Multifamily Market Commentary – September 2013

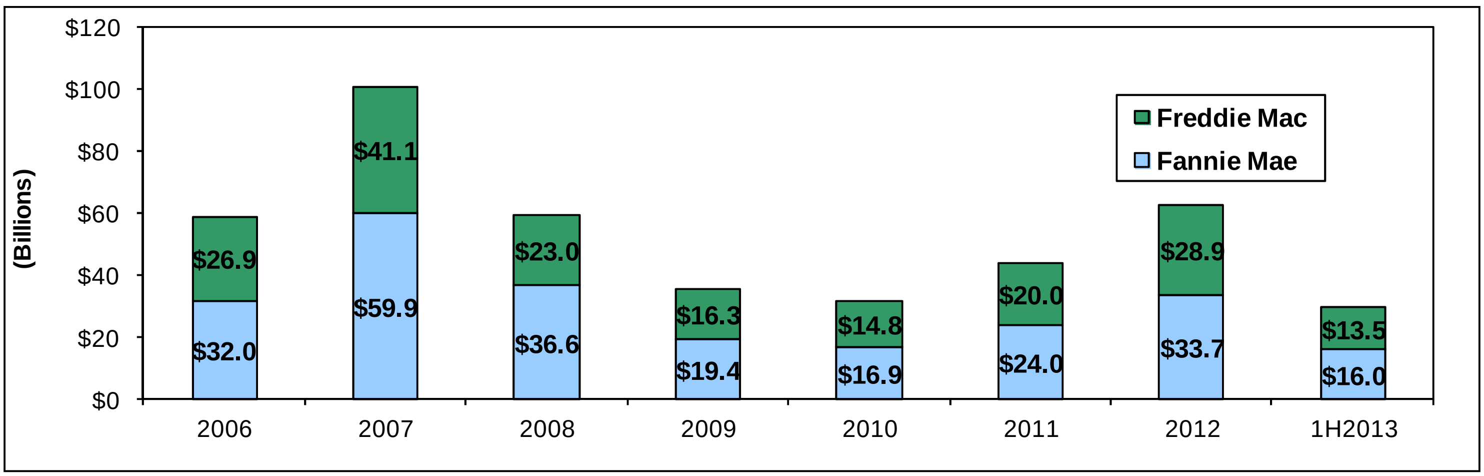
Multifamily Mortgage Acquisitions Remained Robust During the First Half of 2013

After a slow start during the first quarter of 2013, the multifamily mortgage sector continued to attract interest from various market participants during the first half of the year. The second quarter saw increased activity from market participants including life insurers, conduits, banks, and thrifts. In contrast, Fannie Mae and the Federal Housing Administration maintained a more stable pace.

GSEs Still Large Participants

Based on publicly available company reports, Fannie Mae and Freddie Mac were responsible for acquiring a large portion of newly originated multifamily mortgage loans during the first half of 2013. As seen in the chart below, Fannie Mae acquired $16 billion in multifamily mortgage loans and Freddie Mac acquired $13.5 billion during the first six months of the year.

Multifamily Mortgages and Securities Purchased by GSEs 2006 through First Half of 2013



Sources: 2006-2009: Annual Housing Activities Report-Federal Housing Finance Agency (FHFA); 2010-1H2013: FNM and FRE company reports

Multifamily CMBS: More Deals, Stable Volume

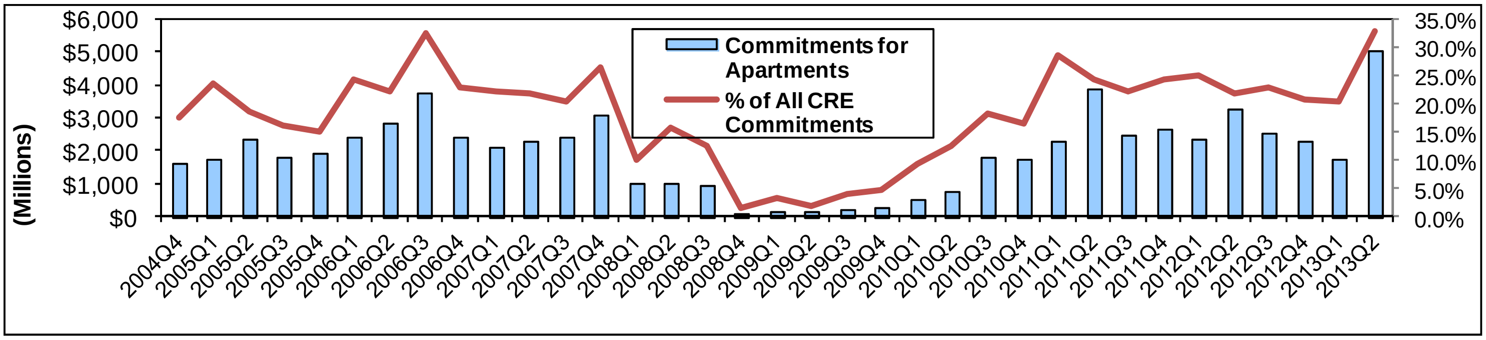
During the first half of 2013, there were 16 private label commercial mortgage-backed securities (CMBS) deals issued that included newly originated multifamily loans as part of the underlying collateral, compared to 11 deals in the first half of 2012. (The Freddie Mac Capital Markets Execution securitizations are excluded.)

Although there was a big increase in dollar volume during the second quarter of 2013 compared to the first quarter of 2013, the total in the first half of 2013 ended up being nearly the same as in the first half of 2012: $1.3 billion compared to $1.6 billion. Of these private label CMBS, $785 million were classified as having multifamily collateral and $548 million were classified as being backed by manufactured housing. (Not included in the total is $923 million backed by mixed-use property loans, which had a component of multifamily collateral.)

Life Insurers Continued Pursuing Multifamily

According to the American Council of Life Insurers, during the first six months of 2013, the life insurers' multifamily commitment volume totaled $6.7 billion, up significantly from $5.5 billion in the first half 2012. However, it is nearly the same level of activity as during the first half of 2011 when the life insurers' issued commitments on $6 billion of multifamily loans.

Life Insurers: Loans Committed for Apartments



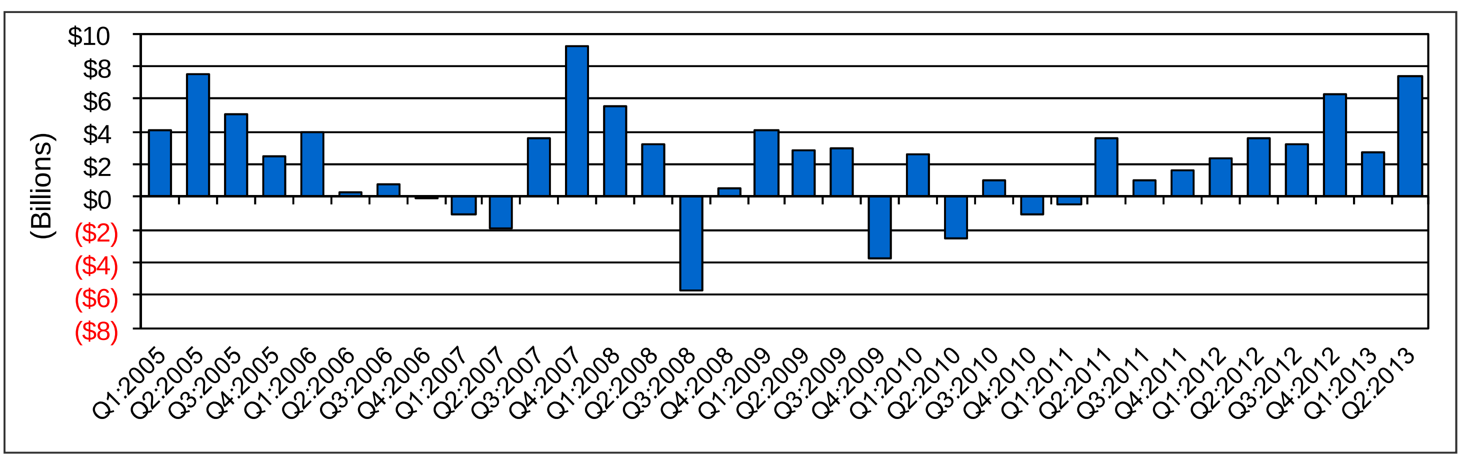
Source: ACLI

Bank Net Holdings Increased

The banks and thrifts once again had a robust increase in their net multifamily real estate loan holdings during the first half of 2013, as illustrated in the chart below. The net change in multifamily holdings by the banks and thrifts increased by $10.1 billion during the first half of the year alone, compared to the $15.5 billion change in net multifamily holdings for all of last year.

The banks and thrifts have been increasing their net multifamily real estate holdings solidly for more than a year. As a result, as of the second quarter of 2013, the FDIC-insured institutions held a total of $244 billion in multifamily real estate loans, up from $234 billion six months prior at year-end 2012.

FDIC-Insured Institutions: Quarterly Change in Multifamily Loan Holdings



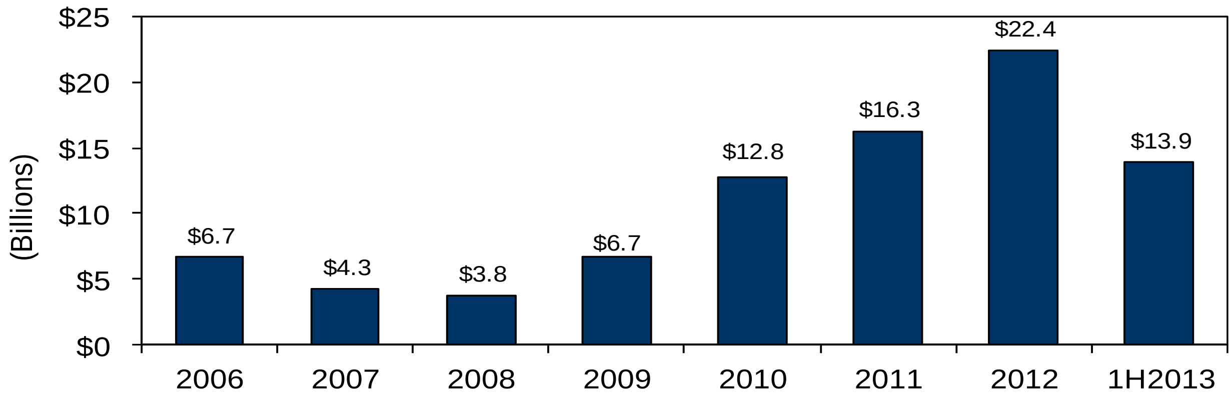
Source: FDIC

Ginnie Mae Multifamily Activity Remains at Record Levels

Ginnie Mae is not usually considered a primary competitor in the institutional investor multifamily debt sector, since Ginnie Mae does not buy or sell multifamily mortgage loans, nor does it issue mortgage-backed securities. 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 Federal Housing Administration or the Veterans Administration.

Since 2009, Ginnie Mae has seen a significant increase in its multifamily guaranty business, as illustrated in the chart below. This robust guaranty growth continued during the first half of 2013 with Ginnie Mae guaranteeing nearly $14 billion in multifamily securities.

Ginnie Mae Multifamily Activity 2006 through First Half of 2013



Source: Securities Industry Automation Corporation

Interest in Multifamily is Expected to Remain Stable

Sales of apartment properties valued at $2.5 million or greater totaled $17.0 billion in the second quarter of 2013, reflecting quite a slowdown compared to the past year, according to recent data from Real Capital Analytics. Although the first quarter saw a new record quarterly high of $31.7 billion, about half of that – $14.7 billion on more than 69,000 units – was due to the Archstone portfolio. The last time apartment sales were near this quarter's volume level was in the second quarter of 2012 when apartment sales totaled approximately $18.3 billion. Throughout most of the first half of 2013, apartment sales volume experienced year-over-year declines.

A tempering in the number of property sales and loan refinances may slow down multifamily lending activity during the second half of the year, especially with the 10-year Treasury yield reaching 3.0 percent recently. New multifamily supply expected to be completed this year is likely to compete for tenants in certain submarkets, which may slow down sales activity, since investors may express caution in investing in nearby existing multifamily properties. On a national basis, interest in multifamily investment is expected to remain stable for the remainder of 2013.

Kim Betancourt, Director
Multifamily Economics and Market Research
September 2013