Commercial Real Estate
Monthly Recap

CORAMERICA
A NASSAU RE COMPANY

For the period ending: January, 2017

Monthly Commentary

There are trends in each property sector worth noting. Class A apartments have experienced higher scrutiny from buyers, including increased cap rates in some cases. New supply remains a concern in the Class A space. Class B and C properties are outperforming with higher rent growth and a more consistent acquisition/valuation market. Medical office has been a bright spot in the office sector achieving over 50% higher demand growth, according to CoStar Portfolio Strategy. The average U.S. medical office vacancy rate of roughly 8% is well below the overall office vacancy rate in all but a few high-construction metros such as San Francisco and Nashville, according to CoStar data. CBD office has maintained higher liquidity, partially driven by foreign buyers, but gateway markets may be seeing rent growth and cap rates flattening. The retail market is focused on providing services and experiences to the consumer with continued pressure on soft goods retailers which are more susceptible to ecommerce. The fourth quarter capped off the end of the second-strongest 12 months for logistics absoprtion ever seen in the CoStar National Index, which may be fueled by the needs associated with ecommerce companies. The light industrial market continued to post consistently low vacancy rates of 3.3%. Both industrial subsectors remain extremely healthy with underlying trends focused on ecommerce, futurer impacts associated with trade agreements and technology affecting the way materials are stored.

Included below is CBRE's view of the debt markets:

Commercial real estate capital markets remain deep and liquid across most asset types, but we have seen different market reactions from different lender types. Life insurance companies are the least impacted by rising rates, in large part due to their relatively low loan-to-value (LTV) requirements compared with other lender types. Most life company floor rates have disappeared, and they're much more willing to lend in a higher interest rate environment and at this time of year with fresh allocations of capital. Some life companies have lowered spreads by 5-to-10 bps, but until competitive pressures return in abundance most will likely hold spreads constant. Bank rates and spreads have not been materially impacted by the rising 10-year Treasury either, due to the LIBOR-based lending that is typical of banks. Construction loans remain very difficult to obtain, and likely will be for the foreseeable future. The most-impacted by rising rates are the full LTV lenders: agency (Freddie Mac and Fannie Mae) and CMBS lenders. For full agency loans, we have seen proceeds cut by up to 5% due to debt-service coverage constraints. Non-bank financial institutions have been able to fill some of this funding gap, albeit at higher cost.

January is typically a light month for CMBS new issue (given the timing of the annual CMBS conference) and with the additional supply constraints related to risk retention implementation, we only saw one conduit ($1.3b) and one SASB borrower deal (365mm) price in January. By comparison, 3 conduits ($2.7b) priced in January 2016. The conduit deal was not particularly strong from a collateral perspective but priced well anyway given the pent up demand in the market and the risk retention structure. The deal has the first "L-shaped" risk retention structure which meant both the b-piece buyer (holder of below IG classes) and the issuer (via a vertical strip) satisfied the risk retention requirement together. Prior test deals had only utilized the vertical strip. There was adequate demand for the deal but away from the BBB- tranches, subscription was not as high as we have seen with prior high quality deals, which implies that tiering will not be totally lost in the new risk retention era. In secondary, spreads ended the month tighter across the board although AAA spreads ended the month well off the tights following heavy selling in last two weeks of the month. Mezz bonds did nothing but ratchet in tighter all month, with BBB- outperforming and ending the month anywhere from 40-85bps tighter for some names causing the credit curve to flatten. A- bonds were anywhere from 10-40 bps tighter with AA- bonds tighter by 10-20bps. Weaker names outperformed across the board causing the tiering curve to flatten substantially within rating categories. Supply is expected to pick up in February but the demand for mezz should help keep spreads in check.

U.S. Property Fundamentals - Key Indicators

as of Q3 2016	Apartments		Office		Retail	
	12 Mo. Change	Current / Hist. Avg.	12 Mo. Change	Current / Hist. Avg.	12 Mo. Change	Current / Hist. Avg.
Vacancy Rate	0.1%	5.2% / 6.0%	-0.5%	10.5% / 11.3%	-0.5%	5.4% / 6.6%
Net Absorption	171,807	121,754	95,197	74,242	93,480	109,456
Net Deliveries	189,771	131,730	64,071	98,526	57,235	111,593
Rent Growth	3.20%	2.10%	3.60%	1.50%	2.90%	1.10%
Sales ($ millions)	$138,241	$56,966	$122,369	$76,767	$48,747	$30,042

	Logistics		Light Industrial		Lodging	
	12 Mo. Change	Current / Hist. Avg.	12 Mo. Change	Current / Hist. Avg.		YTD
Vacancy Rate	-0.7%	7.1% / 10.2%	-0.7%	3.5% / 5.8%	**Occ. Growth**	0.0%
Net Absorption	182,925	99,346	51,281	33,696	**RevPAR**	3.2%
Net Deliveries	159,917	106,715	13,377	32,684	**Supply Growth**	1.5%
Rent Growth	6.40%	1.50%	7.10%	2.20%	**ADR Growth**	3.2%
Sales ($ MM)	$22,628	$9,778	$16,097	$9,902	**Sales ($ MM)**	$21,700

Source: Costar (Apartments, Office, Retail, Logistics, Light Industrial) JLL (Lodging)
"Hist. Avg." vacancy is over the last 10-years.

CorAmerica CML Spreads / Current

LTV	5-Year	7-Year	10-Year	20-Year
< 50%	150	145	145	155
60%	170	160	160	170
65%	180	170	170	180
70%	200	185	185	195
75%	225	210	210	220

* 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%	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	0.78%	0.02%	2.6%
3-Month LIBOR	1.03%	0.03%	3.0%
5-Year Treasury	1.92%	0.00%	0.0%
7-Year Treasury	2.25%	0.00%	0.0%
10-Year Treasury	2.45%	0.01%	0.2%
30-Year Treasury	3.07%	0.00%	0.1%
10-Year Swap	2.39%	0.05%	2.3%
Dow J	19,864	101.5	0.5%
NASDAQ	5,615	231.7	4.3%
S&P 500	2,279	40.0	1.8%
Gold	1,211	59.40	5.2%
Crude Oil	52.81	(1.08)	-2.0%

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

Other CML Spreads / Monthly Change

Term	Source	LTV	Spread	Change
10-Year	CMBS	< 75%	S+265	-15
7-Year	Agency	65%	226	-2
7-Year	Agency	75%	246	-2
10-Year	Agency	65%	226	-7
10-Year	Agency	80%	246	-7
12-Year	Agency	75%	253	-4
15-Year	Agency	75%	262	-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+81.95	6.6	8.79%
Corp.	AA	T+87.4	1.1	1.22%
Corp.	A	T+105.24	1.1	1.05%
Corp.	BBB	T+155.7	1.7	1.08%
Corp.	BB	T+256.61	-15.2	-5.59%
CMBS	AAA	T+105.915	0.00	0.00%
CMBS	AA	T+149.915	0.00	0.00%
CMBS	A	T+244.915	0.00	0.00%

Source: Bloomberg Corporate Bond Index; Wells Fargo CMBS Research
CMBS spreads are shown net of the swap spread, which was -11 bps on 12/30.

Market Briefs / Activity

- **Commercial Property Prices Show No Signs of Budging.** Pointing to an extended market cycle, commercial property price indices (CPPI) continued to either hold steady or trend upward at the end of 2016, the most recent period for which data is available. Read More...
- **2016 Marketd a Decline in Investment Sales Volumes.** Investment sales volume in commmercial real estate sector for 2016 fell about 11 percent year-over-year, but sources say the decline in transactions was skewed by a "gangbuster" 2015 marked by signnificaant platform and portfolio sales. Read More...

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