

# CAPITAL MARKETS UPDATE

May 25, 2017



- Treasuries continued to post gains last months as rates declined especially at the longer end of the yield curve. Commercial real estate lending spreads have remained flat to tighter, so overall borrowing costs have trended lower from this time last month. Liquid CMBS markets and successful risk retention integration make CMBS a very attractive financing option at the moment. With spreads lower than balance sheet lenders in most cases for cash flowing assets, it has put pressure on insurance companies and banks to either consider lower spreads or additional structural options such as flexible prepay or future funding to remain competitive. On low leverage, core properties, we are currently receiving quotes at tight as S + 110.
- C&W Capital Markets Research recently released the May 2017 Capital Markets Overview. You can access the [full report](#) which includes overviews on global and US markets as well as detailed analysis on office, retail, multifamily, industrial and hospitality markets.
- Real Capital Analytics reported in their April US Capital Trends report that YTD investment activity is down 17% YOY. While the 2016 relative to 2015 pullback was largely due to a decrease in portfolio and entity-level transactions, the more recent slowdown is associated with a sharp decline in single asset sales that began in December 2016. While megadeal slowdown is usually caused by a temporary change in access to capital, single asset sale slowdown can be caused by more fundamental changes such as concern about potential impacts on property investment from the Trump administration policies and growing uncertainty around interest rate increases - a liability in a debt-driven business. While the 10-yr UST has increased 50 bps from October 2016 to the end of April, cap rates are largely unchanged. The notable exception is the apartment market which has seen a 20 bps decline in cap rates but has also seen the most significant reversal in deal volume which indicates buyers are getting pickier on asset and locations.

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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
Multifamily	Floating	Bank	L + 115	35%	5 years	IO
Office	Fixed	CMBS	S + 115	40%	10 years	IO
Senior Housing - Construction	Floating	Bank	L + 280	70%	4 + 1	IO, Partial Recourse; 0.75% fee
Multifamily - Bridge	Floating	Bank	L + 300	70%	3 + 1 + 1	IO
Multifamily - Bridge	Floating	Life Company	L + 325	75%	3 + 1 + 1	IO, 6.5% DY
Multifamily - Bridge	Floating	Debt Fund	L + 425	80%	3 + 1 + 1	IO
Retail - Power Center	Fixed	CMBS	S + 195	65%	10 years	30 year, 5 Years IO
Office	Fixed	CMBS	S + 180	55%	10 years	IO, 6.2% DY
Multifamily - Age Rest.	Fixed	Agency	T + 194	76%	10 years	30 year, 3 Years IO
Multifamily - Age Rest.	Fixed	Agency	T + 177	65%	7 years	30 year, 4 Years IO
Multifamily - Construction	Fixed	Bank	4.75%	75%	5 years	25 year, Recourse; 2.5 Years IO
Industrial - Future Funding	Fixed	Bank	S + 225	70%	5 years	30 year
Industrial - Future Funding	Fixed	Life Company	T + 195	65%	7 years	30 year
Multifamily	Fixed	Agency	4.30%	75%	10 years	30 year, 5 Years IO
Multifamily	Fixed	Life Company	3.70%	65%	10 years	30 year, 5 Years IO

## 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 + 145 - 235
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 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 + 215	T + 225
Multi-Family (agency)	75 - 80%	T + 205	T + 215
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

	May 25, 2017	Four Weeks Ago	One Year Ago
<b>30 Day LIBOR</b>	1.02%	1.00%	0.45%
<b>U.S. Treasury</b>			
5 Year	1.78%	1.81%	1.39%
10 Year	2.25%	2.30%	1.85%
<b>Swaps</b>	Current Swap Spreads		
5 Year	1.87%	0.09%	
10 Year	2.20%	(0.05%)	

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

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