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## THE WALL STREET JOURNAL

WSJ.com

CREDIT MARKETS | AUGUST 31, 2011

# Freddie to Step Up Multifamily Loans

By AL YOON

Freddie Mac plans to accelerate its program to purchase loans backed by apartment buildings, increasing the availability of financing for landlords and helping to bolster the multifamily real-estate market.

Freddie Mac, the government-backed mortgage-finance giant, will likely fund more than \$16 billion in apartment-building loans this year, up from \$14.8 billion in 2010, said David Brickman, head of multifamily funding for the McLean, Va., company.

More than half of this year's total will come in the second half, including a just-closed \$73.5 million loan on Rosslyn Heights apartments, a 366-unit complex in Arlington, Va., he said.

The bulk of the loans will be packaged into commercial mortgage-backed securities and sold to investors, which have shown strong demand for CMBS that are issued by government-backed entities such as Freddie Mac and Fannie Mae.

Fannie Mae invested \$10.5 billion in the multifamily market for the first half of this year, putting it on track to exceed the \$16.9 billion in purchases for last year.

At the same time, investors have been stepping away from CMBS packaged and sold by private investment banks.

"It's been steady growth, and that's a very stark contrast to what's been going on in the [private] market," said Freddie Mac's Mr. Brickman. "We are getting very strong support from the market."

The demand for Freddie Mac's commercial mortgage bonds was apparent last month, when its eighth deal of the year was caught in the middle of a ratings drama. An 11th-hour internal review at Standard & Poor's had prevented the firm from delivering final ratings on a \$1.5 billion CMBS offering from [Goldman Sachs Group Inc.](#) and [Citigroup Inc.](#) and on a \$1.04 billion offering from Freddie Mac. The Goldman-Citigroup issue still had a rating from Morningstar, while the Freddie Mac deal still had a rating from Fitch Ratings.



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With only one rating, Goldman Sachs and Citigroup yanked their CMBS from the market, hired Moody's Investors Service to provide a second rating and pushed the deal into the autumn months.

But Freddie Mac's deal went off anyway, as investors told dealers they were comfortable with the Freddie Mac CMBS, even with just the single Fitch rating.

"Not a single one of more than 30 investors dropped from the deal" after the dealers reconfirmed the trades, Mr. Brickman said.

Freddie Mac bought a \$73.5 million loan on the Rosslyn Heights apartments in Virginia as part of its expansion in commercial real-estate financing.

The disparity illustrates the fragile state of the \$700 billion CMBS market just two years after it began to recover. As investors backed away from risky assets this summer and were met with greater rating uncertainty, banks are halting loans in

the pipeline or renegotiating them with less favorable terms, said David Viklund, a real-estate lawyer at Paul Hastings in New York.

Meanwhile, yields on Freddie Mac CMBS, called K Certificates, are about 3.13%, 0.84 percentage point over a common benchmark. Yields on top-rated, private CMBS are running at about 4.84%.

The apartment-building sector, the only type of commercial real estate funded through federally backed programs, may be able to withstand any hiccups in the economic recovery, analysts said. In addition to funding availability, rising rents and a lack of supply in many regions are acting as tail winds for apartment-building values.

By contrast, office buildings and retail stores have been the main beneficiaries of the private CMBS market, with those sectors constituting nearly 80% of CMBS in the last quarter, according to Moody's Investors Service. Multifamily was "well represented" in precrisis CMBS, though the delinquency rate on those loans has soared to about 15%, making it one of the worstperforming sectors of CMBS, Moody's said.

Freddie Mac's and Fannie Mae's multifamily delinquency rates are a fraction of those for CMBS, though their funding has also been tied to excesses of the real-estate boom, such as the failed \$5.4 billion acquisition of two huge apartment complexes in New York City, Stuyvesant Town and Peter Cooper Village.

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