Lender Update

For the multifamily market Freddie and Fannie continue to dominate the market as does HUD. Banks are erratic with some lending, but most keeping their powder dry and only lending to existing relationships, if they are lending at all. The rebirth of CMBS is a slow process and won't be a viable choice for most borrowers for months if not years. Finally life companies are back, but only for larger high quality loans. So what's an apartment owner to do?

One of the clearest signs that things are difficult is shown in Fannie Mae's announcement of first half production. They are probably the biggest multifamily lender in the market and their volume is down by about 41.5% from the same period in 2009. Don't forget the 2009 was down about 50% from 2008 first half numbers. So the lender with the largest market share has seen their volume drop by 75% in 2 years. That means other lenders have reduced volume by a greater percentage. The pie is probably 20% of what it was in 2008. The only way that happens is if most of the properties that fit into the pie are just left out and have no place to go.

During the last month most lenders have not changed their lending posture, criteria or process. HUD did finally issue its new changes (see recent blog post), but most of that was pre-announced and not a big surprise. There were some changes within the agency lenders with respect personnel, but that just inside baseball items and does not really effect borrowers. The only significant change from agency lenders is that their spreads continue to change. Freddie and Fannie DUS spreads have gone down 5-15 Bps in the last month.

For borrower the players remain the same. If you have a good quality property and are looking for a loan over $4 million you need to get quotes from both Freddie and Fannie and if you have a loan over $10 million you should also check on life companies also. For smaller properties the choice remains banks or the Fannie. The best rates are with Fannie, but they have a yield maintenance prepayment restriction. The banks are more flexible, but hard to find. You need to shop widely or use an experienced broker to find the right bank for your loan.

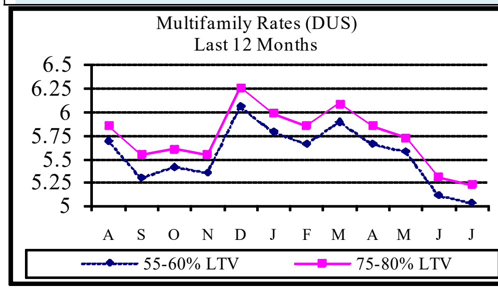
Rate Update

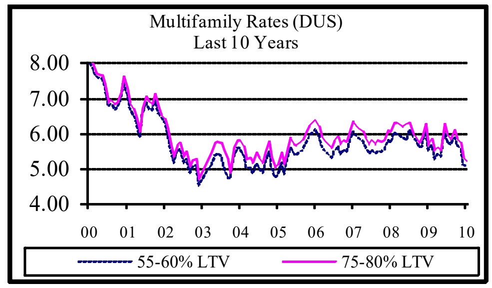
Rates continue to drop and I wonder if it's going to stop. Over the last month short and medium term treasury rates have dropped and long term rates have stayed steady. There have been some good treasury auctions and most importantly, at least from a rate perspective, the economic news has been weak. Today's lower than expected GDP number and some comments from Fed members are fueling thoughts of deflation or at least a double dip recession. Under those circumstances the Fed will keep short term rates low for the "extended time period" they announced and maybe longer. There is also a good chance that they will even do additional stimulus through buying of securities or tinkering with various bank rates pushing rates even further down.

However, with all this positive rate news (negative economic news) we have to take a step back. There are still good things going on in the economy especially in corporate profits that may turn the sentiment of the Fed. Additionally there is that issue that at some point the world might not want to buy more Treasury bonds which will certainly drive rates up. Most importantly a historical perspective on multifamily rates makes us think we are at or near the low point for rates. My records (chart to the right) of Fannie Mae rates show a low point of 4.72% for a fully leveraged 10 year loan. That's only a ¼% below today's levels.

On a more practical level these great rates are only really available for some borrowers. Those that fit the agency model or can get a loan from one of the stronger banks. For most borrowers it's still difficult to borrower with lenders wanting unusually strong borrower balance sheets and properties with moderate leverage. This is especially difficult with today's appraised values.

Remember pigs get fat and hogs get slaughtered so I will repeat my message from last month. I can't stress enough how low current rates are with Freddie and Fannie. It takes 30-45 days to get into position to lock a rate so if you fit the agency model and can refinance your loan, start the process now otherwise you may miss this opportunity.





Key Rate Indices	Current	Last Month	Change
6-mo. Libor	0.67%	0.75%	- 8 Bps
1- yr Libor	1.04%	1.17%	- 14 Bps
Prime	3.25%	3.25%	-
Fed Funds	0.25%	0.25%	-
1 year CMT	0.30%	0.31%	- 1 Bps
5-Yr Treasury	1.62%	1.78%	- 16 Bps
10-Yr Treasury	2.91%	2.92%	- 1 Bps

Current Apartment Rates	5-Year	10-Year
Freddie Mac	4.75%-5.50%	4.70%-5.50%
Fannie Mae	4.00%-5.00%	4.70%-5.75%
FHA/HUD	4.25% - 6.00%	
Life Co's	4.50%-6.00%	5.00%-6.50%
Banks	5.00%-7.00%	N/A

Recent Blog Post:

HUD issues new multifamily rules, finally -Earlier this month HUD issued their new multifamily rules. These were previewed at the CFEF/MBA meeting earlier this year and have been much disused since. The full announcement