



*Taking Care of
the Way People Live*

Comment on FHFA August 9, 2013 Notice
Gables Residential
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Federal Housing Finance Agency
Multifamily Housing Policy
400 7th Street, S.W., Room 9-261
Washington, DC 20024

RE: August 9, 2013 Notice For Public Input on 2014 Multifamily Scorecard

To Whom It May Concern:

On behalf of the Gables Residential employees and most importantly, the residents in our apartment communities, Gables welcomes the opportunity to provide comments on the Federal Housing Finance Agency's (FHFA's) proposed strategies to further contract Fannie Mae and Freddie Mac's multifamily mortgage activities.

Gables Residential is an award-winning, vertically integrated real estate company and privately held REIT specializing in the development, construction, ownership, acquisition, financing and management of multifamily and mixed-use communities. Gables manages approximately 35,000 apartment homes and 500,000 square feet of retail space in high growth markets throughout the United States, including Atlanta, Austin, Dallas, Houston, South Florida, Southern California and metropolitan Washington, D.C. The company has received national recognition for excellence in development, management, sales, marketing, training, benefits and corporate accommodations.

We find it difficult to comment on FHFA's options to implement program changes to shrink Fannie Mae and Freddie Mac's capacity because we view the proposed action as wholly unnecessary. While the perception might be that Fannie Mae and Freddie Mac play an "outsized" role in multifamily mortgage markets, the facts tell a wholly different story.

The enterprises' market share continues to decline and has actually fallen more than the 10 percent FHFA mandated at the start of the year. Indeed, the Mortgage Bankers Association estimates the multifamily origination market in 2012 was approximately \$143 billion, with Fannie Mae and Freddie Mac financing 44 percent of that total. If estimates for a 30 percent or larger increase in multifamily lending in 2013 are accurate, Fannie Mae's and Freddie Mac's market



share likely will decline to the 30 percent level or below. This drop reflects the fact that private capital sources have been, and will continue to be, the primary source of mortgage debt for the apartment industry.

On a macro level, our firm's market experience leads us to conclude that artificially limiting the debt provided by the Fannie Mae and Freddie Mac's multifamily programs will harm owners and investors in apartment real estate by limiting options and creating voids in select markets. Private commercial real estate debt can be limited or, in some cases, unavailable in local markets, making critical a national debt source that features a full range of mortgage options.

Furthermore, it is vital to note that Fannie Mae and Freddie Mac support and complement all sources of multifamily debt, and do not exist solely as capital sources in the market. Because they provide the widest range of multifamily mortgage products in today's market, they have broad influence on other debt providers and lead the industry in standard setting. As such, without the Enterprises, the market will lose the competition and innovation that has benefitted borrowers and renters alike.

Additionally of concern, multifamily credit markets do not have a one-for-one replacement dynamic among participants, which in turn creates meaningful instability in our market if any one participant arbitrarily withdraws. All other sources of multifamily mortgage debt have constraints on their mortgage products, but also have their own beneficial access to capital. Banks have access to depository capital, insured deposits and can borrow from the Federal Reserve at a discount. Insurance companies and pension funds have no requirements or mandates to meet public purpose goals, allowing them to place capital in only the most desirable and beneficial markets, and with the most experienced and credit worthy owners. Accordingly, if implemented, FHFA's proposed actions would negatively impact access to capital and increase borrowing costs market wide to the detriment of borrowers and renters.

Gables Residential has roughly 58 percent of its outstanding indebtedness placed with insurance companies, 23 percent with commercial banks and 19 percent with the GSE's. While GSE's do not have a majority role in the placement of Gables outstanding indebtedness they do have an important role.

In the midst of the economic downturn in 2008-2010, the GSE's played a critical role in avoiding a market-wide collapse in the multifamily sector of the real estate market. Commercial banks had retreated from lending on new construction as construction loans closed at the height of the market in 2005-2006 were coming due and could not be refinanced. Life companies and pension funds were dialing back and unwilling to underwrite anything but lower leverage loans with only the most credit worthy sponsors. As bad as it was in 2007-2009, it could have been a lot worse had not Fannie Mae and Freddie Mac stepped up to fill the gap left by the life companies and pension funds for refinancing moderate to higher leverage loans.

Since late 2010, when banks again started supplying capital for new developments and the apartment market started to recover enough to support higher rents needed to justify new development, Gables has developed nearly \$1 billion in new apartment product. This development has been financed primarily (80 percent) with floating rate construction debt provided by commercial banks. Banks underwrite their construction loans relying heavily on the assumption that there will be take-out financing available from the GSE's. Without Fannie Mae or Freddie Mac funds available for refinance of the construction debt, banks would be forced to scale back their lending activity, negatively affecting the supply of new development needed to meet increasing demand for new apartments as the economy continues to recover.

Fannie Mae's and Freddie Mac's multifamily lending programs are a model for prudent apartment real estate lending. Their programs have a long history of strong credit performance and have recently adapted to both backstop the markets effectively and shift their programs from balance sheet investment lending to securitized lending. We implore FHFA to avoid implementing further reductions or placing caps on Fannie Mae and Freddie Mac's origination levels and securitization activities with regard to multifamily finance.

We appreciate the opportunity to share our views and welcome your questions, should you have them.

Sincerely,



Susan M Ansel
President and Chief Executive Officer

cc: Senator Feinstein
Senator Boxer
Senator Nelson
Senator Rubio
Senator Chambliss
Senator Isakson
Senator Mikulski
Senator Cardin
Senator Cornyn
Senator Cruz
Senator Warner
Senator Kaine
Congressman Miller
Congressman Murphy
Congressman Hastings
Congressman Deutch
Congresswoman Frankel
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Congressman Connolly
NMHC c/o David Cardwell