

CAPITAL MARKETS UPDATE

October 13, 2017



- After the 10-Yr UST bottomed out on September 8th, briefly testing 2%, it has been steadily increasing to the 2.30% for various reasons including balance sheet normalization in the US and tapering in the Eurozone, optimism around tax reform, modest but generally stable economic data (slow and steady is positive during this cycle), and no bad geopolitical news, primarily focused on North Korea for the time being. While not enough to offset the increase in base rates, we have seen moderate tightening of credit spreads by 5-10 in the last month for the same reasons listed above.
- While the Fed chose to leave the fed funds rate unchanged at 1.00 - 1.25% as expected last month, the median projection for the rate was 1.4% to end the year, implying one more hike is likely. The 2-Yr UST, which is generally considered to be the best indicator for the fed funds rate, recently breached 1.50% for the first time since late 2008. Policy makers see the target rate rising gradually to 2.1% next year, 2.7% in 2019, and to 2.9% in 2020.
- Relative to earlier in the year, there seems to be a lot of positive energy around the real estate equity markets. Quality transactions are attracting more competitive bidder pools. Value-add deals with returns ranging from 14-18% are still the most favored investment strategy. With the wide gap between unlevered returns and the cost of leverage, there are a lot of core and core plus opportunities that provide great relative value which seem to be mistakenly overlooked as many investors focus on a buy it, fix it, sell it strategy.

Subscribers to the Bloomberg Professional service can access the C&W EDSF Capital Markets Update by typing CWSG<GO>.

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 + 225	75%	10 years	30 year, 2 Years IO; 8.6% DY
Multifamily - Stabilizing	Fixed	Life Company	T + 165	65%	10 years	30 year
Office - Suburban	Fixed	CMBS	S + 200	75%	10 years	30 year, 2 Years IO; 9% DY
Multifamily - Stabilizing	Floating	Life Company	L + 185	62%	5 years	IO, 1% fee
Multifamily	Floating	Debt Fund	L + 250	78%	5 years	IO, 0.40% fee
Multifamily - Value Add	Floating	Agency	L + 200	75%	7 years	30 year, 2 Years IO; 0.75% fee
Office	Fixed	CMBS	S + 190	70%	10 years	30 year, 2 Years IO; 9% DY
Multifamily - Development	Floating	Bank	L + 290	57%	3 + 1 + 1	30 year, 3. Years IO; 0.75% fee
Retail - Power Center	Fixed	CMBS	S + 205	72%	10 years	30 year, 9.25% DY
Retail - Power Center	Fixed	CMBS	S + 175	60%	10 years	IO, 11% DY
Industrial	Fixed	CMBS	S + 215	70%	10 years	30 year, 8.5% DY
Office - Suburban	Fixed	Life Company	T + 225	65%	10 years	30 year
Office - Value Add Suburban	Floating	Debt Fund	L + 400	63%	3 + 1 + 1	IO
Industrial	Fixed	Life Company	T + 160	60%	10 years	30 year, 2 Years IO
Office	Fixed	Life Company	T + 160	60%	5 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 + 125 - 270
Fixed Rate - 10 Years	65 - 75% (1)	1.30 - 1.50	T + 125 - 265
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 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 + 190	T + 200
Strip Center	65 - 75%	T + 195	T + 205
Multi-Family (non-agency)	75 - 80%	T + 210	T + 220
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 + 245	T + 265

* DSCR assumed to be greater than 1.25x

BASE RATES

	October 13, 2017	Four Weeks Ago	One Year Ago
30 Day LIBOR	1.24%	1.24%	0.53%
U.S. Treasury			
5 Year	1.90%	1.81%	1.28%
10 Year	2.28%	2.20%	1.78%
Swaps	<u>Current Swap Spreads</u>		
5 Year	1.98%	0.08%	
10 Year	2.24%	(0.04%)	

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:

Steven A. Kohn
President, EDSF
(212) 841-9216
steven.kohn@cushwake.com

Christopher T. Moyer
Managing Director
(212) 841-9220
chris.moyer@cushwake.com

New York - HQ	Atlanta	Boston	Chicago	Dallas	Los Angeles	Miami	New Jersey	Phoenix	San Diego	San Francisco	Washington, D.C.
1290 Avenue of the Americas, 8th Floor New York, NY 212 841 9200	171 17th Street Suite 300 Atlanta, GA 404 875 1000	225 Franklin St. Suite 300 Boston, MA 617 330 6966	225 W. Wacker Dr., Suite 3000 Chicago, IL 312 470 1800	2021 McKinney Avenue, Suite 900 Dallas, TX 972 663 9600	10250 Constellation Blvd., Suite 2200 Los Angeles, CA 213 955 5100	200 S. Biscayne Blvd., Suite 2800 Miami, FL 305 371 4411	One Meadowlands Plaza, Suite 700 East Rutherford, NJ 201 935 4000	2555 E. Camelback Road, Suite 400 Phoenix, AZ 602 253 7900	4747 Executive Dr. Suite 900 San Diego, CA 858 452 6500	425 Market Street Suite 2300 San Francisco, CA 415 397 1700	2101 L St., NW Suite 700 Washington, DC 202 467 0600

Although we believe the above information to be reliable, we make no guarantee, warranty or representation about it. Any opinions or estimates contained in this update represent the current judgment of Cushman & Wakefield, Inc., and are subject to change without notice. We undertake no responsibility or obligation to revise or update any of our opinions or estimates. Rates and analysis are based on certain assumptions with respect to significant factors that may prove to be incorrect. You should understand the assumptions and evaluate whether they are appropriate for your purposes.