

For the period ending: January, 2018

Monthly Commentary

According to CBRE Research, in Q4 2017 the lending market experienced favorable pricing as origination volume eased up slightly. Despite an increase in short-term interest rates in December, the enactment of comprehensive tax reform contributed to strong investor sentiment. This environment has been favorable to CMBS conduit and private commercial mortgage pricing. The CBRE Lending Momentum Index fell by 1.2% in Q4 2017. As of December, the index is down 15.9% on a year-over-year basis. Loan underwriting turned slightly more aggressive in Q4 with the average commercial LTV up to 60.9% and the average multifamily LTV up to 71.7%. The average constant and debt yield was 5.72% and 9.09%, respectively. The percentage of loans carrying interest-only terms rose to 66% in Q4 from 57.8% in Q3.

As is typical for January, issuance was light on the conduit side, with only 2 conduits pricing for \$2.45b. Both deals priced very well at the exact same levels up and down the stack. The AAA priced at S+66 versus a tight print of S+70 in 2017 and an average December print of S+85. The AA- and A- bonds priced at S+105 and S+150, respectively. The AA- surpassed the tight print of 2017 of S+118, but the A- tied the tight print in 2017. Still, both tranches priced significantly through average December pricing of S+135 (AA-) and S+198 (A-). On the SASB side, 2018 started off on a much more robust note, with seven deals priced for a total of around \$2.4b. Of that amount, two were fixed rate deals (\$435mm) and five were floating rate deals (\$1.96b). In 2017, only one small SASB deal priced in January for under \$500mm. In addition, two CRE CLOs priced for \$647mm, although one of the deals (\$279mm) was never even announced and was more of a one-off financing trade for the issuer. With minimal new issue supply and a general risk-on appetite across all markets, spreads in the secondary market tightened significantly to start the year. Spreads ended the month tighter by roughly 10bps on AAA, 15-25bps on AA-/A- and 50+bps on BBB- bonds. Wider trading bonds tightened the most, leading to flattening of the tiering curve across the stack.

U.S. Property Fundamentals - Key Indicators

	Multi-Family		Office		
	12 Mo. Change / Current	Hist. Avg.	12 Mo. Change / Current	Hist. Avg.	
Vacancy Rate	.00% / 6.3%	6.5%	Vacancy Rate	-0.0% / 10.4%	11.3%
Net Absorption	257,988	168,920	Net Absorption	51.5 M	52 M
Net Deliveries	288,775	198,292	Net Deliveries	67.5 M	82.7 M
Rent Growth	2.30%	1.90%	Rent Growth	1.70%	1.40%
Sales (\$ millions)	\$122 B	\$58.9 B	Sales (\$ millions)	\$96.3 B	\$70.4 B

	Industrial		Retail		
	12 Mo. Change / Current	Hist. Avg.	12 Mo. Change / Current	Hist. Avg.	
Vacancy Rate	-0.2% / 5.1%	8.0%	Vacancy Rate	-2% / 4.6%	6.1%
Net Absorption	229 M	140 M	Net Absorption	78.9 M	95.9 M
Net Deliveries	234 M	165 M	Net Deliveries	75.7 M	105.2 M
Rent Growth	6.00%	2.00%	Rent Growth	1.50%	0.50%
Sales (\$ MM)	\$50.2 B	\$28.9 B	Sales (\$ MM)	\$53.1 B	\$48

Source: Costar (Apartments, Office, Retail, Industrial) as of 2/1/2018. "Hist. Avg." vacancy is over the last 10-years.

Market Briefs / Activity

- **New Office Supply Brings Market into Balance in 2017:** Developers delivered 11.1 million sq. ft. of new space in Q4, bringing the annual total to 46.3 million sq. ft. - the largest amount since 2009. Suburban markets accounted for approximately three-quarters of the new construction in both Q4 and full-year 2017, compared with their two-thirds share of existing inventory. Net absorption totaled 6.9 million sq. ft. in Q4 and 36.4 million sq. ft. for the year, marking the eight consecutive year of positive absorption, but down from the 53.6 million sq. ft. annual average from 2014 to 2016. Overall demand remained healthy due to continued office-using job growth and high business confidence. The overall vacancy rate increased by 10 basis points on both a quarter-over-quarter and year-over-year basis to 13%, remaining near the cyclical low. Rent growth slowed to 1.7% year-over-year in Q4, largely due to flat rents in the downtown market. [Read more...](#)

- **Strong Holiday Sales End 2017 on a Positive Note:** Gains in consumer sentiment and strong holiday spending brought significant growth in Q4 2017 retail sales. Despite continued retail store closures and rising availability across retail property segments, net absorption remained positive and net asking rents continued to grow. Projections for 2018 are positive, with consumer sentiment and spending expected to see a boost from recently enacted tax reform. [Read more...](#)

- **Industrial Market Reaches Supply/Demand Balance:** While demand did not keep pace with new supply delivered in Q4 2017, full-year demand did exceed total new deliveries in 2017. The industrial market's availability rate remained steady for the sixth consecutive quarter at 7.4%-the lowest level since Q1 2001. New supply delivered in Q4 was on par with the previous quarter. New supply in 2017 was up 2.0% over 2016 and was the largest delivery total of this cycle. Though supply and demand are in balance, net asking rents still grew slightly (.6%) in Q4. Rent growth for the year was strong at 5.3%. Asking rents reached an all-time high in Q3 2016 and have set a new record in each subsequent quarter. [Read more...](#)

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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%	-10	-10	-10	-10
60%	-10	-10	-10	-10
65%	-10	-10	-10	-10
70%	-10	-10	-10	-10
75%	0	0	0	0

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

Outside Market / Monthly Change

Index	Current	Change	% CHG
1-Month LIBOR	1.58%	0.02%	1.3%
3-Month LIBOR	1.79%	0.09%	5.3%
5-Year Treasury	2.52%	0.31%	14.0%
7-Year Treasury	2.65%	0.32%	13.7%
10-Year Treasury	2.71%	0.30%	12.4%
30-Year Treasury	2.94%	0.14%	5.0%
10-Year Swap	2.74%	0.34%	14.0%
Dow J	26,149	1,430.2	5.8%
NASDAQ	7,411	508.5	7.4%
S&P 500	2,824	149.8	5.6%
Gold	\$1,343	34.01	2.6%
Crude Oil	\$64.73	4.31	7.1%

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%	160	-9
7-Year	Agency *	75%	183	-9
10-Year	Agency *	65%	154	-5
10-Year	Agency *	80%	177	-5
12-Year	Agency *	75%	181	-8
15-Year	Agency *	75%	181	-7
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 ~33 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+49	-3.0	-5.77%
Corp.	AA	T+50	-4.0	-7.41%
Corp.	A	T+68	-4.0	-5.56%
Corp.	BBB	T+107	-12.0	-10.08%
Corp.	BB	T+190	-32.0	-14.41%
CMBS	AAA	T+71	-4.00	-5.56%
CMBS	AA	T+120	-14.00	-10.69%
CMBS	A	T+158	-14.00	-8.28%

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 -2.88 bps on 1/31.