

For the period ending: September, 2018

Monthly Commentary

The level of commercial/multifamily mortgage debt outstanding increased by \$52.3 billion in the second quarter of 2018 as all four major investor groups increased their holdings. That is a 1.6 percent increase over the first quarter of 2018, according to MBA's latest Commercial/Multifamily Mortgage Debt Outstanding report. Total commercial/multifamily debt outstanding rose to \$3.27 trillion at the end of the second quarter. Multifamily mortgage debt outstanding rose to \$1.3 trillion, an increase of \$20 billion from the first quarter of 2018. The balance of mortgage debt on commercial and multifamily properties grew faster during the first half of 2018 than during any other first half since 2007. The four major investor groups all increased their holdings. Agency and GSE Portfolios saw the largest increase (2.4%), followed by life insurance companies (2.2%), banks and thrifts (1.9%), and CMBS, CS and other ABS issues (1.3%). Strong property fundamentals and values, coupled with still-low mortgage rates and strong loan performance, are all supporting the market.

Of note, there was an approximate 20 basis point increase this month in the 5, 7 and 10 year Treasury, which is significant. The change from one year ago is approximately 75 basis points. The recent interest rate movement may exert downward pressure on spreads in the short term as lenders compete aggressively for business to end the year.

Conduit issuance was light in September with only 3 deals pricing for a total of \$3.24b, bringing the YTD conduit total to \$28.57b across 31 deals. Two of the deals priced relatively close to one another, while the third deal priced wider based on perceived weaker sponsorship. AAA LCF priced from S+78-85, with two deals at 78 and one at 85. The AA- priced in a range of S+115-130, with the A- ranging from S+145-185. The SASB space was also quiet with only 4 deals pricing, all of which were floating rate and totaled only \$1.288b. Additionally, 2 CRE CLOs priced for a total of \$641mm. The real star of the show this month was the secondary market, which was particularly active this month as bonds traded both in comp and behind the scenes. We saw everything from AAA tranches down to below investment grade bonds trade, with all tranches ending the month tighter. AAA LCF bonds started to trade a little heavy in the last two days of the month after heavy selling leading into quarter end. Even with the month end widening though, they still managed to tighten around 5 bps on the month. AA- bonds ended the month tighter by 5-10bps, with A- bonds closer to 10-15bps tighter. BBB- bonds outperformed again this month, with spreads 20-30 basis points tighter.

U.S. Property Fundamentals - Key Indicators

Multi-Family			Office		
	12 Mo. Change / Current	Hist. Avg.		12 Mo. Change / Current	Hist. Avg.
Vacancy Rate	-0.7% / 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	-0.2% / 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

- **Economic Expansion: More Room to Run?:** Ken Riggs, president of Situs RERC, believes that, despite its near-record length, the recovery seems far from over, and contends that key indicators point to further growth ahead. [Read more...](#)

- **Off-Price Chains Continue to Roll, but how Long Can the Good Times Last?:** Although more consumers are shopping online and many retailers are spending big bucks to beef up their e-commerce strategies, off-price retailers are aggressively expanding and proving to be resilient. [Read more...](#)

- **Pricing Lethargic in Aggregate, Rising for Some Sectors:** The Green Street Commercial Property Price Index increased by less than half a percent in August. The index, which measures values across five major property sectors, has drifted sideways for the past two years. "Property appreciation for most types of real estate, particularly the big sectors investors are focused on, has been pretty anemic over the past couple of years," said Peter Rothenmund, Senior Analyst at Green Street Advisors. "But there are quite a few outliers to that trend. Industrial values are up 20% over the past two years. Pricing in many of the niche sectors - manufacturing home communities, medical office, life science, and student housing - has been rising rapidly as well." [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 / -15	0 / -15	0 / -15	10 / -15
75%	0 / -5	0 / -5	0 / -5	10 / -5

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

Outside Market / Monthly Change			
Index	Current	Change	% CHG
1-Month LIBOR	2.23%	0.13%	6.2%
3-Month LIBOR	2.38%	0.06%	2.6%
5-Year Treasury	2.96%	0.22%	8.0%
7-Year Treasury	3.02%	0.21%	7.5%
10-Year Treasury	3.06%	0.20%	7.0%
30-Year Treasury	3.21%	0.19%	6.3%
10-Year Swap	3.12%	0.00%	0.0%
Dow J	26,458	493.5	1.9%
NASDAQ	8,046	(63.2)	-0.8%
S&P 500	2,914	12.5	0.4%
Gold	\$1,196	(10.50)	-0.9%
Crude Oil	\$73.25	3.45	4.9%

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%	171	-3
7-Year	Agency *	75%	194	-3
10-Year	Agency *	65%	172	-3
10-Year	Agency *	80%	195	-3
12-Year	Agency *	75%	199	-5
15-Year	Agency *	75%	205	-1
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+56	-5.0	-8.20%
Corp.	AA	T+59	-6.0	-9.23%
Corp.	A	T+85	-6.0	-6.59%
Corp.	BBB	T+129	-9.0	-6.52%
Corp.	BB	T+204	-14.0	-6.42%
CMBS	AAA	T+80	-2.00	-2.63%
CMBS	AA-	T+121	-2.00	-1.71%
CMBS	A-	T+166	4.00	2.56%

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 5.94 bps on 9/28.

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