Commercial Real Estate
Monthly Recap

CorAmerica
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For the period ending: April, 2018

Monthly Commentary

According to the CBRE Q1 2018 U.S. Lending Report, lending markets remain strong, despite recent market volatility. Real estate capital markets remained in good shape, with healthy loan production volumes and favorable credit spreads for borrowers. As investors anticipate additional short-term rate increases by the Federal Reserve this year, the yield curve has begun to flatten. By mid-April, the spread between ten-year and two-year Treasury bonds was at the tightest level since before the 2008 recession. Through February, combined Fannie Mae and Freddie Mac multifamily loan purchase volume of $15.6 billion was below the record-setting pace of $20.6 billion at the same time last year. For all loans tracked by CBRE the percentage of loans carrying interest-only terms remained at 66% in Q1, and there has been no substantial deterioration in underwriting measure over the past few quarters. The average LTV fell slightly in Q1 to 59.8% for commercial properties and 68.3% for multifamily. The average debt yield and constant across all property types was 9.36% and 5.89%, respectively. The full report is available upon request.

Conduit issuance was light in April with only 3 deals pricing for a total of $2.4b, bringing the YTD conduit total to $12b across 12 deals. The AAA LCF classes all priced in the 80's, after mostly 70's prints in February and March, and 60's prints in January. The AA- bonds priced in a range from 120-135, while the A- bonds priced in a range of 165-205; both of which are generally wider than March prints. Overall, the new issue market felt relatively weak, as investors seemed to favor secondary bonds. In SASB new issue space, we continue to see deals being fully or partially preplaced into strong demand. Four deals priced in April for a total of $1.9B. There were 3 floating rate deals for $1.4B and one fixed rate SASB deal for $500mm. One CRE CLO priced for $826mm. In the secondary market, AAA LCF bonds managed to tighten around 2-4bps, while BBB- bonds tightened 5-10bps. The bid sides for the middle of the stack was quoted as being a touch wider on the month, but the market felt more firm than that. Dealers were generally cautious about showing strong stock bids out broadly, given the softness in the primary market, but actual trading levels seem to be tighter for select names.

U.S. Property Fundamentals - Key Indicators

	Multi-Family			Office	
	12 Mo. Change / Current	Hist. Avg.		12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-.1% / 6.5%	6.5%	**Vacancy Rate**	-0.0% / 10.3%	11.3%
Net Absorption	267,951	171,239	**Net Absorption**	53 M	52 M
Net Deliveries	274,989	200,333	**Net Deliveries**	65.3 M	82.5 M
Rent Growth	2.70%	1.90%	**Rent Growth**	1.90%	1.40%
Sales ($ millions)	$127 B	$59.9 B	**Sales ($ millions)**	$95.2 B	$70.8 B

	Industrial			Retail	
	12 Mo. Change / Current	Hist. Avg.		12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-0.2% / 5.1%	8.0%	**Vacancy Rate**	-.2% / 4.5%	6.1%
Net Absorption	230 M	144 M	**Net Absorption**	76.1 M	96.7 M
Net Deliveries	234 M	169.5 M	**Net Deliveries**	72.1 M	105.3 M
Rent Growth	5.60%	2.00%	**Rent Growth**	1.60%	0.50%
Sales ($ MM)	$51.8 B	$30 B	**Sales ($ MM)**	$55.4 B	$47.5 B

Source: Costar (Apartments, Office, Retail, Industrial) as of 5/2/2018. "Hist. Avg." vacancy is over the last 10-years.

Market Briefs / Activity

- **Commercial Real Estate Outlook: Are Cap Rates Heading Up?**: When Green Street asked a conference of its top clients, "What direction do you think real estate values will move over the next 12 months?" over 70% percent of the audience said flat or up. Their optimism is not surprising. The economy is doing pretty well, and barring a trade war, economic growth is expected to pick up this year and next as the twin engines of tax cuts and deficit spending take effect. Read more...

- **Alternative Lending Goes Mainstream:** Mortgage brokers expect that alternative lenders will become a greater source of financing for the commercial real estate sector this year. More than three-quarters of brokers surveyed recently said they expect to place more loans with alternative lenders this year compared to 2017. In addition, just more than 41% of those surveyed said between 25% and 50% of the deals they arranged involved loans from alternative lenders. Another 29% said between 50% and 75% of their deals are done with alternative lenders. Read more...

- **In Spite of Waves of Store Closures, Retail Vacancy Hasn't Spiked in the First Quarter:** Retail vacancy levels stayed relatively flat for the first quarter of the year, according to preliminary data from real estate research firm Reis. Industry experts say that despite accounts of retail bankruptcies and store closures, the sector is poised to stay the course. Read more...

- **Competition Intensifies for Value-Add Assets:** For the past several years, investors have turned to the value-add strategy when seeking outperformance in a competitive commercial real estate landscape. Read more…

- **Multifamily & Industrial Lead Strong Opening to 2018:** Commercial real estate investment volume totaled $114.3 billion in Q1 2018, an increase of 4.8% from Q1 2017. Increases in warehouse, industrial, mid/high-rise multifamily and full-service hotel investment helped drive the Q1 2018 volume higher than Q1 2017, despite decreases in office and retail acquisitions. Total investment for the past four quarters was $492.4 billion, a slight decrease of 1.7% from the year ending Q1 2017. Read more...

CML Spreads / Current

LTV	5-Year	7-Year	10-Year	20-Year
≤ 50%	135	130	130	140
60%	150	140	140	150
65%	160	150	150	160
70%	180	165	165	175
75%	220	200	200	210

* 20-year priced over the 12-year treasury and fully amortizing.

CML Spreads / Monthly Change

LTV	5-Year	7-Year	10-Year	20-Year
≤ 50%	0	0	0	0
60%	0	0	0	0
65%	0	0	0	0
70%	0	0	0	0
75%	0	0	0	0

* 20-year priced over the 12-year treasury and fully amortizing.

Outside Market / Monthly Change

Indice	Current	Change	% CHG
1-Month LIBOR	1.90%	0.02%	1.1%
3-Month LIBOR	2.36%	0.06%	2.6%
5-Year Treasury	2.80%	0.24%	9.4%
7-Year Treasury	2.92%	0.23%	8.6%
10-Year Treasury	2.96%	0.22%	8.0%
30-Year Treasury	3.12%	0.14%	4.7%
10-Year Swap	2.99%	0.19%	6.8%
Dow J	24,163	60.0	0.2%
NASDAQ	7,066	2.8	0.0%
S&P 500	2,648	7.2	0.3%
Gold	$1,316	(11.20)	-0.8%
Crude Oil	$68.57	3.63	5.6%

Source: WSJ.com; bankrate.com; ycharts.com

Other CML Spreads / Monthly Change

Term	Source	LTV	Spread	Change
10-Year	CMBS	≤ 75%	S+190	0
7-Year	Agency *	65%	164	-6
7-Year	Agency *	75%	187	-6
10-Year	Agency *	65%	163	-3
10-Year	Agency *	80%	186	-3
12-Year	Agency *	75%	191	-4
15-Year	Agency *	75%	193	0
Mezz	Various	85%	600-1000	NC

* Indicative pricing for Fannie Mae loans that are $10+ MM "affordable" and/or "green" properties. Add ~25 bps if sub $10MM "affordable" and/or "green" property. Add ~35 bps if $10+MM and it is considered "capped" business. Add ~50 bps if sub $10 MM and it is considered "capped" business.

Public Benchmarks / Monthly Change

Type	Rating	Spread	Change	% CHG
Corp.	AAA	T+62	0.0	0.00%
Corp.	AA	T+65	-5.0	-7.14%
Corp.	A	T+88	-3.0	-3.30%
Corp.	BBB	T+130	-2.0	-1.52%
Corp.	BB	T+216	-19.0	-8.09%
CMBS	AAA	T+82	-3.00	-3.66%
CMBS	AA	T+131	6.00	4.92%
CMBS	A	T+181	7.00	4.09%

Source: Bloomberg Corporate Bond Index; Deutsche Bank pre risk-retention CMBS, secondary market spreads as of COB 11/30. CMBS spreads are shown net of the swap spread, which was 3.25 bps on 4/30.

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