NAIOP Economic Forecast
Capital Markets

Introduction / Objectives

• 2016 Year in Review
• 2017 Forecast / Themes
  – Capital Availability at an all-time high
  – Stable Interest Rates
  – Aggressive Lending Continues...but...
    • Underwriting will remain conservative
    • Limited human capital
    • Relationships matter more than ever
We’ve been here before...

Historical Interest Rates (2012-2016)

- 10-Year UST
- 10-Year Life Co Rates
- 10-Year CMBS Rates

3.0% highs in 2013 & 2014
2.40% Today

New Loan Origination Record in 2016

2007 - 2016 CRE Loan Originations
By Lender Type
Comparison between 2007 / 2016

2007
- CMBS, 45%
- Other, 18%
- Bank, 21%
- Fannie & Freddie, 7%
- Insurance, 8%

2016
- CMBS, 16%
- Other, 15%
- Bank, 28%
- Fannie & Freddie, 25%
- Insurance, 16%

Insurance Company Asset Allocation

- Investments
  - Bonds 40%
  - Stocks 40%
  - Commercial Mortgages 15%
  - Other 5%

- Premiums Paid in to Insurance Company

- Life Insurance Policy Holders
  - Actuarial estimates of claims paid in future
  - Types of life policies

- Property & Casualty Insurance Policy Holders
  - Less predictable payouts
  - Need more liquidity with investments
2016 Summary

- **Life Company**
  - More allocation, search for yield
- **CMBS**
  - Regulatory changes ("Risk Retention")
- **Fannie Mae/Freddie Mac**
  - 20% growth in 2016
  - Privatization?
- **Banks**
  - Regulatory changes (HVCRE)
  - More focus on permanent debt, existing relationships
- **Private Capital / Debt Funds**
  - Gap Funding – 5-10%, 1-3 Years
  - Non-Recourse Construction

### 2016 vs. 2017 Forecast

<table>
<thead>
<tr>
<th>Category</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>$79 BB</td>
<td>$86 BB</td>
</tr>
<tr>
<td>Bank</td>
<td>$144 BB</td>
<td>$145 BB</td>
</tr>
<tr>
<td>Fannie, Freddie</td>
<td>$131 BB</td>
<td>$135 BB</td>
</tr>
<tr>
<td>Insurance</td>
<td>$81 BB</td>
<td>$86 BB</td>
</tr>
<tr>
<td>CMBS</td>
<td>$80 BB</td>
<td>$84 BB</td>
</tr>
</tbody>
</table>

- **Other**
- **Bank**
- **Fannie, Freddie**
- **Insurance**
- **CMBS**

*2016 vs. 2017 Forecast: +4% Growth, $515 BB to $536 BB*
2017 CMBS Maturities

Loan to Value
MSA - Denver/Aurora/Lakewood vs. Nation

![Graph showing loan to value distribution for different mortgage terms.]

Source: Trepp. Based upon maturing balance in each range as a percentage of total.

Average 1st Mortgage Terms

<table>
<thead>
<tr>
<th></th>
<th>Life Company</th>
<th>CMBS</th>
<th>Bank</th>
<th>Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Max LTV</td>
<td>65%</td>
<td>75%</td>
<td>75%</td>
<td>65 – 75%</td>
</tr>
<tr>
<td>Spread</td>
<td>150 – 200 (UST)</td>
<td>250 – 300 (Swaps)</td>
<td>200 – 300 (UST)</td>
<td>200 – 225 (UST)</td>
</tr>
<tr>
<td>Amortization</td>
<td>25 Yrs +</td>
<td>30 Yrs (I.O. Avail.)</td>
<td>25 Yrs +</td>
<td>30 Yrs</td>
</tr>
<tr>
<td>Term</td>
<td>5 – 30 Yrs</td>
<td>5 – 10 Yrs</td>
<td>1 – 7 Yrs</td>
<td>5 – 10 Yrs</td>
</tr>
<tr>
<td>Debt Yield</td>
<td>10% on NOI</td>
<td>9% on NCF</td>
<td>Varies</td>
<td>Varies</td>
</tr>
<tr>
<td>DSCR</td>
<td>1.35 x</td>
<td>1.25 x</td>
<td>Varies</td>
<td>Varies</td>
</tr>
</tbody>
</table>
What to watch for in 2017?

• Post Election Effect
• Interest rates rise more than expected
• Transaction/Buyer demand slows in Denver
  – $535,000/Unit for Apartments?
  – $550-650/SF for Office?
• Program Evolution – On-going quest for YIELD