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CRE Finance Council 2014 Outlook Survey Reveals: Commercial Real Estate Finance Market Participants Eyeing Interest Rates, Underwriting as New Year Kicks Off

WASHINGTON, D.C. (January 10, 2014) — U.S. commercial real estate markets continued their steady recovery in 2013, buoyed by the Federal Reserve's accommodative monetary policy, improving fundamentals in core markets and a general dearth of new construction of most property types. The positive macroeconomic backdrop helped increase lending activity from all liquidity providers, including balance sheet lenders and commercial mortgage-backed securities issuers.

Now, in 2014, commercial property finance pros are increasingly focused on how high and how quickly interest rates will rise and how commercial and multifamily loan underwriters will react, according to the inaugural CRE Finance Council 2014 Outlook Survey, the results of which were released today in advance of the organization's 2014 January Conference in Miami next week.

"All eyes are on interest rates and underwriting as the calendar turns to 2014," said Nicoletta Kotsianas, Associate Director, Kroll Bond Rating Agency, Inc. and Co-Editor, CRE Finance World, the magazine of the CRE Finance Council (CREFC).

CREFC President and CEO Stephen M. Renna added: "Commercial real estate finance industry participants are watching for market reaction as the Fed begins its tapering program of government bond purchases. The consensus among CREFC members is that interest rates will move modestly higher in 2014. As long as the rate increase is gradual and correlates to growth in the economy, the market should be able to absorb it. It's the sudden rate increases resulting from capital market dislocation, such as a debt ceiling crisis, that are most problematic."

Constituents across CREFC's membership participated in the survey, with respondents comprised of a cross-section of investors, conduit lenders, balance sheet lenders, private capital lenders and servicers.

Survey Highlights

- The majority of CREFC members believe cap rates will rise by at least 20-30 basis points in the next year as interest rates presumably rise and dampen commercial real estate sales prices.
- The majority of CREFC members believe the impact of a rise in interest rates will be the tightening of loan underwriting standards in 2014.
- CREFC members believe the multifamily sector will see the largest percentage increase in conduit lending in 2014.
- CREFC members believe a predicted increase in the volume of interest-only loans represents the "most concerning trend" in new CMBS issuances in 2014.
- CREFC members believe the multifamily, office and hotel sectors will experience the largest increase in rental-rate growth nationally in 2014.
- CREFC members believe the office sector will lead the market in returns in 2014, following on expected declines in office property vacancies nationally.

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Survey Details

- Cap Rates: 79% of CREFC members believe cap rates will rise by at least 20-30 basis points in the next year as interest rates presumably rise and dampen commercial real estate sales prices. 18% believe cap rates will rise by 50 or more basis points in 2014.
- Underwriting Standards: 83% of CREFC members expect that the anticipated rise in interest rates will lead to the tightening of commercial real estate loan underwriting standards in 2014.
- Apartment-Sector Lending by Conduits: 59% of CREFC members believe the multifamily sector will experience the largest percentage increase in conduit lending in 2014.
- Concern about Interest-Only Loans: 39% of CREFC members believe the increasing volume of interest-only loans is the “most concerning trend” in new CMBS issuance underwriting.

Increase in interest-only loans	39%
Lower debt yields	35%
Increasing loan-to-value ratios	13%
Decreasing debt service coverage ratios	13%

- Rent Growth in Key Property Sectors: CREFC members believe the multifamily, office and hotel sectors will experience the largest increase in rental-rate growth nationally in 2014. The three sectors tied for first when members were asked for their predictions.

Multifamily	26%
Office	26%
Hotel	26%
Retail	13%
Industrial	9%

- Market-Leading Returns: CREFC members believe the office property sector will lead the market in returns in 2014, followed by industrial and multifamily (tied for second), hotel and then retail.

Office	27%
Industrial	23%
Multifamily	23%
Hotel	18%
Retail	9%

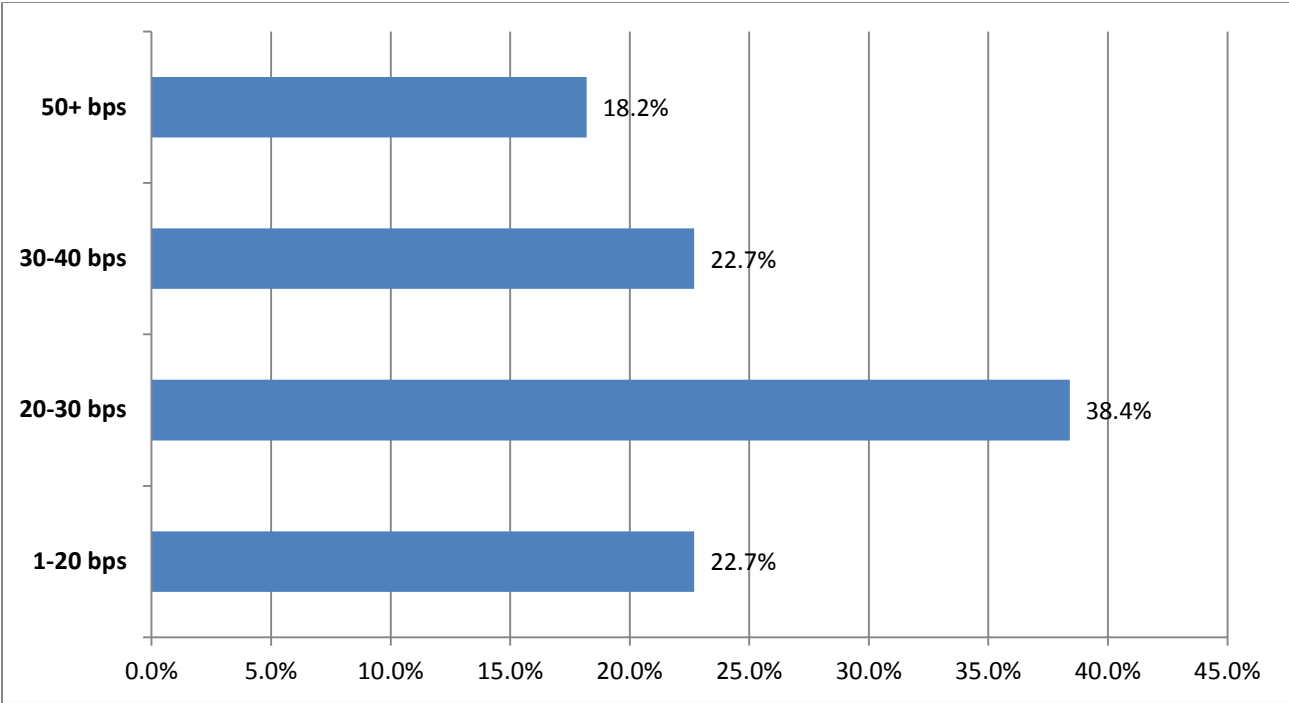
CREFC members' prediction that office and industrial will lead among property sectors follows on members' expectation that the office and industrial sectors will experience greater declines in vacancies nationally than other sectors in 2014.

Office	36%
Industrial	36%
Multifamily	14%
Retail	9%
Hotel	5%

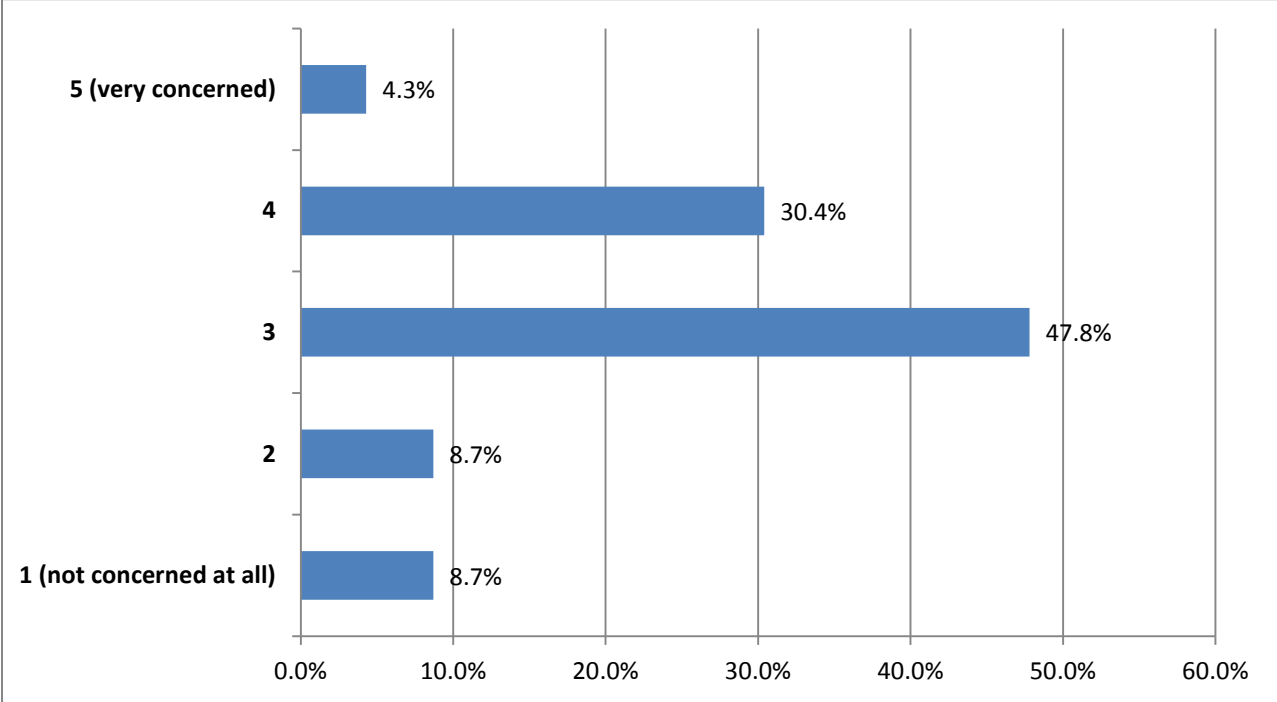
The CRE Finance Council brings together participants in all aspects of the \$3.1 trillion commercial real estate finance industry. Members are lenders, investors and servicers, including commercial banks, insurance companies, pension funds, private equity funds, mortgage REITs, buyers of investment-grade and B-piece securities and loans, and rating agencies.

CREFC promotes capital formation and availability worldwide by encouraging commercial real estate finance market efficiency, transparency and liquidity. For more information, visit www.crefc.org.

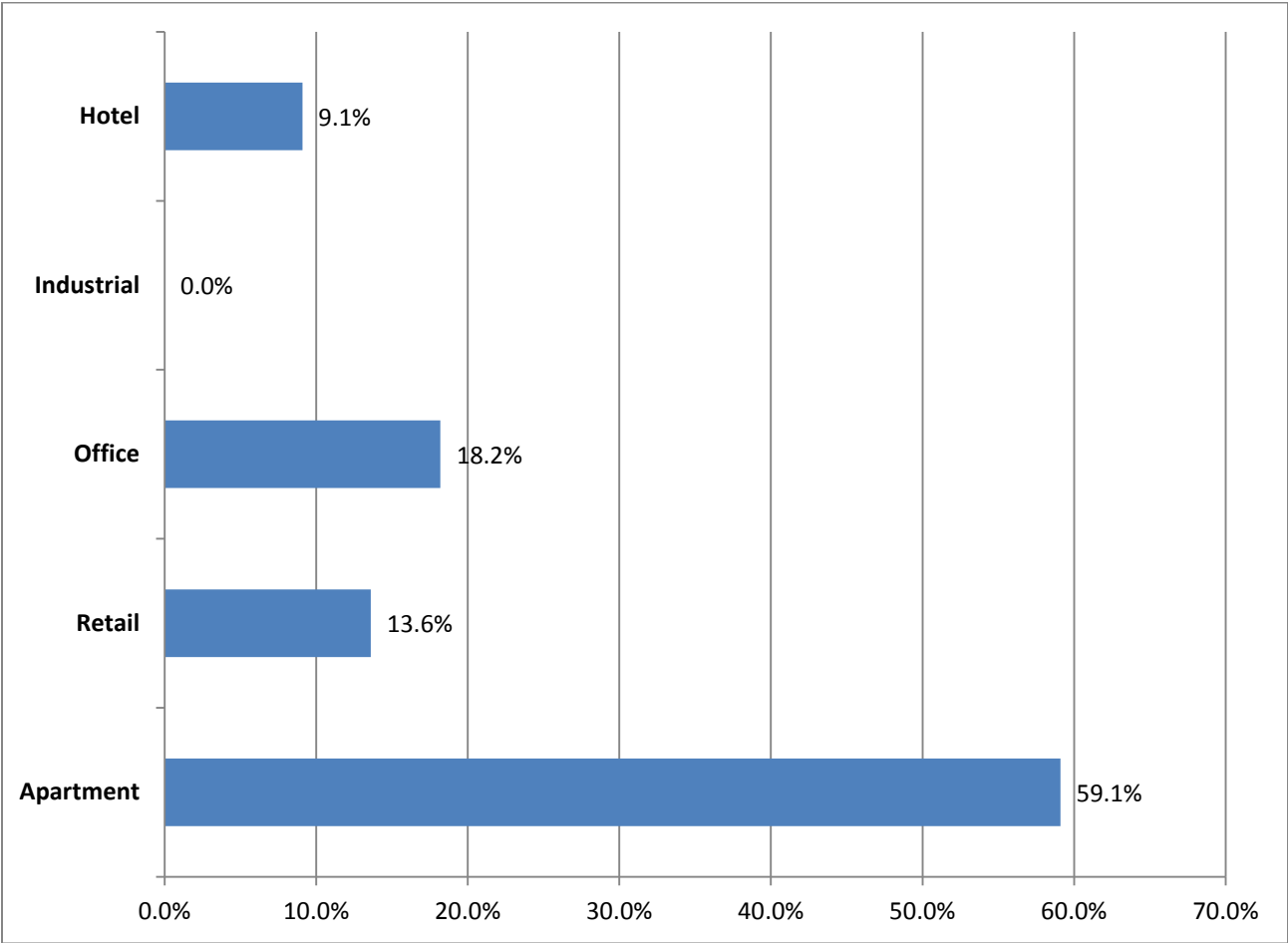
What are your expectations for a cap rate increase as rates rise in 2014?



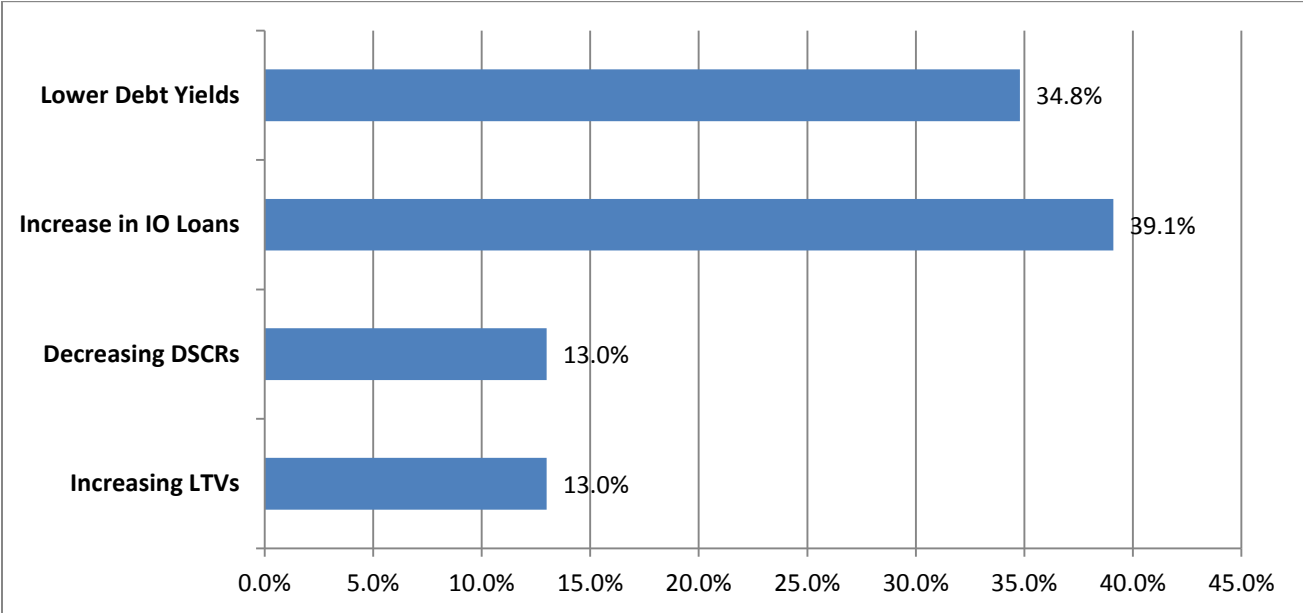
How concerned are you about the impact that the rise in rates will have on underwriting standards (1- not concerned at all, 5- very concerned)



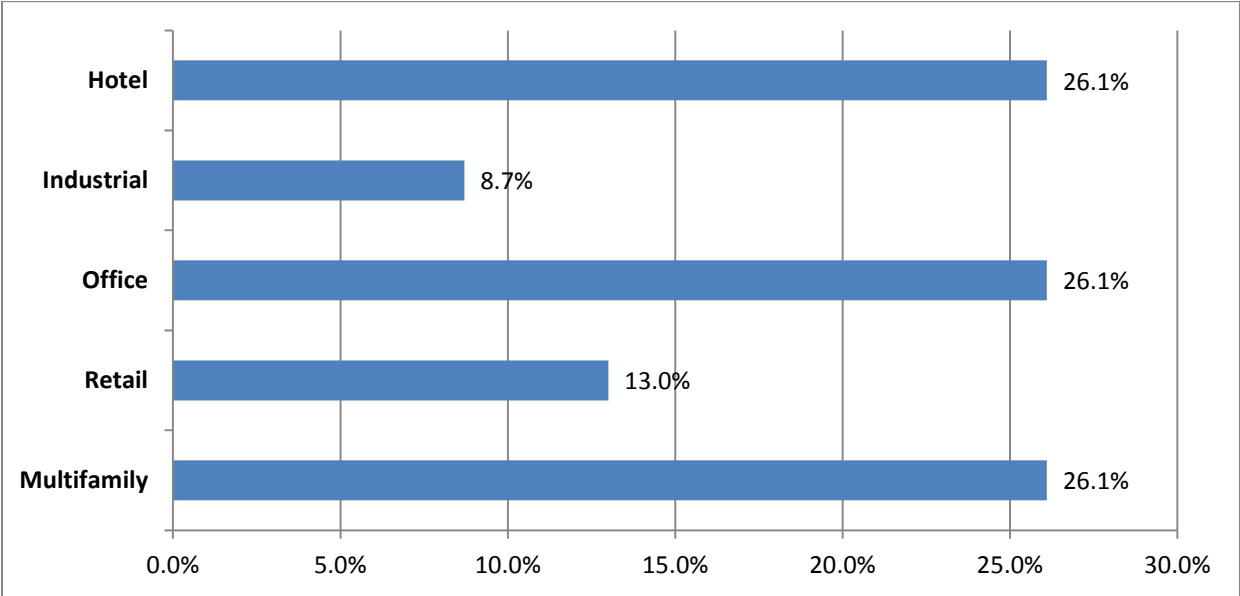
What sector will see the largest percentage increase in conduits?



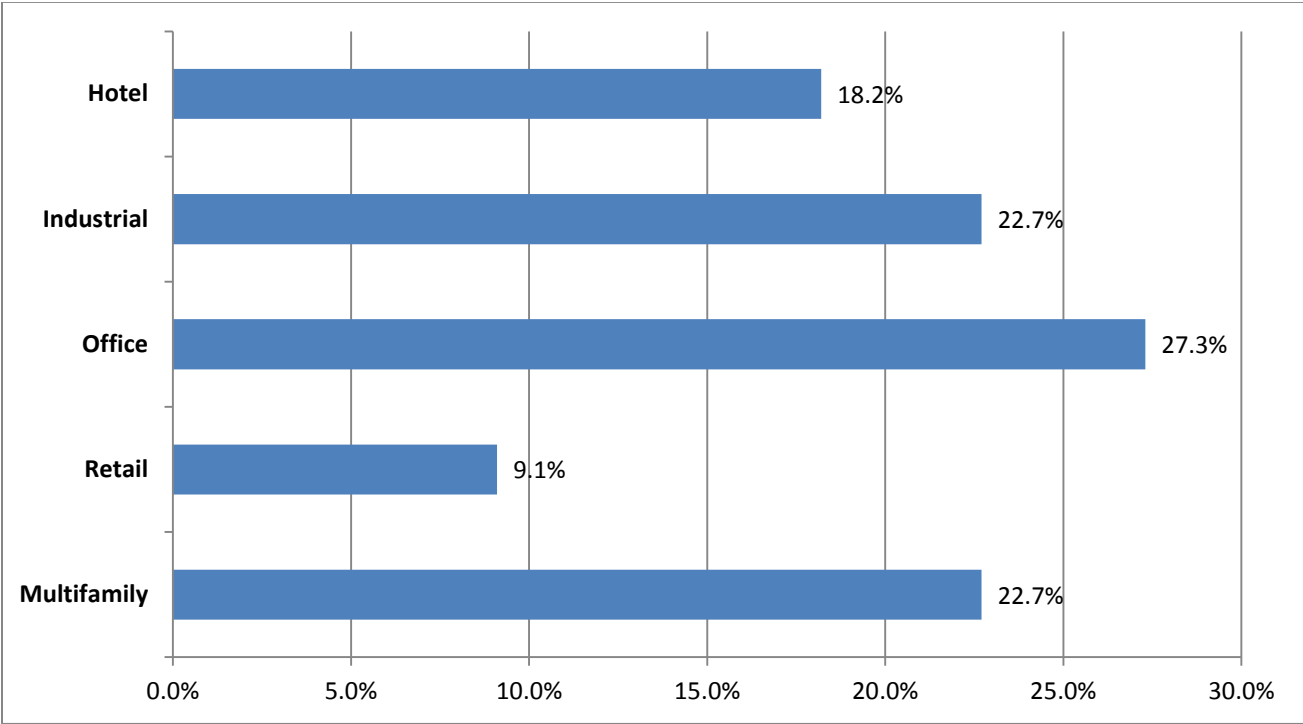
Which of the following trends in new issuance underwriting is most concerning?



Which property sector will see the largest increase in rental growth nationally?



What property sector will lead the market in terms of returns?



Which property sector will see the largest decrease in vacancy nationally?

