

Commercial Mortgage Insight[®]

Reprinted with permission from the December 2005 issue.

Multifamily Roundup And Outlook To Plot The Sector's Next Move

With research showing pockets of strength, investors, lenders and broker intermediaries are all pursuing different multifamily strategies.

The multifamily sector has witnessed many dynamic developments during the past year. These events included an unforeseen reduction of excess capacity in rental units, an expansion of federal housing administration (FHA) initiatives to improve the appeal of FHA-insured loans, and some shakeout from developments at the government-sponsored enterprises (GSEs).

In our March issue, *CMI* examined reports that multifamily executives were fretting about abundant supply, combined with falling demand. The findings were consistent with favorable home purchasing conditions, causing many tenants to abandon apartments.

Also, in our May issue, we presented the market's quandary about the affordable housing sector, as additional funding and tax-credit investments were struggling to keep pace with losses in affordable multifamily rental stock. In addition, the initiatives of the Bush administration to move affordable housing initiatives from rental units to homeownership was the subject of two feature articles.

Then, in the July issue, we examined the effects of condominium developments on the stock of market-rate multifamily rental units. Research for the articles uncovered that while some multifamily investors were con-



cerned about new construction having an adverse effect on rent growth, most were looking forward to a reduction of supply as properties were purchased for conversion to condos. There was also concern about the return of hard-to-sell condos to the rental supply stock.

And finally, in the September issue, we highlighted the strong turnaround in the seniors housing space that has taken many by surprise and has left the sector open to the possibility of a flood of new supplies. The articles also revealed that the market today is more conscious of oversupply than it was in the mid-1990s - leading many to believe that there is more discipline in the market today and that the cost of building will prohibit overbuilding.

As we come to the end of the year, *CMI* asked some industry players around the multifamily space to share their thoughts on what has transpired over this past year, and what they might ex-

pect coming down the pipeline for 2006.

We sought the comments of executives who are involved in the property development and investment business, as well as those involved in the debt and equity financing portion of the sector. We hope you find their responses informative, insightful and maybe even a bit amusing.

New Construction

Overall, the housing market is slowing, and this is affecting all aspects of the industry (with respect to new construction for multifamily dwellings). Consequently, price appreciation on housing in general is slowing to more traditionally normal levels. Pricing is still appreciating, albeit more slowly than in recent years.

Even so, new construction for multifamily properties will continue to grow at a nice pace for a couple of reasons.

Multifamily Roundup

First, the active adult segment is increasingly looking to the multifamily dwelling (i.e., condominiums) as an attractive housing option for the purpose of downsizing and simplifying their lives. In addition to the active adult buyers, the multifamily industry is benefiting from the young professionals, single or married, that want the benefits of home ownership but don't have the time or inclination to maintain a single-family house. They want the lifestyle amenities associated with community living, but also want a backyard.

Second, as America continues to gray, baby boomers will continue to demand higher quality of life, more amenities, and a more leisurely lifestyle. And, this drives them to multifamily housing - in particular, upscale condominium living.

These two market populations will drive the multifamily market and give it sustaining power, despite a temporary period of slower growth at present.

With regard to material and labor, hurricanes Katrina and Rita will likely trigger a short-term shortage of materials, which will drive up prices. But we expect this to be short-lived, as the market will find ways to self-adjust and meet this sudden increase in demand.

- Thomas Rothrauff is vice president and general manager of EPCON Communities of Dublin, Ohio. EPCON is a condominium builder, developer and manager specializing in ranch-style condominium communities.

FHA, HUD And The GSEs

The multifamily lending space continues to be a dynamic one in which players are forced to become dynamic with the marketplace or risk being marginalized. This continues to be a

very healthy sector of the commercial real estate finance world - one in which new opportunities, ranging from seniors housing to manufactured housing communities, are opening up regularly.

FHA-insured loans have been particularly interesting because - among other things - they have experienced a fair amount of changes designed to attract more sponsors to the product. For instance, when HUD issued recent guidelines designed to reduce the approval time frame from as many as 60 days down to 45, that signaled a move to make the program more appealing to sponsors.

Certainly, while FHA loans have the benefit of excellent pricing, the uncertainty of execution has always been their greatest

challenge. And it appears that some behind-the-scenes action is being taken to improve a waiting sponsor's certainty of execution before that sponsor invests a lot of resources in pursuing these loans.

By far, the greatest unknown factor in HUD and FHA is the changes in personnel that took place recently. While no one in the industry can say for certain what the outcome would be of these new appointments, many appear to be optimistic that these changes in management will bode well for the industry and the products coming out of the programs.

Overall, FHA's programs have improved over the year. The Multifamily Accelerated Program (MAP) product has been making strides towards becoming more accessible, as many lenders have seen an increase in activity for rate-lock programs. Rising rates do play a role in how many sponsors are looking to the programs to lock in low rates today. However, some improvements in the application process are giving a level of comfort to lenders who are offering funding under these programs.

Clearly, Fannie Mae has had its fair share of problems, and its volume has

been dropping for some time now. However, right on the heels of that, Freddie Mac has been picking up much of the slack, and we continue to see volume growth for Freddie. We believe that Fannie Mae will eventually get its act together (on both the multifamily and affordable housing fronts) and be back in the swing of things before too long.

Also, some of Fannie Mae's lost multifamily volume has been picked off by banks and other lenders who compete for that business. So, generally speaking, neither borrowers nor their lending institutions have been adversely affected by the issues which have plagued Fannie Mae over the past year.

The seniors housing space has been a very good performer. In fact, the sector has recovered so nicely that some have started to express concerns about a possible new round of overbuilding.

We continue to see good, healthy demand from the seniors housing space, and the quality of these deals has also been improving.

But while HUD and FHA programs draw more seniors housing products from Section 242 loans for acute care facilities, Fannie Mae and Freddie Mac generally draw more products from Section 232 loans for independent living and limited assisted living facilities. We suspect that this trend will not change over the coming year.

- Todd Rodenberg is senior vice president and chief operating officer of agency lending products at KeyBank Real Estate Capital in Dallas. KeyBank is the third-largest commercial real estate capital provider, with nearly \$19 billion in annual financings.

Leverage And Credit Quality

Right now is a great time to be aggressive in the market, but we are seeing leverage that is pushing the limits of what we believe is reasonable. Credit quality is questionable for many of these borrowers, and we've seen an overall loosening of underwriting standards by some of the more undisci-



Thomas Rothrauff



Todd Rodenberg

Multifamily Roundup

plined players in the industry.

When you combine these factors, it means the market is going to look very different over the next three years. Within 36 months, you will start seeing a significant number of workouts in this space, especially if interest rates continue to rise. There is just not much margin for error on some of these loans.

The upside, however, is that smart borrowers will have an incredible opportunity to take advantage of these market changes.

— Robert Ryan is senior vice president and chief production officer for Green Park Financial, a national multifamily lender. Green Park Financial provides loans for multifamily property types, with products that include conventional, affordable, manufactured, student, refinance, supplemental and small-balance transactions.



Robert Ryan

The landscape may change if 10-year Treasuries continue to inch forward as they have been. Over the last 30 days, for instance, we have seen a 30-basis-point increase in 10-year Treasuries. If this trend continues, buyers will begin to rethink what they can pay for properties, which will result in an upward pressure on cap rates.

It has been a fantastic time to be a seller or a borrower of multifamily product. The problem for many will be this: When these investors sell their assets at these attractive levels, where will they invest their gains?

— Jay Wagley is managing director of CBRE Melody and is located in the firm's Dallas office. CBRE Melody is a commercial mortgage banking firm that provides debt and equity financing options

for all property types, including the various multifamily asset classes. CBRE Melody also underwrites and services commercial mortgage loans.



Jay Wagley

To a great extent, the large real estate trusts are driving apartment project development. Most have effectively redlined the commodity markets, at least for the time being. We expect this to give the commodity markets a window within which to rebuild occupancy to equilibrium levels. We already see encouraging developments along

these lines in Austin, Atlanta and Denver. Similar trends are beginning to develop in Dallas, Houston and some of the slow-growth markets in the Midwest. Fundamentally, the markets are on the soundest footing since 2001.

The same dichotomy found in the market-rate arena between the barrier-protected markets and the commodity markets exists in the affordable realm. In the barrier markets, especially in California, Florida and the Northeast, one finds that the rents in the "affordable" component of the market-rent inventory are rising materially, while simultaneously the affordable housing stock - including rent-restricted units - is shrinking due to condo conversions and owners opting out of rent restrictions as they expire. As a result, low- and middle-income households have fewer housing choices and rent burdens are rising.

Condo conversion activity is causing a lot of the attrition of affordable units, especially in south Florida, San Diego County, Las Vegas and the Northeast. In the past, one would have seen predominately Class A apartments undergoing conversion - that is no longer the case. Recently, converters have purchased older, Class B and C properties with a view toward offering units at a price point affordable to moderate-income households. The impact on the stock of affordable housing is significant, especially in Florida.

Expanded credit options for low-income households have permitted many to purchase for-sale housing, including converted condos. But for households that have been unable to make the move, rent burdens are generally greater and housing options fewer than a few years ago.

Condos And CMBS Risk

We have seen a decline in cap rates nationally and across the multifamily sector. This is a result of low interest rates and condo converters entering certain markets. Because of this, we have seen a domino effect. Condo converters are paying up for properties, which is driving cap rates down. As a result, multifamily owners are selling their properties in these markets and are redeploying their dollars in markets such as Houston, Dallas and Austin.

The competition to buy is stiff. We are seeing many buyers who are willing to go firm with their earnest money from day one. From a lender's standpoint, it is difficult to fund an 80% loan-to-value deal when a property is trading at a 4.75% cap rate and lenders are constrained from a debt service coverage standpoint.

From Market-Rate To Affordable Housing Stock

Market-rate apartment supply pressures moderated steadily after 1999. And since 2003, these supply pressures have consistently evolved below forecast levels. This year, we expect deliveries to fall roughly 60% below 1999 levels at an aggregate amount that should easily be absorbed, even in the relatively soft contemporary leasing environment.

Moreover, the geographic dispersion of new multifamily construction is becoming increasingly rational - at least by our way of thinking - and bodes well for the future. We see declining production activity in the so-called "commodity" markets that can be described as over-supplied, and witness increased development in the supply-constrained and barrier-protected markets.

Multifamily Roundup

The latest available data show that the number of households suffering severe cost burdens is up by 16% in the past three years, while the availability of Section 8 vouchers has declined slightly. Although this phenomenon is not limited to the Miami, New York and Los Angeles markets, it is highly concentrated in barrier-protected coastal markets like these.

The situation is different in the lower-cost commodity markets. The condo conversion trade is a smaller factor, and market rate Class B and C rent trends have been soft for several years. In some geographic areas, a large segment of the market rate inventory is priced at rents falling comfortably within the affordable spectrum, and low-income housing tax credit (LIHTC) supply is often significant.

Consequently, the choices available to low-income households are greater and rent burdens are lower. Indeed, explicitly affordable properties are competitively challenged by the low-end of the market-rate inventory in a host of metropolitan areas.

In spite of soft occupancy here and there, the tax credit market remains exceptionally healthy. Credit prices are holding up very well and remain near record highs. The average price of a credit is about \$0.90. Prices as high as \$0.94 are not unusual, especially for deals developed by experienced sponsors or deals located in preferred barrier-to-entry markets.

Prices are likely to be stable in the near term. Corporate profits are high and rising, and taxable entities have considerable need for tax-advantaged investments. Lower pricing may develop in states and metropolitan areas that are experiencing overbuilding. But this should be a modest phenomenon.

Many states are being proactive by

allocating more credits to affordable housing preservation - as opposed to new construction - thereby limiting the supply of new tax credit product where it is not needed.

- Mark Beisler is president and chief operating officer at Red Mortgage Capital Inc. of Columbus, Ohio. Red Capital Group provides debt and equity capital to multifamily housing, seniors housing, and other real estate projects. Red Mortgage Capital Inc. specializes in Fannie Mae DUS and FHA/MAP mortgage products.

The Capital Markets

Real estate capital markets are becoming ever more liquid and efficient, with the securitization of collateralized debt obligations (CDOs) being the most recent phenomena that is driving asset liquidity. Lenders are increasingly turning to the securitization markets as an extremely effective method of tapping the value of real estate debt on their balance sheets. The securitizations can include almost any fixed-income debt as long as it has a maturity and can be rated, allowing lenders to leverage assets that were previously unleverable.

In addition to first mortgages, which are what most commercial mortgage-backed securities (CMBS) contain, CDOs can include bridge, mezzanine, B-notes, various CMBS tranches and construction loans, along with an array of other debt instruments.

Moreover, it is not required for CDOs to be static, as is typical of CMBS. When pay-downs or credit events occur, replacement assets can be tapped for inclusion in CDOs as long as they meet certain guidelines.

The result is that we are seeing a seminal change in real estate debt markets. CMBS and CDO investors are in effect becoming the lenders to the real estate industry, compared to insurance com-



Robert Levy

panies a decade or so ago. That broader base of investors has in turn fueled lower capital costs for originators, bringing the liquidity full circle.

Volume in 2005 for CDOs is projected to be \$12.3 billion, more than double the 2004 volume of \$6.1 billion. Additionally, while CMBS bonds were 65% of CDO collateral

two years ago, that number has dropped to 32% year to date, with the difference being more than made up by subordinate notes and mezzanine debt.

- Robert Levy is senior vice president of CharterMac in New York. CharterMac is a full-service real estate finance company with a strong core focus on the multifamily sector.

The Condominium Race

Equity financing in the multifamily sector is being driven primarily by two major trends: the conversion from for-rent properties to condominiums and the increasing demand for long-term equity capital.

One significant development is that the supply of existing for-rent product has been shrinking as more and more properties are taken offline and converted to condominiums. This trend, coupled with the facts that very little new for-rent supply has been delivered over the last couple of years and that there is very little new for-rent supply in the development pipelines of many markets, has caused the fundamentals in many markets to improve dramatically.

A number of markets are experiencing no concessions and better than 97% occupancy levels. These markets are now poised to enjoy significant rent growth in the near future.

As developers search for outside capital sources, many are looking for long-term capital - equity capital invested for a period of 10 to 15 years, and more. They are looking for patient equity investors, as opposed to those who are seeking short-term, quick internal rates of return.

For the latter, there is a myriad of available capital sources - such as the traditional



Mark Beisler

Multifamily Roundup

institutional funds - that gravitate to larger deals in excess of \$10 million of equity. But for many multifamily projects - whether renovation of existing projects or new construction - sources for smaller amounts of equity capital of, say, \$3 million to 5 million, who invest in a project for the long term are increasingly attractive, but surprisingly rare.

This approach suits both the developer and the investor, as these longer holding periods are designed to capitalize on recurring cash flow and to foster long-term value creation.

- David St. Pierre is president of Legacy Capital Partners of Lyndhurst, Ohio. Legacy Capital Partners is a private equity fund that invests in commercial real estate developments across the U.S.



David St. Pierre

Construction Challenges

Currently, we are seeing some of the large multifamily developers scouring the country for vacant land suitable for development, guided by certain demographics and where they see the biggest potential for growth. These companies are willing to buy and hold in anticipation of future development.

The dramatic increase in development across the country has significantly slowed the municipal and state approval processes. New Jersey provides a prime example, as some approvals here have taken up to seven years.

Our initial involvement with Cranford Crossing - a transit-village development now underway in Union County - dates back to 1998. Our construction division, Westminster Communities, was named designated redeveloper for this mixed-use project in 2002, but due to Department of Environmental Protection (DEP)-related

issues, nearly three years passed before we launched site work. Much of this waiting time was devoted to site remediation, which required multiple stages of testing, cleanup and approvals.

Fortunately, a company of our size has the financial staying power to withstand the delays inherent in urban redevelopment, as well as an experienced staff that can navigate the ever-changing regulatory environment.

Some of the larger developers in this market have as many as 80,000 units held up by the approval process. But some of the smaller projects, in the 25- to 50-unit range, are moving along. We are also finding that development of active adult communities (ages 55 and over) is growing everywhere.

Although most people are holding their breath waiting for the real estate bust to happen, we are not seeing it just yet. We are, however, seeing rates go up - and a bit of a flat line on some sales - with cap rates beginning to flatten out a bit.

I believe that interest rates will continue creeping up in the near future. They have already increased by 40 basis points over the past two months. It is reasonable to assume that cap rates will get closer to where they were in the early part of the century. Overall, there will be less and less land available, as is already the case in markets like New Jersey.

As a result of the dwindling land supply, developers in the Northeast are examining existing assets and looking to rezone and retrofit them to properties or asset types of these developers' liking. For example, we are seeing warehouse space and industrial or distribution centers being converted to multifamily, lofts or retail/office space. This is a trend that will continue into the future.

- Kevin Swill is president of Westminster Capital, the financing arm of Kushner Companies. His division is responsible for lo-

ating and securing capital to fund Kushner Companies' real estate activities.

Multifamily Overview

We are seeing a number of significant changes that affect both our borrowers and our investors, the most significant of which is the apparent bottoming out of the interest rate cycle.

The 10-year Treasury rate last peaked at 6.75% in December 2000. The steady decline from 6.75% to less than 4% in mid-2003 drove a tremendous volume of refinancing activity during that period by owners looking to improve cash flow through reduced loan payments. This refinancing activity has slowed significantly.

Since June of 2003 the benchmark 10-year rate has been range bound, making the round trip between 4% and 4.5% four times. This has stabilized bond market returns after a three-year bull run. Recent low rates of return in bonds and stocks have pushed a substantial flow of capital into the market for real estate equity and debt.

Some observers are fearful that these "out-of-the-box" transactions represent a broad-based relaxation of credit standards. At least in transactions we have structured, our perception is of an industry that is maturing and seeking ways to better meet borrowers' needs, while maintaining credit quality through loan structuring that is risk-specifically targeted to the individual transaction.

These risk-specific targets are particularly apparent in seniors housing,

which we define as including assisted living and skilled nursing. Three years ago there was limited capital available to this sector outside of FHA-insured debt. In the past 18 months, though, Love Funding has arranged conventional financing of four portfolio acquisitions for more than \$125 million, and we are working on several more. Debt is more accessible and property valuations have increased.



Kevin Swill

Multifamily Roundup

Acquisitions were done at 10.5% or 11% cap rates in early 2004. Today, cap rates are 9% to 9.5%. This rise in values has also allowed a number of our clients to unlock appreciation through conventional refinancing.

A large part of our conventional business is placed with our conduit partners. The CMBS arena has seen significant changes over the past year. The demand for CMBS securities continues to escalate. In the first nine months of this year, \$106.8 billion of CMBS backed by U.S. properties were issued. This exceeds the record \$90.8 billion of issuance for all of 2004. For the full year, it appears that volume will exceed \$140 billion. The CMBS market now seems to have reached a rough balance between supply and demand, with spreads on the bonds remaining relatively constant through the year.

The continued increase in the number of CMBS lenders and demand for CMBS product from investors has driven down spreads in the past year by 15 to 25 basis points. This spread compression is part of a trend in place for several years. However, the trend may be coming to an end.

Until this year, conduit lenders' profit margins were helped by a steady increase in the price investors were willing to pay for CMBS product. In addition, the rating agencies were effectively boosting the profitability of the business by reducing their requirements for subordinated (lower-rated) bonds in each transaction. As the percentage of investment-grade bonds in each CMBS increased and the price investors were willing to pay for the investment-grade bonds also rose, conduits were able to



Thomas E. O'Brien

steadily reduce spreads on new loans while retaining profitability on the securitization of the pools.

Investor spreads and rating agency-required subordination levels have both stabilized this year. As a result, this year's decline in spreads has come primarily out of the profits of our lenders. Early last year they targeted a 2% to 2.5% profit margin when pricing a loan. Today, these lenders are compelled (by competitive pressures) to price with profit targets in the 1% to 1.5% range. This combination of factors makes further significant improvement in spreads unlikely.

As spread competition has become less attractive to lenders, we have seen an increase in efforts to "take loans off the street" by providing solutions to borrowers at earlier stages of their property investment program.

– Thomas E. O'Brien is vice president and commercial lending manager for Love Funding Corp. in the firm's Washington, D.C., office. Over the past 18 months, Love Funding has placed a half-billion dollars of conventional loans with investment partners.

Developing Affordable Housing

On the affordable housing front, the good news for developers is that the amount of capital available for new construction and substantial rehab is as abundant as it has ever been. However, this capital market condition translates into bad news for lenders. These lenders must battle against lower rates, faster turnarounds and a host of concessions that borrowers have now come to expect.

At the same time, developers are finding it more difficult to assemble good sites - particularly in the more densely populated areas. The premiums being realized - for both land and buildings - in the markets

where affordable housing is most needed increases the level of difficulty developers are experiencing in finding and developing good sites.

Additionally, as construction costs continue to rise, even rehab opportunities are having a tough time making the numbers work. This translates into more capital chasing fewer solid deals, creating a competitive environment that requires lenders to offer terms that are increasingly aggressive.

In spite of this competition, Bulls Capital Partners is very optimistic about 2006, and we see affordable housing as a major factor in our business plan for next year.

– Herman Bulls is president and chief executive officer of Vienna, Va.-based Bulls Capital Partners LLC, a Fannie Mae Delegated Underwriting and Servicing (DUS) lender that offers a full array of financing solutions to owners of multifamily properties.

Construction Risk

Multifamily demand almost everywhere has firmed up - in large part because we have returned to positive employment growth in most markets (the exception is the upper Midwest, where many markets are continuing to lose jobs). New multifamily development is in balance with this demand, so the outlook is better than it has been in the last several years.

However, employment growth is nowhere near as robust as the growth we saw in the late 1990s. Despite this lackluster employment growth, combined residential development

(single family, for-sale multifamily and rental multifamily) is at all-time highs and shows no signs of abating.

There are very few markets with any pent-up demand for housing, and given the record volumes of new residential construction underway,



Herman Bulls



Kevin Kleen

Multifamily Roundup

even a mild recession could have a serious impact on multifamily rents and occupancy.

— Kevin Kleen is a senior vice president at Calabasas, Calif.-headquartered ARCS Commercial Mortgage Co. LLP, a national commercial lender that provides Fannie Mae, Freddie Mac, capital markets, FHA, mezzanine and bridge financing to the multifamily and commercial real estate marketplace.

Condos Driving An Oversupply

An abundant supply of new tax credit-oriented products that are geared for an already overbuilt sector will further depress occupancies in many markets. Many areas of the country are already overbuilt. Most market-rate product today is being built as for-sale condos, but some of this supply will fail to sell and end up as high-end rentals. Overall, the supply of new market rentals is at very low, maybe even historically low, levels.

With regard to the effects of the condo-building race on multifamily supply, the condo market, combined with the effects of Hurricane Katrina, is improving the fundamentals of those markets. A lot of units are coming offline, but possibly only on a temporary basis.

Leverage is abundant, but lenders now appear to be making carefully informed underwriting decisions. These lenders are taking the risk they want and desire - not just making big, sloppy loans.

The tremendous transparency of the CMBS market, coupled with the B-piece market, is enabling the most creative capital stacks in the history of commercial real estate finance. Given the generally improving fundamentals in the commercial real estate space,

these higher capital-stack transactions do not appear to be under any stress.

— William C. Green is managing director of real estate capital markets at Wachovia Securities. Wachovia Securities is the trade name for the corporate, investment banking, capital markets and securities research businesses of Wachovia Corp. and its subsidiaries, including Wachovia Capital Markets LLC and Wachovia Securities International Limited.

Population And Construction

There seems to be an equilibrium developing between multifamily supply and demand in many markets. Occupancies are improving, and concessions are burning off. These conditions are being driven by the fact that the population in many areas is growing - some of which is fueled by an influx of immigrants.

In some markets, there still is too much new supply. In others, there are more units coming online than is optimal. However, over time, most of those markets will be fine.

Increasing interest rates will make single-family homes less affordable. Fewer tenants will be able to move out of multifamily rental units because they will have more difficulty making debt service payments. In addition,

some homeowners will become tenants again as payments on their adjustable-rate mortgages rise to a point they cannot support.

There is plenty of demand for affordable housing, which is sometimes called workforce housing. In many areas, it is difficult for service workers to find affordable apartments that are located in reasonable proximity to their workplaces. These workers often have to drive great distances to and from work in order to find apartments that meet their budgets. So, all in all, there remains a great need in many parts of the U.S. - especially in or near major cities -

for affordable rental housing.

The condo craze has created strong demand for available land and for the acquisition of existing apartment projects. Land prices in some areas (such as in south Florida) have escalated to the point where developers of affordable housing cannot compete. But when the existing projects are converted to condominiums, many residents are forced to look for alternative projects in which to rent an apartment. This condition can help the market's balance on the demand side.

The other side of the coin is the reality that many of the existing condo units have been bought by investors for eventual resale. As a result, many of those units are still available for rental. What may happen in some markets is that as prices finally stop rising or actually decrease (something we have not seen in quite some time now), individual investors will have to cut their asking price in order to sell their units. If it spirals downward, new buyers will be able to charge less rent (as a result of having bought at bargains), forcing others to follow suit. That scenario could hurt apartment owners in the short run.

For the past few years, we have seen much more variable-rate financing than we had seen previously. With rates rising, this condition has already started to change. There is a clear sense that both lenders and borrowers have begun to move back to fixed-rate financing.

The increased capital supply of today has caused some lenders to loosen their underwriting standards a bit, so more projects have been financed. We've seen longer amortization periods in some instances and longer interest-only periods in others.

In-depth analysis of the owner/developer/guarantor continues to be very important. A strong sponsor often can prevent a deal from defaulting, even in tough times. ●

— Rick Monfred is managing director at Baltimore-based MMA Financial, the affordable housing unit of MuniMae Inc.



William C. Green



Rick Monfred