As a Lender…

NCREIF FALL CONFERENCE- NOVEMBER 15, 2023: 10:30 AM-11:45 AM

Review of Current State of CRE/Multifamily Lending Markets:

A Focus on CRE Debt Funds

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THANK YOU NCREIF

Thank You to Our Friends at NCREIF – Joe and Dan especially – for leading the development of the NCREIF/CREFC Debt Fund Aggregate and the invitation today to share our views on the state of CRE finance, particularly debt funds

Our Panelists today all participated significantly in the Aggregate's Development:

Gary Dinka: MetLife Investment Management, Head of Debt Production, Real Estate
Drew Fung: Clarion, Managing Director, Fund Portfolio Manager, Debt Investment Fund
Kirloes Gerges: Principal Asset Management, Managing Director, Portfolio Mgmt.
Lisa Pendergast: Executive Director, Commercial Real Estate Finance Council (CREFC)

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U.S. Federal Reserve – Inflation Battle of the Century

- **Timeframe**: Since March 2022, Fed engaged in historically aggressive campaign of short-term interest-rate - with perhaps just one more hike until they decree inflation banished!

- **Goal:** Tighten financial conditions -- Inflation fell from 8.6% to 3.2% in October 2023

- **Aggressive Inflation Fight.** FFs raised **11 times - near zero to 5.25%-5.50% today –**
- **In search of 2% target**

Date	Raise	Fed Funds
Jul-26, ‘23:	+25	5.25-5.50%
May-3, ‘23:	+25	5.00-5.25%
Mar-22, ‘23:	+25	4.75-4.50%
Feb-1, ‘23	+25	4.50-4.75%
Dec-14, ‘22	+50	4.25-4.50%
Nov-2, ‘22	+75	3.75-4.00%
Sep-21, ‘22	+75	3.00-3.25%
Jul-27, ‘22	+75	2.25-2.50%
Jun-16, ‘22	+75	1.50-1.75%
May-5, ‘22	+50	0.75-1.00%
Mar-17, ‘22	+25	0.25-0.50%

“Evidence of growth persistently above potential, or that tightness in the labor market is no longer easing, could put further progress on inflation at risk and could warrant further tightening of monetary policy.”

No Consensus on Fed's Next Move…

Fed Chair Powell Says It's 'Something of a Riddle'

- **Willing to raise rates again if progress on inflation stalls –**

Forward Looking Economists Projections, Conflicted on Magnitude

- **Morgan Stanley Economist projects Fed Funds fall to ~2.4% by YE-25**

- **Goldman Sachs More Bearish:** First 25 bps reduction in 4Q24, followed by one cut per quarter through mid-'26 — **Fed Funds settle at 3.50%-3.75%**

What's the Fed Saying?

- **Fed Projections from September show 2 quarter-point cuts in 2024**

- **Policy rate at YE-25 at 3.9% - Still Higher for Longer**

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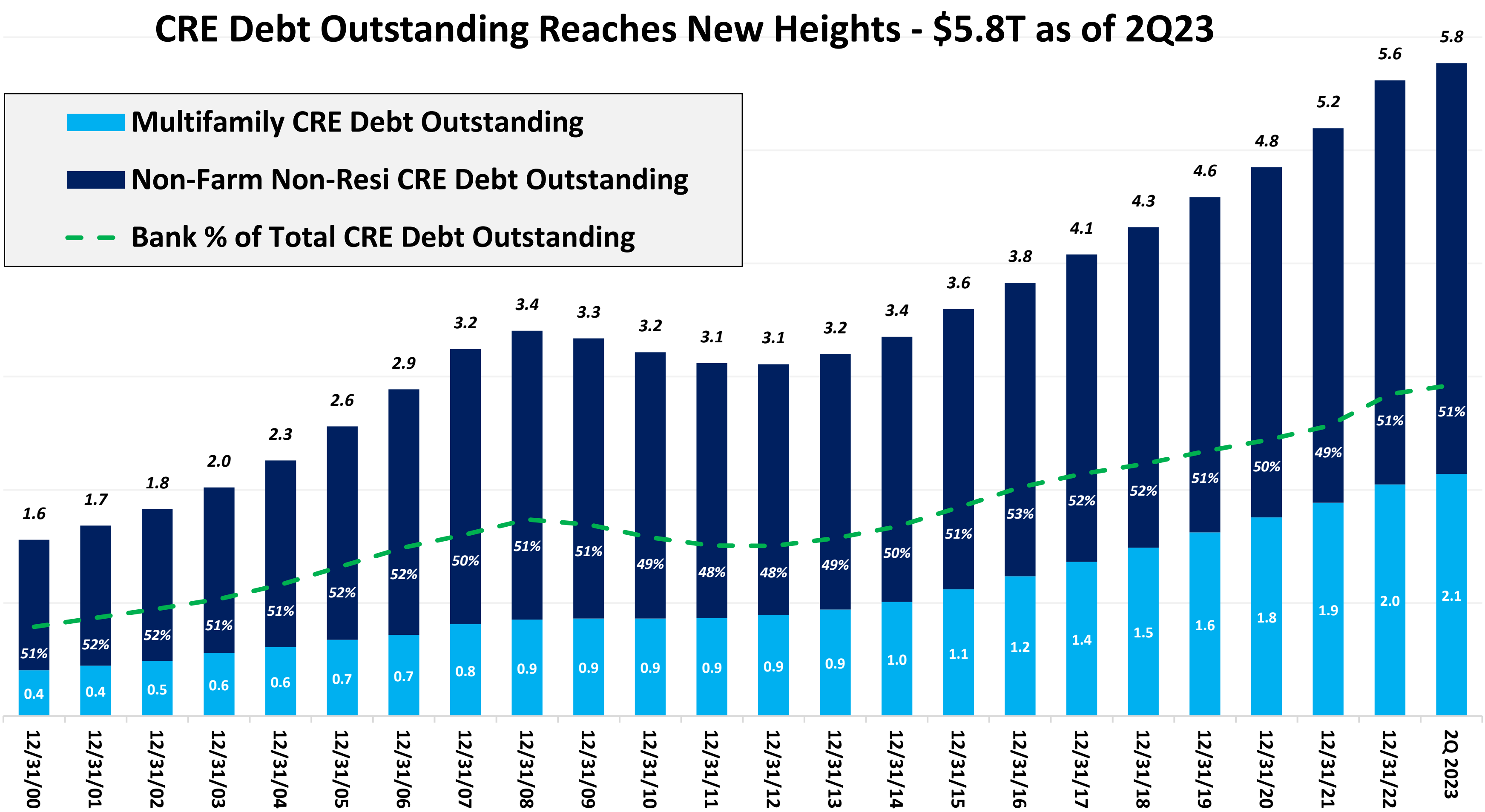
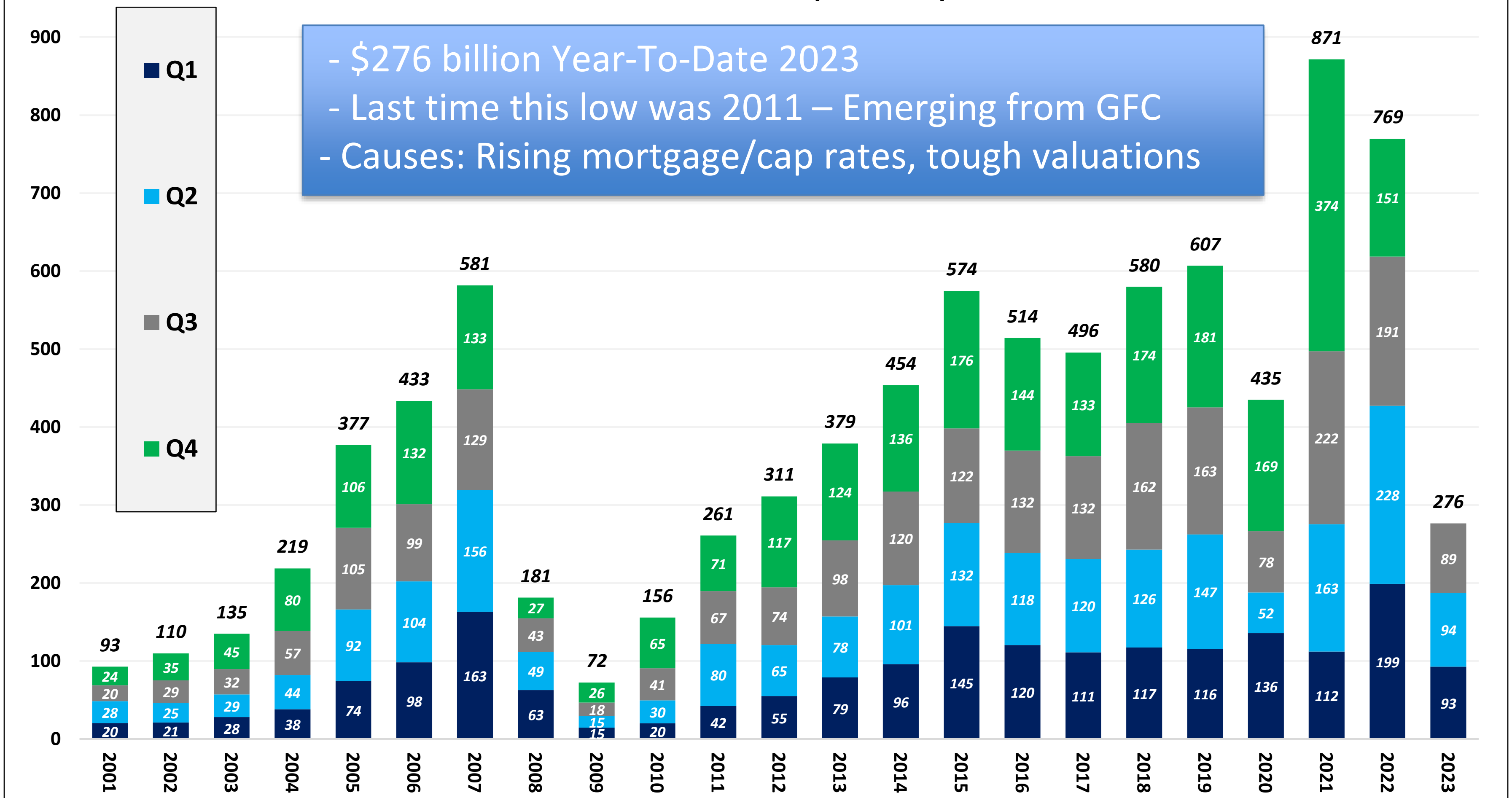
CRE Mortgage Debt Outstanding – Historical Highs



Source: Federal Reserve

Commercial Real Estate Transaction Volume Plummets

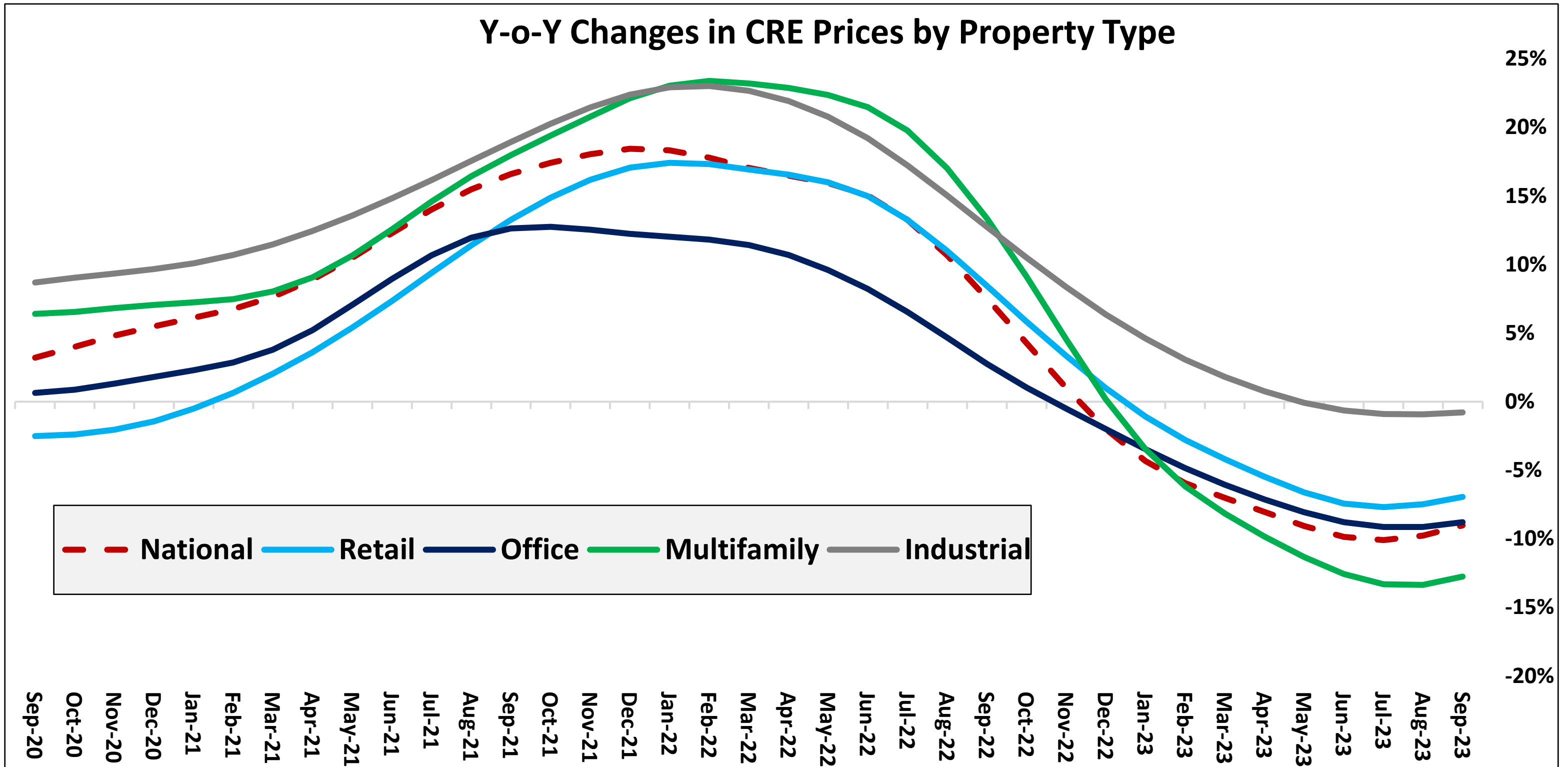
CRE Transaction Volume ($ billions)



Source: Real Capital Analytics; Based on independent reports of properties and portfolios $2.5 million and greater

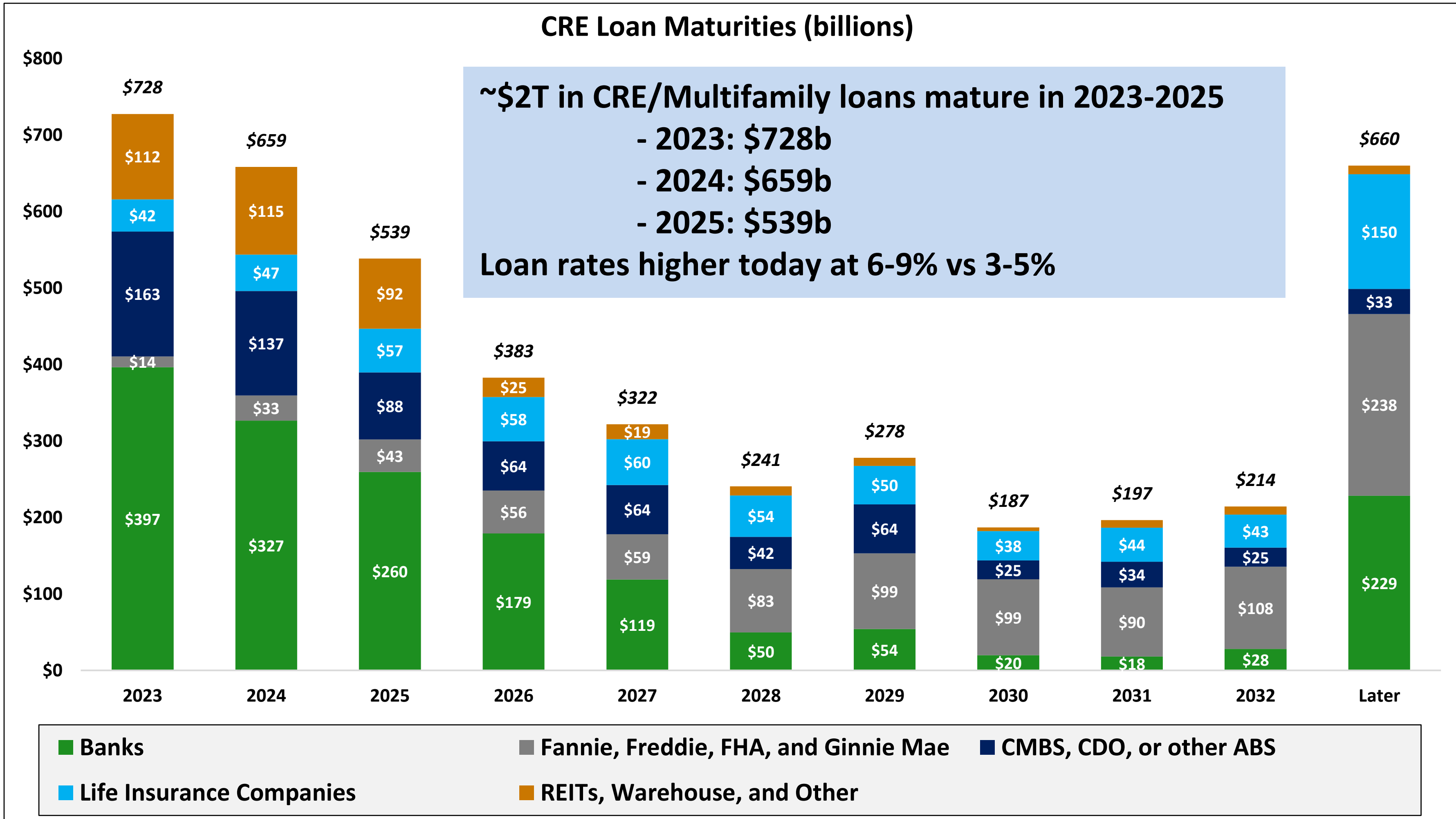
RCA Commercial Property Price Index – Downward Price Pressure

- Multifamily: Deepest national declines – values down ~13% YOY
- Office a close second – lower by 9% YOY
- Retail lower by 7% YOY
- Industrial outperforming all, less than 1% decline in value – Thank You Amazon…



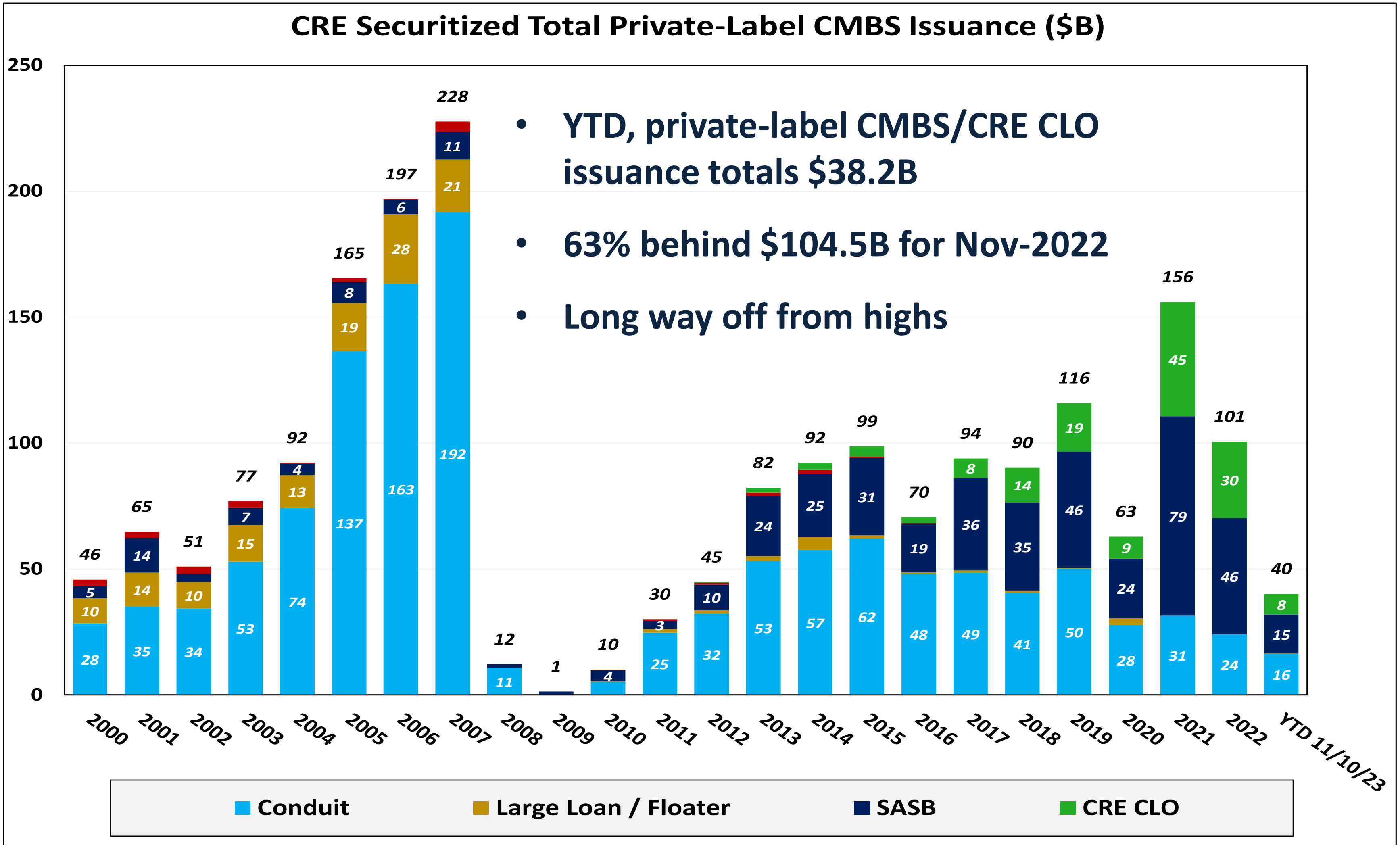
Source: Bloomberg, MSCI / Real Capital Analytics

Serious Wall of CRE/Multifamily Loan Maturities



Source: Non-Bank Maturities from MBA; Bank Maturities from BofA

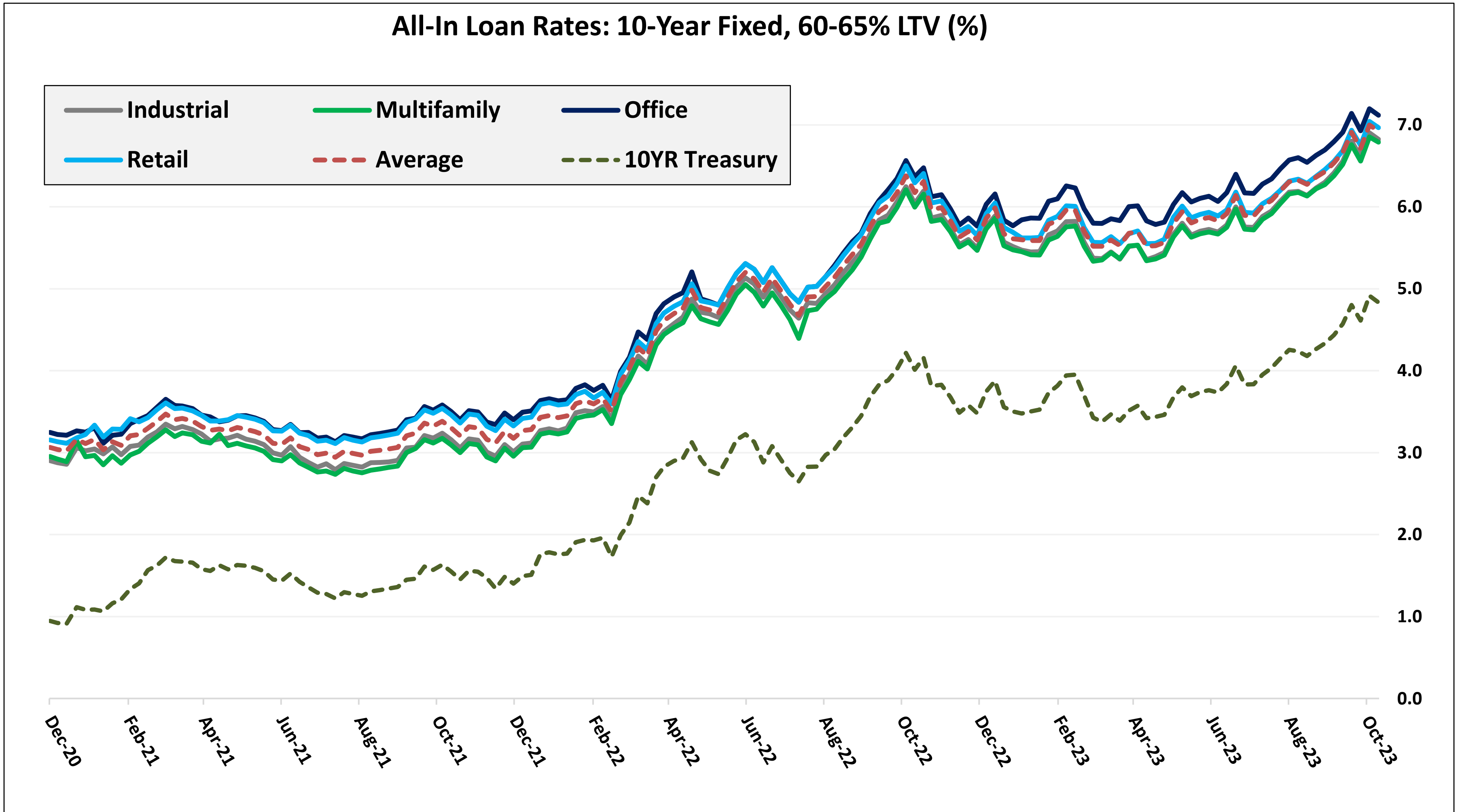
Private-Label CMBS and CRE CLO Issuance Plummets



- YTD, private-label CMBS/CRE CLO issuance totals $38.2B
- 63% behind $104.5B for Nov-2022
- Long way off from highs

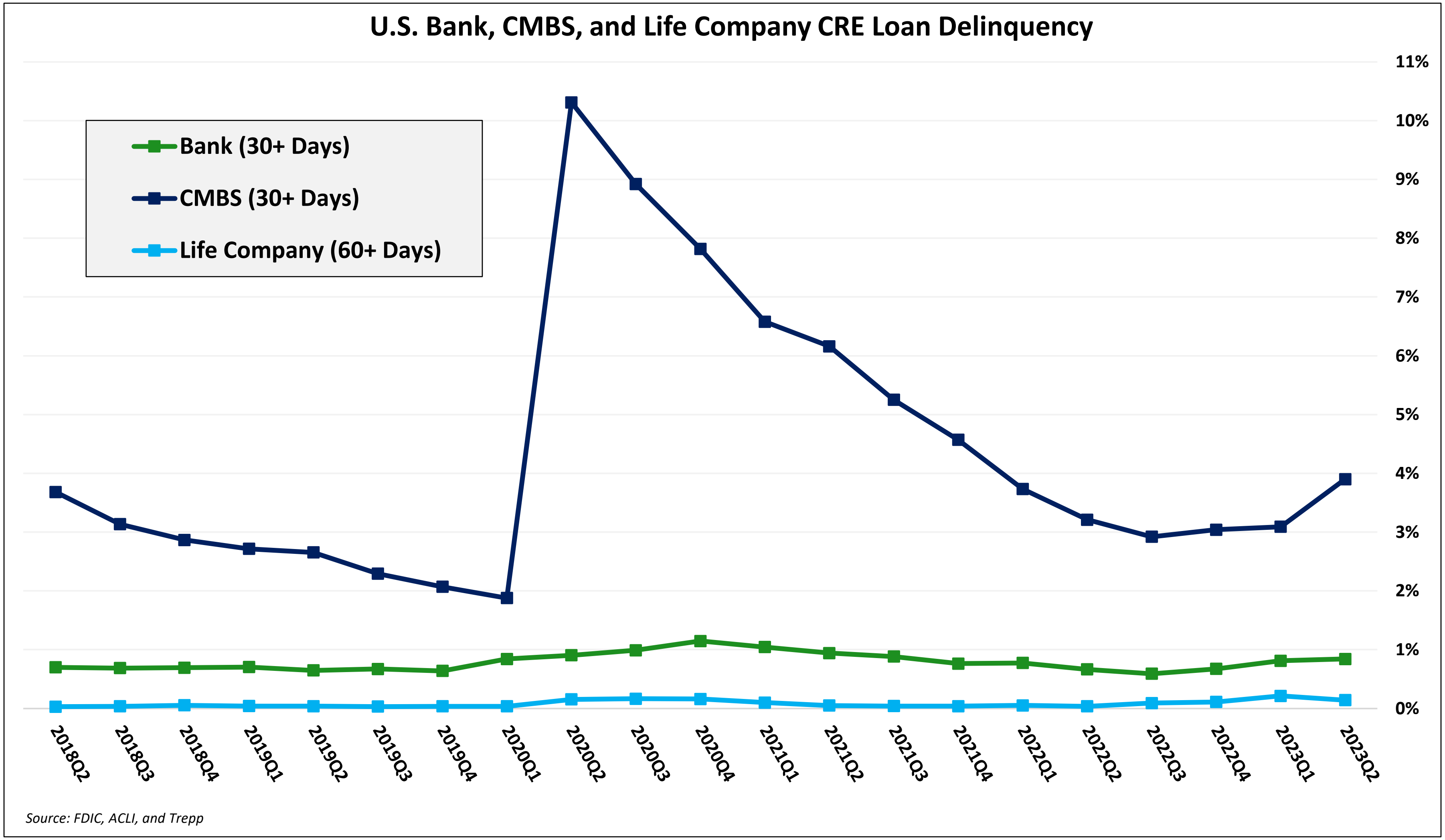
Source: Commercial Mortgage Alert, BofA Global Research

Balance Sheet Lending – Loan Rates Skyrocket to ~7%-Plus



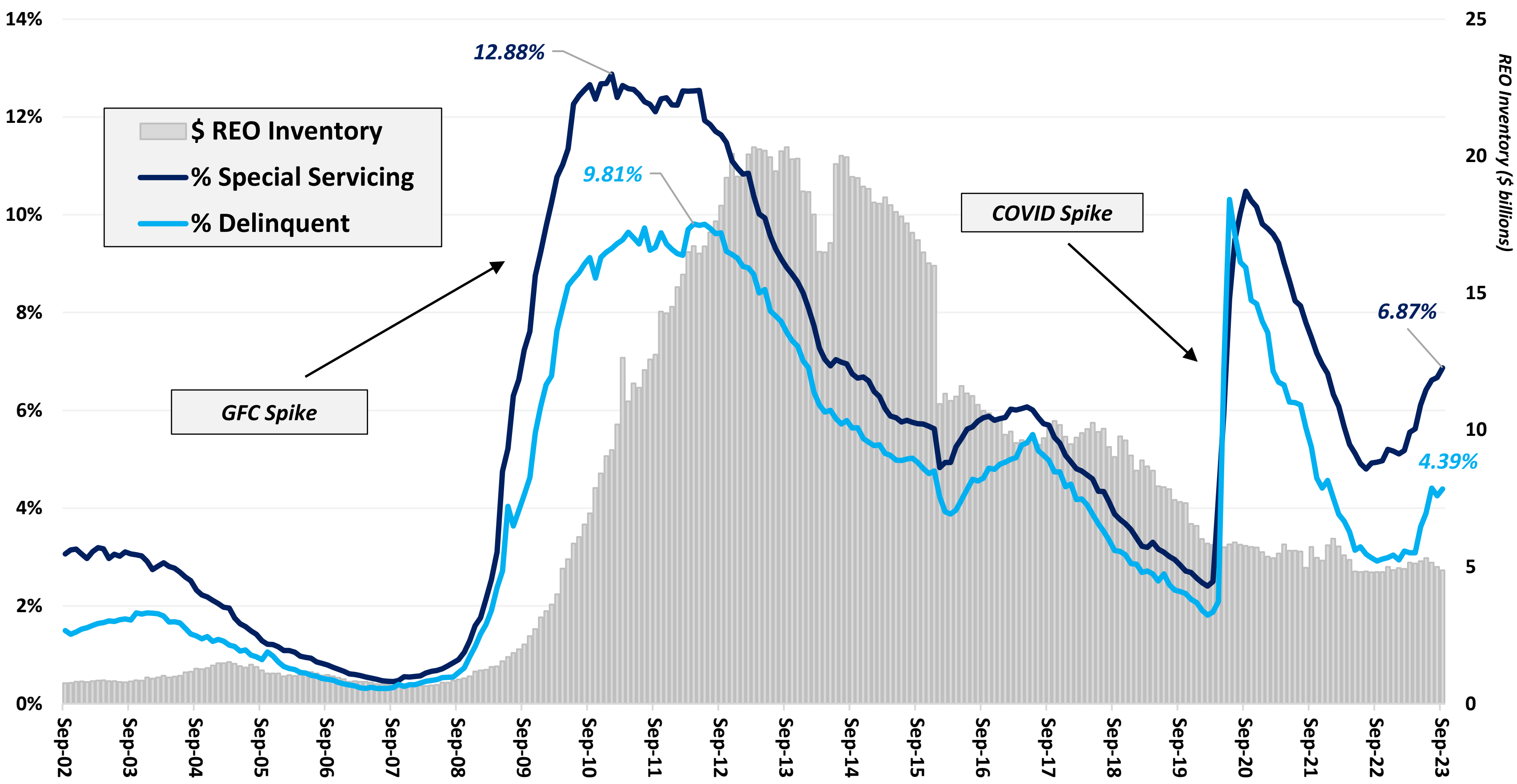
Source: Trepp

Balance Sheet Lender Delinquency at 1% or Lower, CMBS @4%



CMBS Delinquency/Special Servicing – Tame So Far…

More Conservative Underwriting: 2023 Avg. LTV and DSCR of 52.0% and 1.82x



Source: Intex, Trepp; includes both conduit and SASB

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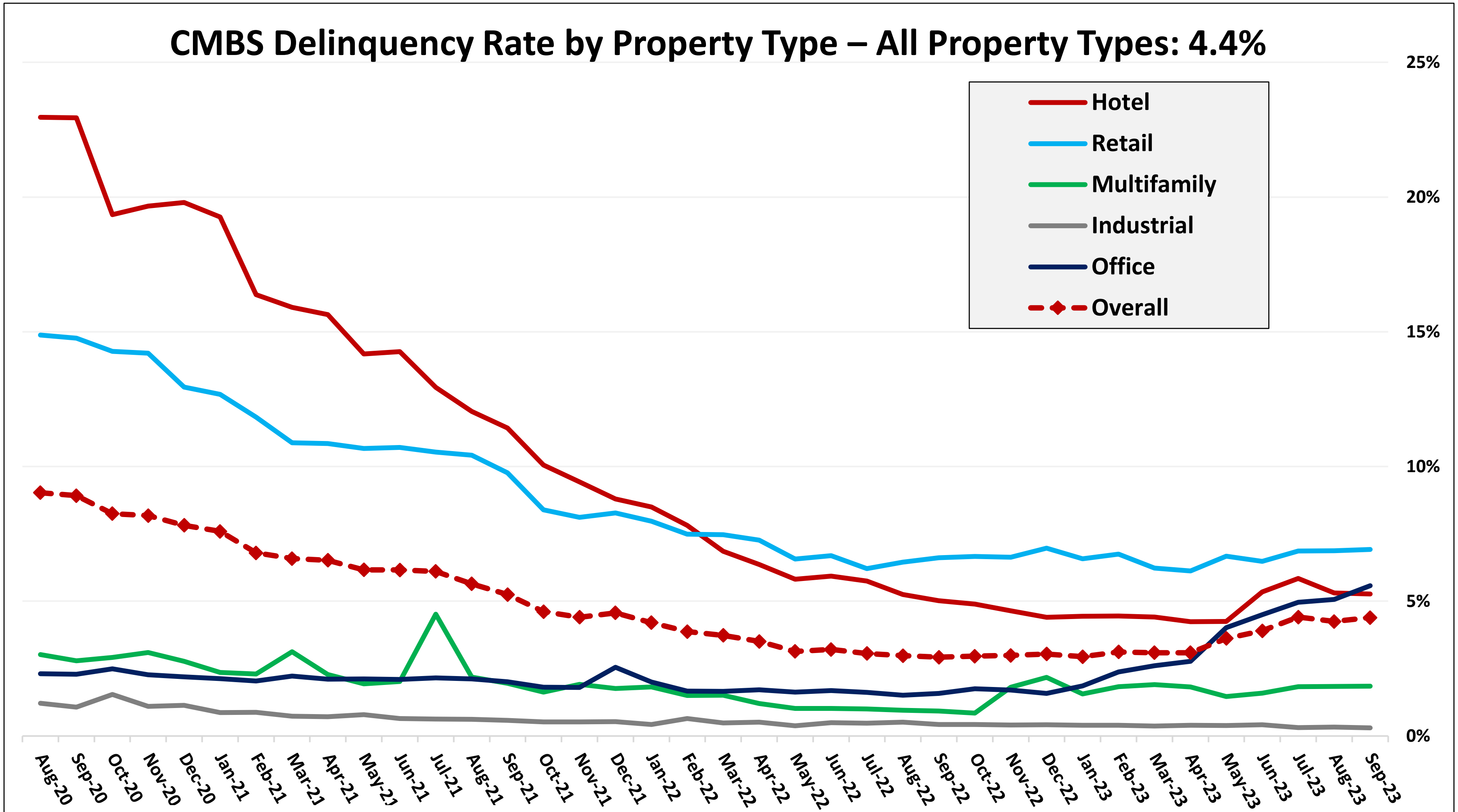
CMBS Loan Performance – Retail Delinquencies Top All at ~7%



Source: Intex, Trepp; Includes both conduit and SASB

CRE Debt Liquidity Regulatory Assault

Proposed Regulations would significantly damage CRE debt liquidity

1. **SEC Conflict of Interest Rule – Structured-Finance Impediment**
2. **SEC Rule 15C2-11 – Structured Finance Impediment – Win one for the Gipper**
3. **Basel IV End-Game**

- **Likely to concentrate risk on balance sheets – reduced debt liquidity**
- **But…that capital will be far more expensive to hold on balance sheet**