Commercial Real Estate
Monthly Recap

CORAMERICA
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For the period ending: November, 2017

Monthly Commentary

Commercial/Multifamily Market Summary:

The Mortgage Bankers Association (MBA) released their Quarterly Survey of Commercial/Multifamily Mortgage Bankers Originations for the third quarter of 2017, showing a 21 percent increase in commercial and multifamily mortgage loan originations compared to the same period last year, and an 8 percent increase over 2Q17. As was the case during the first and second quarters, commercial/multifamily mortgage bankers' originations increased despite a slowdown in the volume of sales transactions. Most property types and capital sources saw stronger lending activity than a year earlier, supported by solid property fundamentals and continued property value appreciation.

A rise in originations for hotel and health care properties led the overall increase in commercial/multifamily lending volumes when compared to the third quarter of 2016. The third quarter saw a 116 percent year-over-year increase in the dollar volume of loans for hotel properties, a 97 percent increase for health care properties, a 20 percent increase for industrial properties, a 15 percent increase for multifamily properties, an 8 percent increase in office property loans, and an 8 percent decrease in retail property loans. Among investor types, the dollar volume of loans originated for Commercial Mortgage Backed Securities (CMBS) loans increased by 42 percent year-over-year.

Commercial Real Estate Values:

Situs RERC surveyed a panel of some of the nation's leading CRE valuation experts in order to provide a thorough and high-level analysis of CRE valuation trends. Most of those surveyed have been through several recessions and business cycles, have worked through several CRE crises, and have seen prices pressure values in the past. ValTrends survey respondents did not predict much change in CRE values in the next year as 80 percent said CRE values would remain the same, and 20 percent predicted they will increase, but only with minimal gains of 1.0 percent. There was greater consensus about future valuations, however, significantly more respondents felt that the tremendous CRE price growth witnessed over the past recovery cycle will hold in 2018 and that the eventual correction in values will be minimal. Regarding specific challenges to valuation, the majority of Situs RERC's ValTrends experts focused on the impact of interest rate hikes on rent growth and geopolitical events.

CMBS Commentary:

November conduit issuance consisted of 6 new deals pricing for a total of $5.16b, bringing the YTD total to $43.1b across 46 deals. Pricing for the LCF AAA ranged from S+75-84, setting a new tight print on the year for AAA early in the month before spreads started to leak wider. Pricing on the AA- ranged from S+120-150 and A- ranged from S+160-200. Similarly to last month, this group of deala tended to be underwhelming in terms of demand, as investors seem reluctant to pay up for new issue (with RR) versus 2015/2016 deals that trade wider. In addition, deals are becoming more levered with the amount of IO in deals increasing. Through the end of October, the average percentage of loans with no IO period was 25%, with the full IO loan percentage at 44.5%. November's deals, on average, were only 21.4% no IO with close to 52% full IO. In SASB space, 6 deals priced this month for a total of $3.687b. There were 4 floating rate deals ($1.89b) and 2 fixed rate deals ($1.8b), several of which were partially or entirely preplaced. Two CRE CLOs ($700mm) priced this month, of which one ($440mm) was entirely preplaced. Trading volumes in secondary were average, as dealers looked to shed AAA exposure throughout most of the month, helping to push AAA LCF spreads wider by around 3bps on the month. Mezz bonds put in a decent performance this month with AA- and A- 2-5bps tighter and BBB- 5-15bps tighter, both for generic names. We continue to see a flattening of the tiering curve in secondary as investors continue to stretch for yield, causing wider names to converge toward tighter names.

U.S. Property Fundamentals - Key Indicators

	Apartments		Office		Retail	
	12 Mo. Change / Current	Hist. Avg.	12 Mo. Change / Current	Hist. Avg.	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-.02% / 5.9%	6.2%	-0.0% / 10.1%	11.1%	0.01% / 6.4%	6.4%
Net Absorption	241,941	125,150	67,788	77,060	64,811	110,252
Net Deliveries	233,019	141,620	74,909	97,986	56,492	109,854
Rent Growth	2.30%	2.10%	1.60%	1.80%	1.80%	1.20%
Sales ($ millions)	$100,217	$61,539	$87,081	$76,672	$25,769	$30,428

	Logistics		Light Industrial		Lodging	
	12 Mo. Change / Current	Hist. Avg.	12 Mo. Change / Current	Hist. Avg.		YTD
Vacancy Rate	-0.2% / 6.4%	9.9%	-0.2% / 3.1%	5.6%	**Occ. Growth**	0.5%
Net Absorption	173,836	106,292	28,103	35,280	**RevPAR Growth**	3.4%
Net Deliveries	173,608	111,788	17,103	32,590	**Supply Growth**	1.7%
Rent Growth	6.30%	2.00%	5.80%	1.80%	**ADR Growth**	2.9%
Sales ($ MM)	$17,101	$10,543	$12,438	$10,285	**Sales ($ MM)**	$4,500

Source: Costar (Apartments, Office, Retail, Logistics, Light Industrial) as of 12/1/2017 and JLL (Lodging) as of Q1 2017.
"Hist. Avg." vacancy is over the last 10-years.

Market Briefs / Activity

- **Commercial Lending Trends - 3Q2017:** Lenders are becoming more risk-averse, wanting to lower LTVs, raise DSCRs and require strong debt yields, in this uncertain environment. Quality borrowers should have no issues obtaining loans, however, as ample capital is still available to those who qualify. Read more...
- **CBRE Perspective: Automated Trucking:** Electir semis, and even more so autonomous trucks, eventually will have far reaching influences on the design, speed and efficiency of supply chains. The cost savings unlocked by lessening the trucking industry's reliance on gasoline and diesel as a fuel source can be diverted to improving other supply chain technologies and processes. Autonomous trucks that are able to travel longer distances in a 24-hour period than manned vehicles stand to redefine distribution territories and logistics hubs. These changes won't happen tomorrow, but they are not far off. Read more...

CML Spreads / Current

LTV	5-Year	7-Year	10-Year	20-Year
≤ 50%	145	140	140	150
60%	160	150	150	160
65%	170	160	160	170
70%	190	175	175	185
75%	200	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%	0	0	0	0
60%	0	0	0	0
65%	0	0	0	0
70%	0	0	0	0
75%	0	0	0	0

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

Outside Market / Monthly Change

Indice	Current	Change	% CHG
1-Month LIBOR	1.24%	0.00%	0.0%
3-Month LIBOR	1.38%	0.00%	0.0%
5-Year Treasury	2.12%	0.10%	5.0%
7-Year Treasury	2.28%	0.05%	2.2%
10-Year Treasury	2.39%	0.01%	0.4%
30-Year Treasury	2.79%	-0.09%	-3.1%
10-Year Swap	2.41%	0.05%	2.3%
Dow J	24,272	895.3	3.8%
NASDAQ	6,874	110.0	1.6%
S&P 500	2,648	59.7	2.3%
Gold	$1,279	8.70	0.7%
Crude Oil	$57.92	3.54	6.5%

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

Other CML Spreads / Monthly Change

Term	Source	LTV	Spread	Change
10-Year	CMBS	≤ 75%	S+200	-25
7-Year	Agency *	65%	168	4
7-Year	Agency *	75%	191	4
10-Year	Agency *	65%	166	6
10-Year	Agency *	80%	189	6
12-Year	Agency *	75%	195	2
15-Year	Agency *	75%	197	1
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+55	2.0	3.77%
Corp.	AA	T+56	-1.0	-1.75%
Corp.	A	T+76	2.0	2.70%
Corp.	BBB	T+121	0.0	0.00%
Corp.	BB	T+214	2.0	0.94%
CMBS	AAA	T+80	4.00	5.26%
CMBS	AA	T+140	10.00	7.69%
CMBS	A	T+180	10.00	5.88%

Source: Bloomberg Corporate Bond Index; Wells Fargo pre risk-retention CMBS, secondary market spreads as of COB 11/30. CMBS spreads are shown net of the swap spread, which was -.38 bps on 11/30.

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