The State of U.S. Housing, Multifamily and the GSEs

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Overview

01  The State of U.S. Housing Market

02  The Growth and Transformation of Multifamily

03  The State of the GSEs in 2020

04  Questions?
Key Themes

- While the economic contraction has been dramatic, data suggest the economy hit bottom in mid-April and is slowly improving.
- However, our recovery is largely dependent on government interventions and the economy regaining strength.
- The multifamily market is as critical as ever, growing since 2008.
- During crises, GSEs are playing an important, stabilizing role.
- While economic, political and regulatory uncertainty remains high, our progress toward exiting conservatorship has been considerable.
Key Observations

- Pre-COVID, affordability was already a significant problem due to insufficient supply.
- As the pandemic took hold, we quickly implemented forbearance policies for single-family and multifamily borrowers.
  - While effective for homeowners, utility of multifamily forbearance is mixed.
- Amidst sharp declines across all major indicators, renter households most at-risk, impacts greatest for lowest income.
- Government interventions providing significant relief to impacted households, which will continue into July.
  - Forbearance requests slowing considerably, rent payments strong.
Pre-Crisis: 2018 Among All-Time Lows in Supply

U.S. new housing supply low relative to history
U.S. annual housing completions and manufactured home shipments (1000s)

1982 and 1991 only years prior to 2008 with fewer units than 2018 (1288)

1982 and 1991 are the only years prior to 2008 with fewer units than 2018

Source: U.S. Census Bureau and Department of Housing and Urban Development, Institute for Building Technology & Safety
Housing completions were running well below the long-run average – particularly when adjusted for household growth.
Gap Between Rent and Income Growth

Source: Freddie Mac, U.S. Census Bureau, American Community Survey
Population Growth and VLI Unit Loss (2010-2018)

- Fastest Growing
- Slowest Growing
- All Others

The State of U.S. Housing, Multifamily and the GSEs
Current State: Initial Declines Were Sharp

Note: Data is a two week moving average through May 13th. Source: CoreLogic
New Construction Down Dramatically

U.S. Total Housing Starts
(1000s, Seasonally Adjusted Annual Rate)

Source: Freddie Mac
Renter Households Most Impacted by Job Losses

Low Income renter households are disproportionately exposed to industries most vulnerable to job losses.

Source: ACS 2018

Note: We grouped household income relative to the AMI and looked at all individuals within those households. For non-MSAs, median household income is calculated by using population within the State that are not living in MSAs.

Source: Urban Institute
Government Support Pivotal

Federal benefits supplementing unemployment insurance are significant especially for lower-income households, but only through the summer.

Time trends are similar across states, here we show Georgia.

Monthly Income for Georgia: Original Salary $21K as of 4/20/2020

Source: Freddie Mac
Forbearance Policies Slowing

Active Single-Family Forbearance Plans

ACTIVE FORBEARANCE PLANS
- Fannie/Freddie
- FHA/VA
- Other
- Total

Source: Black Knight
Forbearance Policies Slowing

Active Multifamily Forbearance Requests

2.1% of outstanding securitized UPB

Source: Freddie Mac
Renters Continue to Make Payments

- Rent payments stronger than expected post-pandemic
- May 2020 up relative to April, and not far from 2019 collections

Rent Payment Tracker

**Data collected from 11.4 million apartment units in May and 11.5 million apartment units in April**

<table>
<thead>
<tr>
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<th>Percentage of Rent Payments Made</th>
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<tbody>
<tr>
<td>April 2019</td>
<td>93.3%</td>
</tr>
<tr>
<td>May 2019</td>
<td>93.0%</td>
</tr>
<tr>
<td>April 2020</td>
<td>89.2%</td>
</tr>
<tr>
<td>May 2020</td>
<td>90.8%</td>
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Source: NMHC
Despite Large Decline in Housing Data, Freddie Mac Purchase Apps Data Suggest Single-Family Demand Quickly Recovering

April Housing Metrics
Percent Change from Jan-Feb Avg

-59%  -36%
-32%  -23%
-16%

Freddie Mac Weekly Purchase Applications

Source: Freddie Mac, MBA, NAR and Bureau of the Census
Growth and Transformation of Multifamily
Multifamily market has seen significant growth since 2008 crisis

Growth fueled by demographics and changing perceptions of renting in terms of affordability, proximity, and preference

However, affordability issues remain, largely due to a lack of workforce housing

Freddie Mac Multifamily securitization model has helped meet the rental demand and has proven to be a durable and successful model
Unprecedented Multifamily Growth

Originations have risen over the last decade, reflecting solid market fundamentals

![Multifamily Mortgage Originations ($ Billions)](image)

Sources: Freddie Mac 10-Ks, 10-Qs, FHFA Report to Congress, and Freddie Mac's internal reports, Fannie Mae 10-Ks, 10-Qs, FHFA Report to Congress, and Fannie Mae's Multifamily Monthly New Business Volumes, ACLI, Wells Fargo Securities LLC, Intex Solutions Inc., Mortgage Bankers Association and Freddie Mac internal research.
Multifamily Share of Mortgage Debt is Growing

Single-family and Multifamily Mortgage Debt Outstanding (MDO) $Trillions

Source: Federal Reserve Board’s Total Mortgage Table, L.217. Data as of March 12, 2020. Single-family includes residential mortgages of properties with 1-4 units. Cumulative growth curves are indexed to 2008.
Multifamily Construction Activity was Strong Entering the Crisis

Multifamily completions appear to have plateaued at approximately 350,000 – starts will likely decline significantly going forward.

Sources: Moody’s Analytics DataBuffet.com and U.S. Census Bureau

Notes: Starts and completions based on all areas of the U.S., while permits are only for areas that require a building or zoning permit. Moody’s Analytics estimated that in 2000, 95% of the population was living in a permit issuing area.
Demand for Rental Housing has Remained Solid

A preference for rental housing has remained solid
A growing number of people are finding renting more affordable than owning.

Read the full report.

Q: Overall, which do you think is more affordable for you today?

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<thead>
<tr>
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<th>Renting</th>
<th>Owning</th>
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<tr>
<td>Jan. 2016 (Base = 1,527)</td>
<td>69%</td>
<td>31%</td>
</tr>
<tr>
<td>Sept. 2016 (Base = 1,362)</td>
<td>65%</td>
<td>35%</td>
</tr>
<tr>
<td>Mar. 2017 (Base = 1,282)</td>
<td>68%</td>
<td>32%</td>
</tr>
<tr>
<td>Aug. 2017 (Base = 1,342)</td>
<td>76%</td>
<td>24%</td>
</tr>
<tr>
<td>Feb. 2018 (Base = 1,209)</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>Aug. 2018 (Base = 1,059)</td>
<td>78%</td>
<td>22%</td>
</tr>
<tr>
<td>Apr. 2019 (Base = 1,119)</td>
<td>82%</td>
<td>18%</td>
</tr>
<tr>
<td>Aug. 2019 (Base = 1,233)</td>
<td>84%</td>
<td>16%</td>
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87% of boomer renters report that renting is more affordable, a 6% increase from a year ago.

By Renter Demographics

<table>
<thead>
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<th>% Who Say Renting is More Affordable</th>
<th>August 2019</th>
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<tbody>
<tr>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>85</td>
<td>82</td>
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Multifamily Housing Stock is Becoming Less Affordable

New supply of multifamily housing has been concentrated in higher end segments

Source: Yardi Matrix
Multifamily Securitization Model: Durable and Successful

**Freddie Mac securitizes loans via the K-Deal program through the following steps:**

- The loans are sold to a third-party depositor who places the loans into a third-party trust
- Private label securities backed by the loans are issued by the third-party trust
- Freddie Mac purchases and guarantees certain bonds (Guaranteed Bonds) issued by the third-party trust and securitizes these bonds via a Freddie Mac trust.
- The resulting Freddie Mac guaranteed structured pass-through certificates (K Certificates) are publicly offered via placement agents
- The unguaranteed mezzanine and subordinate bonds are issued by the third-party trust and are privately offered to investors via placement agents

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**Freddie Mac sells loans to a third-party depositor**

**Loans deposited into the third-party trust by the depositor**

**Freddie Mac acquires Guaranteed Bonds and deposits them into a Freddie Mac trust**

**Freddie Mac sells Guaranteed K Certificates backed by the Guaranteed Bonds**

**Senior Bond Investors**

**Mezzanine Bond Investors**

**Subordinate Bond Investor**

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**RELEVANT PARTIES/ENTITIES**

**Underlying Mortgage Loan Seller**
Freddie Mac

**Underlying Originators**
Freddie Mac Conventional and TAH lenders

**Underlying Master Servicer**
Selected by Freddie Mac through bidding process

**Underlying Special Servicer**
Selected by subordinate bond investor in consultation with Freddie Mac

**Underlying Trustee/Certificate Administrator**
Selected by Freddie Mac through bidding process

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1 Guaranteed Bonds include senior amortizing bonds as well as interest-only bonds derived from senior and subordinate P&I bonds
State of the GSEs in 2020
GSEs Providing Stability in the Pandemic

- GSEs a key source of stability and liquidity in single-family and multifamily
- Providing significant assistance to borrowers, renters and lenders
  - **Single Family:**
    - For borrowers: Forbearance, deferrals, foreclosure moratorium, modifications
    - For lenders: Purchasing loans in forbearance, flexibility in employment verification, appraisal alternatives
  - **Multifamily:**
    - For renters: Eviction moratorium, renter lookup tool, renter counseling
    - For borrowers: Forbearance, deferrals
    - For lenders: Unprecedented appraisal and inspection flexibility
- Efforts throughout the pandemic prove that we are a very different company than the one that went into conservatorship 12 years ago
  - Key drivers: risk profile, CRT
GSE Update

- FHFA Director Calabria: expects Freddie Mac and Fannie Mae to exit conservatorship in 2021 or 2022

- We’ve made major progress toward that goal with a number of milestones:
  - FHFA and Treasury announced a plan to exit conservatorship
  - Suspension of the “net worth sweep,” first major step toward exit
  - FHFA retained investment advisor
  - GSEs issued RFP for investment advisors
  - New GSE Capital Rule proposed

- Political and regulatory uncertainty remains significant
Questions?
Thank You.