NAIOP – July 2017
Capital Markets Update

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Originations By Capital Source

Mortgage Bankers Originations, by Capital Source
($billion)

Source: MBA
Debt Markets

Current Life Companies and Bridge Debt Markets

* Life Companies – Increased Allocations
* Q1 2017 was slower than anticipated, increased activity in Q2
* Q3 2017 most allocations will be filled
* Margins have become even more favorable for the client, 20-30 bps less than Q1
* 125 – 135 bps over the correlating spread
* Ample capital

* Bridge Debt Market – Good Activity
* Q1 2017 was slower than anticipated, increase activity in Q2
* Fixed Rates
* Non-recourse
* Ample capital

Source: MBA, HFF, Kristian Lichtenfeld, Rob Brown – JCR

Life Company / CMBS Originations

LIFE INSURANCE COMPANIES: Year-to-date Originations for Life Insurance Companies ($billions)

CMBS: Originations for CMBS ($billions)
Debt Markets

Current Bank Debt Market

• Margins have increased:
  • 30-Day LIBOR + 325 bps to 400 bps
  • Fewer extension options/shorter terms
  • Larger equity requirements
  • RECOURSE

Regulatory Restrictions

Capital Calculations

Tier 1 Capital: Common Stock + Surplus + Paid In Capital + Retained Earnings + YTD Net Income + Accumulated Other Comprehensive Income (Income not yet realized on securities for sale) + Trust Preferred Stock – Goodwill

Tier 2 Capital: Tier 1 Capital + ALLL (Loan Reserve)

Asset Allocation Restrictions

CRE1: Construction and Land Development Loan Balances
  - Maximum 1x of Capital, or 8-10% of Total Assets

CRE2: CRE1 Commitments + Non-owner occupied CRE Commitments
  - Maximum 3x of Capital, or 24-30% of Total Assets
Bank Originations

BANKS: Year-to-date Originations for Banks ($billions)

Bank Assets (Trillion)

source: FDIC
Interest Rates – San Francisco Federal Reserve President Williams said he sees three rate hikes, but would be comfortable with four next year.

- **30-DAY LIBOR** will be 1.75% - 75 bps growth from EOY 2016
- **2 - Year Treasury** will be 1.95% - 75 bps growth from EOY 2016
- **5-Year Treasury** will be 2.40% - 47 bps growth from EOY 2016
- **10-Year Treasury** will be 2.65% - 20 bps growth from EOY 2016
2018 Predictions

- **30-Day LIBOR** will be 2.25% - 125 bps growth from EOY 2016
- **2-Year Treasury** will be 2.40% - 120 bps growth from EOY 2016
- **5-Year Treasury** will be 2.75% - 82 bps growth from EOY 2016
- **10-Year Treasury** will be 2.90% - 45 bps growth from EOY 2016

**BOLD PREDICTIONS**

1. 2019 & 2020 - Rates will be flat
2. 2020 - Bank Deposits will be less than $16T
3. 2020 - Bank CRE originations will not exceed $100B (2013)
4. 2021 - Rates will begin to decline, with the Prime topping out at 5.50%

**Historical Prime Rate Entering a Recession:**
- July of 1990 – 10.00%
- March of 2001 – 8.50%
- December of 2007 – 7.75%