Commercial Real Estate
Monthy Recap

NASSAU CORAMERICA

For the period ending: January, 2019

Monthly Commentary

The Mortgage Bankers Association (MBA) just released the results of their 2019 Commercial Real Estate Finance (CREF) Outlook Survey, which presents information on what leaders of top commercial and multifamily origination firms expect to see in the year ahead. More than half (55 percent) of the top commercial/multifamily firms expect origination to increase in 2019, with one in eight (13 percent) expecting an overall increase of 5 percent or more across the entire market. Lenders remain eager to make loans: 100 percent of originators reported that in 2018 lenders had a "strong" or "very strong" appetite to make new loans and 100 percent expect lenders' 2019 appetite to be "strong" or "very strong". Borrowers are eager to take out loans: 88 percent of originators reported that in 2018 borrowers had a "strong" or "very strong" appetite to take out new loans and 78 percent expect borrrowers' 2019 appetites to be "strong" or "very strong". A number of factors - including long-term interest rates, new construction activity and the broader economy - are seen by a majority of originators as factors that could be potentially somewhat negative to the health of the commercial real estate markets in 2019, helping to explain the slight downshift in expectations compared to last year's survey.

As expected, January was a very quiet month on the new issue front with no new conduits pricing. Three SASB deals totaling $2.35b priced, with the largest being a $1.17b portfolio of life science office buildings portfolio owned by Brookfield. One CRE CLO for $600mm also priced in January. In addition, Freddie priced one fixed rate 10 year deal off their K shelf for $1.3b. Secondary spreads bounced back in January, as macro volatility subsided and investor appetite increased without any new issuance since mid-December. AAA spreads were roughly 10bps tighter on the month, with AA- spreads tighter by 10-15bps. A- spreads were tighter by 25-35bps, while BBB- spreads were tighter by 45-60bps. While spreads look significantly tighter on paper, most investors agree that it was almost impossible to buy bonds near the wides in December so the real bounce back on the offer-side is less extreme. Conduit issuance is expected to pick up substantially in February, with several conduits expected to price.

	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

Commercial Lending - Market Calm After Volatility: Following investors' growing anxiety over rising interest rates and slower corporate earnings growth, equity market volatility culminated in a late-December price correction and increased corporate bond spreads. Commercial real estate appears to have weathered the storm well: Although commercial whole loan spread quotes widened 10-to-20 basis points (bps), the market appears to have stabilized along with higher equity prices and improved corporate bond spreads in recent weeks. Read More...

Trepp's 10 Market Predictions for 2019: Legendary investor and Blackstone Vice Chairman Byron Wien is famous for his annual list of 10 surprises which he's published for the better part of three decades. Wien's lists contain events that he believes have a 50% or greater chance of happening, but for which investors consider a long shot. Read more...

What Does A Flattening Yield Curve Mean For The Real Estate Markets: The financial markets have been speaking loudly, indicating significant concerns regarding the growing risk of a recession in the near future. In particular, bond traders are now betting that the Federal Reserve will not raise rates, as the Fed itself most recently predicted, and are increasingly looking for a rate cut. Most notably, the Treasury yield curve has inverted at several points, with shorter-term rates higher than some longer-term rates. These economic and yield curve dynamics are being driven by factors outside of real estate, but their impacts are already being felt closer to home. Read more...

Mortgage Markets Should Remain Active If Rates Climb: Today's commercial real estate markets are showing signs of breaking from the roller coaster of the last two decades. Much of the data the CRE industry relies on to track the ups and downs of the markets go back fewer than 20 years. That data show the full force of the real estate cycle, with multi-year streaks of increases followed by multi-year streaks of decreases – followed by increases again. Rent growth, property sales, and mortgage originations all increased between 2002 and 2007, fell between 2007 and 2009, and rose again between 2009 and 2015. Read more...

CML Spreads: Current

LTV	5-Year	7-Year	10-Year	20-Year
≤ 50%	155	150	150	160
60%	170	160	160	170
65%	180	170	170	180
70%	195	180	180	190
75%	235	215	215	225

* 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%	0 / 20	0 / 20	0 / 20	0 / 20
60%	0 / 20	0 / 20	0 / 20	0 / 20
65%	0 / 20	0 / 20	0 / 20	0 / 20
70%	-5 / 20	-5 / 20	-5 / 20	-5 / 20
75%	-5 / 20	-5 / 20	-5 / 20	-5 / 20

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

Outside Market / Monthly Change

Indice	Current	Change	% CHG
1-Month LIBOR	2.51%	-0.01%	-0.4%
3-Month LIBOR	2.62%	0.00%	0.0%
5-Year Treasury	2.44%	-0.07%	-2.8%
7-Year Treasury	2.52%	-0.07%	-2.7%
10-Year Treasury	2.61%	-0.07%	-2.6%
30-Year Treasury	3.00%	-0.02%	-0.5%
10-Year Swap	2.75%	0.05%	1.9%
Dow J	24,999	1,672.0	7.2%
NASDAQ	7,282	647.0	9.8%
S&P 500	2,704	197.2	7.9%
Gold	$1,325	38.70	3.0%
Crude Oil	$53.79	7.46	16.1%

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%	189	-3
7-Year	Agency *	75%	212	-3
10-Year	Agency *	65%	183	-11
10-Year	Agency *	80%	206	-11
12-Year	Agency *	75%	217	-5
15-Year	Agency *	75%	216	-13
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	-17.0	-22.37%
Corp.	AA	T+68	-20.0	-22.73%
Corp.	A	T+95	-25.0	-20.83%
Corp.	BBB	T+160	-27.0	-14.44%
Corp.	BB	T+258	-91.0	-26.07%
CMBS	AAA	T+96	-9.00	-8.82%
CMBS	AA-	T+148	0.00	0.00%
CMBS	A-	T+218	0.00	0.00%

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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