

Multifamily Industry Seeks Reassurance

AMID FREDDIE MAC, FANNIE MAE DISTRESS

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A day after President Bush called on Congress to prop up government-sponsored mortgage pillars Fannie Mae and Freddie Mac, behind the scenes the multifamily industry is quietly voicing concern about the agencies' lending plans in a flurry of phone calls and queries to agency executives.

The Federal National Mortgage Association (*Fannie Mae*) and the Federal Home Mortgage Corp. (*Freddie Mac*) hold or guarantee more than \$5 trillion in mortgages — nearly half of the nation's total. Most of that is for single-family residences, but the two agencies and the Government National Mortgage Association (*Ginnie Mae*) also held \$157 billion in multifamily debt in their portfolios at the end of the first quarter of 2008 and nearly \$143 billion in mortgage-backed securities, according to Jamie Woodwell, vice president of commercial/multifamily research at the Washington-based Mortgage Bankers Association.

The agencies' role in the multifamily market is pivotal. They hold more than a third — 35% — of the nation's multifamily mortgage debt, and 9% of the total commercial and multifamily mortgage debt outstanding.

"I have been speaking to quite a few people and I've been making some phone calls myself to try to find out what's going on," says Robert White, founder and president of New York-based research firm Real Capital Analytics.

White believes that multifamily investors and lenders should be reassured by the apartment sector's strong fundamentals and solid mortgage history, and by its extremely low delinquency rate. At the end of the first quarter, the

delinquency rate on Fannie Mae's multifamily mortgages was 0.09% and on Freddie Mac multifamily mortgages, 0.04%, according to the MBA. "It's not like the world is ending," White says. "Everybody knows Freddie and Fannie are too big to fail."

A Fannie Mae representative says the agency has no plans to change its role in supporting the apartment industry. "We're committed to the multifamily market," spokesperson Patricia Boerger told National Real Estate Investor. "We're doing deals. Our volume in the first half of this year is larger than it was in the first half of last year. Freddie Mac plans to continue investing and growing in the multifamily mortgage market."

The government is stepping in to keep the marketplace liquid, White notes. And the housing sector is so critically important to the economy that there is little likelihood that the government would take steps that could be detrimental to the industry, even as it assumes a more prominent role in overseeing the agencies. Within Fannie Mae and Freddie Mac, the multifamily portfolios are bright spots that could even hold a key to raising funds for the agencies, White says. "I'm sure they could even securitize many of those loans as a capital-raising effort."

However, the role of Freddie and Fannie going forward isn't the only issue worrying multifamily investors and lenders. The Federal Deposit Insurance Corp (*FDIC*) has issued a list of 90 troubled banks that could potentially fail, just as the once-powerful IndyMac Bancorp recently did. The failure of IndyMac — which issued a number of mortgages for condo conversions, something that Freddie Mac and Fannie Mae avoided — and FDIC's

list have triggered fears that more banks will fail, further eroding liquidity in an already tight credit market.

"I'm sure we're going to see more bank failures. It's going to be painful for those involved, but it's not going to be the big nationals," says White.

Christopher Finlay, co-founder and managing principal of Mission Residential LLC, says his staff has phoned Freddie Mac daily over the past few days. Oakton, Va.-based Mission Residential is a multifamily developer with a portfolio of about \$1 billion in properties. "What we're trying to assess is the availability of financing for multifamily properties," he says. "We certainly want to stay apprised of what the status is."

Finlay has remained optimistic, even as the Bush Administration and the Federal Reserve announced an emergency plan to stabilize the government-sponsored agencies with an increased credit line from the federal Treasury and an offer of new loans directly from the Fed. "We've received nothing but assurances from Fannie Mae and Freddie Mac of their financial health, their ability to continue" sponsoring loans, he says.

"Between the regulators and the Fed being willing to provide additional liquidity, from our standpoint we don't see what the risk is," Finlay says. "But we're not an equity investor, and an equity investor may have a different view on this."

One person who does have a different view is Cliff Mendelson, senior managing director of Bethesda, Md.-based Transwestern's structured finance group, which recently helped

land \$325 million in financing for Solaris Residences, an upscale condominium project in Vail, Colo.

Mendelson believes that after the government-sponsored agencies' leverage problems are repaired to help them operate more like private companies, they ultimately will be privatized — and should be.

His opinion runs counter to the views expressed recently by a number of chief executives of multifamily lending institutions and financial intermediary firms, who told NREI that the agencies have helped bolster the multifamily sector at a time when other commercial real estate segments, such as office and retail, have faltered.

Mendelson counters that when the agencies were set up nearly 40 years ago, it was to foster home ownership, a mission that expanded to include affordable housing. “I don't think they should be government-sponsored enterprises anymore. I think they should be private.”

That may not be likely anytime soon. “You've had government-sponsored enterprises (*GSEs*) as an important part of the multifamily market and I would expect them to continue to be,” says the MBA's Woodwell.

“From my perspective on commercial real estate and commercial real estate finance, the commercial and multifamily mortgages have

been performing extremely well — for banks, for the GSEs and for others. They've been strong assets for those investors in the mortgages,” Woodwell says. “So I think there are a lot of reasons for those investors to continue to look to commercial real estate finance as a place to put their money.”

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