

For the period ending: February, 2017

Monthly Commentary

The Senior Debt Team attended CREF/Multifamily Housing Convention & Expo which was held in San Diego from February 19-22. Attendance was up this year with an estimated 3,200 registered attendees. Several sessions/presentations were attended outlining various forecasts, topics of interest for the industry, and a keynote address from Mohamed A. El-Erian. Included below are a few takeaways from the conference.

- Life companies are hungry for business in 2017, but many are bringing in leverage levels. More conservative lenders are focused on leverage of 60% or less. Very aggressive pricing is being offered for these low leverage deals (120 – 140bps).
- CMBS is still there, but only certain type of Borrowers & deals make sense. 75% leverage, I/O, 250+ over swaps pricing.
- Most life company lenders had good years in 2016, and hope to keep those levels or slightly increase real estate lending in 2017. Most still find decent relative value in CML's.
- Limited interest in hospitality properties. Most lenders are also weighing the changing retail dynamics and related impact on certain retail properties.
- RE fundamentals are generally expected to be steady in 2017, but it is likely that RE values will be flat or decrease slightly.
- General expectations are for rising interest rates, steady, but modest GDP growth, manageable inflation, and low unemployment.
- Nearly everyone is monitoring the administration's policies and assessing the likely impact on the economy and commercial real estate.

February was expected to see several conduits although only 3 deals (\$2.5b) ended up pricing, bringing the YTD total to \$3.8b which is significantly less than last year. Two SASB deals (\$1.3b) priced in February as well. The month started off well with the BNK3 conduit pricing into strong demand. The BNK shelf has established itself as the premier RR issuer, with 3 banks (Well, MS, BAML) sharing the vertical RR strip. All classes priced tighter than the first deal of the year and tighter than the original BNK1 deal from 2016, which had been the local tight. The next two deals were considered to be much weaker from a collateral and/or sponsor perspective and priced accordingly, making the start to 2017 a rather bar belled one on the new issue front. AAA's ranged from S+88 to S+95, while BBB- prints ranged from S+250-S+450. Secondary was a different story as spreads on weaker bonds continued to converge toward cleaner bonds, making the tiering there less pronounced than it has been historically. While weaker names tightened, the market was generically wider across the board away from AAA which was close to flat on the month. The CMBS market spent much of the month absorbing the various retail news stories which caused some volatility, particularly in the BBB- space, both in cash and synthetics. The month ended on a positive note though, with spreads tightening and the market evaluating two cleaner new issue deals that are expected to price in early March.

U.S. Property Fundamentals - Key Indicators

as of Q4 2016	Apartments		Office		Retail	
	12 Mo. Change	Current / Hist. Avg.	12 Mo. Change	Current / Hist. Avg.	12 Mo. Change	Current / Hist. Avg.
Vacancy Rate	0.6%	5.7% / 5.9%	-0.4%	10.4% / 11.2%	-0.5%	5.3% / 6.6%
Net Absorption	124,945	121,336	82,312	74,794	86,484	109,460
Net Deliveries	200,342	133,149	58,942	98,429	52,110	110,896
Rent Growth	2.30%	2.10%	3.20%	1.50%	2.60%	1.10%
Sales (\$ millions)	\$135,308	\$58,163	\$122,184	\$74,522	\$44,942	\$30,183

	Logistics		Light Industrial		Lodging	
	12 Mo. Change	Current / Hist. Avg.	12 Mo. Change	Current / Hist. Avg.		YTD
Vacancy Rate	-0.5%	7.0% / 10.2%	-0.6%	3.3% / 5.8%	Occ. Growth	0.1%
Net Absorption	177,332	100,873	43,698	33,970	RevPAR	3.2%
Net Deliveries	164,147	107,630	10,924	32,396	Supply Growth	1.6%
Rent Growth	6.40%	1.50%	7.30%	2.20%	ADR Growth	3.1%
Sales (\$ MM)	\$18,131	\$9,913	\$14,878	\$9,970	Sales (\$ MM)	\$29,100

Source: Costar (Apartments, Office, Retail, Logistics, Light Industrial) JLL (Lodging)

"Hist. Avg." vacancy is over the last 10-years.

Market Briefs / Activity

- **Growth Predicted for CRE Mortgage Lending in 2017.** Last year, \$502 billion in commercial mortgages were originated. That was down slightly from the \$504 billion originated the year prior, and well shy of the \$537 billion that the Mortgage Bankers Association predicted. [Read More...](#)

- **Same-Day Speed - The Rise of Light Industrial in the Supply Chain.** Rapidly evolving consumer demands have made it a priority for e-commerce retailers to provide same-day delivery service. While this service has launched in select cities-mainly the nation's largest metropolitan areas by population-it is likely to take hold in most markets across the country over the next several years. To accommodate these short delivery promises, distribution and fulfillment supply chains, which have traditionally designed for two- to three-day coverage of the country and multiple daily delivery times, are transforming rapidly. [Read More...](#)

CorAmerica CML Spreads / Current				
LTV	5-Year	7-Year	10-Year	20-Year
≤ 50%	160	155	155	165
60%	180	170	170	180
65%	190	180	180	190
70%	210	195	195	205
75%	235	215	215	225

* 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%	10	10	10	10
60%	10	10	10	10
65%	10	10	10	10
70%	10	10	10	10
75%	10	5	5	5

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

Outside Market / Monthly Change			
Indice	Current	Change	% CHG
1-Month LIBOR	0.79%	0.01%	1.3%
3-Month LIBOR	1.06%	0.03%	2.9%
5-Year Treasury	1.93%	0.01%	0.5%
7-Year Treasury	2.23%	-0.02%	-0.9%
10-Year Treasury	2.39%	-0.06%	-2.4%
30-Year Treasury	3.00%	-0.07%	-2.3%
10-Year Swap	2.36%	-0.03%	-1.3%
Dow J	20,812	948.2	4.8%
NASDAQ	5,825	210.7	3.8%
S&P 500	2,364	84.8	3.7%
Gold	1,254	42.50	3.5%
Crude Oil	54.01	1.20	2.3%

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

Other CML Spreads / Monthly Change				
Term	Source	LTV	Spread	Change
10-Year	CMBS	≤ 75%	S+250	-15
7-Year	Agency	65%	228	2
7-Year	Agency	75%	248	2
10-Year	Agency	65%	232	6
10-Year	Agency	80%	252	6
12-Year	Agency	75%	257	4
15-Year	Agency	75%	264	2
Mezz	Various	85%	600-1000	NC

* Indicative spreads as represented to CorAmerica.

Public Benchmarks / Monthly Change				
Type	Rating	Spread	Change	% CHG
Corp.	AAA	T+78	-4.0	-4.82%
Corp.	AA	T+83	-4.4	-5.03%
Corp.	A	T+102	-3.2	-3.08%
Corp.	BBB	T+153	-2.7	-1.73%
Corp.	BB	T+251	-5.6	-2.19%
CMBS	AAA	T+100.6	0.00	0.00%
CMBS	AA	T+150.6	8.00	5.71%
CMBS	A	T+215.6	13.00	6.50%

Source: Bloomberg Corporate Bond Index; Wells Fargo pre risk-retention CMBS, secondary market spreads. CMBS spreads are shown net of the swap spread, which was -2.6 bps on 2/28.