For the period ending: December, 2018

Monthly Commentary

Real estate fundamentals are generally healthy with vacancy rates across the four major property types below their historical average over the past 10 years, combined with above average rent growth. Multifamily and industrial property types have seen the most investment activity with sales in the marketplace over double their historical average. Secular changes have benefited the industrial sector with demand intensified from the growth of e-commerce. Given currently low vacancy rates and restrained new construction, CBRE projects an increase in net asking rents. Top of mind for many industrial stakeholders in the U.S. is the contentious international trade environment. From a capital markets perspective, investor appetite has accelerated, and industrial was chosen as the preferred asset class for the second year in a row by global institutional investors, as reported by CBRE. The supply/demand characteristics for multifamily have remained relatively in balance across the U.S. with construction starts starting to fall which should create more balance into 2020. Nationwide, less than 5% of multifamily inventory is currently under construction with most of that occurring in the core of the MSA. Multifamily vacancy rates are currently higher in Class A product with many investors favoring work force housing given the supply/demand metrics. The office sector has experienced 10 straight years of positive absorption. Although still well below previous cyclical peaks, a relatively high amount of new office completions will occur in 2019, particularly in downtown markets. Fortunately, much of this is pre-leased. Continuing a trend throughout this cycle, construction is disproportionately concentrated in a small number of markets where demand and rent growth have been strong. Manhattan, Washington, D.C., San Francisco, Seattle and San Jose account for 45% of construction currently underway, much higher than their 25% share of existing inventory. Flexible space offerings are becoming more important with technology and health care/life sciences firms currently representing more than one-quarter of space requirements on a square footage basis, according to CBRE. Consumer retail sales increased by 6.1% year-over-year in Q3 2018-the biggest gain since 2012. Trends in the retail sector include mall redevelopment and a return to the store as store sales tend to have a higher profit margin than online sales, and leveraging stores as pick-up and drop-off points for online orders and returns saves significant shipping costs. CBRE expects store investments aimed at driving traffic and reducing "friction points" in omnichannel shopping. Overall, strong consumer sentiment should boost retail sector demand in the year ahead. (Sources: CoStar & CBRE)

December saw the largest drop in 5-30 year treasury yields of 2018. This resulted in the 1 and 3-month LIBOR rates ending the month slightly higher or equal to the longer term treasury rates. This along with other corporate bond spreads widening out has caused CML spreads to increase across all durations. Most lenders have chosen to proceed with interest rate floors to protect minimum investment yields.

Conduit issuance was relatively busy in December with 5 deals pricing for a total of $4.3b, bringing the year to date total to $40.2b across 44 deals. This number is lower than the total conduit issuance for 2017, which was $47.1b across 51 deals. New issue pricing spreads remained weak in December, with AAA LCF pricing in a relatively wide range of S+99-112. The AA- tranche pricing ranged from S+150-170, while the A- tranche pricing ranged from S+225-285. The wide end of each of those ranges were all from the last deal of the year, which was also the widest deal priced in 2018. Secondary spreads widened significantly throughout the month as well, with AAA LCF bonds wider by around 10bps, while AA bonds were 10-15bps wider. The bottom of stack fared even worse with A- bonds 30-40bps wider and BBB- bonds 50-60bps wider. This is the first year since 2015 that bonds ended the year wider than where they started the year. CMBS new issuance typically starts the year slowly given the annual CMBS investors conference that occurs early in the month. With the conference starting later than usual this year, we expect a particularly slow start that will likely be compounded by volatile macro backdrop to start the year.

Multi-Family	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-.5% / 6.0%	6.5%
Absorbed Units	350,004	181,575
Delivered Units	288,345	207,533
Rent Growth	3.00%	1.90%
Sales ($ millions)	$133 B	$63.8 B

Office	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-0.2% / 9.9%	11.1%
Net Absorption	56.1 M	53.7 M
Net Deliveries	60.5 M	82.8 M
Rent Growth	1.80%	1.50%
Sales ($ millions)	$96.8 B	$72.7 B

Industrial	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-0.1% / 4.8%	7.8%
Net Absorption	215 M	148 M
Net Deliveries	244 M	175 M
Rent Growth	4.90%	2.00%
Sales ($ MM)	$63.2 B	$31.7 B

Retail	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-.1% / 4.4%	6.0%
Net Absorption	51.8 M	95.7 M
Deliveries	63.4 M	104 M
Rent Growth	1.00%	0.70%
Sales ($ MM)	$57.1 B	$48.2 B

Source: Costar (Apartments, Office, Retail, Industrial) as of 12/31/2018. "Hist. Avg." vacancy is over the last 10-years.

Market Briefs / Activity

- **2018 Year-In-review: CRE's 10 Most Important Stories:** It was a year of transition in commercial real estate. While the industry's latest bull run has not yet ended, general consensus within the sector is that commercial real estate is overdue for a dip. There are external factors putting pressure on commercial real estate, including continued political uncertainty in Washington, D.C. and rising interest rates. And there are factors intrinsic to each property type, such as potential overbuilding in some multifamily markets, the continued shakeout in retail, the spread of co-working and open office plans reducing tenant demand and booming logistics boosting the industrial sector. Read more...

- **Is a Disruption in CRE Finance in the Forecast for 2019?:** The current economic upswing will officially celebrate its 10th anniversary in the first quarter, which is prompting some in the commercial real estate industry to take a hard look at where the economy might be headed. A new report written by CCIM Economist K.C. Conway suggests that there could very well be a disruption ahead in commercial real estate finance--even it it's a minor one--within the next 6 to 18 months. Read more...

- **Optimism Fuels Late-Cycle CRE Investing Strategies:** The U.S. economy is more than a decade into its current growth cycle. And even as the runway ahead looks a bit shorter, investors are continuing to find plenty of buying opportunities to fit late-cycle strategies. There is persistent optimism that this late cycle still has room to run. The current year has exceeded expectations in terms of steady, and even increasing, investment sales activity in some sectors. Read more...

CML Spreads: Current

LTV	5-Year	7-Year	10-Year	20-Year
≤ 50%	155	150	150	160
60%	170	160	160	170
65%	180	170	170	180
70%	200	185	185	195
75%	240	220	220	230

* 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%	20 / -10	20 / -10	20 / -10	30 / -10
60%	20 / -10	20 / -10	20 / -10	30 / -10
65%	20 / -10	20 / -10	20 / -10	30 / -10
70%	20 / -10	20 / -10	20 / -10	30 / -10
75%	20 / 0	20 / 0	20 / 0	30 / 0

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

Outside Market / Monthly Change

Indice	Current	Change	% CHG
1-Month LIBOR	2.52%	0.17%	7.2%
3-Month LIBOR	2.80%	0.06%	2.2%
5-Year Treasury	2.51%	-0.31%	-11.0%
7-Year Treasury	2.59%	-0.31%	-10.7%
10-Year Treasury	2.68%	-0.31%	-10.4%
30-Year Treasury	3.02%	-0.32%	-9.5%
10-Year Swap	2.70%	-0.32%	-10.6%
Dow J	23,327	(2,211.0)	-8.7%
NASDAQ	6,635	(695.0)	-9.5%
S&P 500	2,507	(253.2)	-9.2%
Gold	$1,287	60.50	4.9%
Crude Oil	$46.33	(4.60)	-9.0%

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

Other CML Spreads / Monthly Change

Term	Source	LTV	Spread	Change
10-Year	CMBS	≤ 75%	S+200	25
7-Year	Agency *	65%	192	2
7-Year	Agency *	75%	215	2
10-Year	Agency *	65%	194	8
10-Year	Agency *	80%	217	8
12-Year	Agency *	75%	222	6
15-Year	Agency *	75%	229	14
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+76	6.0	8.57%
Corp.	AA	T+88	9.0	11.39%
Corp.	A	T+120	11.0	10.09%
Corp.	BBB	T+187	19.0	11.31%
Corp.	BB	T+349	78.0	28.78%
CMBS	AAA	T+105	9.00	9.68%
CMBS	AA-	T+148	28.00	23.93%
CMBS	A-	T+218	49.00	29.52%

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 2.75 bps on 12/31.

Dale Helling - Senior Managing Director
dhelling@coramerica.com
515-512-4864

Bill Petak - CEO
bpetak@coramerica.com
310-606-8441

Debbie Slogoff - Senior Managing Director
dslogoff@coramerica.com
310-606-8445