WHY BERKADIA REMAINS OPTIMISTIC FOR MULTIFAMILY

Today the Federal Housing Finance Agency (FHFA) released the 2021 Volume Scorecard for both Fannie Mae and Freddie Mac. The FHFA lowered the overall volume cap from $80 billion in 2020 to $70 billion each in 2021. Despite this reduction in the volume caps for next year, Berkadia is still extremely bullish on the prognosis for the sector.

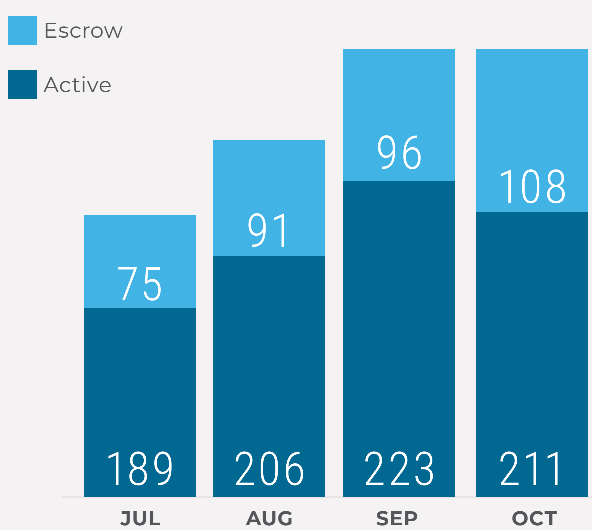
After all, the multifamily market has demonstrated impressive resilience since the onset of the pandemic; and although COVID-19 continues to drive economic uncertainty across our nation, we have begun to recognize signs of a rebound in the apartment sector.

Across our investment sales platform, there's been a sharp increase in the number of active listings nationwide since the start of July. We believe the surge in calls from our clients strongly reflects a growing interest in new multifamily acquisitions.

Several other internal trends indicate a shift toward friendlier market conditions in our industry:

- Deal activity across the apartment sector has increased by a significant margin. In particular, we've seen a major increase in deal volume during the final month of the third quarter.
- Through the first three quarters of 2020, we've observed a healthy volume of deals originated for clients across our various lender programs.
- Our HUD originations are up significantly from last year, and Berkadia's HUD pipeline is the strongest it has been in our company's history.

2020 Active and Escrow Listings



There are even more reasons to be enthusiastic about the state of multifamily as we turn the corner into the new year.

A tidal wave of maturing loans on the horizon, coupled with historically low interest rates, a growing pool of yield-hungry investors, and continued liquidity support from government-sponsored enterprises (GSEs) all point to a bright future for our industry in 2021 and beyond.

CONTINUED LIQUIDITY FROM FREDDIE AND FANNIE

Near the start of the year, mortgage bankers responding to our 2020 Outlook Powerhouse Poll indicated that GSE reform was a top trend on their radar to impact the multifamily market.

Long-term GSE reform has yet to materialize; and today, Fannie Mae and Freddie Mac continue to provide consistency to the multifamily market – representing nearly 60% market share for originations in the second quarter.

Although the full market data is not available for the third and fourth quarters, Fannie and Freddie have originated $56 billion and $58 billion respectively through October 2020, continuing this trend of providing liquidity and stability to the market.

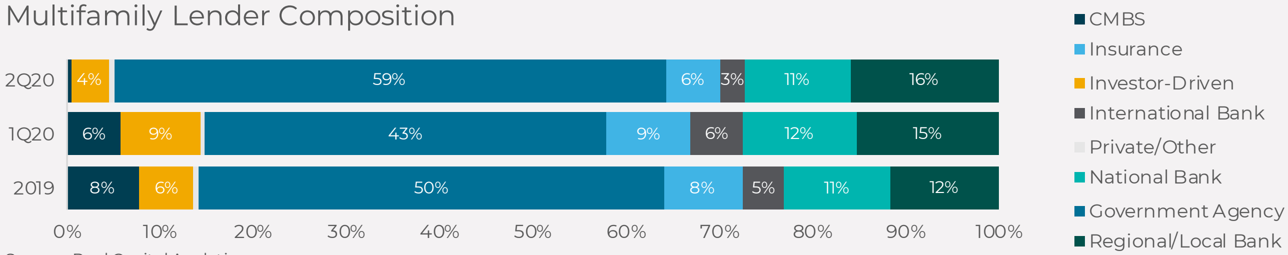
Uncertainty remains regarding the position that a Biden Administration will take on GSE reform, but Berkadia's perspective is that privatization is unlikely in the coming year. No change is likely a good thing from a liquidity and stability standpoint.

Preliminary 2021 multifamily origination volume forecasts range from $305 billion from the Mortgage Bankers Association to $340 billion from Freddie Mac. Assuming the $70 billion GSE lending caps for multifamily in 2021, this projects an agency market share of 40 – 45% for the year. Some other changes and nuances to the Multifamily Scorecard include an increase to the Affordability percentages from 37.5% to 50%.

The FHFA also adjusted the area median incomes (AMI) that would qualify for this Affordability qualification to a flat 80% of AMI across the country rather than a tiered approach of 60%, 100% and 120%, depending on the market. Finally, 20% of the GSEs origination volume must be below 60% of AMI. These will only serve to increase the GSEs focus on Workforce and Affordable Housing.

Berkadia anticipates availability of other capital sources, including life companies, banks and CMBS in the market. However, if this level of liquidity does not prove enough, a Biden Administration could make leadership changes at FHFA and / or adjust the Caps mid-year. It is our view that the GSEs will continue to play an enhanced role in the financing of multifamily deals until the economy recovers from the effects of the pandemic.

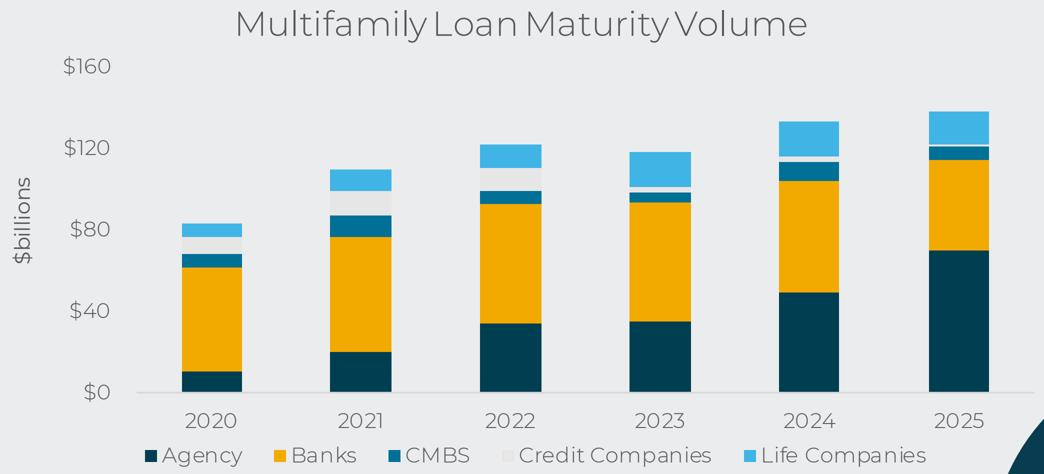
Multifamily Lender Composition



Source: Real Capital Analytics

A WAVE OF MATURING LOANS

Maturing loans drive a wide variety of financial activity, especially during times of market disruption. We are paying close attention to the record-setting $620 billion in multifamily loans scheduled to mature over the next five years, including $208 billion in multifamily mortgages held by GSEs.



Source: Mortgage Bankers Association;Trepp

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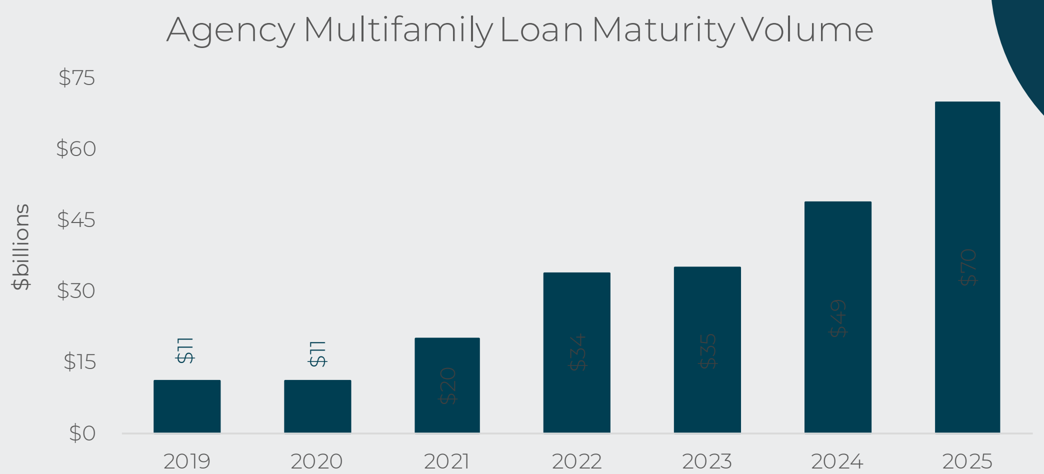

Source: Mortgage Bankers Association; Trepp

As the largest nonbank servicer of commercial mortgages, Berkadia is firmly positioned to guide clients as they seek out new investment opportunities, consider asset sales, or pursue a refinancing plan to mitigate their risk over the next five years.

This approach is an example of Berkadia holding true to one of its organizational core values: we always strive to take the long view. This principle has never been more important to heed as we collectively grapple with the ever-changing circumstances ironically dubbed our "new normal."

Record
$147 BILLION
in dry powder allocated for U.S. commercial real estate

Low Interest Rates and Dry Powder

We believe that the multifamily space continues to present significant upside for owners and investors due to the underlying demand for housing, strong demographic drivers, and a record $147 billion in dry powder allocated for U.S. commercial real estate. Contributing to this significant upside are signs from the Federal Reserve that the federal funds rate will remain near zero for the foreseeable future.

With historically low interest rates in mind, here are just a few potential investor reactions that could ramp up the flow of capital into the multifamily industry going forward:

While some investors may remain cautious into next year, **we anticipate yield-hungry investors to be proactive** and look to gain an edge during this time of disruption through short-term investment strategies.

Some investors may seek to rebalance their portfolios by **transferring capital out of fixed-income assets and into institutional-grade commercial real estate assets.** We would not be surprised to see a rebalancing of investors' real estate portfolios to be weighted more heavily towards multifamily, which can act as a superior long-term hedge opportunity compared to other commercial real estate assets.

Influential investors are likely to make bold moves and drive disruption over the next five years. For example, notable hedge fund manager John Paulson is aiming to transform his operations into a family office. New, **mold-breaking approaches could drastically transform how capital is raised and professionally managed at the institutional level.**

New Leadership in the White House

We expect to identify several opportunities for the multifamily industry based on likely policy shifts following the results of the 2020 Presidential election.

New policies to further incentivize investments in affordable housing, including bipartisan interest in strengthening the Low-Income Housing Tax Credit (LIHTC), could drive substantial activity in the space. Additionally, close to 1,700 properties supported by the LIHTC will end their initial compliance period over the next four years, representing a major need for financing guidance as affordable properties attract even greater focus from the federal government.

The effectiveness of Opportunity Zones to drive access to housing is likely to receive additional scrutiny under the new administration. This may very well translate to added federal incentives to drive more apartment housing development in these neighborhoods.

The new administration's proposed sustainability package would mandate updates and retrofits to millions of existing office and apartment buildings, a major shake-up for the industry that could create significant opportunities for savvy multifamily investors.

We also expect to see a flurry of investment and refinancing activity to play out through January 20 while the status quo is still in place.

A Bright Future for Multifamily

Ultimately, I remain optimistic for our industry and our organization thanks to the encouraging example set by my fellow Berkadians. I have been inspired to watch our team admirably take on the personal challenge of assisting our clients to find clarity amid the COVID-19 chaos.

Another of our organization's core values is that we love our work; and what better way to love our work than to find ways to help others? We will weather this storm together. In the meantime, Berkadia will continue to offer reliable guidance and the highest level of excellence to our clients.

Justin Wheeler
CEO