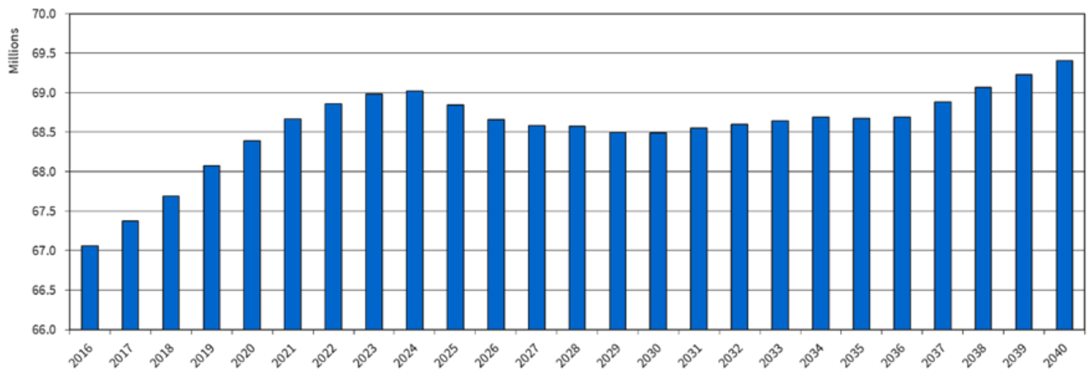
although it is expected to decrease slightly over the longer term, it will likely remain elevated compared to recent historical trends. In addition, although older Millennials are entering the age when many renter households switch over to homeownership, both the Millennial and Generation Z cohorts are large enough that there will likely continue to be demand for all kinds of housing, both rental and owned.

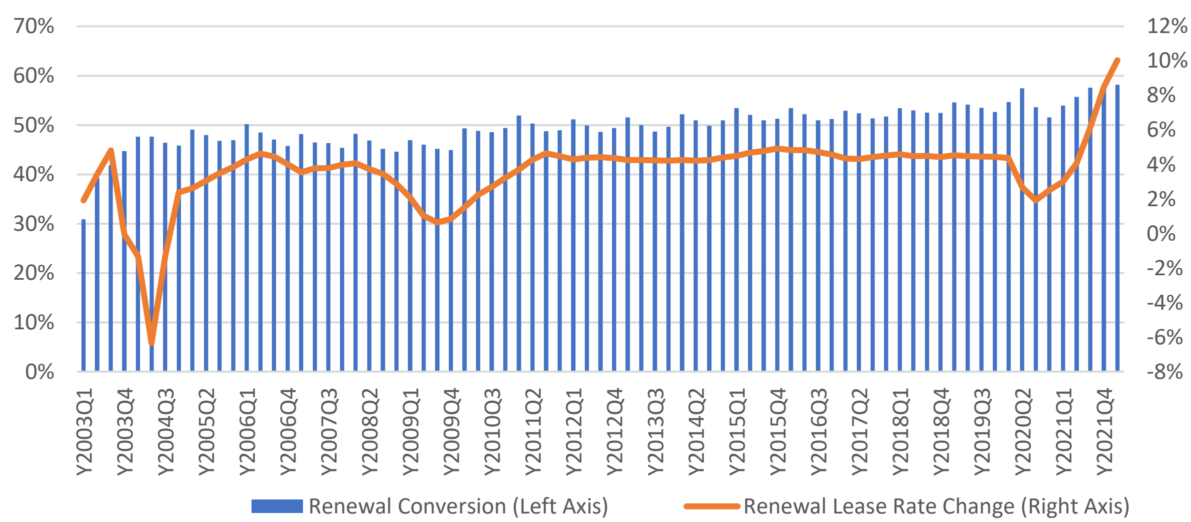
U.S. Population: Age 20-34 Cohort



Source: U.S. Census, Fannie Mae

Many renters have continued renting over the past year. As seen in the chart below, data from RealPage shows that lease renewals have remained largely steady for years, averaging about 51 percent between 2010 and 2019. Rent increases on those renewals averaged about 4.2 percent during that same time frame with rent increases on lease renewals then skyrocketing to 21.7 percent in 2021 alone.

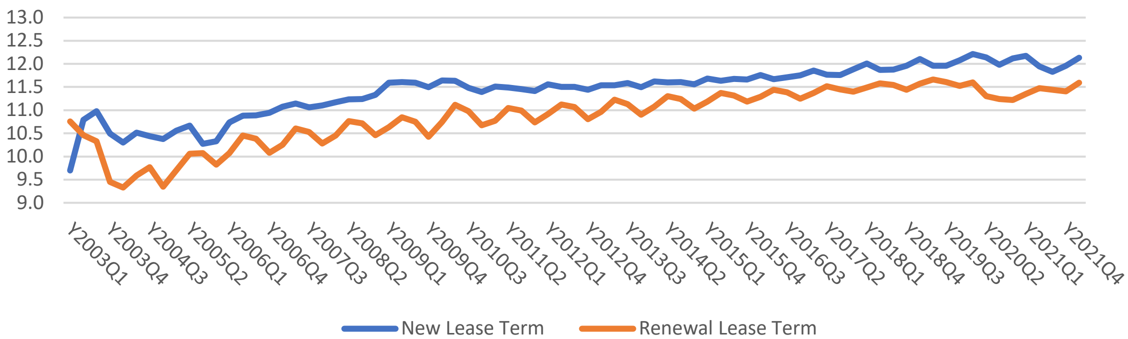
Lease Renewals



Source: RealPage, Inc.

Further, lease terms on multifamily properties tend to turn over about every 12 months on average, as seen in the chart below, for both new leases and renewals. Multifamily properties are identified as those buildings with five-or-more units; as a result, there is typically some amount of unit turnover going on throughout the course of the year, even in smaller properties. That allows for multifamily owners to adjust rental prices frequently, either for renewing tenants or new tenants. This becomes a built-in inflation hedge for multifamily property owners, allowing for them to adjust rents for inflation.

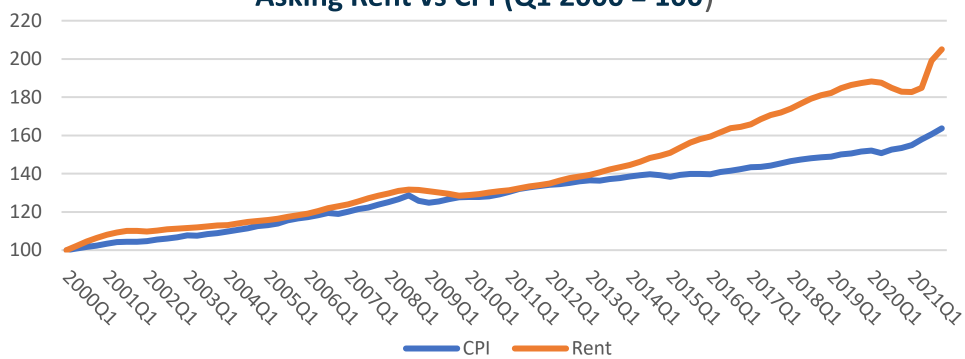
Lease Term in Months



Source: RealPage, Inc.

As seen in the chart to the right, that's exactly what's happened. Asking rents ran slightly above inflation during the early 2000s and through the Great Recession. They have started to move ahead by a wider margin since that time, primarily due to a supply/demand imbalance, holding that spread mostly even, despite a brief dip during the beginning of the pandemic.

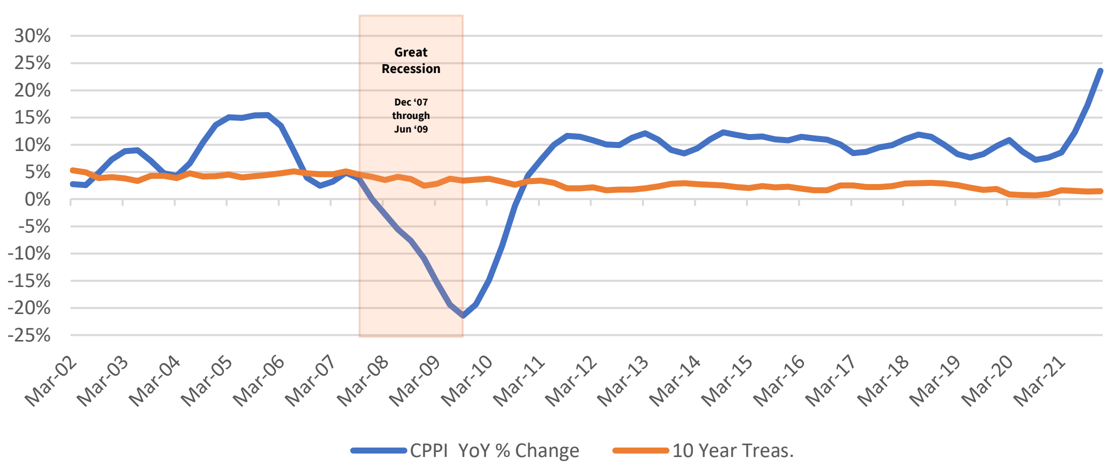
Asking Rent vs CPI (Q1 2000 = 100)



Source: BLS, Moody's Analytics

Multifamily property values have also been on the rise over the past decade, as seen in the chart below. Since the housing crisis, properties have generally increased in value at double-digit rates: Since the end of 2011, multifamily property values have grown an average of 11 percent each year.

Interest Rates vs Multifamily Property Values



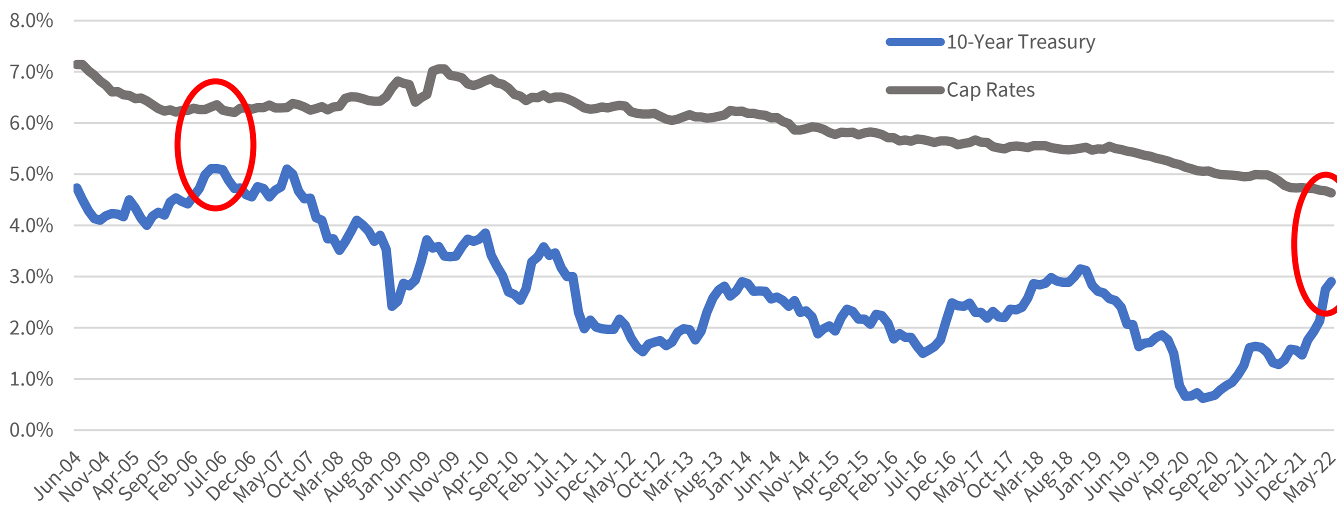
Source: Real Capital Analytics and Federal Reserve, per Moody's Analytics

We believe that multifamily property values are likely to remain fairly stable over the near term, despite an expectation of rising capitalization rates over the second half of the year. Despite the recent increase in the 10-year Treasury yield, many commercial real estate investors are still looking for assets other than retail, hospitality, and office space. Although the industrial sector appears to be of interest to many investors, the focus is mostly on warehouse, data centers, and cold storage, and those options are quite limited. In contrast, multifamily demand remains robust as of first quarter 2022. With rents still rising, many commercial real estate investors are still interested in multifamily properties. That said, cap rate spreads to the 10-year Treasury are tightening, yet many investors believe that current spreads are still a fair cushion.

So, why is it different this time than back in 2006 when spreads were also tight leading up to the Great Recession? The answer is multifamily fundamentals. Back in 2006-2007, multifamily cap rates fell due to increased demand from investors seeking to convert existing multifamily rental properties into condominiums as a way to meet increased demand in owned properties by consumers. These condo converters were planning on a quick exit from the property by selling off each of the units individually to new condo owners; hence they were willing to pay more for a multifamily rental property than it might have warranted. This time around, investors are interested in multifamily rental properties based on multifamily fundamentals, stemming from both demographics and ongoing demand for rental units.

Treasury Interest Rates and Multifamily Capitalization Rates

Moreover, fundamentals are expected to remain stable for the multifamily sector, with rent growth expected to moderate but remain positive over the remainder of the year. That said, multifamily fundamentals and trends will vary by metro, submarket and, in some cases, neighborhood. Additionally, we remain concerned about a softening of trends over the next 12-18 months due to national macroeconomic and global factors.



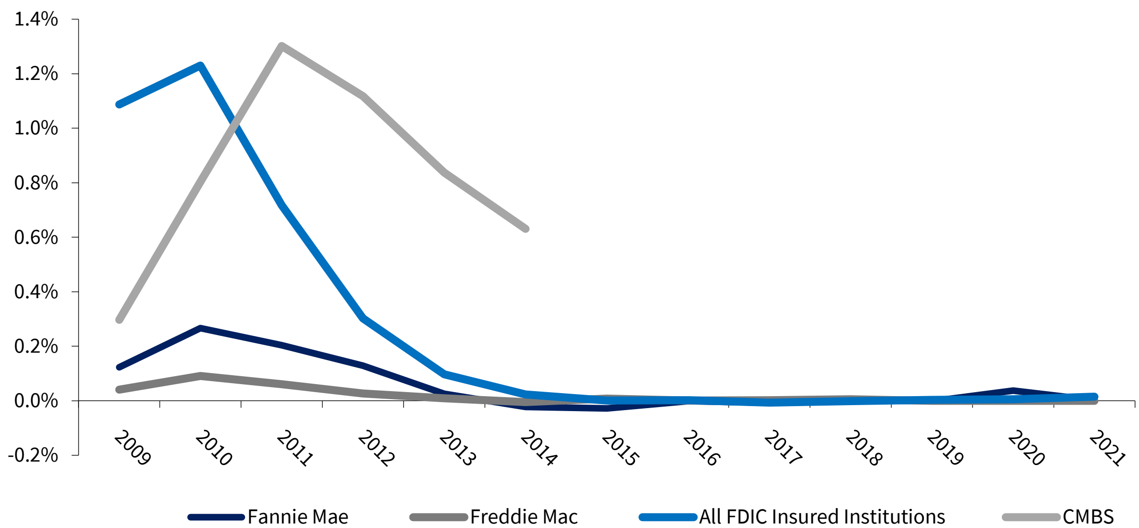
Source: Real Capital Analytics, and Federal Reserve, Selected Interest Rates H.15, per Moody's Analytics

Existing Safeguards for Multifamily Acquisitions

In addition to the previously discussed advantages of the multifamily sector during a rising interest rate environment, Fannie Mae has safeguards built into our business practices to help protect against market factors. As part of the Fannie Mae DUS program, approved lenders are required to adhere to the rigorous credit and underwriting standards outlined in the [DUS Selling and Servicing Guide](). The DUS Guide contains mandatory requirements that all multifamily loans must satisfy and provides guidance and operating procedures to assist delegated lenders in the underwriting process. Our Multifamily business continuously engages with stakeholders to maintain an updated DUS Guide that reflects current market conditions as well as the risk tolerance of our firm.

DUS lenders complete a comprehensive evaluation of the loan size and property quality – including inspection, market analysis, and baseline exit analysis – to ensure that each loan meets our risk tolerances outlined in the DUS Guide. The lender reviews the quality of the multifamily properties based on income and expenses, third-party appraisals, physical needs assessments, titles

Credit Losses to Book as of Q4 2021



Sources: Fannie Mae, FDIC bank data reflects net charge-offs to book. CMBS data through Q2 2014.
**Subsets of All FDIC Insured Institutions.*
***Fannie Mae credit loss to book is shown net of loss sharing benefit*

The strength of our loan performance is further augmented by the longevity of our seasoned Multifamily workforce, each of whom has an average of over 20 years of industry experience. Our tenured employees from across all employee levels, from associates to senior management, have contributed to maintaining favorable credit performance despite market fluctuations. To meet the ever-changing market cycle demands, we cross-train our staff, enabling us to allocate resources when and where they are needed during economic downturns. As a company, we are proud to have a seasoned workforce with longstanding relationships with our DUS lenders.

Knowing Our Partners

With over 30 years of experience since the DUS program began, our DUS model has proven itself to be highly successful. Today, we maintain a select group of 23 DUS lenders who exhibit financial strength, extensive multifamily underwriting and servicing experience, and strong portfolio performance. Our approved DUS lenders must operate within our stringent credit and underwriting criteria, be subject to ongoing credit review and compliance monitoring, and maintain a stake of risk in each loan for the life of the loan. Due to our unique risk-sharing model, the interests of borrowers, lenders, and Fannie Mae are aligned throughout the life of the loan, and we believe this alignment of interests improves the performance of all parties and optimizes outcomes. The success of our risk-sharing DUS model is a testament to the strength of our dedicated relationship management with our DUS lenders.

Conclusion

Our longstanding business practices through our DUS program, including our lender risk-sharing construct, our tenured Multifamily team, and our collaborative relationships with DUS lenders, allowed the Multifamily business to withstand past market cycles. As we continue to proactively assess market risks at underwriting, we are confident that these combined forces will maintain strong loan performance despite the current rising interest rate environment.

Contact Us

For additional information or assistance, please call the Fannie Mae Fixed Income Investor Helpline at 1-800-2FANNIE or email us.

