standard:** Codify that income and capital gains from the sale of Qualified Workforce Inventory held primarily for sale by a Qualified OZ Fund or Business are non-taxable, provided they are recycled into OZ-eligible investments in 365 days.
- **Rural Formula:** Codify the "Greater of AMI or SMI" income test for Rural Zones.

Moreover, this legislation should be scored as revenue neutral by the Joint Committee on Taxation (JCT), because it redirects the flow of existing, already-authorized capital gains investments from OZ investments in commercial/rental toward investments in residential ownership. It does not create new tax expenditures; it merely changes the asset class of the deployment.

5. CASE STUDY: THE "ALMOST" SOLUTION (DETROIT, MICHIGAN)

To understand the friction in the current system -- and the potential of the American Builder Act - - we look to our own portfolio. One of my firm's proudest community redevelopment efforts is in the Livernois-McNichols neighborhood of Detroit, a federally designated Opportunity Zones. Together, we are executing a strategy to acquire distressed single-family homes, renovate them to high standards, and rent the properties to low-income families under the Housing Choice Voucher (HCV) program. Ultimately, we intend to offer the renters options to purchase the homes.

Under the current tax code, this is the closest we can get to the American Builder Act model -- but it is imperfect. To make the economics work and avoid capital gains taxes on the sale, we have the option to use the Section 1031 Like-Kind Exchange exemption (26 U.S.C. § 1031). We acquire and hold the properties as an investment (and not for sale) and rent the homes for two or more years before offering the tenants an option to buy.

Another rule that we would like to see changed is the requirement that such options be priced at fair market value, restricting our ability to accommodate any request to discount the purchase price or to apply prior rent payments toward downpayment assistance.

While these strategies are effective at creating new homeowners, the two-year regulatory hold drastically slows down the velocity of capital. It results in our funds being tied up in a single home for at least 24 months. Were it not for the tax restrictions, we could physically renovate and sell that home to a new family in six months and recycle that capital into new home creation.

The ABA Unlock. The American Builder Act would allow us to remove this 2-year friction and amplify our business plan. Instead of acquiring and holding our assets for long-term investment, we will be able to acquire, renovate and then sell these homes to the tenants. By designating this inventory as "Qualified Homeownership Property," it would allow funds like ours to sell homes immediately upon completion. This would increase our capital velocity at least tenfold over a 10 year period, allowing us to serve 10 families in the time it currently takes to serve one, while keeping the same "proudest investment" quality standards.

6. HISTORIC CONTEXT: A MODERN HOMESTEAD ACT

The challenge of settling a nation and building a middle class is not new. In 1862, facing a country divided by war and a frontier that remained largely out of reach for the average citizen, Abraham Lincoln signed the Homestead Act.

The logic of the Homestead Act was revolutionary. The government did not build houses for people, nor did it give cash handouts. Instead, it offered land, which the government owned in abundance, to those willing to commit to two conditions: Improvement and Occupancy. It was a bet on the American spirit of self-reliance. That bet paid off, transferring more than 270 million acres of public land to private hands and creating the foundation of the American middle class.

Today, the frontier is no longer geographic; it is economic. The resource the government possesses in abundance is not land, but tax-privileged capital. The American Builder Act is, in effect, a modern Homestead Act. It offers a new deal to the private sector: *We'll offer you the incentive of*

tax-free capital, but only if you use it to build homes for working families and ensure those families can stay there.

This shifts the paradigm of housing policy from one of "entitlement" (vouchers, rental assistance) to one of "empowerment" (ownership, asset building). This shift is essential not just for economic growth, but for social cohesion. When an entire generation feels structurally excluded from capital ownership -- working harder every year only to see their earnings absorbed by rising rents -- they inevitably lose faith in the economic system.

7. NATIONAL IMPACT: SCALING THE SOLUTION

The potential impact of the American Builder Act extends far beyond individual neighborhoods. By unlocking the supply side of the housing market, this legislation would function as a major macroeconomic stabilizer.

- **Output: Unlocking Capacity for 300,000+ Homes.** Based on current capital flows into Opportunity Zones and the absorption capacity of the entry-level housing market, our models project that this regulatory adjustment would unlock the private capital capacity to finance 300,000 new attainable homes annually at full scale, and up to 500,000 homes provided the alignment of other market conditions. Even achieving the conservative baseline would represent a ~34% increase in the current rate of national single-family starts.⁴
- **Job Creation: The "Labor Intensity" Bonus.** Shifting capital from multifamily rentals to single-family ownership is a net job creator. According to National Association of Home Builders (NAHB) benchmarks, building 1,000 single-family homes creates 2.9x more jobs than building 1,000 multifamily units.⁵ This "Labor Premium" exists because single-family homes require more sitework, more foundation pouring per square foot, and less vertical repetition than apartment towers. Projected impact: financing 300,000 single-family homes would support ~870,000 jobs in construction and related industries. These are trade jobs that cannot be offshored.
- **Democratizing the Developer Class.** Unlike commercial OZs which require \$50M+ capital stacks -- effectively limiting participation to large national developers -- this "Build-to-Own" model allows for project sizes of \$300,000 to \$500,000. This lowers the barrier to entry, allowing local, small-scale homebuilders to access OZ capital. By keeping the profits and the economic activity within the community, we create a more resilient local ecosystem.
- **The Multiplier Effect: The Chain of Vacancy ("Filtering").** Critics argue that building owner-occupied housing does not help the lowest-income families. The data proves otherwise. When a nurse or teacher buys a new "American Builder" home, they vacate a Class-B or Class-C rental unit. That unit then becomes available to a lower-income family. Research by the W.E. Upjohn Institute demonstrates that for every 100 new market-rate units built, approximately 45 to 70 units open up in below-median income neighborhoods through this migration chain.⁶

- **The Inflationary Hedge (Supply-Side vs. Demand-Side).** Perhaps most critically for the current economic moment, this proposal is counter-inflationary. Recent housing policy proposals have largely focused on "demand-side" subsidies (e.g., downpayment assistance grants). In a supply-constrained market, injecting more cash to chase the same number of goods will drive prices higher -- the definition of inflation. The American Builder Act is a "supply-side" solution. By increasing the inventory of homes without printing new money for buyers, it naturally moderates price growth.⁷
- **The Fiscal Carrot for Cities.** This policy represents a highly efficient value transfer from federal government to local government. While the federal government supplies the tax incentive via Opportunity Zones and the American Builder Act, local governments capture the immediate benefits in the form of an expanded property tax base. Unlike a rental complex, which often strains municipal services and requires ongoing social spending, a neighborhood of owner-occupied homes will generate larger tax revenues, fund its own infrastructure, and support long-term civic stability. This structure acts as a market-based reward for mayors and governors who are willing to deregulate zoning and clear the path for construction.
- **Fiscal Neutrality (The Deficit Hawk Defense).** This proposal is intended to be revenue neutral, subject to Joint Committee on Taxation (JCT) scoring. It does not create new tax expenditures; rather, it redirects the flow of existing, already-authorized OZ capital from commercial assets into residential ownership inventory.

8. ADDRESSING CRITIQUES

- ***Won't this gentrify neighborhoods?*** No. Gentrification is driven by displacement, which occurs when landlords raise rents or decline lease renewals. Ownership is the only true shield against displacement, giving families pricing power and a permanent stake in their community's appreciation. The ABA also increases supply to help meet the nation's increasing housing demand, while also moderating housing prices and allowing families to build equity in their homes and pass that equity to the next generation.
- ***What about the deficit?*** This policy serves as a "Deficit Hawk" defense. Every family moved from a rental property to homeownership is one less family likely to need a future Section 8 voucher or rental assistance. We can subsidize construction today through a temporary tax efficiency, or alternatively be forced to subsidize the rent forever through unfunded liabilities.

9. CONCLUSION: FINISHING THE JOB

The housing crisis is complex, but the solution to the specific problem of ownership inventory need not be. We do not need to invent new markets or convince Americans to desire homeownership. The demand is there. The capital is there. The labor is there. The only thing missing is the permission to connect them.

This shifts the paradigm of housing from "entitlement" (vouchers, rental assistance) to "empowerment" (ownership, asset building). This shift is essential for social cohesion. When a generation feels structurally excluded from capital ownership -- working harder every year only to see their earnings absorbed by rising rents -- they inevitably lose faith in the economic system.

For seven years, the OZ program has demonstrated the immense power of tax incentives to move markets. It did exactly what it was designed to do -- revitalize commercial corridors. Now, we must evolve the tool to meet the new challenge of the decade.

We are standing at a fork in the road. **Path A** is the status quo: We continue to let regulatory friction block home construction and watch as homeownership continue its slow decline, accepting a future where the American Dream is a rental payment to a foreign sovereign wealth fund. **Path B** is the American Builder Act: We unshackle the market, allowing private capital to solve problems in exchange for fair returns.

Abraham Lincoln understood in 1862 that a democracy cannot thrive without a broad base of property owners. He knew that the strongest foundation for a free society is a family with a deed in their hand. It is time to renew that promise. It is time to clear the way for the builders.

10. ABOUT THE AUTHOR

Jonathan Tower is the Founder and CEO of Arctaris Impact Investors, LLC, the largest impact-focused Opportunity Zone fund manager in the United States. With over 16 years of experience investing in distressed communities, he specializes in structuring public-private partnerships that deliver housing, infrastructure, and quality jobs. Prior to founding Arctaris, he was a venture capital investor for Fidelity Ventures and IBM and started his career as a financial journalist for *Bloomberg News*. He holds an MBA from Harvard Business School and a B.A. from Georgetown University.

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