Commercial Real Estate
Monthy Recap

NASSAU CORAMERICA

For the period ending: November, 2018

Monthly Commentary

Corporate bond spreads continued to widen with "A" rated coporate bonds increasing by 13 basis points in the month of November on top of an 11 basis point increase in the month of October. "AA-" rated CMBS bond spreads increased 10-12 basis points over the past month. Spreads for commercial mortgage loans (CML) tend to move more slowly and in a tighter range as compared to corporate bonds. Although not reflected at November month-end, CorAmerica's estimate of CML spreads have been increased by 10 basis points commensurate with the current relative value to alternative investments. The change in CML spreads has been reflected in the CorAmerica weekly pricing matrix as of December 7th.

The Mortgage Bankers Association (MBA) released the results of their Quarterly Survey of Commercial/Multifamily Mortgage Bankers Originations for the third quarter of 2018, which showed that a pullback in borrowing and lending across most property types contributed to an overall decline in total mortgage loan originations. Rising interest rates took some wind out of the market's sails in the third quarter. Borrowing and lending backed by commercial and multifamily properties decreased 3 percent compared to the second quarter, and was 7 percent lower than a year ago. The CMBS and bank lending markets were the hardest hit. Meanwhile, borrowing backed by multifamily properties and from GSE lenders continued to grow. Compared to a year earlier, a decline in third quarter originations for health care and retail properties led the overall decrease in commercial/multifamily borrowing volumes. Among investor types, the dollar volume of loans originated during the third quarter for CMBS loans and commercial bank portfolio loans decreased from a year earlier. Loan originations increased for life insurance companies and the GSEs (Fannie Mae and Freddie Mac).

Conduit issuance picked up in November with 5 deals pricing for a total of $4.4b, bringing the year to date total to $35.9b. The first two deals of the month were brought by relatively strong issuers and the combination of weaker issuers, heavier than usual supply and volatile macro conditions helped push spreads wider throughout the month. The AAA LCF priced in a relatively wide range of S+90-100, with the AA- tranche ranging from S+130-165 and the A- tranche ranging from S+175-250. Secondary spreads widened throughout the month as well, although spreads bounced off their wides in the wake of more dovish comments from the Fed toward the end of the month. AAA LCF spreads ended the month about 5-7bps wider, with AA- bonds 10-12bps wider and A- bonds 15-20bps wider. BBB- bonds were roughly 30-40bps wider on limited trading. Away from conduit, four floating rate SASB deals priced for a total of $1.7b, with 4 CRE CLO's pricing for a total of $2.95b. We expect a busy start to December as dealers try to get deals out the door prior to the last two weeks of December, which are traditionally very quiet.

U.S. Property Fundamentals - Key Indicators

Multi-Family	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-.7% / 5.6%	6.0%
Absorbed Units	362,535	177,752
Delivered Units	279,589	204,920
Rent Growth	3.90%	1.90%
Sales ($ millions)	$134 B	$61.6 B

Office	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-0.2% / 10.1%	11.2%
Net Absorption	63.4 M	53 M
Net Deliveries	66.8 M	83.1 M
Rent Growth	1.90%	1.50%
Sales ($ millions)	$97.7 B	$71.5 B

Industrial	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-0.3% / 4.9%	7.9%
Net Absorption	239 M	147 M
Net Deliveries	238 M	172 M
Rent Growth	5.80%	2.10%
Sales ($ MM)	$54.8 B	$30.6 B

Retail	12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-.2% / 4.5%	6.0%
Net Absorption	63.6 M	96.9 M
Deliveries	64.8 M	105.4 M
Rent Growth	1.40%	0.60%
Sales ($ MM)	$56.7 B	$48 B

Source: Costar (Apartments, Office, Retail, Industrial) as of 9/30/2018. "Hist. Avg." vacancy is over the last 10-years.

Market Briefs / Activity

- Here's where multifamily investors should be putting their money in 2019: While most of the market attention tends to be focused on Class A multifamily buildings, new research from CBRE suggests that there is another class of multifamily housing that represents a much larger opportunity for investors - workforce housing. Read more...

- Warehouse Demand Expected to Grow with E-commerce Sales: Holiday shopping is expected to boost annual e-commerce sales by 16% to more than $525.7 billion in 2018, according to research firm eMarketer. The sharp rise in e-commerce sales has put pressure on retailers to implement omnichannel strategies for online order fulfillment. Part of this implementation has shifted goods from retail shelves to warehouse racks, increasing industrial warehouse demand. For every $1 billion increase in e-commerce sales, an estimated 1.25 million sq. ft. of warehouse space is needed to keep up with demand. Thus, e-commerce generated warehouse demand could grow by an additional 191.2 million sq. ft. from 2018 to 2020. Read more...

-Institutional Investments In Real Estate Hit Highest Level Since 2013: In a recent survey conducted by Hodes Weill & Associates and Cornell University, institutional investors noted that they have increased their real estate allocations by 30 basis points to 10.4% this year. That's the highest apportionment to the asset class since Hodes Weill and Cornell began surveying institutions in 2013. At that time, institutional investors comprised 9.1% of the holdings. 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%	-10 / 0	0 / -10	0 / -10	10 / -10
60%	-10 / 0	0 / -10	0 / -10	10 / -10
65%	-10 / 0	0 / -10	0 / -10	10 / -10
70%	-10 / 0	0 / -10	0 / -10	10 / -10
75%	0 / 20	0 / 0	0 / 0	10 / 0

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

Outside Market / Monthly Change

Indice	Current	Change	% CHG
1-Month LIBOR	2.35%	0.05%	2.2%
3-Month LIBOR	2.74%	0.20%	7.9%
5-Year Treasury	2.82%	-0.16%	-5.2%
7-Year Treasury	2.90%	-0.16%	-5.2%
10-Year Treasury	2.99%	-0.15%	-4.8%
30-Year Treasury	3.33%	-0.06%	-1.8%
10-Year Swap	3.02%	-0.19%	-5.9%
Dow J	25,538	422.2	1.7%
NASDAQ	7,330	24.1	0.3%
S&P 500	2,760	48.3	1.8%
Gold	$1,226	11.00	0.9%
Crude Oil	$50.93	(14.38)	-22.0%

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%	190	7
7-Year	Agency *	75%	213	7
10-Year	Agency *	65%	186	4
10-Year	Agency *	80%	209	4
12-Year	Agency *	75%	216	3
15-Year	Agency *	75%	215	3
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+70	6.0	9.38%
Corp.	AA	T+79	12.0	17.91%
Corp.	A	T+109	13.0	13.54%
Corp.	BBB	T+168	25.0	17.48%
Corp.	BB	T+271	28.0	11.52%
CMBS	AAA	T+98	6.00	6.90%
CMBS	AA-	T+122	-4.00	-3.31%
CMBS	A-	T+171	-21.00	-11.23%

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 4.85 bps on 11/30.

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