Commercial Real Estate
Monthy Recap

NASSAU CORAMERICA

For the period ending: February, 2019

Monthly Commentary

Life companies intend to be very active in 2019 and there is still positive relative value in CML's as compared to alternative investments. Significant spread compression has occurred in "BB" corporate bond spreads, which have tightened 41 bps this month (-15.89%) while "A" rated CMBS bond spreads declined 43 bps (-20%). "A" and "BBB" corporate bonds also saw a decrease in spreads, but not as significant for this month representing a decline of 4 and 5 bps, respectively. There is downward pressure on CML spreads due to the perceived lack of supply for good quality lending opportunities and positive relative value as compared to other asset classes. For historical reference, the average ACLI CML spread over the last three years has represented an 80 bps premium to "A" rated corporate bonds. In 2018 that premium decreased to 61 bps over "A" rated corporate bonds. Considering the current "A" rated corporate bond spread of 90 bps for the index, an average CML spread of 170 bps would be consistent with the three year historical average spread premium to the "A" rated corporate bond index. But, it is notable that average CML spreads are currently wider than the "BBB" corporate bond index (151 bps), which has historically traded 30 bps inside the "BBB" corporate bond index.

After a quiet January with no new conduits pricing, we had a relatively busy February with 6 conduit deals pricing for a total of $4.99b. The AAA LCF priced in a relatively wide range of S+91-98, with the AA- tranche pricing in a range of S+125-150, and the A- pricing in range of S+170-220. Interestingly, the wide end of the range for all three classes was roughly where the tight end of the range was in December for each class (S+99, 150 and 225 for AAA, AA- and A- respectively), although generically the pricing was much better in February. In the SASB space, 7 deals priced for $1.69b, with 5 floating rating deals making up the bulk of the issuance. Also, two CRE CLO's priced for a total of $1.6b. Both CRE CLO's included revolving periods that allow for reinvestment, which is becoming the more common structure. In secondary, spreads generally tightened across the board. AAA spreads tightened by roughly 1-3bps, while AA- tightened by 5-10bps. Both A- and BBB- tranches tightened by around 10-20bps.

	Multi-Family			Office	
	12 Mo. Change / Current	Hist. Avg.		12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-.5% / 6.0%	6.5%	**Vacancy Rate**	-0.2% / 9.9%	11.1%
Absorbed Units	350,004	181,575	**Net Absorption**	56.1 M	53.7 M
Delivered Units	288,345	207,533	**Net Deliveries**	60.5 M	82.8 M
Rent Growth	3.00%	1.90%	**Rent Growth**	1.80%	1.50%
Sales ($ millions)	$133 B	$63.8 B	**Sales ($ millions)**	$96.8 B	$72.7 B

	Industrial			Retail	
	12 Mo. Change / Current	Hist. Avg.		12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-0.1% / 4.8%	7.8%	**Vacancy Rate**	-.1% / 4.4%	6.0%
Net Absorption	215 M	148 M	**Net Absorption**	51.8 M	95.7 M
Net Deliveries	244 M	175 M	**Deliveries**	63.4 M	104 M
Rent Growth	4.90%	2.00%	**Rent Growth**	1.00%	0.70%
Sales ($ MM)	$63.2 B	$31.7 B	**Sales ($ 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

- **CBRE: Cap Rates Remain Stable:** Strong economic growth, abundant capital and a favorable supply and demand environment led to broadly stable capitalization rates for U.S. commercial real estate assets in second-half 2018, said CBRE, Los Angeles. Cap rates remained generally unchanged across property sectors in H2 2018, the CBRE North America Cap Rate Survey reported. Industrial cap rates tightened marginally across all segments, while office, multifamily and hotel cap rates remained generally stable. CBRE said it expects continued cap rate stability throughout the first half of 2019, with the multifamily and retail sectors experiencing the most mixed sentiment. "Investment activity remains robust, driven by a strong economy, significant amounts of capital and a sense that supply and demand in real estate markets is very well balanced," said CBRE Global Chief Economist Richard Barkham. Read more...

- **E-Commerce Takeover Helps Industrial NOI Growth Maintain Stellar Pace:** Amazon has not only changed the way retailers use brick-and-mortar locations, but also industrial space. As Trepp noted in its research report, Thanks to Ecommerce, Industrial Demand Keeps Growing and Property Performance Strengthens (October 2017), retailers are eschewing efforts to keep physical storefronts open and focusing on last mile delivery via e-commerce channels. The industrial sector benefits greatly from this market shift as demand for warehouses, flex spaces, and other property subtypes has surged. In the CMBS realm, this demand has enabled borrowers to fill properties with ease and boosted income. Read more...

- **Fannie and Freddie Can Make Rental Housing Less Affordable, Critics Say:** Fannie Mae and Freddie Mac , the government-backed companies best known for their 30-year home loans, have emerged as the dominant source for rental apartment mortgages, too. Their comparatively cheap loans are intended to promote affordable rental housing, and in most cases do, but critics argue that in certain cases Fannie and Freddie's support has had the opposite effect of enriching landlords at the expense of tenants. Read more...

CML Spreads: Current

LTV	5-Year	7-Year	10-Year	20-Year
≤ 50%	145	140	140	150
60%	160	150	150	160
65%	175	165	165	175
70%	190	175	175	185
75%	225	205	205	215

* 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%	-10 / 20	-10 / 20	-10 / 20	-10 / 20
60%	-10 / 20	-10 / 20	-10 / 20	-10 / 20
65%	-5 / 20	-5 / 20	-5 / 20	-5 / 20
70%	-5 / 15	-5 / 15	-5 / 15	-5 / 15
75%	-10 / 15	-10 / 15	-10 / 15	-10 / 15

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

Outside Market / Monthly Change

Indice	Current	Change	% CHG
1-Month LIBOR	2.49%	-0.02%	-0.8%
3-Month LIBOR	2.62%	0.00%	0.0%
5-Year Treasury	2.52%	0.08%	3.3%
7-Year Treasury	2.62%	0.10%	4.0%
10-Year Treasury	2.72%	0.11%	4.2%
30-Year Treasury	3.08%	0.08%	2.7%
10-Year Swap	2.72%	-0.03%	-1.1%
Dow J	25,916	917.0	3.7%
NASDAQ	7,533	251.0	3.4%
S&P 500	2,784	80.0	3.0%
Gold	$1,316	(9.20)	-0.7%
Crude Oil	$57.22	3.43	6.4%

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

Other CML Spreads / Monthly Change

Term	Source	LTV	Spread	Change
10-Year	CMBS	≤ 75%	S+190	-10
7-Year	Agency *	65%	180	-9
7-Year	Agency *	75%	203	-9
10-Year	Agency *	65%	169	-14
10-Year	Agency *	80%	192	-14
12-Year	Agency *	75%	205	-12
15-Year	Agency *	75%	205	-11
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+59	0.0	0.00%
Corp.	AA	T+63	-5.0	-7.35%
Corp.	A	T+90	-5.0	-5.26%
Corp.	BBB	T+151	-9.0	-5.63%
Corp.	BB	T+217	-41.0	-15.89%
CMBS	AAA	T+97	3.00	3.23%
CMBS	AA-	T+133	-13.00	-8.97%
CMBS	A-	T+173	-43.00	-20.00%

Source: Bloomberg Corporate Bond Index; Deutsche Bank pre risk-retention CMBS, secondary market spreads as of COB z1/31. CMBS spreads are shown net of the swap spread, which was 2.65 bps on 1/31.

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