

October 8, 2013

Federal Housing Finance Agency
Multifamily Housing Policy
400 7th Street, S.W., Room 9-261
Washington, DC 20024
via email: multifamilypolicyissues@fhfa.gov

RE: Options for Reducing Fannie Mae and Freddie Mac’s Multifamily Business

The Milestone Group (“Milestone”) appreciates the opportunity to submit comments on the Federal Housing Finance Agency’s (“FHFA”) notice (“Notice”) on options to reduce Fannie Mae and Freddie Mac (“Enterprises”) multifamily businesses. We understand that the FHFA is not required to issue this notice and request public comments, and we greatly appreciate the opportunity to offer our perspective on the matter. We support the goals of offering reliable liquidity and funding necessary for a healthy housing market as well as reducing any unnecessary risks and costs to the taxpayer.

I. About Milestone

Milestone and its affiliates comprise one of the largest residential property and investment management companies in the U.S., currently managing over 36,000 units across 12 states with a dedicated team of over 900 employees. With a business strategy that promotes “Where America Lives”, Milestone purchases multifamily apartment communities in major metropolitan areas in the Southeast and Southwest regions in the U.S. that exhibit high population and strong employment growth. Targeting the middle-market of renters, Milestone seeks to provide affordable, professionally managed, high quality housing for the largest segment of renters that comprise around 60% of the overall U.S. rental market.

Driven by a combination of domestic migration trends, increased household formation, falling homeownership rates, and the lifestyle choices of an increasingly mobile workforce, our target market segment of middle-market renters is a vital and growing segment of the overall economy. Affordability is key, and Milestone’s owned portfolio’s in-place rents of approximately \$700 per month represents 18.5%¹ of our markets’ median household income vs. a U.S. average of 25%².

¹ Based on an average \$784 per unit in-place rent and 2011 Average Median Household Income of \$50,853 in states with Milestone assets. “Median Household Income by State - Single-Year Estimates.” United States Census Bureau, http://www.census.gov/hhes/www/income/data/historical/household/2011/H08_2011.xls

² REIS

Due to Milestone's target of middle market renters, the type of assets that are typically selected for investment tend to have similar characteristics. Our assets are older requiring intensive maintenance and significant ongoing capital expenditures. Without this capital spending, our properties can quickly fall into a state of disrepair. This ongoing physical maintenance, combined with a target renter profile that is highly sensitive to price and affordability, creates an investment environment that is extremely sensitive to availability of financing. Over 80% of Milestone's owned assets are financed with debt originated by the Enterprises. Many capital sources, such as pension funds and insurance companies, prefer less risky investments such as newly constructed properties that require less upfront maintenance and generate higher rents.

Historically, partnerships between the Enterprises and entities such as Milestone that are specifically focused in this segment has either allowed investment into the multifamily space directly or provided consistent fixed income returns upon securitization of multifamily debt. In the past, the multifamily market has historically worked under this premise allowing low cost of capital and liquidity to then allow for lower offered rents that meet the needs of the majority of Americans, as mentioned above. We believe that a reduction of lowered cost of capital could have two main ripple effects in the marketplace: 1) Higher cost of capital would reducing yields to investors causing capital to move to other higher yielding/less risky opportunities, or 2) fewer physical capital improvements will be made due to reduced margins in the business. This would ultimately lead to a decline in asset values and a decrease in living standards provided to our current markets/customers.

II. Comments

Given the volume of production by the Enterprises we feel that it is prudent to consider how to reduce their business without disrupting large segments of the market. In response to the potential target reduction areas:

1. Loan Terms

As mentioned, it appears the primary benefit of the Enterprises' secondary market activity is to offer longer term permanent financing. Given the distribution of 2012 loan production, eliminating the shorter term loans would be the least disruptive. However, we don't see loan terms as being a meaningful delineation to allow new private capital entry into the market. Loan terms are primarily used to manage debt maturation risk and by concentrating offered loan terms at specific lengths, it increases the concentration of risk that a pool of loans will mature in a period of market disruption or illiquidity.

2. Variety of Loan Products

We believe the most important mix of loan products for the Enterprises to offer is their fixed rate product at a variety of leverage levels, with and without full or partial term

interest only periods. Other forms of specially tailored financing such as credit facilities may be better handled by private capital since they are typically lower leverage leveraged vehicles and even under times of illiquidity can be financed with private capital.

3. Limits on Property Financing

Limits on property financing by the Enterprises would create the largest market disruption of the mentioned target reduction area proposals. During recent years, private capital sources have been somewhat limited in the marketplace and the Enterprises provided liquidity allowing for new loan origination and refinancing of existing multifamily projects. The primary benefit of the Enterprises has been to provide a consistent source of financing, despite the volatility and pervasive illiquidity of private capital markets. Complex interaction between the economic forces including but not limited to the supply/demand in the micromarket, demographic shifts underway, and an always changing interest rate environment contribute to variable individual asset pricing. Simplistic pricing adjustments based on high cost markets or well meaning, but arbitrary, per unit/absolute pricing ceilings **will create market dislocations** around those prices. Additionally, the potential of the Enterprises limiting available capital for the multifamily segment of the economy will raise cost of capital from other capital sources, because future disposition pricing will be impacted by projected availability of capital. In essence, private capital will need to raise originating credit spreads to counter this disposition risk, therefore effectively causing upward pressure on rents as investors attempt to support higher disposition values.

4. Limits on Business Activities

We feel that this may be a valid option for reducing Enterprise production volume, but would need to be explored in detail further.

5. Other Alternatives

N/A

III. Conclusion

We thank the FHFA for an opportunity to provide our input on this important matter. Our business of providing affordable rental housing to the largest segment of renters in the U.S. is predicated on the continued availability of liquidity provided by the Enterprises. We are available if you have any questions or would like to discuss matters further.