

## Multifamily Mull Implications of GSE Takeover

By Erika Morphy — September 8, 2008  
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**WASHINGTON, DC**—The commercial real estate industry has had 48 hours to absorb the news of the GSEs' conservatorship. The initial assessment--both by the larger global financial community and the commercial real estate industry specifically--is one of cautious approval. Global stock markets have soared as a result of the weekend's news that the Federal Housing Finance Agency is assuming the power of the Board and management of Fannie Mae and Freddie Mac, with rises ranging from 2% in the US indexes, by mid morning, to as much as 4.5% in Europe and Asia.

The Treasury action is also a positive for the US housing market, Mark Zandi, chief economist and co-founder of Moody's Economy.com, told listeners in a conference call this morning. While the measures by themselves "are no silver bullet" for the greater problems troubling the housing and capital market, the Treasury takeover will likely result in lower mortgage rates and increased availability of mortgage credit. "A better capitalized Fannie and Freddie will be empowered to step up their provision of credit," he said.

The multifamily sector, for its part, is busily trying to determine whether these same benefits will filter into their niche of the commercial real estate market. For many that question is still unclear, with several financiers declining to comment for this article for that reason. Fannie Mae and Freddie Mac did not return a call in time for deadline.

"I think it is too early to tell how capital allocation will be effected by the takeover.," Professor Shawn Howton, associate professor of Finance and director of the Villanova School of Business Center for Real Estate, tells GlobeSt.com. "It might stabilize these giants and allow them to better serve their markets. Since the government is providing an infusion of capital to the firms lending through them might not be impacted and price and volume of multifamily deals might improve. It is very hard to tell but the markets seem to be responding very favorably to the news."

There is also a growing body of opinion that, yes, the GSEs' multifamily lending operations will also receive a boost from the conservatorship. "I don't see why multifamily will be different than any other facet of the industry," Matthew Krauser, director of Integra Realty Resources in New York City, tells GlobeSt.com. He predicts that the government action will provide a significant boost with multifamily lending.

"We should see more competitive rates in multifamily as a result," Allan Domb, principal of Philadelphia's Allan Domb Real Estate, tells GlobeSt.com. Spreads in the multifamily sector have widened significantly over the past year, he continues. "Spreads for conduit loans have gone as high as the mid 6% to 7% range. Now, I think they will start to compress."

Much of these benefits will not be realized immediately, Dave Baird, national director for multifamily for Sperry Van Ness, tells GlobeSt.com. "Overall the ability [to finance multifamily] will still be there. The two GSEs have funded huge amounts this year. In the short run, though, I think there will be some confusion and delays." That all said, the multifamily community is understandable nervous about this sea change in government support given the importance the GSEs have to the sector.

When asked whether the government actions will be beneficial to multifamily finance, Doug Bibby, president of the National Multi Housing Council, responded with "we hope so." Probably it will provide a boost in the short run, he tells GlobeSt.com. "However I am most concerned about the effective and efficient functioning of the multifamily market in the long run. Our business is heavily dependent on [the GSEs'] portfolio execution. We hope the government doesn't de-emphasize portfolio execution to the point that it winds up hurting multifamily business."