

Multifamily Market Commentary – September 2014

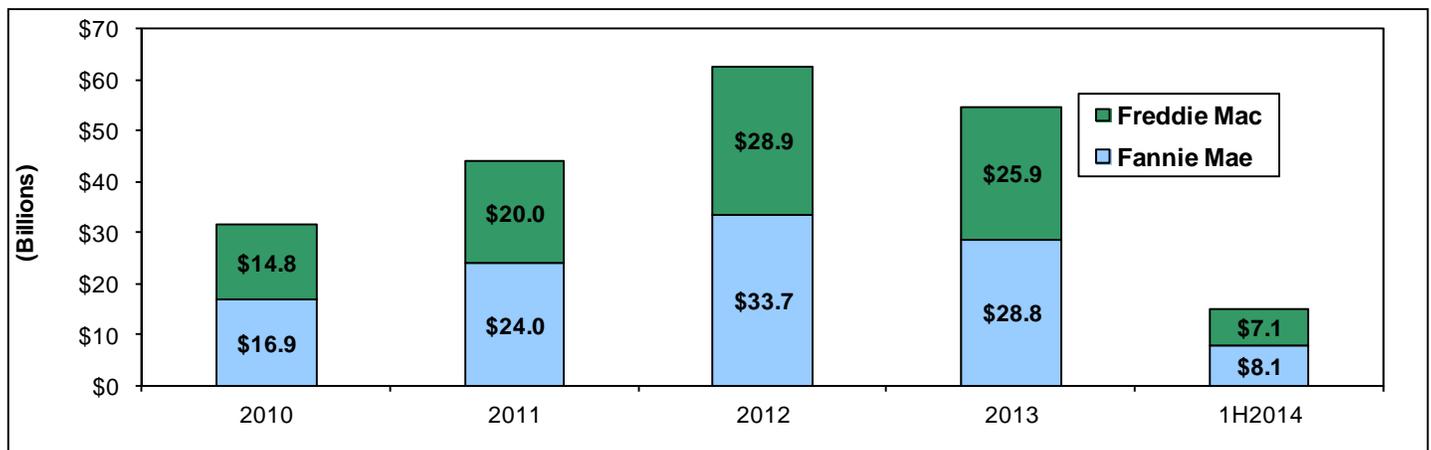
Multifamily Mortgage Acquisitions Update: First Half of 2014

Most multifamily market participants stepped up their financing activity during the first half of 2014, but at a lower overall level than a year ago. Second quarter 2014 saw increased activity from most market participants including life insurers, banks and thrifts, Fannie Mae and Freddie Mac, and the Federal Housing Administration.

GSEs Purchases of Multifamily Loans Declined in First Half of 2014

Based on publicly available company reports, Fannie Mae and Freddie Mac acquired a reasonable portion of newly originated multifamily mortgage loans during the first half of 2014. As seen in the chart below, Fannie Mae acquired \$8.1 billion in multifamily mortgage loans and Freddie Mac acquired \$7.1 billion during the first six months of this year, compared to \$16 billion and \$13.5 billion, respectively, during the same period last year.

Multifamily Mortgages and Securities Purchased by GSEs 2010-1H2014



Source: Fannie Mae and Freddie Mac company reports

Multifamily CMBS: More Deals, Increased Volume

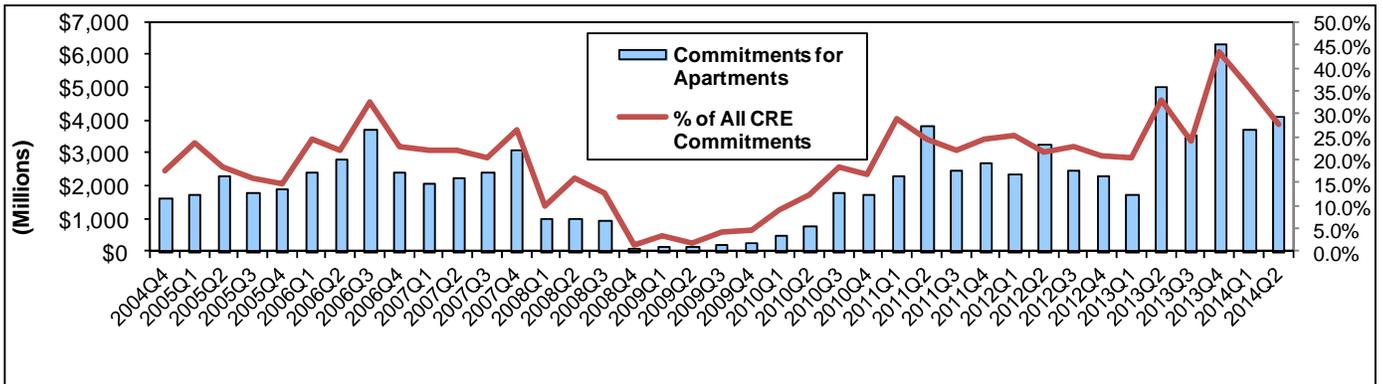
During the first half of 2014, 30 private label commercial mortgage-backed securities (CMBS) deals were issued that had newly originated multifamily loans as part of the underlying collateral, compared to 16 private-label CMBS deals in the first half of 2013. (The Freddie Mac Capital Markets Execution securitizations and K-deals are excluded.)

There was a significant increase in the dollar volume of these transactions in the first half of 2014: \$6.0 billion compared to \$1.3 billion for the first half of 2013. Of these private-label CMBS, approximately \$5.1 billion were classified as multifamily collateral and another \$970 million were classified as manufactured housing.

Life Insurers Continued Pursuing Multifamily

According to the American Council of Life Insurers (ACLI), during the first six months of 2014, the life insurers' multifamily commitment volume totaled \$7.8 billion, up from \$6.7 billion in the first half of 2013 – keeping them on an annualized pace to repeat last year's record-breaking \$16 billion in multifamily loan commitments.

Life Insurers: Loans Committed for Apartments



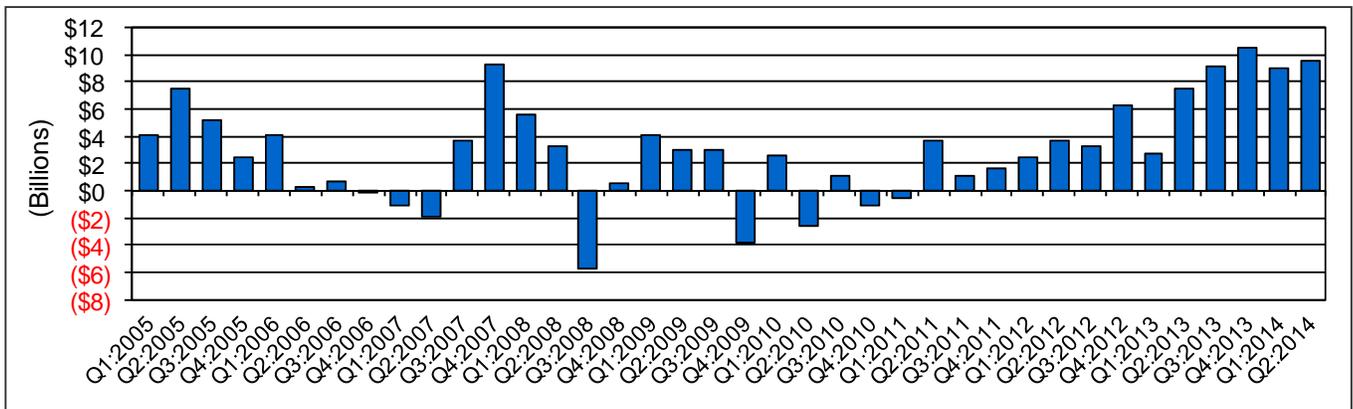
Source: ACLI

Bank Net Holdings Increased

Banks and thrifts once again had a robust increase in their net multifamily real estate loan holdings during the first half of 2014, as illustrated in the chart below. The net change in multifamily holdings by the banks and thrifts increased by \$18.4 billion during the first half of this year, compared to the nearly \$10 billion increase in net multifamily holdings during the first half of 2013.

Banks and thrifts have been increasing their net multifamily real estate holdings for more than a year. As a result, as of June 30, 2014, the institutions insured by the Federal Deposit Insurance Corporation (FDIC) – a U.S. government corporation that provides deposit insurance – held a total of \$282 billion in multifamily real estate loans, up from \$263 billion as of December 31, 2013.

FDIC-Insured Institutions: Quarterly Change in Multifamily Loan Holdings



Source: FDIC

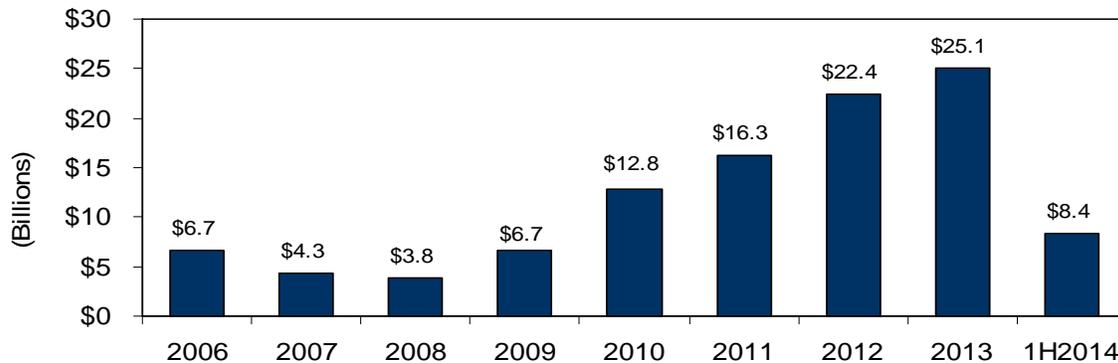
Ginnie Mae Multifamily Activity Remains at Record Levels

Ginnie Mae typically is not considered a primary competitor in the institutional investor multifamily debt sector as the organization 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 the Federal Housing Administration or the Department of Veteran Affairs.

Since 2009, Ginnie Mae has seen a significant increase in its multifamily guaranty business, as illustrated in the chart below. This robust guaranty growth has been contracting during the first half of 2014, with Ginnie Mae guaranteeing approximately \$8.4 billion in multifamily securities compared to nearly \$14 billion during the first six months of 2013.

Ginnie Mae Multifamily Activity 2006 – 1H2014



Source: Securities Industry Automation Corporation

Interest in Multifamily Should Remain Stable

Sales of apartment properties valued at \$2.5 million or greater totaled \$26.0 billion in the second quarter of 2014, which represents a quarterly increase of more than 33 percent and a year-over-year increase of 39 percent, according to recent data from Real Capital Analytics. Apartment sales had the highest volume of all the commercial property types during the second quarter of 2014, and activity during the first six months of this year was not far behind where it was for the same period last year. In the first half of 2014, apartment sales totaled \$45.6 billion, compared to \$50.0 billion in first half 2013 – which included the \$14.7 billion Archstone portfolio sale). In comparison, in the second quarter of 2014 the BRE Properties acquisition by Essex Property Trust was \$4.3 billion.

Despite a slow start in the beginning of this year, multifamily lending surged during the second quarter. With interest in multifamily financing remaining strong, coupled with permanent financing needed for the new construction pipeline completing during the second half of the year, we believe overall multifamily lending activity volume should be on par with last year's level or perhaps up slightly.

Kim Betancourt
Director of Economics

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