Commercial Real Estate
Monthy Recap

NASSAU CORAMERICA

For the period ending: August, 2018

Monthly Commentary

The Mortgage Bankers Association (MBA) released their Quarterly Survey of Commercial/Multifamily Mortgage Bankers Originations for the second quarter of 2018, showing commercial and multifamily mortgage loan originations were four percent higher than during the same period last year and 32 percent higher than the first quarter of 2018. Borrowing and lending continues to track with last year's level. Investor demand for multifamily properties and hotels are helping push originations higher, even as loan demand for retail properties is down. New loan demand continues to be supported by still-low long-term interest rates, growing property incomes, and rising values. A rise in originations for hotel and multifamily properties led the overall increase in commercial/multifamily lending volumes when compared to the second quarter of 2017. The second quarter saw a 22 percent year-over-year increase in the dollar volume of loans for hotel properties, a 17 percent increase for multifamily properties, a one percent increase for retail properties, a four percent decrease for office properties, a 10 percent decrease in industrial property loans, and a 16 percent decrease in health care property loans. Among investor types, the dollar volume of loans originated for the Government Sponsored Enterprises (GSEs – Fannie Mae and Freddie Mac) increased by 18 percent year-over-year. There was a six percent year-over-year increase for life insurance company loans, a one percent decrease in commercial bank portfolio loans, and an eight percent decrease in the dollar volume of Commercial Mortgage Backed Securities (CMBS) loans. Second quarter 2018 originations for hotel properties increased 89 percent compared to the first quarter 2018. There was an 87 percent increase in originations for retail properties, a 36 percent increase for office properties, a 25 percent increase for multifamily properties, a 9 percent increase for industrial properties, and a 9 percent decrease for health care properties from the first quarter 2018.

Conduit issuance was generally light in August with 4 deals pricing for a total of $2.88b, bringing the YTD conduit total to $25.33b across 28 deals. While last month's deals were all issued off relatively high quality shelves causing the range of prints across the stack to be relatively narrow, this month's deal prints showed a much wider dispersion. The AAA LCF priced in a range of S+86-91, with the AA- ranging from S+125-140, and the A- ranging from S+165-200 (versus 150-160 last month). The non-conduit space was also relatively quiet with only 5 SASB deals pricing for a total of $1.7B. Of this issuance, $1.34b was floating rate (across 4 deals), while the remaining $365mm (1 deal) was fixed. One CRE CLO also priced for $285mm. In the secondary market, AAA LCF bonds tightened marginally by 1-2bps, while the rest of the stack benefited more from the lack of supply, particularly in the last 3 weeks of the month, since all four conduits priced by August 10th. Secondary mezz continues to trade through primary for most deals, with AA- bonds tighter by 3-5bps and A- bonds tighter by 5-10bps. While overall trading volume was lower in August, the BBB- space was relatively active as faster money and total return accounts looked to take profits. Even with the elevated selling, BBB- bonds outperformed again in August, with bonds tightening anywhere from 15-25bps.

U.S. Property Fundamentals - Key Indicators

	Multi-Family			Office	
	12 Mo. Change / Current	Hist. Avg.		12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-.4% / 5.9%	6.5%	**Vacancy Rate**	-0.0% / 10.3%	11.2%
Absorbed Units	312,116	174,489	**Net Absorption**	50.2 M	52.4 M
Delivered Units	273,142	202,226	**Net Deliveries**	67.2 M	82.6 M
Rent Growth	3.00%	1.90%	**Rent Growth**	1.60%	1.40%
Sales ($ millions)	$133 B	$61 B	**Sales ($ millions)**	$91.5 B	$71.1 B

	Industrial			Retail	
	12 Mo. Change / Current	Hist. Avg.		12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-0.2% / 5.0%	7.9%	**Vacancy Rate**	-.1% / 4.6%	6.0%
Net Absorption	227 M	145 M	**Net Absorption**	66.7 M	96 M
Net Deliveries	240 M	170 M	**Deliveries**	68.5 M	104.7 M
Rent Growth	5.60%	2.00%	**Rent Growth**	1.40%	0.60%
Sales ($ MM)	$53.5 B	$30.3 B	**Sales ($ MM)**	$54.5 B	$47.5 B

Source: Costar (Apartments, Office, Retail, Industrial) as of 7/5/2018. "Hist. Avg." vacancy is over the last 10-years.

Market Briefs / Activity

- **Cap Rates Stable As Wall of Capital Chases Assets:** A wall of domestic and global capital, above-trend economic growth, and a continued low interest rate environment led to broadly stable capitalization rates for U.S. commercial real estate assets in the first half of 2018, according to the latest research from global property advisor CBRE. The CBRE North America Cap Rate Survey showed rates remained broadly unchanged across the sectors in H1 2018, except for some retail segments. Industrial cap rates tightened the most and multifamily rates edged down modestly. Office cap rates were generally stable, while the hotel sector also held firm. Continued cap rate stability is expected in H2 2018. Read more...
- **Life Company Lenders Feel the Pressure to Tighten Spreads on CRE Loans:** Life insurance companies are proving that they aren't afraid of a little healthy competition. Life company lenders remain firmly at the table when it comes to commercial real estate financing despite tighter spreads and a push by some borrowers for more flexible pre-payment options. Life companies generally do a good job of holding the line on underwriting, yet they have had to narrow spreads along with other lenders due to competitive pressure in the marketplace. 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 / YOY Change

LTV	5-Year	7-Year	10-Year	20-Year
≤ 50%	0 / -10	0 / -10	0 / -10	10 / -10
60%	0 / -10	0 / -10	0 / -10	10 / -10
65%	0 / -10	0 / -10	0 / -10	10 / -10
70%	0 / -15	0 / -15	0 / -15	10 / -15
75%	0 / -5	0 / -5	0 / -5	10 / -5

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

Outside Market / Monthly Change

Indice	Current	Change	% CHG
1-Month LIBOR	2.10%	0.02%	1.0%
3-Month LIBOR	2.32%	-0.03%	-1.3%
5-Year Treasury	2.74%	-0.11%	-3.9%
7-Year Treasury	2.81%	-0.12%	-4.1%
10-Year Treasury	2.86%	-0.10%	-3.4%
30-Year Treasury	3.02%	-0.06%	-1.9%
10-Year Swap	2.93%	-0.10%	-3.3%
Dow J	25,965	549.6	2.2%
NASDAQ	8,110	437.5	5.7%
S&P 500	2,902	85.5	3.0%
Gold	$1,207	(27.30)	-2.2%
Crude Oil	$69.80	1.04	1.5%

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

Other CML Spreads / Monthly Change

Term	Source	LTV	Spread	Change
10-Year	CMBS	≤ 75%	S+175	0
7-Year	Agency *	65%	174	0
7-Year	Agency *	75%	197	0
10-Year	Agency *	65%	175	1
10-Year	Agency *	80%	198	1
12-Year	Agency *	75%	204	2
15-Year	Agency *	75%	206	3
Mezz	Various	85%	600-1000	NC

* Indicative pricing for Fannie Mae loans that are $7+ 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 $7 MM and it is considered "capped" business.

Public Benchmarks / Monthly Change

Type	Rating	Spread	Change	% CHG
Corp.	AAA	T+61	6.0	10.91%
Corp.	AA	T+65	1.0	1.56%
Corp.	A	T+91	3.0	3.41%
Corp.	BBB	T+138	6.0	4.55%
Corp.	BB	T+218	-6.0	-2.68%
CMBS	AAA	T+83	-6.00	-7.32%
CMBS	AA-	T+124	0.00	0.00%
CMBS	A-	T+163	0.00	0.00%

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 7.38 bps on 5/31.

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