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Multi-Family Sector Thriving; Affordability a Major Concern

Multi-family housing, in the words of a Freddie Mac executive vice president, is **on a roll**. David Brickman says his company is on track to purchase approximately $55 billion in multifamily loans this year and to securitize over $50 billion of them. Both would be new records. Further, he says the industry and Freddie Mac can grow, barring any surprises, by another 5 to 10 percent in 2017. This, he says, is not a market being driven by leverage and speculation but by sound economic fundamentals and that those fundamentals, including values and rents, appear likely to continue growing, albeit at a more moderate pace.

He sees continued demand due to the growth of renter households in each of the generation groups although they different on a range of economic and demographic factors. Millennials will be helped to form households by positive job growth and a stable economy. However, a combination of sluggish wage growth, and rising home prices ad mortgages rates, may **delay homebuying** by Gen X members and prolong their tenure as renters. Finally, a significant fraction of the nation's 67 million Baby Boomers will be moving into more easily managed rental units.

On the supply side, absorption rates and occupancy levels exceed their historic averages. Tightening conditions for construction lending, plus significantly rising construction costs are likely to slow the pace on which new units come on line. This will help mitigate the risk of overbuilding and keep inventory levels tight in all but a few markets.

Supply and demand factors are likely to combine to keep rents rising in most markets. There are a few coastal markets that are **exceptions**; where elevated rents and modest income growth, combined with relatively strong deliveries of new units should slow or flatten rent growth for the next year or two.

Brickman sees properties being **priced fairly in most markets** and compared to other real estate sectors and other asset classes suggests a healthy risk-return balance. This, plus the still low long-term interest rates and the stable growth in net operating incomes, provides a healthy environment for multifamily investment.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.87%	-0.02	0.00
15 Yr. Fixed	6.32%	-0.01	0.00
30 Yr. FHA	6.33%	0.00	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.59%	+0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.00%	-0.03	0.60
15 Yr. Fixed	6.63%	+0.07	0.61
30 Yr. FHA	6.87%	-0.03	0.92
30 Yr. Jumbo	7.13%	+0.02	0.38
5/1 ARM	6.22%	-0.16	0.60

Rates as of: 7/23

Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

		Value	Change
Builder Confidence	Mar	51	+6.25%

He says that when the above factors are combined with the current generally strong economy Freddie Mac projects **new multifamily loan originations to keep expanding** annually, although at a more moderate pace. Those originations are forecast to reach an estimated $335 billion in 2020. Regarding multifamily mortgage debt outstanding, which reflects current growth in the stock and market value of existing multifamily properties, he expects the market to fund more than $1.8 trillion in new multifamily originations over the next five years. These numbers assume a stable political and global environment that will allow 10-year Treasuries to remain in or only slightly above their November post-election range.

He also sees the **national shortage** of affordable rental housing continuing, calling it a crisis and the most critical issue the housing industry faces. CoStar Group, a commercial real estate information group, recently estimated the country has only 5.6 million affordable rentals left. Over half of them are more than 30 years old, and existing stock is reportedly diminishing quickly.

At the same time, Freddie Mac's recent Renter Profile found **large percentages** of Millennials (68 percent), Gen Xers (70 percent) and Baby Boomers (62 percent) live payday to payday or can't afford basics, In addition, the Joint Center for Housing Studies says there are over 21 million cost-burdened renters in the U.S. and that their numbers are expected to rise another 4.4 million by 2025.

Brickman said over the past year Freddie Mac, aware of its mission of supporting affordable housing, has introduced a number of new products, including Green Advantage, Small Balance Loans, Moderate Rehab, and Bridge to Resyndication and these are already surpassing expectations. Approximately 90 percent of the eligible projects Freddie Mac finances are affordable.