

CAPITAL MARKETS UPDATE

April 25, 2018



- Interest rates continued to rise during the past month on strong economic data. The 5-Yr and 10-Yr USTs each increased 25 bps during the past 4 weeks. The spread between 5-Yr and 10-Yr USTs is the tightest it has been since August of 2007 resulting in all-in commercial real estate borrowing costs that are nearly indistinguishable at different terms. As interest rates have continued to rise, some borrowers are taking less financing to avoid negative leverage on low cap rate deals which is enabled by years of spectacular fundraising and resulting abundance of dry powder for commercial real estate.
- As central banks gradually scale back, monetary policy still remains highly accommodative by historic standards and supports continued growth in real estate. Expansionary policy has transitioned to a growth story and modest core-inflation. The latest global economic data on trade, spending, jobs, confidence, and factory orders is mostly solid and gathering moderate speed. The IMF revised Global GDP growth forecasts upward for 2018 and 2019 to 3.9%.
- C&W Research recently released the China-US Inbound Investment Capital Watch [here](#). After hitting a high in 2016, Chinese investment in the US declined significantly in 2017 following the imposition of capital controls. While Chinese investment in U.S. CRE declined, global outbound investment set a new record with the UK a prime beneficiary. For the near term, investment activity will favor deals most likely to receive state approval, including logistics entities and properties, R&D facilities, as well as student and senior housing.



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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
Multifamily	Fixed	Life Company	4.25%	55%	10 years	IO
Multifamily	Floating	Agency	L + 210	75%	7 years	IO
Multifamily	Fixed	Agency	4.80%	75%	10 years	30 year, 5 years IO
Industrial	Fixed	Bank	S + 200	65%	5 years	25 year
Hotel	Floating	Debt Fund	L + 550	80%	3 + 1 + 1	IO
Hotel	Floating	Bank	L + 395	65%	5 years	IO
Multifamily	Fixed	CMBS	S + 160	70%	7 years	IO, 2 years Open
Multifamily	Fixed	CMBS	S + 140	70%	5 years	IO
Office - Suburban	Fixed	Bank	4.00%	60%	5 years	30 year, 2 years IO; 0.25% fee
Retail - Power Center	Floating	Bank	L + 200	65%	5 + 1 + 1	30 year, 3 years IO; 0.50% fee
Industrial	Fixed	Life Company	T + 115	50%	10 years	IO
Mixed-Use	Floating	Bank	L + 185	65%	5 + 1 + 1	30 year, 3 Years IO; 0.75% fee
Mixed-Use	Fixed	CMBS	S + 170	62%	10 years	IO
Office	Fixed	Life Company	T + 160	60%	10 years	30 year, 3 Years IO
Multifamily	Floating	Debt Fund	L + 230	75%	3 + 1 + 1	IO, 1% fee

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 + 120 - 265
Fixed Rate - 10 Years	65 - 75% (1)	1.30 - 1.50	T + 130 - 255
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 1.00-1.25%

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 + 205	T + 215
Multi-Family (agency)	75 - 80%	T + 180	T + 190
Distribution/Warehouse	65 - 75%	T + 175	T + 185
R&D/Flex/Industrial	65 - 75%	T + 180	T + 190
Office	65 - 75%	T + 175	T + 185
Full Service Hotel	60 - 70%	T + 235	T + 255

* DSCR assumed to be greater than 1.25x

BASE RATES

	April 25, 2018	Four Weeks Ago	One Year Ago
30 Day LIBOR	1.897%	1.880%	0.992%
U.S. Treasury			
5 Year	2.83%	2.58%	1.82%
10 Year	3.01%	2.77%	2.30%
Swaps	Current Swap Spreads		
5 Year	2.94%	0.11%	
10 Year	3.04%	0.03%	

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

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Steven A. Kohn
President, EDSF
(212) 841-9216
steven.kohn@cushwake.com

Christopher T. Moyer
Managing Director
(212) 841-9220
chris.moyer@cushwake.com

New York - HQ	Atlanta	Boston	Chicago	Dallas	Los Angeles	Miami	New Jersey	Phoenix	San Diego	San Francisco	Washington, D.C.
1290 Avenue of the Americas, 8th Floor New York, NY 212 841 9200	171 17th Street NW, Suite 1400 Atlanta, GA 404 875 1000	225 Franklin St. Suite 300 Boston, MA 617 330 6966	225 W. Wacker Dr., Suite 3000 Chicago, IL 312 470 1800	2021 McKinney Avenue, Suite 900 Dallas, TX 972 663 9600	10250 Constellation Blvd., Suite 2200 Los Angeles, CA 213 955 5100	200 S. Biscayne Blvd., Suite 2800 Miami, FL 305 371 4411	One Meadowlands Plaza, Suite 700 East Rutherford, NJ 201 935 4000	2555 E. Camelback Road, Suite 400 Phoenix, AZ 602 253 7900	4747 Executive Dr. Suite 900 San Diego, CA 858 452 6500	425 Market Street Suite 2300 San Francisco, CA 415 397 1700	2101 L St., NW Suite 700 Washington, DC 202 467 0600

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