

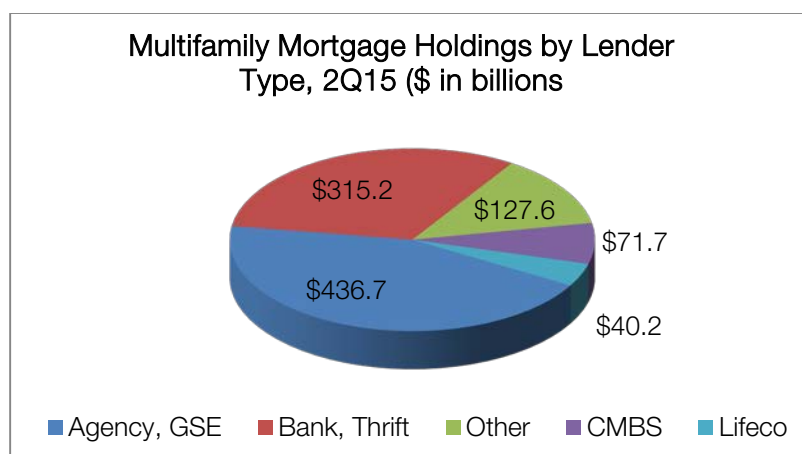
Kudos to GSEs for Focus on Affordable Housing

Paul Fiorilla, Associate Director of Research

The decision to extend the 2015 allocations of Fannie Mae and Freddie Mac, along with the agencies' continued focus on affordable housing, is good news for the multifamily capital market, which has benefited from its uniquely stable debt environment in recent years.

Federal Housing Finance Agency (FHFA) Director Mel Watt recently announced that Fannie and Freddie will each be allocated \$30 billion to lend in 2016, the same as 2015. More importantly, the agencies will be able to exceed the cap for loans on properties that meet criteria as affordable housing or for assets with a sustainable component.

The increased focus on affordability is appropriate, given the state of the market. Stable assets in core and even secondary markets are well served by private lenders. Focusing on affordable housing will help to provide liquidity in secondary and tertiary markets, which are still largely avoided by national lending programs. What's more, as rents mushroom throughout the country and affordability becomes a growing problem for low- and medium-income renters, financing apartments that meet standards of affordability is one of the relatively few options available for policymakers to mitigate the escalating crisis.



Sources: Federal Reserve, Mortgage Bankers Association

Fannie and Freddie have long been a key part of the multifamily market, but their role became even bigger in the wake of the 2008 credit crisis, when the CMBS market dried up and banks severely cut back commercial mortgage originations. Apartments have recovered their value more than other property types and are sold at lower capitalization rates. According to Real Capital Analytics Inc., as of the second quarter multifamily cap rates were at 6.0 percent, compared to 6.6 percent for retail, 6.8 percent for office and 6.9 percent for industrial.

To be sure, multifamily has myriad fundamental advantages compared to other commercial real estate segments. The need for housing, growth in population of the prime renter age, and decline in homeownership have conspired to push apartment vacancies to record lows. However, having a stable source of inexpensive mortgage financing (guaranteed by the government) certainly helps in attracting investors that are flooding the U.S. real estate market in a flight to safety.

"GSEs" are Government-Sponsored Enterprises.