October 25, 2021

The Honorable Sandra L. Thompson
Acting Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

Re: Request for Input, Enterprise Equitable Housing Finance Plans

Dear Acting Director Thompson:

The National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA) are pleased to provide input to FHFA's request for input on the *Equitable Housing Finance Plans for the Enterprises* to both the Enterprises as they prepare their first Equitable Housing Plans and to FHFA in their oversight of the equity plans.

NMHC and NAA represent the apartment industry that provides apartment homes for 40.1 million residents, contributing $3.4 trillion annually to the economy while supporting 17.5 million jobs.[1] Our nation has faced unprecedented challenges throughout the COVID-19 pandemic, which have strained housing providers and our residents and exacerbated already disparate needs for attainable affordable housing. We are committed to working with you to not only stabilize the current pandemic related disruptions, but also address housing equity, affordability, and access going forward.

Before COVID-19, the country was facing a nationwide housing affordability challenge and a historic demand for new rental housing. Beginning in the mid-2000s, the nation experienced the greatest renter wave in its history, as the number of households who rent rose by more than 7 million.[2] Fueled by this extraordinary demand for apartment homes, in 2016 NMHC and NAA research found that we need to build 4.6 million new apartments by 2030 to meet the nation's housing needs. To meet this demand, we will need to build an average of 328,000 apartments (in buildings with five or more units) per year through 2030 just to keep up with annual demand from new households and losses to the stock.[3] Yet our industry has faced significant challenges to new apartment construction, development and renovation before the crisis, and we have only hit that mark four times since 1989.[4]

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[1] https://www.weareapartments.org/
[2] U.S. Census Bureau, Various Surveys
[3] Hoyt Advisory Services; NMHC and NAA, "U.S. Apartment Demand – A Forward Look", May 2017.
[4] U.S. Census Bureau, New Residential Construction, updated 4/2021.

President Biden's January 20, 2021, executive order should guide our work on this important subject and focus the efforts of all stakeholders in the housing market when he said, "the Federal Government should pursue a comprehensive approach to advancing equity for all, including people of color and others who have been historically underserved, marginalized, and adversely affected by persistent poverty and inequality." Housing is the path to greater diversity and access to better opportunity in neighborhoods, such as schools, services, jobs and transportation.

COVID-19 has disproportionately impacted America's housing market, for workforce and low-income renters and communities of color who already have endured outsized hardships. The pandemic has also further frustrated apartment production—especially in already under-supplied markets and asset types— seriously jeopardizing housing affordability, limiting housing choice and undermining broader economic growth for people of color and others who have been historically underserved, marginalized and adversely affected by persistent poverty and inequality.

Before responding to the enumerated questions in the Request for Information (RFI), we would like to note the absence of an explicit reference to rental housing in the *Overview of Plan Framework* description. While it may have been implicit, we ask that FHFA clearly communicate the importance of identifying barriers to sustainable housing opportunity either directly related to the Enterprises' actions or barriers to equity in the housing market for **ALL**; home ownership and rental housing. As a primary housing option for new households entering the market, and because renter households are traditionally more cost burdened than their homeowner counterparts, we believe dedicated focus from FHFA to barriers impacting those most in need of shelter stability is appropriate and necessary.

We further believe elements of the non-exclusive list of goals and objectives should explicitly be directed toward Enterprise single-family and multifamily activities. These include:

- Reducing racial and ethnic disparities across a variety of financing and servicing activities;
- Increasing the quality of the supply of affordable housing available in racially or ethnically concentrated areas of poverty;
- Increasing the supply of affordable housing available in areas with access to educational, transportation, economic, and other important opportunities;
- Reducing underinvestment or undervaluation in other (non-redlined) areas that remain underserved or undervalued;
- Increasing the supply of affordable housing that is accessible for persons with disabilities and available in the most integrated setting appropriate to the needs of an individual with a disability; and

- Increasing the supply of affordable housing available to families with children in areas with access to educational, transportation, economic, and other important opportunities.

Absent clear guidance from FHFA to the Enterprises and stakeholders, we are concerned these elements of the RFI may be misconstrued to apply only to limited portions of the housing market served by Fannie Mae and Freddie Mac and denying millions of households the future benefits of the worthwhile undertaking.

#1: How should measurable goals be selected and set by the Enterprises? For example, is pursuing a small set of focused goals or a wide portfolio of goals better?

For multifamily activities at the Enterprises, we believe the answer will be self-evident for FHFA once the Enterprises and industry stakeholders have had an appropriate opportunity to define the rental market circumstances for housing equity along with what methods Fannie Mae and Freddie Mac have available to engage on this issue. Collaboration will be key in defining the scale and aperture of goals set for the Enterprises, and that begins with broad consultation to define the challenge and the opportunities.

#2: What data, information, or analyses would be helpful for the Enterprises to consider or use to support their plans?

On August 20, 2021, FHFA issued a proposed rule for the affordable housing goals for the Enterprises for both the single-family and multifamily businesses. Since the establishment of housing goals by the Safety and Soundness Act of 1992 the regulator has noted a lack of data to establish the size of the affordable market for low-income or very low-income families. We encourage FHFA to take a leadership role in working with the Enterprises, HUD, providers of affordable housing finance and researchers to aggregate this information to determine the size of this marketplace, the scope of the impact to disadvantaged households, and the investment shortfall in serving this market.

#3: How should the Enterprises undertake setting objectives, measurable goals, and meaningful actions to sustainably address the racial and ethnic homeownership gap?

We request that this question be expanded to address housing needs for ALL, with every element of the question appropriately applying to affordability and access to rental housing in addition to the homeownership gap. The Enterprises and other respondents should have an opportunity to provide feedback on this matter for both populations served by the Enterprises before the Equitable Housing Finance Plans are finalized.

#4: How should the Enterprises undertake setting objectives, measurable

goals, and meaningful actions for formerly redlined areas? How should such areas be defined?

Exclusionary Zoning has been a key factor preventing the development and preservation of affordable housing and in promoting the inequities inherent in our current housing system. Exclusionary zoning and other punitive regulation are part of the mosaic of harmful policies that create barriers to the development of rental housing in neighborhoods of opportunity. The Enterprises should look for ways to incentivize lending in areas that have been plagued by onerous and restrictive zoning policies that prevent the development of rental housing.

A 2019 study by the Atlanta Apartment Association, HR&A and NAA entitled *"Drivers of Multifamily Housing Costs and Affordability in Atlanta"* found, among other conclusions, that neighborhoods with higher rents are overwhelmingly zoned for single-family housing.[5] Further, prohibitive zoning that discourages multifamily development curbs the ability to normalize rent.

NMHC released its Housing Affordability Toolkit to highlight the impact of policies like exclusionary zoning, which restrict the supply of housing within a market, driving up prices and limiting opportunities to thrive to a fortunate few. Policymakers have an opportunity not just to deconstruct a bad policy legacy from previous eras, but to also improve the market circumstances for millions of households by helping increase supply and drive down the cost of housing.

FHFA and the Enterprises should look for ways to incentivize eliminating onerous exclusionary zoning, streamlining the permit process and easing regulations that exacerbate the development of affordable rental housing in neighborhoods of opportunity across the nation.

Further, the Enterprises should look for ways to incentivize states and localities to reduce barriers to development of rental housing. Specifically, below is a list of several of the incentives listed in NMHC and HR&A's housing toolkit:

- Streamline and fast track the entitlement and approval process;
- Provide density bonuses and other incentives for developers to include workforce units in their properties;
- Enable "by-right" zoning and create more fully entitled parcels;
- Defer taxes and other fees for a set period of time;
- Lower construction costs by contributing underutilized buildings and raw land; and

[5] https://assets.noviams.com/novi-file-uploads/aaa/FINAL_06_18_19_HR_A_Study.pdf

- Create incentives to encourage higher density development near jobs and transportation. [6]

#5: What other objectives and measurable goals should the Enterprises pursue in their plans?

In 2018, NMHC worked with FHFA to host a seminar on workforce housing, a market segment that plays a very important role in supporting housing equity. As part of that work, we suggested a number of ways for the Enterprises to expand their influence in the development, preservation and maintenance of workforce housing. Our letter, to then, Deputy Director Sandra Thompson on April 27, 2018, summarized the following ideas which we continue to believe could be supportive of the housing equity plans for the Enterprises:

- **Mezzanine fund for new development**- Equity capital for ground up development is very expensive. A mezzanine fund with below market returns will spur development as it allows deleveraging of expensive equity capital.
- **Loan programs supporting localities that reduce development barriers**- Local barriers drive up development costs. Developing a loan program that recognizes and supports efforts that reduce development barriers can provide a synergistic incentive for localities.
- **Expand efforts to work with impact investors-** There are many impact investors with national and local exposure and interests. Leverage the strong brand image of the GSEs to create a fund targeting workforce housing development and preservation with the goal to inject significant exposure and investment dollars.
- **Gap financing for LIHTC**- The new tax law allows income averaging for new LIHTC up to 80% AMI. These transactions are still starved for gap funding; allowing the GSEs to provide gap financing would benefit getting more transactions to work. The GSEs could also use their proven ability to influence standardizing processes to the gap funding market.
- **Recognize innovative construction techniques**- Reducing the cost to develop can come from the use of innovative construction techniques such as modular or prefab. A lending program that recognizes the use of these techniques could help lead to a delivered lower cost per unit.
- **Promote community lending not just housing**- Housing is only a portion of supporting the surrounding community. Owners who make this additional investment could benefit from loan programs recognizing this community investment or could be supported by a co-investment in the community
- **Give credit for smart value-add renovation**- Preserving existing naturally occurring affordable apartments becomes more difficult as some value-add investors turn these into upper end market rate units. Lending programs could give favorable

[6] https://housingtoolkit.nmhc.org/

terms to value-add investments that maintain reasonable rents for workforce housing.

#9: How should the plans interact with Duty to Serve, Housing Goals, or other requirements?

As referenced in detail in our October 25, 2021, comment letter regarding the *Notice of Proposed Rulemaking on Housing Goals for the Enterprises 2022-2024*, we believe it is critical that FHFA harmonize their guidance across these different channels including the newly proposed Housing Equity Plans, to avoid confusion for the private sector and redundancies for the Enterprises.

#11: Are there additional or different required objectives and goals that FHFA should consider for future Enterprise plans?

We ask that FHFA work directly with the multifamily departments within both Enterprises along with industry stakeholders to better define what unique objectives and goals should be pursued for rental housing in similar fashion to single family issues including the homeownership gap, underwriting and servicing, and increasing sustainable housing opportunities for individuals in the mortgage market.

#12: What communities and stakeholders should the Enterprises consult with in developing their plans?

The apartment industry is grateful for the consistently open dialog FHFA has committed to with its stakeholders. FHFA admirably strives to keep the market informed and solicits input from all interest groups to inform policy as appropriate, and we believe the Agency's efforts on housing equity will be in keeping with this practice.

Addressing housing equity is a multi-collaborative effort where owners, managers, investors, residents and the Enterprises can all play a role. The owners and managers of the properties play an important role that can be supported by the efforts of the Enterprises. In a collaborative effort with Enterprise Community Partners Resources, NMHC has taken on a leading role in developing guidance and supportive documents to assist its members in understanding and addressing housing inequity. One of these documents, *Opening Doors of Opportunity: A Guide for Advancing Housing Equity in the Multifamily Industry*, will offer resources, tools and case studies to consider for our members. NMHC will make this important document available to FHFA and the Enterprises to assist them in inform, develop and implement their housing equity plans.

NAA conducted a national survey, the *U.S. Barriers to Apartment Construction* Index, to better understand factors that impact the new supply of apartments. The survey measured development complexity including the impact of community involvement, construction costs, affordability issues, infrastructure, density and growth restrictions, land supply, environmental restrictions, approval process complexity, political structure complexity and time to develop a new property. Data from this survey can provide facts and focus for decisionmakers working to address the tide of sustained demand for all renters.

On behalf of the apartment industry, we thank FHFA for the opportunity to provide feedback on this issue so critical to the safety and soundness of the Enterprises and future prosperity of families in communities throughout the nation. We look forward to partnering with FHFA and the Enterprises to address this important issue, on behalf of the millions of households we both serve.

If you have any questions or if you would like to discuss our comments, please contact David Borsos, Vice President, Capital Markets at NMHC by telephone at 202-974-2336 or by email at dborsos@nmhc.org.

Sincerely,

Doug Bibby
President
National Multifamily Housing Council

Robert Pinnegar, CAE
President & CEO
National Apartment Association