Financial & Investment Roundtable

2019 U.S. Commercial Real Estate Capital Markets

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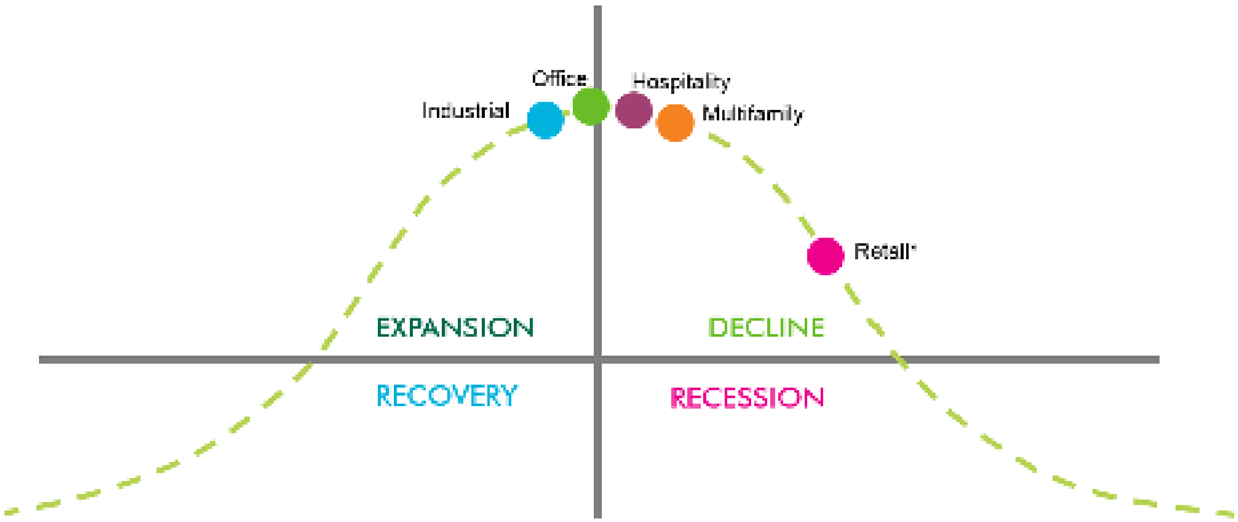
Houston, TX

REAL ESTATE CYCLE



Source: CBRE Research, Q4 2018. *Retail is very difficult to generalize due to structural change in the property type.

Q4 2018 U.S. Capital Markets Figures – Executive summary

Strong Q4 Activity Pushes 2018 Above 2017 Investment Volume

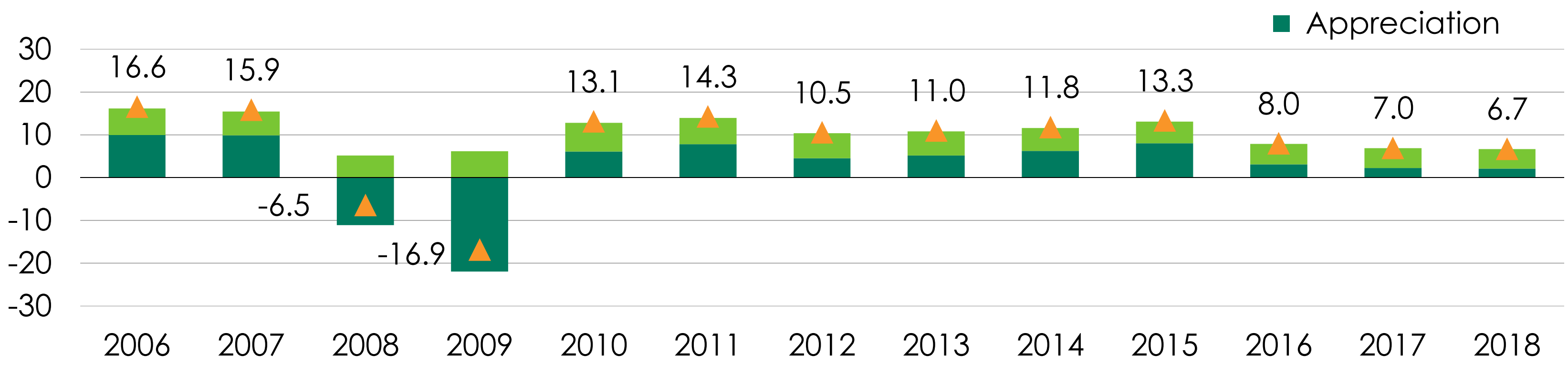
Total Investment Volume	Property Price Index	NCREIF One-Year Return	Lender Momentum Index
▲ **$152.4 billion**[1]	▲ **134**	▼ **6.7%**	▲ **253**

Arrows indicate change in growth rate from the same quarter in the previous year.

- Commercial real estate investment volume rose 20.6% year-over-year in Q4 to $152.4 billion.[1] Including entity-level transactions, total investment for the year was $534.8 billion, a sizable increase of 14.8% from 2017. Excluding entity-level transactions, which are highly volatile from year to year and can skew annual comparisons, 2018 investment volume was still up by a healthy 4.9%.
- This is the third consecutive quarter in which a foreign investor has bolstered U.S. investment volume through an entity-level acquisition. Overall, entity-level acquisitions were up nearly 200% from 2017 to $70.7 billion in 2018, the largest such increase since 2007.
- Greater New York, Greater Los Angeles and the San Francisco Bay Area attracted the most investment in Q4, accounting for 27.7% of all acquisitions. The top-15 markets accounted for 64.4% of total Q4 investment volume.
- The only sector with cap rate compression in H2 2018 was industrial, according to the latest CBRE North America Cap Rate Survey. CBD/infill cap rates increased more than suburban for office, multifamily and hotel.
- Pricing for office, multifamily and industrial properties reached new highs. Increases in multifamily and industrial pricing led the national index, though the pace of growth for multifamily decelerated in 2018.
- Overall, commercial mortgage production in 2018 was slightly softer than in 2017, as a marked drop in CMBS activity outweighed strong GSE lending. Combined lending for those groups decreased by 3%. Still, CBRE's Lender Momentum Index was up 13.6% year-over-year.

[1] All references to deal volume cited in this report are based on Real Capital Analytics' transactional data, which includes entity-level transactions and excludes development site transactions.

NCREIF Property Index Returns



Source: CBRE Research, NCREIF, Q4 2018. All returns are reported on an unlevered basis.

- The total annual return for 2018 was down slightly (24 bps) from 2017. This is mostly due to a significant decrease in the retail return, which ended the year at 2.2% compared with 5.7% in 2017.
- Countering this decline were strong gains in hotel and industrial returns. The largest increase was for the hotel return (7.6%), which was up 264 bps from 2017. The industrial return was up 123 bps year-over-year and was by far the highest at 14.3%.
- Office and multifamily had returns of 6.9% and 6.1%, respectively. The office return was up by a healthy 82 bps from 2017, and the multifamily return was essentially unchanged.

Mortgage Production

Lending Source		Total ($ Billions)		Change (%)
Current Quarter	Period	2018	2017	
CMBS	Q4 2018	18.8	26.4	-28.8
Fannie Mae	Q4 2018	21.3	20.2	5.4
Freddie Mac	Q4 2018	30.7	27.5	11.6
Life Insurance Companies	Q3 2018	17.5	15.1	15.9
HUD	Q3 2018	2.8	4.0	-30.0
Year-to-Date	Through	2018	2017	
CMBS	Q4	77.0	87.8	-12.3
Fannie Mae	Q4	65.4	66.1	-1.1
Freddie Mac	Q4	77.5	73.2	5.9
Life Insurance Companies	Q3	51.7	47.7	8.4
HUD	October	11.7	13.6	-14.0

Note: Different time periods.

Source: CBRE Research, Commercial Mortgage Alert, Fannie Mae, Freddie Mac, Q4 2018; American Council for Life Insurers, Q3 2018; HUD, October 2018. MBA data covering bank mortgage production volume is only available at year end. Totals may not sum due to rounding.

Mortgage Production

- CMBS activity slowed significantly in H2 2018, with volumes down by about 30% year-over-year in both Q3 and Q4. A stronger H1 boosted the annual total to $77.0 billion, down by 12.3% from 2017.

- Bank lending also decreased, according to the most recent Mortgage Bankers Association Origination Index (dollar volume is only published annually), which showed volume down 22% year-over-year in Q3. However, MBA data does not fully capture local and regional banks, which have been very active.

- The agencies remain an important capital source as other lenders pull back. Fannie Mae and Freddie Mac originations together were up 9% year-over-year in Q4 and 3% in 2018.

MBA Commercial/Multifamily Real Estate Finance Forecast

February 10, 2019

	2016	2017	2018	2019	2020
Ten-year Treasury (percent)	2.1	2.4	3.0	3.1	3.2

	2016	2017	2018	2019	2020
Mortgage Bankers Originations ($billions)	$ 491	$ 530	$ 526	$ 530	$ 535
Percent change	-3%	8%	-1%	1%	1%
Life Companies & Pension Funds	$ 78	$ 81	$ 89	$ 92	$ 93
GSEs & FHA	$ 122	$ 148	$ 169	$ 170	$ 169
CMBS	$ 77	$ 109	$ 80	$ 80	$ 82
Other "dedicated" CREF lenders (excl. some bank originations)	$ 213	$ 193	$ 188	$ 188	$ 191