Commercial Real Estate
Monthy Recap

NASSAU CORAMERICA

For the period ending: July, 2018

Monthly Commentary

According to CBRE's Q2 2018 U.S. Lending Figures reports, although lower loan maturity volumes have resulted in less originations this year, the commercial mortgage market remains in good shape overall. With an additional short-term policy rate increase by the Federal Reserve in June, the yield curve has continued to flatten. As of mid-July, the spread between 10-year and two-year Treasury bonds was only 25 bps—the tightest level since before the 2008 recession, when the yield curve inverted. Q2 lending volume, as measured by the CBRE Lending Momentum Index, was even with Q1 levels. Compared to a year ago, however, the index is down 10.6%. Agency multifamily lending is quite active. Year-to-date through May, combined Fannie Mae and Freddie Mac multifamily loan purchase volume totaled $43 billion, not far off the record-setting pace of $44.6 billion for the same period in 2017. Overall debt service coverage and LTV ratios in Q2 were consistent with the prior quarter. The percentage of loans carrying interest-only terms was 61%, down 5 percentage points from Q1. According to CBRE, there has been no substantial deterioration in loan underwriting measures over the past several quarters.

Conduit issuance was light in July with only 3 deals pricing for a total of $2.8b, bringing the YTD conduit total to $22.45b across 24 deals. With all 3 deals being issued off relatively high quality shelves, the range of prints across the stack narrowed in August, with the AAA LCF pricing in a tight range of S+84-87. The rest of the stack was similarly tight with AA- bonds ranging from S+120-130 and A- bonds ranging from S+150-160. The SASB new issue space was very active again in July with 12 deals pricing for $5.42b. Of this issuance, $3.52b was floating rate, while the remaining $1.9b was fixed. Three CRE CLO's also priced for $1.16b. In the secondary market, AAA LCF bonds tightened 3-5bps, as the lighter supply in new issue and the stronger prints from higher tier shelves helped spreads stabilize. The stronger new issue mezz prints also helped secondary, which already trades significantly through primary for most deals. AA- bonds saw some modest tightening of 3-5bps, while A- bonds were tighter by closer to 10-15bps. BBB- bonds performed very well in July, with bonds tightening anywhere from 15-25bps.

U.S. Property Fundamentals - Key Indicators

Multi-Family	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-.4% / 5.9%	6.5%
Absorbed Units	312,116	174,489
Delivered Units	273,142	202,226
Rent Growth	3.00%	1.90%
Sales ($ millions)	$133 B	$61 B

Office	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-0.0% / 10.3%	11.2%
Net Absorption	50.2 M	52.4 M
Net Deliveries	67.2 M	82.6 M
Rent Growth	1.60%	1.40%
Sales ($ millions)	$91.5 B	$71.1 B

Industrial	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-0.2% / 5.0%	7.9%
Net Absorption	227 M	145 M
Net Deliveries	240 M	170 M
Rent Growth	5.60%	2.00%
Sales ($ MM)	$53.5 B	$30.3 B

Retail	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-.1% / 4.6%	6.0%
Net Absorption	66.7 M	96 M
Deliveries	68.5 M	104.7 M
Rent Growth	1.40%	0.60%
Sales ($ MM)	$54.5 B	$47.5 B

Source: Costar (Apartments, Office, Retail, Industrial) as of 7/5/2018. "Hist. Avg." vacancy is over the last 10-years.

Market Briefs / Activity

- As Big-Box Presence Shrinks, Retail Property Financials Continue to Grow: With the rapid pace of technological advancement driving unprecedented changes in the commercial real estate landscape, no segment has seen its effects play out to the same degree as retail. Although recent media attention has focused heavily on negative retail narratives concerning big-box downsizing and the exit of long-established chains from the industry, opportunities exist for the rise of new players with unique product offerings to fill their space. Up-and-coming retail brands, coupled with the trend toward more diverse tenant profiles, have contributed to stable property fundamentals and improving financial metrics across retail facilities in CMBS. This has been reflected by persistent underlying growth in reported net operating income (NOI) and occupancy rates since 2011, with NOI netting annual gains and average occupancy rates for major cities and property subtypes surpassing 90%. Read more...

- Pricing for Some Properties Continues Higher: The Green Street Commercial Property Price Index was unchanged in June. The index, which measures values across five major propeprty sectors, has plateaued over the past eighteen months and is near year-end 2016 levels. Read more...

- Is LIBOR Phase-Out Affecting the CRE Lending Market? The looming demise of LIBOR (London Interbank Offered Rate) has been broadcast far and wide over the past year. As the countdown clock winds down to the Dec. 31, 2021 termination date, regulators and policymakers are working to make sure that the transition to a new benchmark is as seamless as possible. Read more...

- Global Investment Volume on Par with Last Year, Driven by Strong Entity Transactions: Following solid year-over-year growth in Q1 2018, global investment volume in commercial real estate (CRE) fell 3.2% year-over-year in Q2, ending H1 2018 with the same total volume as in H1 2017. Both EMEA and APAC volumes weakened year-over-year in H1. The Americas region showed considerable strength, thanks to a 76% year-over-year increase in entity deals and the outperforming industrial sector. 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 / YOY Change

LTV	5-Year	7-Year	10-Year	20-Year
≤ 50%	0 / -10	0 / -10	0 / -10	10 / -10
60%	0 / -10	0 / -10	0 / -10	10 / -10
65%	0 / -10	0 / -10	0 / -10	10 / -10
70%	0 / -15	0 / -15	0 / -15	10 / -15
75%	0 / -5	0 / -5	0 / -5	10 / -5

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

Outside Market / Monthly Change

Indice	Current	Change	% CHG
1-Month LIBOR	2.08%	-0.01%	-0.5%
3-Month LIBOR	2.35%	0.02%	0.9%
5-Year Treasury	2.85%	0.11%	4.0%
7-Year Treasury	2.93%	0.11%	3.9%
10-Year Treasury	2.96%	0.10%	3.5%
30-Year Treasury	3.08%	0.09%	3.0%
10-Year Swap	3.03%	0.10%	3.4%
Dow J	25,415	1,144.2	4.7%
NASDAQ	7,672	162.0	2.2%
S&P 500	2,816	98.0	3.6%
Gold	$1,234	(20.00)	-1.6%
Crude Oil	$68.76	(5.39)	-7.3%

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

Other CML Spreads / Monthly Change

Term	Source	LTV	Spread	Change
10-Year	CMBS	≤ 75%	S+175	0
7-Year	Agency *	65%	174	-3
7-Year	Agency *	75%	197	-3
10-Year	Agency *	65%	174	-9
10-Year	Agency *	80%	197	-9
12-Year	Agency *	75%	202	-11
15-Year	Agency *	75%	203	-8
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+55	-11.0	-16.67%
Corp.	AA	T+64	-11.0	-14.67%
Corp.	A	T+88	-12.0	-12.00%
Corp.	BBB	T+132	-15.0	-10.20%
Corp.	BB	T+224	-24.0	-9.68%
CMBS	AAA	T+89	-8.00	-8.89%
CMBS	AA-	T+124	-10.00	-7.87%
CMBS	A-	T+163	-19.00	-10.86%

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 7.38 bps on 5/31.

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