

Primer on Multifamily Housing & Finance

Beekman Advisors - July 31, 2013

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U.S. HOUSING STOCK:

- Share of units occupied by renters continues to grow as homeownership declines
- Renters accounted for 34% of occupied units in 2011, up from 31% in 2005
- Rental market includes single family homes, 2-4 unit buildings, 5+ unit buildings and manufactured/mobile homes
- Multifamily typically defined as 5+ unit buildings
- Single family renter occupied units increased by 31% from 10.5 million in 2005 to 13.8 million in 2011
- Multifamily (5+ units) renter occupied units increased by 5% from 15.2 million in 2005 to 16.0 million in 2011

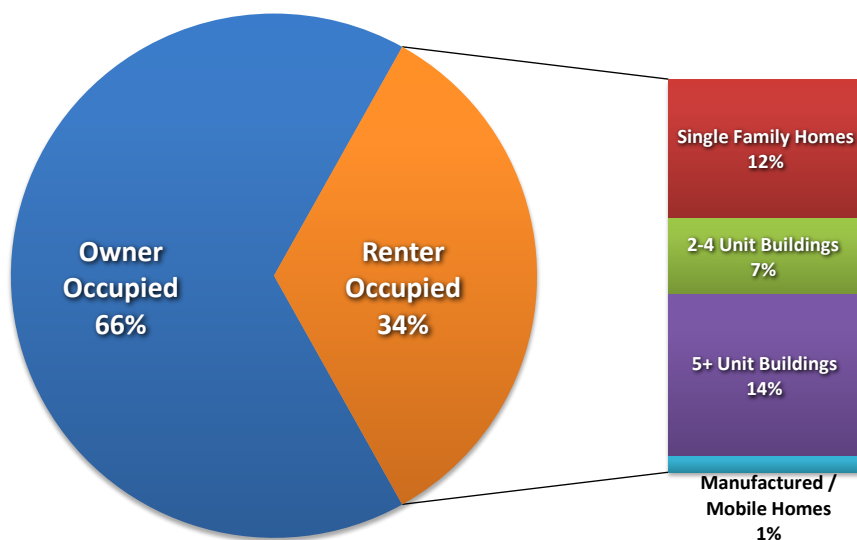
DEMOGRAPHICS:

- Renters have historically been, and continue to be, younger than owners with smaller households, a higher percentage of minorities and lower incomes
- Changes are occurring - rental is growing faster than ownership among older households and the share of renters who are married with children is increasing

MULTIFAMILY PERFORMANCE:

- The Harvard Joint Center for Housing Studies (JCHS) reports the overall rental vacancy rate dropped for three years in a row, reaching 8.7% in 2012 - the lowest figure since 2001
- JCHS pegs rent growth at 2.7% for 2012 - slightly higher than overall inflation (CPI)
- Vacancy rates for professionally managed properties (4.9%) were lower than average and rent increases (3.7%) higher, according to MPP Research 2012 data
- Market capitalization for multifamily REITs totals approximately \$90 billion

Components of U.S. Housing Stock (% of units)



Source: 2011 AHS National Summary Report tables (table C-01-AH)

Housing Market Statistics

	Renter Occupied	Owner Occupied
Unit Count:		
Single Family Homes	13,753,000	66,752,000
2-4 unit Buildings	7,537,000	1,419,000
5+ unit Buildings	16,013,000	2,243,000
Manufactured/Mobile Homes	1,512,000	5,678,000
Total	38,815,000	76,092,000
% of Total Occupied Units	34%	66%
Demographic Information:		
Average Household Size	2.52	2.71
Householder Age (median)	39	54
Minority Households as % of Units	46%	22%
Household Income (median)	\$ 28,000	\$ 58,919
% of Units with HH Income Under \$20k	35%	14%

Source: 2011 AHS National Summary Report tables (tables C-01-AH, C-08-RO, C-09-RO); 2011 American Community Survey 1 Year Estimates

MULTIFAMILY DEBT:

- Debt outstanding on 1-4 family residences and commercial properties has declined annually since 2007/2008, while multifamily debt declined only slightly in 2010 and resumed growing in 2011
- Debt backed by the GSEs (Fannie Mae and Freddie Mac) grew from 25% of multifamily debt outstanding in 2007 to 36% in 2013
- Privately issued commercial mortgage backed securities (CMBS) accounted for 14% of multifamily debt outstanding in 2007, but declined to 8% in 2013
- The GSE's share of annual multifamily debt originations grew from 25% prior to the financial crisis to 70% in 2009; it has begun to decline since as other capital sources re-emerge

CHARACTERISTICS:

- Typically 7-10 year term debt, except for FHA and specialty products
- Debt for properties financed with Low Income Housing Tax Credits typically have 15 to 18 year terms
- Usually features balloon maturities, which require refinancing at regular intervals
- Property renovations are often done in conjunction with refinancing
- Largely fixed rate
- Considered "B2B" as multifamily debt is backed by income producing assets operated as a business
- Loan servicers have responsibility for processing debt assumptions, reserve releases and other matters, in addition to processing payments
- Requires active asset management for life of loan, including inspections and financial reviews

DEBT PERFORMANCE:

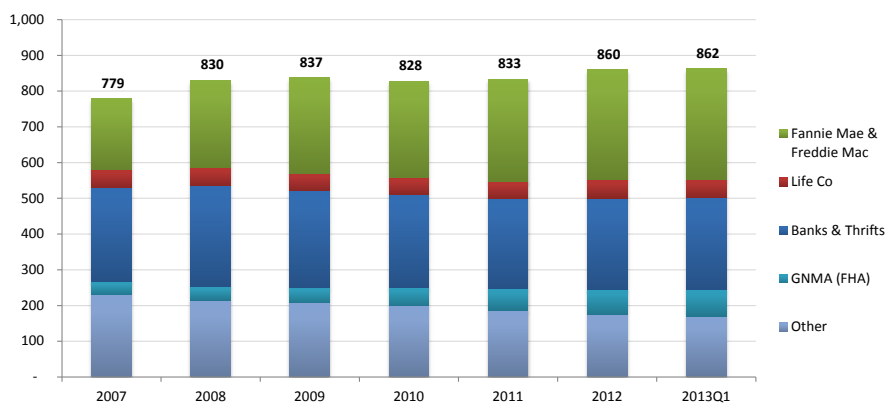
- GSE multifamily debt has outperformed the market, with consistently low delinquency rates
- CMBS delinquency rates elevated due in part to differences in methodology; CMBS includes foreclosed properties while others do not, and CMBS measures delinquencies at 30 days versus 60 or 90 days

Total Mortgage Debt Outstanding (\$ in billions)

	2007	2008	2009	2010	2011	2012	2013Q1
1-4 Family Residences	11,230	11,141	10,929	10,424	10,168	9,920	9,859
Multifamily Residences	779	830	837	828	833	860	862
Other (Commercial & Farm)	2,594	2,723	2,626	2,486	2,411	2,377	2,357
Total Mortgage Debt Outstanding	14,603	14,694	14,392	13,739	13,412	13,156	13,079

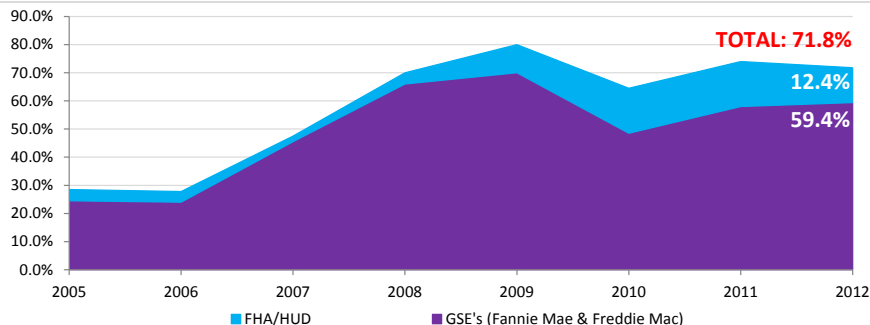
Source: Federal Reserve Mortgage Debt Outstanding Historical Data

Multifamily Mortgage Debt Outstanding (\$ in billions)



Source: Federal Reserve Mortgage Debt Outstanding Historical Data

FHA/HUD and GSE Multifamily Debt Originations (% of Total U.S. Multifamily Debt Originations)



Source: Invesco presentation to Bipartisan Policy Center Housing Commission Forum

Multifamily Debt Delinquency Rates by Investor

Year-End	CMBS (30+ days & REO)	Life Co* (60+ days)	FNMA (60+ days)	Freddie Mac (60+ days)	Banks & Thrifts (90+ days)
2005	1.58%	0.05%	0.27%	0.00%	0.25%
2006	0.89%	0.02%	0.08%	0.05%	0.53%
2007	1.24%	0.01%	0.08%	0.02%	0.76%
2008	2.77%	0.07%	0.30%	0.01%	1.77%
2009	8.24%	0.19%	0.63%	0.20%	4.43%
2010	16.48%	0.19%	0.71%	0.26%	3.78%
2011	15.57%	0.17%	0.59%	0.22%	2.52%
2012	13.98%	0.08%	0.24%	0.19%	1.55%

Source: CMBS data from Trepp, LLC; Life Co. data from Mortgage Bankers Assoc. (includes both commercial and multifamily); Fannie Mae and Freddie Mac data from Mortgage Bankers Assoc.; Bank & Thrift data from FDIC.

*Note: Life Co. delinquency rates include both multifamily and commercial mortgages