

For the period ending: November, 2016

Monthly Commentary

The story this month has been rising treasury rates. The 10-year rose 56 bps in the month of November, which has prompted borrowers and investors to revisit spreads. Corporate bond yields have remained unchanged, but Fannie/Freddie spreads have come in 10-15 bps across the board with spreads for AA CMBS bonds declining by 25 bps. Over the last 10-years, the 10-year treasury rate has ranged from a low of 1.32% (7/10/16) to a high of 5.29% (6/12/07) and averaged 2.78% over that period of time. According to the 3Q 2016 Real Estate Report from Situs RERC, they expect the 10-year treasury to range between 1.50% to 2.60% through 2018, reflecting accelerating economic performance, the Federal Reserve increasing interest rates, and the new political environment having a positive impact on investment, as investors deploy an increasing risk-on position. The report goes on to quote experts from ValTrends who see values coming under pressure relative to price levels for CRE in third quarter 2016. Their prediction is that we are still a couple of years out from a market correction. It is likely that the U.S. CRE investment market will plateau and hold on to its income component, but that it will lack capital appreciation like the past. CRE is still the best "bang for the buck," according to Situs RERC's institutional investment survey respondents in the third quarter of 2016.

November ended up being a relatively robust issuance month for CMBS, with 8 conduits (\$6.8b), 7 SASB (\$4.1b) and 2 CRE CLOs (\$500mm) pricing. Two of the conduit deals were risk retention compliant deals, which helped them price tighter than generic deals, although neither was as well received as the first risk retention deal. YTD Conduit issuance now totals roughly \$42b and another 5 deals are expected to come in December, which may add an additional \$3-5b to that number. Much of the November (and expected December) supply is being driven by dealers wanting to clean up their balance sheets before risk retention takes effect in 2016. Given this dynamic, this last set of deals has been pretty average with heavy retail and a high number of pari passu loans that appear in multiple deals. The mediocrity of these deals has been helped by tighter secondary spreads which has kept new issue spreads interesting at relatively tighter spreads given the collateral quality. Secondary spreads tightened across the board in November with the A- tranche outperforming the rest of the stack as it remained the sweet spot for investors looking for yield without having to dip into the BBB- part of the capital stack. We would expect that the lack of supply once this last group of deals prices to be a tailwind for tighter spreads to finish off the year.

U.S. Property Fundamentals - Key Indicators

as of Q3 2016

	Apartments		Office		Retail	
	12 Mo. Change	Hist. Avg.	12 Mo. Change	Hist. Avg.	12 Mo. Change	Hist. Avg.
Vacancy Rate	0.1%	6.0%	-0.5%	11.3%	-0.5%	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	Hist. Avg.	12 Mo. Change	Hist. Avg.	YTD	
Vacancy Rate	-0.7%	10.2%	-0.7%	5.8%	Occ. Growth	0.0%
Net Absorption	182,925	99,346	51,281	33,696	RevPAR Growth	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)

Market Briefs / Activity

- The NAIC released a Capital Markets Special Report linked here that addressed the insurance industry's investment in real estate mortgages and unaffiliated real estate. The report focuses on the distribution and concentrations of these investments among property types and geographical markets. The report also examined current market conditions and the outlook for the commercial mortgage market. The report examined market trends from 2010 to year-end 2015. The report indicated that life company mortgage and equity real estate holdings increased from \$352.1 billion in 2010 to \$465.8 billion by year-end 2015. For 2015, real estate investment represented 8 percent of the insurance industry's invested assets. [Read More...](#)

- Implications of the Recent Spike in Interest Rates for Commercial Real Estate. Interest rates spiked in the aftermath of the 2016 U.S. presidential election. The benchmark 10-year Treasury stood at 2.36% at closing on November 23, up 53 bps from Election Day on November 8. How will this rapid movement impact the cost of borrowing and, by extension, capital values in commercial real estate. [Read More...](#)

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

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

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

CorAmerica CML Spreads / Current

LTV	5-Year	7-Year	10-Year	20-Year
≤ 50%	160	155	155	165
60%	180	170	170	180
65%	190	180	180	190
70%	210	195	195	205
75%	235	220	220	230

* 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%	-10	-10	-10	-10
60%	-10	-10	-10	-10
65%	-10	-10	-10	-10
70%	-10	-10	-10	-10
75%	-10	-10	-10	-10

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

Outside Market / Monthly Change

Index	Current	Change	% CHG
1-Month LIBOR	0.62%	0.08%	14.8%
3-Month LIBOR	0.93%	0.04%	4.5%
5-Year Treasury	1.84%	0.54%	41.0%
7-Year Treasury	2.19%	0.58%	35.8%
10-Year Treasury	2.39%	0.56%	30.7%
30-Year Treasury	3.05%	0.48%	18.6%
10-Year Swap	2.22%	0.56%	33.7%
Dow J	19,124	981.2	5.4%
NASDAQ	5,324	134.6	2.6%
S&P 500	2,199	72.7	3.4%
Gold	1,174	(99.20)	-7.8%
Crude Oil	49.44	2.58	5.5%

Source: WSI.com; bankrate.com; ycharts.com

Other CML Spreads / Monthly Change

Term	Source	LTV	Spread	Change
10-Year	CMBS	≤ 75%	S+280	0
7-Year	Agency	65%	215	-12
7-Year	Agency	75%	235	-12
10-Year	Agency	65%	222	-10
10-Year	Agency	80%	242	-10
12-Year	Agency	75%	250	-11
15-Year	Agency	75%	255	-16
Mezz	Various	85%	600-1000	NC

* Indicative spreads as represented to CorAmerica.

Public Benchmarks / Monthly Change

Type	Rating	Spread	Change	% CHG
Corp.	AAA	T+82	-4.6	-5.31%
Corp.	AA	T+92	0.2	0.26%
Corp.	A	T+112	-0.2	-0.19%
Corp.	BBB	T+167	-1.3	-0.78%
Corp.	BB	T+295	-19.4	-6.18%
CMBS	AAA	T+95.75	-4.00	-3.51%
CMBS	AA	T+140.75	-25.00	-13.89%
CMBS	A	T+240.75	-30.00	-10.53%

Source: Bloomberg Corporate Bond Index; Wells Fargo CMBS Research

CMBS spreads are shown net of the swap spread, which was -14.25 bps on 11/30.