Fannie Mae

# Multifamily Market Commentary – October 2016

## Multifamily Mortgage Acquisitions Update - First Half of 2016

Fannie Mae and Freddie Mac combined were responsible for the largest share of multifamily loan acquisitions during the first half of this year. But their share decreased to 44 percent – down from 52 percent in each of the preceding three years – according to data from Real Capital Analytics. In fact, other lenders – notably U.S. banks, financial services companies, international banks, and the life insurers – have all seen an increase in their multifamily lending activity for the first six months of 2016.

### Banks Actually Increased Multifamily Lending

As seen below, banks – including non-U.S. banks – made a big leap in market share during the first half of 2016. They accounted for 38 percent of multifamily lending, up from 27 percent for all of 2015. Looking at just U.S. banks, the share climbed from 24 percent in 2015 to 34 percent in the first half of 2016.

**Multifamily Lending Composition**

| Year | CMBS | Financial | Government Agency | Insurance | International Bank | National Bank | Regional/ Local Bank | Private/ Other |
|---|---|---|---|---|---|---|---|---|
| 2016* | 2% | 7% | 44% | 8% | 4% | 15% | 19% | 1% |
| 2015 | 6% | 6% | 52% | 7% | 3% | 10% | 14% | 2% |
| 2014 | 10% | 5% | 52% | 8% | 5% | 9% | 11% | 1% |
| 2013 | 8% | 5% | 52% | 8% | 5% | 10% | 11% | 1% |
| 2012 | 3% | 3% | 68% | 6% | 2% | 7% | 9% | 1% |

*Source: Real Capital Analytics*
**First half of the year*

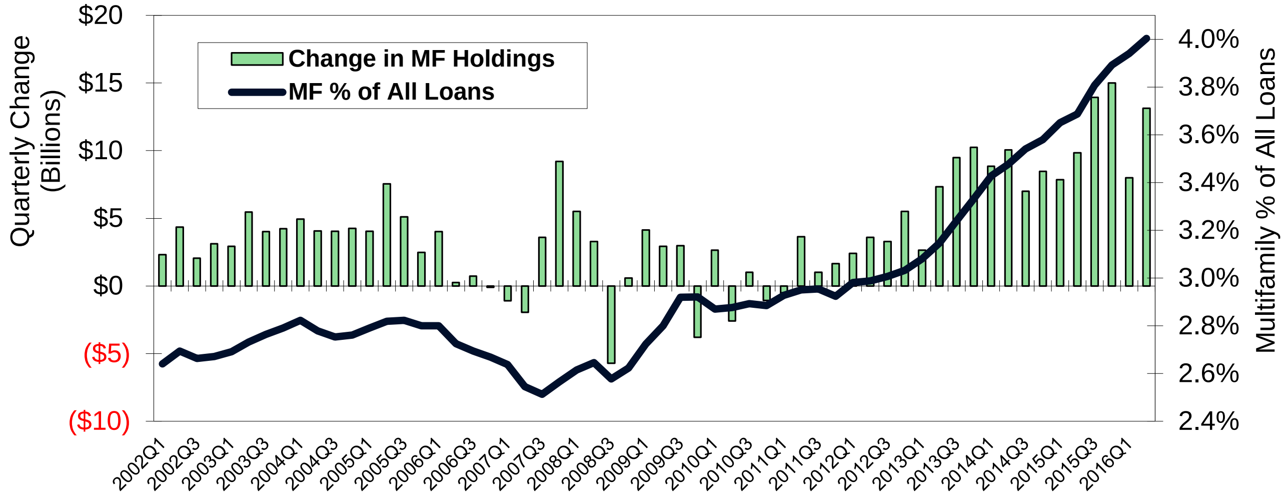
This is in direct contrast to industry speculation earlier this year that the national and regional U.S. banks would pull back on multifamily lending in 2016 in response to a Comptroller of the Currency report in late 2015 stressing the regulator's concern over the amount of multifamily lending by the banks. The opposite has actually occurred, and even non-U.S. banks increased their multifamily lending in the first six months of the year over 2015 – albeit by just one percentage point, to a 4.0 percent share. Their share was 5.0 percent in both 2013 and 2014.

## U.S. Bank Net Multifamily Holdings Increase – Again

As a result of increased lending, banks and thrifts saw a net increase in their multifamily holdings of more than $21 billion during the first half of 2016, compared with nearly $18 billion during first half of 2015. It also appears that the banks haven't slowed their construction lending activity. Total construction loan holdings (which includes both multifamily and all other commercial real estate property types) increased again in the second quarter by $7.8 billion compared with the first quarter of 2016.

This current activity reflects a more normalized trend for the depositories, reversing the contraction in their net multifamily holdings between 2008 and 2010. As of the second quarter of 2016, institutions insured by the Federal Deposit Insurance Corporation held $365 billion in multifamily real estate loans, compared with $315 billion a year earlier.

## FDIC-Insured Institutions: Quarterly Changes in Multifamily Loan Holdings




*Source: FDIC*

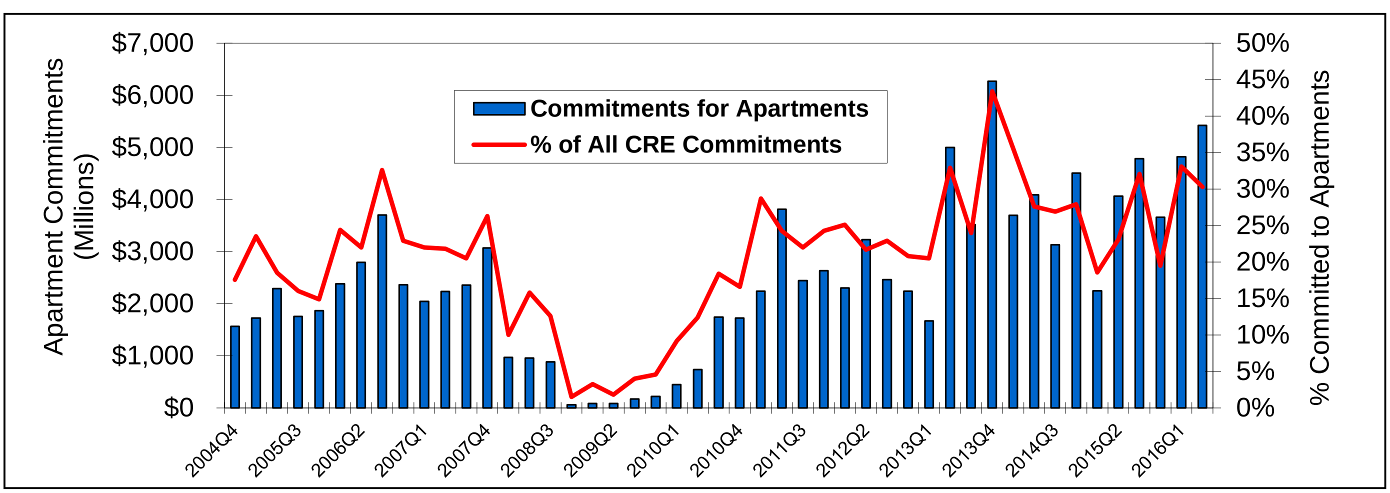
### Multifamily CMBS Taking a Back Seat

It seems as though the banks – and especially the regional and local banks – have stepped in to fill the void left by the commercial mortgage-backed securities (CMBS) conduits. As seen in the table on the prior page, the share of CMBS multifamily lending has declined over the past few years. The CMBS conduits have struggled to maintain market share since reaching a post-recession peak of 10 percent in 2014. Their share plummeted to just 2.0 percent during the first half of 2016, as seen in the table on page 1. Interestingly, their multifamily loan profile appears to be somewhat conservative, with an average loan-to-value (LTV) ratio of just 55 percent – the lowest LTV of all the lenders, according to Real Capital Analytics data.

### Record Year Looming for Life Insurers

Lending data for the first half of 2016 from the American Council of Life Insurers suggest that life insurers are on track to repeat – if not surpass – last year's $15.3 billion in multifamily commitments. That was their second highest annual level of multifamily commitments, following $16.5 billion in 2013. If the current level of activity continues into the second half of the year, then 2016 could be the biggest year yet for life insurer multifamily commitments.

## Life Insurers: Loans Committed for Apartments



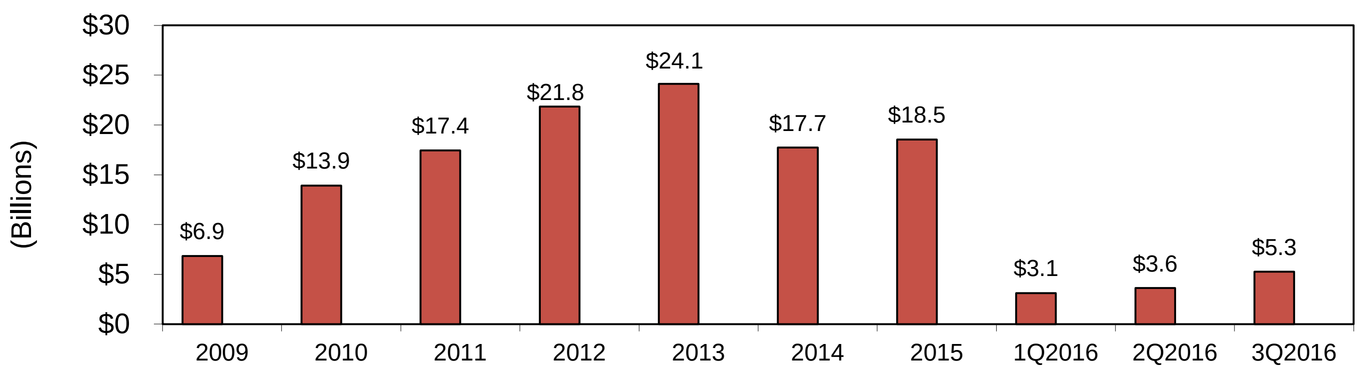

*Source: ACLI, Commercial Mortgage Commitments (CMC)*

## Ginnie Mae Multifamily Activity Slowing Down

Ginnie Mae is not usually considered a primary competitor in the institutional investor multifamily debt sector, because it does not buy or sell multifamily mortgage loans or issue mortgage-backed securities. Instead, this federal government corporation guarantees investors the timely payment of principal and interest on its mortgage-backed securities backed by federally insured or guaranteed loans – primarily loans insured by the Federal Housing Administration or guaranteed by the Department of Veterans Affairs.

Last year, Ginnie Mae guaranteed $18.5 billion in multifamily mortgage-backed securities, which was down from a peak of $24.1 billion in 2013. In the first nine months of 2016, it guaranteed just $12 billion in multifamily securities. At this current pace, Ginnie Mae is on track to potentially guarantee about $16 billion in securities this year, a level not seen since 2011.

**Ginnie Mae Multifamily Activity 2006 – 3Q2016**




*Source: Ginnie Mae*

## Another Big Year for Multifamily

Sales of apartment properties valued at $2.5 million or more totaled $32.7 billion in the second quarter of 2016 – down slightly from $39.3 billion in the first quarter, according to Real Capital Analytics. That brought the total to $72 billion for the first half of 2016 – a 37 percent increase over the first half of 2015. While activity dipped in the second quarter, it was still up a respectable 5.0 percent year-over-year. The sales volume of other commercial real estate property types, by comparison, declined in the first half of 2016 year-over-year.

The first six months of the year clearly indicate that 2016 could be another record year for multifamily lending – even as Fannie Mae and Freddie Mac see a smaller market share and Ginnie Mae's multifamily activity slows. Life insurers seem to be increasing their multifamily lending, but at the same time appear to be choosing their metros a bit more carefully. And, defying expectations, banks and thrifts increased their lending during the second quarter. The conduits remain subdued and that is not expected to change significantly over the remainder of the year.

Low interest rates, healthy growth in renter households, and solid demographic trends are expected to contribute to ongoing strength in the multifamily sector in 2016. As long as mortgage investors remain comfortable with future multifamily trends, the sector appears to be on track for another strong year.

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