Market Insights on Community Development

September 16, 2014

Fannie Mae Multifamily Outlook

FannieMae

Kim Betancourt
Fannie Mae Multifamily Mortgage
Director of Economics and
Multifamily Market Research

FannieMae

Tanya Zahalak
Fannie Mae Multifamily Mortgage
Real Estate Economist
Multifamily Market Research

Citi Community Capital

Mark Dean
Citi Community Capital
Managing Director, National
Production Manager

Your Webinar Host

Mark Dean, Citi Community Capital, National Production Manager

Citi Community Capital

Mr. Dean has over 27 years of experience providing investment banking and mortgage banking services to real estate developers and corporate sponsors. He specializes in financing multifamily housing using Private Activity Bonds, both enhanced and unenhanced, for public housing authorities, affordable housing developers, and senior housing providers. Mr. Dean works with both for-profit and not-for-profit organizations to finance projects such as affordable housing developments, senior living facilities, and market rate housing.

Mr. Dean has provided acquisition, construction and permanent financing for a wide variety of multifamily housing, senior housing, not-for-profit facilities. In addition to these types of financing Mr. Dean has executed current, advance and taxable refundings of existing bond and real estate debt. His experience includes both public offerings and private placements. His broad range of experience with loan products and debt credit enhancements includes conventional financing vehicles as well as bond insurance, contingent loan agreements, FHA mortgage insurance programs, GNMA MBS, Fannie Mae MBS, letters of credit, and collateral pledges. In addition, Mr. Dean is an expert on the use of low-income housing tax credits to finance multifamily apartments.

Q&A

Send Questions to AskCitiCommunityCapital@citi.com or

Follow instructions from the Operator - Press *1 for the operator to open your line.

- This will enter you into the queue to ask a question

From Fannie Mae

Kim Betancourt, Director of Economics and Multifamily Market Research

FannieMae

Current Responsibilities:
Kim Betancourt is Fannie Mae's Director of Economics and Multifamily Market Research. She manages a team of real estate economists that focus exclusively on the multifamily sector. Ms. Betancourt is responsible for analyzing current economic conditions at both national and local levels, determining their impact on the multifamily sector, and identifying future trends.

Experience:
Before joining Fannie Mae, Ms. Betancourt was a Senior Vice President at GMAC Institutional Advisors and managed the Realpoint senior analytical research team. Prior to GMAC, Ms. Betancourt was a Director in the Structured Finance department of Standard & Poor's and headed up the Servicer Evaluations Group. She has also held leadership positions with Citicorp and Midlantic National Bank.

Education:
Ms. Betancourt holds both a Master of Arts and a Bachelor of Arts with honors from Rutgers University.

From Fannie Mae

Tatyana (Tanya) Zahalak, Real Estate Economist

FannieMae

Current Responsibilities:
Tanya Zahalak is a real estate economist focusing on the multifamily sector. She follows multifamily markets at the MSA level with an eye toward determining multifamily market trends and supply/demand imbalances. In addition, Ms. Zahalak is the Multifamily Mortgage Business' affordable housing economist. In this capacity, she is responsible for analyzing economic conditions at both national and local levels and determining their impact on multifamily subsidized affordable housing. Publications include "Despite an Increase in Supply, Fewer Affordable Rentals" and "Is the Development and Design of Multifamily Housing in Line with Recent Trends."

Experience:
Ms. Zahalak has been with Fannie Mae for over 15 years in a variety of roles and has experience in both single and multifamily housing including pricing and product development.

Education:
Ms. Zahalak received a B.A. in Applied Math from Washington University in St. Louis and a Masters in Finance from Johns Hopkins University.

Multifamily Market Outlook

Kim Betancourt

Tanya Zahalak

Multifamily Economics and Market Research
Multifamily Mortgage Business

September 2014

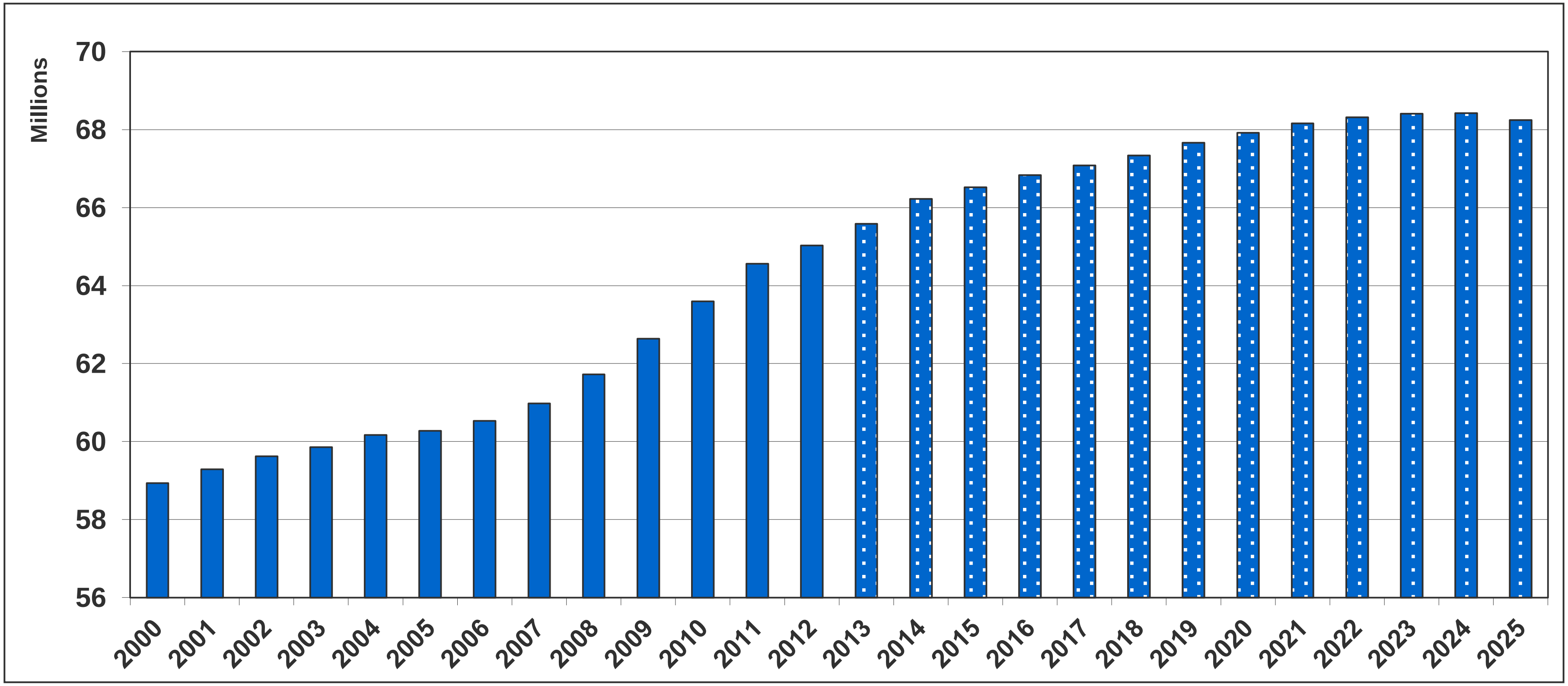
"I need someone well versed in the art of torture—do you know PowerPoint?"

Source: The New Yorker

Real Estate Fundamentals: Demographics Favorable

Demographics are in Multifamily's favor over the long-term, especially in the younger aged cohort…

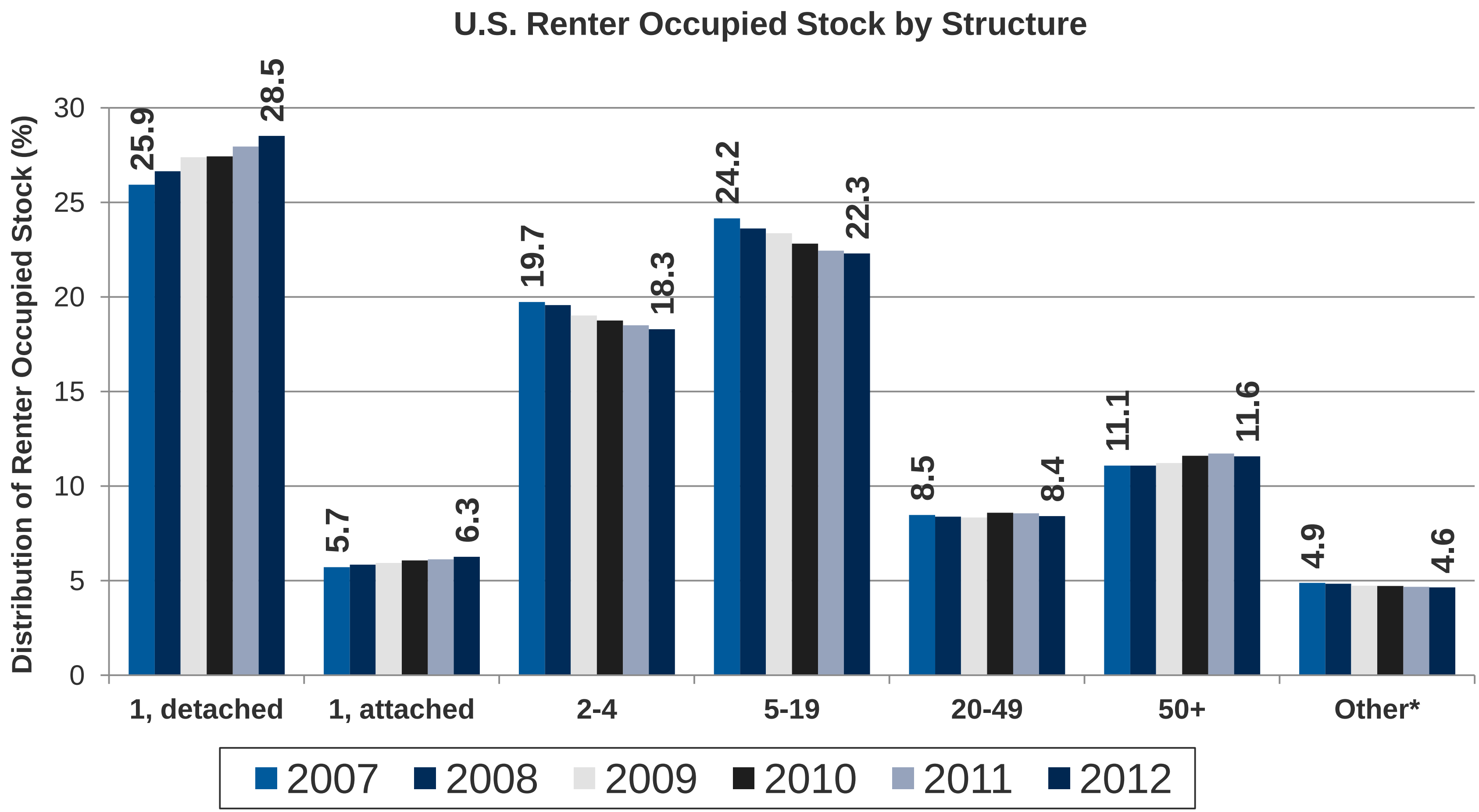
U.S. Renter Population: Age 20-34 Cohort



Source: U.S. Census, Fannie Mae

Real Estate Fundamentals: Demographics Favorable

…and even though there are more 1- 4 unit rentals than 5+ unit rentals...

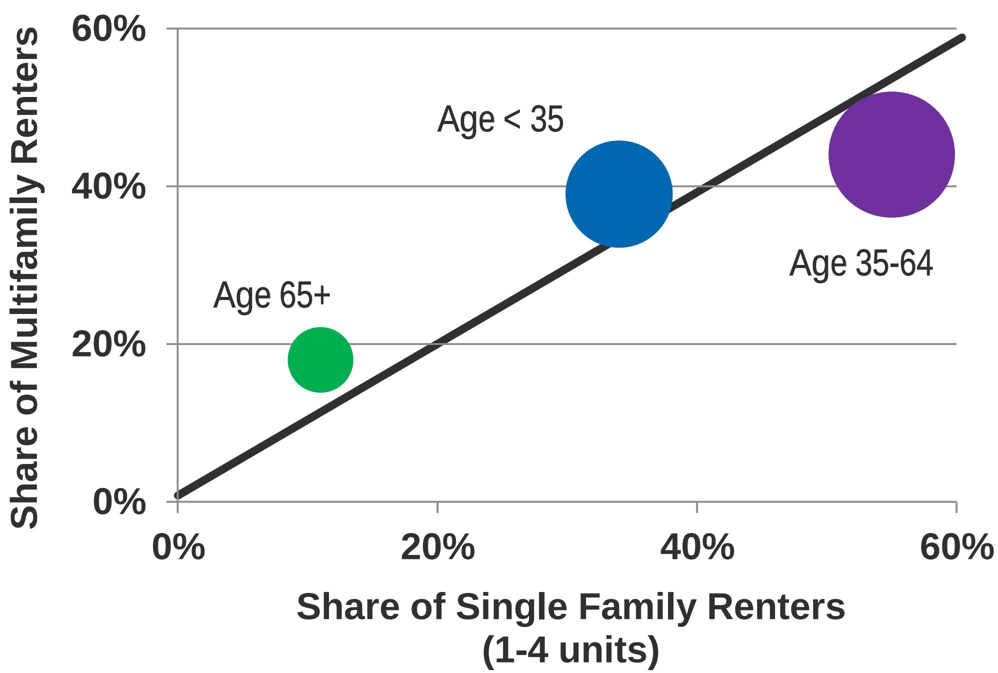


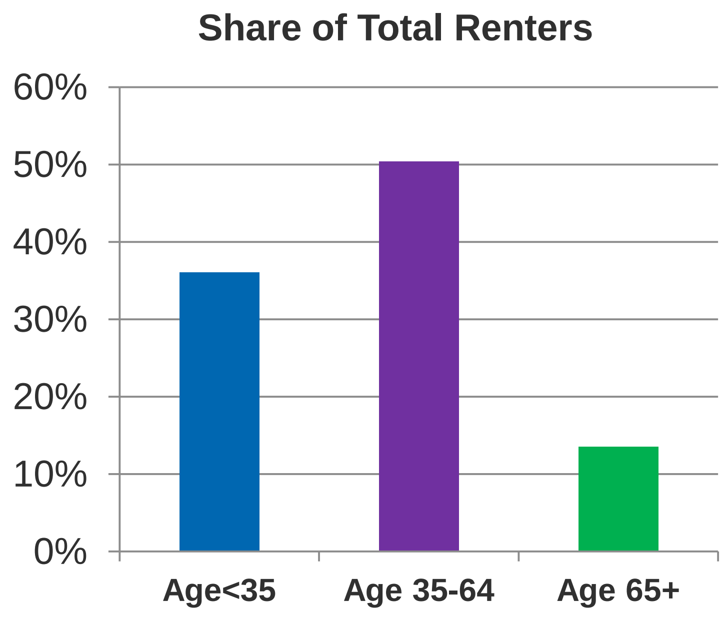
Source: Census Bureau

* *Other includes manufactured/mobile homes, boats, RVs, vans etc.*

Real Estate Fundamentals: Demographics Favorable

… renters aged 35-64 prefer single family dwellings and younger renters prefer multifamily dwellings.





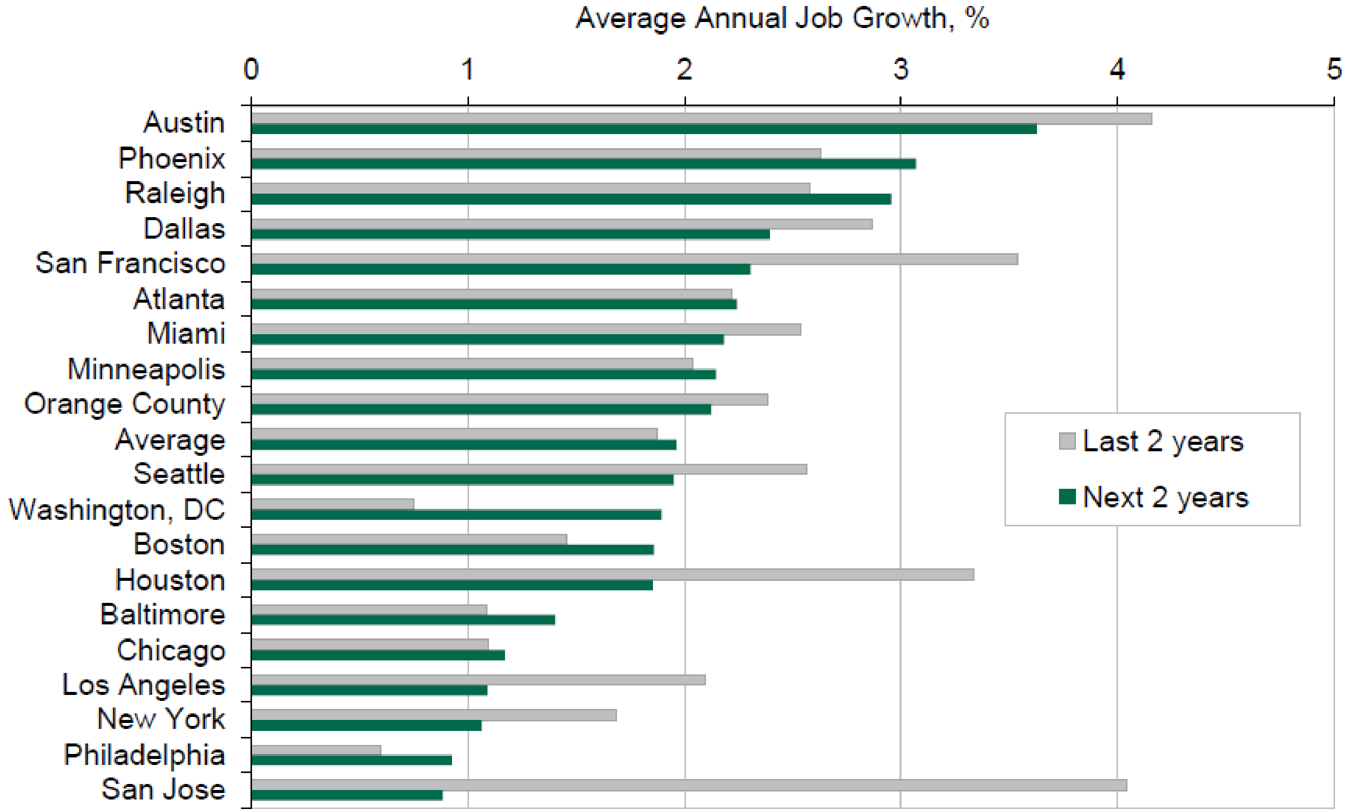
*Dot width is proportionate to number of renters represented by each age group

Sources: 2012 American Community Survey

Real Estate Fundamentals: Employment Growth Positive

Many metros will keep seeing job growth, although at a slower pace over the next two years.

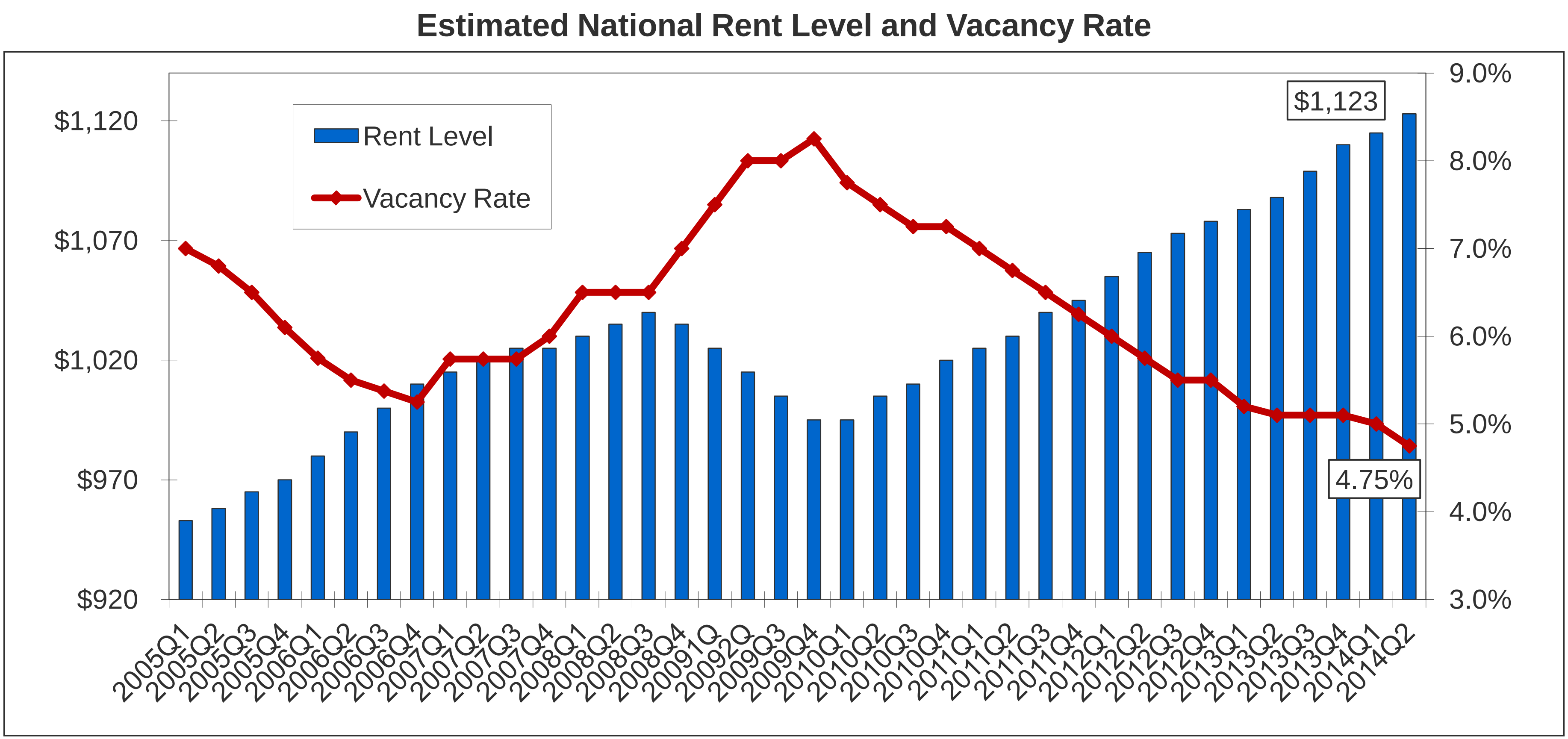
Change in Employment – Select Metros



Source: CBRE-EA, 2Q2014

Real Estate Fundamentals: Rental Demand Stable

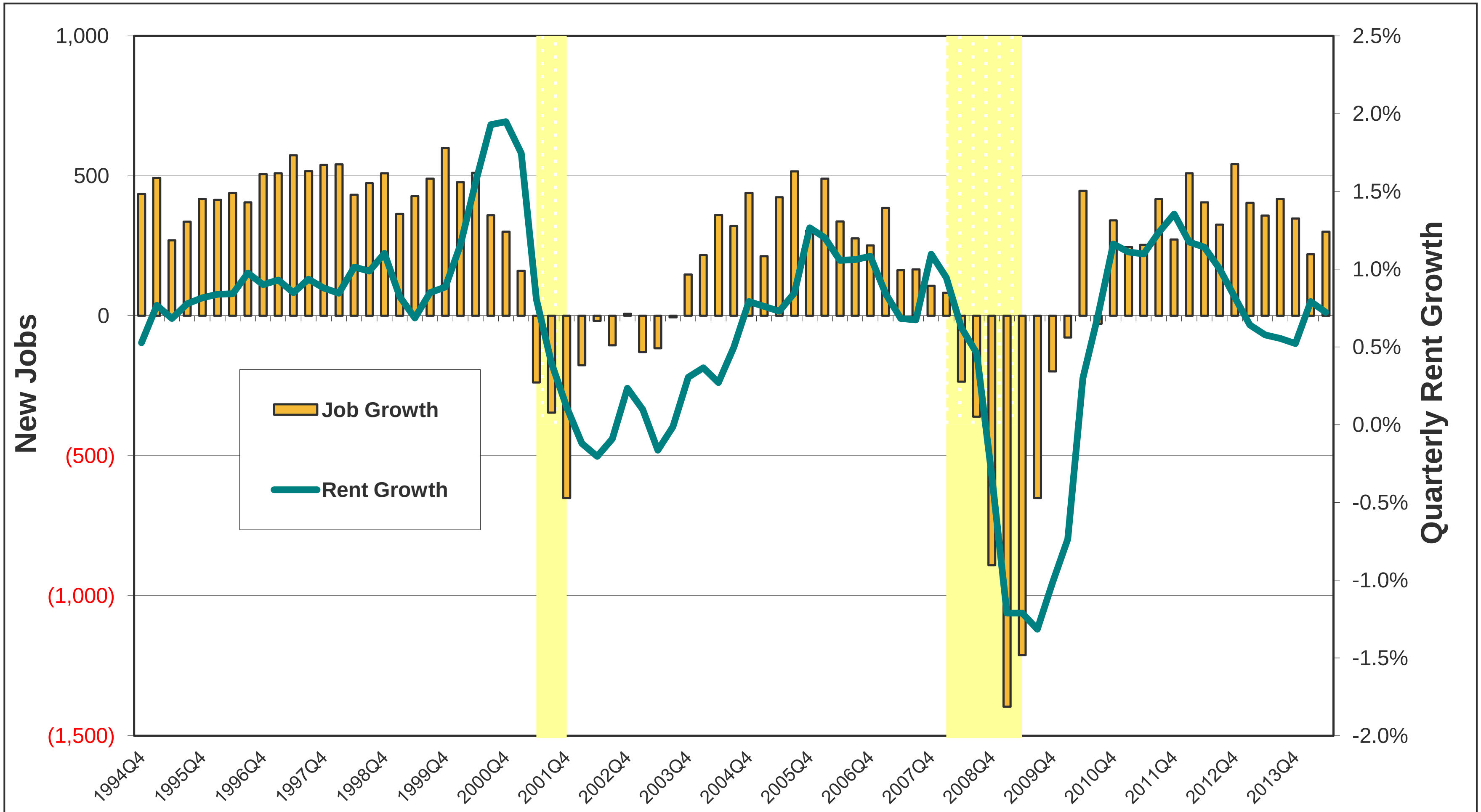
National estimated multifamily vacancy rates are at their trough…



Source: Fannie Mae Multifamily Economics and Market Research Estimates

Real Estate Fundamentals: Rental Demand Stable

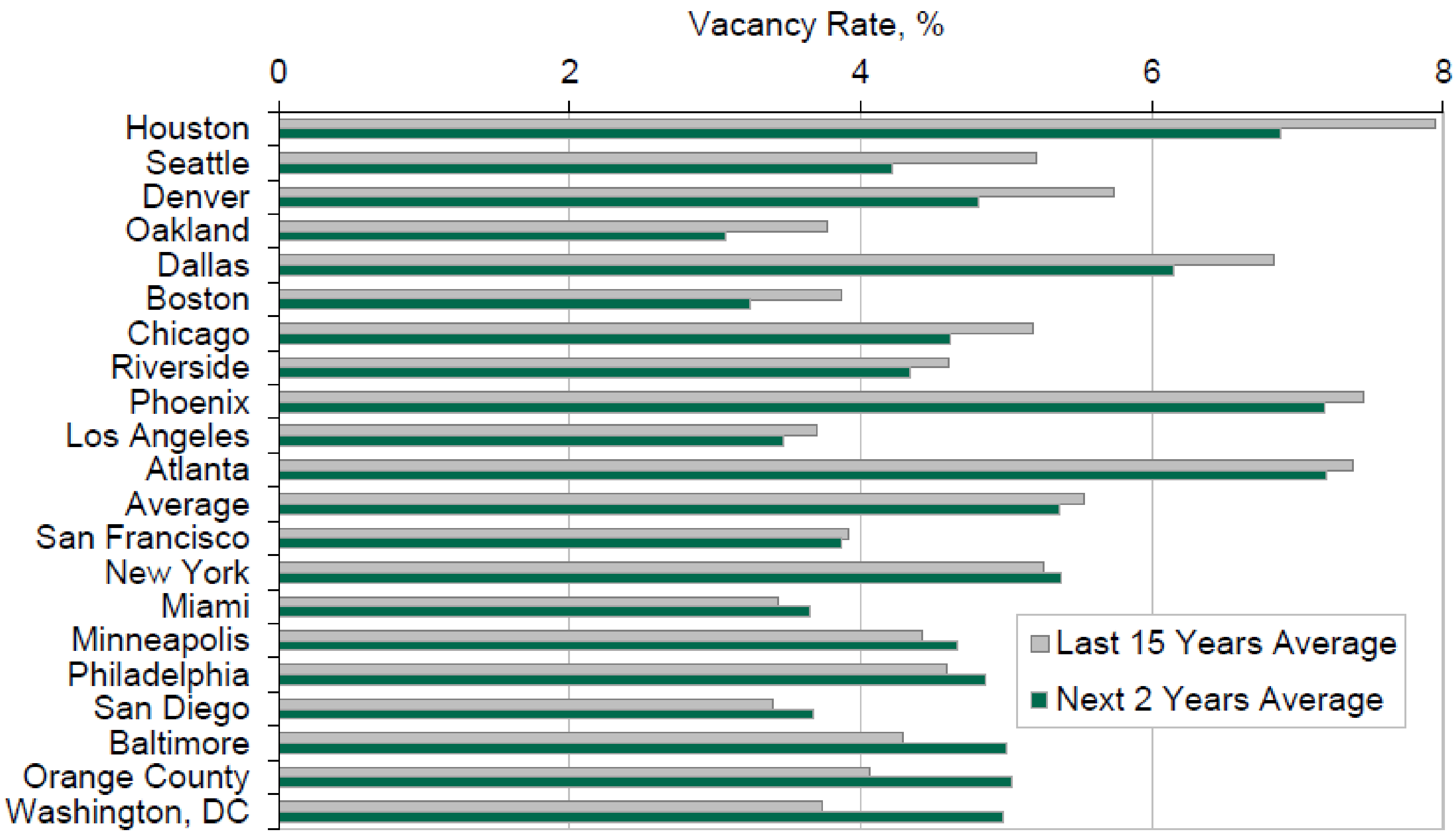
… keeping rent growth positive for nearly *four years* now…



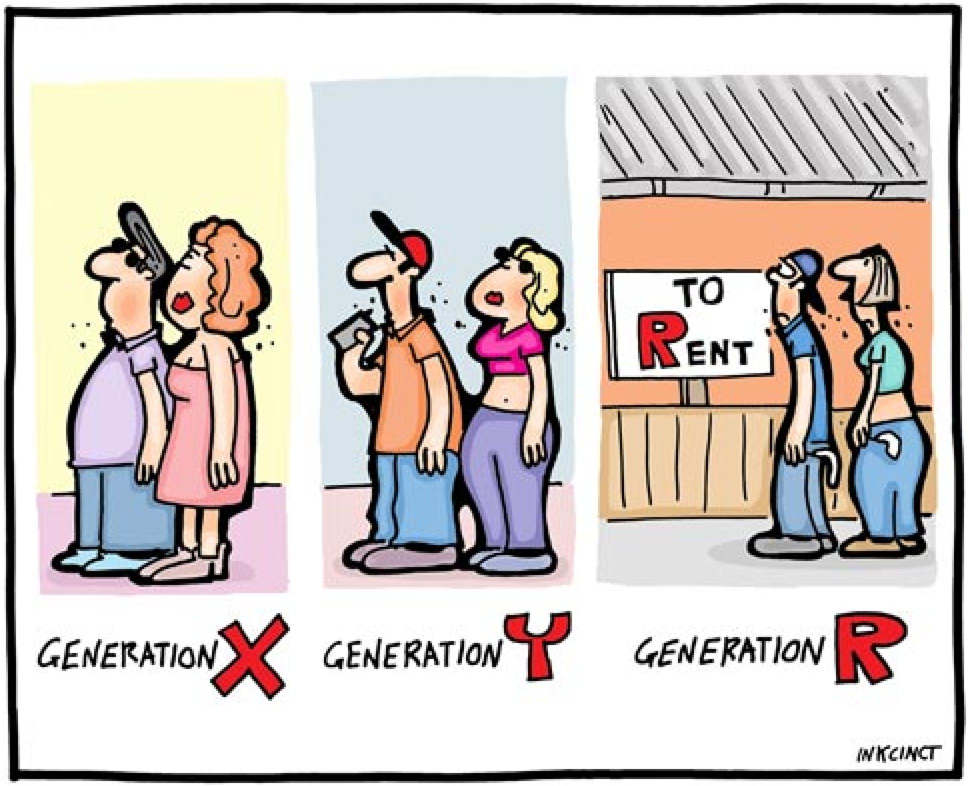
Source: CBRE-EA – Recessionary quarters shaded in yellow.

Real Estate Fundamentals: Rental Demand Stable

… with many metro-level vacancies expected to remain below their historic averages.

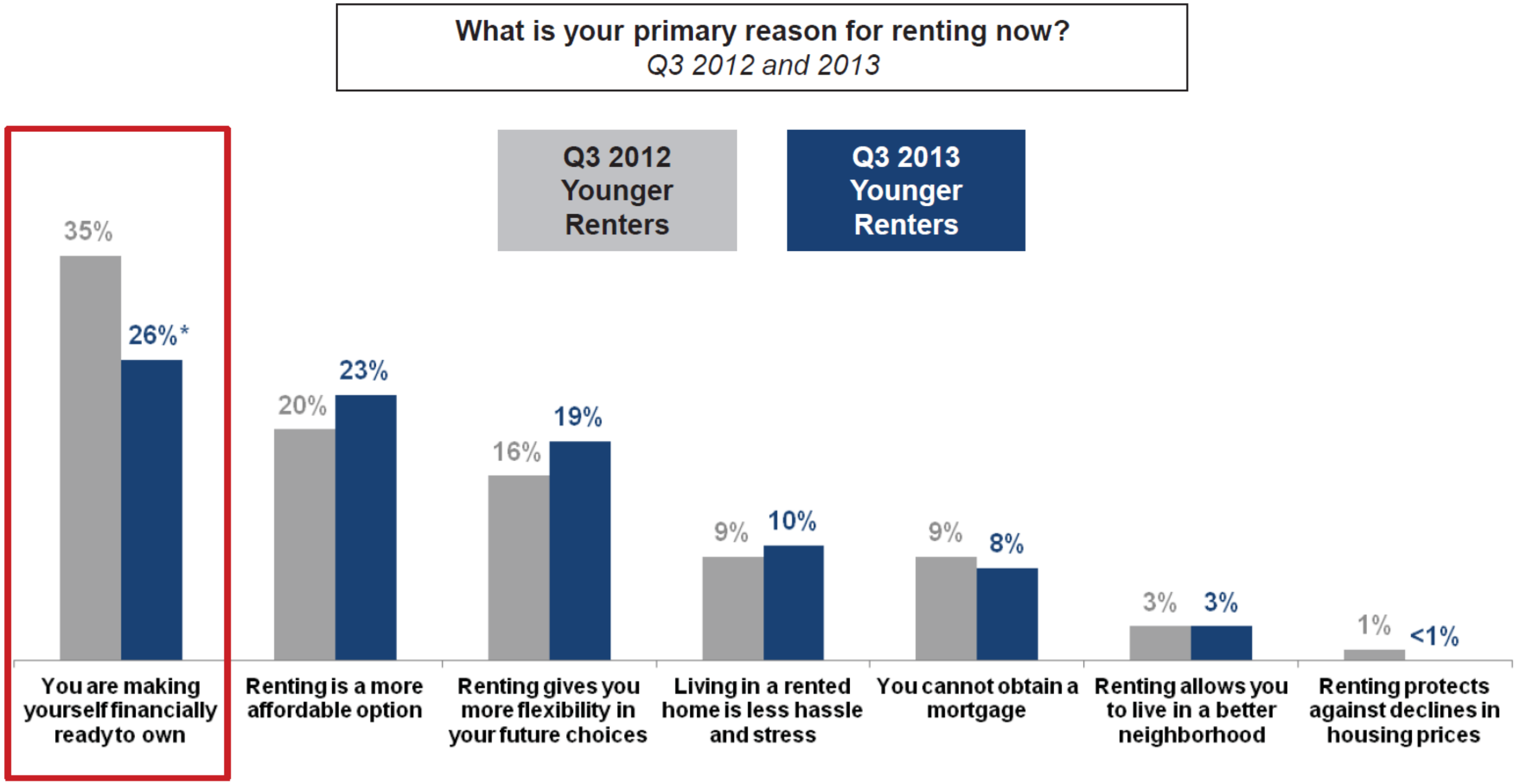


Source: CBRE-EA, 2Q2014


TO
RENT
GENERATION X
GENERATION Y
GENERATION R
INKCINCT

Real Estate Fundamentals: Rental Demand Stable

Most younger renters still want to own a home -- at least someday…



Source: Fannie Mae National Housing Survey, May 2014

* Denotes a statistically significant difference between younger owners and younger renters from 2012 to 2013 at the 95% confidence level

Real Estate Fundamentals: Rental Demand Stable

… and believe homeownership is a good financial investment.

- 76% of younger renters think owning makes more sense because you're protected against rent increases and owning is a good investment over the long term

Which is closer to your view?
Q3 2012 and 2013

Renting makes more sense because it protects you against house price declines and is actually a better deal than owning

Owning makes more sense because you're protected against rent increases and owning is a good investment over the long term

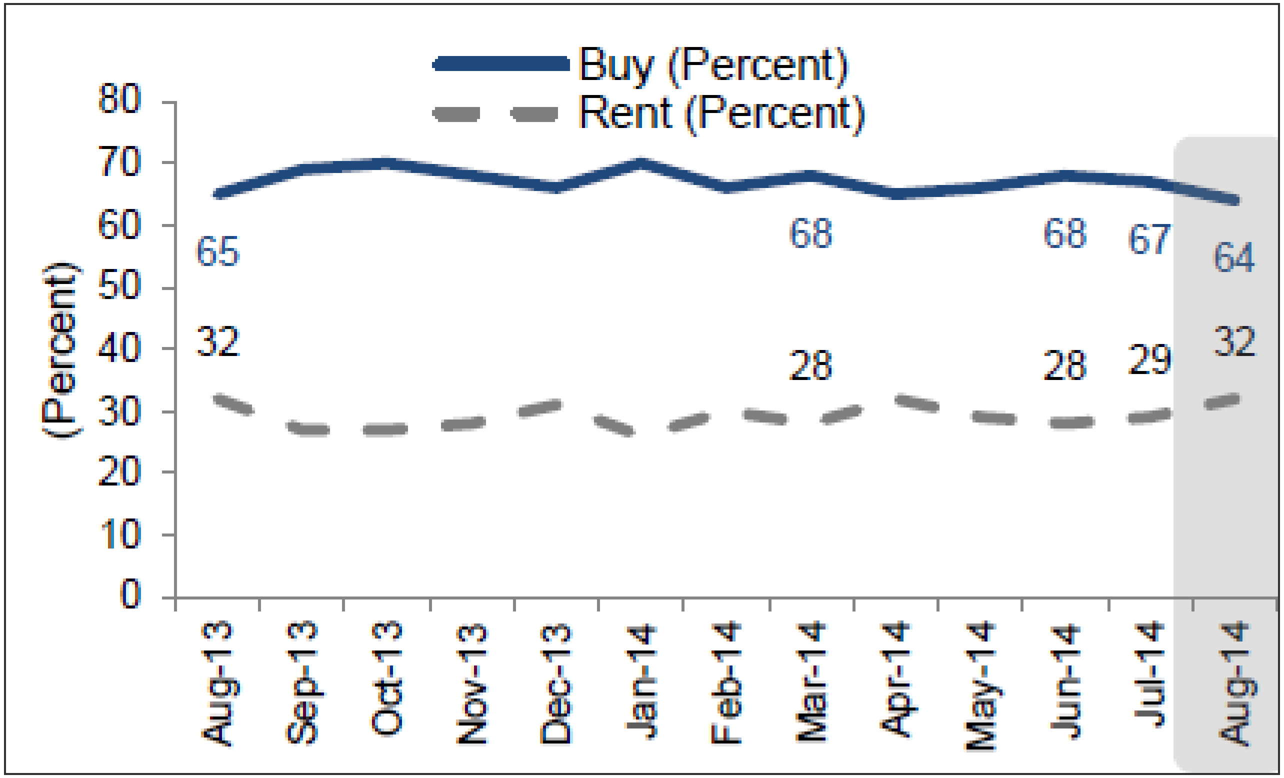
Source: Fannie Mae National Housing Survey, May 2014

* Denotes a statistically significant difference between younger owners and younger renters from 2012 to 2013 at the 95% confidence level

Real Estate Fundamentals: Rental Demand Stable

Nevertheless, it seems that many tenants plan to keep renting…

Share of respondents who say they would…if they were going to move



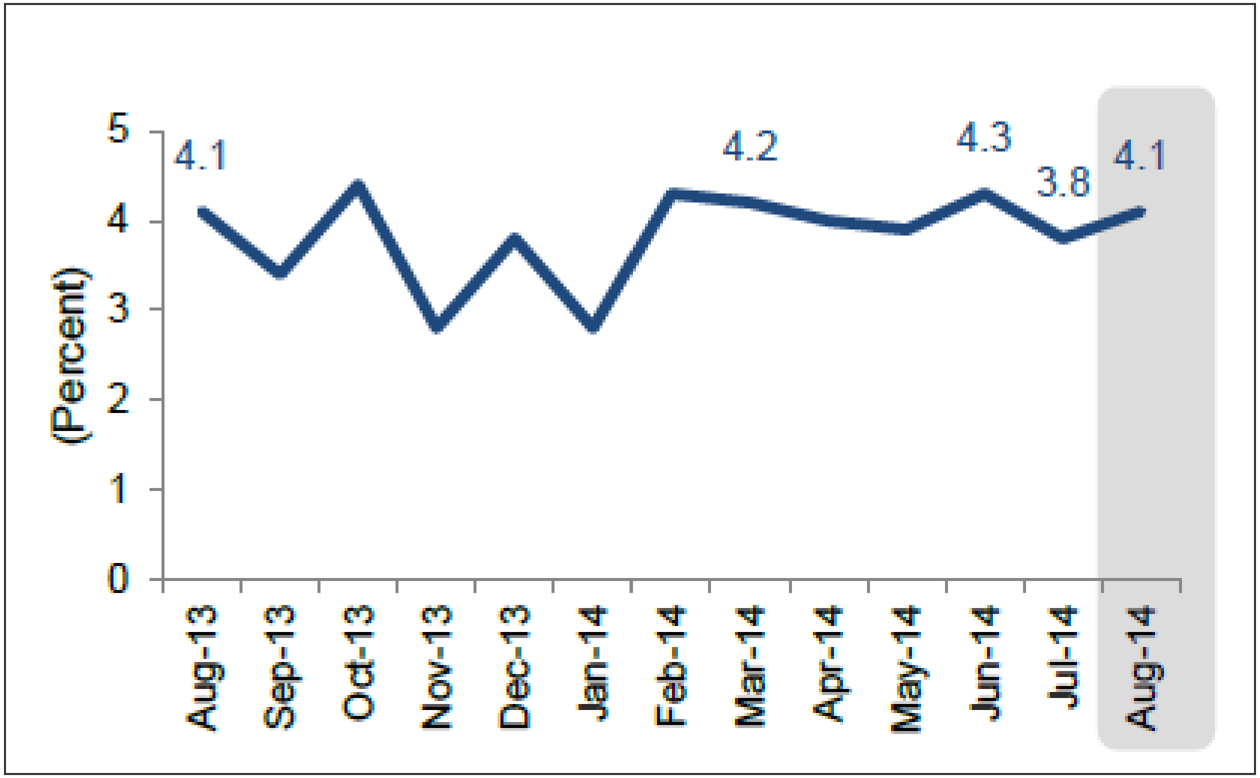
Source: Fannie Mae National Housing Survey, August 2014

Real Estate Fundamentals: Rental Demand Stable

… even though they are anticipating rent increases higher than forecasted...

Average 12 Month Rental Price Change Expectation

(Percent)

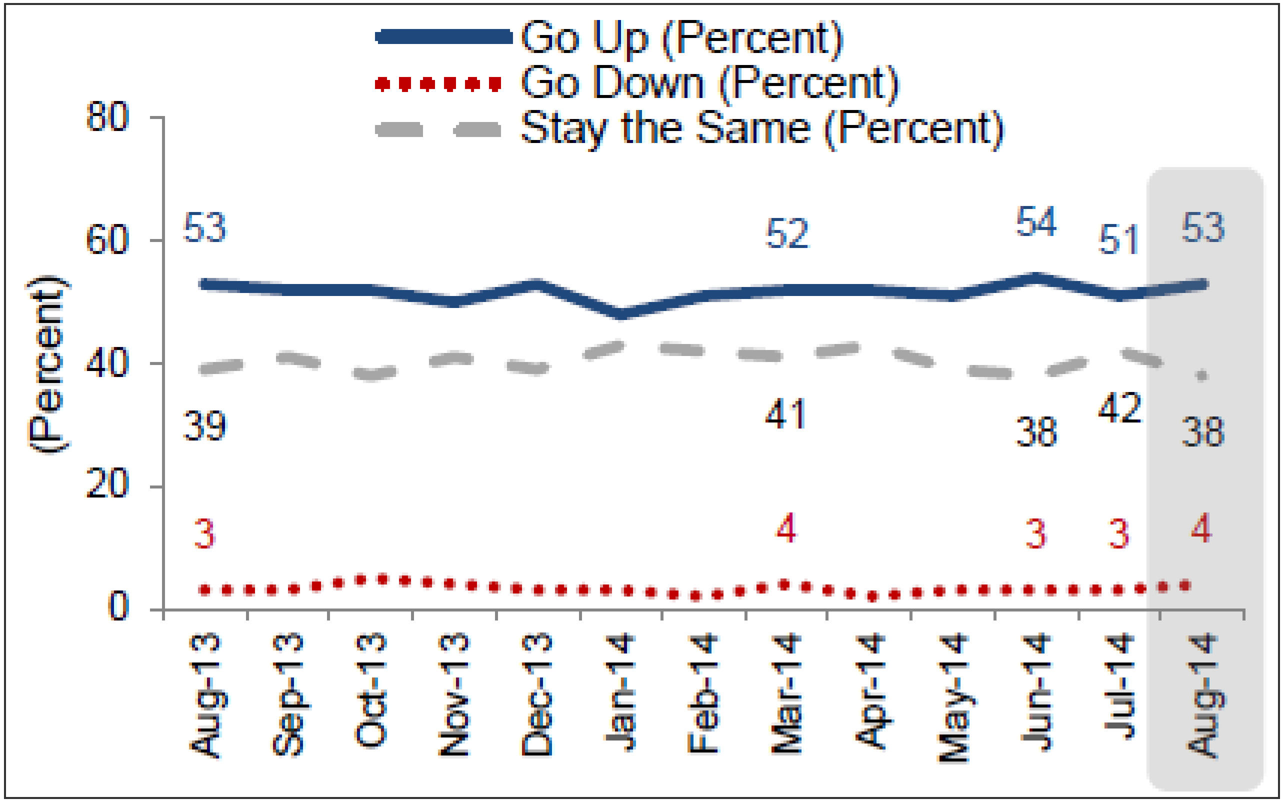


Source: Fannie Mae National Housing Survey, August 2014

Real Estate Fundamentals: Rental Demand Stable

… and expect rental prices to keep rising over the next 12 months.

Share of respondents who say home rental prices will…in the next 12 months



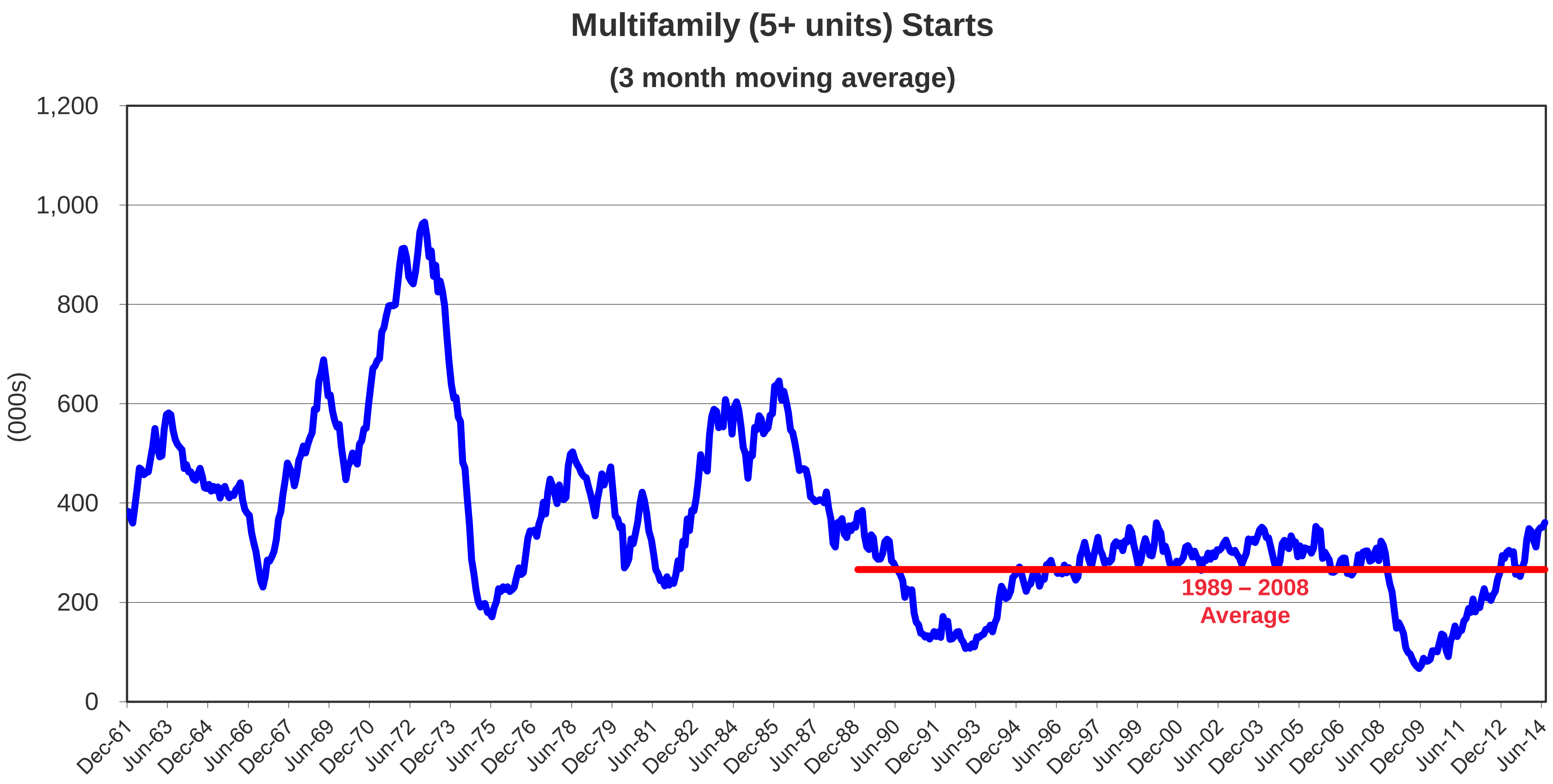
Source: Fannie Mae National Housing Survey, August 2014

"We decided to convert it into 'high-density' housing."

Source: The New Yorker

Real Estate Fundamentals: Rental Supply and Demand

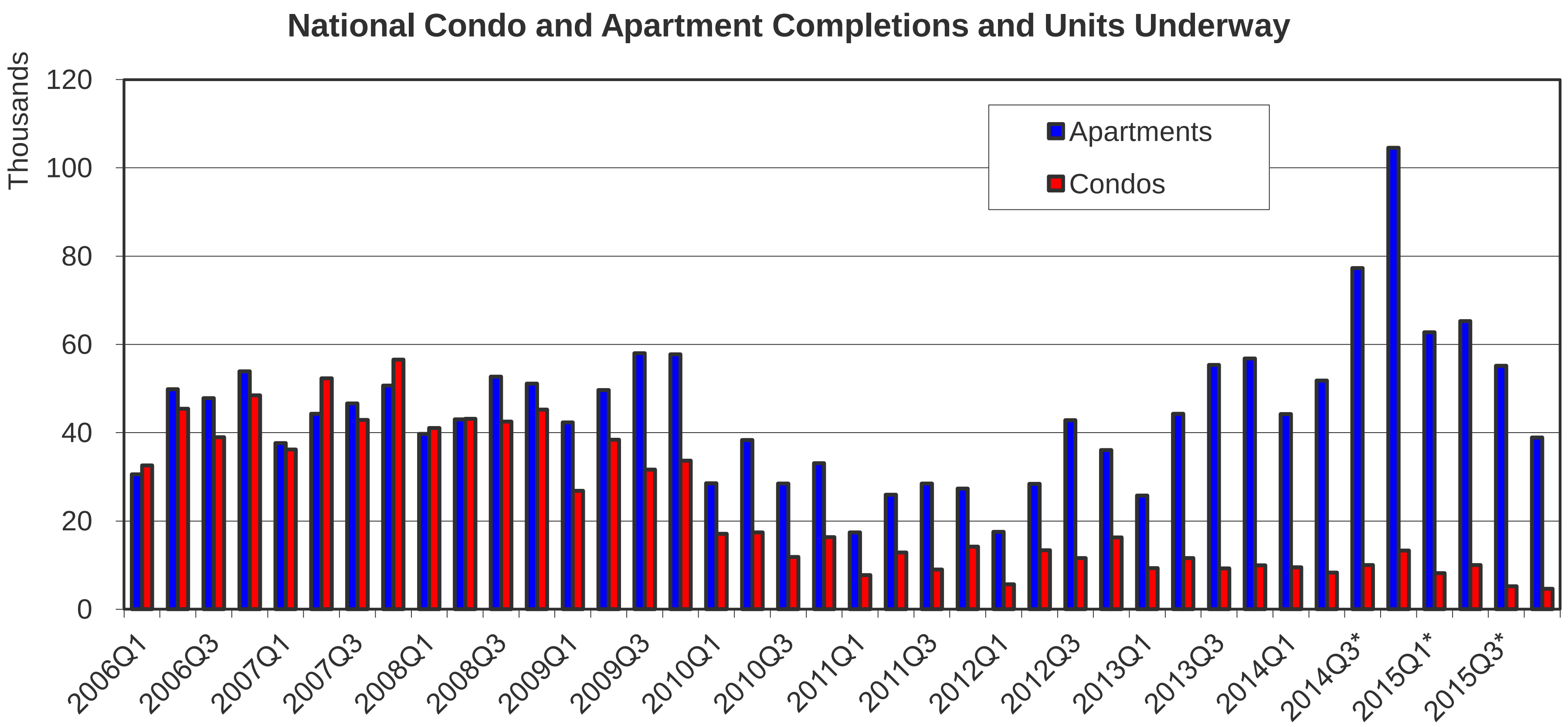
Multifamily starts are slightly ahead of historically average levels…



Source: U.S. Department of Commerce, Bureau of the Census, per Haver Analytics DLX

Real Estate Fundamentals: Rental Supply and Demand

… with the number of multifamily projects underway rising quickly…



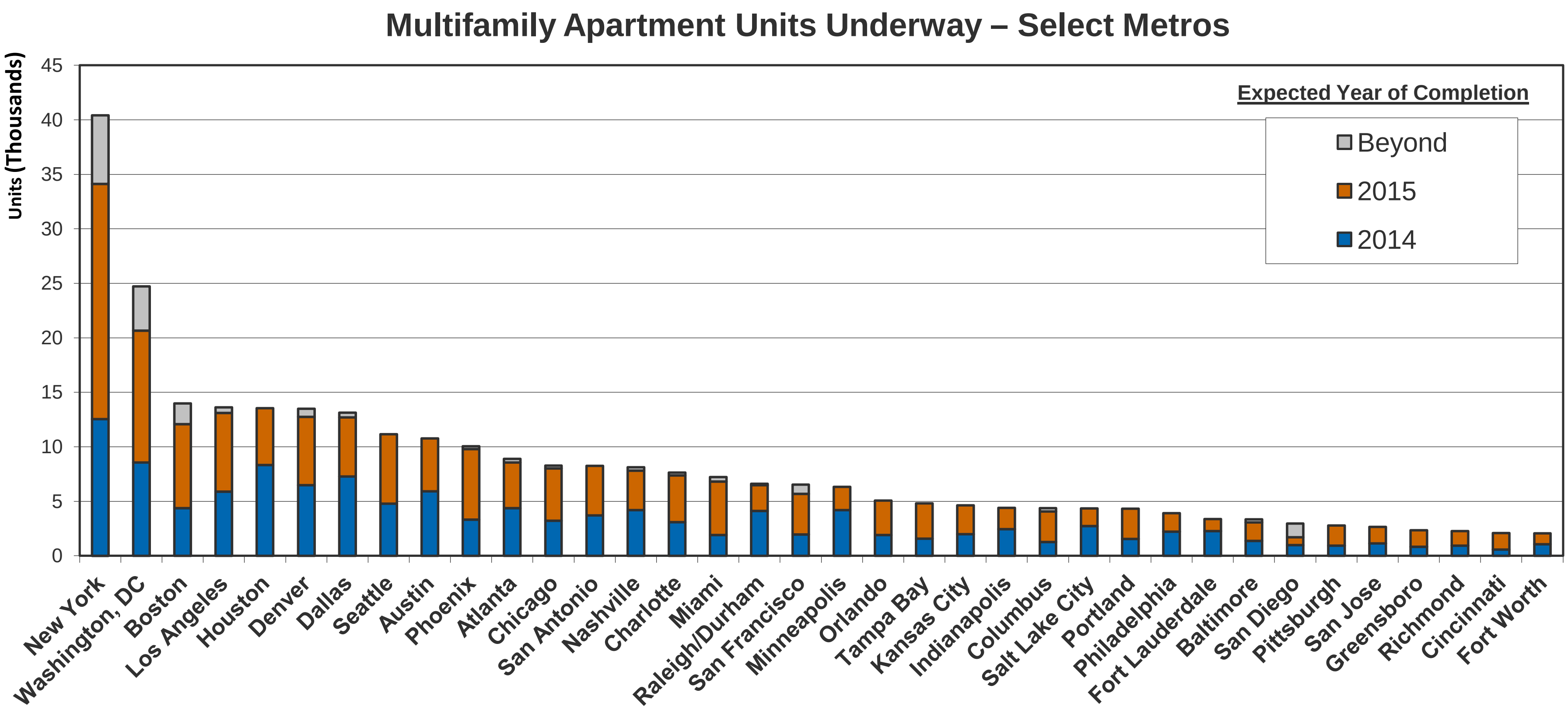
Source: CBRE-EA/Dodge Pipeline, July 2014

** Anticipated completion date*

NOTE: Pipeline data is not an actual forecast of activity, it is a monitor of activity reported on to-date. As more projects are planned and tracked, figures in future periods might go up.

Real Estate Fundamentals: Rental Supply and Demand

… but there are really only a few metros that have a significant number of completions coming online soon.

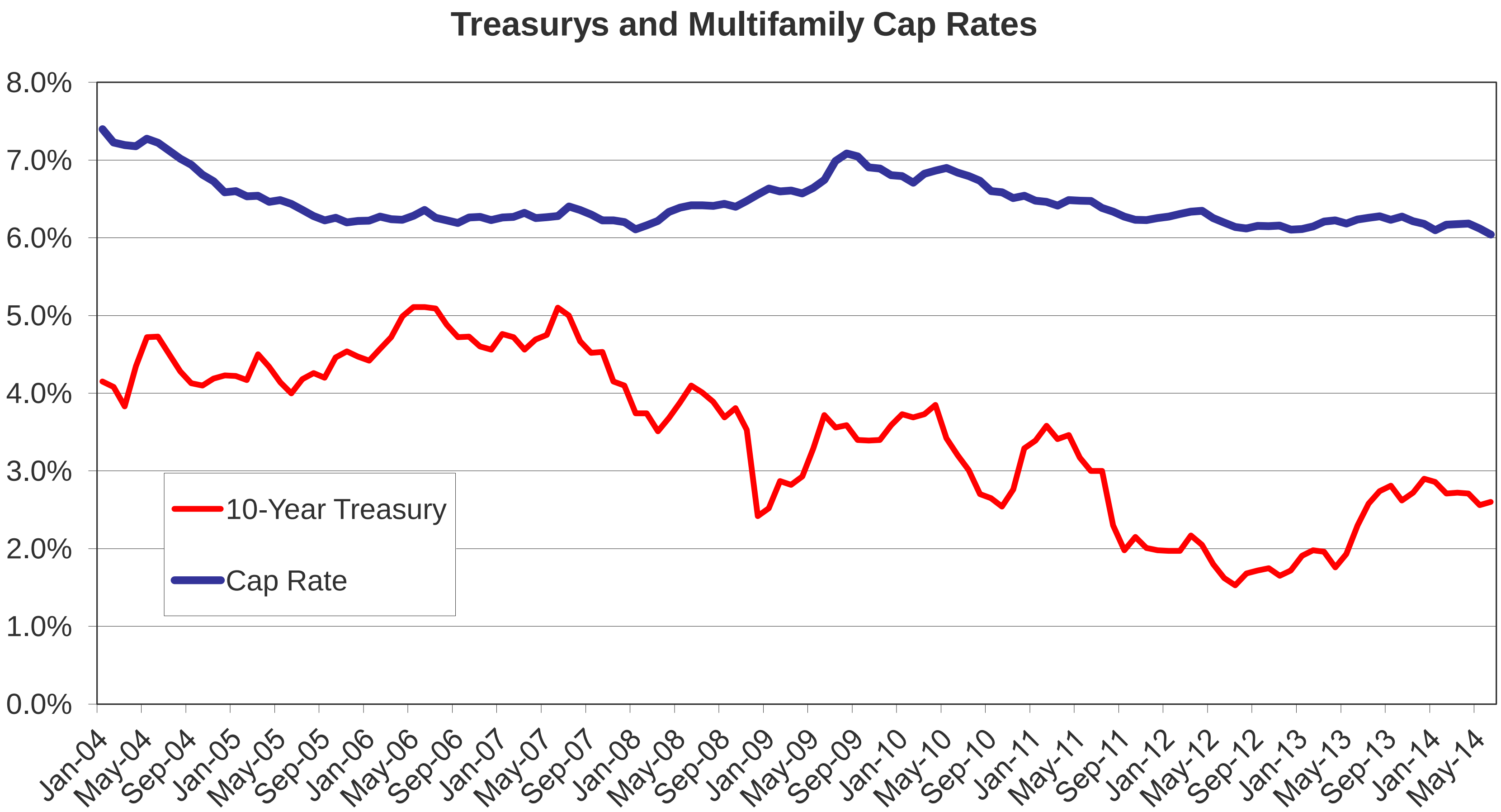


Source: CBRE-EA/Dodge Pipeline, July 2014 – Metros with 2,000 or more units underway

NOTE: Pipeline data is not an actual forecast of activity, it is a monitor of activity reported on to-date. As more projects are planned and tracked, figures in future periods might go up.

Real Estate Fundamentals: Multifamily Investment

Cap rate spreads have stayed wide...

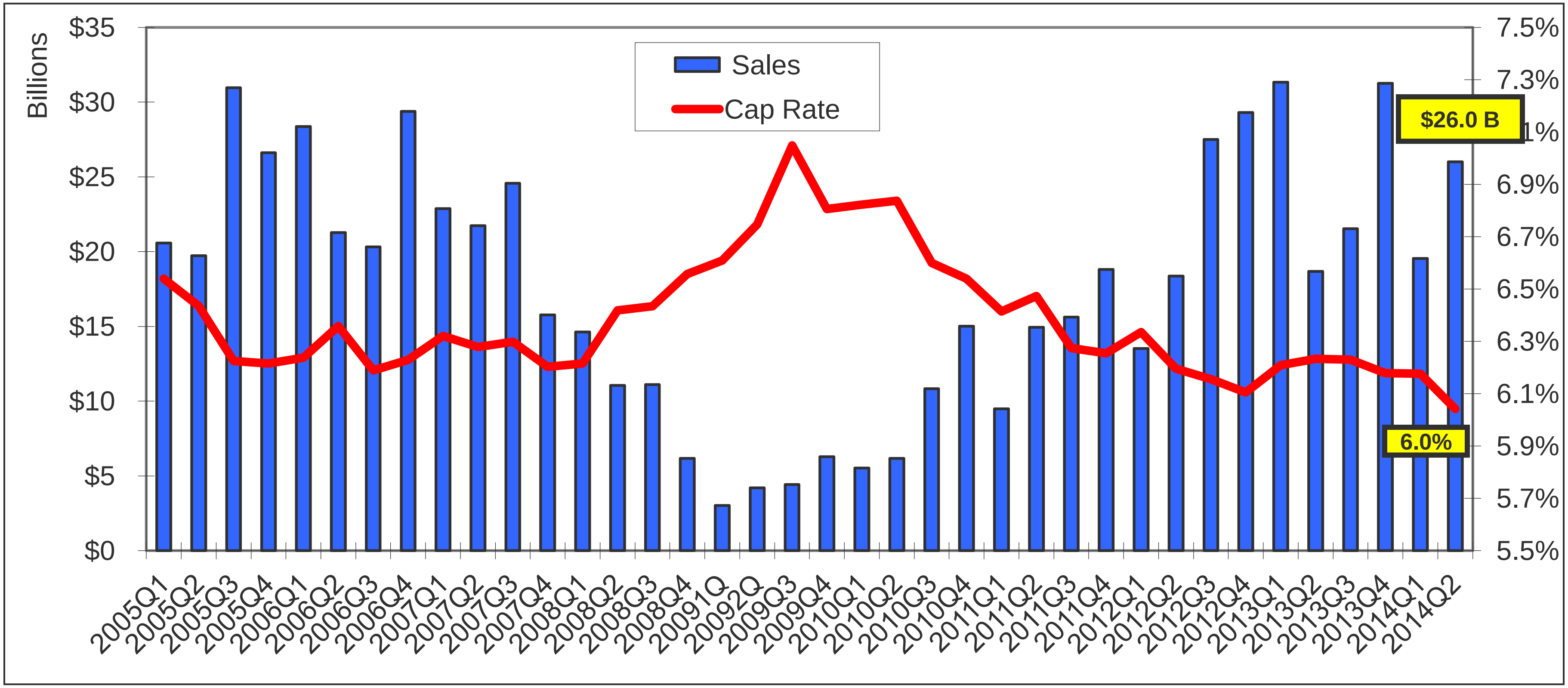


Source: Real Capital Analytics, and Federal Reserve, Selected Interest Rates H.15, per Haver Analytics DLX

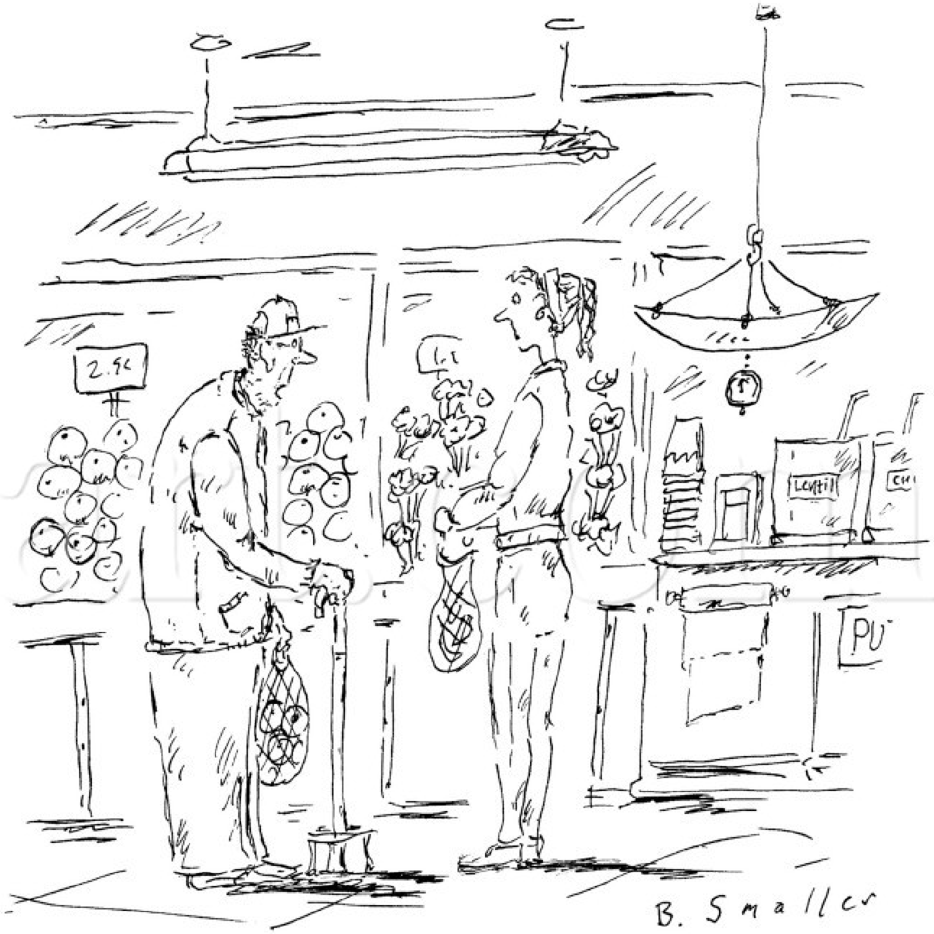
Real Estate Fundamentals: Multifamily Investment

… as investors have increasingly turned to buying existing apartment buildings.

National Apartment Sales Volume and Cap Rates



Source: Real Capital Analytics – Note: Chart excludes $22 B Tishman-Speyer transaction in October 2007



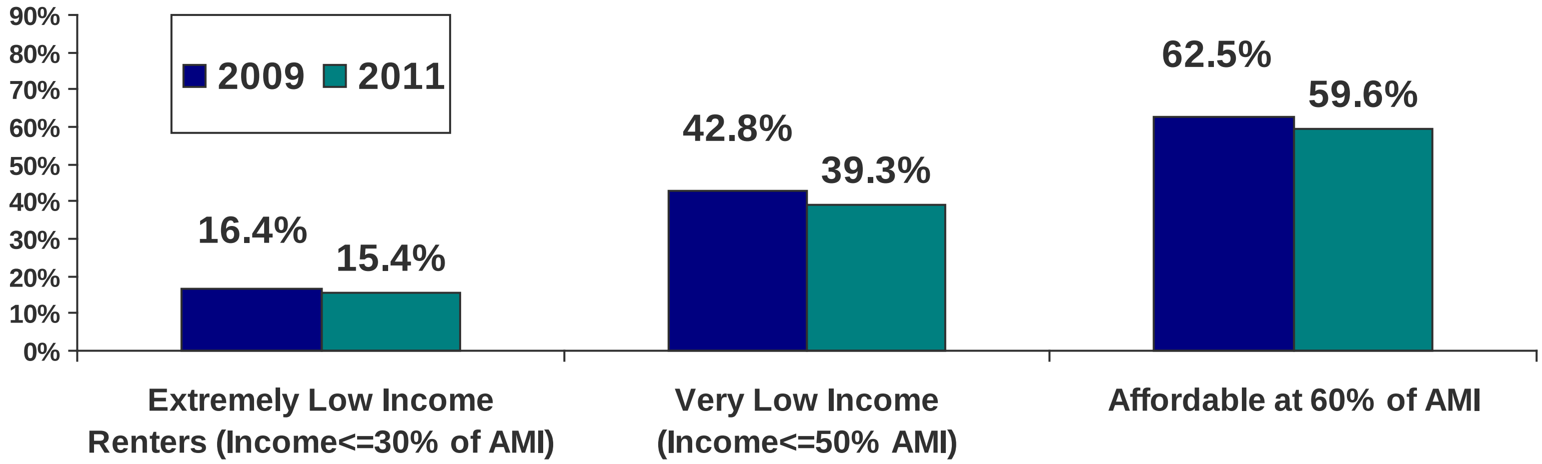
"I would die, but I have a rent-controlled apartment."

Source: The New Yorker

Multifamily Affordable Housing: Affordability Still a Concern

The number of units affordable to Very Low Income renters declined by 200,000 units to 6.3 million in 2011.

Relative Proportion of Affordable Multifamily Housing 2011 vs. 2009

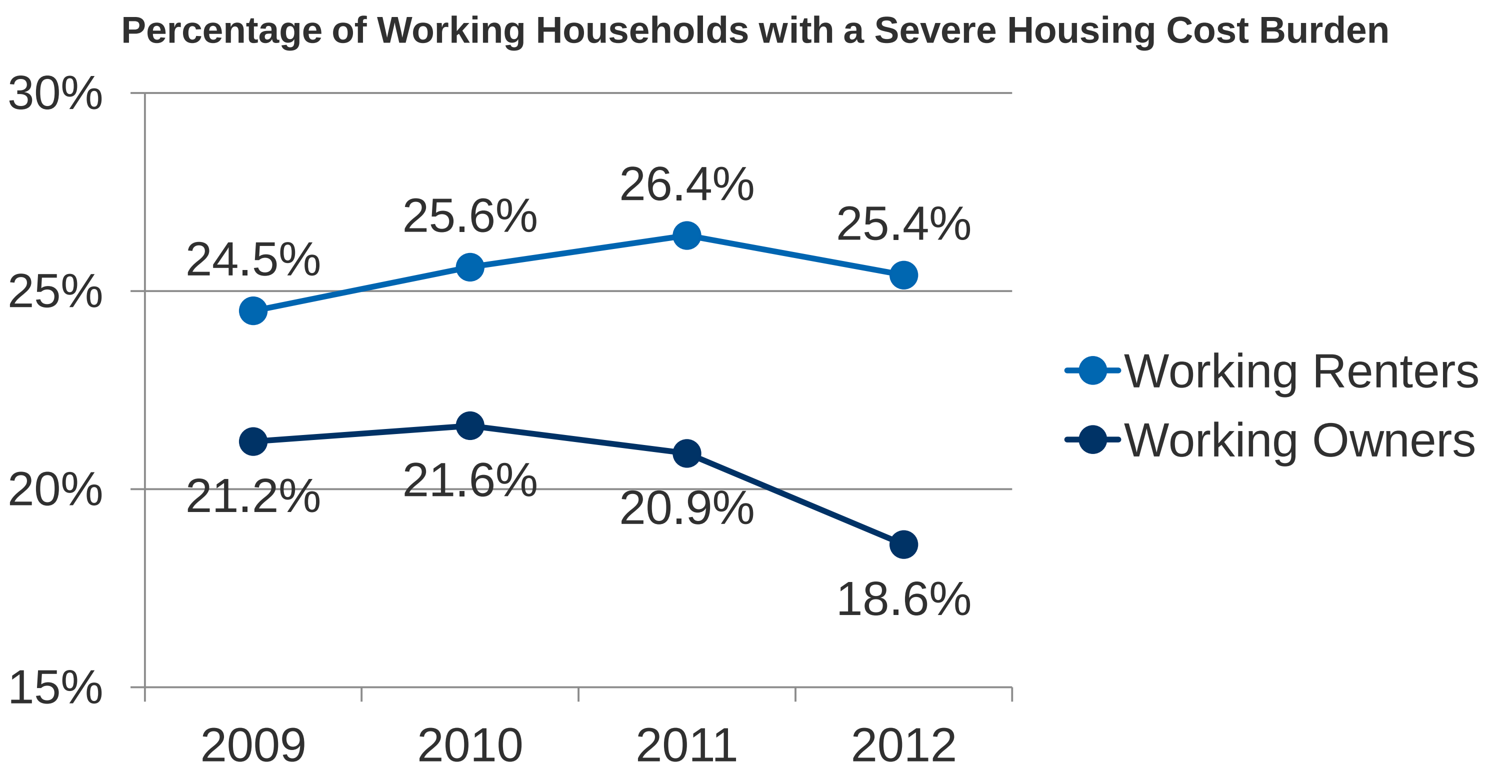


Source: Fannie Mae, 2011 American Housing Survey

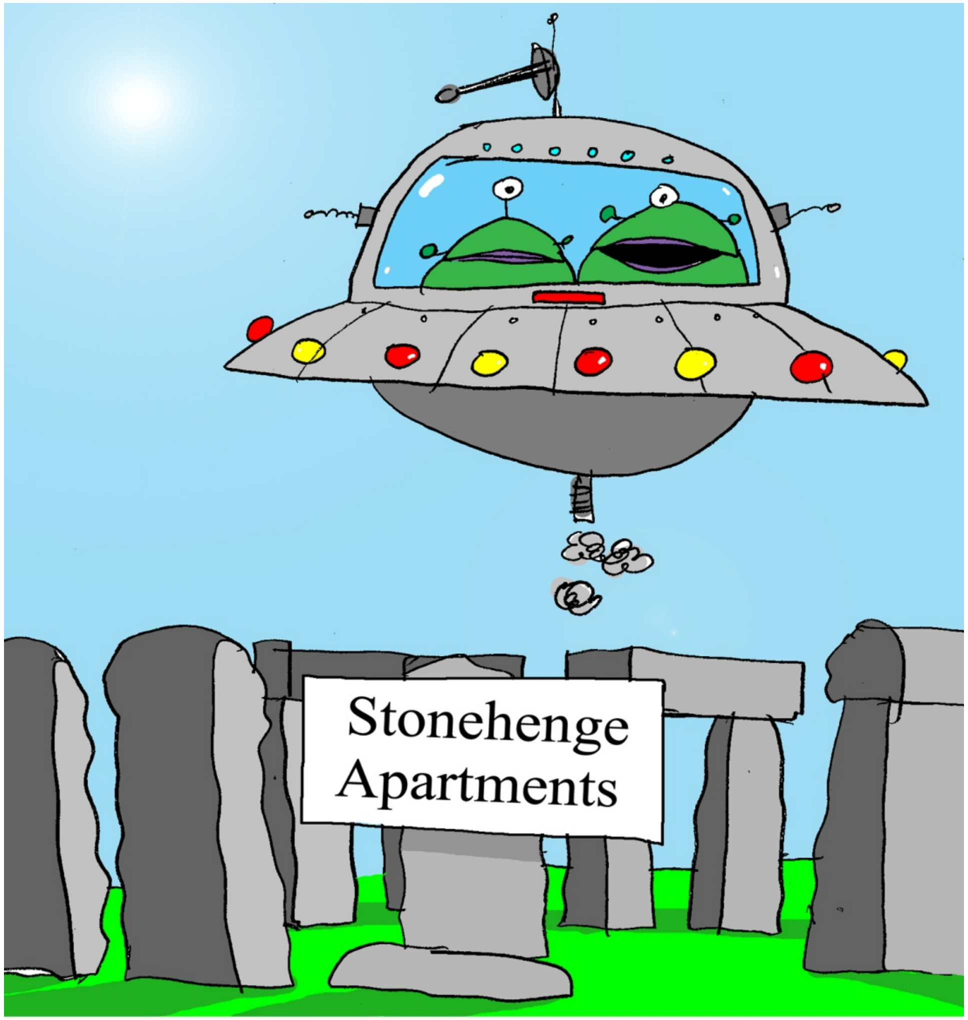
Based on cumulative affordable units. For instance, if a unit is affordable at Extremely Low Income i.e. affordable to income <= 30% of AMI, it is also affordable at the Very Low Income (<= 50% of AMI) category.

Multifamily Affordable Housing: Affordability Still a Concern

As a result, working renter households are more likely to be severely cost-burdened compared to homeowners.



Source: Housing Landscape 2014, Center for Housing Policy

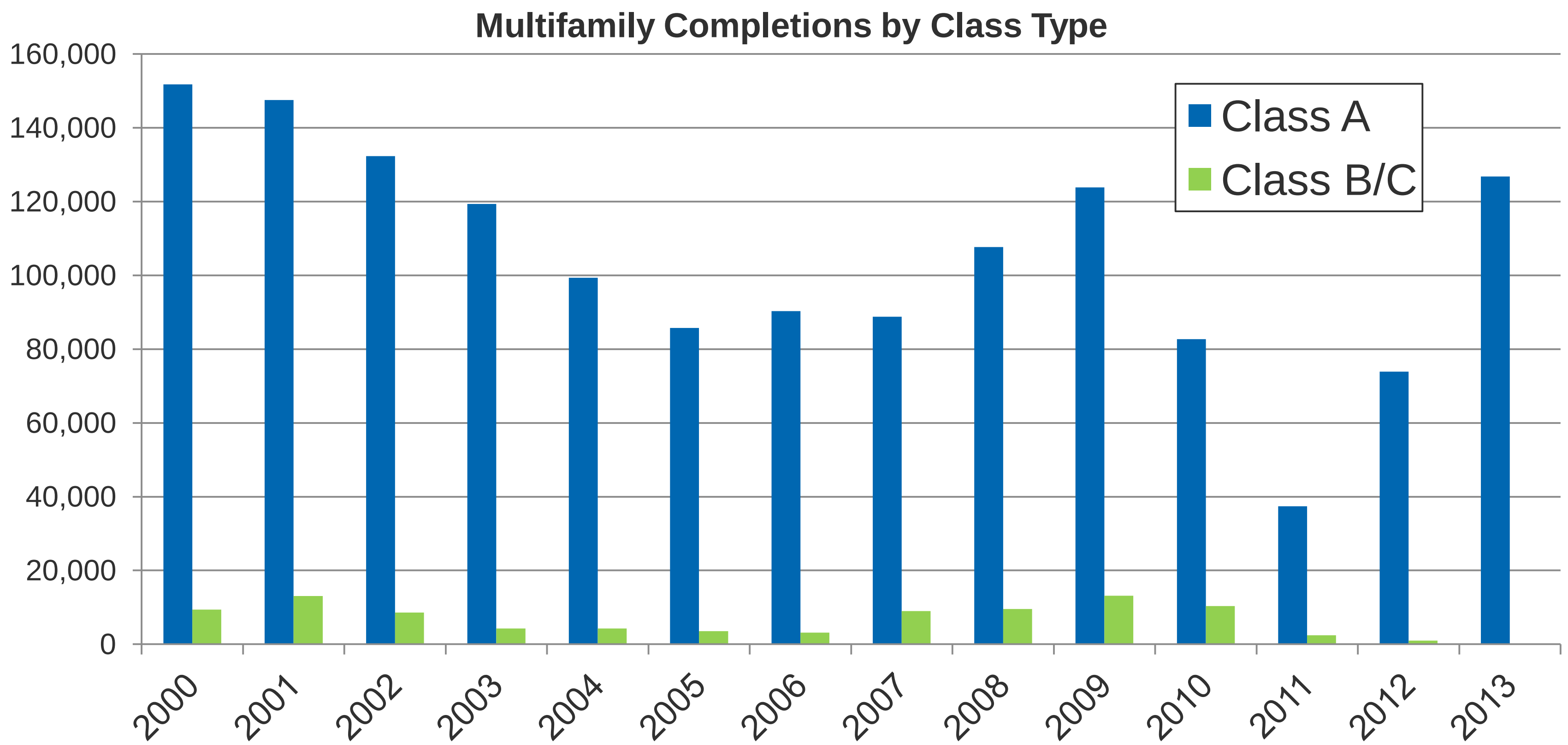


"Something went terribly wrong between design and development."

Source: Cartoon Stock

Multifamily Affordable Housing: Little New Affordable Stock

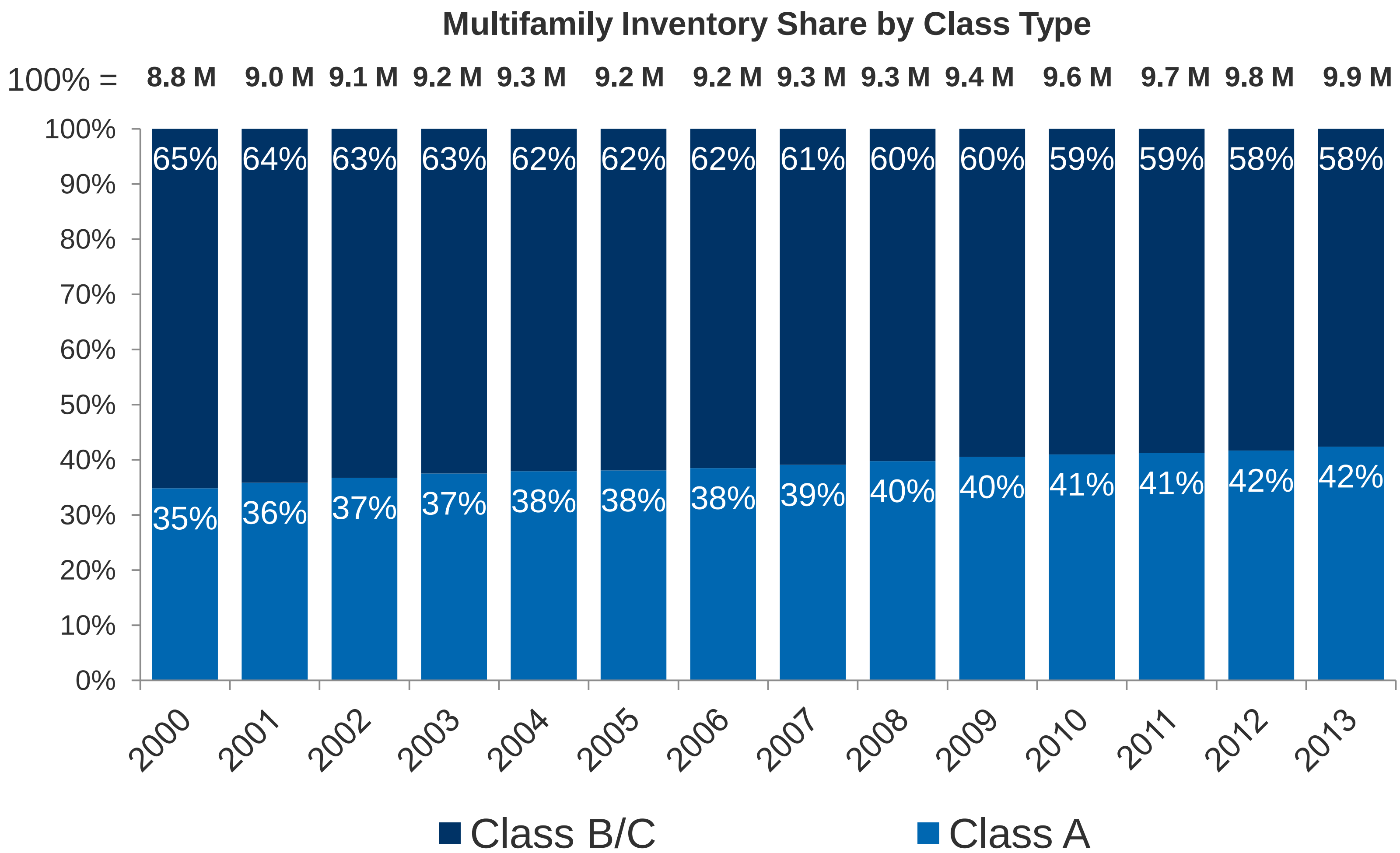
There has been hardly any class B/C multifamily new construction over the past decade…



Source: Reis

Multifamily Affordable Housing: Little New Affordable Stock

…with the share of Class B/C units shrinking steadily.

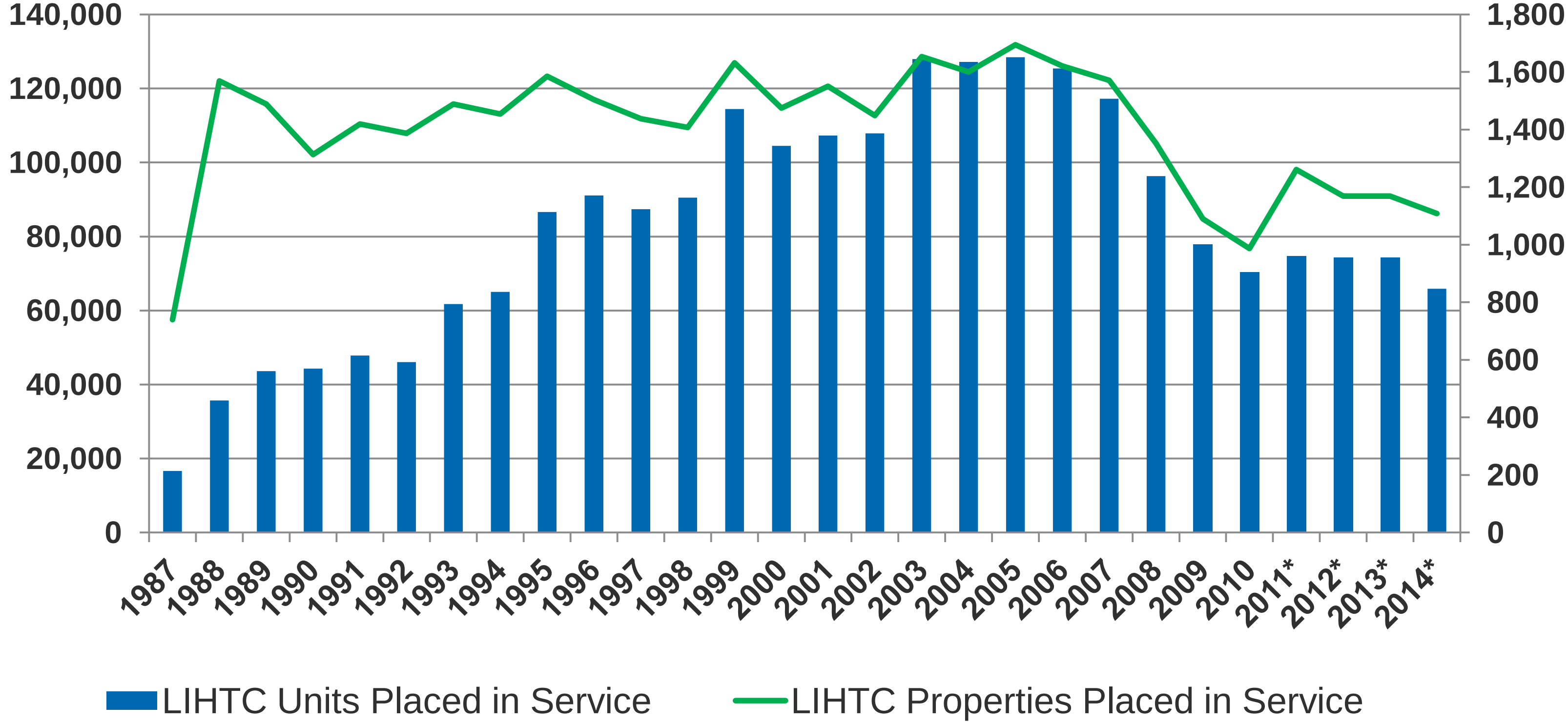


Source: Reis, based on multifamily sample tracked

Multifamily Affordable Housing: Little New Affordable Stock

Also, the number of LIHTC units placed in service has declined since 2005.

Low Income Housing Tax Credit Units (LIHTC) Projects placed in Service since 1987

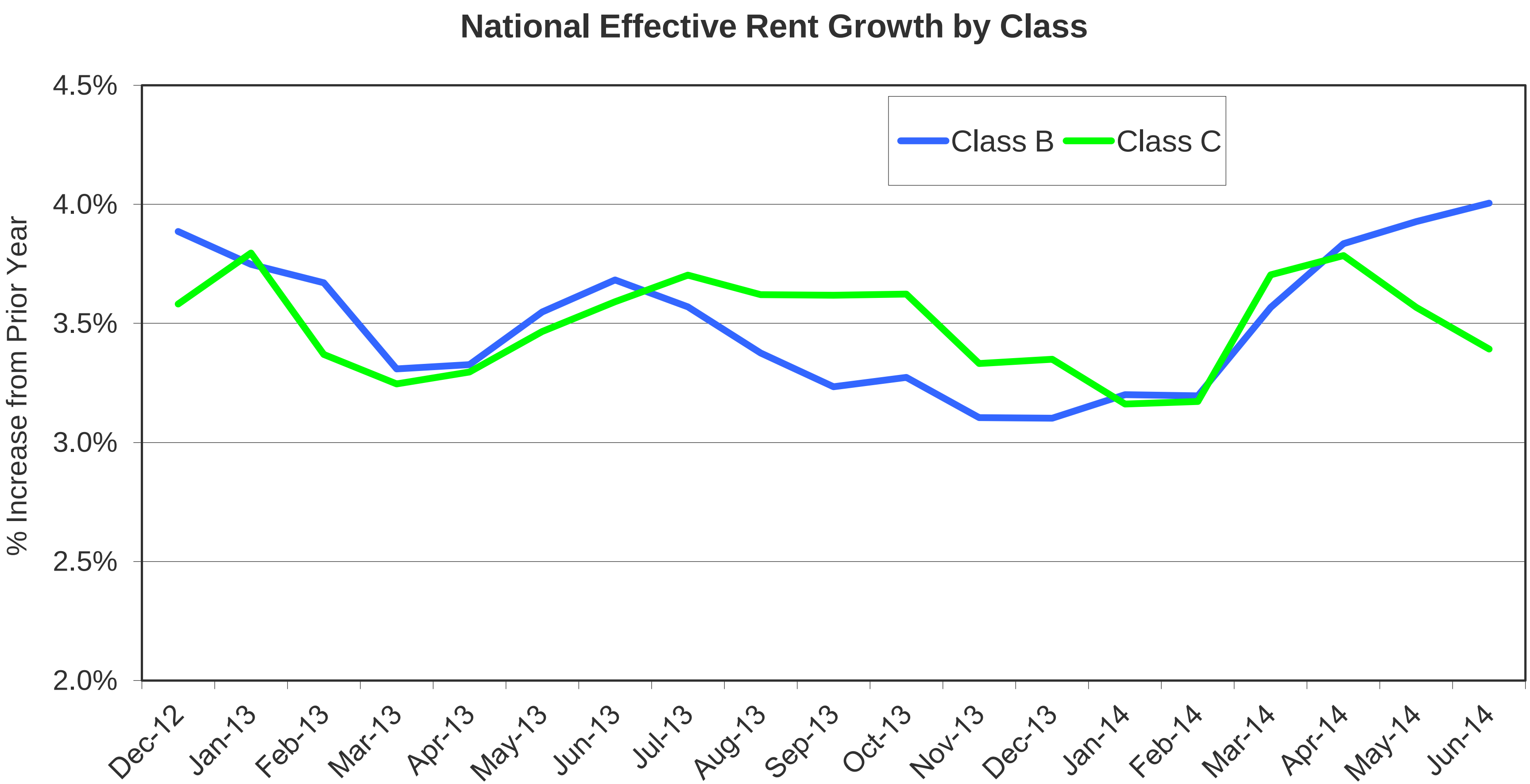


Source: HUD Low Income Tax Credit Database as of October 1987-2010; Integratec estimates based on HFA allocations 2011-2014

* Integratec assumed 15% of the current year allocations, 60% of the prior year allocations and 25% of two years prior allocations would be placed in service. For example, 2014 reflects 15% of the 2014 allocations, 60% of the 2013 allocations, and 25% of the 2012 allocations.

Real Estate Fundamentals: Rental Demand Stable

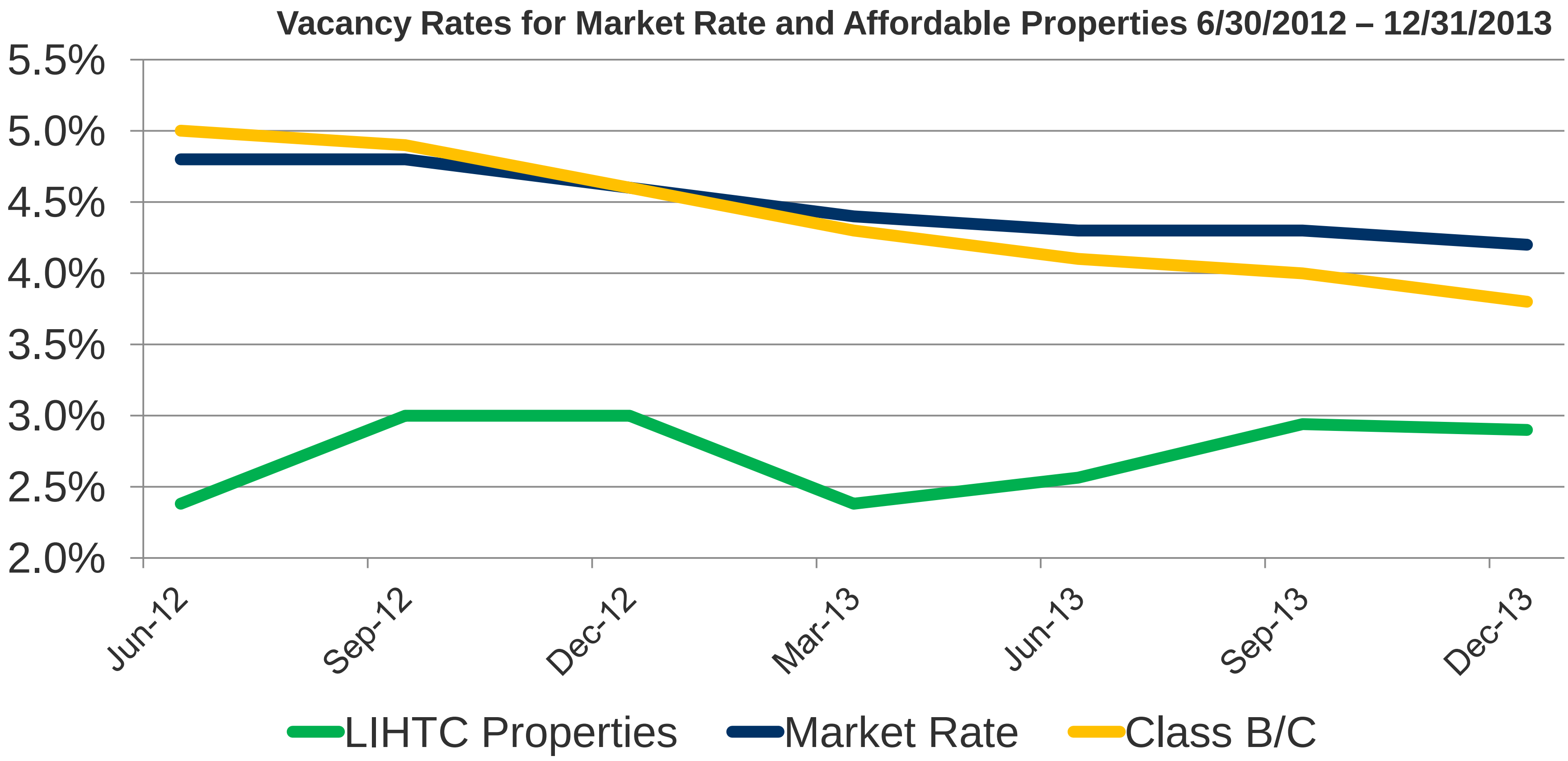
Coupled with steady rent growth by class…



Source: Axiometrics

Low Income Housing Tax Credit Properties: Favorable Fundamentals

…vacancies for affordable housing have been consistently lower than market rate housing recently…

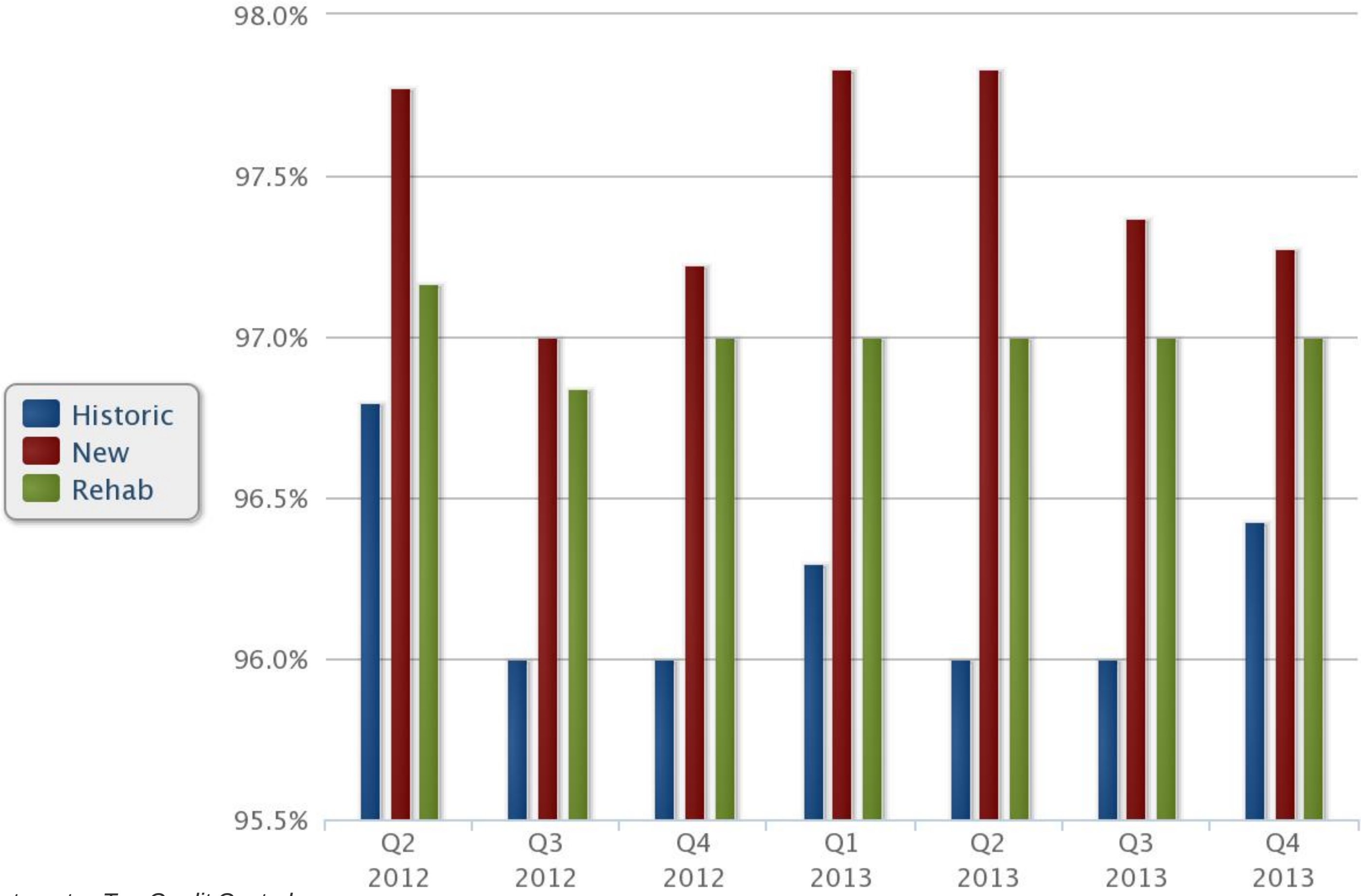


Source: Integratec Tax Credit Central, REIS

Low Income Housing Tax Credit Properties: Favorable Fundamentals

…with occupancy rates for new subsidized units consistently highest.

Occupancy Rates by Development Type 6/30/2012 – 12/31/2013

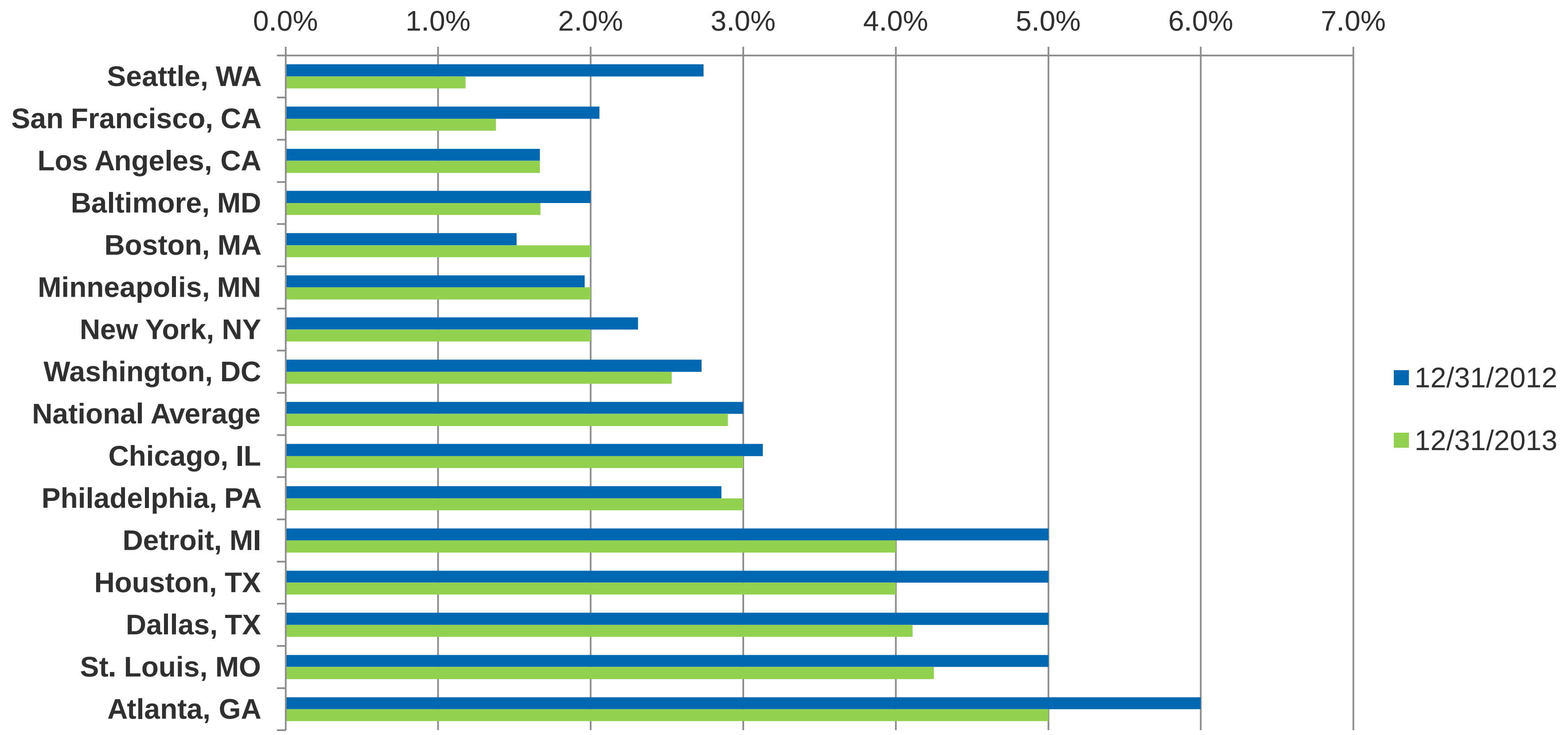


Source: Integratec Tax Credit Central

Low Income Housing Tax Credit Properties: Favorable Fundamentals

Meanwhile, LIHTC vacancies continue to be low in most major metros…

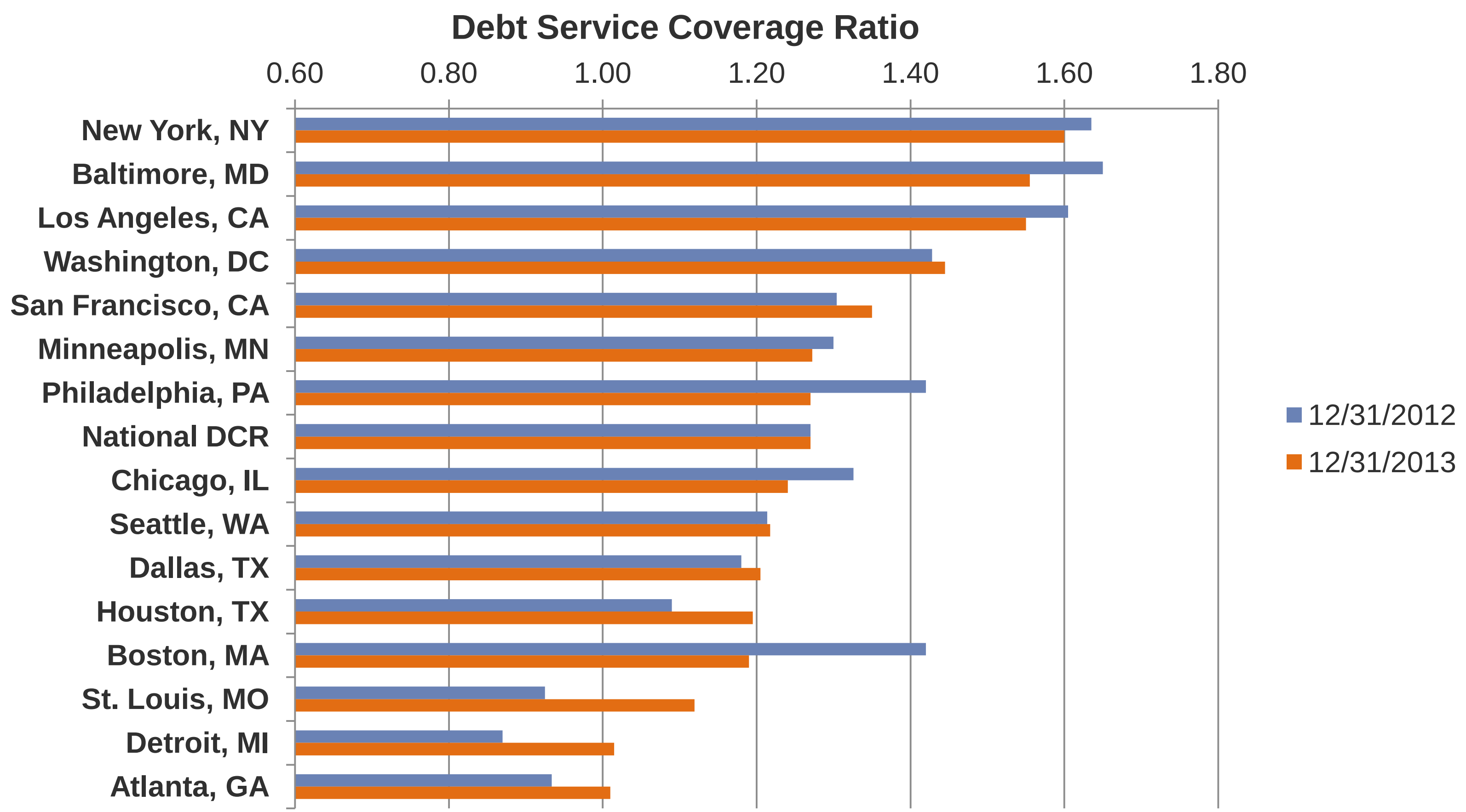
Median Vacancy Rate Trends for LIHTC Properties – Select Metros Vacancy Rates (%)



Source: Integratec, Tax Credit Central

Low Income Housing Tax Credit Properties: Favorable Fundamentals

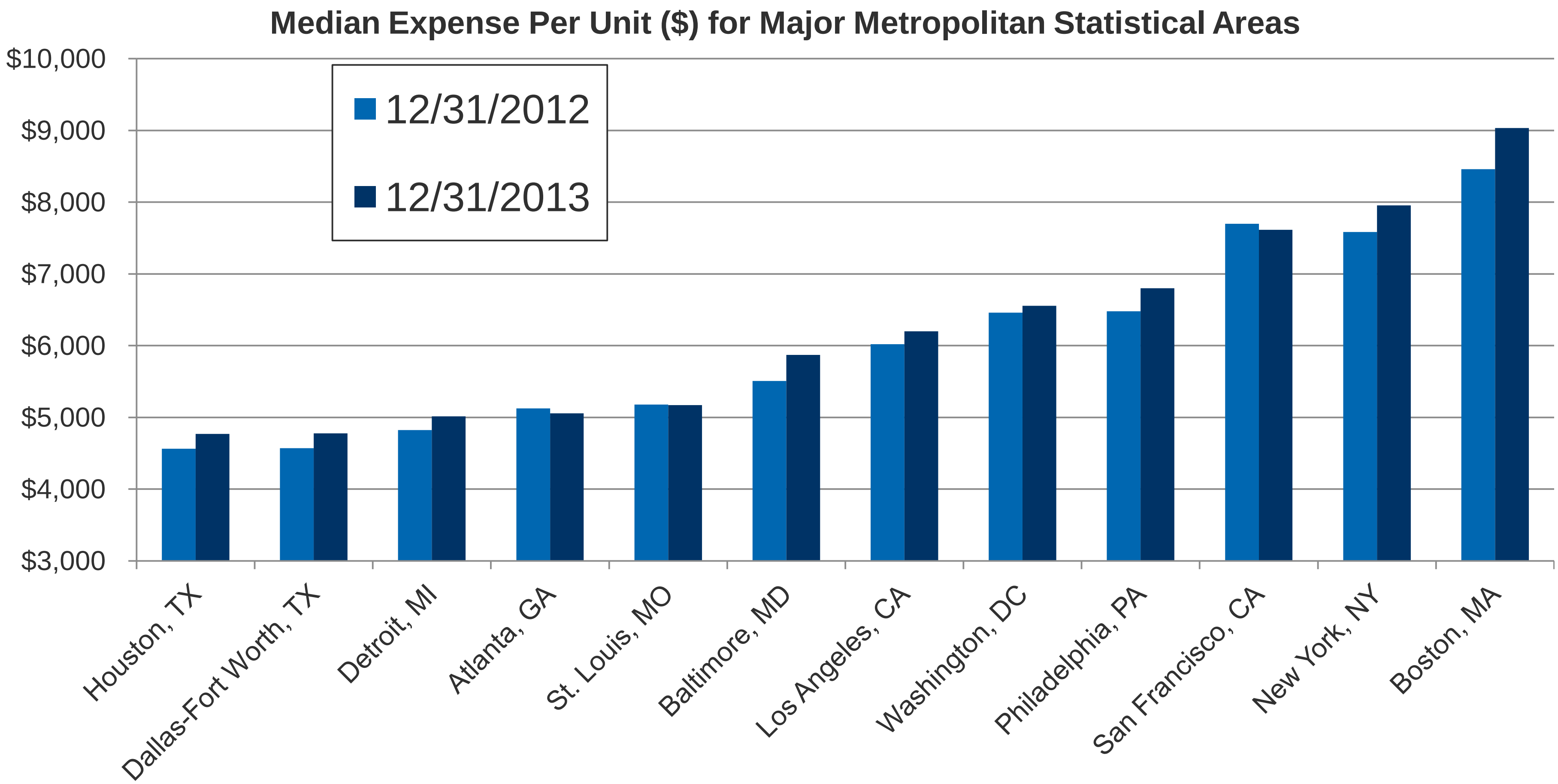
…with debt service coverage ratios solid…



Source: Integratec, Tax Credit Central

Low Income Housing Tax Credit Properties: Favorable Fundamentals

…and operating expenses rising modestly…

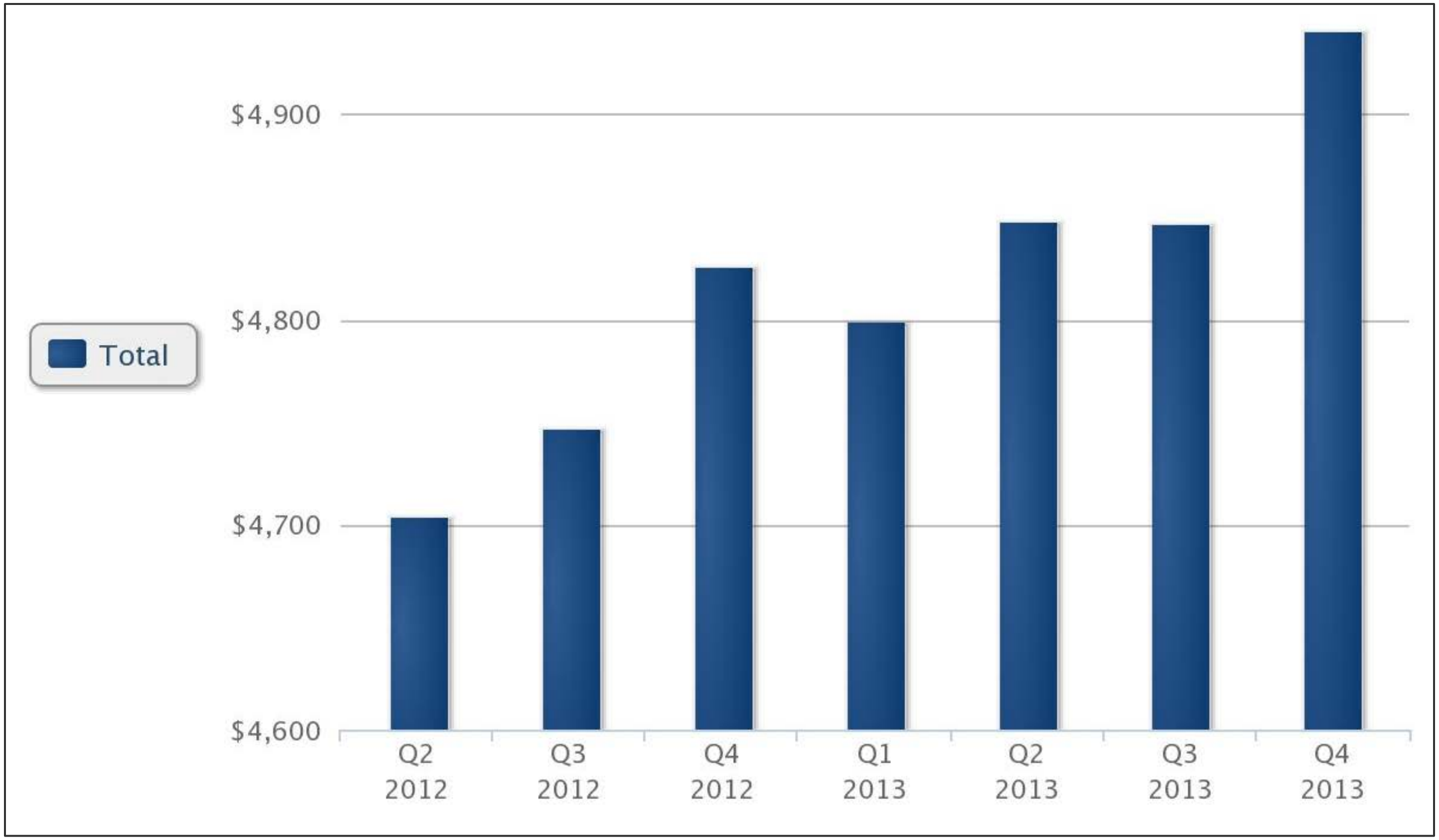


Source: Integratec, Tax Credit Central

Low Income Housing Tax Credit Properties: Favorable Fundamentals

…and although operating expenses are rising nationally….

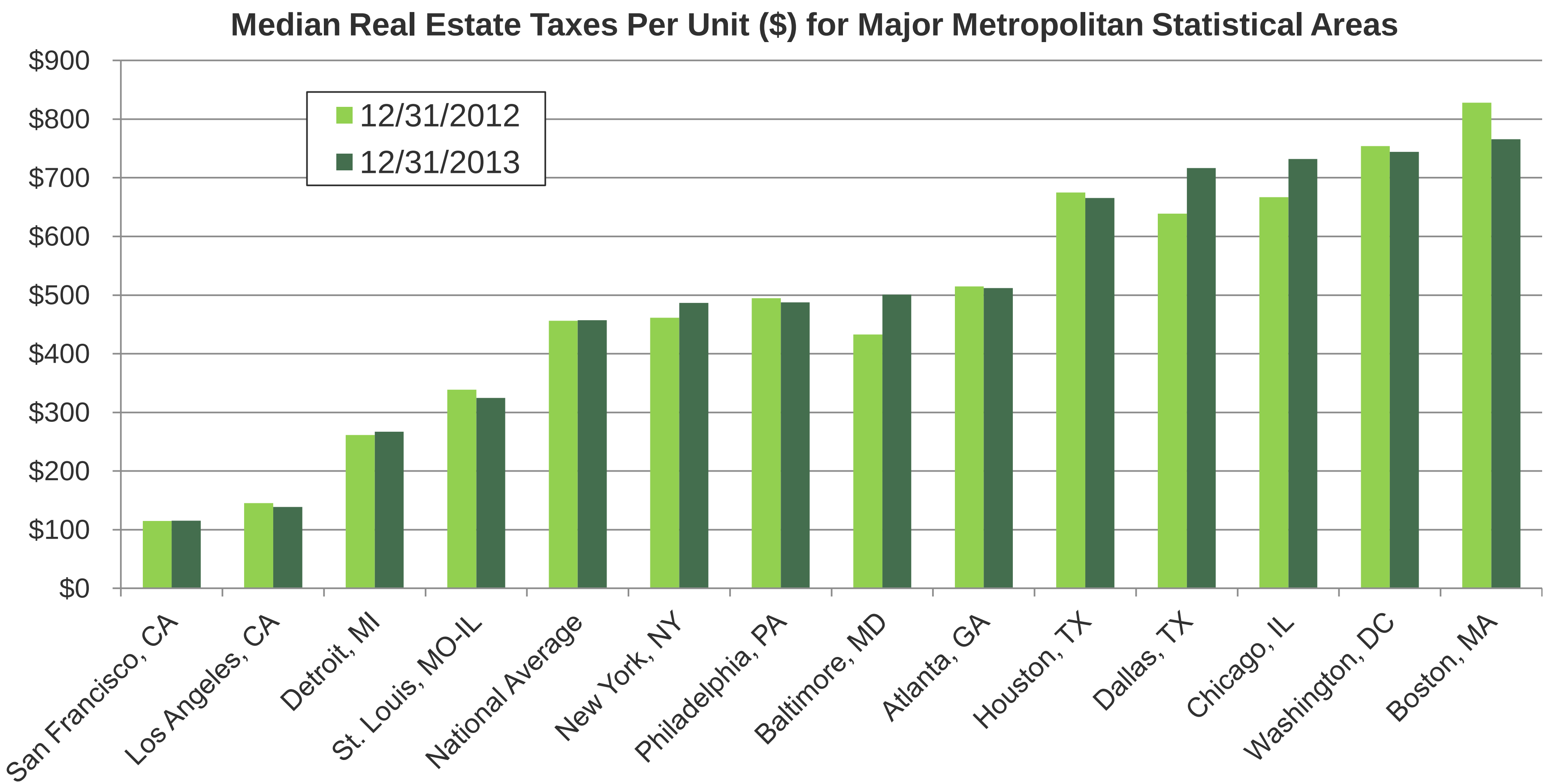
Median Expense Per Unit ($) Q2 2012 – Q4 2013



Source: Integratec Tax Credit Central

Low Income Housing Tax Credit Properties: Favorable Fundamentals

…real estate taxes have mostly stayed flat year-over-year.



Source: Integratec Tax Credit Central

And just remember:

Thank You!

Kim Betancourt, Director of Economics
Tanya Zahalak, Real Estate Economist

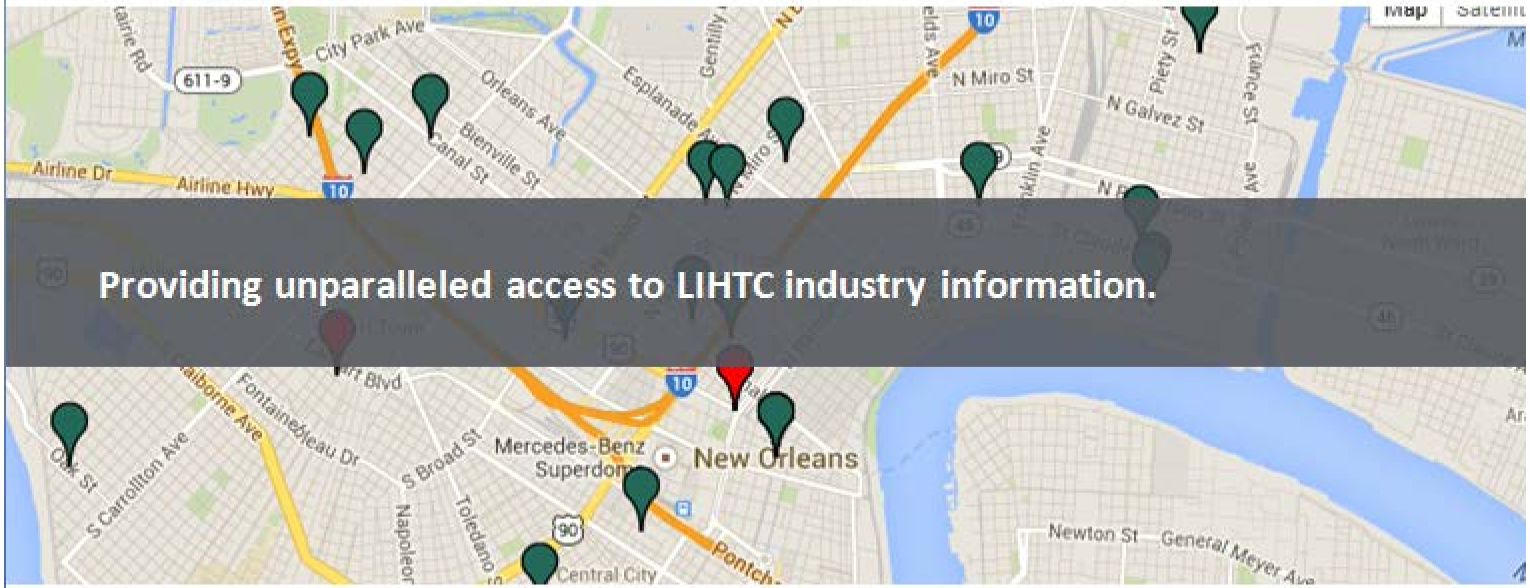
Multifamily Economics and Market Research
Kim_Betancourt@fanniemae.com
Tatyana_M_Zahalak@fanniemae.com

Twitter: @Kim_Betancourt

Appendix: Tax Credit Central

Lenders | Syndicators | Investors | Developers | Housing Agencies | Professional Services Organizations

TAX CREDIT CENTRAL



Contact Integratec:

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404.459.5616

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404.250.4024

Thank you for your participation

Your feedback is very important to us. Prizes sent to the first five people to submit the survey. Survey – https://www.citibank.com/icg/homepage/forms/citi_community_capital/form.jsp

Listen to the playback - http://www.citibank.com/icg/sa/citicommunitycapital/resource_center.jsp

The next Citi Community Capital Webinar is November 18 for our next informative session. We look forward to having you join us!

Citi believes that sustainability is good business practice. We work closely with our clients, peer financial institutions, NGOs and other partners to finance solutions to climate change, develop industry standards, reduce our own environmental footprint, and engage with stakeholders to advance shared learning and solutions. Highlights of Citi's unique role in promoting sustainability include: (a) releasing in 2007 a Climate Change Position Statement, the first US financial institution to do so; (b) targeting $50 billion over 10 years to address global climate change: includes significant increases in investment and financing of renewable energy, clean technology, and other carbon-emission reduction activities; (c) committing to an absolute reduction in GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (d) purchasing more than 234,000 MWh of carbon neutral power for our operations over the last three years; (e) establishing in 2008 the Carbon Principles; a framework for banks and their U.S. power clients to evaluate and address carbon risks in the financing of electric power projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

efficiency, renewable energy and mitigation