

CRE Finance Council: *2016 Market Outlook Survey*



CRE Finance Council®

The Voice of Commercial Real Estate Finance

The Commercial Real Estate Finance Council (CREFC) is pleased to present the 2016 CRE Finance Council Market Outlook Survey. Sponsored and conducted by CREFC, this survey is designed to gauge the industry's outlook for 2016 across a wide range of topics from a group of senior finance professionals.

CREFC would like to thank over 90 member companies that participated in this year's survey, which assesses the industry's outlook on:

- U.S. Economy
- Interest Rates
- Liquidity
- Property Fundamentals
- Capitalization Rates
- Leverage
- Credit Quality
- Risk
- Sector Outlook
- CMBS Lending
- Balance Sheet Lending
- Private Capital Lending
- Government Sponsored Enterprise (GSE) Lending

Commercial Real Estate Finance Council

The Voice of Commercial Real Estate Finance

The CRE Finance Council is the collective voice of the more than \$3.5 trillion commercial real estate finance market, and our members include all of the significant portfolio, multifamily, and Commercial Mortgage-Backed Securities (“CMBS”) lenders; issuers of CMBS; loan and bond investors such as insurance companies, pension funds and money managers; servicers; rating agencies; accounting firms; law firms; and other service providers. CREFC’s membership consists of more than 300 companies and 8,000 individuals. Our industry plays a critical role in the financing of office buildings, industrial complexes, multifamily housing, retail facilities, hotels, and other types of commercial real estate that help form the backbone of the American economy. In addition to its member forums, committees and working groups, CREFC acts as a legislative and regulatory advocate for the industry, plays a vital role in setting market standards and provides education for market participants in this key sector of the global economy.

Stephen M. Renna

President & CEO

CRE Finance Council

Stacy Stathopoulos

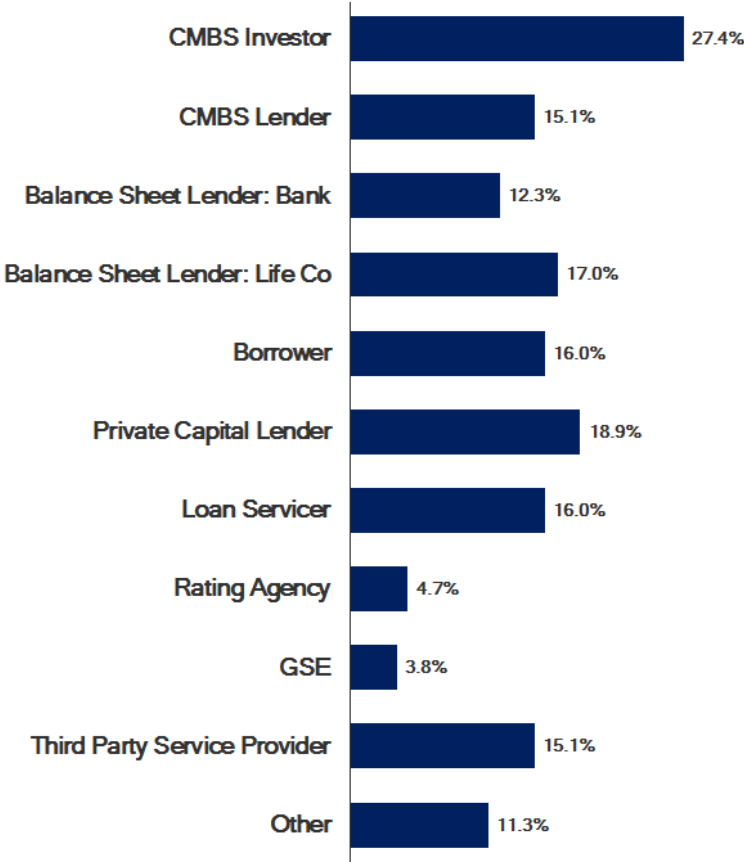
Executive Vice President

CRE Finance Council

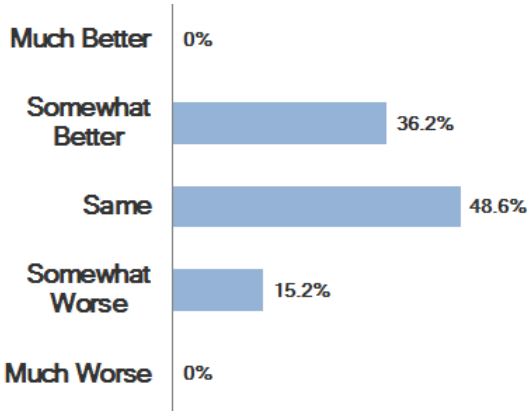
Key Survey Points

- **Overall Positive Sentiment Among Survey Respondents:** A majority anticipate a continuation of the past year's positive market.
- **Loan Volume Expected to Increase:** CMBS, banks, insurance companies, REITs, and private equity expect higher loan volume in 2016.
- **Deal Flow Fueled by Wave of Maturities:** CMBS volume tied to maturities coming due in 2016.
- **Increased Foreign Capital Inflows:** Foreign investment in both CRE debt and equity expected to increase.
- **Despite Rate Rise, Business as Usual:** 70% of respondents believe there will be a sustained 25-50 bps increase in short term interest rates, however, only 6% cited a significant impact on their business.
- **Regulatory Drag:** Respondents of all constituencies believe Risk Retention, Basel III, and other new regulations will result in a drag on the industry.
- **Increased Volatility:** CMBS spread volatility is expected by almost three quarters of respondents. More than 25% expect the volatility to be high.
- **Liquidity Concerns:** 87% of respondents believe secondary market liquidity will decrease or remain level; 70% believe secondary market illiquidity will increase pricing at issuance.
- **Divergence of Narratives Around Credit Quality:** The vast majority of respondents believe only a small percentage of pro forma lending is occurring, while they split nearly 50-50 on whether yields cover risk levels.
- **Non-Real Estate Risk Most Concerning:** Respondents are most concerned about geopolitical risk or impact from non-real estate sectors. Respondents are bullish on CRE fundamentals and outlook.

Participant Demographics*

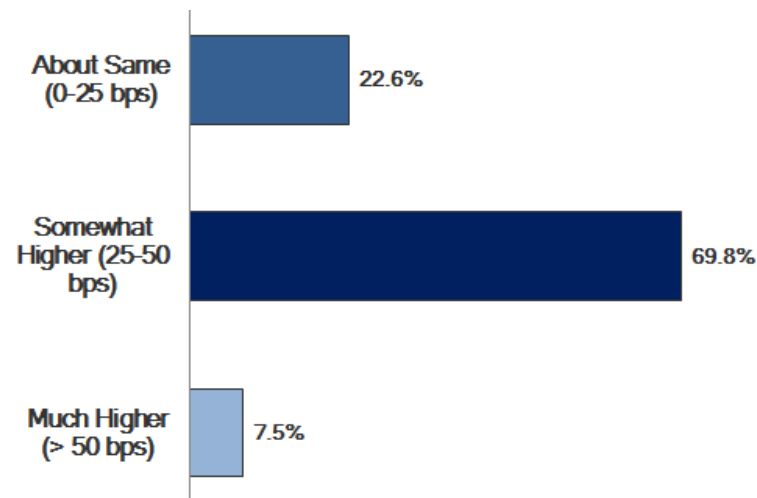


Economic Outlook for 2016

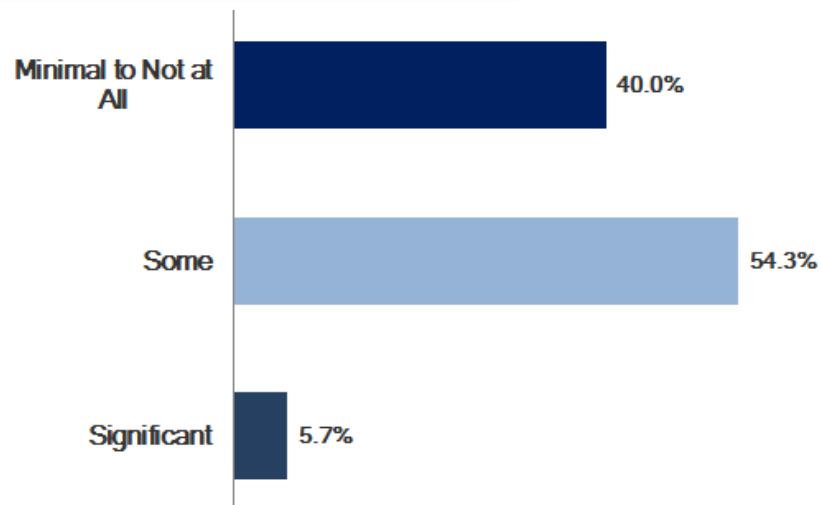


*Participants were allowed to select more than one industry sector

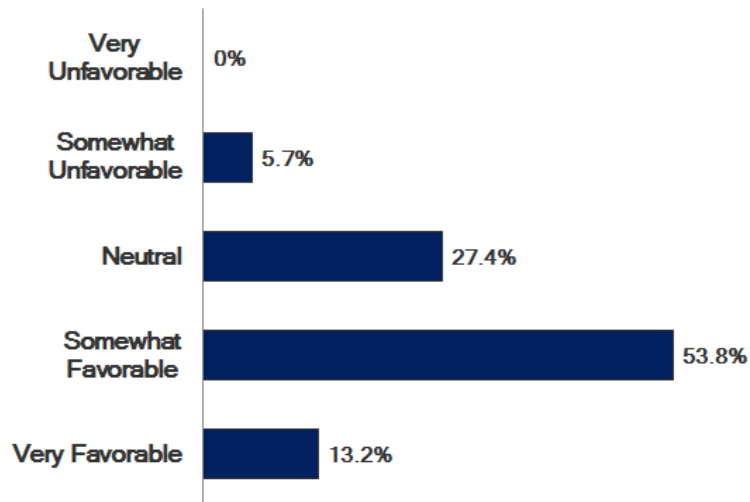
How do you expect interest rates to trend in 2016?



How much impact will your predicted movement of interest rates have on your business performance?



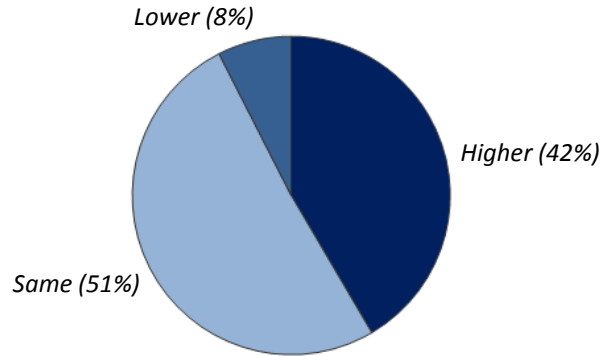
What is your outlook for the CRE finance market, generally, in 2016?



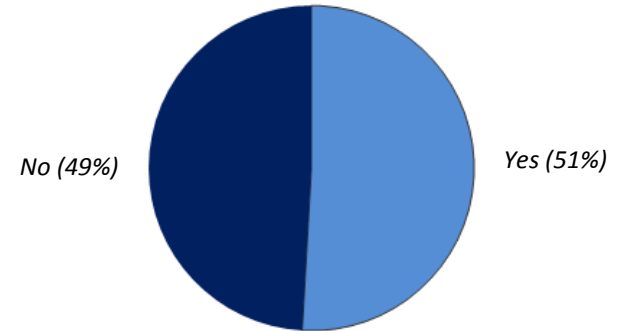
Selected Member Responses:

- “...lots of loans come due...”
- “...refi wave will create more [flow].”
- “...a small increase in rates will not significantly abate the flow of deals...”
- “We expect property fundamentals to continue equal or better to 2015”
- “...risk retention may put a chill on things”
- “supply is in check...”
- “...rising fed funds rate will not directly impact the 10 year Treasury, which is a basis for pricing loans...”
- “Lots of available capital...”

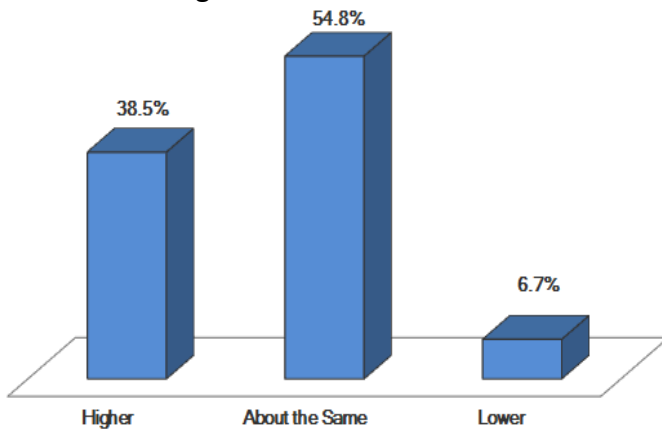
Yield Expectations for 2016:



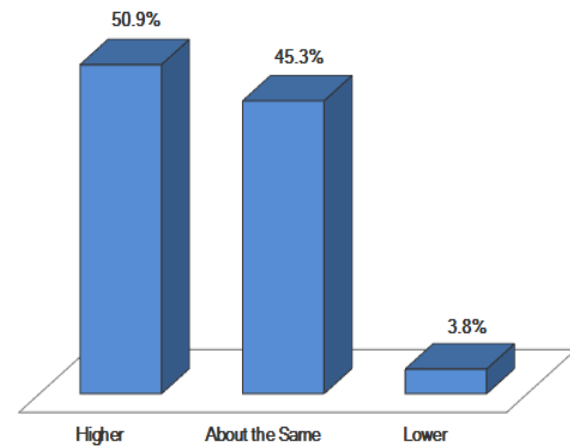
Do you believe current yields compensate for the corresponding risk?



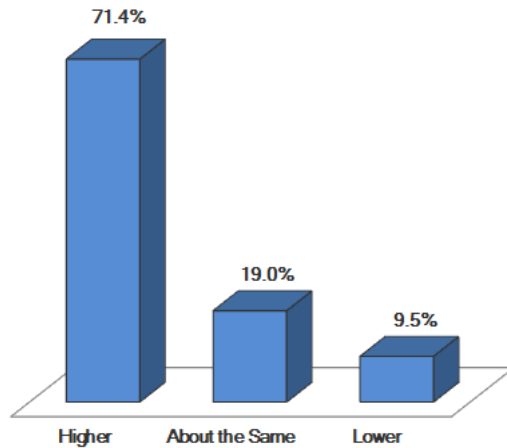
How do you see *domestic* investment in commercial real estate *equity* trending in 2016?



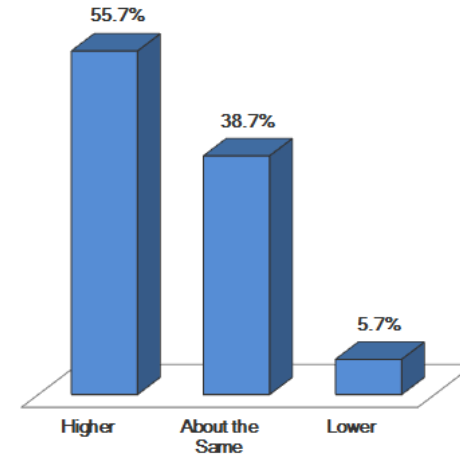
How do you see *domestic* investment in commercial real estate *debt* products trending in 2016?



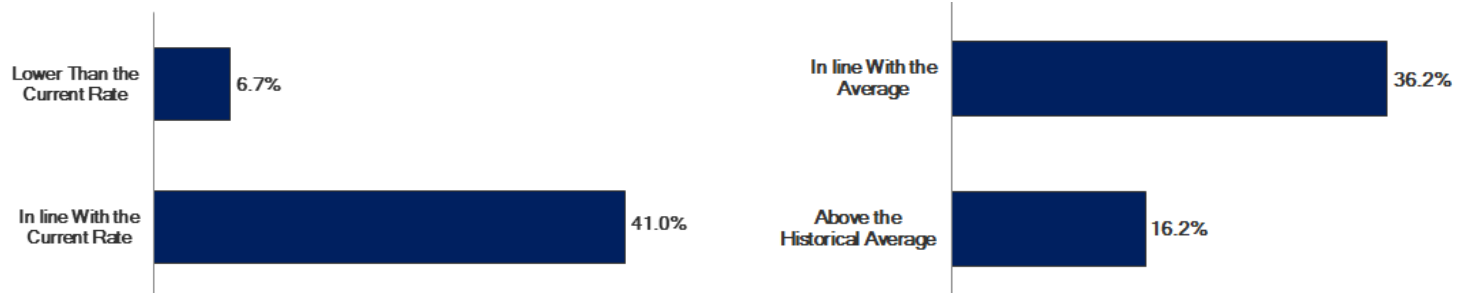
How do you see *foreign* investment in commercial real estate *equity* trending in 2016?



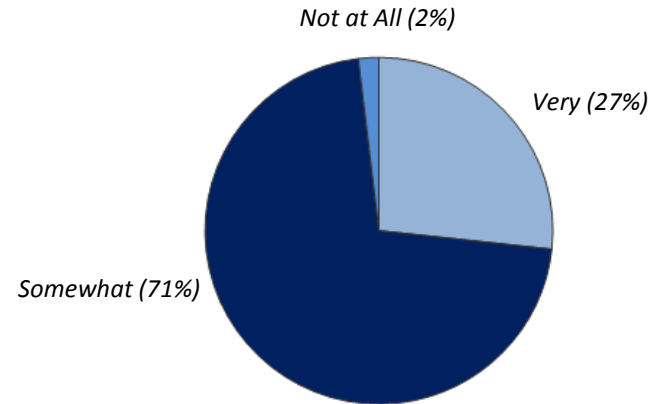
How do you see *foreign* investment in commercial real estate *debt* products trending in 2016?



Construction activity as a percentage of new completions relative to existing stock is slightly more than 1% across property types. The annual average is about 1.9% since 1985. What do you expect the trend in construction activity to be in 2016?



How volatile do you think CMBS spreads will be in 2016?

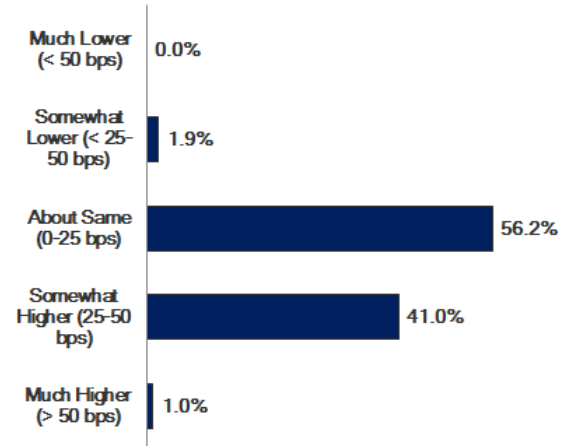


Rank the Drivers of 2016 spread volatility:

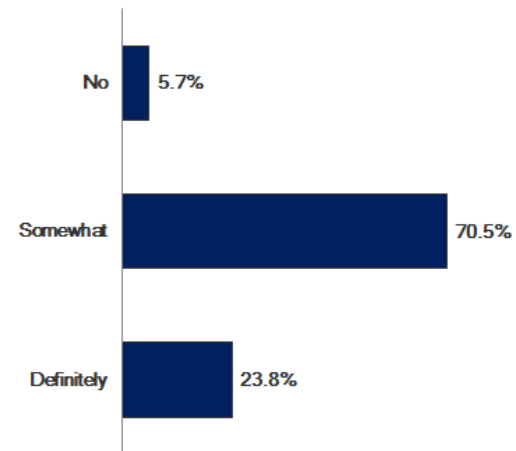
Respondents expect geopolitical events and domestic politics, deteriorating credit standards, and contagion from other asset classes as most likely to influence spread volatility in 2016.

1. Geopolitics and/or Domestic Politics
2. Credit Deterioration
3. Contagion from Other Asset Classes
4. Fund Flows to/from the CRE Sector
5. Changes in Benchmark Interest Rates
6. Deal Volume

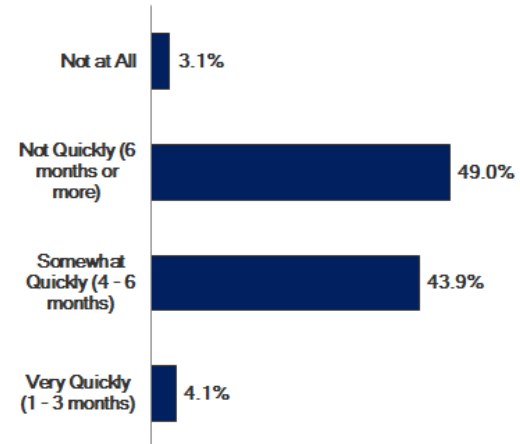
How do you see capitalization rates trending in 2016?



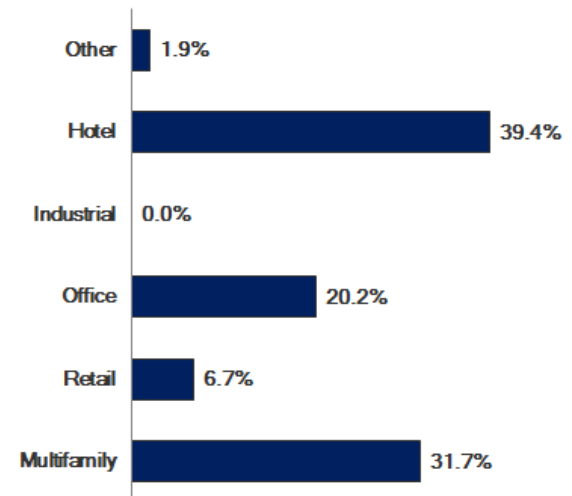
Do you see a correlation between cap rates and benchmark interest rates?



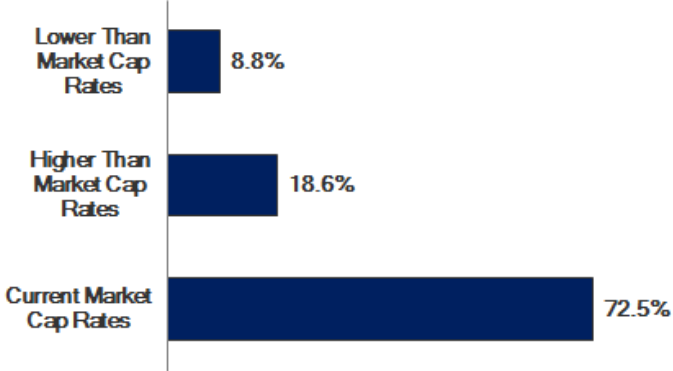
If definitely or somewhat, how quickly do you expect cap rates to respond to changes in benchmark interest rates?



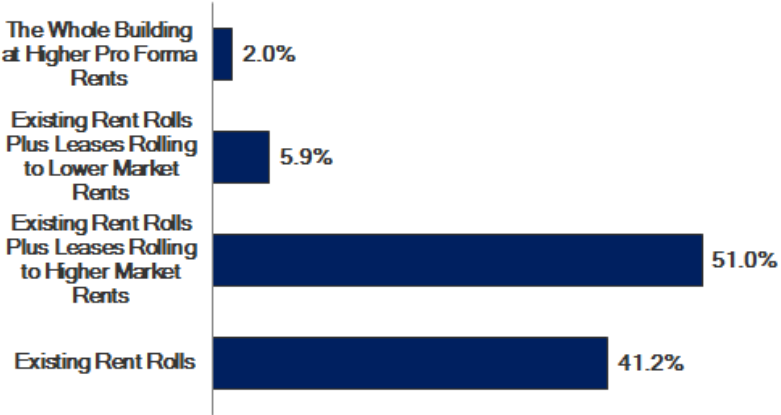
Choose the property type most sensitive to cap rate movement:



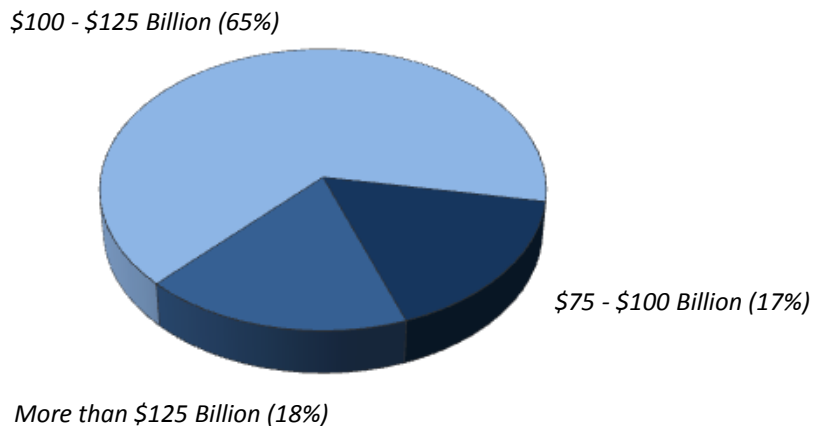
Do you expect marketplace underwriting in 2016 to use:



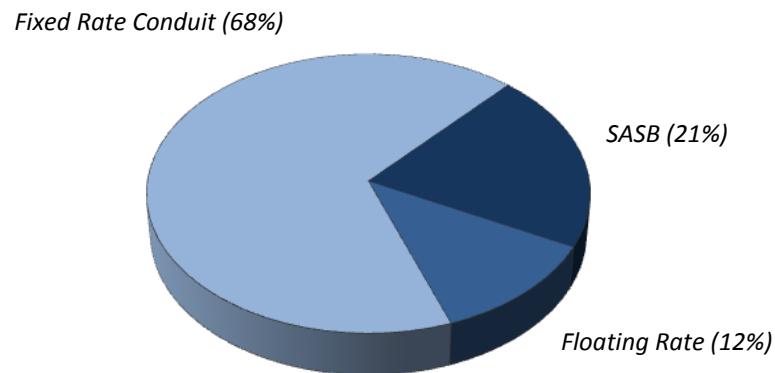
What NOI/cash flow do you expect the marketplace will use to underwrite value in 2016?



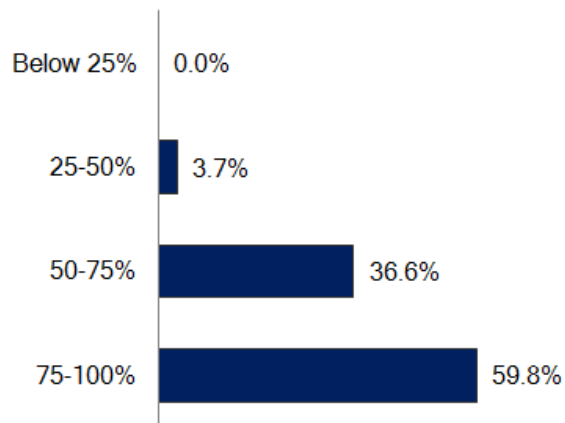
How much total CMBS issuance do you expect in 2016?



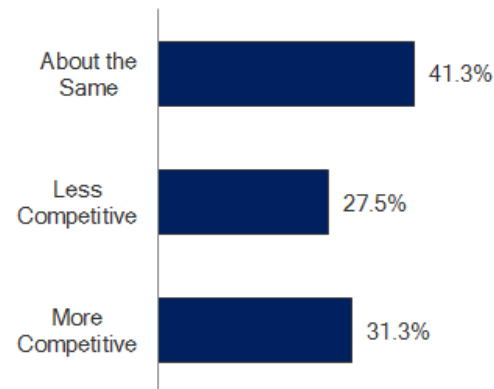
Of the total chosen, what percent will be:



Of the more than \$100 billion of CMBS scheduled to mature in 2016, what percent will pay off or refinance on schedule?



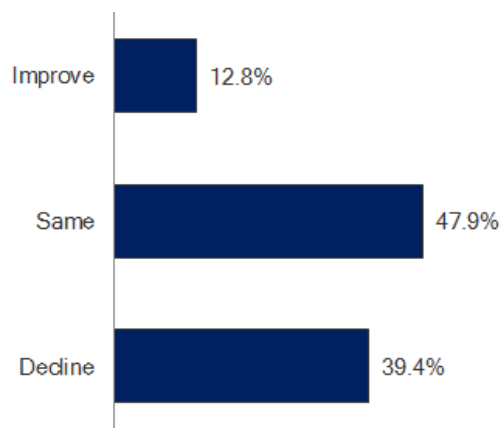
How are regulations affecting your competitiveness?



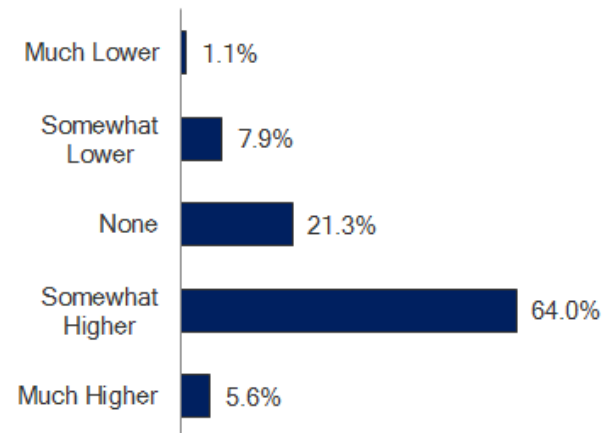
Selected Member Responses:

- “More regulations tend to favor low cost capital providers.”
- “More opportunities for mezz...”
- “Basel III is artificially limiting construction proceeds.”
- “Significant regulations haven’t been implemented yet”
- “It’s good to not be too large or too small in this world of regulation. The smallest and largest hurt the most.”
- “We are poised to benefit from risk retention rules (long term holder).”

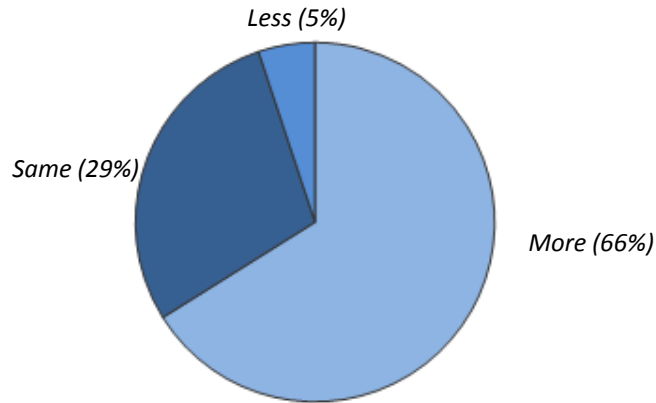
What is your outlook for CMBS secondary market liquidity?



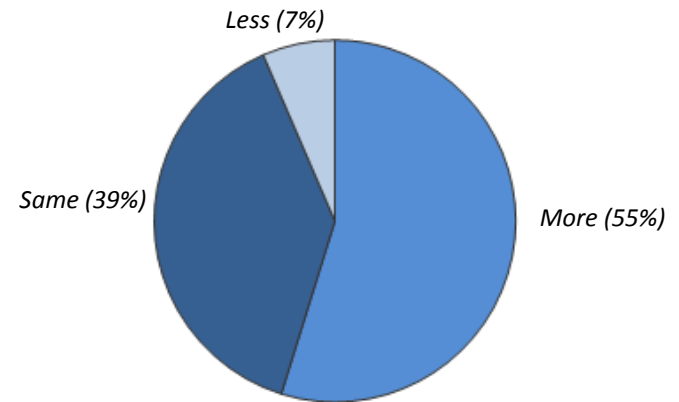
How much do you think CMBS secondary market liquidity will impact deal pricing at issuance?



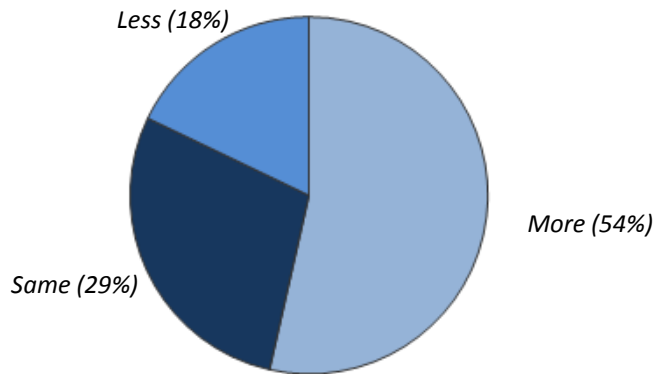
Expected 2016 Origination Volume:



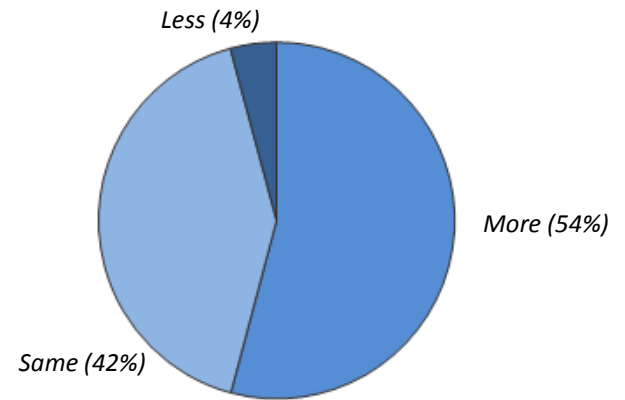
Expected 2016 Non-Recourse Loans (Banks):



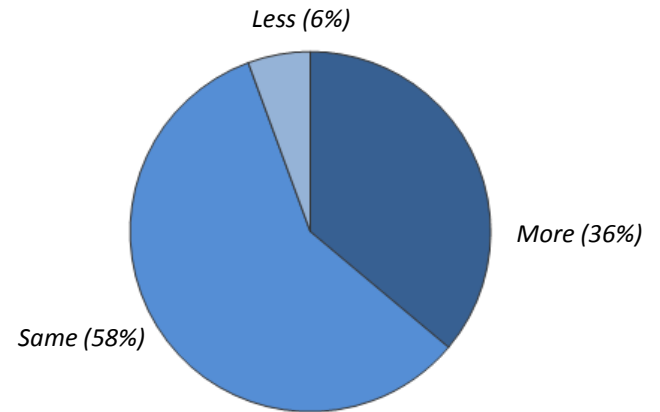
Expected 2016 Construction Lending:



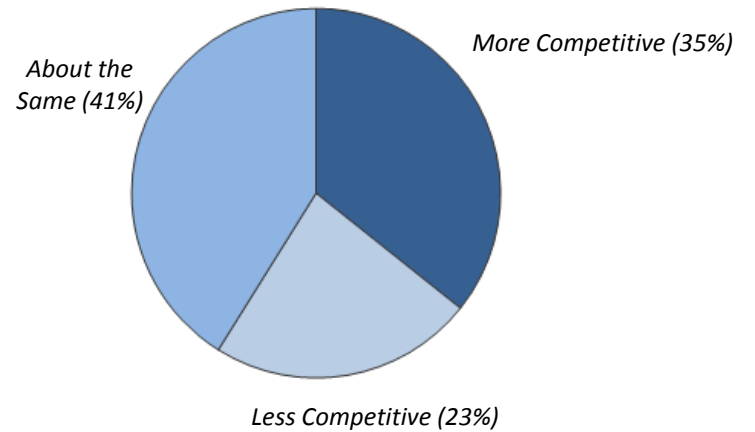
Expected 2016 Syndicate Lending (Banks):



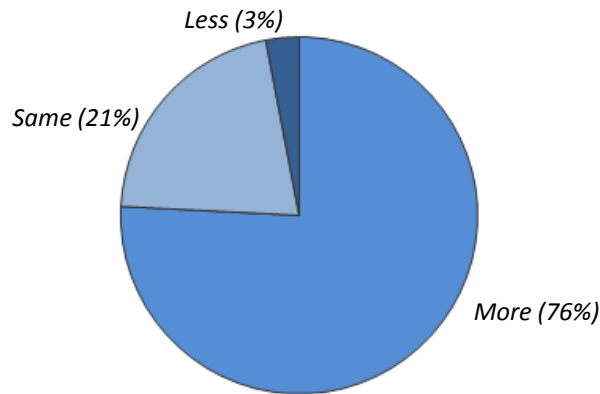
Expected 2016 Club Lending for Life Companies:



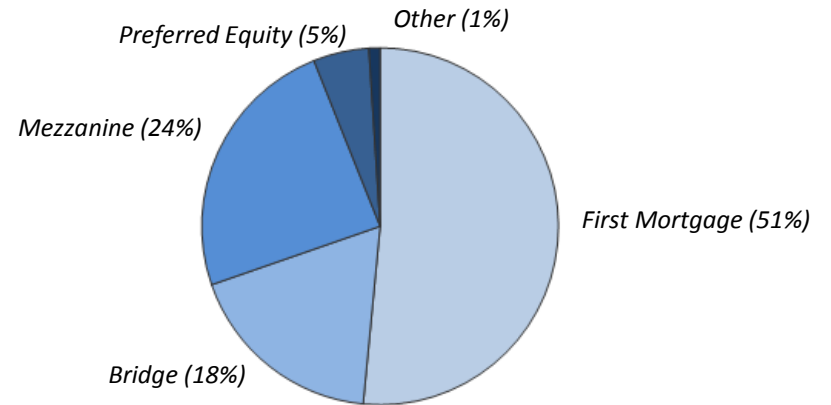
How are regulations affecting your competitiveness?



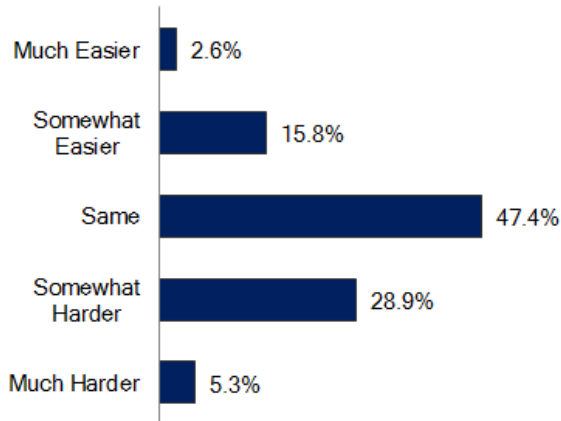
How much do you expect to lend in 2016 relative to 2015?



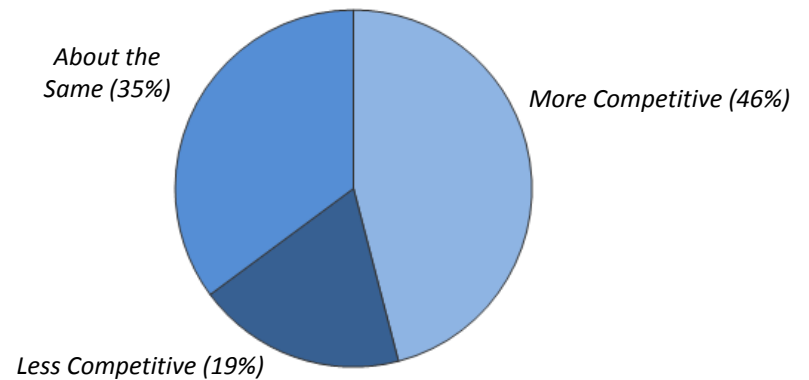
What is your expected loan profile by percentage?



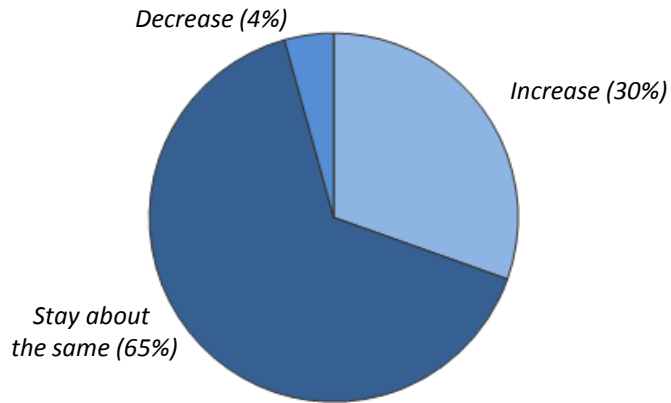
Capital Raising in 2016 relative to 2015?



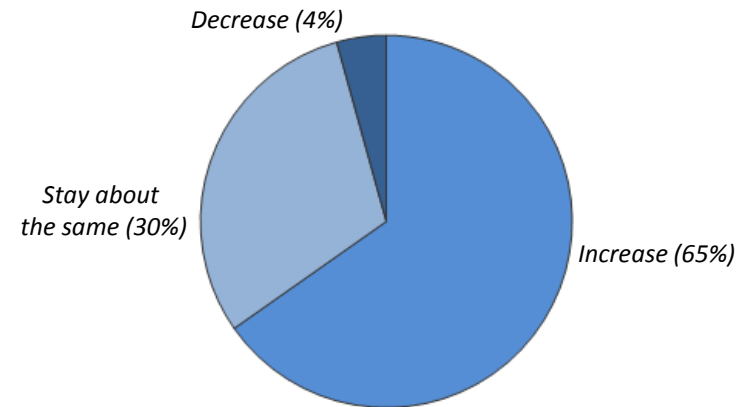
How are regulations affecting your competitiveness?



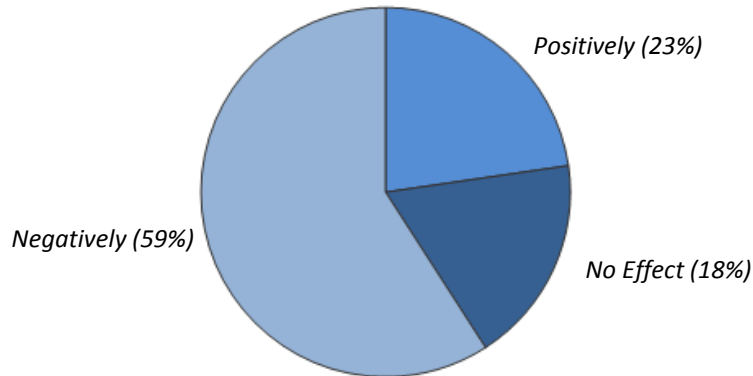
In 2016 do you expect GSE loan originations to:



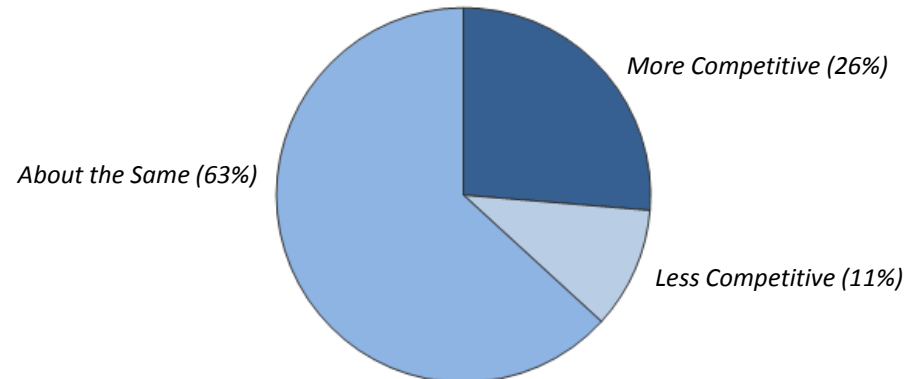
In 2016 do you expect non-GSE loan originations to:



How do you see multifamily supply in your markets affecting rent growth?



How are regulations affecting your competitiveness?



| | <u>What Is Most Attractive About This Sector?</u> | <u>What is Most Concerning About This Sector?</u> |
|---------------------------|--|---|
| <u>Multifamily</u> | <ol style="list-style-type: none"> 1. Demographics/Demand Drivers 2. Stability 3. Liquidity | <ol style="list-style-type: none"> 1. Oversupply 2. Cap Rate Compression/Pricing 3. Uncertainty of "Inning" |
| <u>Retail</u> | <ol style="list-style-type: none"> 1. Lack of New Supply 2. Yield 3. Opportunity for Value Plays | <ol style="list-style-type: none"> 1. E-Commerce Competition 2. Decline Of Malls and Power Centers 3. Tenant Credit |
| <u>Office</u> | <ol style="list-style-type: none"> 1. Length of Leases 2. Demand in Core Markets 3. Lack of New Supply | <ol style="list-style-type: none"> 1. Shift in Use and Office Demand 2. Macro Economic Concerns 3. Cap Rate Compression/Valuation |
| <u>Industrial</u> | <ol style="list-style-type: none"> 1. Demand Drivers (Primarily Internet) 2. Low Capital Requirements | <ol style="list-style-type: none"> 1. Availability of Old and Obsolete Stock 2. Concerns Over Macro Economic Growth 3. Low Barriers to Entry |
| <u>Hotel</u> | <ol style="list-style-type: none"> 1. Asset Class Outperforming Others 2. Increasing RevPAR 3. Demand Drivers | <ol style="list-style-type: none"> 1. Late in Cycle 2. Oversupply Concerns 3. Hotel Performance Tracks Economy |

