



CWC Capital Markets Update

July 2016

CWC Capital Markets Update, July 2016

In this issue of the Capital Markets update, we focus on the fundamentals and trends affecting national commercial real estate debt markets and a brief glimpse into the size and share of the CMBS conduit market. We synthesize and present information gathered from various industry research, public information resources, and our own research.

The Economy

- June saw 287,000 jobs added to the economy, a very strong report given analyst estimates and recent weakness. The unemployment rate rose to 4.9% as the participation rate increased by .1% to 62.7, close to its two year high, but it still 100bps below the 10-year average.
- The Bureau of Labor Statistics notes job growth in leisure and hospitality, healthcare, and financial activities. We also see strength in multifamily and residential construction, and now seasonal tourism, with some gains offset by oil and gas extraction and in services in areas with declining demographic trends.
- Macro trends of low (or negative) interest rates continue with the 10 year US Treasury near 1.35%, setting an all time low. Flight to quality following the Brexit vote and new concerns about global growth prospects resurface. Implied inflation slowed to 1.40% as it continues its long-term decline. WTI crude declined slightly to the mid \$40s/bbl range.

Property Markets

- Effective rent growth - National average of 2.25% experienced across all property sectors with multi-family leading at 3.13% and retail lagging at 1.67%.
- Vacancy rates - Multifamily saw an increase of 10bps to 4.50% relative to year end. This is the highest reading in three years. The trend bears watching as robust construction and deliveries continue.
- National property price levels on a \$/unit basis report increases thus far in Q2-16 across all categories. While interim data can be volatile, we note that 3-year multifamily price growth rates have generally been decelerating for the past year. Earlier this year, Moody's / RCA reported their first price declines in six years, but July's report shows some firming.

Debt Capital Markets

- Conduit originations and issuance have slowed significantly this year as market volatility, liquidity, and risk retention all begin to apply. Current year issuance for the first half lags 2015's same period issuance by over 37%.
- Credit spreads on new issue long AAAs have now tightened by 15bp since 12/31, while BBBs are still some 160bp wide. Spread volatility early in 2016 has led some lenders to widen average loan coupons by 15 to 40bp this year. AAA's have varied by 45bp, while BBBs have varied by 325bp.
- Delinquency trends are now increasing with a 5.52% rate according to published research from Citibank. Maturity wave and conduit market contraction as primary drivers.

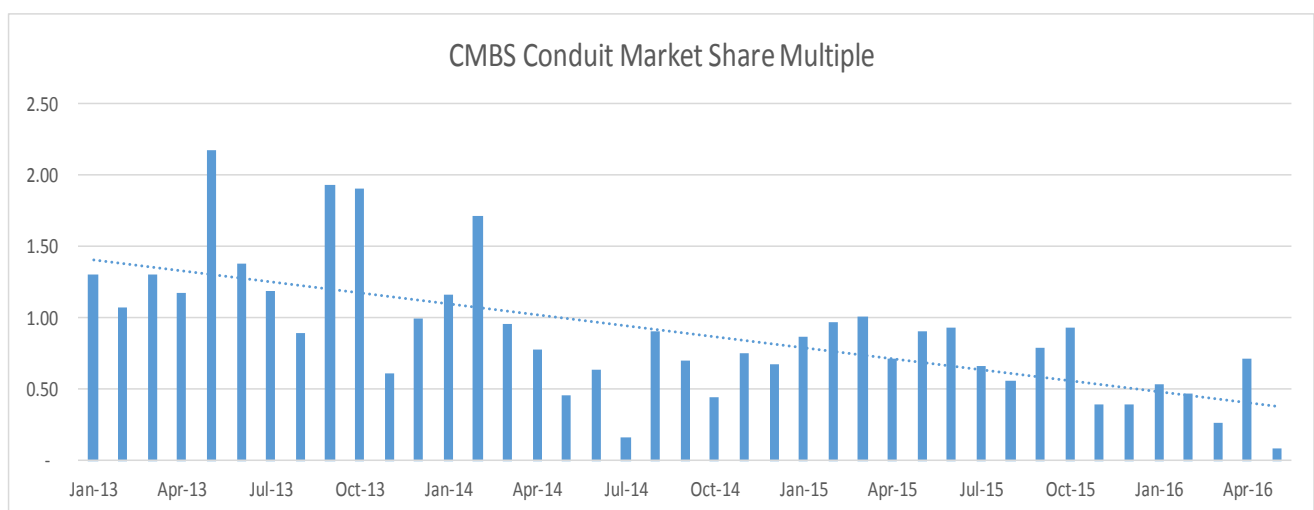
Three trends we are watching

- Maturity wave and risk retention - potential for increased loan defaults as liquidity recedes from securitized markets due to risk retention, bank capital rules, and regulatory requirements. Evidence of this dynamic is present in current markets.
- Transformation of the lending base - as conduit lenders and securitized markets withdraw, could be an opportunity for new balance sheet or long-term lenders to enter the space. This trend is the focus of this month's report.
- Early signs of volatility in property markets given concerns about long term economic growth and overall debt markets.

CWCapital Markets Update – Focus on CMBS Market Share – Giving up ground

- In this report, our focus is on shifting lending patterns in the CRE market. While many analysts discuss net issuance as a measure of strength in the CMBS market, we believe a deeper analysis can provide valuable insights.
- **The CMBS conduit as a CRE financing vehicle appears to be giving up ground. The Agencies and Agency transactions have dominated multifamily lending since the financial crisis, alternative structures such as single asset / single borrower deals have emerged, and balance sheet / alternative lenders have all increased market share. Additional headwinds in the form of risk retention and Basel III capital requirements may create significant opportunities for alternative lenders up and down the capital stack.**
- We calculate and evaluate a simple multiple of conduit issuance versus collateral supply to determine if the conduit market is maintaining its share of existing loans, drawing loans from alternative financing sources, or if it is giving up opportunities to those sources. Our analysis benchmarks actual issuance to an estimated stable market share as adjusted for defeasance, underlying real estate value changes, resolved extensions, and the value change associated with resolution of specially serviced loans. Evidence of share loss can be observed via the adjusted issuance multiple. Our estimate shows a consistent decline and a reading of less than 1.0x for the past three years.

Year	Net Maturity	Resolve Extends	Net Resolve SS	Net Supply	Conduit Issuance	Net Issuance	Benchmk	Value Multiplier	Stable Share	Adjusted Multiple
2012	14,172.6	4,603.1	6,796.4	25,572.1	36,672.9	11,100.7	2,002	-	-	-
2013	8,187.0	2,021.7	6,565.6	16,774.3	52,820.1	36,045.8	2,003	3.47	41,945	1.26x
2014	25,550.4	2,760.0	9,655.6	37,966.0	58,278.3	20,312.3	2,004	2.84	88,369	0.66x
2015	51,396.3	3,936.7	8,903.5	64,236.6	61,991.7	(2,244.9)	2,005	1.38	83,140	0.75x
2016	24,127.3	1,979.9	2,988.7	29,095.9	16,650.7	(12,445.2)	2,006	1.32	37,270	0.45x

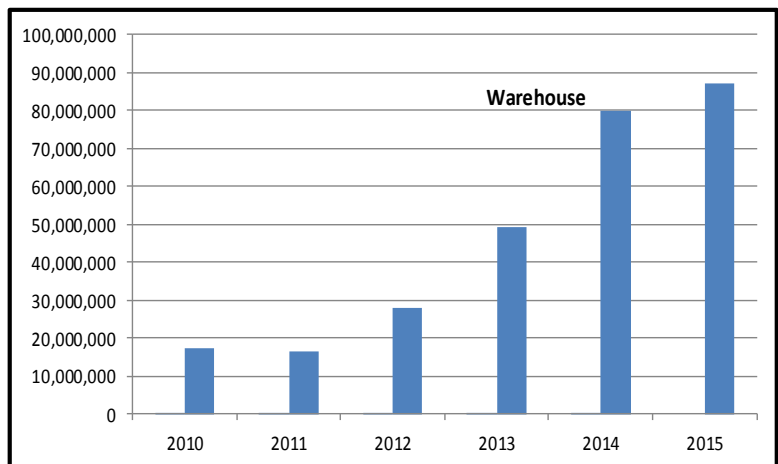
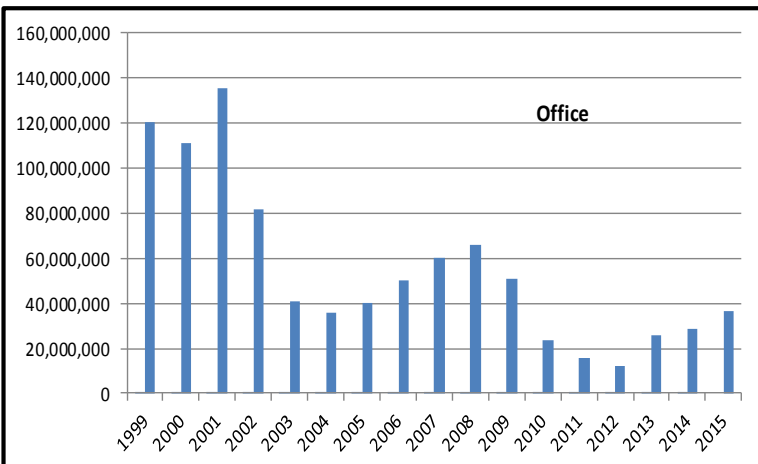
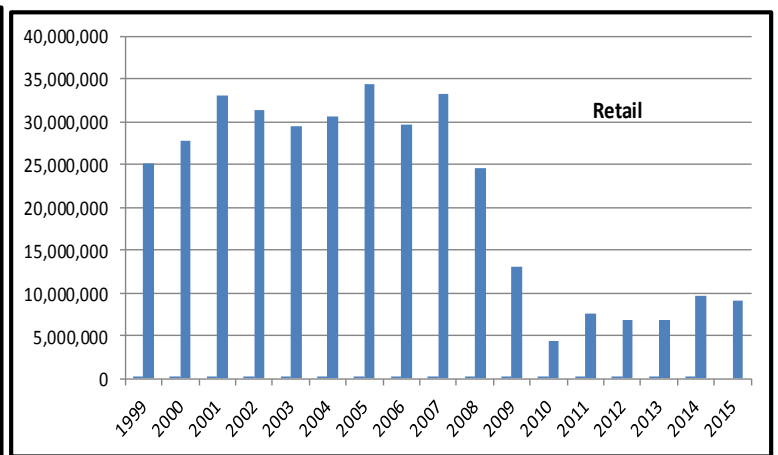
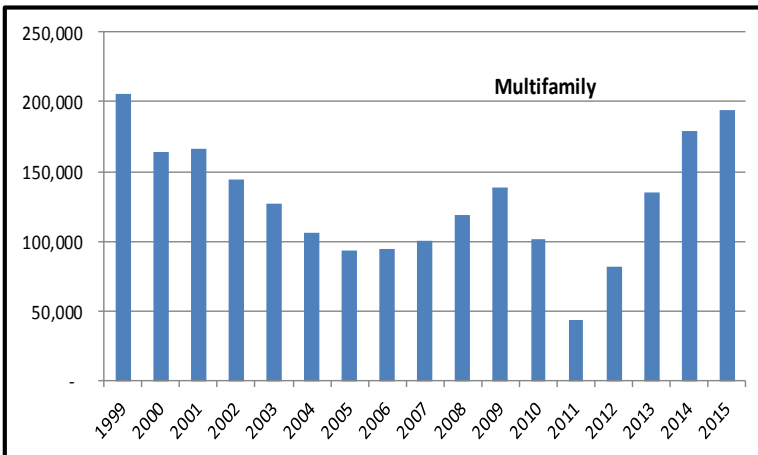


Market Data

	2006	2010	2011	2015	Q2 2016	1yr	5yr	10yr
Economic								
UNEMP	4.40	9.30	8.50	5.00	4.70	-0.6%	-1.5%	0.1%
PART	66.40	64.30	64.00	62.60	62.60	0.0%	-3.6%	-3.6%
GDP	14,066	15,230	15,785	18,165	18,221	1.72%	3.57%	3.20%
CPI-TTM	1.77%	1.15%	2.47%	1.44%	1.03%	1.23%	-2.51%	-2.81%
UST IMPL INF	2.30%	2.30%	1.96%	1.54%	1.40%	-0.47%	-1.03%	-1.21%
Interest Rate								
1M LIBOR	5.35%	0.32%	0.35%	0.43%	0.47%	0.28%	0.23%	-4.77%
Eff Fed Funds	5.24%	0.18%	0.07%	0.24%	0.40%	0.27%	0.31%	-4.59%
Prime	8.25%	3.25%	3.25%	3.37%	3.50%	0.25%	0.25%	-4.52%
UST2	4.82%	0.61%	0.25%	1.06%	0.62%	-0.02%	0.17%	-4.54%
UST10	4.71%	3.30%	1.89%	2.27%	1.50%	-0.85%	-1.68%	-3.65%
2/10 Spread	-0.11%	2.69%	1.64%	1.21%	0.88%	-0.83%	-1.85%	0.89%
Real10	2.41%	1.00%	-0.07%	0.73%	0.10%	-0.38%	-0.65%	-2.44%
Vacancy (REIS)								
Multi	5.80%	6.60%	530.00%	4.40%	4.50%	0.10%	-0.30%	-2.20%
Retail	7.10%	11.00%	11.00%	10.00%	10.00%	0.00%	-0.80%	1.10%
Office	13.40%	17.60%	17.40%	16.20%	16.10%	-0.10%	-1.20%	1.60%
Industrial	n/a	14.00%	13.20%	10.60%	10.60%	0.00%	-2.10%	n/a
Hotel								
Rents (REIS Effective)								
Multi	930	987	1,010	1,183	1,188	3.13%	3.50%	2.77%
Retail	17.16	16.51	16.50	17.54	\$17.64	1.67%	1.38%	0.28%
Office	22.21	22.09	22.54	24.97	\$25.21	2.44%	2.37%	1.35%
Industrial	n/a	4.21	4.19	4.55	\$4.57	1.78%	1.81%	n/a
Hotel								
National \$PSF (RCA)								
Multi	113,416	99,503	103,330	148,228	150,974	22.1%	12.4%	6.9%
Retail	174	152	175	213	235	10.1%	11.9%	5.1%
Office	232	222	213	239	267	12.1%	7.2%	3.3%
Industrial	67	51	60	73	83	18.2%	9.8%	2.0%
Hotel	136,505	138,350	98,187	138,162	159,020	-6.5%	1.5%	2.5%
National Cap Rate (RCA)								
MF	6.23%	6.55%	6.26%	5.91%	5.50%	-0.49%	-0.97%	-0.86%
Ret	6.66%	7.61%	7.41%	6.48%	6.40%	-0.17%	-1.16%	-0.33%
Office	6.69%	7.57%	7.32%	6.70%	6.40%	-0.39%	-1.08%	-0.49%
Ind	7.14%	8.23%	7.69%	6.61%	7.00%	0.09%	-0.81%	-0.12%
Hotel	8.92%	8.21%	7.94%	8.38%	8.50%	0.31%	0.51%	-0.40%
Risk Premium								
MF	1.52%	3.25%	4.37%	3.64%	4.00%	0.36%	0.71%	2.79%
Ret	1.95%	4.31%	5.52%	4.21%	4.90%	0.68%	0.52%	3.32%
Office	1.98%	4.27%	5.43%	4.43%	4.90%	0.46%	0.60%	3.16%
Ind	2.43%	4.93%	5.80%	4.34%	5.50%	0.94%	0.87%	3.53%
Hotel	4.21%	4.91%	6.05%	6.11%	7.00%	1.16%	2.19%	3.25%

CRE Fundamentals and Charts

Year	Multi	Retail	Hotel	Office	Industr	Notes
1999	205,818	25,126,000	-	120,280,000	-	
2000	164,674	27,727,000	-	111,061,000	-	
2001	166,124	33,013,000	-	134,904,000	-	* Multifamily deliveries and supply continued growth
2002	143,957	31,369,000	-	81,422,000	-	
2003	127,591	29,416,000	-	41,016,000	-	* Multifamily vacancies increase slightly
2004	106,144	30,596,000	-	35,475,000	-	
2005	93,227	34,438,000	-	39,792,000	-	* Continued slow growth of retail and office product remains at levels near post crisis levels
2006	95,205	29,627,000	-	49,879,000	-	
2007	100,630	33,254,000	-	59,902,000	-	
2008	119,330	24,545,000	-	65,450,000	-	* Significant deliveries of Industrial and warehouse space
2009	138,775	13,142,000	-	50,548,000	-	
2010	101,691	4,499,000	-	23,375,000	17,234,000	
2011	43,489	7,625,000	-	15,440,000	16,598,000	* Industrial and warehouse report biggest improvements in national occupancy levels
2012	81,399	6,778,000	-	12,443,000	28,002,000	
2013	135,614	6,883,000	-	25,959,000	49,178,000	
2014	179,358	9,776,000	-	28,287,000	80,009,000	
2015	194,459	9,088,000	-	36,642,000	86,962,000	





Securitized Markets 2016

PRICING	SHELF	SERIES	AMOUNT	SPSERV	B-PIECE	#PROP	#LOAN	LCF AAA	BBB
Conduit Market									
01/22/16	CFCRE	2016-C3	703.55	CWCAM	Seer Capital	67	38	162	725
01/26/16	CSAIL	2016-C5	936.42	Rialto Capital	Rialto Capital	241	59	155	-
01/27/16	COMM	2016-CCRE28	1,026.80	Midland	KKR	119	49	155	830
02/03/16	CGCMT	2016-GC36	1,155.94	Wells Fargo	Eightfold	104	58	157	750
02/03/16	WFCMT	2016-C32	959.98	Rialto Capital	Rialto Capital	152	112	151	750
02/12/16	MSBAM	2016-C28	955.65	C-III Asset Mgt	C-III Capital	161	42	165	725
02/18/16	WFCMT	2016-NXS5	875.13	Rialto Capital	Rialto Capital	116	64	165	925
02/19/16	MSCI	2016-UBS9	666.61	CWCAM	Ellington	222	31	165	650
02/23/16	JPMCC	2016-C1	1,021.91	Midland	Eightfold	110	50	166	-
03/03/16	COMM	2016-DC2	806.20	CWCAM	Seer Capital	91	64	173	825
03/18/16	WFCMT	2016-C33	712.20	Rialto Capital / NCB	Rialto Capital	104	79	138	700
03/29/16	CGCMT	2016-P3	770.97	C-III Asset Mgt	Raith	75	37	132	600
03/31/16	DBJPM	2016-C1	818.03	Midland	Eightfold	45	33	129	600
04/13/16	CGCMT	2016-GC37	694.73	Midland	Eightfold	64	54	134	700
04/22/16	MSBAM	2016-C29	809.46	Rialto Capital	Rialto Capital	106	69	125	660
05/04/16	CFCRE	2016-C4	840.00	Rialto Capital	Rialto Capital	154	50	130	-
05/04/16	JPMDB	2016-C2	892.80	Midland	Blackrock	79	30	117	625
05/10/16	WFCMT	2016-C34	702.80	LNR Partners	Prime Group, LNR	92	68	117	720
05/18/16	CGCMT	2016-C1	755.70	LNR Partners	Prime Group, LNR	130	54	125	-
05/18/16	CSAIL	2016-C6	767.50	Torchlight	Torchlight	363	50	113	-
05/18/16	GSMS	2016-GS2	750.60	Torchlight	Torchlight	115	37	110	565
05/20/16	BACM	2016-UBS10	876.30	Rialto Capital	Rialto Capital	84	52	114	660
06/10/16	LNSTR	2016-4	506.30	Hudson Advisors	Lone Star Funds	26	22	175	-
SASB Market									
01/29/16	MSCI	2016-PSQ	220.00	Wells Fargo	-	1	1	185	-
02/04/16	JPMCC	2016-ATRM	585.00	Midland	-	30	1	-	450
02/17/16	225 Liberty	2016-225L	765.00	Trimont	-	1	1	160	390
02/19/16	COMM	2016-787S	640.00	Wells Fargo	-	1	1	160	350
03/04/16	BAML	2016-ASHF	325.00	Wells Fargo	-	17	1	-	500
03/08/16	GSM	2016-RENT	349.75	Wells Fargo	-	61	1	-	390
03/10/16	GSM	2016-ICE2	1,000.00	KeyBank	-	43	1	-	575
03/21/16	CGGS	2016-RNDA	1,115.00	Aegon USA	-	31	1	-	325
03/21/16	CGGS	2016-RNDB	658.00	Aegon USA	-	28	1	-	475
04/19/16	CCRESG	2016-HEAT	160.00	Midland	-	1	1	-	425
04/20/16	Palisades Cntr	2016-PLSD	388.50	Wells Fargo	-	1	1	-	350
06/09/16	BBSG	2016-MRP	162.00	Torchlight	-	1	1	140	355
06/24/16	SHOPS	2016-CSTL	300.00	Aegon USA	-	1	1	135	-
Agency									
01/05/16	FREMF	2016-KF13	875.88	CWCAM	Harbor Group	48	48	76	-
01/14/16	FREMF	2016-SB11	109.97	KeyBank	Sutherland	55	55	130	-
01/15/16	FREMF	2016-K504	587.41	CWCAM	Providnc / Benefit	22	22	55	-
01/22/16	FREMF	2016-KBAM	841.00	Wells Fargo	Principal	27	27	70	-
01/27/16	FREMF	2016-K52	1,395.79	CWCAM	Torchlight	96	91	90	650
02/04/16	FREMF	2016-KJ03	316.30	KeyBank	Berkshire Group	38	43	115	-
02/04/16	FREMF	2016-SB12	167.02	Centerline	Axonon Capital	67	67	115	-
02/11/16	FREMF	2016-KLH1	1,493.67	Trimont	Annaly Capital	28	28	70	-
02/25/16	FREMF	2016-SB13	400.89	Arbor	Axonon Capital	160	160	105	-
03/03/16	FREMF	2016-KF14	1,486.41	Wells Fargo	Bridge Invest	83	83	65	-
03/09/16	FREMF	2016-KLH2	1,379.82	Situs	Canada Pension	26	26	70	-
03/17/19	FREMF	2016-SB14	309.78	CBRE / Sabal	CBRE / Sabal	115	115	100	-
03/21/16	FREMF	2016-K53	1,447.25	Wells Fargo	Berkshire Group	88	88	85	-
04/01/16	FREMF	2016-KLH3	1,341.45	Situs	CPPIB	27	27	70	-
04/06/16	FREMF	2016-K54	1,423.01	Midland	Related Cos.	79	79	80	625
04/12/16	FREMF	2016-KP03	974.04	Freddie Mac	Berkeley Point	40	40	45	-
04/13/16	FREMF	2016-SB15	301.63	Arbor	Arbor / Greystone	117	117	90	-
04/19/16	FREMF	2016-KC01	83.22	Wells Fargo	Berkshire Group	27	27	73	-
05/03/16	FREMF	2016-KF16	1,045.02	Wells Fargo	Bridge Investment	69	69	63	-
05/11/16	FREMF	2016-KJ04	238.39	Wells Fargo	Ares Management	57	63	53	-
05/12/16	FREMF	2016-SB16	314.55	Red Mortgage Capital	Axonon Capital	154	154	-	-
05/18/16	FREMF	K-W01	608.57	Wells Fargo	Ares Management	89	89	80	-
06/01/16	FREMF	2016-K1502	619.13	CWCapital Asset Managem	Angelo Gordon, McE	59	59	92	-
06/08/16	FREMF	2016-K55	1,036.96	Wells Fargo	Carmel Partners	78	78	77	-
06/08/16	FREMF	2016-SB17	347.74	Hunt Mortgage	Axonon Capital	165	165	-	-
06/15/16	FREMF	2016-KF17	1,078.78	KeyBank	Harbor Group Intern	56	56	55	-
06/17/16	FREMF	2016-KJ05	217.60	KeyBank	Berkshire Group	54	58	60	560
06/22/16	FREMF	K-722	949.78	Midland Loan Services	Related Cos.	52	52	-	-



Sources

The third-party Information set forth herein is derived from the following sources:

Bloomberg

CBRE Capital Markets

Citibank Research

Commercial Mortgage Alert

CRE Direct

FHLMC

Intex Solutions

Maximus Ten-X

Morningstar Research

Olasav Conway Appraisal Study 2012

Real Capital Analytics

REIS

Trepp Information Systems

US Bureau of Labor Statistics

US Federal Reserve

US Treasury

Wells Fargo Research

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