

For the period ending: August, 2016

Monthly Commentary

As it has been historically, August was a relatively uneventful month as it relates to whole loan originations. CorAmerica CML spreads tightened by 5-10 basis points, which was consistent with a downward trend in corporate bond spreads. The market is paying close attention to CMBS originators, some of which have been willing to offer economic terms that can be very competitive with life companies on certain transactions. The agencies will likely shift their focus to 2017 in the near future, which may allow them to be even more competitive as the mandate for the new year is finalized.

Property fundamentals have been steady, but many investors are starting to take a hard look at current real estate values. Situs RERC recently discussed CRE from a value vs. price perspective and whether it is a good time to buy, sell or hold real estate. Overall, they feel CRE is a fair bet where values and prices are not too disconnected, while acknowledging that risk is increasing as values vs. prices are deteriorating over time. Situs RERC's value vs. price rating is the lowest they have seen since the first quarter of 2011, an indication that prices are higher than value for CRE as a whole.

In CMBS, August started off on a very strong note driven by the execution of the WFCM 2016-BNK1 deal, which was the first attempt at a risk retention compliant deal. The deal was extremely well received and priced significantly tighter than the prior deal and driving in secondary spreads in the process. Away from the risk retention component, the deal's top line statistics (weighted average LTVs, DSCRs, etc.) also looked attractive, which likely impacted the execution as well. In total, 4 conduits deals (\$2.9b) priced in August bringing the YTD conduit total of \$25.7b, still significantly behind last year. While the other 3 deals weren't able to achieve the BNK1 spreads, they all priced extremely well with the mezz classes trading through secondary spreads. Away from conduit, 3 SASB deals (~\$1.3b) and 2 CRE CLOs (~\$795mm) also priced in August. The momentum from the BNK1 deal clearly impacted spreads early in the month, but some of the tightening on the follow was erased as we headed toward month-end. While the leak wider was partially due to the quiet end of summer time period, investors also seemed to reject some of the unwarranted generic tightening that impacted deals with weaker credit profiles.

Key Takeaways

- According to the MBA, delinquency rates for commercial and multifamily loans remained low in the second quarter of 2016. The report shows that for most capital sources, commercial and multifamily mortgage delinquency rates are near the lowest levels seen during the past 20 years.
- CMBS spreads seemed to end the month either side of flat for AAA through AA- and 5-15bps tighter at A- and BBB-, where tiering based on perceived credit quality continues to drive spreads. Conduit issuance is expected to pick up in September.

U.S. Property Fundamentals

Q2 2016 Data - YOY Trend	Apartment	Office	Retail	Industrial
Inventory (,000)	10,536	4,172,000	2,064,000	6,339,000
Completions (,000)	49.1	8,608	1,403	16,602
Inv. Growth	1.90%	0.70%	0.30%	1.17%
Vacancy Rate	4.50%	16.00%	9.90%	10.50%
Net Absorption (,000)	36	6,918	3,191	20,499
Rent % Chg	0.90%	0.60%	0.40%	0.60%
Transaction Vol. (\$millions)	\$9,956	\$14,382	\$6,116	\$2,839
Mean Price Per (Unit/SF)	\$160,195	\$471	\$233	\$93
Mean Cap Rate	5.70%	6.70%	7.90%	7.80%
12 Month Rolling Cap Rate	5.90%	7.00%	7.50%	7.40%

Source: Reis

Market Briefs / Activity

- **US Banks Clearly Tightening CRE Lending Standards.** Second quarter bank earnings results and early third quarter lending numbers clearly show U.S.-based banks have tightened their underwriting standards for CRE loans as they face increased scrutiny of their commercial real estate lending from bank examiners. [Read More...](#)
- **Is the Era of High Returns Coming to an End?** Quite likely, according to Goldman Sachs, which recently issued a report implying real estate stocks may now be too risky for investors. Real estate industry experts have mixed views, however, about whether the ship has already sailed for high returns on commercial real estate investments. [Read More...](#)
- **Foreign Investors Still Love U.S. Commercial Real Estate** It should come as no surprise to anyone working in the business today that foreign investors look at commercial real estate as one of the smartest places for their dollars. [Read More...](#)

CorAmerica CML Spreads / Current				
LTV	5-Year	7-Year	10-Year	20-Year
≤ 50%	180	175	175	185
60%	200	190	190	200
65%	210	200	200	210
70%	225	210	210	220
75%	245	230	230	240

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

CorAmerica CML Spreads / Monthly Change				
LTV	5-Year	7-Year	10-Year	20-Year
≤ 50%	-5	-5	-5	-5
60%	-5	-5	-5	-5
65%	-10	-10	-10	-10
70%	-10	-10	-10	-10
75%	-10	-10	-10	-10

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

Outside Market / Monthly Change			
Indice	Current	Change	% CHG
1-Month LIBOR	0.52%	0.03%	6.1%
3-Month LIBOR	0.84%	0.10%	13.5%
5-Year Treasury	1.20%	0.18%	17.1%
7-Year Treasury	1.46%	0.17%	13.2%
10-Year Treasury	1.58%	0.13%	9.0%
30-Year Treasury	2.23%	0.05%	2.3%
10-Year Swap	1.43%	0.02%	1.4%
Dow J	18,401	(31.0)	-0.2%
NASDAQ	5,213	51.0	1.0%
S&P 500	2,171	(3.0)	-0.1%
Gold	1,311	(47.00)	-3.5%
Crude Oil	44.70	3.10	7.5%

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

Other CML Spreads / Monthly Change				
Term	Source	LTV	Spread	Change
10-Year	CMBS	≤ 75%	S+275	-10
7-Year	Agency	65%	229	-6
7-Year	Agency	75%	249	-6
10-Year	Agency	65%	233	0
10-Year	Agency	80%	253	0
12-Year	Agency	75%	260	-7
15-Year	Agency	75%	267	-13
Mezz	Various	85%	600-1000	NC

* Indicative spreads as represented to CorAmerica.

Public Benchmarks / Monthly Change				
Type	Rating	Spread	Change	% CHG
Corp.	AAA	T+83.55	-0.3	-0.33%
Corp.	AA	T+88.57	-4.8	-5.13%
Corp.	A	T+111.41	-4.7	-4.01%
Corp.	BBB	T+173.13	-11.2	-6.06%
Corp.	BB	T+322.45	-38.2	-10.60%
CMBS	AAA	T+92.69	-1.00	-0.93%
CMBS	AA	T+144.69	10.00	6.76%
CMBS	A	T+231.69	3.00	1.24%

Source: Bloomberg Corporate Bond Index; Wells Fargo CMBS Research

CMBS spreads are shown net of the swap spread, which was -13.31 bps on 8/31.