

## Multifamily Market Commentary – March 2012

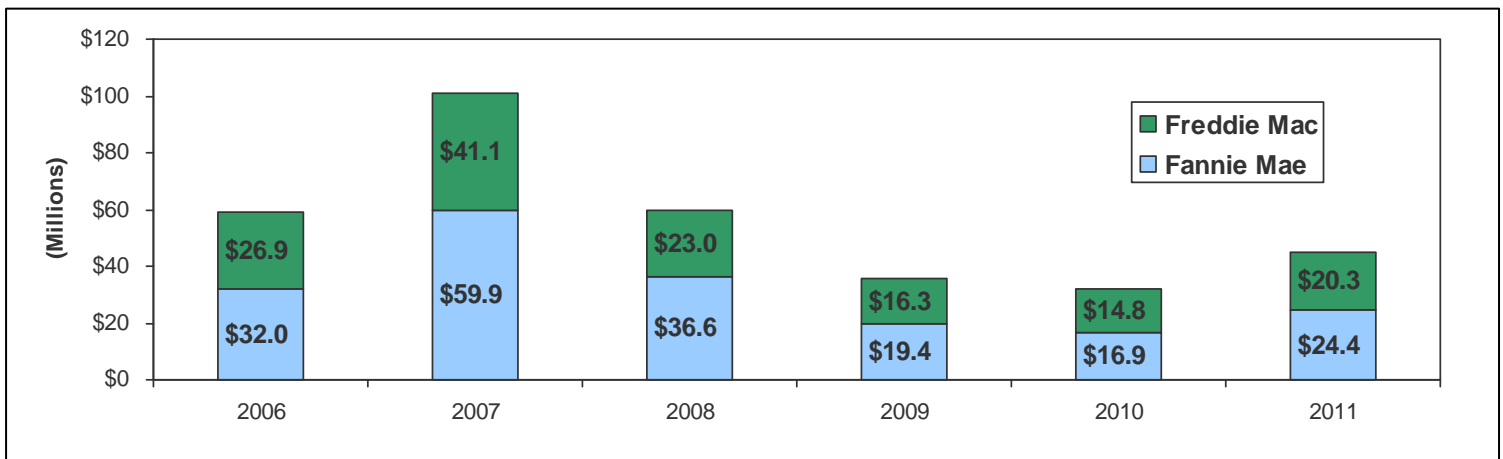
### Multifamily Mortgage Activity Up in 2011

The multifamily mortgage market experienced an increase in lending activity in 2011 from a variety of participants. Although the GSEs and FHA were primary participants, there was renewed interest from portfolio lenders, banks and thrifts, and commercial mortgage-backed securities issuers.

#### GSEs Remain Active Players

Based on publicly-available company reports, in 2011 Fannie Mae and Freddie Mac saw the first increase in their total dollar volume of multifamily mortgage and securities acquisitions (purchases and securitizations) after three consecutive years of declines, as illustrated in the chart below. In 2011, Fannie Mae acquired \$24.4 billion in multifamily mortgage loans and Freddie Mac acquired \$20.3 billion.

**Multifamily Mortgages and Securities Purchased by GSEs 2006-2011**



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

#### Multifamily CMBS Issuance Gaining Steam

During 2011, there was an increase in multifamily CMBS issuance, totaling 16 deals. The multifamily collateral underlying the securities consisted of traditional multifamily units, manufactured housing parks, and mixed-use properties. Although the conduits saw an increase in activity earlier in the year, issuance stalled during the third quarter of 2011, partly exacerbated by the Standard & Poor's ratings withdrawal on the \$1.48 billion Goldman Sachs-Citicorp CMBS deal. The deal was salvaged and issued in the fourth quarter of 2011, helping multifamily CMBS gain momentum and end the year at slightly more than \$2 billion.

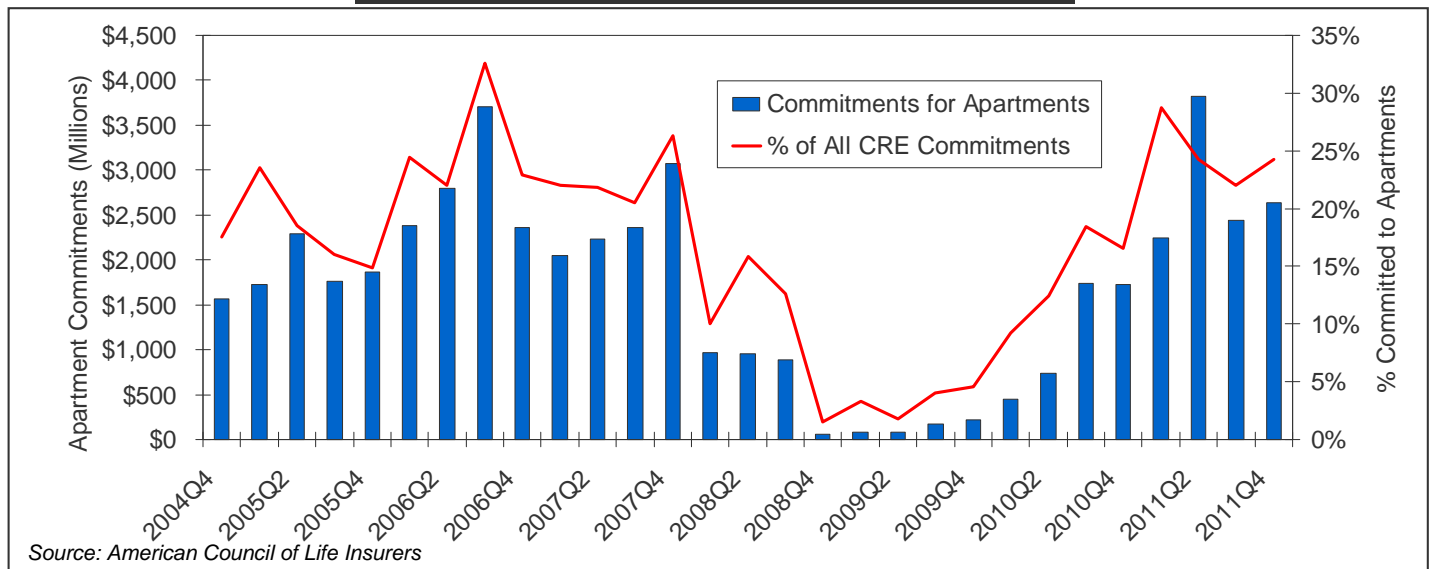
While multifamily CMBS saw an increase last year, it is important to note that the segment is still far from its previous issuance levels. For example, multifamily CMBS issuance levels were approximately \$36 billion annually in 2006 and 2007.

## Life Insurers Rebounded Strongly

The life insurers had their second best year on record in multifamily in 2011, reaching \$11.1 billion in commitments on 517 loans. This is a significant increase from \$4.6 billion in commitments on 244 multifamily loans in 2010. In 2006, during the height of the last commercial real estate cycle, the life insurers had their best year on record in multifamily commitments, reaching \$11.2 billion.

Throughout 2011, the life insurers were determinedly competitive in their pursuit of multifamily commitments. At \$11.1 billion, multifamily represented nearly 25 percent of all life insurer commercial real estate loan commitments last year.

### Life Insurers: Loans Committed for Apartments

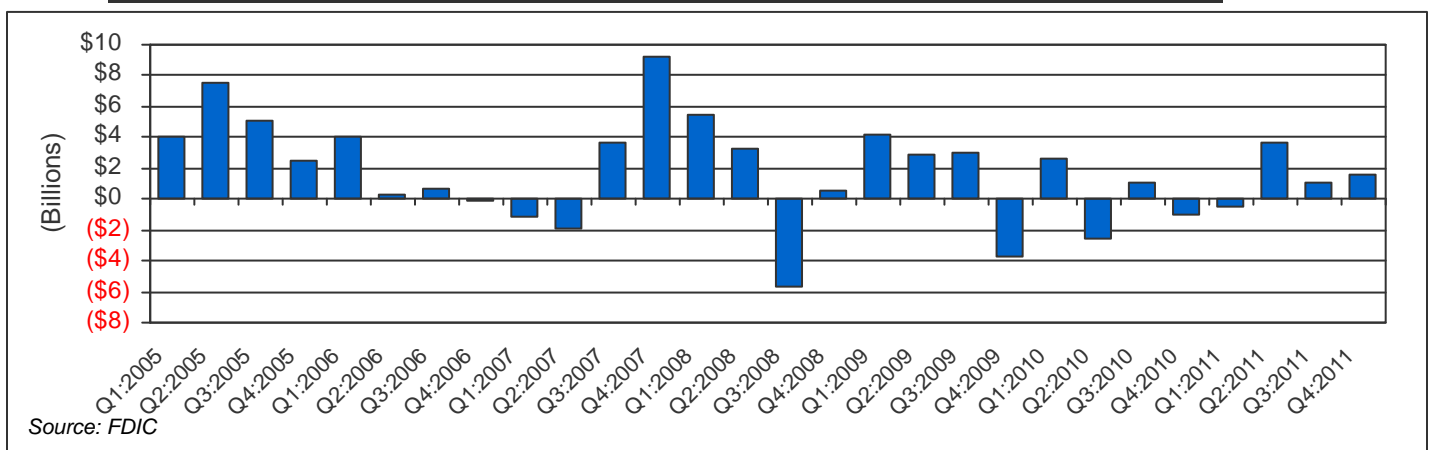


## Banks Back to Commercial and Multifamily Lending

The banks and thrifts saw a significant increase in total net multifamily real estate holdings during 2011, with the FDIC reporting a net increase of \$5.8 billion. Fourth-quarter 2011 net multifamily holdings rose by \$1.6 billion, slightly higher than the \$1.1 billion increase during the third-quarter, but still below the second quarter's revised increase of \$3.6 billion.

Interestingly, in the fourth quarter, the banks and thrifts not only increased their multifamily loan holdings, they also increased their commercial real estate loan holdings by \$3.7 billion – the first time that has happened in two years.

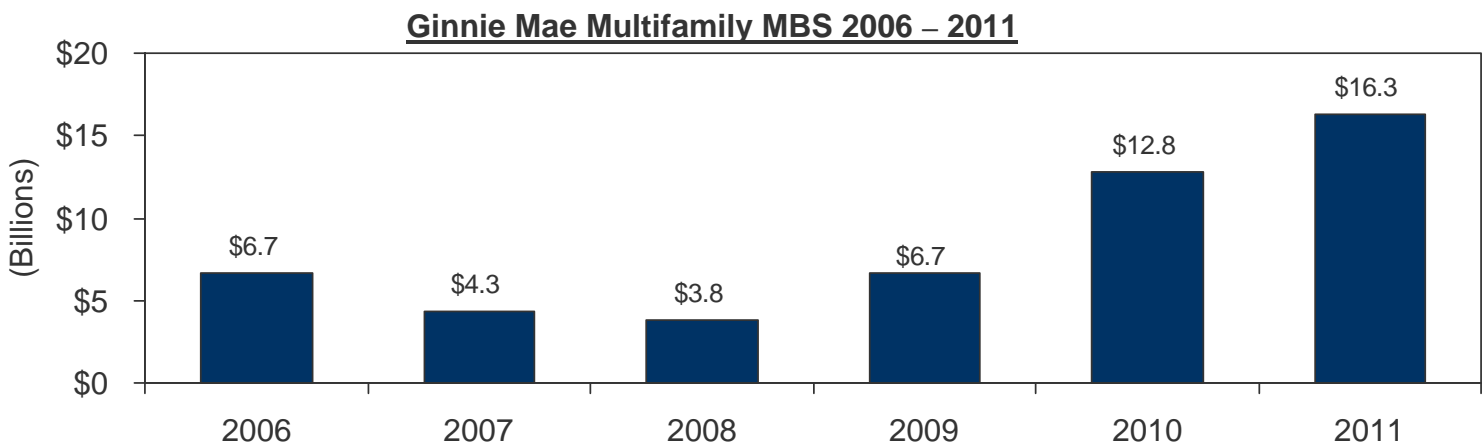
### FDIC-Insured Institutions: Quarterly Change in Multifamily Loan Holdings



## Ginnie Mae Reaches Record in Multifamily MBS

Ginnie Mae is not usually considered a primary competitor in the institutional investor multifamily debt sector. That's because Ginnie Mae does not buy or sell multifamily mortgage loans, nor does it issue mortgage-backed securities (MBS). Instead, Ginnie Mae functions as a guarantor. Ginnie Mae is a federal government corporation that guarantees investors the timely payment of principal and interest on MBS backed by federally insured or guaranteed loans, such as those insured by FHA or the Veterans Administration.

Due to the ongoing curtailment in commercial real estate lending, multifamily borrowers have been turning to FHA for financing. As a result, Ginnie Mae's robust guaranty growth trend continued throughout 2011 reaching a record-setting \$16.3 billion in multifamily securities, as seen in the chart below.



Source: Securities Industry Automation Corporation

## 2012 Should Stay the Course

The group expects the 2012 multifamily mortgage activity level to be similar to 2011 for a number of reasons, including interest rates likely remaining near or at current levels; low cap rates keeping apartment buyers and sellers in the market; apartment sales staying healthy due to an ongoing dearth of new apartment construction coming online resulting in fewer new competing apartment units; and continued improvement in job growth.

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Kim Betancourt, Director  
Multifamily Economics and Market Research  
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