September 5, 2018

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
United States House of Representatives Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

Dear Chairman Hensarling and Ranking Member Waters:

The National Multi Housing Council (NMHC) and the National Apartment Association (NAA) are writing to thank you for holding a hearing entitled, “A Failure to Act: How a Decade without GSE Reform Has Once Again Put Taxpayers at Risk.” As you address housing finance reform, we encourage you to review not only the impact reforms will have on the single-family programs, but to also thoroughly evaluate the impact reforms will have on the multifamily sector.

For more than 25 years, the National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA) have partnered to provide a single voice for America’s apartment industry. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, management and finance. NMHC represents the principal officers of the apartment industry’s largest and most prominent firms. As a federation of more than 160 state and local affiliates, NAA encompasses over 73,000 members representing nearly 9 million apartment homes globally. One-third of all Americans rent their housing and 39 million of them live in an apartment home.

While policymakers are understandably focused on reforming the GSEs’ single-family programs, they must avoid a “one size fits all” approach to housing reform. The distinctions between single-family and multifamily, which include private capital participation, underwriting (including legal framework, term, rate, borrower requirements, and servicing), risk sharing, and loan performance, underpin the essence of real estate finance, and require that reform to each market be approached separately.

One of the foremost priorities of federal policy makers should be getting multifamily right in any housing finance reform effort by recognizing its unique characteristics; it is the single most important factor to ensuring that the apartment industry can meet the nation’s growing rental housing demand.
Rental Housing – The Supply Demand Imbalance

There has been a fundamental shift in our nation’s housing dynamics as changing demographics and lifestyle preferences have driven more people away from the typical suburban house and towards the convenience of renting. Fueled by a growing population, demand for rental housing by younger Americans, immigration trends, and Baby Boomers and other empty nesters trading in single-family houses for apartments, demand for apartment housing demand keeps growing: 2017 saw the biggest pickup in apartment renting since 2000. There are more than 75 million people between 18 and 34 years old, many entering the housing market, primarily as renters. Similarly, many of the over 74 million Baby Boomers and other empty nesters have the option of trading single-family houses for the convenience of rental apartments. In fact, more than half of the net increase in renter households between 2007 and 2017 came from the 45-plus demographic cohort.

Beginning in the mid-2000s, the nation experienced the greatest renter wave in its history, as the number of households who rent rose by 7-12 million. This increased apartment demand creates a critical need for 4.6 million new apartments at all price points by 2030 according to a study conducted by Hoyt Advisory Services and commissioned by the National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA). To meet that demand, we will need to build an average of 328,000 new apartments every year. Yet we have only hit that mark once since 1989.

There will also be a growing need for renovations and improvements on existing apartment buildings, which will provide a boost in jobs (and the economy) nationwide. Hoyt’s research found that 51 percent of the nation’s 20 million-plus apartment stock was built before 1980, which translates into millions of units that could need rehabilitation or renovation by 2030.

The growing demand to build new apartments – combined with the need to renovate thousands of apartment buildings across the country – will make a significant and positive impact on our nation’s economy for years to come. For frame of reference, apartments and their 39 million residents contribute $1.3 trillion to the national economy annually. As the industry continues to grow, so will this tremendous economic contribution. Therefore, it is critically important that the apartment industry has access to the capital it needs to build new as well as renovate existing apartments.

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3 Hoyt Advisory Services; NMHC/NAA
4 U.S. Census Bureau, New Residential Construction.
5 Dr. Stephen Fuller; NMHC/NAA. “The Trillion Dollar Apartment Industry”
Housing Finance Reform – Multifamily Policy Recommendations

The bursting of the housing bubble exposed serious flaws in our nation’s housing finance system. The very successful multifamily programs of the Government-Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, were not part of the meltdown and have actually generated over $34 billion in net profits since the two firms were placed into conservatorship. Preservation of the mortgage liquidity currently provided by the GSEs in all markets during all economic cycles is critical.

NMHC/NAA urge lawmakers to recognize the unique needs of the multifamily industry. We believe the goals of a reformed housing finance system should be to:

- **Maintain an explicit federal guarantee** for multifamily-backed mortgage securities available in all markets at all times;
- **Ensure that the multifamily sector** is treated in a way that recognizes the inherent differences of the multifamily business; and
- **Retain the successful components** of the existing multifamily programs in whatever succeeds them.

If reform efforts are to succeed in their stated mission, policymakers must give dedicated, thoughtful and separate consideration to the multifamily finance system. Legislative reform solutions that only address the challenges or structural failures in one real estate class would make the multifamily industry collateral damage.

**Conclusion**

We encourage policymakers to continue to engage with the multifamily industry to develop workable solutions as the Committee advances consideration of housing finance reform.

The meaningful differences between the single family and multifamily sectors, both in how they operate and how they have performed, requires different solutions to avoid putting at risk the nearly 39 million Americans who rely on the apartment industry for their housing.

We encourage you to study the design and performance of the multifamily businesses at both GSEs during the great financial crisis and today and visit with stakeholders in each of your communities to best understand the critical, stabilizing role of the GSEs in all markets, at all times.

We strongly urge Congress to retain the successful elements of the multifamily programs in whatever replaces them. Lastly, it is essential that a reformed housing finance system retain a federal backstop for multifamily. The multifamily GSE programs met the mark, even during the great financial crisis, and can serve as a model for a continued federal guarantee for rental housing in a reformed housing finance model.
Housing our diverse nation means having a vibrant rental market alongside an ownership market to promote stronger communities.

Sincerely,

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National Multifamily Housing Council

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