CAPITAL MARKETS UPDATE

CUSHMAN & WAKEFIELD

January 22, 2018

- On the heels of tax reform, the outlook for 2018 looks positive. Strong domestic economic fundamentals have propelled consumer confidence and business optimism to levels not seen since before the financial crisis. A powerful combination of extremely tight labor markets, strong financial market returns, increasing housing values, and broadly improving access to credit are supporting both the consumer and business investment engines of economic growth. Outlook for 2018 includes positive news for all asset classes including but not limited to rent growth and increased occupancy rates.

- The yield curve has continued to flatten with the 2-Yr T up nearly 75 bps in the last four months, bringing its yield above 2% for the first time since 2008, and slightly less movement from the 10-Yr T of about 55 bps over the same period. The increase in the 2-Yr T has been bad news for borrowers in the process of closing floating rate loans and buying caps. Recent increases at the short end of the curve are a result of the December CPI which showed inflation increasing at 1.8% compared to 1.7% forecasts.

- Undeterred by higher treasury yields in the past 12 months, average cap rates for industrial and multifamily properties have tightened by 15-20 bps in the past year. Investors of both asset classes think there is room for further compression for each. For industrial, there is continued momentum from expansion to support e-commerce and the recent excitement of increased investment from corporations into the US as a result of the corporate tax reform. Multifamily investors are eager to see the impact of the capped SALT deductions and the increase in home ownership that could keep renters in apartments longer.

- It is a great time to be a borrower as spreads continue to tighten across all asset classes and business plans as the result of increased capital flowing into the real estate debt. CMBS BBB- spreads have declined about 90 bps in the last 4 weeks and nearly 200 bps in the last year while AAA spreads have declined about 10 bps since early 2017. Several core plus/light transitional debt funds have been raised as a result of increased investor appetite for the product. These funds target 70-80% LTV loans at L + 260 - low 300s.

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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 - Surburban	Fixed	CMBS	S + 175	70%	10 years	30 year, 3 Years IO; 9.5% DY
Office - Surburban	Fixed	Life Company	4.45%	63%	15 years	25 year, 2 Years IO
Industrial - Portfolio	Floating	Bank	L + 140	60%	3 + 1 + 1	IO, 0.50% fee
Multifamily - Lease-Up	Floating	Bank	L + 290	60%	1.5 years	IO, 0.80% fee
Office - Suburban Value Add	Floating	Debt Fund	L + 405	75%	3 + 1 + 1	IO, 1% fee, 6.8% DY
Senior Housing - Construction	Floating	Bank	L + 290	65%	5 years	30 year, 4 years IO, 0.50% fee
Multifamily - Value Add	Floating	Debt Fund	L + 265	65%	2 + 1 + 1 + 1	IO, 1% fee
Office	Fixed	Life Company	T + 135	55%	10 years	IO
Office - Value Add	Floating	Debt Fund	L + 350	75%	3 + 1 + 1	30 year, 3 Years IO, 1% fee
Office - Suburban	Floating	Bank	L + 225	67%	3 + 1 + 1	IO
Multifamily	Fixed	Agency	T + 125	65%	10 years	IO
Multifamily	Fixed	CMBS	S + 130	55%	10 years	IO
Multifamily	Fixed	CMBS	S + 140	55%	5 years	IO
Office	Fixed	CMBS	S + 185	71%	10 years	30 year, 3 Years IO; 8% DY
Office - Predevelopment	Floating	Bank	L + 300	50%	2 + 1	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	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
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%

SENIOR & SUBORDINATE LENDING SPREADS

	Maximum Loan-to-Value	DSCR	Spreads
Fixed Rate - 5 Years	65 - 75% (1)	1.30 - 1.50	T + 115 - 260
Fixed Rate - 10 Years	65 - 75% (1)	1.30 - 1.50	T + 115 - 250
Floating Rate - 5 Years			
Core Asset	<65% (2)	1.30 - 1.50	L + 140 - 220
Value Add Asset	<65% (2)	1.25 - 1.40	L + 200 - 400
Mezzanine Moderate Leverag	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 1.00-1.25%

BASE RATES

	January 22, 2018	Four Weeks Ago	One Year Ago
30 Day LIBOR	1.561%	1.558%	0.775%
U.S. Treasury			
5 Year	2.44%	2.25%	1.93%
10 Year	2.64%	2.47%	2.45%
Swaps		Current Swap Spreads	
5 Year	2.52%	0.08%	
10 Year	2.68%	0.04%	

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

10-YEAR FIXED RATE RANGES BY ASSET CLASS

	Maximum Loan-to-Value	Class A	Class B/C
Anchored Retail	70 - 75%	T + 180	T + 190
Strip Center	65 - 75%	T + 185	T + 195
Multi-Family (non-agency)	75 - 80%	T + 190	T + 200
Multi-Family (agency)	75 - 80%	T + 180	T + 190
Distribution/Warehouse	65 - 75%	T + 185	T + 195
R&D/Flex/Industrial	65 - 75%	T + 190	T + 200
Office	65 - 75%	T + 175	T + 185
Full Service Hotel	60 - 70%	T + 230	T + 250

* DSCR assumed to be greater than 1.25x

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