Commercial Real Estate
Monthly Recap

CORAMERICA
A NASSAU RE COMPANY

For the period ending: September, 2017

Monthly Commentary

Property sales were seven percent slower during the first half of 2017 than during the same period in 2016. Individual property sales were down 5 percent, sales of portfolios down 10 percent, and entity-level transactions down 36 percent. Among property types, sales of apartment properties were down 16 percent, retail property sales were down 12 percent, and office property sales were down 1 percent. The dollar volume of industrial property sales was up 12 percent. Multifamily properties remain the key force behind overall mortgage originations trends, and the GSEs continue to drive multifamily originations. Loans originated for GSEs increased by 26 percent year-over-year, commercial bank portfolio loans decreased 21 percent, life insurance companies' loans decreased 2 percent, and loans originated for Commercial Mortgage Backed Securities (CMBS) increased by 168 percent year-over-year. Property fundamentals generally remain strong, although the pace of improvement has downshifted from earlier periods. For most sectors, new construction activity remains robust, but growth in the pace of new development appears to have paused.

September was another relatively busy month in the conduit space with 5 new deals pricing for a total of $4.9b, bringing the YTD total to $33b across 35 deals. Pricing for the LCF AAA ranged from S+89-96, AA- ranged from S+140-165, and A- ranged from S+175-225. Not unlike prior months, we continue to see a wide range of collateral quality, sponsorship, and deal barbelling which helps drive the variance across deals in terms of pricing. In SASB space, 6 deals priced this month. There were 4 floating rate deals ($3.16b) and 2 fixed rate deals ($683mm) for a total of $3.84b. Similarly to last month, several of the SASB deals were at least partially preplaced, including the bottom portion of the $1b floating rate Great Wolf Lodge deal, for which several tranches of cusiped mezz loans were also pre-placed. One $652mm CRE CLO also priced this month. Trading volumes in the secondary market were muted toward the beginning of the month, as investors tried to sort through potential hurricane impacts. The steady flow of new issue conduit also impacted secondary volumes, especially because dealers were able to provide status updates for properties located in impacted areas for new issue deals, while no such data is readily available for secondary deals. Flows did pick up toward the end of the month and generically, AAA and AS/AM bonds were flat to a touch wider, AA- and A- were both roughly 3-5 bps wider, while BBB- was quoted about 5-15 bps wider. Overall, it seemed like better deals were probably flat to tighter in the A- and BBB- space, while weaker deals were helping to push the overall sector wider. In addition, investors continue to penalize bonds with high percentages of hurricane exposed properties, but we expect these hurricane discounts to start to subside as more specific information emerges about these properties.

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	-.01% / 5.8%	6.2%	-0.0% / 10.2%	11.1%	0.00% / 5.2%	6.5%
Net Absorption	217,699	123,665	63,953	76,552	56,274	110,250
Net Deliveries	223,068	139,528	73,100	97,680	60,560	110,014
Rent Growth	2.30%	2.10%	1.50%	1.80%	1.80%	1.10%
Sales ($ millions)	$116,341	$60,864	$106,802	$76,447	$32,469	$30,488

	Logistics		Light Industrial		Lodging	
	12 Mo. Change / Current	Hist. Avg.	12 Mo. Change / Current	Hist. Avg.		YTD
Vacancy Rate	-0.1% / 6.7%	10.0%	-0.2% / 3.2%	5.6%	**Occ. Growth**	0.5%
Net Absorption	159,089	105,142	28,737	35,203	**RevPAR Growth**	3.4%
Net Deliveries	165,617	110,772	17,617	32,679	**Supply Growth**	1.7%
Rent Growth	6.60%	2.00%	6.10%	2.20%	**ADR Growth**	2.9%
Sales ($ MM)	$20,427	$10,414	$14,064	$10,241	**Sales ($ MM)**	$4,500

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

Market Briefs / Activity

- **Retail's Not Dead, It's Just Going Through Changes:** The retail property sector has been drubbed over the past year, driven by what could end up being a record level of store closings. Some estimate that more than 8,600 store could shutter this year, well exceeding the 2,000 per year average. So it stands to reason that property investors are being extremely cautious when considering investments. Some are simply shunning the sector, ignoring any potential investments. Read More...
- **Amazon Puts Whole Foods on Fast Track to Conventional Supermarket:** Whole Foods will change the way companies can sell and market their products in its stores beginning next year, one of the biggest moves yet in its push to operate more like a traditional market. Under the changes planned for April, Whole Foods' 470 locations will no longer allow brand representatives to promote their products or check to make sure they are stocked and displayed correctly. Whole Foods also is centralizing much of its decision-making regarding the assortment of products across the chain. Read More...
- **Institutional Capital Earmarked for Real Estate Reaches New High:** Real estate investment managers continue to raise more and more capital, putting dry powder at a record $255 billion thus far in 2017. That figure is up 8% from the beginning of the year, and it's resulted in a near feeding frenzy for certain properties when they're brought to the sales market. Indeed, London research firm Preqin reports that 49% of North American fund managers that it surveyed said they were facing more competition for investments. Commercial real estate has proven itself to be a steady and healthy performing asset. For instance, the California Public Employees' Retirement System said the asset class provided it with a 7.6% return during its latest fiscal year. And the California State Teachers' Retirement System generated an 8.1% return from its real estate holdings. That topped all classes but global public equity, which generated a near 20% return. 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%	195	180	180	190
75%	225	205	205	215

* 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	1.34%	0.02%	1.5%
5-Year Treasury	1.70%	0.00%	0.0%
7-Year Treasury	2.17%	0.22%	11.3%
10-Year Treasury	2.33%	0.21%	9.9%
30-Year Treasury	2.86%	0.13%	4.8%
10-Year Swap	2.29%	0.22%	10.8%
Dow J	22,409	461.0	2.1%
NASDAQ	6,496	247.3	4.0%
S&P 500	2,519	47.3	1.9%
Gold	$1,285	(41.50)	-3.1%
Crude Oil	$51.67	4.58	9.7%

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

Other CML Spreads / Monthly Change

Term	Source	LTV	Spread	Change
10-Year	CMBS	≤ 75%	S+225	0
7-Year	Agency *	65%	170	0
7-Year	Agency *	75%	193	0
10-Year	Agency *	65%	164	0
10-Year	Agency *	80%	187	0
12-Year	Agency *	75%	198	0
15-Year	Agency *	75%	204	0
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+57	-9.0	-13.64%
Corp.	AA	T+63	-6.0	-8.70%
Corp.	A	T+80	-7.0	-8.05%
Corp.	BBB	T+128	-10.0	-7.25%
Corp.	BB	T+211	-24.0	-10.21%
CMBS	AAA	T+90	0.00	0.00%
CMBS	AA	T+138	2.00	1.45%
CMBS	A	T+178	-5.00	-2.70%

Source: Bloomberg Corporate Bond Index; Wells Fargo pre risk-retention CMBS, secondary market spreads as of COB 7/28. CMBS spreads are shown net of the swap spread, which was -2.07 bps on 8/31.

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