

Multi-housing property fundamentals are experiencing challenging times and a few capital markets channels are somewhat constrained. However, there are multiple options for debt placements as well as very unique buying opportunities. Thus far in 2009, HFF has closed more than \$1.9 billion in multi-housing debt and equity transactions.

## DEBT MARKETS

- **Freddie Mac and Fannie Mae:** remain the “go to” lenders in the multi-housing sector.
  - Very attractive fixed-rate spreads – all-in rates in the 5% to 6% range.
  - Still funding up to 80% LTV, 30-year amortization.
  - Fannie Mae MBS DUS execution continues to be a market leader; strong volume.
  - Both offer ARM loans with rates as low as 3.50% to 4.50%.
  - Freddie’s Securitization Program (CME) continues to be a market leader with a growing following and will be a permanent product.
    - Has \$3 billion in the pipeline and expects to complete a CME securitization every two to three months.
    - Goal is to securitize two-thirds of its production volume by 2011.
- **Life Companies:** remain active and have recently announced higher LTVs and lower pricing.
  - Seeking high-quality assets and sponsorship, conservatively underwritten loans.
  - Dramatic decrease in all-in-coupons and spreads.
  - Rates are 5.75% to 7% depending on LTV, asset and sponsorship.
  - LTVs are 50% to 65% - some movement by some to go to 70% LTV.
  - May go to lower interest rates and higher LTVs for better quality assets.
- **FHA**
  - HUD has become more active in last three to six months
    - 223 (f) refinance program
    - 85% LTV
    - 35-year amortization
    - Rates in the 4.50% to 4.75% range plus 45 bps MIP
    - Downside – longer process and higher fees
  - 221 (d)(4) program
    - For construction loans
    - 40-year term
    - Up to 90% LTC
    - Rates ranging in 5.50% to 5.75% range plus 45 bps MIP
    - 36 months of interest only
- **Banks:** still providing loans for existing customers but leverage is in 60% range and construction financing is hard to come by.
- **Unsecured market:** is back for the right sponsorship with a really strong balance sheet; however, spreads are much higher than last year.
- **CMBS:** other than TALF2, the market has been basically dormant; however, it is showing signs of thawing and may be an option for borrowers in the year to come.

## INVESTMENT SALES MARKET

- Transaction volume picked up late 3Q and will show up in the 4Q sales volume numbers.
- Increased transaction volume has led to “price discovery” and is closing the bid-ask gap and will continue to do so as appraisers pick up data points.
- Sellers have made significant “mark to market” adjustments and the lack of product in the market has forced buyers to move their return expectations as well.
- Buyers are underwriting traditional “spread investing” with positive leverage given where the Agencies’ cost of debt is relative to cap rates.
- Cap rates over-corrected and have come in as much as 50-75 BP the last 90 days which is creating a “pricing bubble”.
- Buyer composition is 50% well-known traditional buyers, 25% are buyers from the last cycle buying on a \$/SF or \$/unit metric and 25% are new private capital and high net worth groups aligned with good operators.
- Valuations are down 25-35% on peak-to-trough pricing with the peak being August of 2007.
- New starts ceased over a year ago and lack of supply for the next 36 months indicates a potential rent spike in 2012, which is impacting underwriting.
- Gain to lease has burned off significantly with a little more to go with 3% to 5% negative net effective rent growth in certain markets, which is fueling confidence that we are “somewhere near the bottom” on property level fundamentals.
- HFF is seeing 100-150 Confidentiality Agreements, 40-60 tours and 25-40 offers on highly sought after trophy assets in supply constrained markets where potential job growth is supporting strong potential for better property level fundamentals. We are also seeing similar increased buyer activity in secondary markets due to attractive Agency pricing and metrics.

## Multi-Housing Transactions Closed Within the Last 60 Days

| Property   | Deal Type | Location              | Amount       |
|--|-----------|-----------------------|--------------|
| Metropolitan at Pentagon Row                     | Sale      | Arlington, VA         | \$99,460,000 |
| Jefferson at Dedham Station                      | Debt      | Dedham, MA            | \$31,050,000 |
| Fountain View on the Plaza                       | Debt      | Kansas City, MO       | \$27,480,000 |
| Retreat at Lake Tamaha                           | Debt      | Tuscaloosa, AL        | \$26,850,000 |
| City Pointe Apartments                           | Debt      | Fullerton, CA         | \$24,000,000 |
| The Gates of Carlson Center                      | Debt      | Minnetonka, MN        | \$23,700,000 |
| The Paragon at Kierland                          | Debt      | Scottsdale, AZ        | \$20,823,000 |
| Alta Bayside                                     | Debt      | Corpus Christi, TX    | \$13,900,000 |
| 5100 Connecticut Avenue NW & 2620 16th Street NW | Sale      | Washington, D.C.      | \$8,350,000  |
| Cityfront Place                                  | Sale      | Chicago, IL           | Confidential |
| Lakeville Resort                                 | Debt      | Petaluma, CA          | Confidential |
| Waterford Place                                  | Sale      | Arlington Heights, IL | Confidential |

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Having closed more than \$1.9 billion in multi-housing transactions to date in 2009, we understand how to close deals in today’s capital constrained, uncertain and confusing market. If you have questions regarding financing, sales, distressed debt/REO, loan sales, or equity needs for a multi-housing asset, please contact an HFF representative at an office listed below.

**HFF HAS THE ANSWERS.**