State of the Market?

June 2023

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The Risks:

Refinancing into Higher Rate Environment

Less Liquidity

Lenders less forthcoming with proceeds

Is gap Financing the answer?

Growing office vacancies in Major markets.

The result:

Higher capitalization rates; lower property values/prices

CPPI: Down in May for 10^{th} Straight Month

Down by 6.92 percent in 2023; Down 12.13 Percent from Peak

Expectation:

Offices will see 35 Percent Peak-to-Trough value decline; driven by Vacancy increase, cap rate increase, NOI drops.

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Growing Office Vacancies in Major Markets (total vacancy is 19 percent excl sublease)

- Chicago: record 8.08Mln SF of Sublease Availability
  - Pre-covid: 3Mln SF
- Total availability: 24.59 Percent, per Transwestern

- Washington, D.C.: 3.4Mln SF Sublease Avail.
  - Total Availability: 20.7 Percent
    - Inventory declined by 2Mln SF

- San Francisco: 8.9Mln SF Sublease Avail. in 1Q per Savills
    - 2020: 3.7Mln SF
- Total Availability: 32.7 Percent

- Manhattan: 22.4Mln SF Sublease Avail. in 1Q
- Total Availability: 19.5 Percent

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Higher Interest Rates, a Case Study:

- Cumberland Mall, Atlanta
    - Owner: Brookfield Corp.

    - 2013 cash flow: $15.98Mln;
    - Appraised value: $254Mln (LTV = 63 Percent)
    - 2013: $160mln CMBS loan; Debt Yield: 10 Percent
    - Coupon: 3.67 Percent; IO debt service: $5.87Mln

    - 2022 cash flow: $24.32Mln (up 52 percent from 2013)
    - Appraised value: $368Mln (up 45 percent. LTV = 48.9 Percent)
    - 2023 refinance: $180Mln; Debt Yield: 13.51 Percent
    - Coupon: 7.87 Percent; IO debt service: $14.17Mln (up 140 Percent)
    - Inline store sales: >$874/sf.

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Lender Volumes Have Plunged; Expectation is that Lending Continues to Weaken. MBA forecasts 15 Percent drop in volume in 2023 v 2022 ($804Bln total in 2022)

- Demand for loans has weakened as rates have increased
- Economic conditions have worsened

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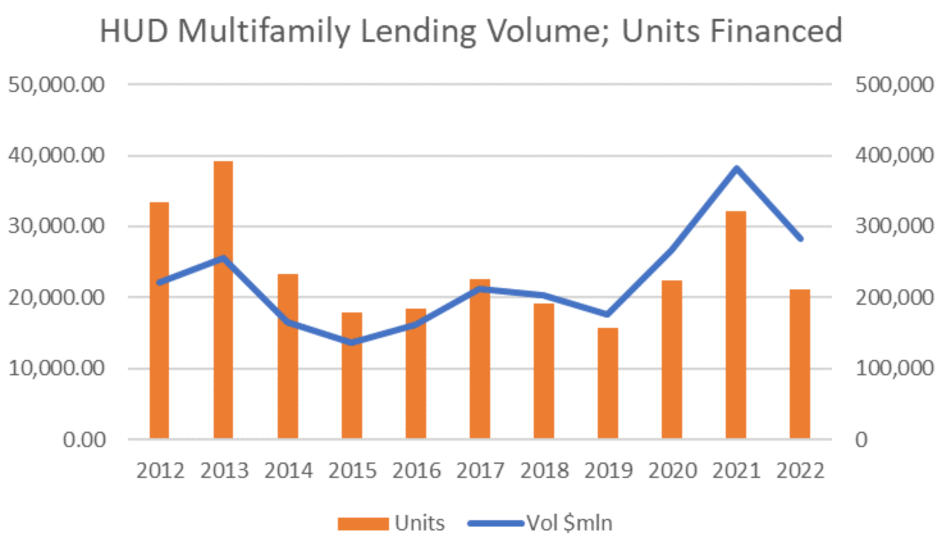
Even the Housing-Finance Agencies, Freddie Mac, Fannie Mae, HUD, have reduced their lending volumes. Annualized, Fannie volume is down 41 Percent; Freddie, down 68 Percent; HUD, down 50 Percent



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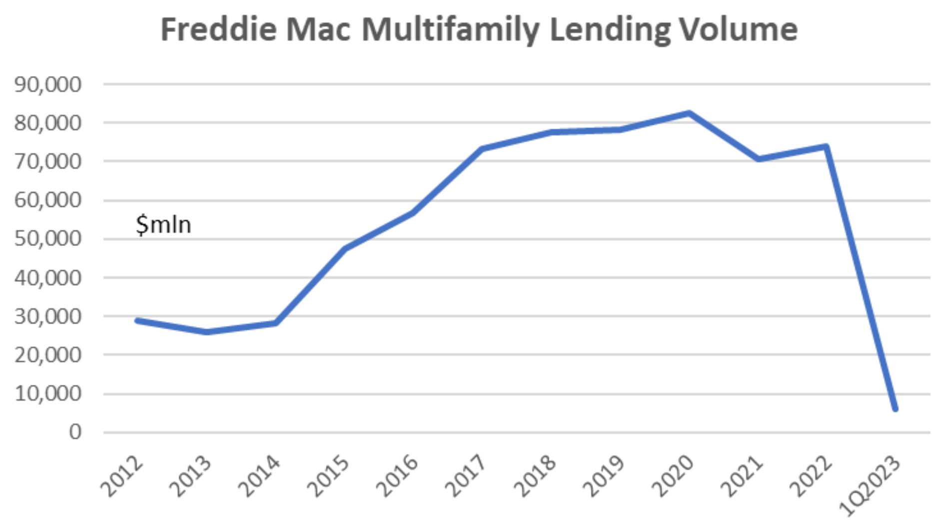

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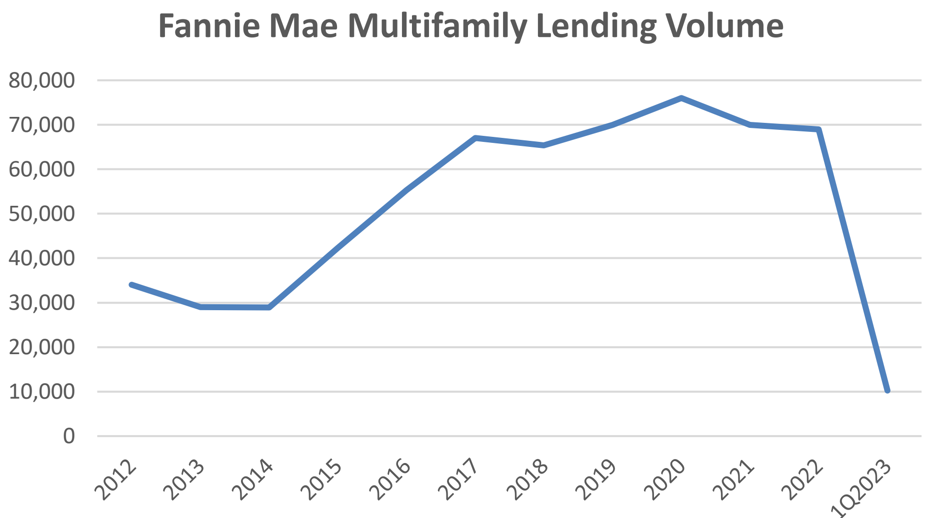

Source: Fannie Mae

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Maturities and Refinance Risk

$58.8Bln of CMBS loans mature by YE2024.

$22.28Bln would not be able to refi at 7 Percent failing 1.25x DSCR Test

CMBS Mortgage DSCR Levels Given Higher Interest Rates

	Interest-Only Basis				**25-year Amortizing Basis**			
Assumed Rate	**WA DSCR**	**# Loans DSCR < 1.25**	**Bal $mln DSCR < 1.25**	**% Loans DSCR <1.25**	**WA DSCR**	**# Loans DSCR <1.25**	**Bal $mln DSCR <1.25**	**% Loans DSCR <1.25**
5.50%	1.91	488	9,431.50	13.34	1.43	1,014	25,406.64	27.73
5.75%	1.83	538	11,516.12	14.71	1.39	1,085	27,501.65	29.67
6.00%	1.75	589	12,890.65	16.11	1.36	1,152	28,719.86	31.50
6.25%	1.68	646	14,519.24	17.66	1.33	1,228	29,986.08	33.58
6.50%	1.62	723	17,980.49	19.77	1.30	1,298	31,330.94	35.49
6.75%	1.56	795	19,698.67	21.74	1.27	1,364	32,600.69	37.30
7.00%	1.50	873	22,282.69	23.87	1.24	1,422	33,965.50	38.88

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Even at a 5.5 Percent IO coupon, 16 percent of maturing office loans would Fail a 1.25x DSCR test. Those loans have a 1.74x current DSCR.

Refinance Analysis Assuming 5.5 Percent I/O Coupon				
Property Type	Bal $mln Maturing by 2024	WA DSCR	Bal $mln DSCR<1.25	% of Bal DSCR<1.25
Multifamily	20,054.52	2.04	2,592.82	12.93
Retail	16,916.48	1.76	2,881.20	17.03
Office	12,425.82	1.74	1,950.97	15.70
Lodging	4,771.35	2.12	1,481.33	31.05

Source: Trepp

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Office is the sector to watch, particularly commodity office
Risks: Work-from home; Flight to quality

CMBS Loans in Special Servicing									
	May-23				Dec-22				
PropType	#Loans	Bal $mln	%ofTotal	%ofProp	#Loans	Bal $mln	%ofTotal	%ofProp	Chg%
Retail	316	13,052.18	34.73	11.01	322	13,402.78	42.22	10.97	-2.62
Office	207	10,808.35	28.76	6.43	179	6,490.25	20.45	3.85	66.53
Hotel	205	5,912.93	15.73	6.39	248	6,266.20	19.74	6.74	-5.64
Other	113	5,718.79	15.22	4.47	105	3,970.80	12.51	3.21	44.02
Multifamily	48	1,923.81	5.12	2.97	48	1,447.64	4.56	2.26	32.89
Industrial	9	169.04	0.45	0.39	8	165.66	0.52	0.39	2.04
TOTAL	898	37,585.10			910	31,743.33			18.40

Source: Trepp Inc.

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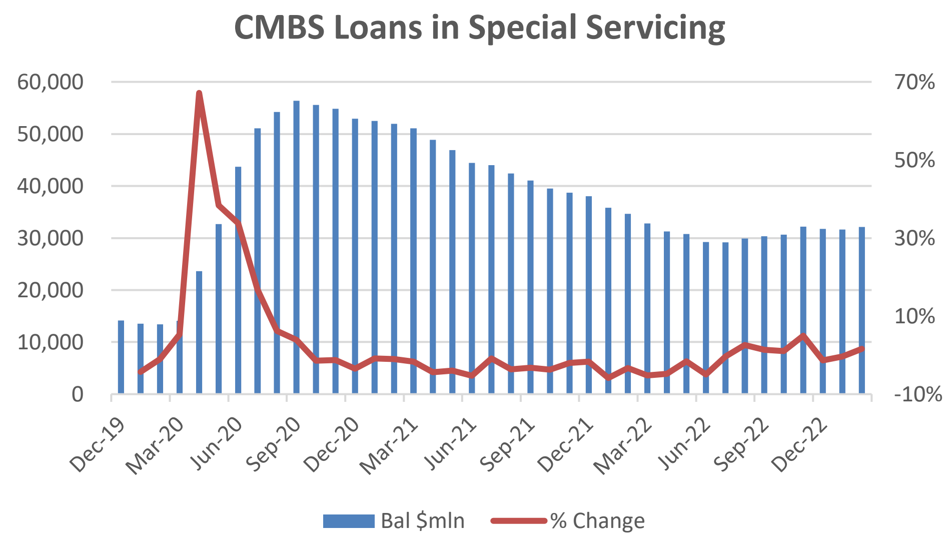
$37.59Bln of CMBS loans in special servicing; 6.11% of CMBS universe



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Public vs Private Market Cap Rates

Public market is heavily penalizing office-owning REITs
Implied cap rates for all REITs up 162 bps in 12 mos.; Office up 250 bps.

Private market cap rates are 17.3 percent lower than Public Mkts
Private office deal cap rates are 27 percent lower than public REIT implied cap rates.

SLG: Implied cap rate, based on current stock price, is up 40 percent from June 2021. New York office cap rates up 30.5 percent.

Lack of price discovery – not many properties changing hands.