SIMON | ANDERSON TEAM **MARKET UPDATE**

MULTIFAMILY LENDING MARKET UPDATE

2020 Market Study
Puget Sound Region

Q3 | 2020

Kidder Mathews

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INTRODUCTION

JULY 2020

This study provides a granular overview of multifamily loan originations in the Puget Sound Region in 2018, 2019, and Q1 2020. As such, much of the data is retrospective, but it provides valuable context.

Key Takeaways:

Multifamily loan originations in the Puget Sound Region surged 29% in 2019 to $12.5 billion.

Q1 2020 originations were essentially flat year-over-year, both in terms of loan count and total balances.

Debt funds, broadly including non-bank lenders like pension funds, REITS, and syndicated pools, saw an incredible surge in lending activity in 2019. These groups lend to both private and institutional investors, and surpassed life insurance companies in regional 2019 loan originations.

Interest rate benchmarks have been mostly steady since late March. For borrowers looking for low leverage loans, rates have never been better. For high leverage and opportunistic deals, lenders remain selective.

We hope this study is a helpful reference tool that provides actionable insights for your business. Contact us to learn more about how we're putting this data to work for our clients.

ALEX MUNDY
Debt Finance

MEET OUR TEAM

Dylan Simon
Executive Vice President

Dylan is a market-leading broker serving Seattle and the Puget Sound region, specializing in the sale of apartment buildings and development land, with expertise in sales strategies, market knowledge, and industry trends.

Jerrid Anderson
Executive Vice President

Jerrid is an apartment broker specializing in micro apartment, urban apartment, and development land sales. He is passionate about marketing and video content.

Matt Laird
Senior Associate

Matt is an apartment broker specializing in 5-30 unit urban and suburban apartment sales, underwriting, valuations, and market research.

Brandon Lawler
Associate

Brandon is an apartment broker specializing in business development, market research, and off-market acquisitions, with an expertise in the Pierce County market.

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Financial Analyst

Tyler specializes in financial underwriting, apartment and development land valuations, market research, and data analysis.

Winslow Lee
Associate

Winslow is an apartment broker specializing in sales of apartment buildings and development land across the Puget Sound, with expertise in the Snohomish County market.

Cate Chase
Senior Marketing Specialist

Cate manages both team and property marketing, specializing in writing, branding, digital strategy, PR, and event planning.

ALEX MUNDY

Alex leads mortgage brokerage for the Simon | Anderson Team, specializing in loan origination and financial underwriting.

Alex joined the team in 2018, bringing a decade of industry experience including more than six years as a multifamily lender.

It is our goal to meet your needs at every phase of apartment ownership, whether you are building, buying, selling, or refinancing. Financing is a fact of life for multifamily investors, so we strive to bring you best-in-class mortgage brokerage services through integrity, experience, and leveraging our industry relationships.

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01

MULTIFAMILY LENDING

2019 NATIONAL MULTIFAMILY DEBT

2019 PUGET SOUND MULTIFAMILY LOAN ORIGINATIONS

2019 PUGET SOUND MULTIFAMILY LOAN ORIGINATIONS BY TIME OF YEAR

2019 TOP LENDERS BY CATEGORY

2019 ORIGINATIONS BY COUNTY

Q1 2020 PUGET SOUND MULTIFAMILY LOAN ORIGINATIONS

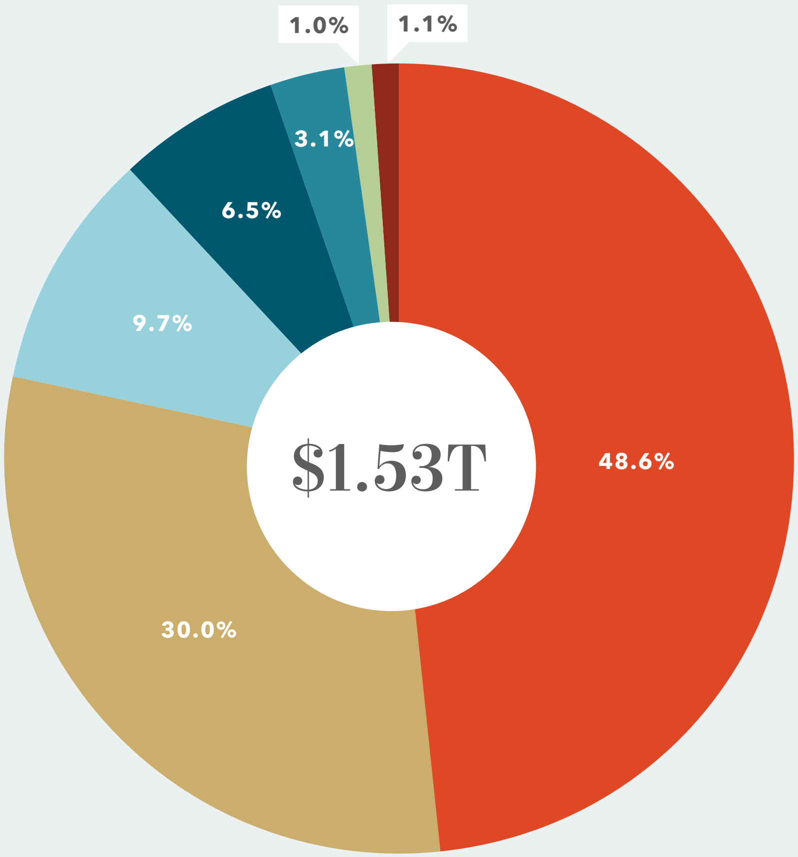
Kidder Mathews

2019 NATIONAL MULTIFAMILY DEBT

This chart breaks down the $1.53 trillion in outstanding multifamily loan balances in the U.S. as of Q4 2019.

Total loan balances were up 8% from a year earlier. All lender categories increased their balances except direct government loans, which shrank by 1.6%.

The agencies (Fannie Mae, Freddie Mac, Ginnie Mae) remain the dominant players in multifamily finance at the national level with 48.6% of all multifamily debt, up from 47.7% in 2018. Next in line are banks with 30% market share, followed by life insurance companies with 9.9% market share.



$744B
Agency

$459B
Banks

$149B
Life Insurance

$100B
Government

$48B
CMBS

$15B
Debt Fund

$17B
Other

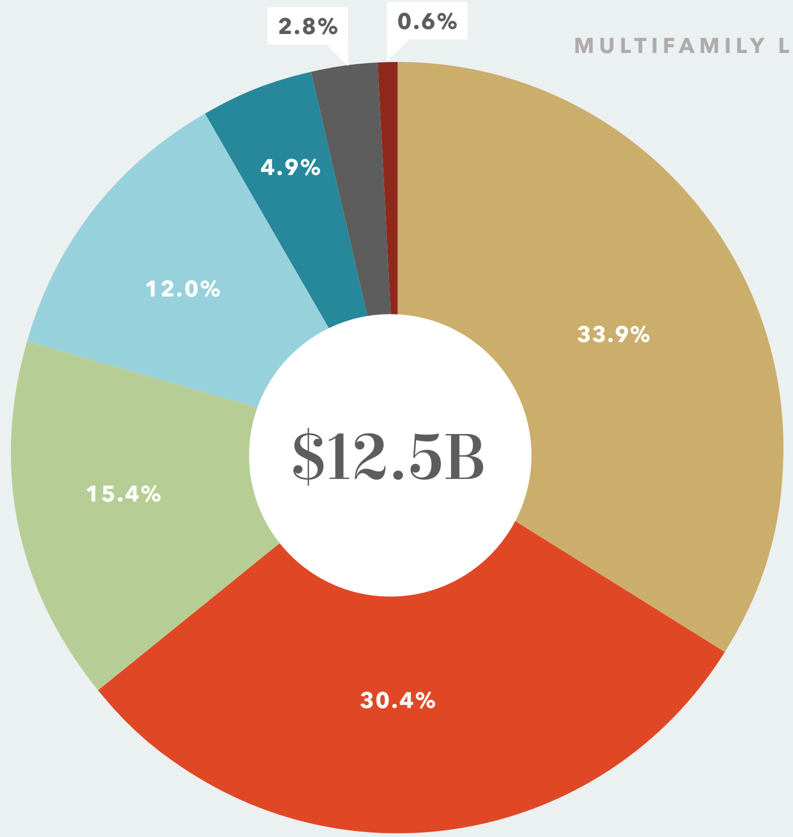
2019 PUGET SOUND MULTIFAMILY LOAN ORIGINATIONS

Our survey includes all multifamily loan originations over $1 million originated in King, Pierce, Snohomish, and Kitsap Counties.

Whereas the national loan data on page 6 comprises outstanding balances, the following data for the Puget Sound region covers new loan originations.

While the agencies have nearly 50% national market share, they only account for one-third of originations in our region. The high concentration of bank, life insurance, and debt fund capital reflects the Puget Sound's desirability as a global investment center.

A notable component of the Puget Sound Region's lending ecosystem is debt funds, which we separate in the following pages of the study between institutional (average size over $10M) and private (average size under $10M). These companies are non-bank lenders who source capital in a variety of ways. They include pension funds, sovereign wealth funds, family offices, and leveraged and non-leveraged investment funds. They made up a remarkably large portion of the multifamily lending market in 2019—the result of several large construction projects funded by these groups.



$4.24B
Banks

$3.81B
Agency

$1.93B
Debt Fund

$1.50B
Life Insurance

$615M
CMBS

$348M
Credit Union

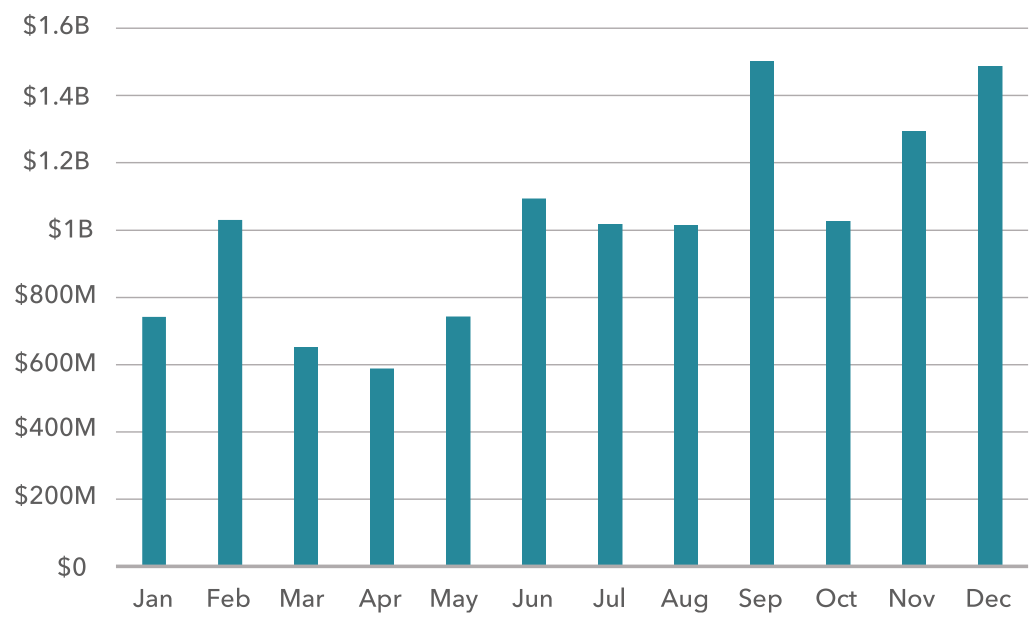
$79M
Other

2019 PUGET SOUND MULTIFAMILY LENDING

Originations tend to ramp up at the end of the year and fall off in Q1.

Starting the loan process at the beginning of the year can be a good way to tap into full lending budgets when there are fewer borrowers shopping around. More detail on 2018 and 2019 originations are shown on the following charts. Of note are loan counts and average loan sizes. Banks and agency lenders are the deal factories, while life insurance companies and CMBS focus on large loans.

2019 Loan Originations

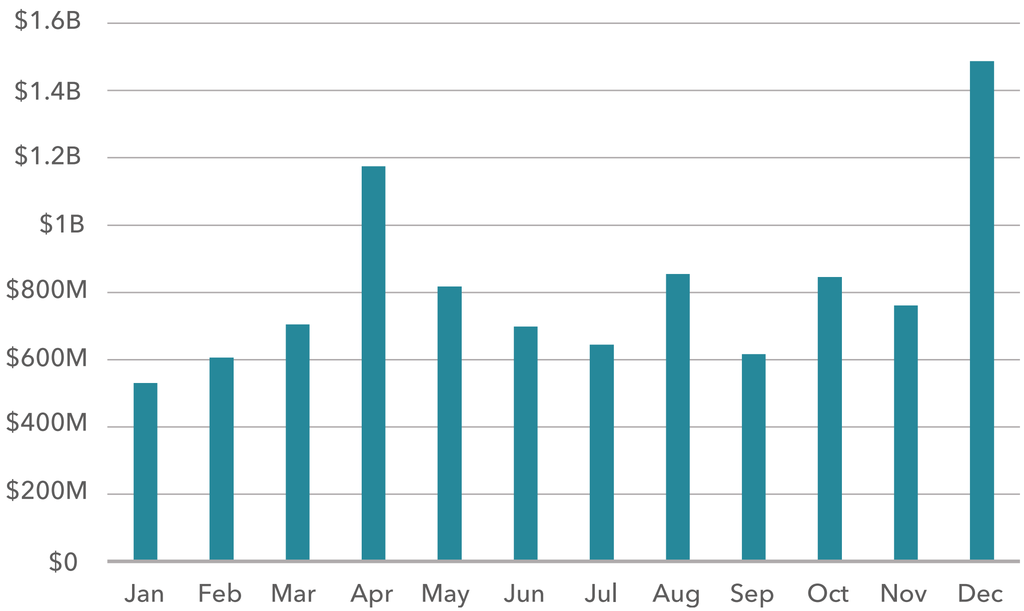


2019 MULTIFAMILY LENDING IN THE PUGET SOUND REGION

Lender Type	Loan Volume	% of Total	Loan Count	Average Loan Size	YOY Change*
Bank	$4.24B	33.9%	511	$8.3M	9%
Agency	$3.81B	30.4%	242	$15.8M	20%
Institutional Fund	$1.81B	14.4%	29	$62.3M	464%
Life Insurance	$1.50B	12.0%	50	$30.0M	0%
Non-Agency CMBS	$615M	4.9%	25	$24.6M	57%
Credit Union	$348M	2.8%	83	$4.2M	3%
Private Fund	$126M	1.0%	40	$3.1M	45%
Other	$79M	0.1%	26	$3.0M	24%
Total / Average	**$12.53B**		**1,006**	**$12.5M**	**29%**

*CHANGE IN LOAN VOLUME

2018 Loan Originations



2018 MULTIFAMILY LENDING IN THE PUGET SOUND REGION

Lender Type	Loan Volume	% of Total	Loan Count	Average Loan Size
Bank	$3.89B	39.9%	451	$8.6M
Agency	$3.17B	32.5%	215	$14.7M
Institutional Fund	$320M	3.3%	13	$24.7M
Life Insurance	$1.49B	15.3%	46	$32.5M
Non-Agency CMBS	$392M	4.0%	24	$16.3M
Credit Union	$337M	3.5%	87	$3.9M
Private Fund	$87M	0.9%	26	$3.3M
Other	$63M	0.4%	24	$2.6M
Total / Average	**$9.74B**	**100.0%**	**886**	**$11.0M**

LENDER TYPES

AGENCY | BANK | INSTITUTIONAL FUND | LIFE INSURANCE | CMBS | CREDIT UNION | PRIVATE FUND

AGENCY

This category refers to licensed correspondents that facilitate loans through Fannie Mae, Freddie Mac, and Ginnie Mae. They are the dominant lenders in Pierce, Snohomish, and Kitsap, but they take the #2 spot in King and the #2 spot for the Puget Sound Region as a whole.

The agencies excel at providing competitive long-term financing, with standard features being non-recourse and partial to full-term interest-only. In low cap rate markets like the Seattle area, interest-only is a "make or break" feature for cashflow-oriented investors. Small balance lending (less than $7.5 million for Freddie Mac and $6 million for Fannie Mae) makes up over 50% of total agency loan count.

2020 UPDATE

The big news at the end of 2019 was that lending caps for the agencies had been increased, with the FHA allowing Fannie Mae and Freddie Mac to lend a combined $160 billion in 2020. Declining rates in January and February led to a surge of refinance activity. After the Fed slashed rates to zero in March, there was a brief window where the agencies initiated an enormous amount of new business and then promptly increased rates to stem the tide.

Following the initial COVID-19 lockdowns, Fannie Mae and Freddie Mac implemented reserve requirements on new loans mandating that borrowers put a significant amount of initial cash into escrow at closing. These requirements are still in effect and include up to 12-18 months of principal and interest, taxes, insurance, and replacement reserves. The requirements are mitigated for Tier 3 loans (65% LTV or less and minimum 1.35 debt service coverage) and removed for Tier 4 loans (55% LTV or less and minimum 1.55 debt service coverage).

For Tier 4 loans, 10-year rates are generally less than 3%, making the agencies the most price-competitive option in the market today.

CBRE — 2019 Top Agency Lender

2019 PUGET SOUND AGENCY STATS

27	Total No. Active Lenders
$15.8M	Average Loan Size
↑ 20%	YOY Change

BANK

This category refers to loans originated by banks to hold on their balance sheet.

Banks were the largest originators of new multifamily debt in the region in both 2018 and 2019. They saw a 9% increase in originations compared to 2018.

Banks offer a diverse array of commercial real estate lending products. Some organizations have multiple business lines offering different loan programs. Although banks dominate new construction financing, some institutions focus exclusively on permanent debt and compete aggressively with the agencies. Loan amounts are typically constrained by debt service coverage (DSC) with a minimum range of 1.20–1.30 DSC being the standard requirement for all loan types.

In 2020, some banks have exited the market temporarily to wait for economic conditions to improve. Most of our bank lending partners are lending selectively and more conservatively than in early Q1.

JPMorgan Chase & Co. — 2019 Top Bank Lender

2019 PUGET SOUND BANK STATS

77	Total No. Active Lenders
$8.3M	Average Loan Size
↑ 9%	YOY Change

INSTITUTIONAL FUND

This category refers to loans originated by non-bank lenders that fall outside of the CMBS and life insurance categories.

As a subset of "debt funds," we separated "institutional funds" (defined by an average deal size of $10M or more) from "private funds" (defined by an average deal size of less than $10M). This category is comprised of pension funds, sovereign wealth funds, mortgage REITS, some family offices, and other investment pools that focus on institutional development projects.

These funds saw a remarkable surge in lending activity in the Puget Sound Region in 2019 of 464%. Of the 29 active companies in the region over the past two years, only a handful completed more than a single transaction in that timeframe.

We expect that the challenges faced by non-bank lenders during the COVID-19 crisis will result in a significant pullback in this category in 2020.

Otéra — 2019 Top Institutional Fund Lender

2019 PUGET SOUND INSTITUTIONAL FUND STATS

29	Total No. Active Lenders
$62M	Average Loan Size
↑ 464%	YOY Change

LIFE INSURANCE

This category refers to loans originated to hold on life company balance sheets.

Life insurance companies generally focus on long-term debt for Class A assets in core markets. Minimum loan sizes are typically $10 – $20 million, yet some life companies compete in the $5 - $10 million space. Offerings also include bridge financing, construction financing, participation loans, and equity investment. Originations were flat between 2018 and 2019.

In 2020, life insurance companies have become much more selective from a credit perspective. Rates surged in early 2020 but have since come back down to very competitive levels.

PGIM — 2019 Top Life Insurance Lender

2019 PUGET SOUND LIFE INSURANCE STATS

36	Total No. Active Lenders
$30M	Average Loan Size
FLAT	YOY Change

NON-AGENCY CMBS

This category is comprised of non-agency lenders that pool and sell multifamily mortgage-backed securities without a government guarantee.

Characteristics generally include competitive 10-year terms, high leverage, non-recourse, and aggressive interest-only periods.

CMBS lending increased 57% in 2019, driven by a pullback in agency lending in Q3. CMBS was pushed out of the market as the agencies came roaring back in late 2019, and their 2020 production shrank nearly to zero.

Deutsche Bank — 2019 Top CMBS Lender

2019 PUGET SOUND CMBS STATS

13	Total No. Active Lenders
$24.6M	Average Loan Size
↑ 57%	YOY Change

BECU

2019 Top Credit Union Lender

2019 PUGET SOUND CREDIT UNION STATS

21	Total No. Active Lenders
$4.2M	Average Loan Size
3%	YOY Change

CREDIT UNION

This category includes state and federal credit unions that originate loans to hold on their balance sheets.

Credit unions have a significant presence in Washington, which is why we decided to separate this category from banks. They tend to focus on smaller balance loans, often have flexible terms with aggressive prepayment options, can operate with less regulatory baggage than traditional banks, and are often competitively priced. However, they almost always require full recourse and are selective on interest-only terms. They cover the gambit of construction lending, bridge lending, and permanent financing.

Credit unions have remained active through the economic fallout this year, although, like banks, they are more selective than they were pre-crisis.

SFG SEATTLE FUNDING GROUP LTD

2019 Top Private Fund Lender

2019 PUGET SOUND PRIVATE FUND STATS

34	Total No. Active Lenders
$3.1M	Average Loan Size
45%	YOY Change

PRIVATE FUND

This category refers to loans originated by non-bank lenders that also fall outside of the CMBS and life insurance categories. See our description under Institutional Funds on page 11.

This category is comprised of leveraged and unleveraged investment funds, balance sheet bridge lending programs for agency and CMBS lenders, and "hard money" lenders.

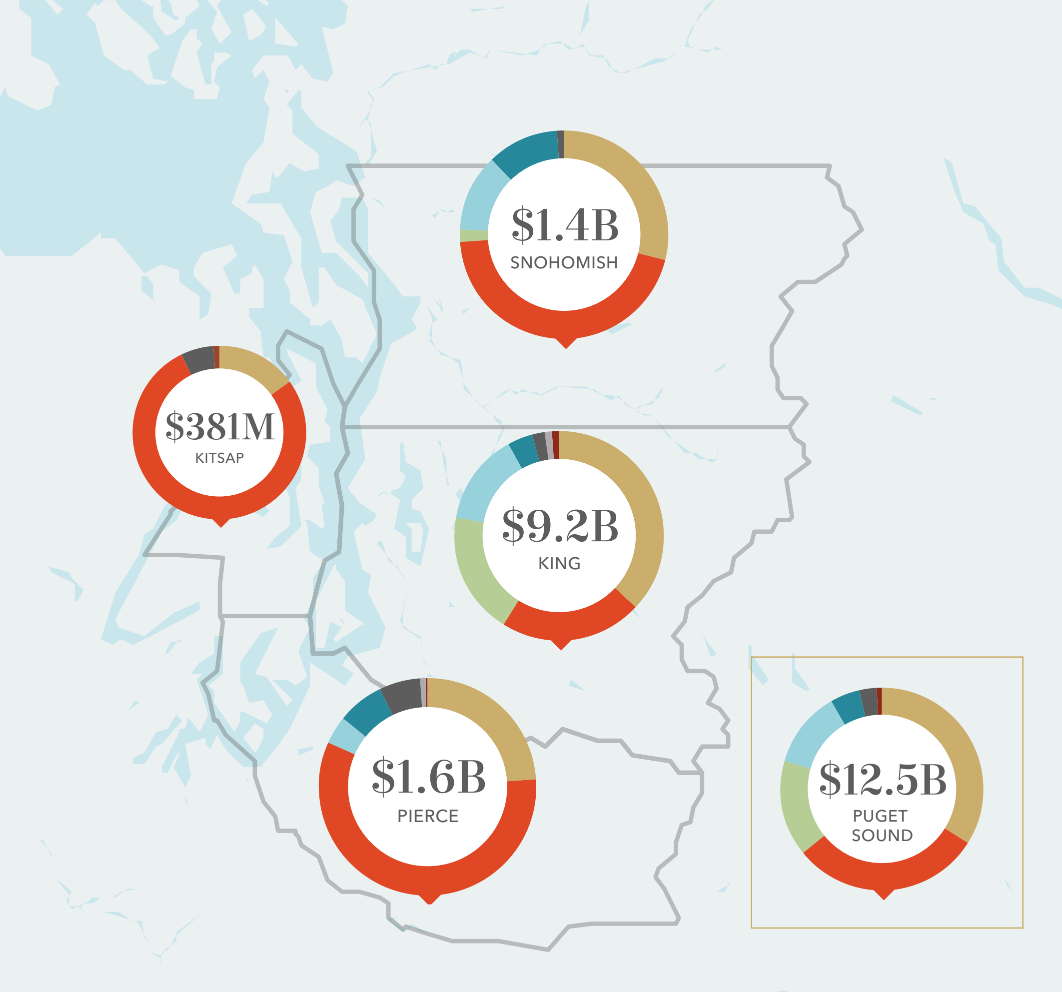
These lenders saw a significant increase in lending activity in 2019 compared to 2018. But unlike the larger debt funds focused on institutional borrowers, these lenders (whose customers are typically private developers and value-add buyers) significantly increased their loan origination volumes in Q1 2020 compared to Q1 2019.

MULTIFAMILY LENDING

2019 ORIGINATIONS BY COUNTY

Loan volumes by county show notable differences between King County and the rest of the region.

Banks, life insurance companies, and debt funds are very active in King County. This is largely driven by new construction and King County's concentration of Class A product, which attracts these types of lenders. By contrast, loan activity in the outlying counties is skewed toward permanent financing on more affordable existing buildings, which is where the agencies excel.



	KING		PIERCE		SNOHOMISH		KITSAP	
Lender Type	Total	%	Total	%	Total	%	Total	%
Bank	$3.41B	37%	$373M	24%	$401M	29%	$57M	15%
Agency	$2.00B	22%	$900M	58%	$616M	45%	$298M	78%
Institutional Fund	$1.79B	19%	$0	0%	$21M	2%	$0	0%
Life Insurance	$1.27B	14%	$63M	4%	$160M	12%	$0	0%
CMBS	$350M	4%	$113M	7%	$152M	11%	$0	0%
Credit Union	$220M	2%	$89M	6%	$17M	1%	$22M	6%
Private Fund	$98M	1%	$19M	1%	$6M	0%	$2M	0%
Other	$70M	1%	$1M	0.1%	$4M	0%	$3M	1%
Total	**$9.21B**		**$1.56B**		**$1.38B**		**$381M**	

Q1 2020 PUGET SOUND MULTIFAMILY LOAN ORIGINATIONS

This section highlights Q1 2020 originations, with Q1 2019 originations shown for reference.

Total origination volume and loan counts were essentially flat year-over-year. Interestingly, banks and life insurance companies increased their loan volumes, but much of this was the result of lending activity in January and February, with some large deals closing in March to institutional borrowers that were likely in process starting months beforehand in 2019.

The data confirms that agencies, institutional non-bank lenders, and CMBS pulled back in Q1.

Q1 2020 MULTIFAMILY LENDING IN THE PUGET SOUND REGION

Lender Type	Loan Volume	% of Total	Loan Count	Average Loan Size	YOY Change*
Bank	$860M	35.1%	102	$8.4M	30%
Agency	$703M	28.7%	45	$15.6M	-9%
Institutional Fund	$103M	4.2%	4	$25.8M	-83%
Life Insurance	$519M	21.2%	15	$34.6M	164%
Non-Agency CMBS	$35M	1.4%	1	$35.0M	-74%
Credit Union	$118M	4.8%	19	$6.2M	129%
Private Fund	$73M	3.0%	14	$5.2M	205%
Other	$38M	1.6%	11	$3.5M	252%
Total / Average	**$2.45B**		**211**	**$11.6M**	**Flat**

*CHANGE IN LOAN VOLUME

Q1 2019 MULTIFAMILY LENDING IN THE PUGET SOUND REGION

Lender Type	Loan Volume	% of Total	Loan Count	Average Loan Size
Bank	$662M	27.1%	105	$6.3M
Agency	$774M	31.7%	46	$16.8M
Institutional Fund	$591M	24.2%	5	$118.3M
Life Insurance	$197M	8.0%	9	$21.8M
Non-Agency CMBS	$133M	5.5%	11	$12.1M
Credit Union	$51M	2.1%	16	$3.2M
Private Fund	$24M	1.0%	8	$3.0M
Other	$11M	0.4%	6	$1.8M
Total / Average	**$2.44B**		**206**	**$11.9M**

02

INTEREST RATES

2020 - OVER THE CLIFF

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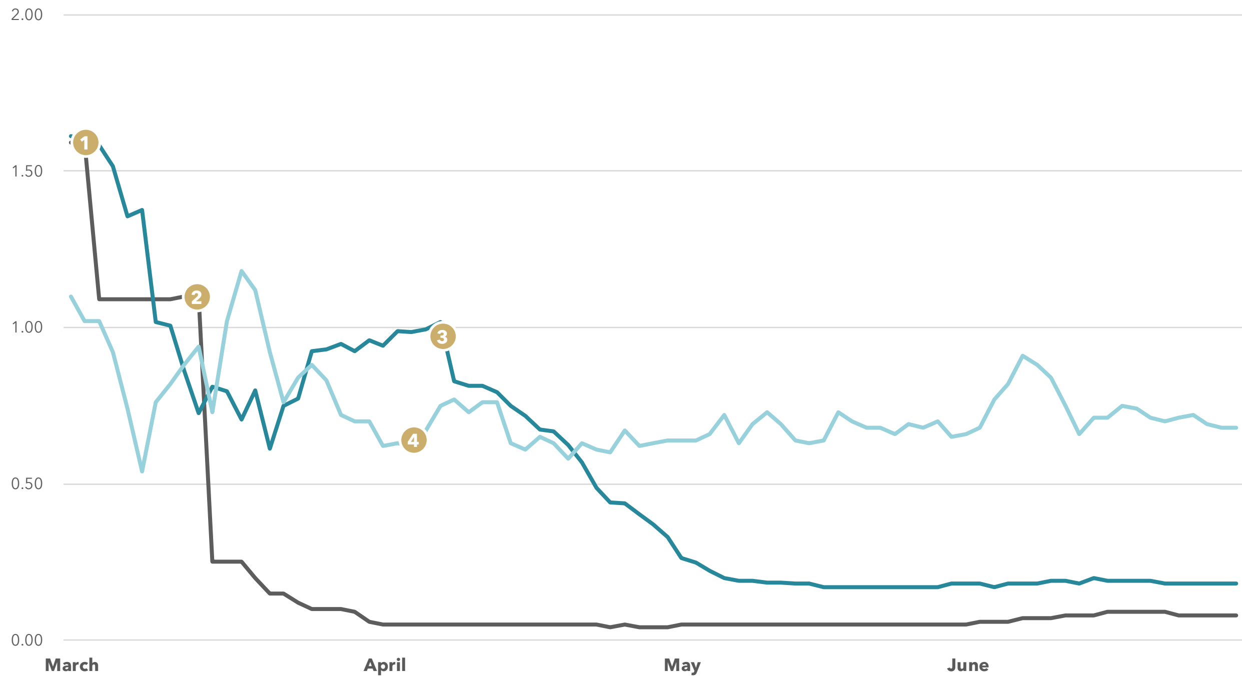
2020 - OVER THE CLIFF

Following sharp drops after the Fed slashed rates in March, key interest rate benchmarks have remained mostly stable.

An exception was the subsequent drop of LIBOR in April, which had a delayed reaction to the Fed's activities. Since early May, major indices like LIBOR and the 10-year treasury have oscillated between narrow ranges.

Historically low benchmarks do not necessarily translate to historically low rates for apartments owners. Risk, competition, and fixed costs all play a role in the market. For bridge and construction loans, financing options are generally more conservative and more expensive than they were six months ago. There are also fewer active lenders in the market than there were six months ago, which empowers lenders to hold rates higher and be more selective. However, with rates in some cases in the 2.50%-3.00% range, this is an excellent time to refinance conservative loans.

CHANGE IN FEDERAL FUND RATES, 10-YEAR TREASURY, 1M LIBOR



1	MARCH 3	First Emergency Cut
2	MARCH 16	Second Emergency Cut
3	EARLY APRIL	1M LIBOR plummeted
4	EARLY APRIL	10-Year-treasury was highly volatile, and has since held steady between 0.60% and 0.70%

10-YEAR TREASURY
1-MONTH LIBOR
FED FUNDS RATE

Source: US Treasury Data / Economagic.com

Our team is focused on providing absolute best-in-class brokerage services to apartment developers, investors, and owners in Seattle and the broader Puget Sound region.

Although we have brokered hundreds of millions of dollars of apartment transactions over the years, our approach to the brokerage business is modern and dynamic. We perform all of the traditional tasks associated with apartment and loan brokerage, yet our clients gain the advantage of modern advisory practices and services.

We think and act in terms of absolute market expertise, exposing arbitrage opportunities and achieving best-in-class sales results. We inspire trust and confidence in our guidance to the market by leveraging data and information to develop Profitable Insights™ on the market. Our clients excel by having an unfair advantage over the marketplace.

SERVICES OFFERED

LOAN BROKERAGE for construction, bridge, and permanent financing

SALE of stabilized apartment buildings – five units to 500 units

OFF-MARKET pursuits of pre-sale and stabilized apartment buildings

SALE of development land, both apartments and mixed-use

STRATEGIC disposition of apartment portfolios

Let us turn our expertise into your profit!

DATA SOURCES

LOAN ORIGINATIONS

Black Knight Services

RCA Analytics

Trepp

Reonomy

Mortgage Bankers Association

INTEREST RATES

US Treasury

Wall Street Journal

Economagic.com

2020 MULTIFAMILY LENDING MARKET UPDATE

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