Multifamily Outlook Remains Strong

Explore Your Options For Lending Liquidity

X-CALIBER CAPITAL

Lending and Investing for the Greater Good

After a record start and obvious slowdown, multifamily market fundamentals remain strong and lending volume is expected to rebound in 2023.

Although interest rate hikes have significantly impacted overall commercial lending volume in 2022, multifamily remains one of the most resilient sectors in the commercial real estate, and one that continues to perform well through some of the nation's most challenging economic cycles. While 2022 was slated to be a record year of multifamily lending volume, the combination of rising rates and supply chain concern has quelled lending in the second half of 2022.

However, during a post-pandemic and inflationary environment with global uncertainty, the need for rental housing supply grows. This continued demand sees rental growth achieving record-new highs, while inflationary pressures and rising interest rates cause potential homebuyers to reconsider or postpone home buying, putting even more strain on the already critical lack of affordable rental housing.

According to a report by the National Low Income Housing Coalition, the U.S. now faces a shortage of 6.8 million rental homes which are both affordable and available to renters whose household incomes are at or below 30 percent of their Area Median Income (AMI). Due to rising interest rates and continued strong demand, rents have been steadily increasing throughout most of the country. New unit deliveries are not expected to increase past the level of deliveries made in 2021. With new construction not keeping pace with the demand, a combination of factors including rising construction costs, ongoing supply chain issues, a tight labor market, and the loss of affordable units overall, due to factors like expiring Land Use Restrictive Covenants (LURAS) and conversions to market-rate units, are putting even greater pressure on rents.

For those investors considering investing in both market-rate and affordable multifamily apartments, the Great Recession and the more recent pandemic have taught us a lot about the importance of lending liquidity during all cycles. Moreover, with economic indicators pointing toward stubbornly high inflation and higher interest rates, multifamily is a safe harbor and a defensive commercial real estate product sector investors are strongly considering – one that often offers attractive terms, rates, and proceeds that provide a favorable option for both acquisitions and refinances. As certainty of execution is critical – especially in these times of heightened uncertainty – an FHA multifamily loan could provide a strategic solution to support your new projects.

FHA's market share of the multifamily lending volume has continued to increase. In fact, overall production of FHA lending rose 2020 – 2021 from $21.8B to $31.8B , up 46% [1] year-over-year. Firm commitments are projected to be around $24B for 2022, which will mark the second strongest annual volume since 2008. More investors are leveraging the FHA product, which can be used to build (for borrowers who have experience with HUD), buy, or rehabilitate market-rate, affordable, and/or subsidized multifamily housing projects. One of the most attractive terms of an FHA loan is that there is no balloon risk with this product, which offers up to 35 - to 40 - year terms.

Due to rising interest rates and continued strong demand, rents have been steadily increasing throughout most of the country.

In order to access the FHA multifamily loan programs, interested investors need to partner with an FHA-approved lender. All mortgages are approved by HUD and insured by the Federal Housing Administration. Mortgages are underwritten and processed through Multifamily Accelerated Processing (MAP)-approved lenders and funded through the issuance of Ginnie Mae Mortgage (GNMA) -backed Securities. The government guarantee both lowers the cost and maintains the supply of FHA mortgage financing and liquidity during all cycles.

[1] U.S. Department of Housing and Urban Development

Here are the highlights of the programs available to multifamily investors:

221(d)(4) / Construction and Rehabilitation of Multifamily Properties

Available for newly built units or the substantial rehabilitation of multifamily rental and cooperative housing for moderate-income families, seniors and persons with disabilities. They are non-recourse, offer low rates, long terms, and with FHA's approval, are fully assumable. However, these loans do require prior experience with HUD financing.

223(a)(7) / Refinance of Existing FHA Loan

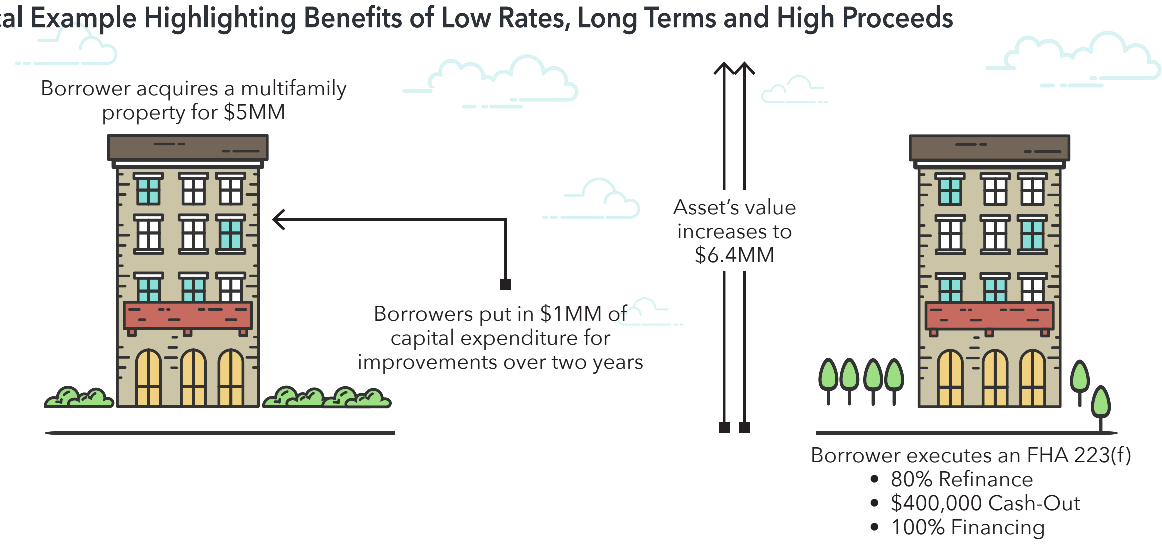
Available for the refinancing of existing FHA debt on multifamily or healthcare properties and can be used to reduce the interest rate and increase amortization, in turn improving cash flow and reducing cost or debt service.

223(f) / Acquisition & Refinance of Multifamily Properties

Available for the purchase and refinance of multifamily properties with low rates and longer amortizations and terms than Fannie Mae, Freddie Mac, CMBS, and conventional loans.

In general, with a market-rate property, the terms of an FHA loan may include an 80% LTV (cash-out scenario), 85% percent Loan-to-Value ratio (LTV) and a 1.176 Debt Service Coverage Ratio (DSCR). These FHA-insured loans are non-recourse and fully amortize over 35 years. FHA rates are typically 50-100 basis points lower than conventional loan rates, and usually offer lower rates than Fannie Mae and Freddie Mac financing. In addition, HUD offers reduced mortgage insurance premiums (MIP) for certain affordable and energy-efficient multifamily housing projects.

Hypothetical Example Highlighting Benefits of Low Rates, Long Terms and High Proceeds



CASE STUDY X-Caliber Capital

ASHTON PARK APARTMENTS

$17.9MM REFINANCE

The 144-unit garden style apartments were built in 2019 in Fayette County, Kentucky.

PROGRAM: **223(f)** TERM: **35 Years**

TYPE: **Refinance** LTV: **85%**

The Opportunity

Refinance the existing debt with long-term debt at lower interest rates, using the savings to execute needed repairs and enhancements.

The Solution

Based on the quality of ownership, good physical condition, and stable operating history of the project, X-Caliber recommended a HUD-insured, Section 223(f), 35-year, fixed-rate loan.

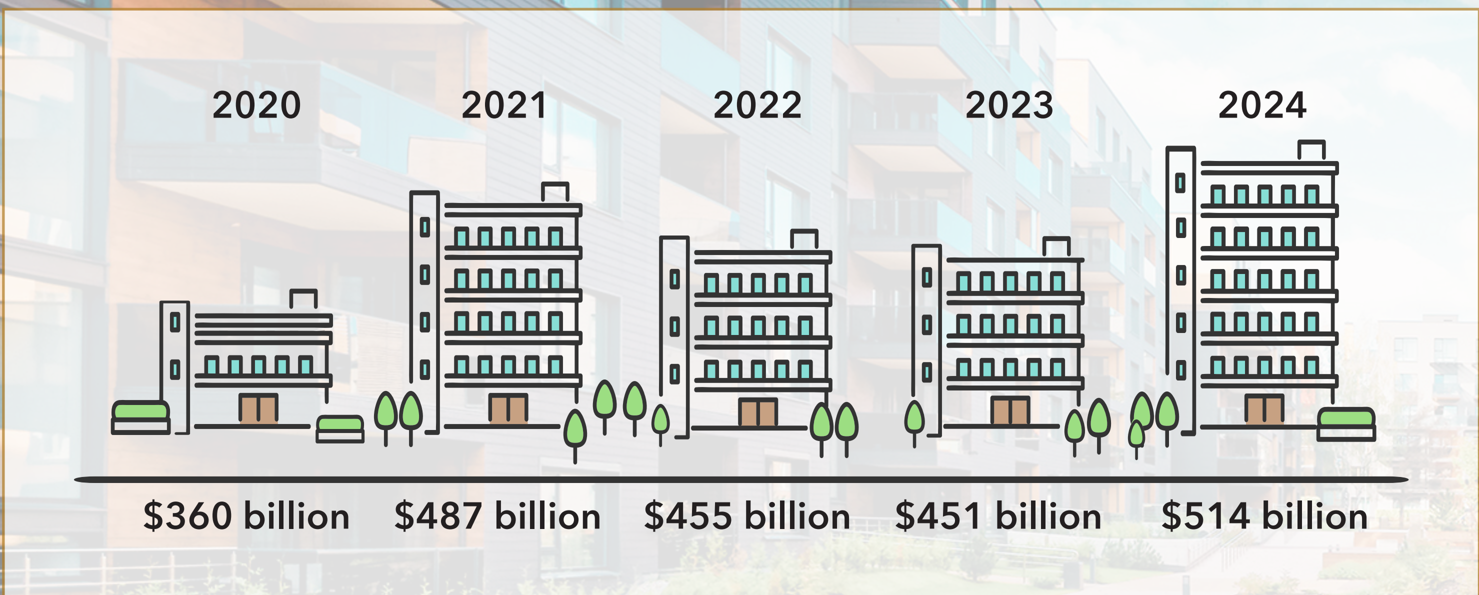
Borrowers have various needs and timelines, and an FHA loan provides several benefits, but can require a longer processing period. However, if needed, borrowers can execute short-term solutions with a bridge loan that is positioned for FHA permanent take-out financing, allowing borrowers to efficiently gain the flexibility they need to leverage the long-term benefits provided by an FHA loan.

Bridge loans are a short-term alternative that helps borrowers fill a gap to a permanent execution. For borrowers whose strategy is to execute an agency or other permanent capital solution, a bridge loan with flexible terms will provide the right blend of temporary funds to support the long-term benefits of the competitive terms provided by an FHA or other agency loan type. In other words, it is both a strategic move on the part of a borrower and part of a longer-term business plan. Therefore, in the right scenario, the legroom provided by a bridge execution allows borrowers the time and focus to determine their more permanent needs, and to leverage the long-term financing options available to support their business success.

A bridge loan may be an effective financing tool when:

- The loan process and closing are projected to take six months or longer.
- The borrower is faced with the threat of losing the transaction to another bidder and needs to act decisively.
- The borrower has funds in an account for a Section 1031 like-kind exchange and the clock has started to tick for the 180-day deadline between selling one property and acquiring another.
- The borrower needs to demonstrate higher property performance to be approved for agency financing and a bridge loan provides the time needed to show occupancy improvements and property stabilization.

According to the Mortgage Bankers Association, multifamily debt origination is now expected to finish 7% below **last year's level of $487 billion**, but its trajectory is on track for growth in 2023 and beyond.



CASE STUDY X-Caliber Capital

BRIDGE to FHA

$44MM

24 Months / 781 Units / Bridge financing positioned for permanent FHA takeout

The six properties are a mix of market-rate and Section 8 rental properties with high occupancy rates spread across five states in strong markets. The sponsor has a proven track record of improving property values.

LOCATION	UNITS	AMOUNT	TYPE
Kansas City, MO	142	$ 9.9MM	Refinance
St. Louis, IL	56	$ 2.9MM	Refinance
New Orleans, LA	216	$11.2MM	Refinance
Flint, MI	144	$ 6.9MM	Refinance
Flint, MI	123	$ 9.1MM	Refinance
Alabama	100	$ 4.1MM	Acquisition

The Opportunity

The owner plans to use a portion of the loan proceeds to make capital improvements to the properties, including unit upgrades and exterior improvements. With properties below fair market value, the owner will petition for a contractual rental adjustment and improve the value of the property.

The Solution

Upon property stabilization, the owner will initiate a long-term FHA loan for the permanent execution.

As domestic and global impacts continue to shape the state of the economy, investors will be closely watching the fundamentals of multifamily housing as well as the world economy. As a multifamily investor in 2022, examining microeconomic factors like housing affordability, job and wage growth, and population increase are only fractions of the pie in a climate where the macroeconomy – from inflation, growth, monetary policy, and energy, to name a few - are presenting global headwinds whose impacts remain to be fully understood.

As a result, knowing your short- and long-term financing options and being able to rely on liquidity sources and certainty of execution with products like FHA multifamily financing provides an investor with greater choices and helps position an investment for success. The good news is that X-Caliber Capital has deep expertise in FHA financing with experts who have tenured experience working efficiently and effectively with the nation's HUD offices to ensure you get the certainty of execution you need.

About X-Caliber Capital

X-Caliber is a nationally recognized direct lender and loan servicer, and an FHA-approved lender and GNMA-approved MBS issuer and, together with our affiliates, provide bridge, USDA, and C-PACE finance solution.

We strive to deliver to our clients, and to the communities in which we lend, the best financing solutions to support their business goals, while focusing on some of the nation's greatest challenges – affordable housing, the environment, care for our seniors, and rural businesses. By leveraging the most effective private and government programs in the country, we can harness the power of our expertise and practice the values for which we stand, so we can make the world a better place for all.

Reach out to us at info@x-calibercap.com for more information.

X-CALIBER CAPITAL