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MARKET COMMENTARY

SEPTEMBER 21, 2023

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basis points Federal Funds rate increase

The Federal Reserve elected to hold the Target Rate at 5.25% - 5.50% at the September meeting, unchanged from current levels.

- The Target Rate increased by 25 bps at the prior meeting in July, marking 11 increases since rate hikes began in early 2022.
- Slowing job growth and a decline in Core CPI to 4.3%, down from 4.7% in the prior month, provided enough evidence for the Fed to pause on increases this month.
- Chairman Powell's comments emphasized that the economy is not out of the woods, and further increases are still a possibility. The non-increase was characterized as a "hawkish pause" by analysts.
- Two Fed meetings remain in 2023, in November and December. The market is pricing in a 50% probability of one more increase in 2023, likely at the November meeting.

5.32%

1-Month term SOFR

The SOFR Forward Curve anticipates rates peaking at 5.45% in January 2024, before commencing a gradual decline to 4.52% in January 2025.

- The continued overall strength of the economy along with the possibility of future rate increases, is keeping the forward curve from showing a steeper decline.
- 5- and 10-year Treasury rates remain stubbornly high at 4.51% and 4.34%, respectively, and are projected to remain north of 4.00% through the end of 2024, based on the forward curve.
- The most recent Fed survey of senior loan officers indicated that 65% - 70% of lenders tightened underwriting standards for construction, land and multifamily lending in Q3 v Q2.
- Banks continue to pad and protect their balance sheets in anticipation of potential future write-downs of loan assets. Regulators have also increased pressure on lenders to reduce their exposure to commercial real estate on the heel of downgrades of many of the super-regional and regional banks by Moody's and Fitch.

5.75% - 6.75%

Fixed rates for most loans

Most market participants are active, but high fixed rates and conservative underwriting standards make closing loans challenging.

- Bank & Credit Union spreads in the +175 to +250 bps range drive all-in borrowing costs to the 6.00% - 7.00% range, pushing leverage down to 55% - 65% to meet DSCR constraints.
- Life company quotes range from 5.75% - 6.75% with leverage spanning 50% - 60%. Only multifamily, industrial and retail borrowers need apply, with few exceptions.
- CMBS lenders remain active, despite headwinds. 5-year, interest-only loans have become a new market standard as borrowers opt for shorter terms. Rates range from 6.75% - 7.50%, occasionally topping 8.00% for hospitality. Borrower options to buy-down rates or increase the open pre-payment period are popular add-ons. All major property types, including low leverage office loans, are being quoted.
- With spreads starting at +300 bps and moving higher from there, floating rate loans for value-add and construction start at 8.30% and trend to the low double digits.
- The Agencies, Freddie Mac in particular, have aggressive targets for Q4. Interest only has become more challenging, but rates from 5.75% - 6.50% make it an attractive option.

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STABILIZED RETAIL FINANCING - MARKET TERMS*

						Product Types				
	LTV	Interest Rate	Term	Fixed/Floating	Recourse	Mall	Power Centers	Grocery Center	Strip	NNN
Life Co	50-60%	5.75-6.75%	5-20 years	Fixed (over Treasuries)	Non-Recourse			✓	✓	
CMBS	60-70%	6.75-7.50%	10 years	Fixed (over SOFR swaps)	Non-Recourse	✓	✓	✓	✓	✓
Bank	60-70%	6.00-7.00%	3-10 years	Fixed (index varies)	Varies			✓	✓	✓
Debt Fund	65-75%	7.75-10.25%	2-5 years	Floating (over SOFR)	Non-Recourse	✓	✓	✓	✓	
Credit Union	60-70%	6.00-7.00%	5-10 years	Fixed (index varies)	Varies				✓	✓

** Other terms such as prepay penalty, amortization and future funding vary widely by lender, property and borrower; rates change daily*

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