

CAPITAL MARKETS UPDATE



June 29, 2017

- As expected, the FOMC raised the Federal Funds Rate range to 1% - 1.25% in June, up from the 0.75% - 1% range established in March. LIBOR steadily increased during the month and is now at 1.22%, up from 1.06% at the end of May and up from 0.46% one year ago. Treasuries have remained relatively flat this past month, especially at the long end of the curve with little to no change of the 10-Yr and 30-Yr T yields.
- After a strong June, CMBS issuance is up about 20% Y-o-Y. Commercial Mortgage alert reported \$36.6B of originations as of 6/23 compared to \$30.1 for the same period in 2016. Seven single borrower transactions totaling nearly \$4B in June helped accelerate issuance. Three conduit deals priced AAAs at S + 91 to 93 bps in June, compared to six deals in May that priced at S + 92 to 106 bps.
- Based on information from Real Capital Analytics, YTD US investment activity through May was \$155B, down 15% Y-o-Y. Despite the upward pressure on the 10-Yr T in the past year (+82 bps), cap rates are flat to down Y-o-Y across all property types except hotels, which are up 10 bps. Income growth across all property types averaged 3-5% Y-o-Y. Cap rates flat to down and NOIs up have led to a value increase overall - the National All-Property Moody's/RCA CPPI1 posted a 7.0% YOY gain in April. While volume and price trends are typically closely correlated, there seems to have been a significant divergence during the past 12 months. This suggests high demand from investors but fewer properties being placed on market as sellers are unwilling to capitulate on price, being uncertain of the ability to redeploy capital.

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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 |
|-------------------------|-------------------|----------------|-------------|---------------|-----------------|--------------------------------|
| 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 |
| Industrial | Fixed | CMBS | S + 180 | 60% | 10 years | IO, 8.75% DY |
| Industrial | Fixed | Life Company | T + 155 | 55% | 10 years | 30 year |
| Multifamily | Fixed | Agency | 4.10% | 75% | 10 years | 30 year, 3 Years IO |
| Multifamily | Fixed | Life Company | 3.40% | 60% | 10 years | 30 year |
| Multifamily | Fixed | Life Company | 3.00% | 60% | 5 years | 30 year |
| Office - Future Funding | Floating | Bank | L + 185 | 65% | 0.5 + 1 + 1 + 1 | IO, 0.50% fee |
| Office | Floating | Debt Fund | L + 295 | 75% | 7 years | 30 year, 5 Years IO; 0.90% Fee |
| Student Housing | Fixed | Bank | 4.25% | 80% | 5 years | 30 year, Recourse |

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

| | June 29, 2017 | Four Weeks Ago | One Year Ago |
|----------------------|----------------------|----------------|--------------|
| 30 Day LIBOR | 1.22% | 1.08% | 0.46% |
| U.S. Treasury | | | |
| 5 Year | 1.88% | 1.76% | 1.01% |
| 10 Year | 2.29% | 2.21% | 1.47% |
| Swaps | Current Swap Spreads | | |
| 5 Year | 1.94% | 0.06% | |
| 10 Year | 2.27% | (0.02%) | |

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

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