# CAPITAL MARKETS UPDATE

August 9, 2017

CUSHMAN & WAKEFIELD

- Despite a slow down in investment sales transactions, commercial and multifamily mortgage loan originations increased 15% during the first six months of 2017 compared to 2016 according to the Mortgage Bankers Association's Quarterly Survey of Commercial/Multifamily Mortgage Banker Originations. Consistent with broader industry sentiment, industrial loan originations saw a 66% Y-o-Y increase and retail loan originations saw a 16% Y-o-Y decrease through June. CMBS and Fannie Mae/Freddie Mac have seen healthy increases in activity so far this year, while insurance company originations are flat Y-o-Y and commercial bank activity is down 20%.

- LIBOR, the nearly 50-year-old borrowing benchmark that underpins more than $350 trillion of financial contracts, is to be phased out by the end of 2021. While most existing financial contracts and loan documents should include contemplation of a replacement rate or specifics if LIBOR becomes unavailable, it is important to be aware of potential impacts and make sure to negotiate appropriate language in new loan documents.

- The US economy added 209,000 jobs in July which was the 82nd consecutive month of jobs growth. The national unemployment rate has been falling more or less steadily since a peak of 10% in 2009. The unemployment rate is now 4.3% which is the lowest since 2001 and the participation rate is at 62.9%. While one can find some concerns in the data such as relatively low average hourly earnings increase of only 2.5% and a significant number of the jobs created being in lower wage and education categories, the economy continues to be moving in a positive direction, albeit at a slow and steady pace as it has been for the last 7 years, which should translate into improving fundamentals across all property types.

- As expected, there was no hike from the Fed in July. Odds for a December hike are now below 50% and it seems likely that we will not see another increase until 2018.

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**RECENT DEALS/CLOSINGS/QUOTES – DEBT**

| Asset Type | Type of Financing | Type of Lender | Rate/Return | Loan-to-Value | Term | Amortization/Comments |
|---|---|---|---|---|---|---|
| Office - Suburban | Fixed | CMBS | S + 205 | 70% | 10 years | 30 year, 9% DY |
| Industrial | Fixed | Bank | 4.00% | 65% | 5 years | 30 year, 2 Years IO; 0.5% fee |
| Multifamily | Fixed | Life Company | 3.50% | 65% | 10 years | 30 year |
| Multifamily - Suburban | Floating | Debt Fund | L + 425 | 85% | 3 + 1 + 1 | IO, 1% fee |
| Multifamily - Urban | Floating | Debt Fund | L + 310 | 80% | 3 + 1 + 1 | IO, 0.75% fee |
| Retail - Condominium | Fixed | Life Company | T + 165 | 55% | 10 years | IO, 0.10% fee |
| Retail - Condominium | Floating | Bank | L + 190 | 65% | 10 years | 30 year, 5 Years IO; 0.65% fee |
| Retail - Condominium | Fixed | Life Company | T + 170 | 65% | 10 years | 30 year, 5 Years IO; 0.10% fee |
| Retail | Fixed | Life Company | T + 180 | 65% | 10 years | 30 year |
| Office | Fixed | Life Company | T + 165 | 65% | 10 years | 25 year, 2 Years IO |
| Office | Fixed | Life Company | T + 180 | 65% | 10 years | 30 year |
| Industrial/Flex | Fixed | CMBS | S + 255 | 75% | 10 years | 30 year, 5 Years IO |
| Industrial - Vacant | Floating | Debt Fund | L + 475 | 70% | 3 + 1 + 1 | 30 year, 3 Years IO |
| Office | Fixed | CMBS | S + 150 | 50% | 10 years | IO, 12.25% DY |
| Office | Fixed | Life Company | T + 140 | 50% | 10 years | 30 year |

**RECENT DEALS/CLOSINGS/QUOTES - EQUITY**

| Asset Type | Type of Financing | Type of Investor | Target Return | Equity Contribution Levels | Comments/Promote |
|---|---|---|---|---|---|
| Multi-Family - Value Add | JV Equity | REIT | 18.0% | 95%/5% | 10% > 10%, 15% > 14%, 20 > 20% |
| Multi-Family - Construction | Preferred Equity | Family Office | 15.0% | 100%/0% | 85% LTC |
| Multi-Family - Value Add | JV Equity | Life Company | 18.0% | 90%/10% | 17% > 8.5%, 28% > 14%, 33% > 18% |
| Multi-Family - Value Add | JV Equity | Offshore Investor | 16.0% | 85%/15% | 20% > 10%, 25% > 15% |
| Multi-Family - Value Add | JV Equity | Opportunity Fund | 20.0% | 95%/5% | 20% > 10%, 25% > 16%, 30% > 20% |

**SENIOR & SUBORDINATE LENDING SPREADS**

| | Maximum Loan-to-Value | DSCR | Spreads |
|---|---|---|---|
| Fixed Rate - 5 Years | 65 - 75% (1) | 1.30 - 1.50 | T + 120 - 275 |
| Fixed Rate - 10 Years | 65 - 75% (1) | 1.30 - 1.50 | T + 120 - 270 |
| Floating Rate - 5 Years | | | |
| Core Asset | <65% (2) | 1.30 - 1.50 | L + 150 - 235 |
| Value Add Asset | <65% (2) | 1.25 - 1.40 | L + 200 - 400 |
| Mezzanine Moderate Leverag | 65 - 80% | 1.05 - 1.15 | L + 525 - 800 |
| Mezzanine High Leverage | 75 - 90% | | L + 700 - 1400 |

(1) 70-75% for Multi-Family (non-agency) (2) Libor floors at 0-0.50%

**10-YEAR FIXED RATE RANGES BY ASSET CLASS**

| | Maximum Loan-to-Value | Class A | Class B/C |
|---|---|---|---|
| Anchored Retail | 70 - 75% | T + 200 | T + 210 |
| Strip Center | 65 - 75% | T + 205 | T + 215 |
| Multi-Family (non-agency) | 75 - 80% | T + 210 | T + 220 |
| Multi-Family (agency) | 75 - 80% | T + 210 | T + 220 |
| Distribution/Warehouse | 65 - 75% | T + 205 | T + 215 |
| R&D/Flex/Industrial | 65 - 75% | T + 210 | T + 220 |
| Office | 65 - 75% | T + 195 | T + 205 |
| Full Service Hotel | 60 - 70% | T + 250 | T + 270 |

* DSCR assumed to be greater than 1.25x

**BASE RATES**

| | August 9, 2017 | Four Weeks Ago | One Year Ago |
|---|---|---|---|
| **30 Day LIBOR** | 1.23% | 1.22% | 0.51% |
| **U.S. Treasury** | | | |
| 5 Year | 1.78% | 1.88% | 1.12% |
| 10 Year | 2.22% | 2.33% | 1.56% |
| **Swaps** | | Current Swap Spreads | |
| 5 Year | 1.87% | 0.09% | |
| 10 Year | 2.19% | (0.03%) | |

Source: Bloomberg, Board of Governors of the Federal Reserve System

Cushman & Wakefield Equity, Debt & Structured Finance ("EDSF") has arranged approximately $25 billion of capital from more than 190 capital sources for 440 transactions in the past five years. For more information on this report or on how we can assist your financing needs or hospitality sales, please contact any of our offices or:


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