April 29, 2015

The Honorable Mel Watt
Director
Federal Housing Finance Agency
Office of the Director
400 Seventh Street, SW
Washington, DC  20024

Dear Director Watt:

Thank you for taking the time to meet with representatives of the National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA) to discuss the state of the multifamily market and our concern that the Government Sponsored Enterprises (Enterprises) will hit their related market caps well before the end of the year, resulting in a disruption of capital flows.

As noted in our discussion, the multifamily market is very healthy and is buoyed by a strengthening economy, high investor interest, very low interest rates, and improved access to the equity and debt markets for owners and investors. FHFA has a commitment of preservation and conservation of the assets of the Enterprises, as well as a commitment to market stability and strengthening of the role that private markets play as key elements to the success of the industry. This commitment reflects the fact that the Enterprises play a critical role in the housing finance market and that private market participation has returned to historical levels, making up nearly 70% of the total market. Market stability, however, is imperiled given that the unprecedented demand for financing has resulted in the Enterprises nearing their production caps within the first quarter of 2015.

The Enterprises play a key role in providing a stable source of capital to the apartment industry, one that is generally affordable whether subsidized or naturally occurring. They are also a critical partner to the industry serving all sectors, in all areas of the country and throughout all economic cycles. Removal of this source of financing from the market will have a detrimental impact on lending for a market that is only now building and delivering the supply needed to meet the burgeoning demand for rental housing.

For the three years that a production cap has been imposed on the Enterprises’ multifamily business NMHC and NAA have expressed our concern that it will cause market disruption and potentially lead to adverse market decisions by borrowers. That concern is a reality today. We provided a broad view of the overall market in our discussion, one that showed increased demand across all commercial real estate product lines, as well as an assessment of the capacity and staying power of other sources of debt. After our meeting we continued these discussions with industry participants, which provided further confirmation of our assertions. Uniformly, we find that there is broad concern about the caps, including market distortions caused directly by cap concerns, and that even competitors of the Enterprises are concerned about the market disruptions that are occurring.
Finally, we understand and appreciate the thoughtfulness and analysis that goes into making a decision regarding changing the production cap for the Enterprises. We would welcome the opportunity to assist in providing any market information that would be helpful in this decision. Most importantly, however, is that any decision that FHFA makes regarding the cap must be made as soon as possible.

We look forward to working with you and to your support of multifamily housing finance that broadly serves rental housing needs.

Sincerely,

Douglas M. Bibby
President
National Multifamily Housing Council

Douglas S. Culkin, CAE
President
National Apartment Association