CORAMERICA
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For the period ending: February, 2018

Monthly Commentary

In its CRE Debt Market Update for 4Q 2017, Situs RERC reports that the 4Q 2017 lending environment was healthy and paints a bright picture for lending in 2018. With respect to private debt, banks and insurers are reporting that the CRE market is becoming increasingly crowded, and also noted an evident loosening of underwriting standards. "Strong property fundamentals are leading to an increase in borrowing and lending across most property types and capital sources, despite how far along we are in the real estate cycle," says Jennifer Rasmussen, PhD, Assistant Vice President of Situs RERC. "Investors are increasingly moving into the value-add space and branching into the secondary and tertiary markets in the quest for yield." Based on information from Commercial Mortgage Alert (CMA) and Mortgage Bankers Association (MBA), Situs RERC provides the following summary of the debt markets:

• There was a significant jump in hotel and health care originations in 2017; each of these property types reversed a downward trend in originations that had existed since 2014.
• In the quest for yield, lenders are exploring alternative options such as interest-only structures and floating-rate lending.
• Investors should keep an eye on the impact that anticipated interest rate hikes will have in the lending market. Demand for fixed-rate loans is expected to dwindle as interest rates rise.
• Higher interest rates could trigger lower origination activity for Fannie and Freddie products in 2018. Even if multifamily loan purchases decline in 2018, it will still be a very robust market this year for the agencies, with multifamily fundamentals expected to remain strong, and the recent FHFA move to allow the GSEs limited re-entry into the Low Income Housing Tax Credit (LIHTC) market as equity investors.
• Investors are shying away from retail loans due to the sector's volatility. Loans for retailers and loans for retail real estate need to undergo a thorough due diligence process.

CMBS Issuance was unusually light for February on the conduit side with only 2 deals pricing for a total of $2.55b, bringing the YTD total for 2018 so far to only $5b. The first deal priced much better with a AAA, AA- and A- stack of S+70, 105 and 155, while the second deal priced those same classes at S+77, 135 and 215, illustrating that tiering still very much exists in the new issue conduit space. The SASB space was more active in terms of number of deals, with 9 deals pricing for a total of $2.5b. There were 6 floating rates deals for a total of $2.1b, five of which were backed by hotels, with the remaining deal backed by cold storage. In addition, three fixed rate SASB deals priced for a total of $413mm. Three CRE CLOs priced for a total of $1.9b and Freddie priced several deals, including two traditional fixed rate deals for $2.8b. Secondary spreads widened over the month with the heavy volatility we saw throughout the month on the marco front. AAA LCF bonds widened around 5bps on the month, with AA- 2-3bps wider and A- bonds closer to 5-10bps wider. Overall though, mezz bonds seemed to hold in relatively well, as the lack of supply in that space seems to be more impactful than the general macro volatility that is impacting spreads elsewhere. While spreads retraced some of the January gains in February, bond spreads still ended the month tighter YTD.

U.S. Property Fundamentals - Key Indicators

Multi-Family	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	.00% / 6.4%	6.5%
Net Absorption	255,625	169,301
Net Deliveries	284,683	198,805
Rent Growth	2.30%	1.90%
Sales ($ millions)	$124 B	$59.1 B

Office	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-0.0% / 10.4%	11.3%
Net Absorption	52.2 M	52 M
Net Deliveries	67.4 M	82.9 M
Rent Growth	1.70%	1.40%
Sales ($ millions)	$96.3 B	$70.6 B

Industrial	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-0.2% / 5.0%	8.0%
Net Absorption	236 M	141 M
Net Deliveries	235 M	166 M
Rent Growth	5.50%	1.90%
Sales ($ MM)	$49.8 B	$29 B

Retail	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-.1% / 4.6%	6.1%
Net Absorption	78.3 M	96.3 M
Net Deliveries	76.5 M	105.6 M
Rent Growth	1.70%	0.50%
Sales ($ MM)	$53.4 B	$47.3 B

Source: Costar (Apartments, Office, Retail, Industrial) as of 3/5/2018. "Hist. Avg." vacancy is over the last 10-years.

Market Briefs / Activity

- Rising Interest Rates: No Immediate Threat to Cap Rates: CBRE has been following interest rate movement closely and have concluded that the spike in the 10-year Treasury will have minimal short-term impact on cap rates. For 2018, they believe cap rates will be flat to slightly up, with more upward pressure likely in 2019. Read more...
- First Quarter Expected to be a Slow One for Investment Sales: Investment sales in 2017 posted a decline in volume from the year before. So far in 2018, the trend seems to be continuing. In January, investment sales volume dropped 3 percent year-over-year, with all sectors except for industrial seeing declines, according to the latest U.S. Capital Trends report from Real Capital Analytics (RCA), a New York-based real estate research firm. Read more...
- Real Estate Funds Raising Less Capital Due to Climbing Property: According to Preqin, $111 billion of equity was raised on behalf of 265 commercial real estate investment funds last year, marking the second annual decline in the amount of capital raised in the sector. In comparison, $126 billion was raised in 2016 and $136 billion was raised in 2015, the most since 2008. The London research firm attributed the decline to concerns among investors that asset pricing has gotten too high and that interest rates will continue to increase. 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	1.66%	0.08%	5.1%
3-Month LIBOR	2.01%	0.22%	12.3%
5-Year Treasury	2.64%	0.12%	4.8%
7-Year Treasury	2.79%	0.14%	5.3%
10-Year Treasury	2.86%	0.15%	5.5%
30-Year Treasury	3.12%	0.18%	6.1%
10-Year Swap	2.87%	0.13%	4.9%
Dow J	25,029	(1,120.2)	-4.3%
NASDAQ	7,273	(138.5)	-1.9%
S&P 500	2,713	(110.8)	-3.9%
Gold	$1,317	(26.01)	-1.9%
Crude Oil	$61.64	(3.09)	-4.8%

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

Other CML Spreads / Monthly Change

Term	Source	LTV	Spread	Change
10-Year	CMBS	≤ 75%	S+200	0
7-Year	Agency *	65%	164	4
7-Year	Agency *	75%	187	4
10-Year	Agency *	65%	157	3
10-Year	Agency *	80%	180	3
12-Year	Agency *	75%	183	2
15-Year	Agency *	75%	184	3
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+55	6.0	12.24%
Corp.	AA	T+55	5.0	10.00%
Corp.	A	T+78	10.0	14.71%
Corp.	BBB	T+118	11.0	10.28%
Corp.	BB	T+205	15.0	7.89%
CMBS	AAA	T+75	5.00	7.35%
CMBS	AA	T+123	4.00	3.42%
CMBS	A	T+173	16.00	10.32%

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 1.58 bps on 2/28.

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