Multifamily Market Commentary – March 2011

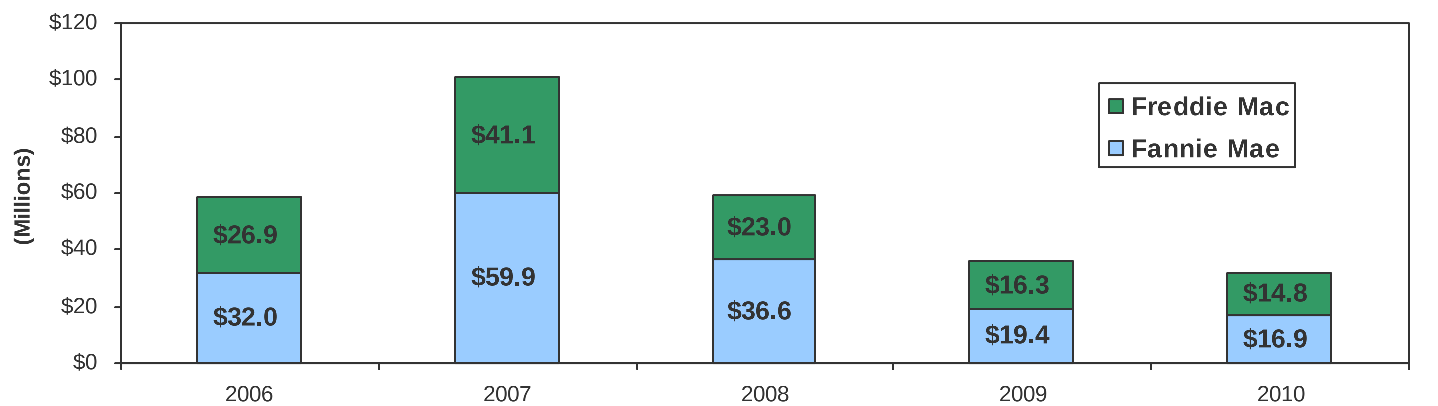
Renewed Interest in Multifamily Mortgages in 2010

The multifamily mortgage market experienced renewed interest from various participants in 2010, a significant change from 2009 when the sector essentially consisted of Fannie Mae, Freddie Mac, and the Federal Housing Administration. Although it appears that these entities remained critical sources of multifamily lending liquidity, beginning in the second half of 2010 other market participants started returning to the multifamily lending arena.

GSEs Still the Largest Participants

Based on publicly-available company reports, Fannie Mae and Freddie Mac have seen their total dollar volume of multifamily mortgage and securities acquisitions (purchases and securitizations) decline since 2007. Nevertheless, the two enterprises have been responsible for acquiring the majority of newly originated multifamily mortgage loans since 2008. In 2010, Fannie Mae acquired $16.9 billion in multifamily mortgage loans and Freddie Mac acquired $14.8 billion. These amounts are down slightly from 2009, when Fannie Mae acquired $19.4 billion in multifamily mortgage loans and Freddie Mac accounted for $16.3 billion, as seen in the chart below.

Multifamily Mortgages and Securities Purchased by GSEs 2006-2010



Source: 2006-2009: Annual Housing Activities Reports provided to the Federal Housing Finance Agency (FHFA); 2010: FNM and FRE company reports

Multifamily CMBS Starting to Come to Life

Although there were some CMBS conduit transactions issued in 2010, very few contained newly originated multifamily loans. In June 2010, there was one all-multifamily CMBS issued: the "Impact Funding Affordable Multifamily Housing Mortgage Loan Trust 2010-1" deal. The transaction had a weighted average seasoning of 49.5 months, consisting primarily of construction-to-permanent mortgage loans. As a result, although all of the construction loans did have origination dates prior to 2010, about $14 million had permanent mortgage first payment dates commence sometime in 2010, according to Impact Capital.

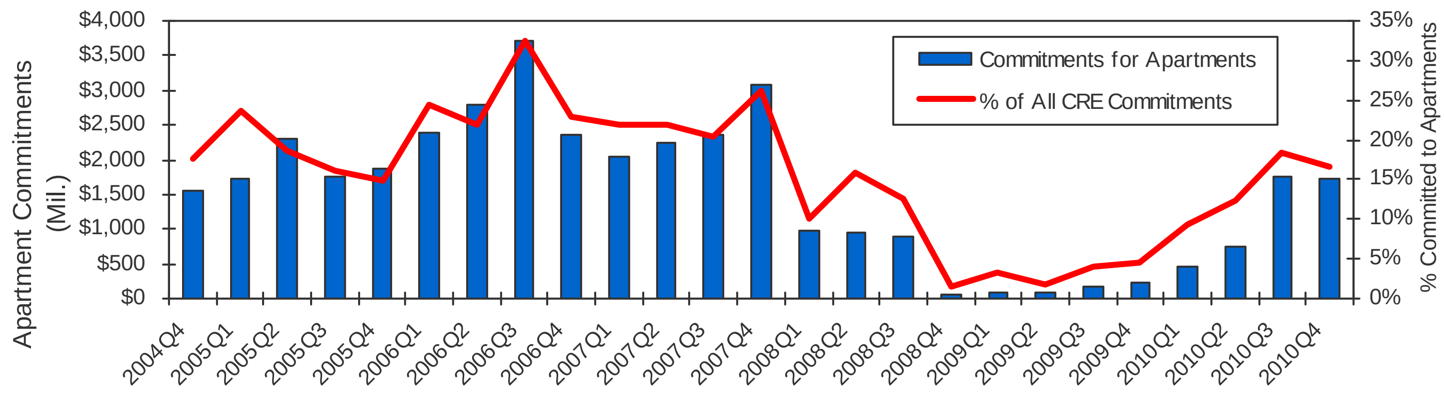
Much of the small amount of new multifamily CMBS business that occurred during 2010 took place in the fourth quarter of the year. That's when three CMBS deals were issued with newly-originated multifamily loans as part of the underlying collateral. These three deals had a total of just $106 million in multifamily on seven loans. As a result, 2010 multifamily CMBS issuance totaled approximately $120 million – a negligible amount overall – but a start, nonetheless.

Life Insurers Came Back in 2010

The life insurers experienced significant activity in the multifamily sector in 2010, especially during the second half of the year, ending 2010 at $4.6 billion in commitments on 244 multifamily loans. This is a significant increase over 2009's paltry $564 million, representing just 52 multifamily mortgage loan commitments.

The past year's activity is signaling a return to more historic averages for the life insurers, as seen in the chart below. The $1.7 billion in multifamily mortgage commitments issued by the life insurers in fourth quarter 2010 alone is reminiscent of fourth quarter 2005's total of $1.9 billion, despite being well below their peak activity during 2006-2007.

Life Insurers: Loans Committed for Apartments



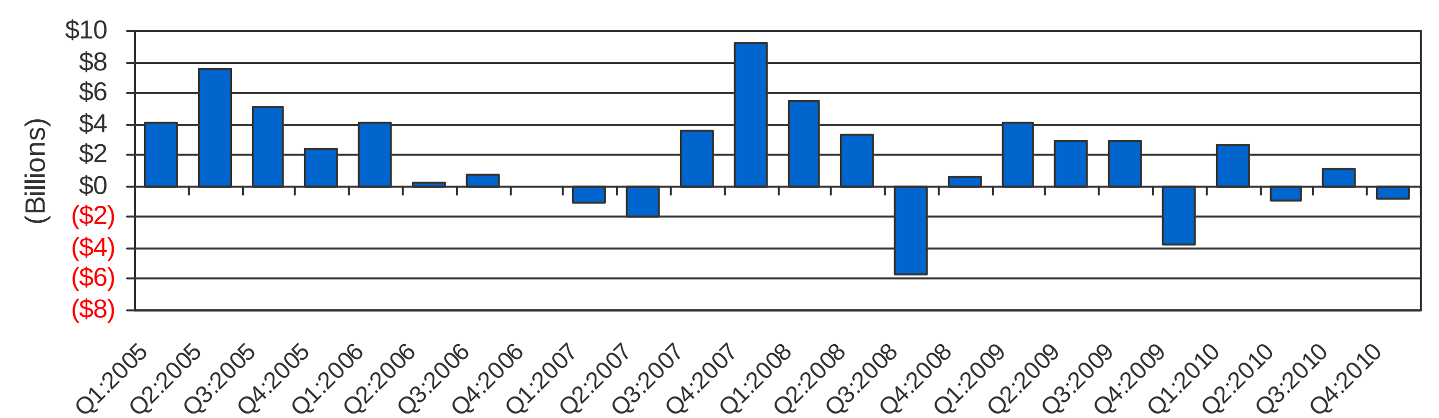
Source: ACLI

Bank Volume Declined Year-over-Year in 2010

Although the banks and thrifts saw an increase in net multifamily holdings in 2010, it was by just $2.0 billion, making it one of the smallest net increases in recent history. According to the fourth quarter 2010 data from the FDIC, the FDIC-insured institutions reported a negative net change in multifamily real estate loans of -$845 million compared to third quarter 2010.

The banks and thrifts' net multifamily holdings were volatile during 2010. As seen in the chart below, third quarter 2010 net multifamily holdings were up by 1.1 billion. However, second quarter 2010 holdings were down by $890 million following a first quarter 2010 increase of $2.6 billion. As recently as third quarter 2010, the banks and thrifts year-to-date net multifamily loan holdings volume had been up by $2.9 billion – what a difference a quarter makes.

FDIC-Insured Institutions: Quarterly Change in Multifamily Loan Holdings



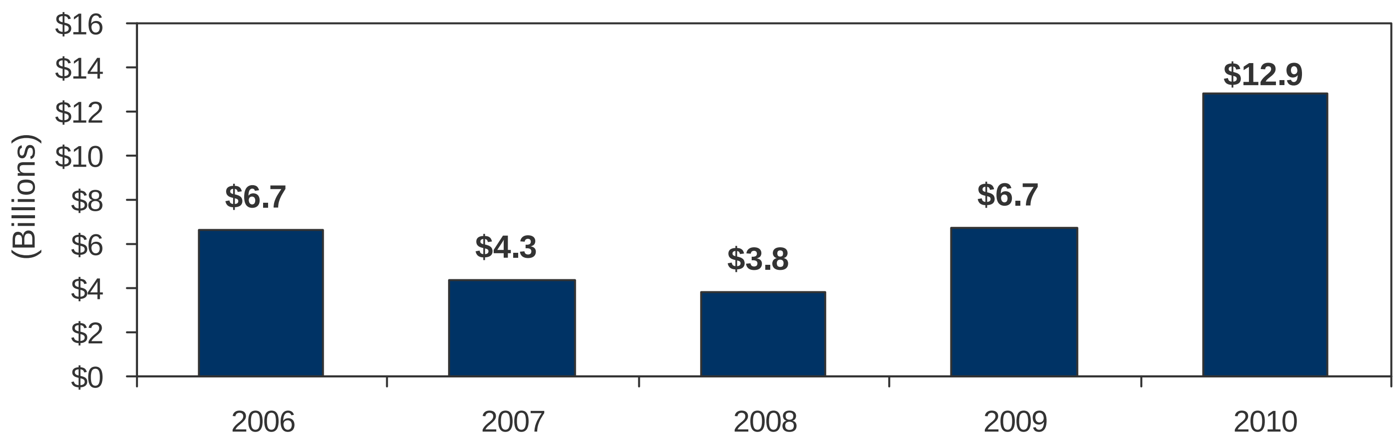
Source: FDIC

Ginnie Mae Activity Nearly Doubled in 2010

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. 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.

The chart below highlights the amount of multifamily mortgage loans guaranteed by Ginnie Mae since 2006. During the past two years, due to the protracted lack of credit, a number of multifamily borrowers have been turning to FHA for financing. As a result, Ginnie Mae saw a significant increase in its multifamily guaranty business last year, guaranteeing nearly $12.9 billion in multifamily securities during 2010.

Ginnie Mae Multifamily Activity 2006 – 2010



Source: Securities Industry Automation Corporation

2011 Starts off Strong

Based on the amount of multifamily activity between the third and fourth quarters of 2010, as well as anecdotal reports of lending activity thus far in 2011, the resurgence in multifamily lending should stay in place. With interest rates remaining relatively low, apartment property sales picking up, and the overall economic recovery under way, the increase in multifamily mortgage originations activity that began in the latter half of 2010 is expected to continue for all of 2011.

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