

## Multifamily Market Commentary – March 2013

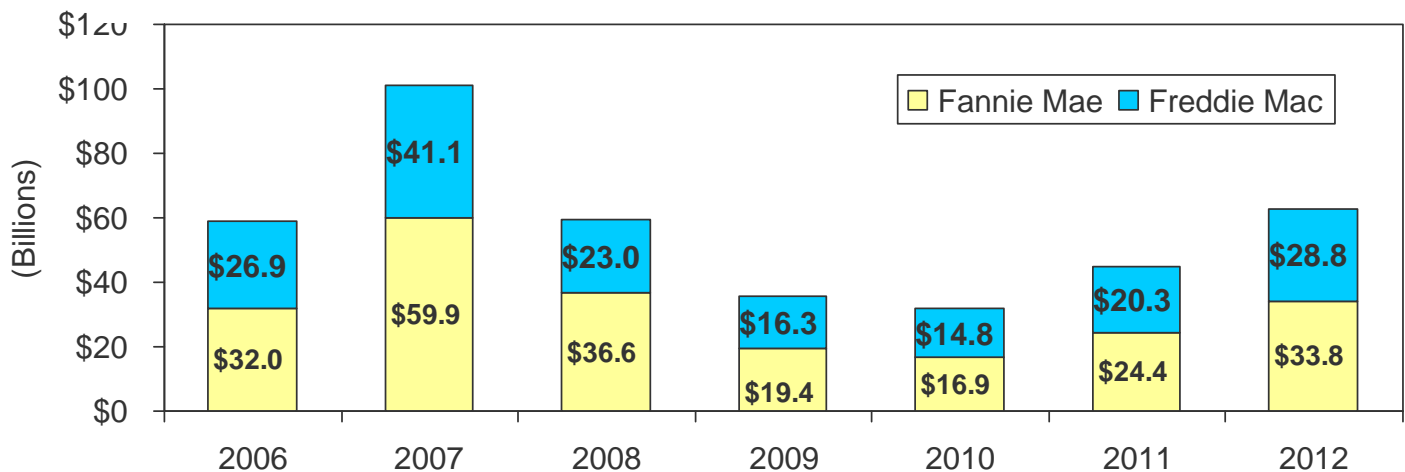
### Multifamily Mortgage Market Expanded in 2012

The multifamily mortgage market saw an expansion in lending activity in 2012 from a variety of participants. Although the GSEs and FHA were very active again last year, there was continued interest from other industry participants, such as portfolio lenders, and an increase in activity from banks, thrifts, and commercial mortgage-backed securities (CMBS) issuers.

#### GSEs Remained Active

Fannie Mae and Freddie Mac continued to provide liquidity to the multifamily marketplace during 2012 through mortgage acquisitions, as seen in the chart below. Fannie Mae acquired \$33.8 billion in multifamily mortgage loans and Freddie Mac acquired \$28.8 billion.

**Multifamily Mortgages and Securities Purchased by GSEs 2006-2012**



Source: 2006-2009: Annual Housing Activities Report provided to the Federal Housing Finance Agency (FHFA); Fannie Mae and Freddie Mac 2010 and 2011 Form 10-K filings; 2012 company reports.

#### Multifamily CMBS Up Slightly in 2012

Following an increase in the number of deals using multifamily collateral during the middle part of 2012, multifamily CMBS sputtered during the fourth quarter of 2012, totaling just \$313 million on 29 loans, compared to \$820.5 million on 86 loans in the third quarter of 2012 and \$929 million on 81 loans in the second quarter of 2012. Multifamily volume in the fourth quarter was lower than the three deals with multifamily collateral issued in the first quarter of 2012, which totaled \$680 million on 39 loans.

Even though there were 10 deals in the fourth quarter of 2012 that had multifamily collateral, the total quarterly multifamily volume of those deals was the lowest of the year. The 10 CMBS deals issued that had newly originated multifamily loans

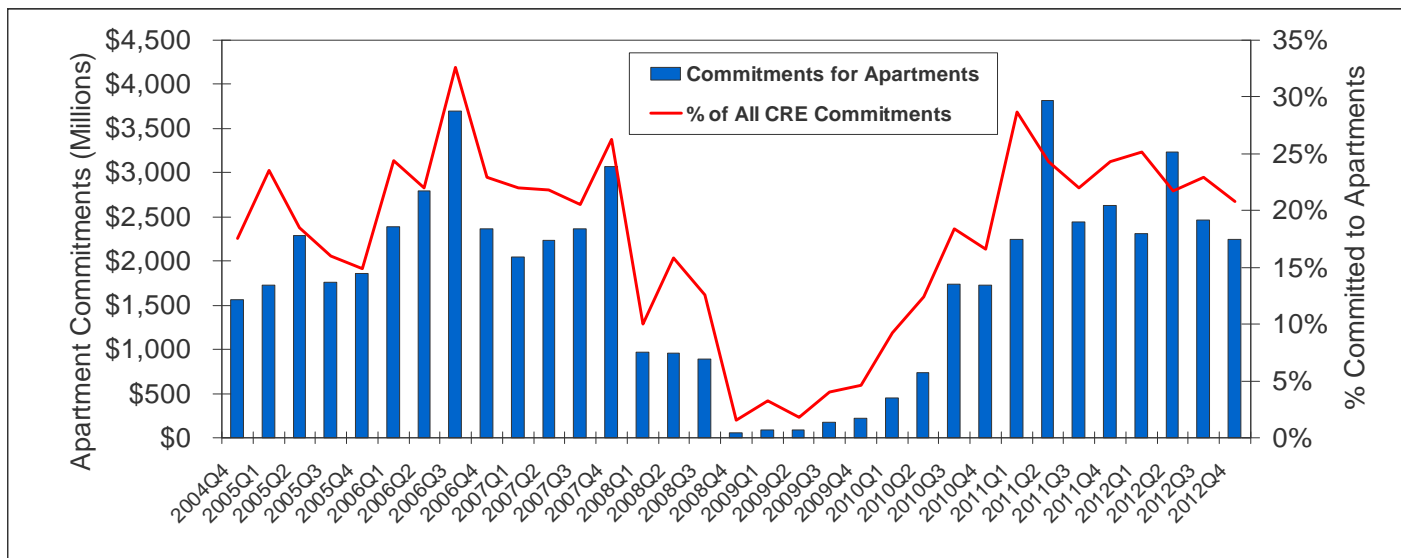
as part of the underlying collateral totaled just \$245 million on 19 loans. Another \$68.3 million of manufactured housing collateral was included in the multifamily CMBS total. Excluded from this total is \$325 million of mixed-use property loans. It is excluded since the amount of mixed-use allocated to just multifamily units is unknown, and therefore, is not included in the overall total.

## Life Insurers Issue Near-Record in Multifamily Commitments

The life insurers had one of their best years in multifamily lending activity during 2012, reaching \$10.2 billion in commitments on 439 loans, compared to \$11.1 billion on 517 loans in 2011. The life insurers had their best year in multifamily commitments in 2006, reaching \$11.2 billion, during the height of the last commercial real estate cycle.

During all of 2012, the life insurers maintained a steady focus on multifamily commitments. At \$10.2 billion, multifamily represented 22.5 percent of all life insurer commercial real estate loan commitments last year.

### Life Insurers: Loans Committed for Apartments



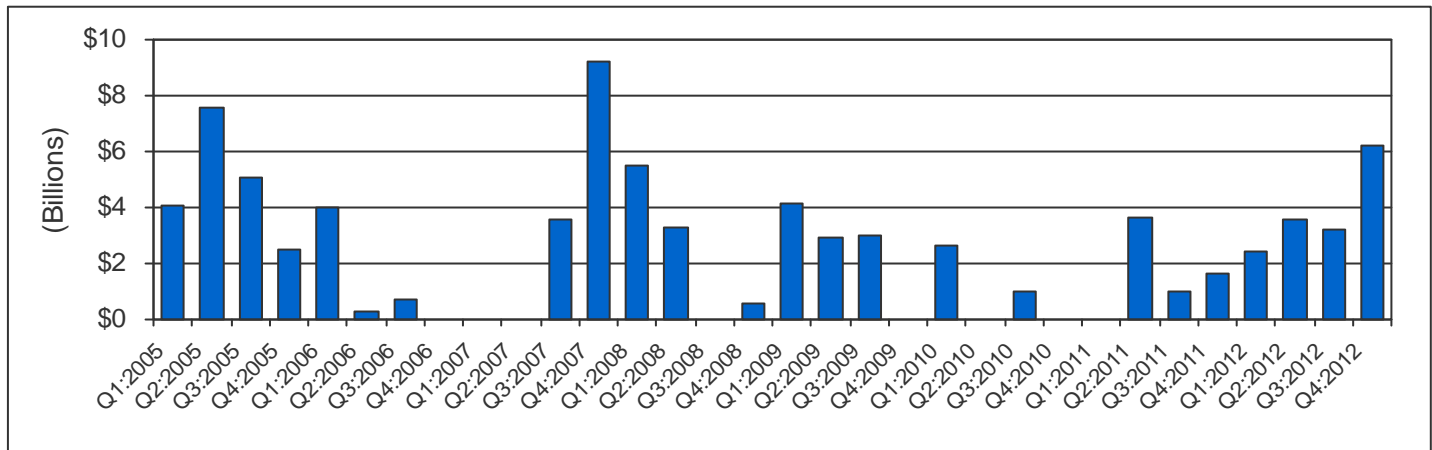
Source: American Council of Life Insurers, "Commercial Mortgage Commitments Investment Bulletin," Fourth Quarter 2012

## Banks Returned to Commercial and Multifamily Lending

The banks and thrifts saw a substantial increase in total net multifamily real estate holdings during 2012, with the FDIC reporting a year-over-year net change of \$15.5 billion. Net holdings rose in the fourth quarter of 2012 by \$6.2 billion, nearly double the third quarter's \$3.2 billion increase and nearly equaling the total net change in 2011.

The banks and thrifts not only increased their multifamily loan holdings, they also increased their commercial real estate loan holdings by \$12.4 billion.

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



Source: FDIC

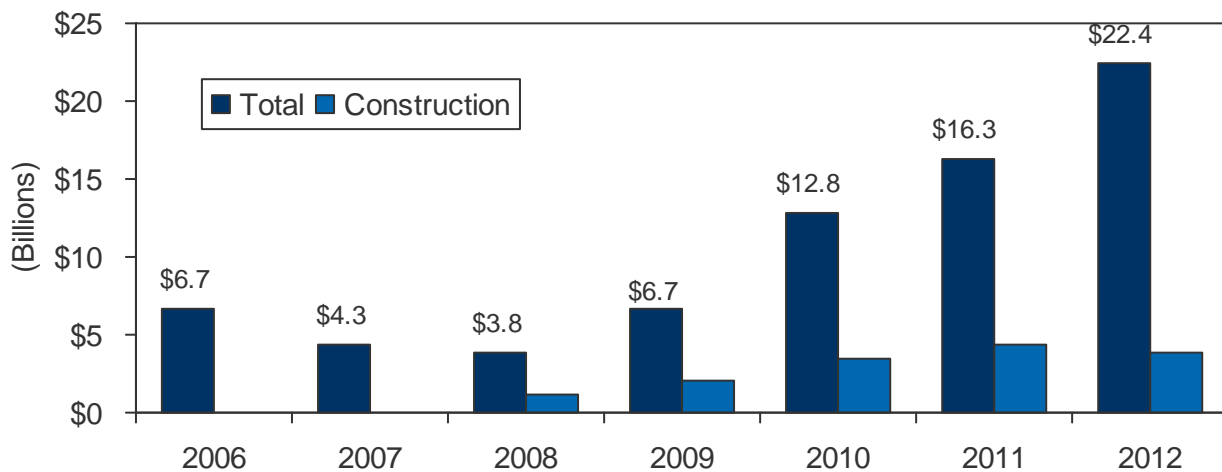
## Ginnie Mae Reaches Record in Multifamily MBS – Again

Ginnie Mae generally is not considered a primary competitor in the institutional multifamily mortgage market debt sector since it does not buy or sell multifamily mortgage loans, nor does it issue mortgage-backed securities. Instead, Ginnie Mae is a federal government corporation that acts as a guarantor of commercial mortgage-backed securities consisting of specialty multifamily loans, in particular healthcare properties, as well as multifamily construction and rehabilitation loans.

Multifamily borrowers have been turning to multifamily loans guaranteed by the FHA in larger numbers over the past few years, and these loans have, in turn, become Ginnie Mae-insured securities. In fact, 98.8 percent of FHA-insured loans were securitized into Ginnie Mae-insured securities in 2012..

Ginnie Mae's robust guaranty growth trend continued throughout 2012 reaching another record-setting total of \$22.4 billion in multifamily securities, as seen in the chart below. In the fourth quarter alone, Ginnie Mae's multifamily guaranty activity totaled \$7.3 billion.

## Ginnie Mae Multifamily MBS 2006 – 2012



Source: GNMA – Securities Industry Automation Corporation; Construction – Ginnie Mae Issuance Reports CL/CS pools, data not available prior to 2008



## Multifamily Fundamentals Expected to Stabilize in 2013

We expect the 2013 multifamily mortgage market activity level to be similar to last year's level for a number of reasons, including: interest rates are forecasted to remain at current low levels during the next 12 months; low cap rates are expected to entice owners to sell; apartment sales are expected to remain healthy in metro areas with solid forecasted fundamentals, but below-average construction starts; and the expectation of continued improvement in job growth.

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