

## Multifamily Market Commentary – September 2011

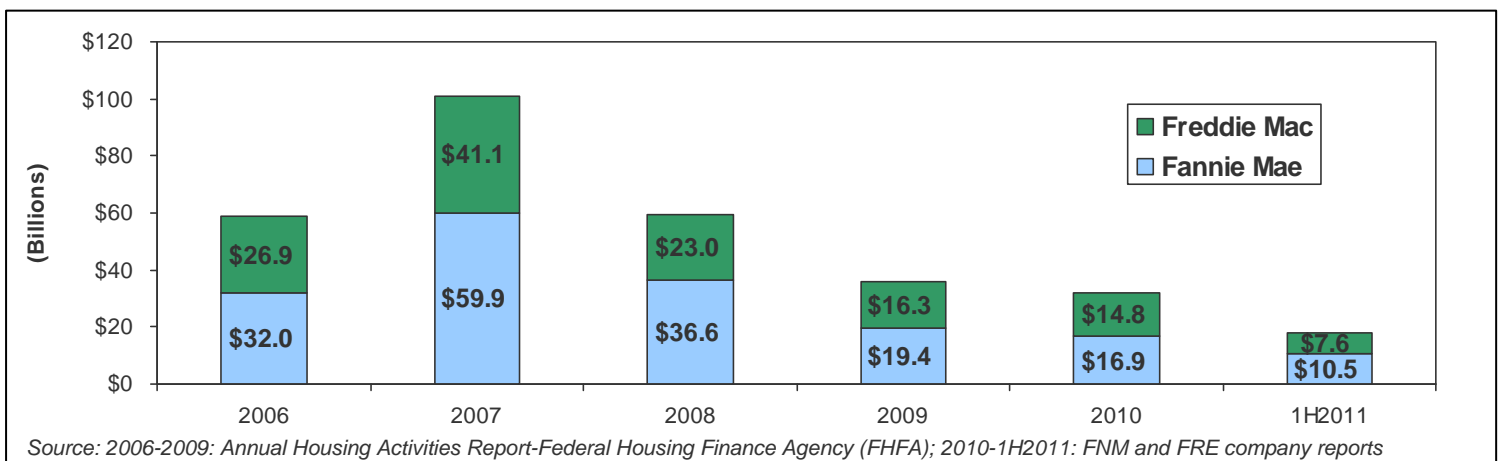
### Interest in Multifamily Mortgages Increased During First Half of 2011

The multifamily mortgage market continued to experience interest from various participants during the first half of 2011. Although the majority of multifamily lending liquidity came from Fannie Mae, Freddie Mac, and the Federal Housing Administration, a number of other market participants also were quite active.

#### GSEs Still the Largest 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 the year. As seen in the chart below, Fannie Mae acquired \$10.5 billion in multifamily mortgage loans and Freddie Mac acquired \$7.6 billion during the first six months of the year.

#### Multifamily Mortgages and Securities Purchased by GSEs 2006-1H2011



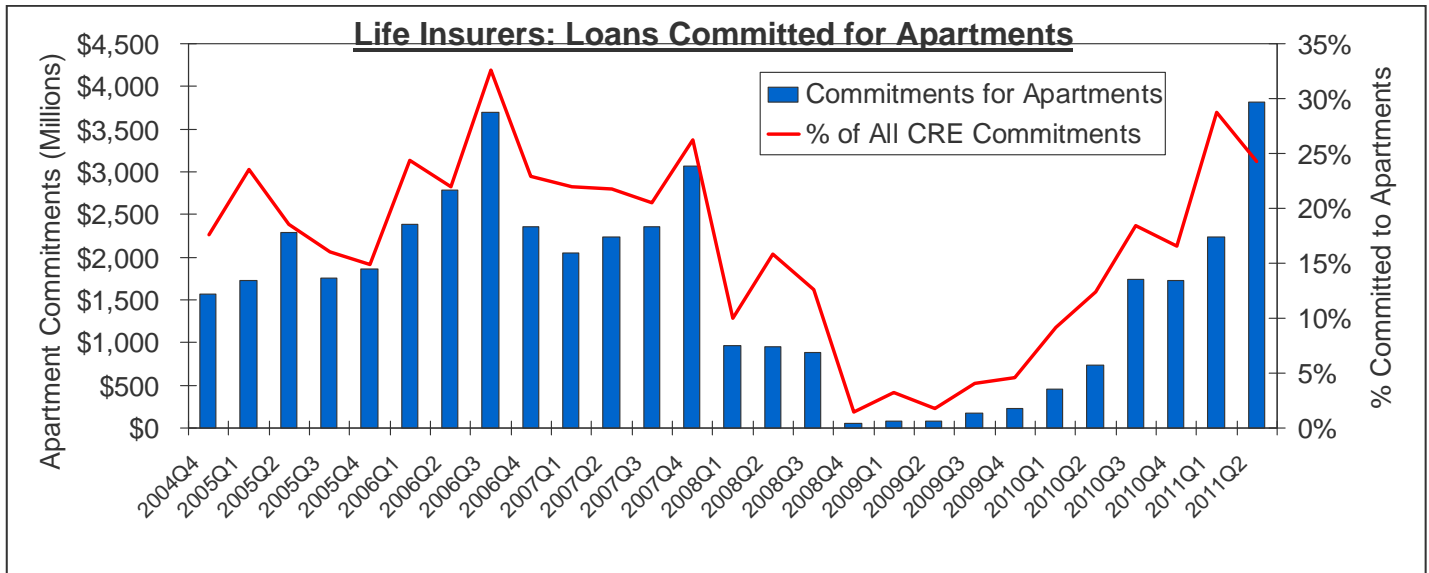
#### Multifamily CMBS Gained Steam

During the first half of 2011, there were nine CMBS deals issued that had newly-originated multifamily loans as part of the underlying collateral. The nine deals had a total of \$999 million in multifamily investment on 80 loans. Of these, \$586 million were classified as multifamily collateral, \$365 million were classified as manufactured housing, and \$49 million were considered mixed-use properties. Although the conduits saw an increase in activity during the first half of the year, issuance has already slowed during the second half.

#### Life Insurers Rebound in 2011

According to the American Council of Life Insurers, during the second quarter, the Life Insurers' multifamily commitment volume reached an all-time high of \$3.8 billion. The only other time that this group came close to that level of multifamily commitments was during the height of the lending boom in the third quarter of 2006, at \$3.7 billion.

As a result, the Life Insurers are now responsible for issuing \$6 billion in multifamily commitments in the first half of the year. As a comparison, during the first half of 2010, the life insurers issued about \$1.2 billion in multifamily commitments.

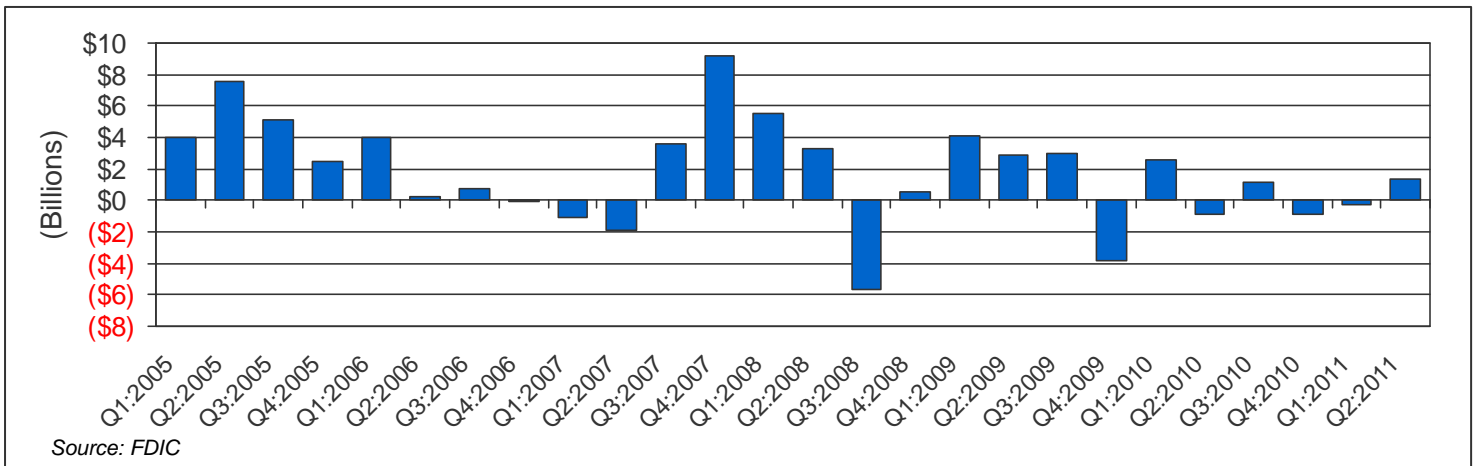


Source: ACLI

### Bank Net Holdings Increased

After two consecutive quarterly declines, banks and thrifts reversed course in the second quarter of 2011 and posted a positive increase in net multifamily real estate loan holdings – with holdings rising by \$1.3 billion to a total of \$215.8 billion as of the end of the first half of 2011. The banks and thrifts' multifamily net charge-offs increased in the second quarter to \$513 million from \$494 million in the first quarter.

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



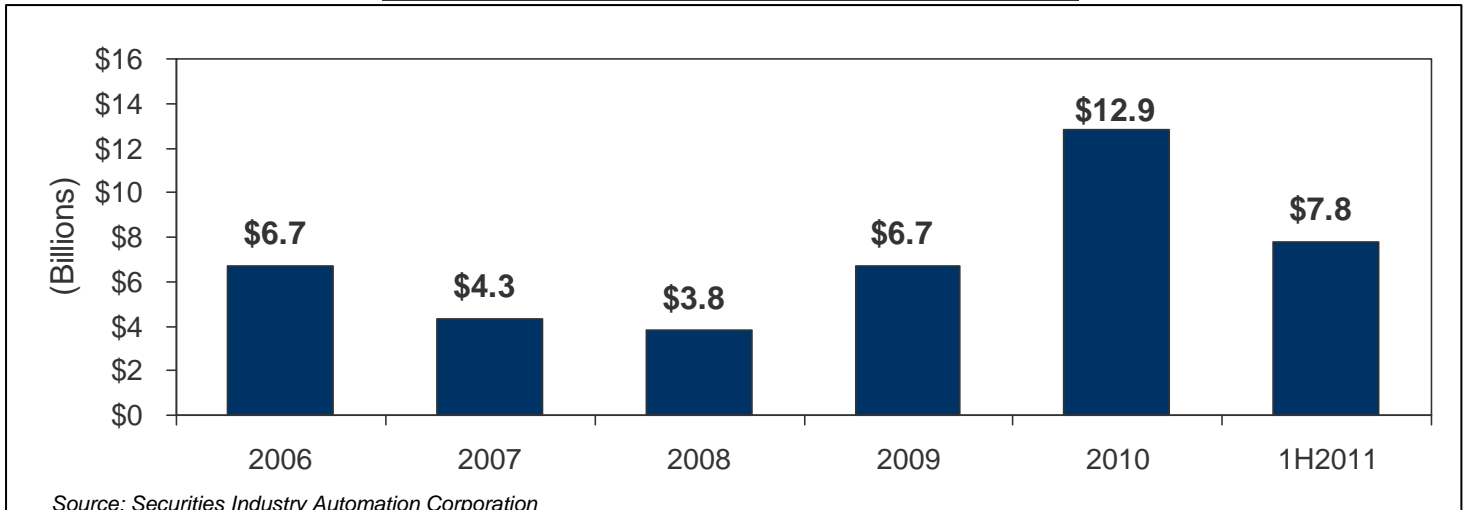
Source: FDIC

### Ginnie Mae Multifamily Activity at Record Levels

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.

During the past two years, Ginnie Mae has seen a significant increase in its multifamily guaranty business. This robust guaranty growth continued during the first half of 2011 with Ginnie Mae guaranteeing \$7.8 billion in multifamily securities, as seen in the chart below.

### Ginnie Mae Multifamily Activity 2006 – 1H2011



### **Continued Sales and Investor Interest Benefit Multifamily in 2011**

Apartment sales during the second quarter of 2011 saw a significant rebound, reaching \$13.9 billion, compared to first quarter 2011 sales of \$9.0 billion, based on data from Real Capital Analytics. New apartment offerings totaled nearly \$25 billion in the second quarter of 2011 alone – the highest level in three years – while distressed multifamily property sales made up nearly one-fourth of closed transactions. Pricing in terms of cap rates has remained steady and interest rates remain relatively low, at least for now. As a result, steady sales activity, coupled with low interest rates, should keep multifamily lending active for the remainder of the year.

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Kim Betancourt, Director  
Multifamily Economics and Market Research  
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