

CAPITAL MARKETS UPDATE

June 21, 2018



- As expected, the Fed increased their target rate range in June to 1.75 - 2.00%. Fed officials improved their economic outlook by revising GDP growth to 2.8% for this year, up from an earlier projection of 2.7%. They also revised the projected unemployment rate to fall to 3.6% this year, down from earlier projections of 3.8%. Markets have priced in an 80% chance of the next increase occurring in September and a 50% chance of a fourth increase for the year occurring in December.
- Real Capital Analytics released data last week that preliminary figures suggest although U.S. deal volume slipped again in May, pricing is strong and cap rates remain at or near record low levels. While the short end of the yield curve is up and expected to trend closer to 2.5% by year-end and 3% by the end of 2019, the 10-year T which cap rates follow more closely is projected to remain about 3% for the next 10 years.
- Treasuries have rallied the past week, global equity markets have seen a pullback and gold is slightly higher as investors move to reduce risk exposure on a looming trade war between the US and China. President Trump ordered the identification of \$200B of Chinese imports for an additional 10% tariff, with another \$200B after that if Beijing retaliates. China has vowed to retaliate "forcefully." For the near term, treasuries will likely continue to drift lower and spreads may widen to maintain similar all-in interest rates for borrowers. C&W Research prepared a detailed report on the topic that you can access [here](#).

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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	Floating	Bank	L + 155	65%	5 years	IO, 0.45% fee
Office - Future Funding	Floating	Bank	L + 160	65%	3 + 1 + 1	30 year, 3 Years IO, 0.60% fee
Office - Suburban	Floating	Bank	L + 215	60%	3 + 1 + 1	25 year, 3 Years IO, 0.25% fee
Industrial	Fixed	Life Company	T + 130	65%	7 years	30 year, 3 Years IO; 0.5% fee
Industrial	Fixed	Bank	S + 140	65%	7 years	30 year, 5 Years IO; 0.5% fee
Office - Value Add	Floating	Bank	L + 200	65%	5 years	IO, 60% leased
Office - Value Add	Floating	Bank	L + 190	68%	5 years	IO, 75% leased
Hotel	Floating	Debt Fund	L + 375	70%	3 + 1 + 1	IO, 1% fee
Industrial	Floating	Debt Fund	L + 275	75%	3 + 1 + 1	IO, 1% fee, 80% leased
Industrial - Value Add	Floating	Bank	L + 180	65%	3 + 1 + 1	IO, 0.50% fee, 80% leased
Land - Pre-Dev	Floating	Debt Fund	L + 525	70%	2 + 1 + 1	IO, 1.00% fee
Office - Suburban	Fixed	CMBS	S + 145	73%	10 years	30 year, 5 Years IO
Hotel - Ramping	Floating	Debt Fund	L + 350	65%	3 + 1 + 1	IO, 1% fee
Self Storage - Construction	Floating	Bank	L + 275	65%	3 + 1 + 1	30 year, 3 Years IO
Multifamily	Fixed	Life Company	T + 145	65%	10 years	30 year, 4 Years IO

RECENT DEALS/CLOSINGS/QUOTES - EQUITY

Asset Type	Type of Financing	Type of Investor	Target Return	Equity Contribution Levels	Comments/Promote
Office - Opportunistic	JV Equity	Value-Add Fund	22.0%	90%/5%	20% > 12%, 35% > 20%
Multi-Family - Value Add	JV Equity	Value-Add Fund	18.0%	90%/10%	20% > 9%, 35% > 14%
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

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 + 125 - 260
Floating Rate - 5 Years			
Core Asset	<65% (2)	1.30 - 1.50	L + 125 - 210
Value Add Asset	<65% (2)	1.25 - 1.40	L + 200 - 400
Mezzanine Moderate Leverage	65 - 80%	1.05 - 1.15	L + 525 - 750
Mezzanine High Leverage	75 - 90%		L + 700 - 1400

(1) 70-75% for Multi-Family (non-agency) (2) Libor floors at 1.50-1.75%

10-YEAR FIXED RATE RANGES BY ASSET CLASS

	Maximum Loan-to-Value	Class A	Class B/C
Anchored Retail	70 - 75%	T + 175	T + 185
Strip Center	65 - 75%	T + 185	T + 195
Multi-Family (non-agency)	75 - 80%	T + 195	T + 205
Multi-Family (agency)	75 - 80%	T + 190	T + 200
Distribution/Warehouse	65 - 75%	T + 165	T + 175
R&D/Flex/Industrial	65 - 75%	T + 170	T + 180
Office	65 - 75%	T + 170	T + 180
Full Service Hotel	60 - 70%	T + 240	T + 260

* DSCR assumed to be greater than 1.25x

BASE RATES

	June 21, 2018	Four Weeks Ago	One Year Ago
30 Day LIBOR	2.088%	1.970%	1.216%
U.S. Treasury			
5 Year	2.78%	2.78%	1.78%
10 Year	2.91%	2.95%	2.16%
Swaps	<u>Current Swap Spreads</u>		
5 Year	2.93%	0.15%	
10 Year	2.98%	0.07%	

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

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