Freddie Mac MULTIFAMILY

Multifamily Maturity Risk

Research
Sara Hoffmann
571-382-5916
sara_hoffmann@freddiemac.com

Kevin Burke
571-382-4144
kevin_burke@freddiemac.com

Asset Management
Diana Jones
703-714-2705
diana_jones@freddiemac.com

- The confluence of higher interest rates, slower multifamily performance, and a greater share of multifamily debt coming due over the next few years has caused increased refinance risk among maturing multifamily loans.
- Roughly 42% of all commercial real estate loans maturing in 2024-2025 are backed by multifamily assets, totaling around $500 billion. The GSEs' share of near-term maturities is relatively low but increases later in the decade.
- Longer-term multifamily debt would have seen above average net operating income (NOI) and property value appreciation in the past seven to 10 years, providing cushion to withstand refinancing at higher interest rates.
- Shorter-term debt, however, especially loans originated during the trough in the interest rate cycle, has an increased risk of meeting refinance requirements if growth in property NOIs is not enough to offset the higher debt service payments.
- There could be some loans that experience elevated levels of refinance risk or increased cash-in refinances. However, we don't anticipate widespread refinance risk for Freddie Mac's loans, since loan terms are typically of longer duration and DSCR levels are generally healthy.

Freddie Mac MULTIFAMILY

As the market adjusts to a higher-for-longer interest rate environment, we turn our attention to the potential maturity risk of multifamily debt coming due over the next few years. Higher interest rates combined with slowing multifamily fundamentals may impact the ability of loans to refinance in the near term, especially among those with shorter durations or underwritten to narrow margins.

We find that there is a high amount (by dollar amount and by share) of multifamily debt coming due in the near-term compared with the overall commercial real estate (CRE) market. However, the share of maturities among the government-sponsored enterprises (GSEs) during that time is much lower than seen in the past 15 years, indicating a high portion of the maturing debt is held by non-GSE lenders, which includes banks, life insurance companies, commercial mortgage-backed securities (CMBS), and debt funds, among others. In this paper, we examine the sources of maturity risk as well as the upcoming maturity schedules of multifamily debt — specifically evaluating the risk posed to Freddie Mac. While some properties may experience stress as they refinance at higher rates, potentially resulting in some delinquencies and defaults, we do not anticipate widespread impact from maturity risk.

Source of Maturity Risk

Interest Rates

Higher interest rates are one of the main headwinds for maturing debt in the next few years. The low interest rate environment that prevailed before and during the pandemic means most loans that originated in the past 10 years have a lower interest rate than what is currently available. Prior to the pandemic, most multifamily debt originated with 7- or 10-year terms, implying that deals maturing in 2024-2025 were originated in 2017-2018 or 2014-2015, respectively. The current 10-year Treasury rate of 4.0% (as of mid-December 2023) is substantially higher than the average rate of 2.4% observed from 2014-2018. Meanwhile, shorter-term debt maturing in the next two years (mainly originated in 2019-2021), was originated at some of the lowest interest rate levels in history, with current 10-year Treasury rates nearly 400 bps higher than the low seen in June of 2020.

While debt service payments of floating-rate loans will have adjustments throughout their term, SOFR rates have seen similar increases and are up 150 bps over the past year alone. Although a loan's ability to refinance hinges less on original rate type, the financials of floating-rate loans may experience more stress given the adjustment to higher rates and interest rate cap premiums[1] over the past few years. Instead, the ability to refinance is based on the underlying financials, such as net operating income (NOI) and cap rates, at the prevailing higher interest rates. During the December 2023 Federal Open Market Committee meeting, the Federal Reserve kept the federal funds rate unchanged for the third consecutive meeting. Markets anticipate that the Fed will begin cutting rates next year, and some committee members backed this sentiment, but the path of rates remains unclear over the next few years.

[1] An interest rate cap functions like an insurance policy. It protects the borrower in the event that the mortgage rate rises above the underwritten rate. If the interest rate exceeds the strike rate on the cap, then the cap is in-the-money and the cap provider must pay the difference between the strike rate and the interest rate. Caps are generally purchased as a three-year plan when the loan is originated, and cap renewals are typically two-year plans with a minimum term of one year.

Loan Terms

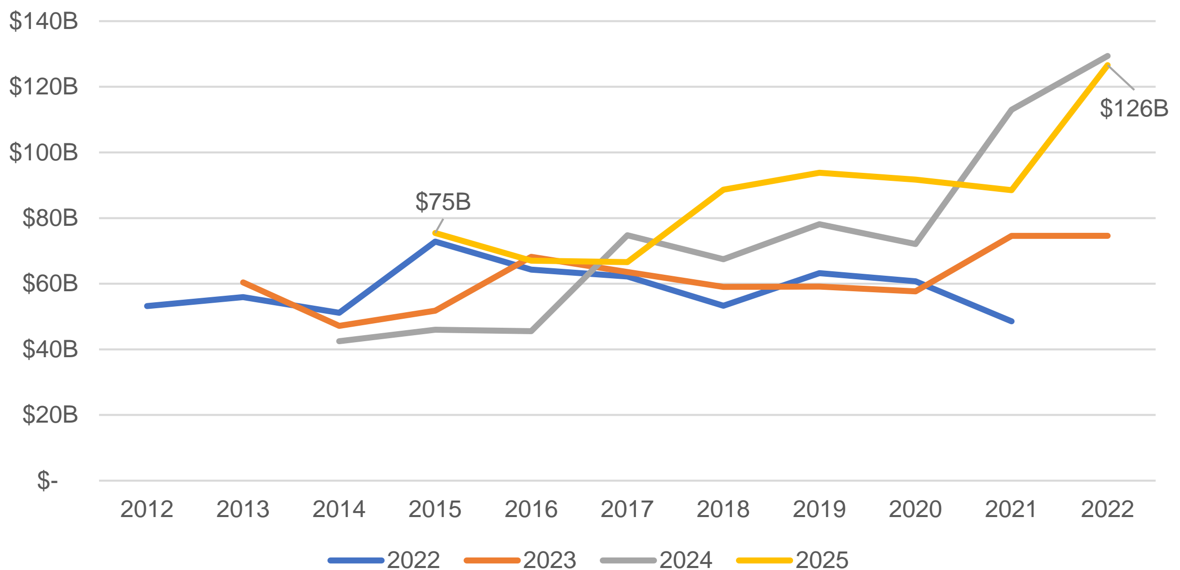
The duration of multifamily debt can vary based on product, ranging from just a few months up to 40 years. Loan terms can differ by lender and product type, with GSE debt typically being seven to 10 years for conventional assets and longer for properties with government subsidies. Meanwhile, banks and debt funds typically offer shorter-term loans. While debt is priced to account for risk of shorter loan terms, given the recent run up in interest rates and slowing multifamily fundamentals, shorter-term loans will have less time for property financial growth to outpace the increase in interest rates.

Shorter loan terms have become more common since the pandemic. According to data from Yardi Matrix[2], from 2017-2019, 25.9% of multifamily loans had terms of seven years or less, compared with 33.9% from 2020-2022. The story is similar for terms of five year or less; increase from 16.4% from 2017-2019 to 26% from 2020-2022.

We also see the increase in shorter-term debt in the maturity schedule of non-bank multifamily maturities, according to the Mortgage Bankers Association (MBA). Typically, the amount of debt outstanding declines every year as we advance toward the maturity year. This is seen in Exhibit 1: The amount of debt due in 2022 slowly declines from the peak in 2015 — which is seven years out from maturity — through 2021, which indicates loans paid off or refinanced outpaced new originations with shorter-term debt due in 2022. However, we see the number of maturities due in 2023, and to a greater extent in 2024 and 2025, increase over time. For example, in 2015 there were an estimated $75 billion in maturities due in 2025, but by 2022, that amount increased to $126 billion. We see the maturity schedule increase after 2017 and 2018, most dramatically in 2021 and 2022, indicating the amount of shorter-term maturities due in 2024 and 2025 outpaced those that paid off or refinanced. This implies a higher proportion of short-term debt coming due in the next two years. Multifamily lending has increased substantially in the last few years and hit a record high in 2021. Construction lending as a subset of this has also likely increased due to the elevated level of multifamily starts (although this data does not track this directly). The increase in volume and the shift toward short-term debt helps explain why the 2024 and 2025 curves are generally upward sloping.

[2] Yardi Matrix data is based on the population of loans in their database with financing data. This represents a subset when compared to the MBA data set but provides insight into loan provider and loan duration.

Exhibit 1: Maturity Schedule by Maturity Year



Source: MBA (non-bank). Prior to 2022, MBA did not report on bank maturities.

Multifamily Fundamentals

Multifamily fundamentals have slowed over the past year due to the higher interest rates, economic uncertainty at the end of 2022 and into 2023, and high levels of new multifamily supply entering the market. This is evident in property price declines as well as lower rent growth in the past 12 months. Property prices have fallen 14% from their historic high in July 2022, according to Real Capital Analytics (RCA). Future property price growth is constrained by the compressed cap rates spread, or the difference between the cap rate and 10-year Treasury. The average cap rate spread is 310 bps going back to 2001, but currently sits at 120 bps as of the third quarter of 2023. Market dynamics would put further upward pressure on cap rates to widen out the spread toward more historically normal levels. However, despite the recent slowdown, property prices have increased by 33.1% over the past five years and 121% over the past 10 years.

At the same time, rent growth is slowing and expenses are increasing at a faster pace — which causes NOI growth to decline. RealPage reports that same-store annual rents grew by just 0.4% in the third quarter of 2023, and that year-over-year rent growth has steadily declined every quarter since the second quarter of 2022. Expense growth is also slowing but is still positive at 7.2% and well above the average going back to 2010 of 3.9%. The rate of growth for NOI has slowed considerably to only 2.4% in the past year.

Despite the recent slowdown in fundamentals, the market has seen above-average NOI growth in the past several years. As of the third quarter of 2023, NOI has grown an average of 5.9% per year over the past 10 years, while expenses have grown at an average rate of 5.8%, according to RealPage. In the last three years, the rates are even higher and the disparity grows, at 10.1% for NOI growth and 7.6% for expense growth. With high supply coming on the market, rent growth is expected to remain suppressed over the next year or two while expenses are expected to moderate as inflation cools.

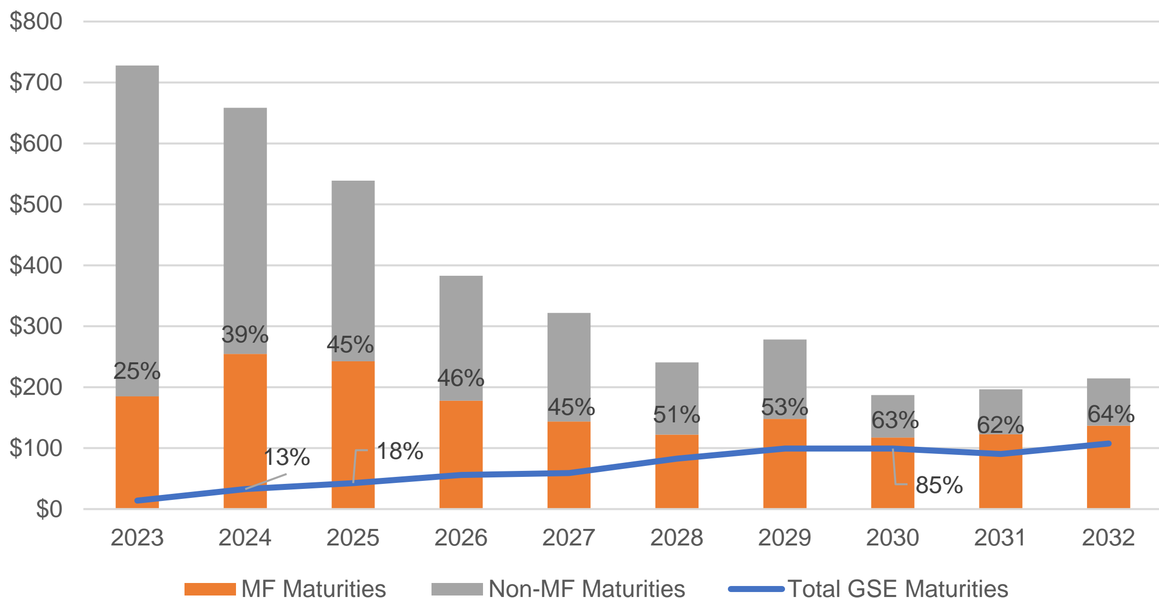
The recent slowdown in property valuation and financials could make it difficult for properties to meet higher debt service payments given the run-up in interest rates. Loans with shorter terms would not

have experienced some of the above-average growth seen leading up to and post-pandemic. Therefore, the higher interest rate environment along with weakening multifamily fundamentals may impact borrower's ability to refinance, with the risk greatest among shorter-term loans scheduled to mature in the next two years.

Breaking Down Maturity Risk Exposure

Multifamily maturities, including bank originations, total roughly $500 billion in 2024 and 2025, which makes up about 42% of CRE maturities for those two years. The share of multifamily maturities will steadily increase to 63% in 2030, as seen in Exhibit 2. Meanwhile, the GSE portion of multifamily maturities is relatively low in 2024 and 2025 at 13% and 18%, respectively.

Exhibit 2: CRE Sector Share by Maturity Year



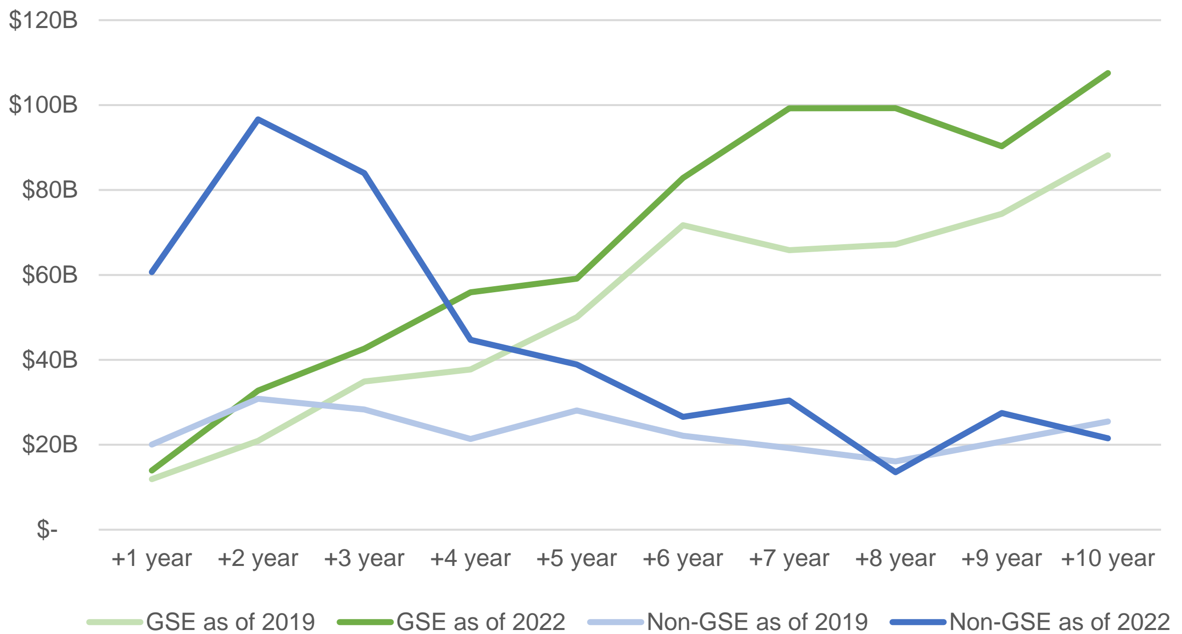
Source: MBA (including bank maturities). Data includes defeased loans. Defeased loans are loans that have been released from collateral by substituting funds to maintain cash flows from the loan. GSE volume comprises Freddie Mac, Fannie Mae, Ginnie Mae and FHA, per reporting by MBA. As of 2022, MBA no longer reports on GSE multifamily volume but instead reports GSE total volume. In prior years, these metrics have been very close but have not aligned exactly. The GSE series in this graph captures all GSE lending volume, while the non-GSE series takes the entire multifamily volume and subtracts all GSE lending.

While the GSEs hold a small share over the next few years, they make up a majority of the multifamily maturities further out — up to 85% in 2030. The lower share of GSE multifamily maturities in the near term is a testament to the typical longer origination terms among GSE debt. Therefore, most of the debt coming due before then is concentrated in non-GSE lenders.

While the GSE maturity schedule trend has remained relatively consistent (increasing over time), the non-GSE schedule has seen a shift to shorter-term debt in the past few years, seen in Exhibit 3. The green lines represent how much GSE debt is maturing in subsequent years as of 2019 and 2022 ("+1 year" represents the year 2020 for the "as of 2019" and the year 2023 for the "as of 2022"). While the dollar amount is higher as of 2022, the trends follow a similar pattern, with maturities increasing over time. However, the maturity schedule for non-GSE lenders was relatively flat as of 2019, but as of 2022, the maturity schedule increased for the shorter-term maturities (for the "as of 2022" line, the "+2

and +3 year" amounts represent 2024 and 2025 maturities, respectively), then dropped off in the later years. Exhibit 3 shows that 2022 GSE lending patterns have not changed substantially compared with 2019, whereas the non-GSE maturities increased in the near term. While the non-GSE maturities groups all other lenders together, this does not indicate all non-GSE lender maturity schedules have shifted. Instead, they have done so only in the aggregate.

Exhibit 3: Maturity Schedules as of 2019 and 2022 by GSE and non-GSE



Sources: MBA (non-bank), Freddie Mac. Note: MBA began reporting bank maturities in the 2022 maturity schedule. To do a historical comparison, we removed the bank data. Typical bank loans are shorter term than GSEs, which may increase the "Non-GSE as of 2019" observations. Despite not having the bank maturity data as of 2019, we can still see a sizeable increase in near term maturities coming due among other Non-GSE, non-bank lenders that was typical in 2019.

Evaluation of Funding Sources

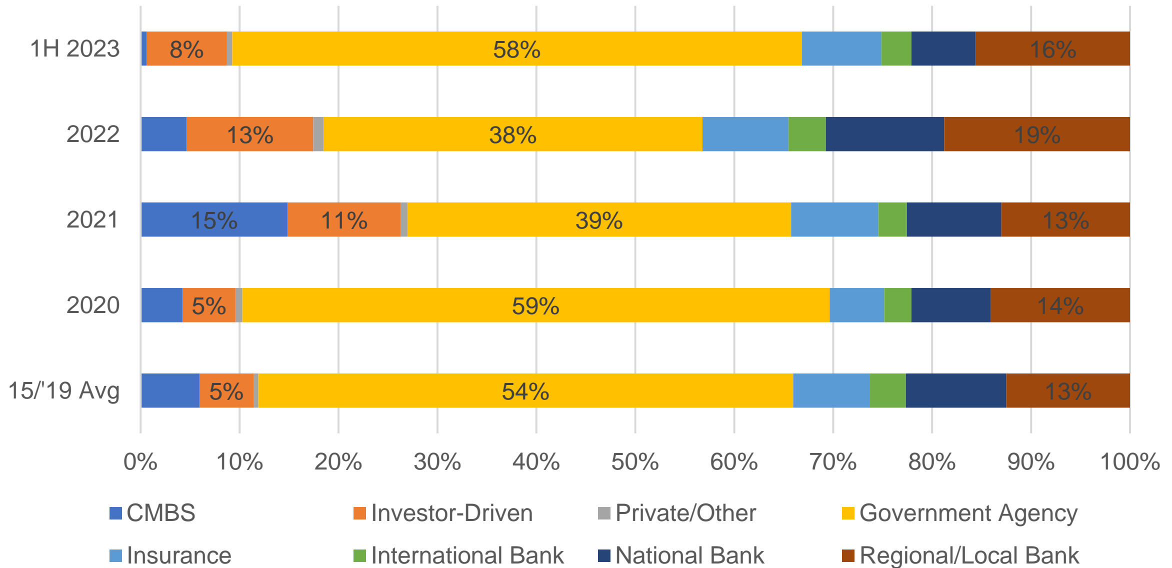
The increased maturity schedule for multifamily debt, especially among non-GSE lenders, can also be seen in the recent origination activity. Exhibit 4 shows the share of multifamily originations by lending source. Government agencies, which consists primarily of the GSEs but includes all government lending, have historically made up roughly half of the market. Other lender types include banks, life insurance companies, CMBS, private lenders and investor-driven (which are similar to debt funds).

From 2015 to 2019, government agencies funded 54% of all multifamily debt.[3] This rate shrunk to 39% and 38% in 2021 and 2022, respectively. During this time, investor-driven funds and regional/local banks increased their multifamily lending volume. However, both lender groups have pulled back in the first half of 2023, not quite to 2015 to 2019 levels, but noticeably lower. The GSEs' share for the first half of 2023 increased to 58%, consistent with their role of providing stability and

[3] The GSEs' share has historically been about 40% of the market. Government agencies includes all government lending, including the GSEs, HUD, and state and local governments. This explains why the rate is generally higher in Exhibit 4.

liquidity to the multifamily market when other lenders are less active. While investor-driven and regional/local banks will have a range of debt with different loan terms, typically their multifamily originations have shorter terms.

Exhibit 4: Multifamily Lending Sources



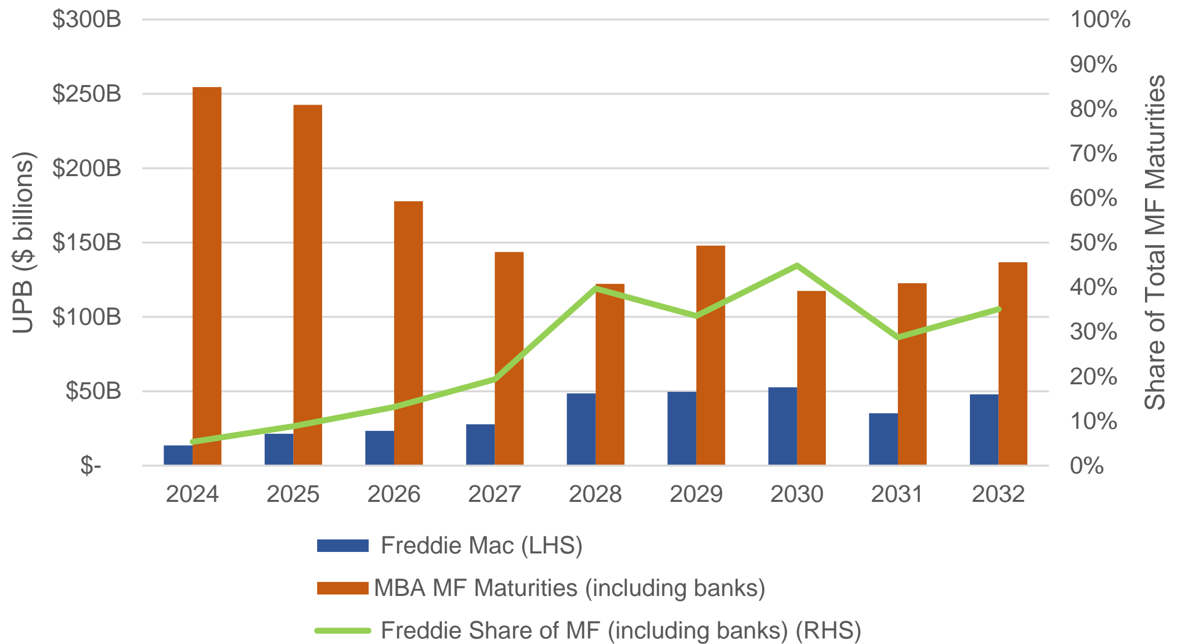
Source: RCA. Note: Government Agency includes all government lending, including the GSEs, HUD, and state and local governments. RCA covers most of the market but coverage is not comprehensive and does not include transactions with a sale price below $2.5M.

Freddie Mac Maturity Exposure

Overview

Breaking out Freddie Mac's share of multifamily maturities over the next few years shows a similar pattern to the total GSEs maturity schedule, shown in Exhibit 5, with relatively low near-term maturities, which gradually increase over time. Freddie Mac's share of maturing multifamily loans by unpaid principal balance (UPB), denoted by the green line, remains below 10% through 2025 and peaks at 45% in 2030, when compared with MBA's total multifamily maturities.

Exhibit 5: MBA Multifamily and Freddie Mac Loans by Maturity Year



Sources: Freddie Mac and MBA. Data includes all loan types, including securitized and portfolio, and excludes defeased loans.

Origination Terms

While shorter-term loans have become more common in the overall origination market since the pandemic, Freddie Mac has seen a smaller increase in shorter-term debt. From 2017-2019, loans with terms of seven years or less made up 20% of originations, but that percentage rose slightly to 22.5% for 2020-2022. However, loans maturing in the next two years are still generally of longer duration, as seen in Exhibit 6. Focusing on shorter-term loans, we find that among Freddie Mac loans maturing in 2024 or 2025, 14.3% have terms of five years or less. This compares with 55.2%, as reported by Yardi Matrix, of loans maturing in 2024-2025 with terms less than five years.

Exhibit 6: Loan Term by Maturity Year

Maturity Year	<=5 Years	> 5 Years, <= 7 Years	> 7 Years, <= 10 Years	>10 Years
2024	18.9%	47.6%	32.8%	0.7%
2025	11.3%	37.9%	46.0%	4.9%
2026	12.1%	36.0%	49.8%	2.1%
2027	4.4%	24.2%	66.7%	4.7%

Source: Freddie Mac. Data includes all loan types, including securitized and portfolio, and excludes defeased loans.

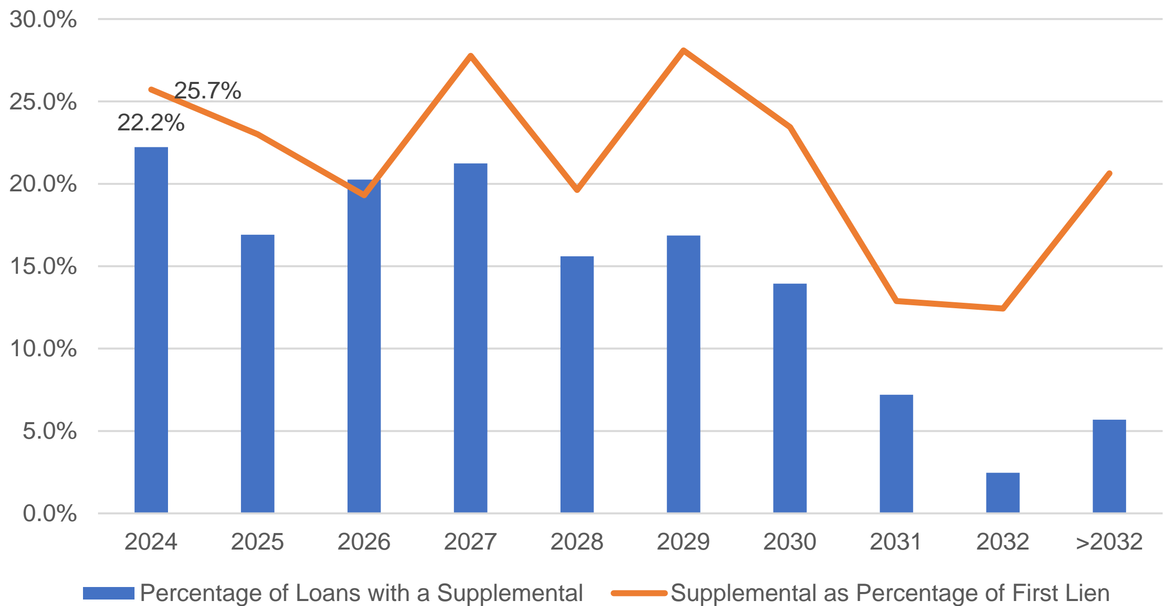
Supplementals

While the majority of Freddie Mac loans maturing in the next few years were originated with 7- or 10-year terms, Fredde Mac-originated subordinate debt, also known as a supplemental loan, has become more common in the last few years due to the low interest rates and strong growth in fundamentals. As a result, some loans maturing in the near future may have additional debt put in place, which would increase the amount of UPB that needs to be refinanced, and limit the amount of NOI and property value growth realized since the subordinate debt's term is shorter than the original loan.

Supplemental loans must be coterminous with the first lien loan, originated at least 12 months after the first loan, and cannot be put on in the last three years of the first loan. Threshold amounts for the combined LTV and DSCR are the same as first loans for terms of at least five years. However, since supplementals can have terms of less than five years, there is an additional criterion for such an occurrence, which includes stricter DSCR requirements.[4]

Of all Freddie Mac loans maturing in 2024, 22.2% have at least one supplemental, and the average size of the supplemental loan is 25.7% of the first lien loan. The rate of loans with a supplemental generally declines in subsequent years, as shown in Exhibit 7.

Exhibit 7: First Lien and Supplemental Loans



Source: Freddie Mac. Data includes all loan types, including securitized and portfolio, and excludes defeased loans. All percentages are based on active UPB.

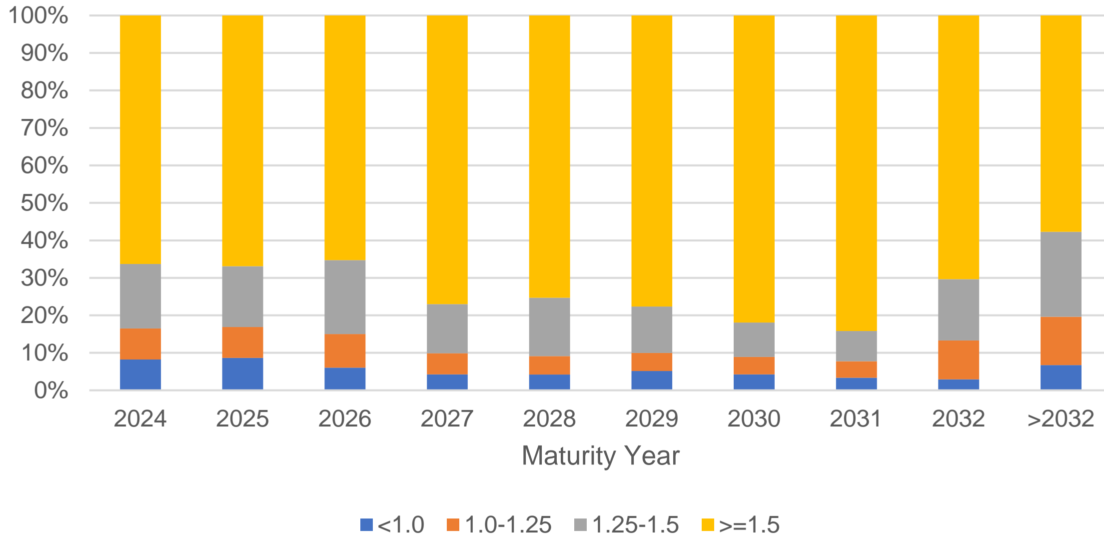
Debt Service Coverage Ratio (DSCR)

The majority of Freddie Mac loans show strong cash flows to cover the current debt service payment; 66.7%% of loans maturing in 2024 and 2025 reported DSCRs 1.5x or greater. That share increases

[4] See Freddie Mac supplemental loan policy for more details. Supplemental Loan (freddiemac.com)

to 83.2% for loans with reported DSCRs 1.25x and greater. This indicates that the majority of loans have NOI far surpassing their current debt service. This will provide additional cushion for refinancing at higher interest rates if property NOI has grown enough to cover a higher debt service at the higher rates.

Exhibit 8: Maturing Loans by Servicer-Reported DSCR Bucket



Source: Freddie Mac. DSCR figures include cap premium costs and are reported by the servicer. Data includes all loan types, including securitized and portfolio, and excludes defeased loans.

Freddie Mac started requiring escrow costs for floating-rate cap premiums to be included in the DSCR calculation in 2022, while the Commercial Real Estate Finance Council (CREFC) standard includes premiums in DSCR calculations in its Investor Reporting Package (IRP™ version 8.3, effective October 31, 2023). This would impact the loan's current reported DSCR since higher interest rates increase the cost of the cap premium, which would lower the DSCR, all else being equal. While the inclusion of the cap premium would give insight into the likelihood of the loan making current debt service payments, it would not necessarily impact the loan's ability to refinance, as this does not impact the property's NOI. Any new floating-rate debt would include the cap premium cost in the DSCR but is not impacted by the prior loan's cap premium cost. Therefore, there may be overstated refinance risk among floating-rate loans that currently have low DSCRs due to the inclusion of cap premiums, which does not accurately represent that state of the property's ability to cover the debt payment.

While the portion of loans with reported DSCRs less than 1.0x has increased, this is due partially to the cap rate premium inclusion in the DSCR calculation (as discussed above) as well as an increase in weakness among seniors housing, both of which make up an outsized share of the maturing population under a 1.0x DSCR. Fundamentals for seniors housing have weakened in the past year due to robust expense growth while occupancy rates continue to lag pre-pandemic averages.[5] For loans maturing in 2024 and 2025, seniors composed 6% of all loans but 33% of loans with a DSCR of below 1.0x.

[5] For more information on seniors housing performance, please refer to our research on this topic that we published in September 2023.

Refinance Risk

Using simplistic, stylized examples, we can gauge refinance risk across varying loan terms and characteristics. We explore a 10-year and 5-year fixed-rate loan hypothetical example, both set to mature in 2025, along with assumptions about market conditions at the time of refinance. These examples showcase how much growth in NOI and property values could offset the rise in debt service if the loan refinanced in today's higher interest rate environment.[6] Without projections for NOI, cap rates or mortgage rates for 2024-2025, we assume the current mortgage rate, calculated through August 2023 using Freddie Mac's internal data and realized NOI and cap rate changes from time of origination through the current year[7]. Therefore, we assume there is no further NOI growth through 2024-2025, mortgage rates stay the same (given the Fed's current pause in rate hikes) and no further property price growth or decline through 2025.[8] We assume a mortgage rate of 5.9% at maturity which is roughly the prevailing rate in the third quarter of 2023, per Freddie Mac data. Effectively, we are evaluating the ability of a loan to refinance at current market conditions.

10-Year Fixed-Rate Amortizing Loan

In our 10-year hypothetical example, we set a loan that was originated in 2015 with an NOI of $1.2 million and UPB of $15.5 million to achieve an LTV of 74.9% and DSCR of 1.34x (within Freddie Mac's underwriting criteria for a conventional, fully amortizing 10-year loan). Since 2015, NOI growth has been robust, increasing 33.2% from $1.2 million to roughly $1.6 million. Similarly, RCA reports cap rates declined 50 bps. The mortgage rate in 2015 averaged 4.1%, which is 180 bps below the current mortgage rate of 5.9%.

If the loan were to refinance at the higher interest rate environment, the current DSCR and LTV are still healthy and would support refinancing. The debt service on a new loan would decrease, despite the higher interest rate as a result of a lower principal. This would increase the DSCR to 1.84x. Even though cap rates have increased over the past year, based on this example cap rates today are lower than in 2015. This would equate to an LTV of 40.2%. As such, a loan with eight years' worth of seasoning would meet typical loan refinance ability at today's higher interest rates.

As a benchmark, if the mortgage rate had remained the same, the DSCR would instead have increased to 2.27x. Therefore, while the higher interest rate does not create refinance risk in this case, it does lower DSCR considerably.

Exhibit 9A: Loan Characteristics for First Hypothetical Loan (No Supplemental)

Metric	Origination	Maturity
Mortgage Term	10 Years	
Amortization Period	30 Years	

[6] NOI growth is based on Freddie Mac observed NOI values, and cap rate changes are based on data from RCA.
[7] Due to reporting, NOI growth is as of 2022 while cap rates are through 2023. NOI data is trended to 2023 using the historical average growth rate.
[8] Using observed values for inputs to LTV and DSCR negates the need to forecast variables, some of which are highly volatile. Since the time horizon is until 2025, we are comfortable using the most recent observed values to calculate LTV and DSCR values at the time of maturity. The assumption that prices will not change is probably the least likely one given the historically tight cap rate spreads, which would typically widen out if interest rates remain elevated for longer, putting downward pressure on property values.

Year Funded / Matured	2015 / 2025	
NOI	$1.2M	$1.6M
UPB	$15.5M	$12.2M
Mortgage Rate	4.1%	5.9%
Cap Rate	5.8%	5.3%
DSCR	1.34x	1.84x
LTV	74.9%	40.2%

Source: Freddie Mac

While a 10-year loan would have had plenty of NOI and property valuation to sustain the higher interest rate levels at maturity, supplemental liens are very common in the upcoming maturity schedule, as depicted in Exhibit 7. Adding a three-year supplemental loan in 2022, to be coterminous with the first lien, at a UPB of $4.3 million allows for the combined DSCR and LTV to meet the supplemental underwriting standards. When the new debt is put on, the DSCR reverts to roughly what the first lien's DSCR was at origination, as seen in Exhibit 9B, although the LTV drops to 53.5%. This drop in LTV is primarily due to a much lower cap rate, which pushed the property price up and thus drove the LTV down.

At maturity, the DSCR and LTV are still within the credit parameters of a typical 10-year fixed-rate loan. However, they are closer to the thresholds, which is intuitive given that additional debt was added in 2022. In any case, this example shows how even adding a supplemental to the first loan depicted in Exhibit 9A would still allow for the loan to pass the refinance test.

Exhibit 9B: Loan Characteristics for First Hypothetical Loan (With Supplemental)

Metric	Supplemental	Maturity (Combined)
Mortgage Term	3 Years	
Amortization Period	30 Years	
Year Funded / Matured	2022 / 2025	
NOI	$1.56M	$1.6M
UPB	$4.3M	$16.4M
Mortgage Rate	4.3%	5.9%
Cap Rate	4.7%	5.3%
DSCR (First Lien + Supplemental)	1.36x	1.37x
LTV (First Lien + Supplemental)	53.3%	53.7%

Source: Freddie Mac

5-Year Fixed-Rate Interest-Only Loan

While the 10-year loan term showed resiliency in refinancing in today's higher interest rate environment, shorter-term debt is at a higher risk of meeting refinance terms. Next, we examine a 5-year interest-only loan, that was originated at the trough in interest rates in 2020. Based on Freddie Mac conventional fixed-rate credit parameters, a 5-year full-term interest-only loan is underwritten to a 65% LTV and 1.35x DSCR. In the example below, we lowered the UPB to $15.2 million, and despite the lower interest rate, our example was constrained by the lower LTV due to credit policy for 5-year loans. Mortgage rates increase from 3.4% in 2020 up 250 bps to 5.9%.

This example loan is interest only, but in order to refinance, the loan must meet amortizing DSCR requirements. In the 5-year example, we see that the DSCR drops from 1.48x to 1.28x, being driven down by the higher mortgage rate despite NOI increasing by 15.4%. According to RCA, cap rates hit the trough in the second quarter of 2022 before slowly increasing due to higher interest rates. Given this hypothetical loan was originated in 2020, cap rates only differ by about 20 bps. Therefore, LTV declined from 64.6% to 57.6% given slightly lower cap rates and higher NOI. Given current 10-year conventional fixed-rate deals have a credit policy of 1.25x DSCR and 75% LTV, based on these calculations, this hypothetical loan would barely pass the DSCR requirement.

Exhibit 10: Loan Characteristics for Second Hypothetical Loan

Metric	Origination	Maturity
Mortgage Term	5 Years	
Amortization Period	-	
Year Funded / Matured	2020 / 2025	
NOI	$1.2M	$1.4M
UPB	$15.2M	$15.2M
Mortgage Rate	3.4%	5.9%
Cap Rate	5.1%	5.3%
DSCR	1.48x	1.28x
LTV	64.6%	57.6%

Source: Freddie Mac

While this example in its current form would pass a refinance test, any further deterioration would further stress the ability to refinance. However, to put into perspective the tighter credit parameters for shorter-term loans, if this example loan were underwritten to credit parameters that allowed a 75% LTV and 1.25x DSCR, the loan proceeds could support a $17.6 million UPB. In this hypothetical case, the refinanced LTV would increase to 66.7% while the DSCR would be 1.11x — below the typical refinance minimum. This indicates that there could be loans closer to the margin of refinance thresholds that could face refinance difficulties if they experienced a similar drop in DSCR.

These examples highlight hypothetical examples, with varying assumptions that could impact the outcome of the analysis. But from these examples, we can identify greater risk among shorter-term loans, especially with wider underwriting limits.

Conclusion

The confluence of risk factors such as the elevated level of short-term debt and higher interest rates may cause some multifamily properties to experience refinance risk, but the risk is likely not systemic. Multifamily fundamentals have weakened in the past year, but properties have generally enjoyed healthy NOI growth and property price appreciation over the past decade, which will allow for most loans to refinance into today's current interest rate environment. The GSEs' share of maturities, and Freddie Mac's specifically, will be relatively low in the next few years and, among Freddie Mac's loan population, are generally positioned well with healthy DSCRs.

While mortgage rates have moderated some at the end of 2023, it's unclear at this time how long they will remain elevated. Markets are pricing in rate cuts for 2024 and 2025, and if this comes to fruition, it will put downward pressure on mortgage rates and improve DSCR levels at maturity. This suggests that lower rates would lead to less risk since there would be fewer loans at the margin of facing refinance challenges. However, the opposite would be true if rates were to be higher in 2025. Multifamily fundamentals are expected to remain soft in the near term as the market works through the high levels of new supply entering the market, while there is additional upward pressure on cap rates given the very compressed cap rate spread. Multifamily investments remain a favorable asset class due to demographic tailwinds among the younger age cohorts as well as the older generation aging out of single-family living. At the same time the higher interest rate environment has driven homeownership out of reach for many would-be buyers, which will keep some in rentals for longer.