JANUARY 5, 2016
WWW.REALESTATEFINANCEINVESTMENT.COM
The definitive source on commercial property sales, financing and investment

Real Estate Finance & Investment

OUTLOOK 2017

PRO-GROWTH POLICIES COULD EXTEND CYCLE

BY SONDRA CAMPANELLI

The incoming Trump administration could implement pro-growth policies that could benefit the commercial real estate market, potentially slowing down an anticipated correction. "If [President-elect] Trump can get pro-growth policies passed, it may forestall any market correction for quite a while and in fact will result in a better economic environment," said Leslie Himmel, founder and managing partner at Himmel & Meringoff.

Market pros pointed to positive signs in the equity and debt markets, with the major indices rising and yields on 10-year Treasuries buoyed by expectations that the Trump administration will decrease taxes and increase fiscal stimulus through infrastructure spending.

Although market players told *REFI* they are generally more optimistic today than they were a year ago, some still warned against the exuberance displayed in the market over the last few weeks. "Our prediction for the end of the cycle is still between late 2018 and early 2019," said Spencer Levy, Americas head of research at CBRE. "It has been accompanied by higher interest rates that push in the opposite direction of stimulus and bring other risks."

With expectations of higher rates, market pros are taking a hard look at the impact on cap rates, which remain at historically low levels. "Cap rates will rise [if interest rates rise]," Himmel said. "Real estate capital stacks and internal rates of return are a function of the cost of equity and cost of debt. Pricing will reflect a more normal return on equity for real estate and also reflect the increasing lack of liquidity in the asset class. As large amounts of new inventory are added to New York's office market, landlords with superior properties and long-term operating expertise will benefit."

Some investors, however, don't feel as though a direct correlation between cap rates and interest rates is a sure thing. "Historically, interest rates and cap rates have moved in lockstep, but if you look at the 10-year trend line, that relationship is decoupling," said David Eyzenberg, founder and managing partner at Eyzenberg & Co. Others have declared it too early to assess the relationship. "The first 50 basis-point move was largely built in, but once the 10-year gets above 3%, we'll see more cap rate expansion," said Levy.

Market pros are also evaluating the effect of a stronger dollar on foreign investment on gateway cities, where non-U.S. investors typically tend to

UNCERTAINTY ASIDE

CMBS MART SET TO SEE ISSUANCE RISE

BY SONDRA CAMPANELLI

Commercial mortgage-backed securities professionals are predicting overall issuance to increase slightly this year, with total 2017 origination predictions falling between $75b and $80b. The uptick comes on the back of a slower-than-expected 2016, when issuance clocked in between $65b and $70b after a very slow first quarter of the year.

Although a handful of market players were optimistic that issuance could hit as much as $100bn, others were skeptical. "If issuance is $100b [in 2017], we'll all be living on Mars in three years," said one trader. "And I'll be the first to volunteer to move." Others also pointed to the structural limitations of issuing that much paper in today's market. "I haven't had anyone say with any confidence that they can do a deal over $1b this year," said one ratings agency official.

Traders are keeping an eye on volume and weighing the consequences of a year that could look similar to 2016. "There are so many implications if volume

11

FINANCING 03 | PROPERTY 05 | STRATEGIES 08 | GUEST COLUMN 10 | PEOPLE MOVES 11

FROM THE EDITOR

The incoming Trump administration could implement pro-growth policies that could have a positive impact on the commercial real estate market, according to a number of market pros who spoke to *REFI*. The expectation is that the Trump administration could lower taxes and increase fiscal stimulus, particularly with regard to infrastructure spending. The full story, part of *REFI*'s 2017 outlook, is on page 1.

REFI's Sondra Campanelli will be down in Florida next week for the annual CREFC conference, reporting on the major themes and trends of the events. Look for her coverage every day in *REFI* as well as tweets from the event. If you don't already follow us on Twitter, we're @REFImagazine.

SAMANTHA ROWAN, EDITOR
s.rowan@pageantmedia.com or (646) 891 2146

THIS ISSUE

TACONIC JV SECURES NYC LOAN
A Taconic Investment Partners joint venture has tapped Mesa West for a Midtown South loan.
TURN TO P3

COLUMBIA RETOOLS PORTFOLIO
Columbia Property Trust has exited Dallas and Phoenix as part of a portfolio retooling.
TURN TO P6

RATE HIKE BOOSTS REIT RELATIVE VALUE
The Federal Reserve's recent interest rate hike has increased the relative value of REITs.
TURN TO P5

JLL EXPANDS PHILADELPHIA BASE
JLL has made a senior hire in Philadelphia on the expectation of further growth in the market.
TURN TO P7

Real Estate Finance & Investment

Published by Pageant Media

New York
200 Park Avenue South
Suite 1603, NY 10003
T +1 (646) 891 2110

London
Thavies Inn House
London EC1N 2HA
T +44 (0) 20 7832 6500

EDITORIAL
Gwyn Roberts
Group head of content
+1 (646) 891 2115
g.roberts@pageantmedia.com

Samantha Rowan
Editor
+1 (646) 891 2146
s.rowan@pageantmedia.com

Kaitlyn Mitchell
Reporter
+1 (646) 891 2144
k.mitchell@pageantmedia.com

Sondra Campanelli
Reporter
+1 (646) 891-2121
s.campanelli@pageantmedia.com

PRODUCTION
Claudia Honerjager
Head of production
c.honerjager@pageantmedia.com

COMMERCIAL
Thomas O'Riordan
Associate publisher
+44 (0) 20 7832 6634
t.oriordan@pageantmedia.com

George Simmons
Content sales manager
+44 (0) 20 7832 6586
g.simmons@pageantmedia.com

EVENTS
Beth Hall
Head of events
+44 (0) 020 7832 6576
b.hall@pageantmedia.com

DISTRIBUTION
Fay Oborne
Office manager
+44 (0) 20 7832 6524
f.oborne@pageantmedia.com

PAGEANT MEDIA
Charlie Kerr
Chief executive

Printed by The Manson Group

MAJOR UPGRADES PLANNED

Taconic JV taps Mesa West for Midtown South office loan

A partnership between Taconic Investment Partners, Squire Investments, and TH Real Estate, a division of TIAA Global Asset Management, has obtained a $102m loan from Mesa West Capital to acquire and reposition 817 Broadway in New York. The partners are set to reposition the ornate, 120-year-old Midtown South building into a modern, Class A office, according to Jonathan Schwartz, a senior v.p. at JLL, which arranged the loan.

The partners paid the sellers, the Frankel and Levine families of Jericho, N.Y., $109m for the 15-story, 131,681-square-foot office and retail property. "The families owned the property for about 60 years but hadn't maximized the value of the real estate, which isn't an uncommon story in New York City," Schwartz said. "[After the capital improvement plan is completed], we'll have the benefit of a brand new building without having to build one from the ground up." The property was designed at the turn of the 20th century by architect George B. Post, who also designed the New York Stock Exchange Building.

The deal represents a rare opportunity to completely renovate a largely vacant building on the southern edge of the city's hot Midtown South submarket, which has the lowest office vacancy in Manhattan at 6.7%. The building, located on 12th Street is partially occupied by tenants whose leases expire in three to four years. "As tenants leave, the sponsors will renovate the space," said Schwartz. "[At the end of the redevelopment period], they'll be able to sell the space [to tenants] at much higher rates, as it will be like a brand-new building."

> "THE LOAN STRUCTURE [THAT MESA WEST] EMPLOYED WAS CREATIVE AND BASED ON THE BUSINESS PLAN. WE LIKED THAT IT WAS A SINGLE SOURCE OF EXECUTION AND EFFECTIVELY A BALANCE-SHEET LOAN"
> JONATHAN SCHWARTZ, JLL

As part of the capital improvement plan, the partners will spend $16m on updating HVAC systems, windows, and elevators, redesigning the lobby, repositioning the retail space through new store fronts, and restoring the façade. The five-year, non-recourse loan funded 65% of the acquisition cost, with the rest going to fund construction. "The loan structure [that Mesa West] employed was creative and based on the business plan," Schwartz added, noting that the lender offered the team an attractive interest rate. "We liked that it was a single source of execution and effectively a balance-sheet loan."

Although interest rates are set to rise after the Federal Reserve's rate hike announcement in late December, Schwartz isn't as concerned that this move will significantly affect the profitability of 817 Broadway. "Interest rate risk is something that everyone thinks about, but [for this property], there is so much opportunity to create value and increase cash flow over the next few years," he added. "Between the sponsorship and location, we think we're in a strong position to tell the story of this building to the market."

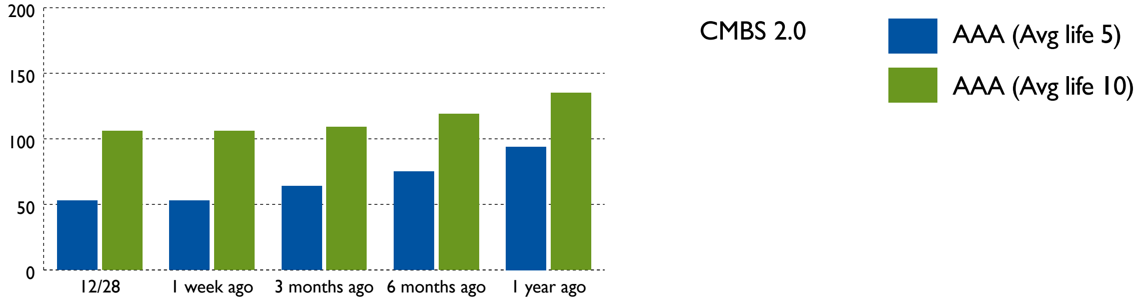
TREPP'S CMBS SPREADS MATRIX – DECEMBER 28

CMBS 2.0

Source: Trepp, LLC

FIXED RATE	AVG LIFE	BENCHMARK	12/28	1 WEEK AGO	3 MONTHS AGO	6 MONTHS AGO	1 YEAR AGO
AAA	5	S+	53	53	64	75	94
AAA	10	S+	106	106	109	119	135
AA	10	S+	148	148	162	196	214
A	10	S+	244	244	248	328	298
BBB	10	T+	489	489	460	499	454
BBB-	10	T+	540	540	528	618	538

CMBS SPREADS SNAPSHOT – DECEMBER 28



BENCHMARKS AS OF DECEMBER 28

10-year Treasury: 2.51

10-year Swap: 2.40

CREDIFI THIRD QUARTER REPORT

JPMorgan emerges as leading Big Apple lender

JP Morgan topped Wells Fargo and Deutsche Bank to become New York City's most active commercial real estate lender in the third quarter of 2016, with its overall issuance reaching $2.5b, according to CrediFi's most recent ranking of bank originators. The bank, which originated 10% of all commercial real estate loans in the city in the third quarter, moved up from fourth place in the second quarter.

The increase in JP Morgan's ranking was largely driven by a $1.2b loan on the Solow Building on 57th Street, which accounts for just less than half of its activity. The rest of the bank's financing was spread across more than 200 loans. "JP Morgan has two strategies [when originating loans]," said Alex Veksler, director of capital markets at CrediFi. "They have the old investment bank that deals with larger loans, as well as the smaller loans from the old Chase Bank."

Non-bank lenders originated 13% of the market's lending this quarter, stepping into the void left as CMBS faced a slower-than-expected year of issuance. According to the report, the private equity firm Blackstone originated more than $800m to finance four loans, picking up some of the slack in the market as CMBS lenders prepared for the implementation of risk retention rules on December 24.

MetLife, the list's only insurance company, ranked eighth. "A sneak peak at Q4 shows us that insurance providers are joining together to provide mega-financing," the report stated. "In early October, MetLife participated, together with AXA Equitable Life Insurance Co. and New York Life Insurance Co., in an $850m loan for 1301 Avenue of the Americas, a 1.8m square foot office building located between 52nd and 53rd streets."

Wells Fargo and Deutsche Bank each secured a position in the top three lender spots this quarter. Wells Fargo, which found itself under investigation by the SEC after allegations emerged that it opened two million unauthorized bank and credit card accounts between 2011 and 2015, increased its New York lending by 334% to jump from number nine in Q2 of this year to number two.

Deutsche Bank, which recently announced it would pay $7.2b to the U.S. Department of Justice related to its issuance and underwriting of RMBS issued before the 2008 financial crisis, dropped from second to third place this quarter. "Banks like Wells and Deutsche can still provide services that others can't [due, in part, to their size]," said Veksler. "We might have expected Deutsche to not do as well overall, but they still had a good quarter in New York City."

Local banks in New York felt the squeeze after regulators warned of a potential weakness in the multifamily market ahead, following extensive construction in that sector. The FDIC specifically noted an increase in supply for New York-region multifamily properties. Signature Bank and New York Community Bank both saw overall origination decline by roughly half. Signature Bank, which held the top spot on CrediFi's report last quarter, dropped to fourth place and New York Community dropped from third to sixth. Dime Bank, a Brooklyn-based competitor, rose to tenth place to tie with CIBC, following a 38% rise over Q2.

MORNINGSTAR'S LOAN TRANSFERS TO SPECIAL SERVICING – DECEMBER 28

Source: Morningstar

PROPERTY TYPE	LOAN NAME	DEAL ID	CITY	STATE	ZIP	UPB	MATURITY DATE	DATE XFERED TO SS
Hotel	Holiday Inn - Houma, LA	WFR14C19	Houma	LA	70360	$10,991,975	01/02/2024	22/11/2016
Hotel	Radisson Fort Worth	CSM07C01	Fort Worth	TX	76106	$8,077,689	11/02/2017	19/11/2016
Hotel	Hampton Inn Bessemer	CSM07C05	Bessemer	AL	35022	$6,350,245	11/08/2017	14/10/2016
Hotel	Holiday Inn Express - Medford, OR	MSB15C24	Medford	OR	97501	$4,873,312	01/05/2025	06/12/2016
Hotel	La Quinta Inn & Suites Blue Springs	COM15C23	Blue Springs	MO	64015	$3,772,518	06/04/2025	09/11/2016
Industrial	Tire Centers - Statesville, NC	BACM0606	Statesville	NC	28625	$4,798,711	01/12/2016	06/12/2016
Industrial	Supply One Warehouse	MSC07H11	Bedford Heights	OH	44146	$4,595,500	01/01/2017	22/11/2016
Industrial	Selway Industrial	BSC06P14	Various	Various	Various	$3,077,723	05/11/2016	15/11/2016
Industrial	Arnold Magnetic Technologies	MSC07T25	Marietta	OH	45750	$1,459,683	01/11/2016	16/11/2016
Multi-family	Colonial Oaks Mobile Home Park	BACM0701	Elyria	OH	44035	$15,180,389	01/12/2016	01/12/2016
Multi-family	Cree Commons (Knife River)	COM14C14	Williston	ND	58801	$2,429,592	06/11/2023	09/11/2016
Multi-family	Harborview East Apartments	BACM0606	Gig Harbor	WA	98335	$2,167,613	01/11/2016	05/12/2016
Multi-family	Hillcrest Apartments	CSM06C05	Nederland	TX	77627	$1,642,226	11/11/2016	08/12/2016
Office	Connecticut Financial Center	BACM0702	New Haven	CT	6510	$130,400,000	01/03/2017	28/11/2016
Office	Gateway Center IV	MSC06I12	Newark	NJ	7102	$56,959,629	01/11/2016	08/11/2016
Office	Gateway Office Building	MSC06I12	Rockville	MD	20850	$56,200,000	01/11/2016	09/11/2016
Office	Fort Office Portfolio	MLT08C01	Various	Various	Various	$47,895,307	08/08/2017	09/11/2016
Office	AON Office Building	WBC05C16	Glenview	IL	60025	$43,466,597	11/11/2014	22/11/2016
Other	Prospect Square	MLCF0604	La Jolla	CA	92037	$13,575,000	08/12/2016	21/11/2016
Retail	Crossroads Marketplace	CTG07C06	Chino Hills	CA	91709	$63,000,000	06/04/2017	22/11/2016
Retail	Pinnacle at Tutwiler	CSM07C01	Trussville	AL	35173	$48,515,172	11/12/2016	18/11/2016
Retail	Sherwood Regional Mall	GSM206G8	Stockton	CA	95207	$37,583,783	06/09/2016	11/11/2016
Retail	Sunset Mall	CD07CD4	San Angelo	TX	76904	$27,952,209	06/12/2016	30/11/2016
Retail	Boulder Crossing Shopping Center	WBC06C29	Las Vegas	NV	89122	$21,000,000	11/11/2016	21/11/2016
Retail	Westside Center South	BACM0605	Gretna	LA	70053	$21,070,394	01/09/2016	24/10/2016

Rate hike increases relative value of REITs

The Federal Reserve's move last month to increase interest rates for the first time in a year has increased the relative value of real estate investment trusts, which now look relatively cheap compared to other parts of the sector. "If you look at REIT rates over the last month, they've pretty much been flat, which is impressive considering that if the interest rate hike had occurred in a vacuum, REIT stocks would have sold off 15%," according to Scott Crowe, chief investment officer at CenterSquare.

The December 14 rate hike increased the Federal Reserve's target rate by 25 basis points on the opinion that the U.S. economy was seeing a recovery, the employment rate was rising, and the expectation that inflation was going to rise. While higher rates will increase the cost of borrowing, strong market fundamentals are helping commercial real estate players stay optimistic. "[This business] likes economic growth because it creates high levels of demand [for commercial real estate]," Crowe said. "[An increase in] inflation will also drive high levels of development and that, coupled with the expectation of a decrease in regulation, is all good news for [our industry]."

These factors have created an environment where REIT stocks are trading at materially discounted valuations, according to Crowe, who noted that REITs are trading at a 15% discount, or one full standard deviation cheaper, to private real estate values. In anticipation of policies championed by the incoming Trump administration, investors are snapping up industrial stocks at the expense of real estate. "It's an out-of-favor sector [right now] because everyone is trying to buy the Trumpflation story," said Crowe. "Investors don't want to buy the REIT market when the Fed is hiking interest rates."

After the rate hike announcement, there was a broad sell off among equity investors, with the Dow Jones Industrial Average falling 217 points from its intraday high of 19,966 to close at 19,793. Crowe pointed to the Fed's indication that it would try to forestall some of the growth effect of fiscal spending, which dampened growth expectations. "It was concerning because the Fed was effectively telling the market that it might get economic growth coming out of fiscal spending, but that they would put the lid on it if it got out of hand," he added.

Crowe expects that REITs may stay cheap as the economy moves through the phase of rebased rate expectations and could experience a rebalance if cash flows to real estate increase over the next few years. "REITs are giving good returns even though the underlying real estate markets are going to give more modest growth," he added.

NEWS IN BRIEF

GEORGE SMITH ARRANGES $34.4M L.A.-AREA LOAN

George Smith Partners, a commercial real estate investment banking firm, has arranged $34.4m in debt for the refinancing of Crenshaw Imperial Plaza, a mixed-use property in Inglewood, Calif. Newmark Merrill Companies and Upside Investment will use the three-year, interest-only loan to pay off a $24m term loan and complete about $17.4m of renovations, tenant improvements, leasing commissions, and other capital expenditures. The floating-rate loan is priced at 5.45%, with an 18-month minimum interest prepayment option, as well as the option of one 12-month extension period. GSP provided the loan at the full 92% LTC requested.

JLL TAPS TECH CO. FOR LOAN MANAGEMENT PLATFORM

JLL has tapped SS&C, financial services technology company, to support its multifamily and commercial lending platforms, the company announced. The firm will use SS&C's cloud-based loan management platform for the lifecycle of loans as well as risk management and exposure to its portfolio analytics. The partnership comes on the heels of JLL's acquisition of apartment and senior housing lender Oak Grove Capital.

MADISON REALTY CLOSES $90M BROOKLYN LOAN

Madison Realty Capital has provided a $90m first mortgage loan to finance the construction of 232 rental units on two adjacent sites in Brooklyn's Bushwick submarket, the company announced. The borrower also owns the other property on the block, the newly renovated 152,674 square-foot community facility building at 871 Bushwick Avenue. With the new financing, the borrower will retire all existing debt and develop the two sites, which are located at 889 Bushwick Avenue and 340 Evergreen Avenue.

MASSPRIM MAKES FIRST DIRECT REAL ESTATE INVESTMENT

The Massachusetts Pension Reserves Investment Management Board, in conjunction with partner Santa Clara (California) Redevelopment Authority, has closed on its first direct real estate investment, according to a press release. MassPRIM acquired 21 acres and a related ground lease in Santa Clara for $112.25 million in cash. The land is occupied by prime office buildings in the heart of Silicon Valley at 5451-5455 Great American Parkway in Santa Clara. DivcoWest advised on the transaction.

MADISON INTERNATIONAL BUYS GERMAN SHOPPING CENTER PORTFOLIO

Madison International Realty has acquired a four-property, two million-square-foot shopping center portfolio in Germany in a partnership with Hamburg-based asset manager Redos Real Estate. Terms of the transaction were not disclosed. The properties are the dominant retail destinations within their respective areas in the greater Berlin and Dresden submarkets. The portfolio is 90% leased, with the majority of tenants on long-term leases.

NATIXIS FUNDS FLOATING-RATE LOAN

Natixis has originated a $26.5 million floating-rate loan, collateralized by a 71,748-square-foot neighborhood shopping center in Bethesda, Md., the company announced. Borrower Douglas Development will use proceeds to refinance existing debt and provide funds for tenant improvements at The Shops of Wisconsin. Tenants include Target Express, Trader Joe's, Gymboree, and H&R Block.

BENTALL KENNEDY STRIKES DEAL FOR BROOKLYN APARTMENTS

Bentall Kennedy has acquired The Addison, a 271-unit, high-rise multi-housing property in downtown Brooklyn for $154.25 million, the company announced. HFF represented the seller, Waterton, and Bentall Kennedy purchased the asset free and clear of existing debt. Completed in 2011, the property is comprised of a 26-story and 15-story tower with 65 studio, 117 one-bedroom and 89 two-bedroom units, a small portion of which are designated affordable rate, that average 715 square feet.

MORNINGSTAR PROJECTS REFINANCING WOES FOR 2007 VINTAGE CMBS

A new report from Morningstar Credit Ratings estimates that a significant portion of aggressively leveraged loans originated in 2007 will face difficulty refinancing next year, according to a new report. Pointing to poor underwriting and falling cash flow, Morningstar anticipates a payoff rate of 50-60% in the coming year. The situation is expected to be exacerbated by a selection bias, with many of the strongest loans already paid off. About $82.27bn of CMBS loans are slated for maturity in 2017, with retail and office loans expected to face the most difficulty.

Adventus snags suburban Chicago office

Adventus Realty Trust has acquired three 11-story office buildings and a Bright Horizons daycare facility totaling 869,120 square feet in Rosemont, Ill., a northwestern suburb of Chicago. Blackstone Group was the seller in a deal arranged by HFF. Additional details, including pricing, couldn't be determined.

The sale is the largest multi-tenant suburban office transaction in Chicago since 2008 when HFF sold the Equity Office suburban portfolio. It garnered substantial interest from potential buyers, noted Bryan Rosenberg, associate director. "We conducted a significant number of tours and there were multiple bidders and rounds of bidding," he added. The properties were 95% occupied at the time of sale.

The sale was comprised of Riverway Center at 9377 West Higgins Road, Riverway West at 9399 West Higgins Road, Riverway East at 6133 North River Road, and the Bright Horizons daycare facility at 6107 North River Road. The properties' 20 tenants include U.S. Foods, Central States Pension Fund, Culligan International, First Union Rail and The NPD Group. "There were five and a half years of weighted average remaining lease term across the assets," said Rosenberg.

The properties have parking for more than 2,800 vehicles, or 3.4 spaces per 1,000 rentable square foot, in both surface and garage spaces. Amenities include a fitness center and conference facilities. The properties are at the junction of Interstates 90 and 294, within walking distance of the CTA blue line, and a five minute drive from O'Hare International Airport and the Metra commuter rail system. "The suburban Chicago office market fundamentals are the healthiest they have been since the recession and this is reflected in buyers' optimism and underwriting," said Rosenberg.

Columbia exits Dallas, Phoenix in portfolio retool

Columbia Property Trust has exited the Dallas and Phoenix office markets with the sales of two properties. The sales, which totaled $109.5m, are part of a broader portfolio strategy. "We're in the process of recycling capital through the portfolio," said Kevin Hoover, senior v.p. of portfolio management. "We're selling assets in non-core markets, redeploying capital in target markets, and looking to place new investments."

In Irving, a Dallas submarket, the real estate investment trust sold the 315-square-foot CVS Health Tower for $51m, or about $165 per square foot to Piedmont REIT. The Class A office building, at 750 W. John Carpenter Freeway, is about 66% leased to CVS Caremark, an independent pharmacy benefit management provider that recently extended its lease to 2022. IBM is also signed to a long-term lease that expires in April 2022.

Columbia's predecessor company acquired the 12-story office building for about $60m, or $194 per square foot, in 2006, according to Real Capital Analytics. At that time, the 1999 vintage building was known as the Sterling Commerce building. "With the strength of the Dallas market, it was an opportune time to exit," Hoover said. "Neither Dallas nor Phoenix are target markets for us."

Meanwhile, the firm inked a deal to sell the SanTan Corporate Center, a Class A office property at 3100 and 3200 West Ray Road in Chandler, Ariz., for $58.5m, or about $219 per square foot to an undisclosed buyer. The two-building complex is comprised of 267,000 square feet of space and is fully leased.

SanTan Corporate Center I is fully occupied by Toyota Financial Services, which recently signed a lease renewal to remain at the property through 2024. SanTan Corporate Center II is leased to multiple tenants, including Dialog Semiconductor, a UK-based manufacturer of semiconductor-based system solutions, and Isola USA, part of the global material sciences company Isola Group. "We were pleased with the pricing on both assets," said Hoover. "It was a competitive process with numerous groups included in the bidding process."

With this sale, Columbia has completed $660.5m of dispositions in 2016, as part of its previously announced plan to sell roughly $700m to $1bn of non-core assets this year.

2017 OUTLOOK

TIAA sees positive infrastructure story

TIAA-CREF is expecting significant investment in public infrastructure, less regulation of banks and businesses, and a reduction of personal and corporate income tax rates in 2017 – all factors that could be a positive for commercial real estate. "Investments in public infrastructure are often beneficial to real estate, although it takes time for an impact to occur, as projects must be identified, funded, and built," said Tom Park, senior director of research and strategy.

One concern, however, is if the Trump administration takes an anti-global trade stance as well as a tougher stand on immigration. "[President-Elect Donald] Trump has made a lot of campaign promises, some good for the economy and some potentially not," Park added.

While there's been talk of a commercial real estate downturn in the near-term due to the length of the current cycle, Park believes this isn't necessarily in the cards in 2017. Real estate fundamentals are healthy, with supply and demand in check, and the sector should be able to tolerate some uncertainty and financial markets volatility. Important real estate drives, including employment and GDP growth, household growth and consumer spending are all growing at steady rates. The U.S. economy is expected to generate 2.6m jobs in 2016, and expectations are slightly lower for 2017 and 2018, he added.

According to the report, vacancy rates for all property types are at or below their long-term averages. There has been minimal construction over the course of this cycle and moderate amounts of construction in the pipeline, with the exception of the apartment market where supply is expected to peak in 2017. "This is something to watch closely – there are plans by the Trump administration to modify Dodd-Frank, which has actually been a benefit to real estate," said Park. Tighter construction lending has been due to new banking regulations and the Federal Reserve's oversight of bank lending after the global financial crisis. "We'll all still hopefully remember the effects of too much money and construction out there," added Park. Commercial real estate markets do not have an existing or pending over-supply of space.

After the December interest rate hike, Park says there is potential tension going forward between the federal government, with its stance of low interest rates for a longer period of time and the bond market, which is betting on stronger growth, higher interest rates, and higher inflation. "The phrase lower rates no longer applies," said Park. "There will be two rate hikes in 2017, with 25 basis points each time, and also in 2018."

PEOPLE MOVES

CBRE GLOBAL TAPS QUEENAN AS NEW PRESIDENT

CBRE Global Investors has named **Danny Queenan** as its new president, the company announced. Queenan, who joined CBRE Global Investors in 2015 as global chief operating officer, will have executive responsibility for the firm's regional businesses in the Americas, EMEA, and Asia Pacific regions. Prior to joining CBRE, Queenan was the CEO of CBRE's Asia Pacific region.

HUBER TAKES HELM AT HINES EUROPE

Lars Huber has assumed the role of sole CEO of **Hines Europe** and will join the firm's executive committee this month, the company announced. The CEO role for the firm's European operations has been split between Huber and **Michael Topham**, who held the role for 26 years in Europe. Topham is stepping down as co-ceo but will remain with the firm, leveraging his experience as a senior advisor to the development side of the firm's European business. Huber joined Hines in Berlin in 1996.

JLL HIRES HENDERSON FOR MIAMI SALES TEAM

JLL has hired **Allen Henderson** as an executive v.p. in its investment sales team in Miami, the company announced. Henderson will work with **Jubeen Vaghefi**, **Jeffrey Morris**, and **Denny St. Romain** to focus on sales transactions throughout Florida. With more than 30 years of experience in the sector, Henderson most recently focused on private equity fund raising. His experience includes executing debt and structured finance transactions for an international real estate services firm and serving as partner at Osceola Capital Partners.

JLL EXPANDS PHILADELPHIA BROKERAGE BASE

JLL has expanded its investment sales group in Philadelphia on expectations that the city's office market will continue to see strong activity in the coming year. The firm is preparing to launch several transactions in January on the heels of a solid 2016, according to Brett Grifo, senior v.p. Grifo, who recently came on board at JLL from a public real estate investment trust, joins a team headed by James Galbally.

Philadelphia saw about $2.2bn of transaction activity in 2016, about $1.9bn of which was in the suburbs. "There's been a great amount of transaction volume in the capital markets, and leasing fundamentals are expected to remain strong. It remains to be seen with interest rates on the rise how those increases will impact pricing on deals," Grifo said.

JLL is starting to observe investors factoring in softness when making underwriting assumptions. "For the most part, this is not impacting pricing on deals," Grifo added. Another positive is limited new supply in Philadelphia, with most developments happening on a build-to-suit basis. "People are being smarter about the way they develop, particularly in the office sector," he said. "Pre-leasing before putting shovels in the ground is a safer way to go in the Philadelphia marketplace."

With increasing talk of a possible downturn, timely information will be critical for investors, Grifo said, noting that he believes JLL's capital markets, research, tenant rep, and agency leasing teams offer solid access to data and analysis. "We have our fingers on the pulse of every aspect of the real estate market, so that our clients are better informed to make decisions to maximize the value of their investment," he added.

TEN-X'S COMMERCIAL REAL ESTATE NOWCAST – DECEMBER 2016

Pricing ticks up slightly as wary investors wait for cap rate guidance

Pricing for commercial real estate properties rose by just 0.3% in December, illustrating increasing investor concerns about the direction of cap rates. "The market is on a parallel with the bond price declines that began after last month's election, even as equities have risen," said Peter Muoio, chief economist at Ten-X. "Indicators underlying the nowcasts suggest investors are treading carefully, reassessing future cap rates as they gauge valuations."

The Nowcast, which aims to provide real-time pricing information for commercial real estate assets, also tracked a surprising rebound in the retail sector, which increased by 1.4% in December. "The sector is typically boosted during the busy holiday shopping season, although it remains hampered by e-retail competition and seemingly lasting shifts in consumer spending behavior," Muoio said. "The acceleration of wages across the country may be providing a much-needed boost to the sector, however, and may play a key role in its ability to overcome the strong secular headwinds it will continue to face in 2017."

Growth is the office sector was significantly slower, at just 0.4% in December and the apartment sector saw positive growth, albeit tepid. "As a new president prepares to take office, we are experiencing unusual uncertainty. This appears to be contributing to an overall softening of the market, including slowdowns in such previously stronger sectors as industrial and multifamily," Muoi said. "Investors are taking a wait-and-see approach toward many of their holdings, and this is holding back overall pricing growth."

"Even though the market as a whole took a step back during December, commercial real estate remains generally healthy across the country," said Muoio. "Despite a number of challenges posed by technology and other factors, a growing economy continues to make most segments of the industry an inviting choice for investors."

DECEMBER NOWCAST*

Ten-X's Commercial Real Estate Nowcast is calculated through a combination of Google Trends data, its proprietary transaction data and investor surveys to forecast CRE pricing trends in real time.

SECTOR	Nowcast Index	Month-Over-Month % Change	Year-Over-Year % Change
Office	198	3.7%	17.4%
Apartment	209.5	1.1%	16%
Retail	176.8	1.3%	7.4%
Industrial	172.6	1.8%	11.7%
Hotel	192.9	-0.4%	-8.5%
All Property	**190**	**1.5**	**8%**

**All price indexes are based at 100 from January 2011*

Pembrook bolsters social lending commitment

New York-based Pembrook Capital Management is bolstering its commitment to affordable housing and sustainability, bringing on Lisa Davis as director of investor relations and specialty investment originations. Davis will work with the firm's socially motivated investors and identify investment opportunities to promote affordable housing, job creation, and revitalize underserved neighborhoods. "We're not just thinking about the number of affordable housing units produced, but instead how that impacts childhood outcomes and health outcomes for women and children," she said.

Pembrook, a private equity manager that invests in and develops real estate, is seeing more interest from investors in projects that align with environmental, social, and governance (ESG) standards for sustainability and ethical impact. "It's a good time to develop an ESG investor base," David said. "The financial institutions, pension funds, endowments, and family offices [that we work with] are motivated not just by financial returns but also by the social returns that come from making investments in affordable housing."

Davis sees the push into ESG investing as a sustainable model for the future, but is realistic about the potential hurdles. She stressed the importance of developing Pembrook's story and taking the time to educate investors early on about its ESG offerings. "It takes a longer time for us to get to investment close with this model, but we're trying to re-explain and re-educate the community from purely community reinvestment terms to ESG terms," she said.

Environmental and governance criteria are the two most developed areas of the standards, Davis said. "[In those two areas], we have fairly clear guidelines," she added. "Investors have different ideas of what the standards should be, but we do have a basket of measure to go by."

In contrast, standards to measure social criteria are still being hammered out. Part of Pembrook's business model is to push for growth in the social sector, especially around housing, and to develop metrics to measure the outcomes of those investments. "Affordable housing has a very clear impact because it creates a stable, safe place to live," Davis said. "Housing is also an important social investment for health, education, childhood outcomes, and inequality."

Prior to joining Pembrook, Davis served as a program officer at the Ford Foundation, Metropolitan Opportunity Program in New York, where she helped place over $45m in grants and nearly $10m in program-related investments annually for the national initiatives. She has spent over 15 years in commercial real estate and development for philanthropic, nonprofit and for-profit organizations.

D.C. tenants leasing less space in higher-quality properties

Smaller office tenants in Washington, D.C., are increasingly looking to reduce their space footprints and move into higher-quality properties. "Tenants will take less space in a higher-quality office, and will be able to afford the higher rent per square foot. There are much fewer individual offices, conference areas, and libraries in law offices," according to Paul Davis, senior v.p. and director of operations at J Street Companies, a local property management specialist.

The company specializes in managing smaller assets of 100,000 square feet or less, an area where it sees solid growth potential. "We've developed a program where we bring value to smaller investors," Davis said. "A lot of competitors won't do third-party management under a certain size – internally, this strategy is profitable for us and brings value to our investors."

J Street recently signed five new property and facility management contracts totaling more than 300,000 square feet of office and residential space, all signed in the last three months of the year. "This is unusual because of the velocity with which it's occurred," Davis said. "Three to four assignments in a year is a lot, so five in a three-month period is highly unusual. For all of this to come together in a short time is stunning."

J Street is hyper-focused on the Washington metro area, working with private investors and nonprofit owners. The company has developed programs where staff is shared across smaller properties, as long as all properties use the same accounting software. "We have a well-trained facility team," said Davis. "Most of our properties are energy rated and LEED certified – our target is to convince nonprofits and associations that we are a good fit for them."

The company manages about 2.4 million square feet of space in Washington, Virginia, and Maryland. "We're dealing with a lot of owners who don't have asset managers to analyze capital expenditures and do cost and cycle analysis," added Davis. "Most of our properties are Class B, from which tenants tend to migrate – there's been a flight to quality in the D.C. market, with 20% vacancy in the city."

RXR breaks ground on Long Island mixed-use

RXR Realty has broken ground on a $1bn mixed-use project in Glen Cove, N.Y., that's been in the works for more than 10 years. The firm, which is working with the Long Island city on the 1.8 million-square-foot property, has already seen strong interest in the project's condo and commercial units. "There is a very large demand for this type of housing," said Frank Haftel, first v.p. "Glen Cove is a beautiful city that fell on hard times over the last few decades – we believe very strongly that we will make it one of the jewels of Long Island's North Shore once again."

The development will be financed through a combination of equity provided by RXR and both senior and mezzanine construction financing, said Haftel. The public infrastructure improvements associated with the project are being funded through public infrastructure bond offering issues that closed in November 2016.

The first phase of the five- to seven-year construction process will include 28 acres of public open space and amenities and is expected to be completed in 2018. The project will also restore 56 acres of the city's waterfront to productive use, creating a public expanse with parks, playgrounds, esplanades, marinas, an amphitheater, and a dog park. There will also be 75,000 square feet of new retail and restaurants with on-site parking. "We are also going to restore marine habitats on the beach and along Glen Cove creek" added Haftel.

The development will include more than 1,100 LEED-certified residential units, about half condominiums and half rentals. The residences will include lounges, exercise rooms, dining rooms, swimming pools, decks, outdoor lounge areas, full service lobbies and staff. The rental buildings will include studios, one bedrooms, two bedrooms, and three bedrooms. The condominiums will range in size from 500 square feet to over 13,000 square feet. "There is a great need for both types of housing, which is in very short supply on Long Island," said Haftel. "We're drawing on the success of our recently completed phase one of the Ritz Carlton project in North Hills, only about 10 miles away."

Residents can commute to Manhattan via ferry, with a terminal already completed on-site, or choose to live and work in Glen Cove, Haftel said, noting the town is about 30 miles outside of New York.

YARDI MULTIFAMILY MATRIX

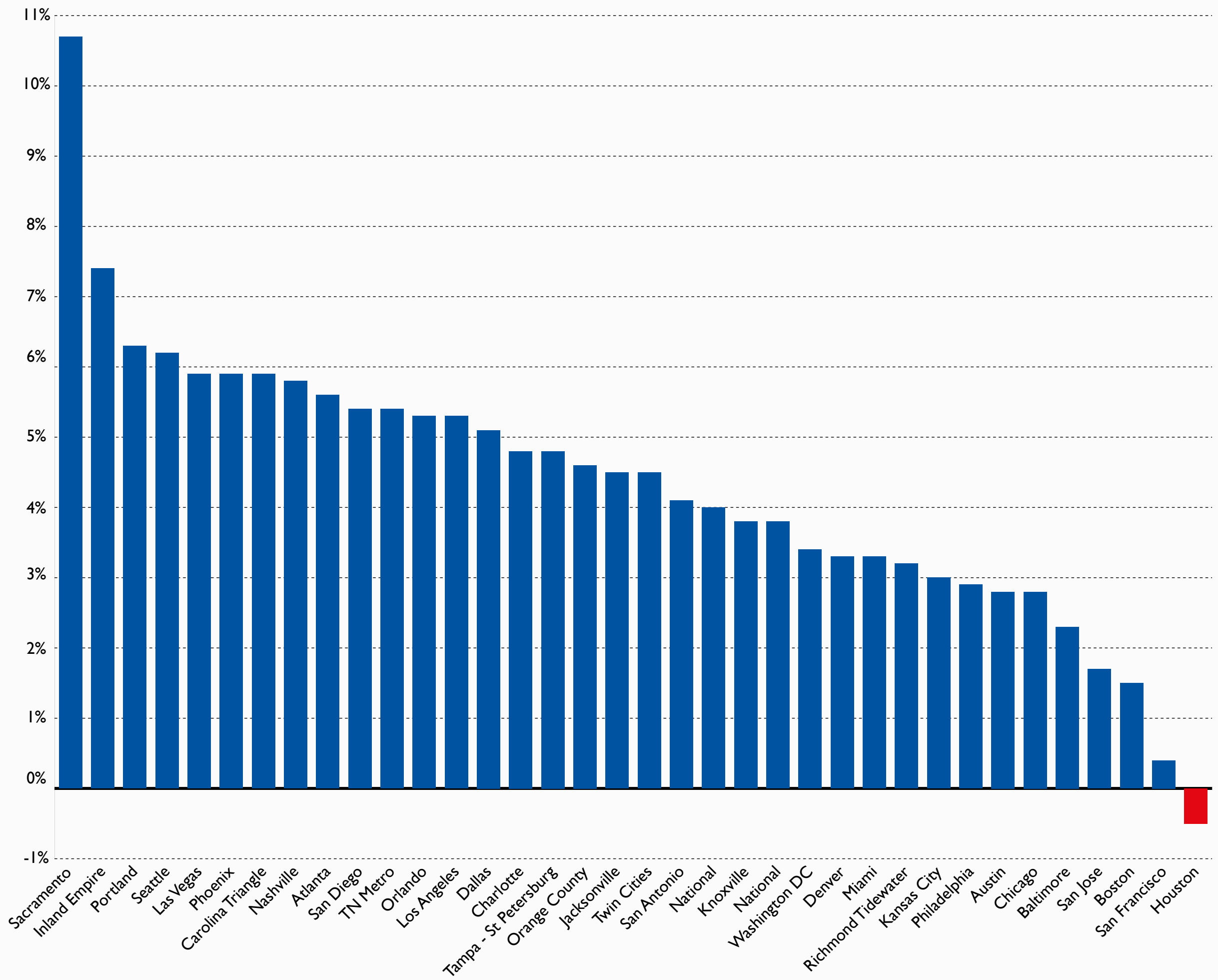
APARTMENT RENTS CLOSE YEAR WITH SMALL DROP

Despite a small drop of $4 on average in U.S. monthly apartment rents last month, the sector saw strong overall rent growth through 2016, according to the Yardi Matrix. The firm found that the national monthly rent average in December was $1,210, according to a survey of 123 markets. The survey also found that rents increased 4% year-over-year during that period.

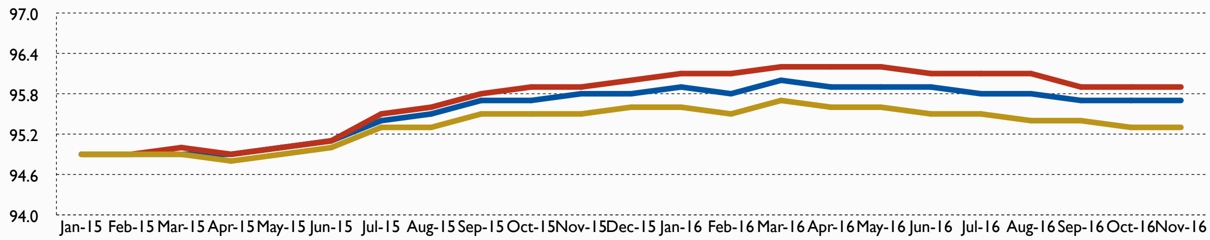
Yardi tracked a drop of $10 in the last four months of 2016, with metros that include Houston, San Francisco, Boston, Austin, Miami, and Denver showing significant flattening, part of this stems from normal seasonal factors. "As we have stressed in recent months, fundamentals remain sound and deceleration is not alarming," the report stated.

Sacrament, California's Inland Empire, Portland, Ore., Seattle, and Las Vegas were the leaders in year-over-year rent growth.

DEC 2016 - YOY RENT GROWTH



OCCUPANCY



U.S. CMBS IN 2017: RISK RETENTION CLOUDS AN OTHERWISE STABLE OUTLOOK

BY HUXLEY SOMERVILLE OF FITCH RATINGS

The U.S. CMBS sector might see some softening among certain asset types in 2017, none of which should affect ratings performance (particularly investment grade CMBS). Where the market could see some uncertainty will be in the first few months of this year. Reason being the new risk retention rules that are now in effect.

HOW LONG BEFORE THE RISK RETENTION CLOUD PASSES?

Fitch has long viewed risk retention as a credit neutral issue in rating CMBS and that viewpoint remains intact. The preeminent question will be whether transactions after the December 24th implementation actually comply with the regulations, an answer that may take some time as regulators ascertain these transactions and present their final feedback.

One of the causes for uncertainty remains repercussions for the risk retention sponsor if a deal is determined to be non-compliant. Additionally, more issuers could jettison an already shrinking CMBS market.

RATINGS ON FITCH-RATED CMBS MOSTLY STABLE

CMBS 2.0 multi-borrower transactions should be mostly stable up and down the capital structure with idiosyncratic risk being the biggest performance influence. Fitch has resolved the Rating Watch Negative status for deals with exposure to the Dakota oil fields and Ft. McMurray fire exposure. That said, persistent volatility could impact lower rated classes of transactions with exposure to these two areas. As in recent years, non-investment grade bonds remain most at risk to any rating actions especially given the potential binary outcome on a handful of underperforming U.S. malls. Additionally, Fitch will closely monitor the potential ramifications for CMBS once Macy's announces store closings, which the retailer has stated that they will announce early this year.

CMBS 2.0 single borrower deals should also be stable up and down the capital structure. Fitch credit metrics will likely continue to be bar-belled especially if the current trend of placing high percentages of credit opinion loans into deals continues. In 2016, conduit only credit metrics declined further while average deal metrics stabilized as a result of the credit opinion loans.

Fitch maintains its vigilance on single borrower CMBS with significant exposure to lack of alternate use at the property level and will likely implement rating caps in these instances. In fact, Fitch would have applied rating caps to the Toys 'R' Us, IMC Furniture Mart and Sava Healthcare CMBS transactions for this very reason.

We may continue to see more credit deterioration this year in Freddie K-series deals. However, the K transactions already have a pricing advantage because they are not subject to risk retention. As such, there should be increased differentiation between Freddie and CMBS loan and collateral quality in 2017.

2006-07 MATURITY WALL MUCH DIMINISHED

U.S. 2006 and 2007 multiborrower vintages are in the process of winding down and will not surprisingly be most volatile as the last performing loans from these vintages face maturity. However, Fitch has already taken into account potential refinance issues in its current ratings, which should translate to minimal rating actions on investment grade CMBS tranches. Where more pronounced rating actions could take place is with the non-investment grade tranches, which will be more volatile as unanticipated loan performance, either good or bad, affects more concentrated and diminishing pools.

CMBS may not be the lead source of refinancing for these vintages, however, as CMBS represents a declining portion of the overall commercial real estate finance market. The CRE financing market as a whole though, should be resilient even with a modest increase in interest rates.

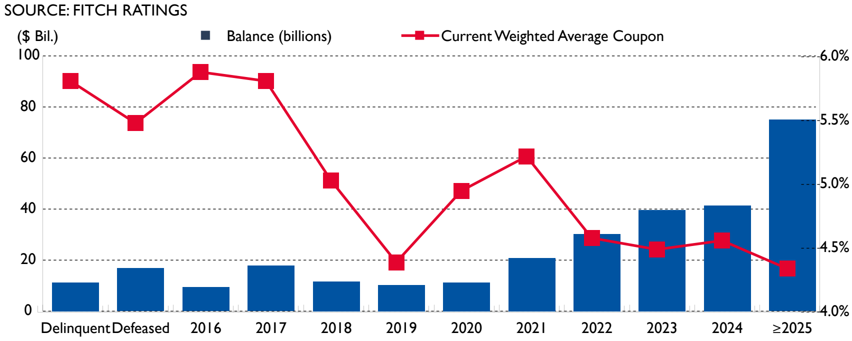
PROPERTY MARKET FUNDAMENTALS MIXED

Hotels revenue and cash flow growth have peaked and Fitch expects 2017 RevPAR growth to turn negative in the second half of 2017. In most cases, Fitch continues to limit RevPAR when adjusting individual hotel cash flows for sustainability. Overbuilding in New York, Nashville, Seattle, Houston, Dallas, and Denver will pressure occupancy and room rates.

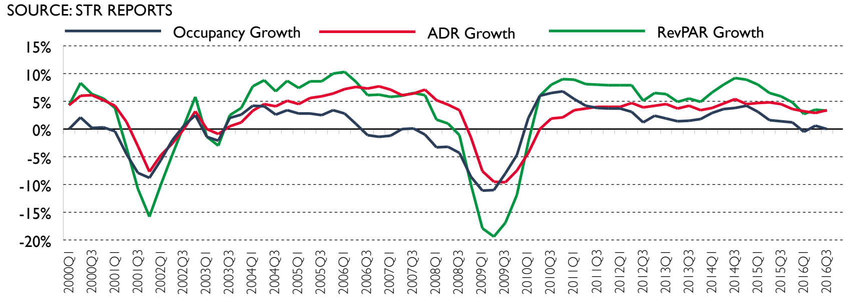
Multifamily has also arrived at a peak, though Fitch expects that apartments will continue to operate at peak levels this year given strong demographics. Rents are not expected to materially increase. When assessing multifamily cash flows for sustainability, Fitch will be unlikely to take income higher than 2016 levels. New construction in areas such as Austin and Charlotte will also be watched. Student housing is also a potential area of concern. While the Canadian single family residential sector has been overheating, multifamily fundamentals are expected to remain strong.

Retail is mixed. Occupancy and rents are slowly rising, though more macro concerns are overshadowing these positive performance metrics. Namely, the performance of anchor tenants such as Macy's, JC Penney and Sears; the performance of large box retailers given the

2016-17 MATURITY WALL MUCH DIMINISHED - FITCH-RATED LOAN MATURITIES
SOURCE: FITCH RATINGS



HOTELS PAST PEAK - REVPAR, ADR, & OCCUPANCY GROWTH
SOURCE: STR REPORTS



supply influx brought on by Sports Authority and other bankruptcies such A&P, Fresh and Easy and downsizings by WalMart and Staples/OfficeMax/Office Depot. Lack of new construction is a big positive factor given the bankruptcies and downsizings. Across North America the continued impact of e-commerce will provide negative pressure on the sector overall, or at least drive the need for innovative uses of retail space.

Office is also mixed. Gateway cities remain stable, though New York is showing softness given new construction coming on line. Suburban office in markets around Washington DC, Chicago and Pittsburgh will continue to struggle. San Francisco, Silicon Valley, Austin and Seattle valuations are being driven to record levels by the tech sector. Houston will continue to be negatively affected by the low oil price. Houston vacancies are nearing 20%, with 15% of that vacancy being sublet space. There will be further supply pressure from an additional 3.3 million square feet of space under construction of which only 54% is preleased.

CMBS is set for a largely stable outlook in 2017, though the aforementioned regulatory and market-specific developments should provide an interesting test for the sector. ■

Huxley Somerville is a managing director and heads Fitch's U.S. CMBS group

(CONTINUED FROM PAGE 1)

Outlook 2017: Pro-growth policies could extend cycle

be most active. "There is an enormous amount of foreign wealth and institutional capital chasing real estate investments in the best city in the world and as the dollar gets stronger, it will get very expensive to keep buying here," said Himmel. "If the dollar gets even stronger, [investors] may try to take advantage of the currency change and take their money back out by selling."

While most market pros are in agreement that a strengthening dollar could discourage some foreign investment, some posited that a general feeling of uncertainty around the world could act as a draw to the U.S. "There's been a little bit of a global look at turning right instead of left," said Tino Korologos, managing director at Berkley Research Group, referring to a swing of global populist decisions made by voters in recent months. "The question becomes: are investors going to keep investment capital in their home country, or will they continue to invest in the U.S. because of its perceived safety? In my opinion, global capital will continue to flow into the U.S. in both debt and equity [markets]." The U.S. is often viewed abroad as a safe haven rather than a place to make windfall returns, according to Mitch Wasterlain, founder and ceo of CAPFUNDR. "Foreign investors are looking to preserve capital rather than generate income, so they'll stick to investing in gateway cities," he added. "They aren't as concerned about returns; they just want to get their capital to a safe place."

While foreign investors will continue to focus on gateway city markets, there has been a push among domestic investors towards secondary markets. "I think there are going to be a lot of [domestic investors] who are looking to invest in markets that have higher cap rates and are not so dependent on value growth," said Wasterlain. "Due to the run up in values in markets like New York and based on the supply coming on stream [in that market], we're seeing growth in markets in the Midwest and Southeast."

Many market players are still optimistic about where we are in the cycle and still see strong fundamentals going into 2017. "There's still more capital chasing assets than there are to buy," said Peter Hauspurg, chairman and ceo of Eastern Consolidated. "We may see prices start to soften and for it to go the other way, but for now there's plenty of capital that's chasing anything that's income producing."

(CONTINUED FROM PAGE 1)

CMBS MART SET TO SEE ISSUANCE RISE

doesn't go up," said another trader, citing the generally accepted property concentrations within CMBS deals. "If volume comes down, we won't have a place to put all the hotel [loans that are being originated]. Depending on how one component [of issuance] turns out, it can have an effect on other property types."

Risk retention, which was implemented on December 24, continues to be a question mark. "People still have to figure it out," said the second trader. "We still have an uncertainty of execution around what a deal looks like and how we can do it on a programmatic basis."

Among the risk retention-related concerns is a perceived lack of guidance from regulators on what an acceptable structure looks like. "Regulators will give guidance [generally], but they don't want to tip their hand too much," said the ratings agency official. "They won't tell you if your structure [specifically] complies with the regulation." Last year, four vertical risk retention-compliant deals were issued ahead of the Christmas Eve deadline as test-runs, but so far, no deals have employed a horizontal or an "L-shaped" structure that would require issuers to hold onto or resell the b-piece.

About $92b in outstanding performing commercial mortgage loans are also scheduled to mature in 2017 as part of the $284b of loans originated at the height of the market. Between 2014 and the first half of 2016, loans from that pool with debt yields of less than 8% generally had lower payoff percentages, a trend that's expected to continue through this year, according to a report by S&P Global Ratings. Ultimately, $12b of those loans could default this year because the debt yield on mortgages maturing in 2017 will drop down. The agency is anticipating those losses in addition to the $8b of 2017 maturing loans that have experienced term defaults and are currently with the special servicer.

Special servicers will face unique challenges this year, as stronger loans from the 2007 vintage were more likely to be defeased prior to maturity or paid off during their open period, leaving a pool of more troubled loans to mature in 2017. Although most market players have already factored potential losses from the remaining loans into their models, there is an expectation that the special servicers will see more action from the troubled loan pool this year.

In the face of growing global uncertainty, CMBS players are also considering the implications that an unforeseen world event would have on the CMBS market. "All you would need is for [a country like] Greece to go and then spreads would blow out," said the second trader. "That has nothing to do with real estate in the U.S., but that's the story with securitization when you have global money."

OVERALL MATURING LOAN SUMMARY, 2016 – FOURTH-QUARTER 2018 (BIL. $)

DEBT YIELD RANGE	Q4 2016	2017	2018
No debt yield	0.0	0.2	0.2
8% <	2.8	26.9	0.8
8%-10%	5.1	24.8	1.6
10%-12%	3.3	17.7	1.9
> 12%	4.5	22.2	7.0
Total	**15.8**	**91.7**	**11.2**

Source: S&P Global Ratings