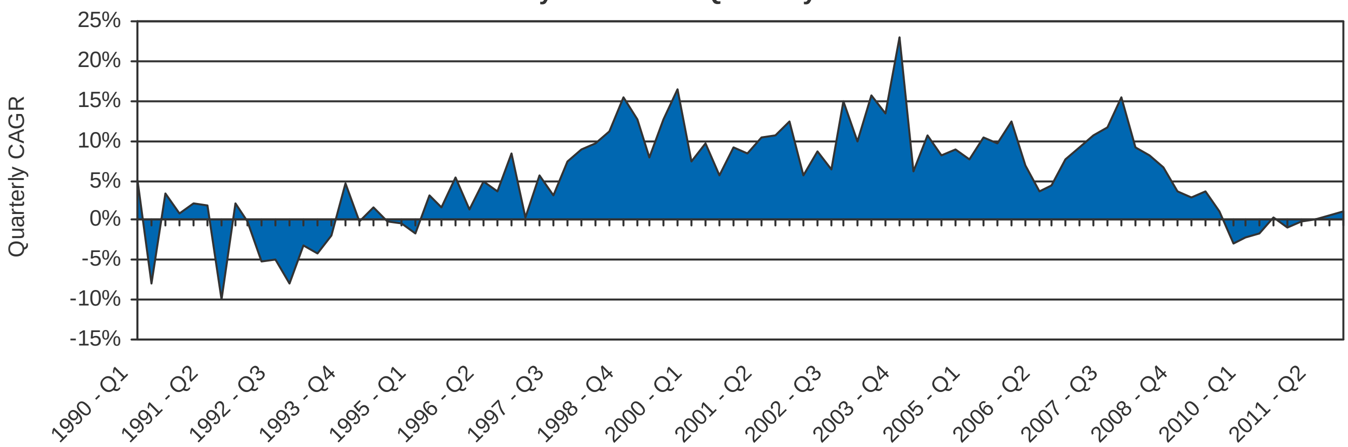
Multifamily Market Commentary – April 2012

Multifamily Mortgage Debt Outstanding Rebounded Slightly in 2011

According to recently released Federal Reserve data, total multifamily Mortgage Debt Outstanding (MDO) grew at a 1.0 percent annualized rate in the fourth quarter of 2011, increasing to $840.8 billion. The overall level of multifamily MDO grew just 0.4 percent in 2011, after experiencing declines in the first two quarters. Multifamily MDO reached its highest level on record in the third quarter of 2009 at $853.2 billion.

Multifamily MDO: Total Quarterly Growth



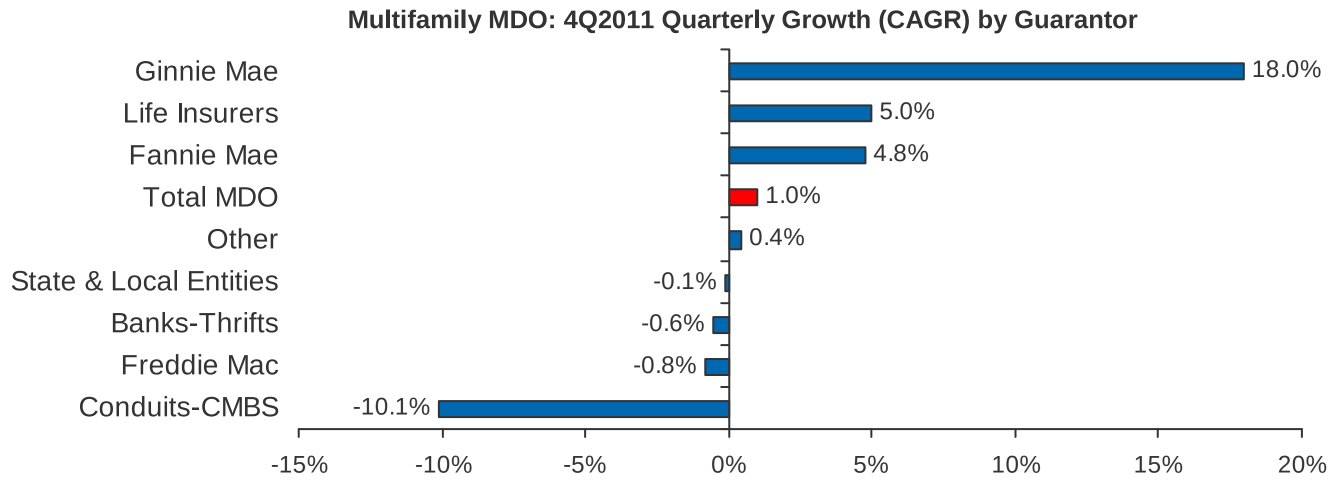
Source: Federal Reserve, Flow of Funds

Ginnie Mae Leads Again, Freddie Mac Contracts

For the seventh consecutive quarter, Ginnie Mae was the fastest growing market participant, growing its balance at an 18.0 percent annualized rate to $60.5 billion. Though it has been rapidly increasing its total balance of guaranteed mortgages, Ginnie Mae still accounts for just 7.2 percent of all multifamily MDO.

Fannie Mae, the life insurers, and other market investors also increased their multifamily MDO market shares in the fourth quarter of 2011. Fannie Mae grew at a 4.8 percent annualized rate during the quarter to $178.6 billion, which was its fastest quarter of 2011. The life insurers continued their interest in multifamily, growing at a 5.0 percent annualized rate to $49.6 billion – a slowdown from the growth in the second and third quarters of 2011, when they grew at 6.0 percent and 7.7 percent annualized rates, respectively. Other investors grew slightly, increasing 0.4 percent annualized, to $40.5 billion.

According to the Federal Reserve's methodology, which measures the holder or guarantor of the credit risk of multifamily mortgages, Freddie Mac contracted at a 0.8 percent annualized rate in the fourth quarter of 2011 to a balance of $102.7 billion. State and local entities, depositories, and CMBS/conduits also saw their holdings of multifamily MDO decline in the fourth quarter of 2011.



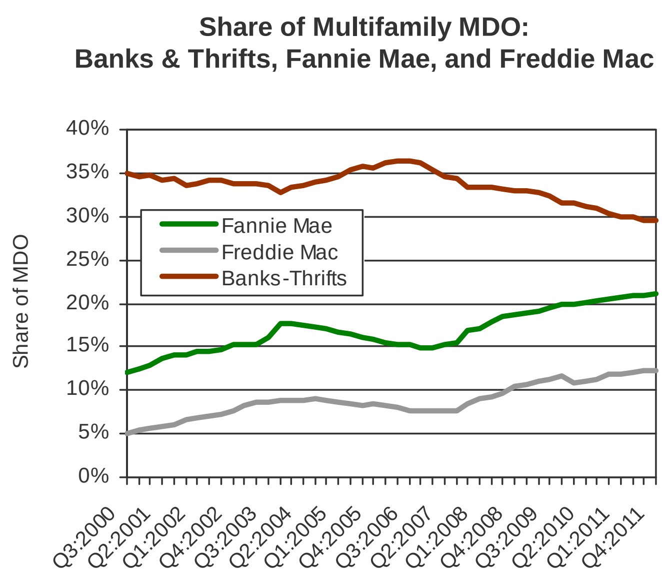
Source: Federal Reserve, Flow of Funds

Long-Term Market Share Shift

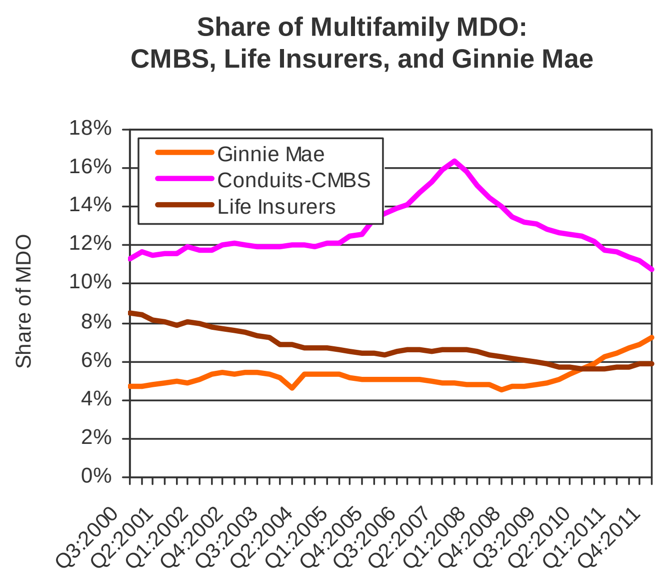
As of fourth quarter 2011, Fannie Mae accounted for 21.2 percent of overall multifamily MDO. While this makes Fannie Mae the largest single participant, the combined book of business held by the nation's banks and thrifts is the largest component, comprising 29.5 percent of multifamily MDO, as seen in the pie chart on the next page.

Since the beginning of 2000, Fannie Mae and Freddie Mac have generally been increasing their shares of multifamily MDO. Fannie Mae accounted for 11.8 percent at the beginning of 2000 and Freddie Mac accounted for 4.5 percent, as seen in the chart below. In comparison, Ginnie Mae has only been gaining share since the recent financial market upheaval beginning in 2008.

As the banks, thrifts, and Wall Street conduits increased their activity in the middle of the decade, Fannie Mae and Freddie Mac experienced a decline in market share. The arrival of the credit crisis reversed this trend.

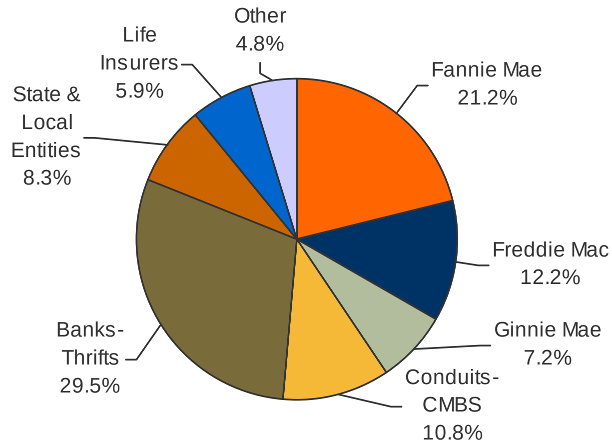


Source: Federal Reserve, Flow of Funds



Source: Federal Reserve, Flow of Funds

Multifamily MDO: Market Shares
Q4 2011 ($840.8 B)



Source: Federal Reserve, Flow of Funds

Life Insurers: Back in the Hunt

Early 2011 represented a turning point in the life insurers' investment in multifamily mortgages. Prior to the first quarter of 2011, the life insurers had allowed their share of multifamily MDO to decline in seven of the eight quarters of 2009 and 2010. The life insurers began the millennium with an 8.8 percent share, which has diminished to a 5.9 percent share as of the fourth quarter of 2011 and is only recently beginning to increase again..

The life insurers are not expected to continue their rapid growth rate into 2012. While they will likely continue to compete for the highest quality properties, the slightly diminished level of mortgage commitments that they experienced in the fourth quarter of 2011 is likely to be a good reflection of their overall loan volume appetite for 2012.

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