Commercial Real Estate
Monthy Recap

NASSAU CORAMERICA

For the period ending: June, 2018

Monthly Commentary

Life insurance companies and pension funds, as part of their overall investment portfolios, hold $475 billion in commercial and multifamily mortgage debt, accounting for 15 percent of the total outstanding. In 2017, life companies lent $80 billion in commercial and multifamily mortgages - a new record and four percent above 2016 levels - growing their portfolios by $40 billion or 9 percent. The long-term nature of commercial and multifamily loans matches well with the long-term nature of many of the liabilities off these companies. And like other capital sources, commercial and multifamily mortgages have performed extremely well for life companies. For most of the past decade-and-a-half, 60+ day delinquency rates have been below 10 basis points. At the end of 2017, just .03 percent of the balance of loans held by life companies were delinquent - 17 out of 33,236 loans. The delinquency rates among retail, hotel/motel and mixed use properties were all 0.00 percent. The archetypal life company loan is larger and more conservative than loans from other capital sources - with an average new loan amount of $22 million and loan-to-value ratio of 59 percent - but that characterization clouds the fact that some life companies specialize in small loans, and many have programs that are able to take on targeted risks in return for higher yields. Given the success of their mortgage portfolios, many life companies have increased the range of their lending and/or partnered with outside capital sources - domestic and foreign - to originate loans.

Conduit issuance picked up toward the end of June with 5 deals pricing for a total of $4.3b, bringing the YTD conduit total to $19.65b across 21 deals. Similarly to May, AAA LCF pricing was in a relatively wide range of S+86-98, with 98 being the widest print so far in 2018 (S+66 was the tight back in January). The AA- bonds priced in a range from 115-145, while the A- bonds priced in a range of 155-210. With four of the five conduit deals coming in the last week and half of June, the variance in spreads reflected investors' ability to pick and choose amongst the offerings, creating a heavy sense of tiering. The SASB new issue space was very active in June, with 10 deals pricing for $6.8b. This included 5 floating rate deals ($4.4b) and 5 fixed rate deals ($2.4b). In addition, one CRE CLO priced for $470mm, one large loan floater deal priced for $366mm and a small balance deal priced for $278mm. In the secondary market, AAA LCF bonds widened 3-5bps, as the heavy supply in new issue toward the end of the month weighed on spreads. AA- and A- bonds were generally wider by 1-5bps, with only BBB- managing to end the month a touch tighter. Overall though, the mezz market held in well considering the macro backdrop.

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

- **Situs RERC's 1Q 2018 Real Estate Report, "Challenges & Opportunities,"** concluded that capital appreciation in the overall CRE market continues to decline as we progress through the end of the cycle. But CRE still works as part of a long-term investment strategy, and the stability of the income component will help investors weather any approaching economic storms. Investment opportunities await the shrewd - patient - investor who can take advantage of market conditions. Read more...
- **Apartments: Bright Spots and Warning Signs:** Private and public-market expected returns for the apartment sector screen favorably compared to other major property types, but the sector will face some headwinds in the coming years. John Pawlowski dives into operating fundamentals, outperforming markets, and private market demand, drawing attention to supply and demographic trends that bear watching. Read more...
- **Commercial/Multifamily Mortgage Debt Outstanding Posts Largest Q1 Increase Since Before Great Recession:** The level of commercial/multifamily mortgage debt outstanding increased by $44.3 billion in the ffirst quarter of 2018 as all four major investor groups increase their holdings. That is a 1.4 percent increase over the fourth quarter of 2017. 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	2.09%	0.11%	5.6%
3-Month LIBOR	2.33%	0.02%	0.9%
5-Year Treasury	2.74%	0.04%	1.5%
7-Year Treasury	2.82%	0.01%	0.4%
10-Year Treasury	2.86%	0.00%	0.0%
30-Year Treasury	2.99%	-0.04%	-1.3%
10-Year Swap	2.93%	0.02%	0.6%
Dow J	24,271	(144.8)	-0.6%
NASDAQ	7,510	68.0	0.9%
S&P 500	2,718	13.0	0.5%
Gold	$1,254	(50.70)	-3.9%
Crude Oil	$74.15	7.11	10.6%

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%	177	7
7-Year	Agency *	75%	200	7
10-Year	Agency *	65%	183	8
10-Year	Agency *	80%	206	8
12-Year	Agency *	75%	213	9
15-Year	Agency *	75%	211	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+66	3.0	4.76%
Corp.	AA	T+75	12.0	19.05%
Corp.	A	T+100	7.0	7.53%
Corp.	BBB	T+147	7.0	5.00%
Corp.	BB	T+248	2.0	0.81%
CMBS	AAA	T+97	6.00	7.14%
CMBS	AA-	T+134	9.00	7.63%
CMBS	A-	T+182	12.00	7.36%

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.

Dale Helling - Senior Managing Director
dhelling@coramerica.com
515-512-4864

Bill Petak - CEO
bpetak@coramerica.com
310-606-8441

Debbie Slogoff - Senior Managing Director
dslogoff@coramerica.com
310-606-8445