

## MEMORANDUM

TO: Federal Housing Finance Agency (“FHFA”)

FROM: Peter S. Martin  
SVP and Treasurer of GID Investment Advisers LLC

DATE: October 4, 2013

RE: Response to FHFA’S request for public input on strategies for reducing Fannie Mae’s and Freddie Mac’s (the “Enterprises”) presence in the multifamily housing finance market in 2014, dated August 9, 2103

---

### **GID Investment Advisers LLC (“GID”):**

GID is a privately held, globally diversified, and fully integrated real estate organization founded in 1960 that employs over 600 real estate professionals in multiple offices throughout the United States. During its 53 year history, the company has acquired or developed over 59,000 residential units and in excess of 13 million square feet of commercial space. As of 6/30/13, GID controls a real estate portfolio consisting of 86 properties located in 16 states, and totaling more than 18 million square feet comprised of over 18,800 rental apartment homes (including 554,345 square feet of commercial and retail space) and more than 4.7 million square feet of commercial space. In addition, GID has 12 multifamily properties under development located in 7 states, comprised of 3,390 rental apartment homes.

GID is involved in a variety of asset classes and real estate disciplines, and pursues opportunities both nationally and internationally. The company is engaged in all aspects of real estate investment, ownership, and operation and has divisions that specialize in development, acquisitions, real estate investment funds and separate accounts, international real estate investing, real estate hedge funds, property management, portfolio and asset management, and advisory services.

GID has one of the strongest and longest running track records in the real estate industry, and pursues investments using a combination of its own capital, institutional investment partners including the nation’s largest pension funds, and relationships with a variety of major commercial real estate lenders and banking institutions.

GID is very active in the multifamily financing market for its wholly-owned portfolio and its three separate account co-investment funds. The company’s financing needs are primarily on market rate, institutional-quality multifamily properties in primary markets throughout the United States. Leverage has most recently been in the 50% range, but includes some loans of up to 75% LTV. GID has utilized a wide range of financing structures on stabilized properties, from single asset fixed rate loans to multi-asset credit facilities. Over its history, the firm has secured debt capital from a wide array of sources including commercial banks, life companies, conduits and the Enterprises, depending on the specific situation. As GID is consistently in the market for debt capital,

the firm has developed a strong relationship with the Enterprises, who have historically provided a consistent source of non-recourse debt capital for stabilized properties. The Enterprises have set themselves apart from other lenders by remaining active in the market throughout various cycles, with consistent underwriting, processing and pricing. As a result, over the years, GID has developed a significant relationship with the Enterprises and has relied on their consistent presence to provide a significant portion of the debt capital for its operations.

In connection with the future structure of the Enterprises, GID supports the proposals set forth by the National Multi Housing Council (“NMHC”). In general, we believe that whatever form the reconstituted Enterprises may take, they still need to have access to federal credit support in order to provide liquidity to all apartment markets at all times. We believe the focus should be on liquidity, not mandates. FHFA can encourage purely private capital competition by modulating the credit enhancement guarantee fee charged to the borrower. Adequate taxpayer protections can be built into the structure of the new apartment financing system as described by the NMHC proposals.

GID’s specific response to FHFA’s request for public input will follow the format set forth in the memo from the FHFA dated August 9, 2013:

**1. Loan terms:**

a1. Question: *Should FHFA consider loan terms as a factor in how to reduce the Enterprises’ multifamily businesses?*

a1. Answer: The Enterprises fill an important role in financing a wide range of stabilized multifamily properties throughout the United States, including market rate and affordable apartments, as well as specialty properties such as seniors and assisted living properties, student off-campus housing and housing near military installations. While GID focuses primarily on market rate properties, access by all owners of multifamily housing to a consistent and reliable source of debt capital with a variety of financing options and loan terms is critical to maintaining a healthy and vibrant housing market. The Enterprises should be allowed to manage their businesses without mandatory limits on the loans terms that they may provide to the marketplace, so that they may continue to develop well balanced and profitable businesses that provide a service to the entire multifamily sector.

a2. Question: *If so, what loan terms or combination of loan terms should be targeted for contraction?*

a2. Answer: The Enterprises should be allowed to continue to provide a wide range of loan terms to its diverse group of Borrowers, and not restrict a certain segment of the market. The Enterprises should remain a consistent source of debt capital for stabilized assets with current cash flow and value to adequately support the debt. Loan terms and underwriting should remain consistent and reliable.

a3. Question: *Should shorter-term loans only be used by the Enterprises for loss mitigation or maturity management purposes?*

a3. Answer: The Enterprises should continue to provide a range of loan terms for its borrowers, depending on demand. That being said, loan terms should continue to be managed by the Enterprises in order to minimize “maturity risk” at their own portfolio level.

b. Question: *If the Enterprises ceased providing shorter-term loans, such as 5-year loans, would banks, commercial lenders and other private capital sources provide these loan products?*

b. Answer: Banks and other commercial lenders are providing 5-year loans today regardless as to whether the Enterprises provide 5-year loans. Borrowers such as GID select a lender based on rates, level of proceeds, other loan costs and terms and service. Whether banks and other commercial lenders are willing to provide 5-year loans to the full breadth of borrowers based on strength of sponsorship and quality of property is an entirely different matter. In the absence of the Enterprises, some segments of the multifamily industry could be underserved by debt providers today. And importantly, as the market fluctuates in the future, these other lenders may curtail their financing activities in whole or in part, potentially leaving a significant void. This was clearly evident during the recent recession and would be most likely to occur in the future, particularly during times of distress. The ability to consistently provide a wide range of debt capital to owners of stabilized, cash flowing multifamily properties is essential to a healthy housing market.

## **2. Variety of loan products:**

a1. Question: *Should FHFA consider simplifying and standardizing the Enterprises’ multifamily loan products?*

a1. Answer: Simplifying and standardizing the products (as well as the underwriting and processing) is a good thing. This has already occurred as a result of the securitization process, through which the Enterprises credit enhance mortgage-backed securities. In some cases, this structure has resulted in the Enterprises being less flexible and less competitive than balance sheet lenders on both pricing and structure. A greater concern would be if the Enterprises arbitrarily restricted financing options, which could create significant voids in the availability of multifamily debt capital, particularly during recessions or in the midst of capital markets dislocations similar to the 2008 – 2010 period.

a2. Question: *If so, which loan product or mix of loan products are most important for the Enterprises to offer?*

a2. Answer: The Enterprises already restrict themselves to primarily supporting financing for stabilized multifamily properties with sufficient current cash flow and value to support the debt. They should continue to provide a wide array of loan products for all types of stabilized multifamily properties. They should be afforded maximum flexibility to best manage their loan book while supporting rental apartments in all locations at all times.

a3. Question: *Which of the Enterprises' loan products would private financing sources most readily provide?*

a3. Answer: As noted above, other lenders may currently be willing and able to provide debt capital to specific segments of the debt market such as shorter-term financing or to specific segments of the apartment industry such as newer, higher-quality properties. However, as the market fluctuates in the future, these other lenders may voluntarily, or involuntarily, curtail their financing activities, which could result in a shortage of debt capital for an important segment of the market. We continue to argue that the Enterprises should be permitted the flexibility to manage the risk profile of their loan book without arbitrary constraints.

b. Question: *If the Enterprises' loan products were simplified and standardized, would this create an opportunity for private capital sources to expand their market presence by providing more specialized financing options to borrowers?*

b. Answer: Simplifying and standardizing their product offering is not in and of itself a catalyst for attracting private capital sources to expand their market presence. Private capital will flow into sectors based on the risk/reward of the investment opportunity. If private capital can secure the return it requires to compensate it for the risk it takes and the costs it incurs, then private capital will provide specialized financing options. It is doing this today. But it is a question of capacity and constancy. The current risk/reward metrics suggest a certain level of capacity. If FHFA deems it important to expand private capital capacity, the easiest way to do so is to change the risk/reward dynamic, and the easiest way to do that is to modulate the spread the Enterprises charge the borrower. As to the constancy issue, it is clear that in times of market stress and dislocation, these private capital sources may not have the capacity or the volition to continue to lend. In a capital intensive business like real estate, the withdrawal of debt capital, even on a temporary basis, is terribly disruptive and creates many unintended negative consequences. In these moments of market turmoil, the Enterprises are essential in providing access to debt capital. It is precisely at these moments when fully functioning Enterprises are most needed and essential in maintaining market stability.

c. Question: *Should FHFA consider adopting common loan terms, product features and underwriting requirements for similar types of loans that are available from each of the Enterprises?*

c. Answer: Fannie Mae and Freddie Mac each provide slightly different products and services to the multifamily market that reflects the differences in their company philosophy, organizational platforms and securitization structures. This is a positive attribute, as it provides flexibility to a range of multifamily borrowers.

### 3. Limits on property financing

a. Question: *Should FHFA consider imposing limits on the maximum amount of financing that is available to a property under the Enterprises' loan products, with adjustments for high costs markets?*

a. Answer: As noted previously, limits are by definition arbitrary and not market-based, and are not in the best interests of the multifamily market, as they curb the ability to meet the needs of the marketplace. The Enterprises should continue to provide financing to the full range of multifamily owners that provide support for a wide array of housing options. Providing debt capital to the entire spectrum of multifamily owners allows the Enterprises to create well-balanced, diversified, profitable loan portfolios. The pricing of its loan products provides the Enterprises with an effective mechanism to manage loan volume. Balance sheet lenders today are providing the bulk of debt financing to our high value, high per property and per unit loans because they are offering lower rates and better terms than are the Enterprises. We advise the FHFA not to impose artificial limits that would deprive the Enterprises from making these loans if and when they believe these loans will create a safer, more secure loan book.

b1. Question: *Should FHFA consider re-imposing multifamily loan limits?*

b1. Answer: As noted previously, limits are by definition arbitrary, not market based and not in the best interests of the multifamily market or the Enterprises. In order to construct and maintain a broadly diversified and deeper pool of borrowers, the Enterprises should continue to support the entire spectrum of multifamily properties and not impose multifamily loan limits.

b2. Question: *If so, should the loan limits apply on a per unit basis or on the basis of the maximum mortgage amount that is available to a property?*

b2. Answer: Neither.

c1. Question: *Should FHFA consider imposing limits on the maximum rents that can be recognized in loan underwriting based on a schedule of rents that are affordable to tenants up to a certain percentage of Area Median Income, adjusted by household size, for the number of bedrooms and for high cost markets?*

c1. Answer: Again, such limits are too arbitrary. FHFA should allow the Enterprises to provide well underwritten and appropriately priced financing to a wide range of multifamily owners. Providing financing for properties with an affordable component is a critical element of the Enterprises respective mandates, but should be done in concert with providing debt to properties that service other segments of the market. We believe that the role of providing liquidity across all markets at all times fulfills a significant public interest. It allows for a fully functioning robust rental apartment industry. The constancy of permanent debt loan product encourages new construction activity, which adds to the supply of rental housing. The most effective mechanism of moderating rental rate increases is through the supply/demand channels. The more supply, the lower the rents. The general public is best served by having access to a range of affordable housing options, which are created through continual additions to

the housing stock. A reliable source of debt financing is critical for maintaining new development and renovations of rental apartment communities.

c2. Question: *If so, what should be the percentage of Area Median Income used to limit the underwriting of rents?*

c2. Answer: Again, such limits are too arbitrary. FHFA should allow the Enterprises to provide financing to a wide range of multifamily owners.

c3. Question: *In addition, should FHFA consider imposing limits on the percentage of total units financed by the Enterprises in any calendar year, which have rents that exceed the maximum underwriting rents derived from applying this formula?*

c3. Answer: Again, such limits are too arbitrary. FHFA should allow the Enterprises to provide financing to a wide range of multifamily owners.

d. Question: *If FHFA took some or all of the actions contemplated in a, b or c above, would other sources be available to address the liquidity needs of this market segment?*

d. Answer: As noted above, other lenders may currently be willing and able to provide debt capital to specific segments of the debt market such as shorter-term financing. However, as the market fluctuates in the future, these other lenders may voluntarily, or involuntarily, significantly curtail their financing activities. This was clearly evident during the recent recession and would be most likely to occur in the future during times of distress.

#### **4. Limits on business activities:**

a. Question: *Should FHFA consider reducing the scope of the business activities engaged in by the Enterprises, such as by limiting their business to loans that provide new liquidity and prohibiting the purchase of seasoned loans or loan pools?*

a. Answer: The Enterprises should be allowed to continue to provide a wide array of financing options, whether for new originations or in the secondary market. It all provides important liquidity to the multifamily marketplace.

b1. Question: *Should FHFA require that the Enterprises only provide loans that can be securitized and sold to investors?*

b1. Answer: The vast majority of financing by the Enterprises is already provided through securitized loans, which are sold to investors. This structure has provided additional liquidity to the market. That being said, select portfolio loans should be available on a case-by-case basis, as may be determined by the Enterprises.

b2. Question: *Should the Enterprise's portfolio purchases only be used for aggregating loans prior to securitization and to support special products for underserved market segments for which securitization may not be an option?*

b2. Answer: Portfolio lending is needed and necessary to support loan aggregation for securitization and service niche properties that are underserved by private capital.

c. Question: *If FHFA took some or all of the actions contemplated in a or b above, would this create the opportunity for private capital sources to expand their market presence by providing more financing options to borrowers?*

c. Answer: As noted above, other lenders may currently be willing and able to provide debt capital to specific segments of the debt market such as shorter-term financing. However, as the market fluctuates in the future, these other lenders may voluntarily, or involuntarily, significantly curtail their financing activities. This was clearly evident during the recent recession and would be most likely to occur in the future during times of distress.

## 5. **Other alternatives:**

Question: *Are there other options that FHFA should consider to achieve the strategic goal of contracting the Enterprises' multifamily business to reduce their presence in the housing finance market and support the entry of private capital?*

Answer: The FHFA should allow the Enterprises to manage their own multifamily businesses in order to continue to provide a consistent source of debt capital to multifamily owners that own the full spectrum of housing options. The Enterprises have shown the ability to operate their multifamily platforms profitably over many years and throughout many market cycles and should be allowed to continue to do so. They should have the ability to meet the needs of the marketplace and should not be subject to arbitrary limits. That being said, the FHFA does have a critical role in overseeing the Enterprises in order to ensure that the quality of their businesses continue to remain strong and profitable.

Ideally, there needs to be an active market for multifamily debt capital available to all borrowers in all markets and on all property types, from a diverse group of lenders, such as the Enterprises, as well as banks, life companies, conduits and other private funding sources. As with other lenders, the Enterprises should be able to manage loan volume by pricing its debt capital appropriately based on the competition and the risk-adjusted metrics of each transaction. In our estimation, the very nature of the Enterprises' dedication to the multifamily sector and long-standing consistency actually serves to draw in other capital sources. By constraining the Enterprises, particularly through production limits, or dramatically altering their current position in the market, there is real potential for a significant dislocation of capital in the multifamily sector.

It seems clear that there is momentum to change the structure and the business model of the Enterprises. That being said, it would be unfortunate if the multifamily platforms of the Enterprises, which have provided a consistent and reliable source of debt capital to a wide range of apartment owners, were to be dismantled or significantly curtailed. The multifamily platforms have been well managed and profitable over many market cycles, and have been a significant factor in creating a healthy and robust multifamily housing environment throughout the United States.