

CAPITAL MARKETS UPDATE

August 9, 2017



- 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 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 + 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

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