



TESTIMONY BY  
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VICE CHAIRMAN, CHIEF EXECUTIVE OFFICER AND PRESIDENT  
GID INVESTMENT ADVISERS LLC  
ON BEHALF OF THE  
NATIONAL MULTI HOUSING COUNCIL  
AND THE  
NATIONAL APARTMENT ASSOCIATION  
BEFORE THE  
HOUSE COMMITTEE ON FINANCIAL SERVICES  
ON  
HOUSING FINANCE REFORM  
MARCH 23, 2010

Chairman Frank, Ranking Member Bachus and distinguished Members of the Committee, I am Bob DeWitt, the Vice Chairman, Chief Executive Officer and President of GID Investment Advisers LLC (“GID”). Founded in 1960, we are a privately held, vertically integrated, diversified real estate operating company based in Boston, MA. In the multifamily sector, GID has acquired or developed over 40,000 units and currently has a 12,247-unit portfolio in 42 apartment communities in 14 states.

I am testifying on behalf of the National Multi Housing Council (NMHC) and the National Apartment Association (NAA).

NMHC and NAA represent the nation’s leading firms participating in the multifamily rental housing industry. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, management and finance. The National Multi Housing Council represents the principal officers of the apartment industry’s largest and most prominent firms. The National Apartment Association is the largest national federation of state and local apartment associations. NAA is a federation of 170 state and local affiliates comprised of more than 50,000 multifamily housing companies representing more than 5.9 million apartment homes.

We applaud the Financial Services Committee for its efforts to begin deliberations on the future of a secondary mortgage market for the housing industry. Since the single-family mortgage meltdown, much has been written and discussed about the failure of our housing finance system. There is no mistaking that failures did occur and these failures caused significant dislocation to both the single-family sector and to other industries that were collateral victims of the financial crisis, such as the apartment industry.

Thus, we agree that reforms and corrections must be implemented to repair the damage and to restore credibility to the U.S. financial system. But we should remember that for the past 50 years, the U.S. housing system has been the envy of the world in attracting private capital to meet our nation’s housing needs. As lawmakers redesign the secondary mortgage market, **we must be careful to retain the successful elements of our present system.**

Moreover, it is critical that this reform effort be undertaken very cautiously and deliberately. The stakes here are very high. Currently the Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac hold \$5 trillion in mortgage debt (in securities and portfolio loans). This is equal to nearly 42 percent of the \$12 trillion federal debt.

It is also critical that reform efforts be guided by a thorough understanding of the unique needs of the apartment industry so that steps taken to address the problems with the single-family financing process do not inadvertently restrict the supply of multifamily capital.

If I can leave you with one message today it is that **a government-supported secondary market is absolutely critical to the multifamily sector and our industry’s ability to continue to meet the nation’s demand for affordable and workforce housing.** Multifamily may only represent 10 percent on average of the GSEs’ mortgage debt, but they currently provide nearly 90 percent of multifamily mortgage capital.

Since 1996, the GSEs have provided more than \$535 billion in multifamily mortgage debt. Having this reliable source of capital—in good markets and bad—has provided financing for more than 11 million apartments in that time. This most recent financial crisis underscores the importance of the GSEs to multifamily. Over the past two years, they have provided \$94 billion in mortgage debt to our industry at a time when virtually every other capital source left the market.

That support will be even more critical going forward because America will increasingly rely on rental apartments to house our citizens. Currently one-third of families live in rental housing, and our industry provides safe, decent housing to over 17 million households or over 50 million Americans.

That share is likely to grow in the future because of fundamental changes in our society that are also changing the types of housing we need to build. The largest generation of children currently under the age of 20 in the history of the U.S. will be entering the housing market in the next few years, primarily as renters. Record numbers of legal immigrants, many of whom are long-term renters, and the foreclosure crisis have also increased demand for affordable rental housing.

In addition, up to 85 percent of our household growth between 2010 and 2019 will come from households who are not married couples with children. These new households will be seeking more and different choices than the generations before them, and many will be drawn to the affordability, flexibility and convenience of apartments. Housing expert Professor Arthur Nelson of the University of Utah projects that half of all housing built over the next 10 years will need to be rental housing to meet the dramatically changing landscape of demand.

The Harvard University Joint Center for Housing Studies estimates that we already have a shortage of some 5 million units of affordable rental housing. **Our industry cannot meet the nation's current or future housing needs—or refinance the approximately \$200 billion in mortgage debt coming due over the next two years—without a fully functioning secondary mortgage market.**

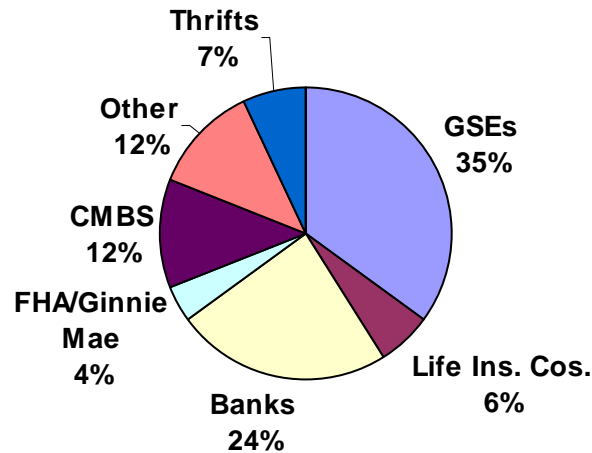
Fortunately, I am here today to tell you that the multifamily secondary market story is very different from the single-family story. The most consistently successful sector of the U.S. housing finance system has been multifamily. Our industry did not overbuild in the housing boom, and even now, default rates for GSE multifamily mortgages remain low. In short, the current government-supported secondary market programs have met the test: they have helped finance an enormous volume of affordable rental units; they have sustained liquidity in all economic climates; and they have ensured the safety and soundness in their multifamily loans and securities. We need to preserve the elements of their programs that led to this success story as we reform the secondary multifamily mortgage market.

I would like to take this opportunity to highlight for the Committee key policy issues that we believe should be considered as Congress examines the future of the residential mortgage market.

### **A GOVERNMENT-SUPPORTED SECONDARY MORTGAGE MARKET FOR MULTIFAMILY HOUSING IS CRITICAL**

As I mentioned earlier, the nation will increasingly rely on the apartment sector to meet its housing needs. Without a government-supported secondary mortgage market, however, not only will we be unable to create additional housing, but we will be hard pressed to maintain the current stock of multifamily housing. Currently, just over half (51 percent) of outstanding multifamily capital is held in the secondary market (35 percent by the GSEs, 12 percent in CMBS and 4 percent in Ginnie Mae.)

## Multifamily Mortgage Debt Outstanding 2009 Q3



Source: Federal Reserve Outstanding Mortgage Debt 2010

While our industry relies on other sources of capital, including thrifts, banks and life insurance companies, these are not sufficient to provide the capital necessary to keep the apartment sector functioning. Banks are limited by capital requirements. Life insurance companies have always been less than 10 percent of the market, lend primarily only to newer, luxury high-end properties and enter and leave the multifamily market based on economic and capital market conditions. The private-label CMBS market is unlikely to return to the volume and market share it reached a few years ago, and the FHA has exceeded its capacity to meet the sector's capital demands.

The following outlines why it is important to retain a government-supported secondary mortgage market for multifamily in any reform effort.

### 1. Providing Affordable and Workforce Housing

Fannie Mae and Freddie Mac make immeasurable contributions to housing affordability through their multifamily programs. Between 1999 and 2007 they provided \$104 billion in multifamily mortgage financing for apartments affordable to families at or below 80 percent of the area median income (AMI). That's 3.2 million units—half of all units financed during this period. Additionally, half of their mortgages financed during this period were in underserved targeted areas. **The GSEs' multifamily programs have always met and exceeded their special affordable multifamily goals.**

They have been and can continue to be the single largest provider of credit enhancement for multifamily housing bonds used to finance affordable housing.<sup>1</sup>

<sup>1</sup> They continue to provide credit enhancement, but only for fixed-rate bonds as the variable-rate bond market is unstable and their regulator has prohibited them from taking the variable rate-bond market's liquidity risk.

But their contributions to workforce housing go beyond their affordable housing goals. Few people realize that fully 90 percent of the apartment units financed by Fannie Mae and Freddie Mac over the past 15 years—more than 10 million units—were affordable to working families at or below their communities' AMI. This includes an overwhelming number of market-rate apartment properties with no federal subsidies.

**The message here is that nearly ALL of the GSEs' multifamily activities help create affordable and workforce housing, not just the capital they provide to properties designated as affordable.**

The vast majority of non-subsidized apartments provide housing to people at or below area median income. That is because multifamily housing is inherently affordable. The median household income of all renters in 2007 was \$25,500, well below the national median income of \$47,000. The median income of renters in non-subsidized market-rate apartments was \$30,000.

The conventional apartment industry's ability to serve renters at or below area median income is a result of the liquidity the sector has had access to for the past 20 years, and that liquidity is the result of a government-supported secondary multifamily mortgage market that has lowered the cost of capital to affordable AND market rate apartment providers. Without that government support, interest rates and debt service costs will rise, rents will have to increase to cover these costs and our market-rate industry will be less able to serve people at or below AMI.

Not only does the presence of a government-supported secondary multifamily mortgage market lower the cost of capital, it is important to understand that it also works to leverage private capital to support affordable housing.

**Without a government guarantee of multifamily mortgages or mortgage-backed securities, rents will go up and the supply of affordable housing will go down because other capital sources cannot and will not fill the gap.**

- Even if the life insurance companies expand their role in multifamily finance, they have no mandate to take on the additional risk of affordable housing. Their mortgage programs are based on maximizing profits for their investors and policyholders. They will also not step in to fill the financing needs of older properties, properties with subsidy, properties in weaker markets or properties with physical needs.
- A resumption of bank lending will also not fill the gap because stricter portfolio and accounting standards limit their ability to provide development and debt capital. Banks have never been a source of long-term financing (longer than three to five years).
- It is unclear when and to what extent the commercial mortgage-backed securities (CMBS) markets will be able to meet the multifamily sector's capital needs both in the short and long term. Private label CMBS provided 12 percent of net financing capital, or \$1 billion a year, in the 10-year period from 1985 to 1994. It grew to 18 percent, or \$6.3 billion per year, in the next 10-year period from 1995 through 2004 before peaking at 23 percent, or \$17 billion a year, in the housing bubble years of 2005 through 2007. Since the bubble burst in 2007, private-label CMBS have had net flows of -\$7.5 billion per annum (-22.3% of net multifamily financing flows) as the market shut down completely.

- The Federal Housing Authority (FHA) is likewise not a replacement, as it has exceeded its capacity to serve a material share of the market. It would take a substantial commitment from the government to fund significant changes to FHA's resources, systems and delivery process for FHA to meet the financing gap. Currently, FHA is changing its multifamily underwriting criteria to reduce, not expand, the number of loans it funds as a result of weakening portfolio performance.

## 2. Preserving Critical Housing Stock

Another important, and often overlooked, function of the GSEs has been to provide the capital necessary to preserve older apartment properties. Typically, institutional investors overlook “Class B” and “Class C” properties. These are older buildings with fewer amenities, in weaker markets and/or in need of improvements, and they are crucial to meeting the housing needs of millions of Americans seeking affordable decent and safe housing.

Capital for these properties has historically been provided by local banks (now extremely limited), CMBS (now absent), FHA (at or near capacity) and the GSEs through the Low-Income Housing Tax Credit (LIHTC) and other investment funds. Without a strong secondary multifamily mortgage market, there will be insufficient capital to preserve affordable multifamily housing. More rental units will leave the market or be converted/upgraded and the nation will lose more than the 132,000 apartment units it already loses each year to obsolescence.<sup>2</sup>

## 3. Supporting Industry Standardization

The GSEs have created extensive standardization in the legal, financial underwriting, physical assessment and environmental hazard management (e.g., lead-based paint, asbestos, operations and management protocols, etc.) of multifamily real estate. The banks and insurance companies also base their work on the GSEs’ loan requirements and uniform mortgage documents.

This standardization has made multifamily financing more efficient, has helped lower the cost of capital, and has strengthened general underwriting in the apartment sector. The GSEs have been a leader in attracting worldwide capital sources to the housing industry.

## 4. Providing Liquidity with Strong Historical Performance

The U.S. housing finance system, with the GSEs playing a central role as the system developed and evolved over the last 60 years, worked extremely well. It allowed the U.S. to enjoy the highest homeownership rate in the world and helped create the broadest and best housing stock on earth. It was the envy of the world.

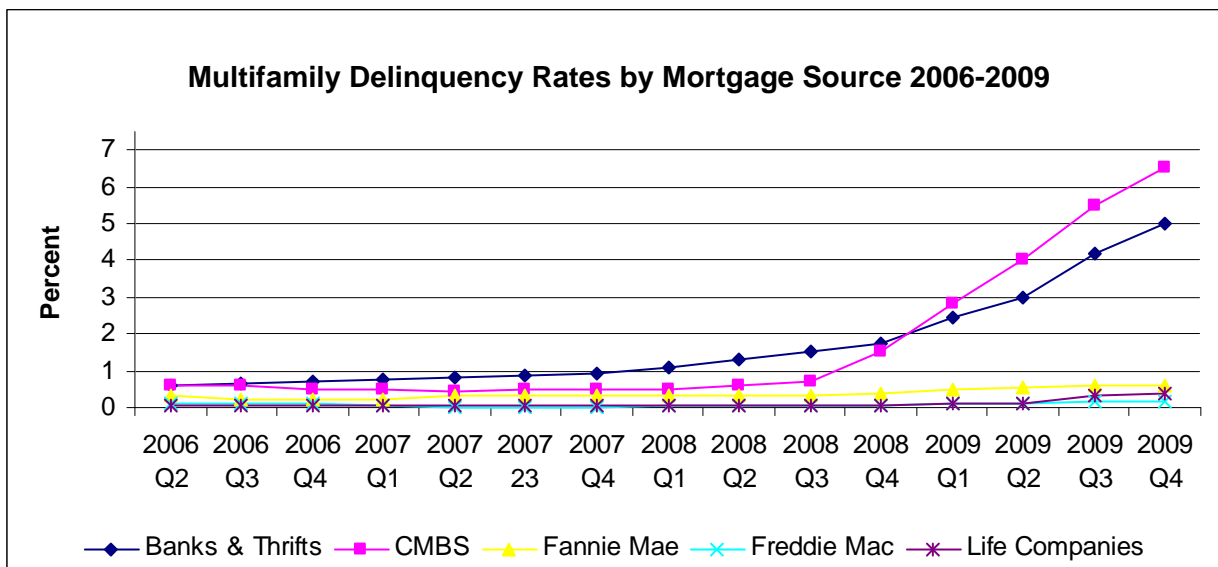
The secondary market created by the GSEs has repeatedly shown its value as a liquidity source to **ensure that the apartment sector had working capital in all market conditions**. When credit markets have been impaired for reasons that have nothing to do with multifamily property operating performance, the GSEs have ensured the continued flow of

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<sup>2</sup> Based on HUD’s Components of Inventory Change (CINCH) data set. Over the last decade, losses to the stock have averaged 0.71 percent annually. This figure is applied to our estimated apartment stock of 17 million. Based on a total multifamily housing stock of approximately 17 million units, a loss rate of 0.5% would equal 85,000 units lost annually; a loss rate of 0.8% would equal 136,000 units lost annually.

capital to apartments. This was the case during the savings and loan crisis, the 1999 Russian economic crisis, and is the case today. This invaluable system has enabled our sector to continue to meet the nation's housing needs in good times and in bad, an important public policy goal.

Moreover, they have done it with strong historical portfolio performance. Over the past 20 years, their multifamily loan delinquency and defaults have been minimal—less than one fifth of one percent. At the end of 2009, the GSEs' delinquency rates were at or below one-half of one percent (45 bps). This is 14 times less than the CMBS market (6.5 percent) and 11 times less than commercial banks (5 percent). Even the government's FHA multifamily loan insurance program is experiencing higher levels of distress (1.2 percent) than the GSEs.



Note: Delinquency is defined as follows: Banks & Thrifts = 90+ days; CMBS = 90+ days; Life Insurance Companies = 90+ days; Fannie Mae = 60+ days; and Freddie Mac = 90+ day.

Sources: Realpoint Research, Fannie Mae, Freddie Mac, Mortgage Bankers Association, U.S. Department of Housing and Urban Development.

There are many reasons for the GSEs' strong performance, including, but not limited to:

- sound and effective credit policy;
- prudent underwriting and loan terms and mortgage requirements;
- effective third-party assessment procedures (as part of the loan underwriting and due diligence process);
- strong contractual agreements with their origination and servicing partners;
- risk-sharing with and risk-retention by origination and servicing partners;
- effective loan portfolio management and oversight;
- standard mortgage documentation; and
- geographic and loan product diversification.

In addition, multifamily loans are generally considered to be less risky than and are expected to outperform other commercial real estate loans. The Congressional Oversight Panel's February 2010 report of commercial real estate noted that overall mortgage defaults in multifamily were less than half of commercial real estate—3.58 percent for multifamily among banks compared to 8.74 percent for all commercial mortgages.

To be sure, the prolonged economic weakness continues to affect apartment firms, and the GSEs are expected to experience an increase in problem loans, delinquencies, defaults and even foreclosures. However, these losses will be quite small compared to their single-family losses, and they will be within manageable levels.

It is important to point out that the GSEs reserved against these losses. Unfortunately, those reserves were used to pay off single-family losses; otherwise, there would be no impact to the taxpayer for the GSEs' multifamily losses. Also important to note is that the multifamily finance business lines of Fannie Mae and Freddie Mac have provided steady and significant profits to the GSEs. **If they, or whatever replaces them, continue to manage their multifamily business as the GSEs have for the past 20 years, and continue to benefit from greater oversight, the risk to the taxpayer will be minimal.**

## **FUTURE SECONDARY MARKET CONSIDERATIONS FOR MULTIFAMILY HOUSING**

**Ensuring that a new or revised secondary market system will continue to serve the multifamily industry must be a key goal of any legislation and regulatory oversight.** With other capital sources constrained by market conditions, regulatory requirements, impaired balance sheets or capacity issues, the GSEs will continue to provide 75 to 90 percent of the apartment sector's mortgage capital in the near term, and their participation will need to be significant in the long term as well.

Unfortunately, thus far most policy recommendations have been largely silent on multifamily mortgage activities. Those that are supportive of a continued multifamily role offer little detail or direction.

We advise you to be careful not to design solutions that "fix" the single-family problem at the expense of creating liquidity or capital access problems for the multifamily sector. We offer the following comments to help guide the creation of an effective and efficient active secondary multifamily mortgage market.

### **1) *Active Secondary Multifamily Mortgage Market Needed at All Times***

Some have argued that the reconstituted secondary market be restricted to a "stop-gap" role for only those occasions of illiquidity in the market. We think this is an ill-conceived proposal that would have potentially devastating consequences for the U.S. housing finance system. There needs to be a credible source of mortgage capital in all markets to preserve and expand the full range of apartment stock.

The current multifamily secondary market has worked well and has provided stability to the market. The government's credit support has allowed for a growing and diverse portfolio of multifamily mortgages that meets the needs of millions of families and has permitted stability in the rental housing market. It has also reduced risk to the taxpayer through product, asset and geographic diversity.

### **2) *Private Capital Preferable to a Government Entity***

We do not support the creation of a publicly funded government entity or entities, but instead believe that private capital should be leveraged to support secondary market activities. The private-sector approach has served the multifamily marketplace well for many years and should be retained. Not only will private capital be necessary to meet the industry's capital needs, a private model also removes the limitations of government budget constraints and allows the reconstituted secondary market to adopt an entrepreneurial approach to meeting the industry's capital needs.



There is great concern that replacing Fannie Mae and Freddie Mac with a publicly funded government entity or entities would not only dilute the capacity and resources of the current secondary market, but also reduce the innovation that has been so vital to the multifamily mortgage market.

The industry's capital needs change as a result of changes in the marketplace and changes in the general financial sector, and the two firms have consistently created new (and safe) products to respond to those changes. Examples include their low-interest floating to fixed-rate mortgages that help stabilize new properties through long-term financing; acquisition and development products specifically designed to provide capital to renovate older properties; and a fixed-forward for LIHTC new construction loans to support that market.

These innovations are a large part of what has enabled the apartment industry to meet our changing housing needs and to create the affordable and workforce housing produced in the last 15 years.

### **3) *Provide Explicit Federal Guarantees***

There is no empirical evidence and certainly no history to support the notion that the private market is willing and able to meet the apartment industry's liquidity needs in all economic climates. Therefore, the federal government needs to continue to play an active role in ensuring liquidity, and **the federal role in providing that backstop or guarantee should be explicit.**

The federal government should guarantee multifamily mortgage securities and portfolio-held loans. However, the "full faith and credit" of the U.S. government in accessing capital should be paid for at an appropriate price. Establishing a fee structure to support the government's backstop is reasonable and appropriate. Such a risk-based guarantee fee on the underlying mortgage would provide reserves against mortgage losses and subordinate any losses the federal government might incur in providing explicit guarantees.

The current GSE structure incorporates a risk-based pricing approach that has proven to be well managed and to cover losses. The GSEs' current losses resulted from their single-family business, not the multifamily business. The guarantees collected by the GSEs would have covered their multifamily losses if the reserves had not been used to cover single-family losses instead. Thus, we recommend that multifamily loan loss reserves and guarantee assignments be managed separately from other mortgage activities by any future secondary market entities.

### **4) *Retain Portfolio Lending While Expanding Securitized Lending***

We support the federal regulatory push to convert the GSEs' business largely to a guarantor model wherein they assume the credit risk for mortgage-backed securities issuance. However, while single-family loans are fairly easily "commoditized" for a mortgage-backed securities business model, for their multifamily business there needs to be flexibility for the GSEs to use portfolio executions in select circumstances.

Multifamily mortgages are individually tailored to the borrower/owner, property and market. As a result of these unique characteristics as well as pre-payment provisions and other loan features, securitization is not always prudent in terms of managing credit risk on the multifamily side.

In the securitization model, the capital provider (buyer) cannot take action when loan performance issues arise because that would modify the terms of the security. We have seen this time and again in the CMBS market, and Freddie Mac had extensive problems with it in

the late 1980s. Therefore, select multifamily loans should be held in portfolio, including any aggregated loans that are not suitable for securitization. **Without the ability to hold some loans in portfolio, multifamily lending activities would be significantly curtailed and restricted.**

This should not create material credit issues for the reconstituted GSEs, however, as the volume of multifamily loans that would be held in portfolio should be small and the risks manageable.

**5) *Public Mission vs. Shareholder Value: Public Mission Should Focus on Liquidity***

One area that has been much debated is how much the GSEs' public mission contributed to their higher-risk lending activities so they could meet mandated affordable housing mortgage purchase goals.

However the secondary market is reconstituted, there should be no return to the built-in conflicts their original charter created between serving a public mission (by providing high-risk, low-return mortgages) and meeting investor expectations. We have learned that the "do it all" mandate for Fannie Mae and Freddie Mac—providing support for affordable housing, operating in a safe and sound manner *and* providing competitive returns to investors—is simply too much to accomplish.

**We believe Fannie Mae's and Freddie Mac's public missions need to be clearly defined and should be focused primarily on using a government guarantee to provide liquidity to the multifamily mortgage market.** As noted earlier, by virtue of providing liquidity to the multifamily sector, the GSEs are already supporting a public mission to advance affordability because multifamily is inherently affordable housing.

We do not believe that targeted affordable housing mortgage transactions should be mandated. Such goals or mandates create conflicts with private investment and add to the cost of all housing. We do believe in using private capital to augment the government's role in serving the needs of low- and very low-income households.

**6) *Incentives and Other Agencies to Support Public Mission Beyond Liquidity***

Instead of mandates, the reconstituted GSEs should be given incentives to support affordable multifamily housing. These incentives should be used to encourage **private** capital to participate in higher risk activities. For instance, the government could provide an increased guarantee by insuring some amount of portfolio debt that meets select criteria that advances affordability, such as small multifamily lending, subsidized federal affordable housing and subsidized state and local affordable housing.

Absent such incentives, the government should redirect the affordability mission to the HUD/FHA multifamily insurance program. One recommendation is to expand the current statutory provision for HUD risk-sharing. The current program is very limited and has not produced a material number of transactions.

Policymakers should focus efforts to expand targeted affordable multifamily housing through HUD programs such as HOME, HOPE VI, CDBG and the Housing Trust Fund. They should also bolster the beleaguered Low-Income Housing Tax Credit program and improve the Section 8 Housing Choice Voucher Program. All of these efforts will support affordable housing without creating conflicts within the secondary market.

### **7) *Retain Resources and Capacity***

The GSEs' multifamily programs have been very successful in large part because the two firms have established and created extensive legal, credit and operating policies and procedures, technology and information management systems and have credible and effective human capital. This has allowed the multifamily programs to operate in a professional, effective, efficient and prudent manner to meet and effectively respond to market needs and changes.

Their resources go beyond personnel and technology and include extensive third-party relationships with lenders and mortgage servicers, appraisers, engineers, consultants, attorneys and others.

There is great risk that these critical resources will be diluted as the debate over the future of Fannie Mae and Freddie Mac continues. That said, there is also great opportunity to build on the infrastructure created by the entities and their lending partners to continue to deliver capital to multifamily owners and developers.

### **8) *Retain Subordination and Risk-Sharing Model***

Fannie Mae's delegated underwriting and servicing (DUS) relationship has a strong, proven track record. Not only has the system allowed Fannie Mae to extend capital with lower structural resources, it has also reduced Fannie Mae's exposure to the credit risk associated with the loans through subordination of risk via a top-loss backstop by the loan originator and servicer. Though some accommodations will be needed for portfolio transactions and aggregation capacity (to effectively implement structured and other higher-credit risk transactions), the current delegated underwriting and servicing system should be closely evaluated as a means to reduce credit risk.

### **9) *Number of Entities***

Included in the debate over the future of the GSEs is a question as to whether there should be more than two entities serving the secondary mortgage market to reduce the systemic risk associated with one entity.

This topic is of concern to the multifamily sector because the multifamily programs and staffing are a small component of the current system and they rely on a certain level of economies of scale to support many of their activities, such as capital markets, securities trading, legal, administrative and overhead. Creating similar multifamily programs in multiple entities would be costly and possibly inefficient and would likely increase borrowing costs, which would increase rents.

It is unclear whether having three, five or even ten entities providing comparable multifamily products would create increased competition or whether some entities would choose not to offer multifamily mortgage debt products.

Even in the CMBS market there were only a handful of conduit issuers and the market was very efficient and very competitive. There may be benefit due to systemic risk for the single-family business activities to have multiple entities, but it is unclear if this model would benefit the multifamily market.

## **TOMORROW'S HOUSING POLICY: NEW PRINCIPLES**

I would also like to take a moment to address our national housing policy more broadly as I feel that it underscores the importance of explicitly considering the multifamily component in a re-structured secondary mortgage market.

For decades, the federal government has pursued a "homeownership at any cost" housing policy, ignoring the growing disconnect between the country's housing needs and its housing policy. In the process, many people were enticed into houses they could not afford, which in turn helped fuel a housing bubble that ultimately burst and caused a global economic crisis.

The nation is now paying the price for that misguided policy and learning firsthand that there is such a thing as too much homeownership; that aggressively pushing homeownership was not only disastrous for the hardworking families lured into unsustainable homeownership, but also for our local communities and our national economy.

If there is a silver lining in this situation, it is the opportunity we now have to learn from our mistakes and rethink our housing policy. Housing our diverse nation means having a vibrant rental market along with a functioning ownership market. It's time we adopt a balanced housing policy that doesn't measure success solely by how much homeownership there is.

For many of America's most pressing challenges, from suburban sprawl to affordable housing, apartments are a much better solution. Apartments help create stronger and healthier communities by offering enough housing for the workers that businesses need, by reducing the cost of providing public services like water, sewer and roads and by creating vibrant live/work/play neighborhoods.

They will help us house our booming population without giving up all our green space and adding to pollution and traffic congestion. And they will help us reduce our greenhouse gas emissions by creating more compact communities that enable us to spend less time in our cars.

### ***Elements of a Balanced Housing Policy***

NMHC and NAA have joined together to advocate for a more balanced housing policy, one that respects the rights of individuals to choose housing that best meets their financial and lifestyle needs. We urge policymakers at all levels of government to work with the apartment industry to craft a smarter housing policy that:

- Assures that everyone has access to decent and affordable housing, regardless of his or her housing choice;
- Respects the rights of individuals to choose the housing that best meets their financial and lifestyle needs without disadvantaging, financially or otherwise, those who choose apartment living;
- Promotes healthy and livable communities by encouraging responsible land use and promoting the production of all types of housing;
- Recognizes that all decent housing, including apartments, and all citizens, including renters, make positive economic, political and social contributions to their communities; and
- Balances the expected benefits of regulations with their costs to minimize the impact on housing affordability.

We hope you agree with us that it is time to make rental housing a higher priority, and we look forward to working with the Financial Services Committee as you work legislatively to restore balance to our housing policy.

## **APPENDIX 1:**

### **Housing Affordability of Rate Apartment Properties from Selected Public and Private Apartment Firms.**

These tables summarize an analysis of 214,657 apartments in 812 properties located throughout the United States. The properties have no direct federal subsidy or rent regulatory restriction recorded with the local government. They were financed with secondary market mortgage capital and represent properties in large and secondary urban locations as well as suburban locations throughout the United States.

## Apartment Affordability Analysis of 812 Market-Rate Properties

UNIT AFFORDABILITY - TOTAL			
Units at 100% AMI*	Number of Affordable Units	Total Number of Leased Units	Percent of Total Units
0 BR	5,385	6,336	85.0%
1 BR	94,779	106,663	88.9%
2 BR	98,262	110,985	88.5%
3 BR	16,155	17,814	90.7%
4 BR	76	80	95.0%
<b>Total</b>	<b>214,657</b>	<b>241,878</b>	<b>88.7%</b>

UNIT AFFORDABILITY - EAST			
Units at 100% AMI*	Number of Affordable Units	Total Number of Leased Units	Percent of Total Units
0 BR	1,860	2,365	78.6%
1 BR	33,690	38,315	87.9%
2 BR	37,058	41,795	88.7%
3 BR	6,950	7,623	91.2%
4 BR	76	78	97.4%
<b>Total</b>	<b>79,634</b>	<b>90,176</b>	<b>88.3%</b>

UNIT AFFORDABILITY - SOUTH			
Units at 100% AMI*	Number of Affordable Units	Total Number of Leased Units	Percent of Total Units
0 BR	1,225	1,276	96.0%
1 BR	35,880	38,018	94.4%
2 BR	33,354	35,944	92.8%
3 BR	6,122	6,525	93.8%
4 BR	-	-	0.0%
<b>Total</b>	<b>76,581</b>	<b>81,763</b>	<b>93.7%</b>

UNIT AFFORDABILITY - MIDWEST			
Units at 100% AMI*	Number of Affordable Units	Total Number of Leased Units	Percent of Total Units
0 BR	219	220	99.5%
1 BR	3,459	3,545	97.6%
2 BR	3,670	3,709	98.9%
3 BR	166	166	100.0%
4 BR	-	-	0%
<b>Total</b>	<b>7,514</b>	<b>7,640</b>	<b>98.4%</b>

UNIT AFFORDABILITY - WEST			
Units at 100% AMI*	Number of Affordable Units	Total Number of Leased Units	Percent of Total Units
0 BR	2,081	2,475	84.1%
1 BR	21,750	26,785	81.2%
2 BR	24,180	29,537	81.9%
3 BR	2,917	3,500	83.3%
4 BR	-	2	0.0%
<b>Total</b>	<b>50,928</b>	<b>62,299</b>	<b>81.7%</b>

**Notes:**

\* List of participating companies: ConAm, Archstone, Waterton, Avalon, GID, BRE, Post, Home, Camden, Greystar, Bozzuto, Laramar, UDR, Berkshire and Mid-America

\* AMI is Area Median Income

\* Analysis only includes properties using a form of Lease Rent Optimization such as LRO or Yieldstar in order to obtain effective, leased rents only

\* Analysis does not include vacant or employee occupied units

## Apartment Affordability

### Analysis of Per Unit Loan Amounts for Market-Rate Properties

PER UNIT LOAN MORTGAGE AMOUNT BY REGION			
Number of Properties that Have an Affordable Component at 100% of AMI*		Weighted Average Loan Per Unit	Average Maximum Loan
Region	# of Properties		
East	294	\$125,566	\$334,372
South	268	\$76,725	\$145,020
Midwest	21	\$67,919	\$102,012
West	212	\$128,858	\$284,820
<b>Total</b>	<b>795*</b>	<b>\$108,456</b>	<b>\$216,556</b>

**Notes:**

\* List of participating companies: ConAm, Archstone, Waterton, Avalon, GID BRE, Post, Home, Camden, Greystar, Bozzuto, Laramar, UDR, Berkshire, and Mid-America

\* Of 812 properties surveyed, 795 or 98% have an affordable component

\* AMI is Area Median Income

\* Analysis only includes properties using a form of Lease Rent Optimization such as LRO or Yieldstar in order to obtain effective, leased rents only

\* Analysis does not include vacant or employee occupied units

## APPENDIX 2:

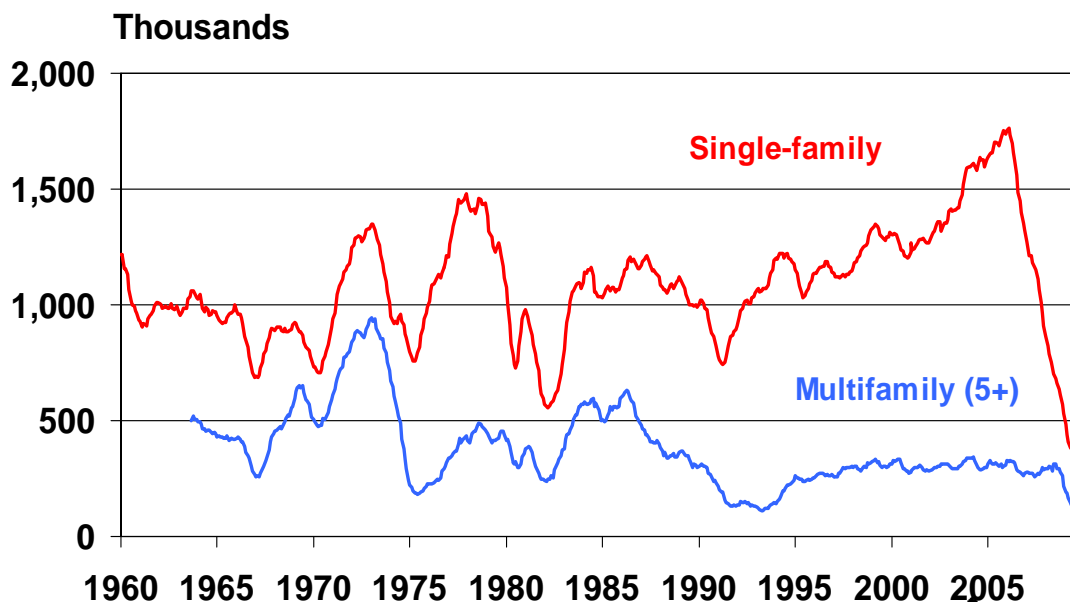
### New Housing Starts for Single-Family and Multifamily Properties (5+ Units) 1960-1998

This chart provides an analysis of U.S. Census data on new housing starts for single-family properties and multifamily properties with five or more units.

The data show the stark contrast between the single-family housing production/bubble and resulting housing crisis and the relatively constant level of new production in the multifamily housing sector during the same period.

## New Housing Starts

(6-month moving average)



Source: Census Bureau.

