Commercial Real Estate
Monthy Recap

NASSAU CORAMERICA

For the period ending: October, 2018

Monthly Commentary

Notable monthly movements in the market include an approximate .10%-.15% widening of spreads for agency loans (~.20% YOY) as well as "A" and "BBB" rated grade corporate bonds (~.22% YOY). The movement in agency spreads is likely due to heightened levels of the supply of bonds in the marketplace, both in Freddie K's and DUS, while buyers are continuing to be more selective. Benchmark rates continued to widen with 1-month LIBOR up .07% (+.99% YOY), 10-year treausry up .08% (+.68% YOY), 30-year treasury up .16% (+.33% YOY). Upward movement in benchmark rates has been more pronounced over the last 12 months at the shorter end of the curve.

As reported in a recent Crittendon Rearch, Inc. article, "Count on life company lenders to dip their toes into new programs, property types and markets in 2019. Next year will be another competitive one with sporadic deal flow and aggressive competition for any deals with cash-flow potential. There will also be tougher competition from non-institutional lenders. Many life companies will provide different buckets of capital to offer a one-stop-shop in an effort to grab yield. More life company lenders are coming out with bridge-lite programs. They will look at light repositioning or replacing tenants to bring a property up to stabilized occupancy. Anticipate more life companies to pick up third-party production accounts. This allows them either to widen their product offerings or sell participations in their mortgages in order to increase their traditional loan production. Also, expect more construction-to-perm loans and there are even whispers of some life companies starting up CMBS lending arms."

Conduit issuance was light again in October, with only 3 deals pricing for $2.9b, bringing the YTD conduit total to $31.47b across 34 deals. The 3 deals priced relatively close to one another even though their top line metrics varied somewhat which would indicate varying credit quality. The AAA LCF priced in a range of S+84-87, with the AA- spread ranging from S+120-125 and the A- spread ranging from S+170-180. Secondary spreads finally reversed course after months of tightening and ended October at the wides of the month, as macro pressures and heavier dealer inventories took their toll. On the month, AAA LCF spreads widened 10-12bps, with AA- and A- bond both out around 20bps. BBB- underperformed this month, with spreads wider by 20-30bps. Away from the conduit space, 5 SASB deals, all floating rate, priced for a total of $3.96b and two CRE CLO's priced totaling $1b. New issue is expected to pick up in November, as dealers look to get deals out the door before the holidays get into full swing.

U.S. Property Fundamentals - Key Indicators

	Multi-Family			Office	
	12 Mo. Change / Current	Hist. Avg.		12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-.7% / 5.6%	6.0%	**Vacancy Rate**	-0.2% / 10.1%	11.2%
Absorbed Units	362,535	177,752	**Net Absorption**	63.4 M	53 M
Delivered Units	279,589	204,920	**Net Deliveries**	66.8 M	83.1 M
Rent Growth	3.90%	1.90%	**Rent Growth**	1.90%	1.50%
Sales ($ millions)	$134 B	$61.6 B	**Sales ($ millions)**	$97.7 B	$71.5 B

	Industrial			Retail	
	12 Mo. Change / Current	Hist. Avg.		12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-0.3% / 4.9%	7.9%	**Vacancy Rate**	-.2% / 4.5%	6.0%
Net Absorption	239 M	147 M	**Net Absorption**	63.6 M	96.9 M
Net Deliveries	238 M	172 M	**Deliveries**	64.8 M	105.4 M
Rent Growth	5.80%	2.10%	**Rent Growth**	1.40%	0.60%
Sales ($ MM)	$54.8 B	$30.6 B	**Sales ($ 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

- **Apartment Construction Begins to Slow Down:** Apartment building developers may finally take a breather in their rush to build new units. "Starts will begin to slow down soon, translating into more moderate development activity by late 2020," says Jeanette I. Rice, Americas head of multifamily research for CBRE Research. There are still hundreds of thousands of new apartments already under construction, scheduled to open over the next year or so. But rising interest rates, rising construction costs, and already tough lending standards are making it more difficult for developers to keep building at the rate they have been. Developers took out fewer permits to build new properties in September compared to previous months. Read more...
- **All Eyes on US Cap Rates Amid Interest Rate Hikes:** Preliminary data shows U.S. cap rates were flat-to-down in the third quarter of 2018 despite eight Federal Reserve interest rate increases since the end of 2015. Investors have been anticipating cap rate increases for some time now - almost hoping for increases in some cases. It hasn't happened yet. Read more...
- **Property Pricing Continues Its Slow Rise:** The Green Street Commercial Property Price Index was unchanged in September. The index has increased by about 2% over the past year, continuing a trend of inflationary-type increases that has been in place since late 2015. Read more...
- **Commercial Lending: A second Wind?:** Lending volume, as measured by the CBRE Lending Momentum Index, closed in September well above June's level. Compared with a year ago, the index is up by 13.1%. CBRE's broad loan underwriting measures produced metrics that were slightly more aggressive in Q3 with an average LTV, loan constant, and debt yield of 60.1%, 6.19%, and 8.66%, respectively. 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 / -10	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	2.30%	0.07%	3.1%
3-Month LIBOR	2.54%	0.16%	6.7%
5-Year Treasury	2.98%	0.01%	0.5%
7-Year Treasury	3.06%	0.04%	1.3%
10-Year Treasury	3.14%	0.08%	2.6%
30-Year Treasury	3.39%	0.18%	5.6%
10-Year Swap	3.21%	0.00%	0.0%
Dow J	25,116	(1,342.6)	-5.1%
NASDAQ	7,306	(740.5)	-9.2%
S&P 500	2,712	(202.2)	-6.9%
Gold	$1,215	18.80	1.6%
Crude Oil	$65.31	(7.94)	-10.8%

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%	183	12
7-Year	Agency *	75%	206	12
10-Year	Agency *	65%	182	10
10-Year	Agency *	80%	205	10
12-Year	Agency *	75%	213	14
15-Year	Agency *	75%	212	7
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+64	8.0	14.29%
Corp.	AA	T+67	8.0	13.56%
Corp.	A	T+96	11.0	12.94%
Corp.	BBB	T+143	14.0	10.85%
Corp.	BB	T+243	39.0	19.12%
CMBS	AAA	T+94	13.00	17.57%
CMBS	AA-	T+128	6.00	5.22%
CMBS	A-	T+194	27.00	16.88%

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 6.53 bps on 10/31.

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