NAIOP – July 2017 Capital Markets Update

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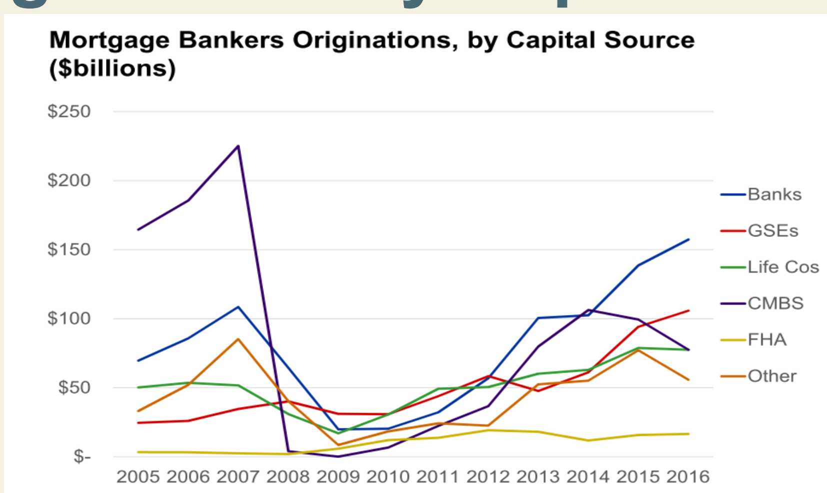
Originations By Capital Source



Source: MBA

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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 Lichtenfels, Rob Brown – JCR

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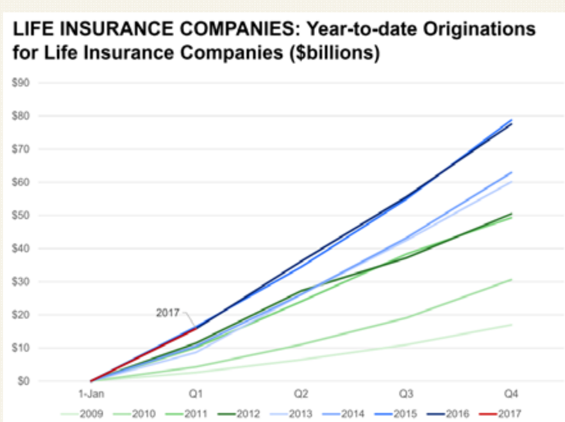
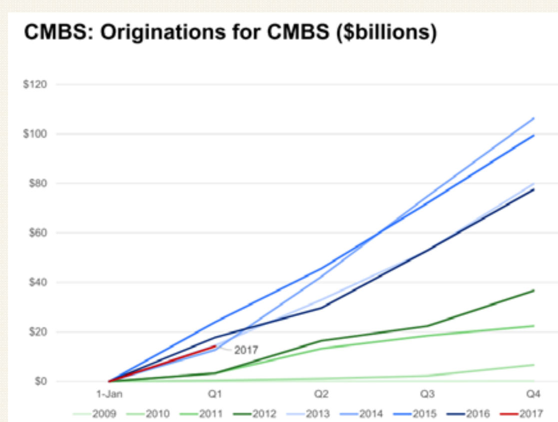
Life Company / CMBS Originations





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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

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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
- <u>Maximum 1x of Capital, or 8-10% of Total Assets</u>

CRE2: CRE1 Commitments + Non-owner occupied CRE Commitments
- <u>Maximum 3x of Capital, or 24-30% of Total Assets</u>

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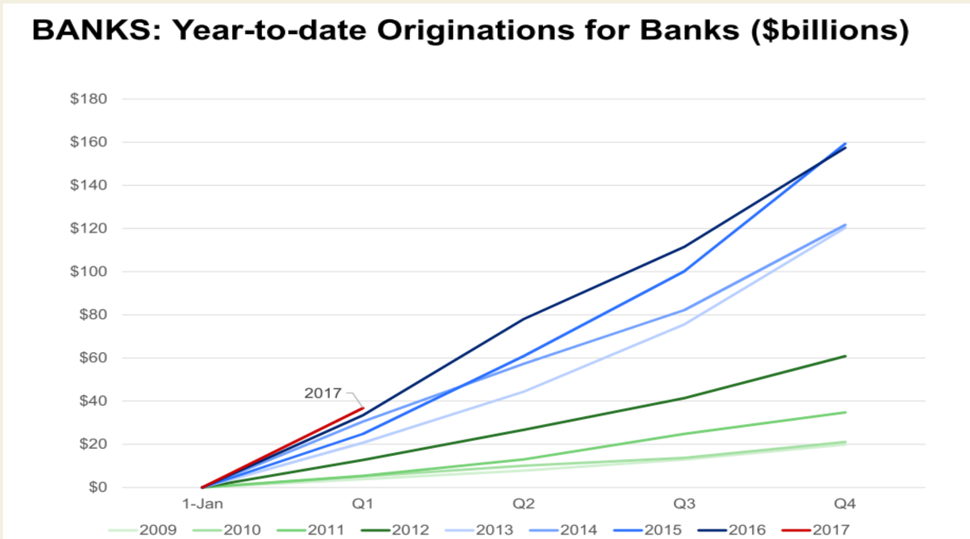
Bank Originations



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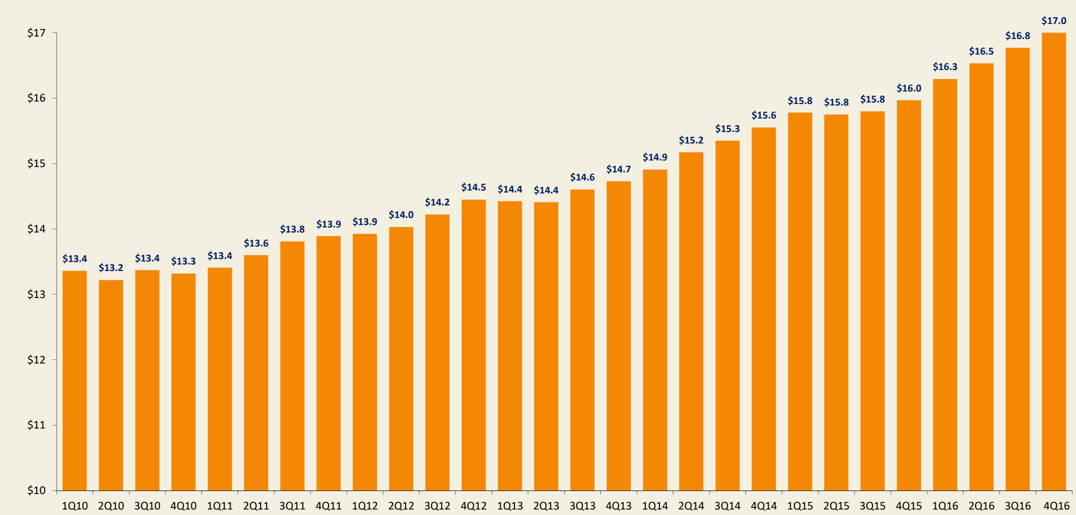
Bank Assets (Trillion)

source: FDIC



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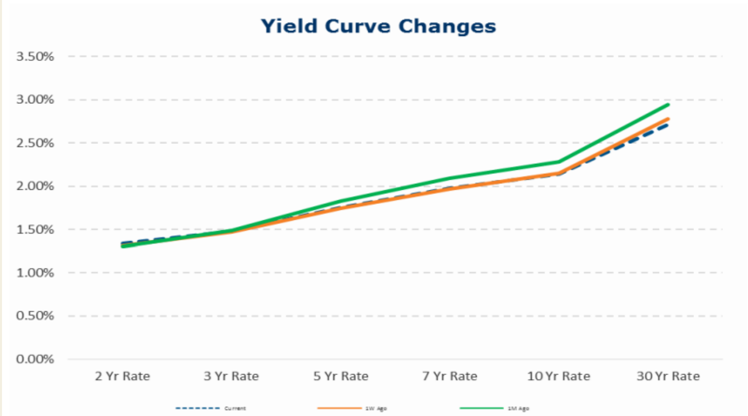
2/10 Spread

Yield Curves (bps)

Curve	Current	1W Ago	1M Ago	1Y Ago
2s/5s	42	43	52	48
2s/10s	81	84	98	97
10s/30s	57	62	66	81



2017 Year-End Predictions

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 be1.95% - 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

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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%

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