

# CAPITAL MARKETS UPDATE

December 12, 2017



- The CMBS market had another strong month with \$9B of new issuance - consistent with the monthly average since May of \$9.5B. Commercial Mortgage Alert reported on 12/8 that YTD issuance was \$90.8B, up nearly 30% Y-o-Y. REITs have also seen an unprecedented market for unsecured notes in 2017 with YTD issuance of \$47.5B, nearly 25% more than 2016 which was a record breaking year. Issuance activity seems to be fueled by investor demand for high quality fixed income options and borrowers desire to lock interest rates ahead of anticipated increases from the Fed.
- LIBOR continues to march higher in advance of the Fed's meeting this week. The market is pricing a 100% probability of a hike at what will be Janet Yellen's final significant meeting at the head of the table. The market has the following expected hike currently priced in March 2018. Yield curve flattening has continued with the spread between the 10-Yr T and the 5-Yr and 2-Yr Ts the tightest in 10 years. The Fed is going to have a real challenge raising the short end of the curve during the next two years without exerting some control on the 10-Yr interest rates or they run the risk of an inverted yield curve.
- The American job market is the strongest it has been in a decade, and arguably the strongest since 2000. The US has added jobs for 86 consecutive months and the unemployment rate is currently 4.1% which is lower than it ever got during the last boom. Even wage growth which had been the weak spot of the recovery is showing signs of improvement in recent months having reported a 2.5% increase during the past year as of November. Economist expect that the \$1.5T tax cut plan that could be signed into law as early as this month will provide at least a modest lift to the economy. With a significant boost to the economy through the tax cut, the Fed will need to closely monitor inflation.

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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             | Floating          | Bank           | L + 225     | 67%           | 3 + 1 + 1 | IO                           |
| Multifamily                   | Fixed             | Agency         | T + 125     | 65%           | 10 years  | IO                           |
| Multifamily                   | Fixed             | CMBS           | S + 130     | 55%           | 10 years  | IO                           |
| Multifamily                   | Fixed             | CMBS           | S + 140     | 55%           | 5 years   | IO                           |
| Office                        | Fixed             | CMBS           | S + 185     | 71%           | 10 years  | 30 year, 3 Years IO; 8% DY   |
| Office - Predevelopment       | Floating          | Bank           | L + 300     | 50%           | 2 + 1     | IO                           |
| Office - Predevelopment       | Floating          | Bank           | L + 350     | 65%           | 2 + 1     | IO                           |
| Office - Single Tenant Leaseh | Fixed             | Bank           | 4.50%       | 67%           | 10 years  | 30 year, 3 Years IO; 8.5% DY |
| Office                        | Fixed             | Bank           | 3.95%       | 65%           | 5 years   | 35 year                      |
| Office - Future Funding       | Floating          | Life Company   | L + 200     | 55%           | 4 + 1     | IO                           |
| Hotel - Stabilizing           | Floating          | Debt Fund      | L + 435     | 65%           | 3 + 1 + 1 | IO, 1% fee, <1.0x DSCR       |
| Office - Value Add Suburban   | Floating          | Debt Fund      | L + 450     | 75%           | 3 + 1 + 1 | IO, 2% fees                  |
| Office - Value Add Suburban   | Floating          | Debt Fund      | L + 500     | 85%           | 4 + 1     | IO, 1.25% fees               |
| Multifamily - Stabilizing     | Floating          | Debt Fund      | L + 525     | 83%           | 5 + 1 + 1 | 30 year, 1% fee              |
| Industrial - Flex             | Fixed             | Life Company   | T + 240     | 70%           | 12 years  | 25 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         | Family Office     | 14.0%         | 80%/20%                    | 20% > 9%, 30% > 14%              |
| 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%             |

## SENIOR & SUBORDINATE LENDING SPREADS

|                             | Maximum Loan-to-Value | DSCR        | Spreads        |
|-----------------------------|-----------------------|-------------|----------------|
| Fixed Rate - 5 Years        | 65 - 75% (1)          | 1.30 - 1.50 | T + 120 - 270  |
| Fixed Rate - 10 Years       | 65 - 75% (1)          | 1.30 - 1.50 | T + 120 - 260  |
| Floating Rate - 5 Years     |                       |             |                |
| Core Asset                  | <65% (2)              | 1.30 - 1.50 | L + 140 - 220  |
| Value Add Asset             | <65% (2)              | 1.25 - 1.40 | L + 200 - 400  |
| Mezzanine Moderate Leverage | 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 1.00-1.25%

## 10-YEAR FIXED RATE RANGES BY ASSET CLASS

|                           | Maximum Loan-to-Value | Class A | Class B/C |
|---------------------------|-----------------------|---------|-----------|
| Anchored Retail           | 70 - 75%              | T + 190 | T + 200   |
| Strip Center              | 65 - 75%              | T + 195 | T + 205   |
| Multi-Family (non-agency) | 75 - 80%              | T + 195 | T + 205   |
| Multi-Family (agency)     | 75 - 80%              | T + 190 | T + 200   |
| Distribution/Warehouse    | 65 - 75%              | T + 195 | T + 205   |
| R&D/Flex/Industrial       | 65 - 75%              | T + 200 | T + 210   |
| Office                    | 65 - 75%              | T + 185 | T + 195   |
| Full Service Hotel        | 60 - 70%              | T + 240 | T + 260   |

\* DSCR assumed to be greater than 1.25x

## BASE RATES

|                      | December 12, 2017           | Four Weeks Ago | One Year Ago |
|----------------------|-----------------------------|----------------|--------------|
| <b>30 Day LIBOR</b>  | 1.444%                      | 1.264%         | 0.690%       |
| <b>U.S. Treasury</b> |                             |                |              |
| 5 Year               | 2.17%                       | 2.06%          | 1.91%        |
| 10 Year              | 2.39%                       | 2.38%          | 2.48%        |
| <b>Swaps</b>         | <u>Current Swap Spreads</u> |                |              |
| 5 Year               | 2.23%                       | 0.06%          |              |
| 10 Year              | 2.41%                       | 0.02%          |              |

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

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