Tepid U.S. economic growth post recession – lags historical averages
• Since end of recession, U.S. GDP has grown at a rate of only 2.1% annually
• Compares to a historical average of 3.1%.

Why?
• Growing Federal deficits
• Slow single-family housing recovery
• Punitive, counterproductive tax policy
• Slowing productivity
• Anti-growth regulatory regimes
• Deteriorating infrastructure
• Volatile Energy policy and markets
U.S. ECONOMY – SOLID JOBS GROWTH, SUB-PAR ECONOMIC RECOVERY

U.S. Economy Nears Full Employment

- Employment grew at 1.5% annual growth rate since 2009, compared with 1.7% since WWII

- February Jobs Report
  - Non-Farm Payroll employment increased by 235,000 jobs vs. 2016 average of 190,000
  - Unemployment rate fell to 4.7% vs. 4.8% -- rate peaked at 10% in 2009
  - Wage growth rose by 2.8%, slow to occur but now showing signs of improvement

Source: Bureau of Labor Statistics
U.S. ECONOMY – SOLID JOBS GROWTH, SUB-PAR ECONOMIC RECOVERY

Productivity Is Real Concern

- Productivity, in economic terms, measures how many goods and services a person/machine can produce.

- Weak investment spending on non-residential equipment and structures well below the historical average.

- U.S. Federal Reserve Vice Chairman Stanley Fischer: “there are few issues more important for the future of our economy, and those of every other country, than the rate of productivity growth.”
U.S. INTEREST-RATE OUTLOOK – TEMPERED RATE HIKES, MUTED INFLATION RATE

➢ U.S. Treasury Rates Rise Post U.S. Presidential Election
  • 10Y Treasury rate from 2000-2017:
    • Average: 3.58%
    • High: 6.79% (01/20/2000)
    • Low: 1.36% (7/8/2016)
  • Post Election: High 2.62% but now back 2.19% on 6/8/17

➢ Stock Markets Soar Since Presidential Elections
  • DJIA and S&P at historical highs

➢ Fed Funds Rate on the Rise
  • 12/2015 +25 bps – First in 9+ years
  • 12/2016 +25 bps – Second, FF target - 0.50%-0.75%
  • 03/2017 +25 bps – Third, FF target - 0.75% to 1.00%
MACRO FACTORS AFFECTING CRE/MULTIFAMILY FUNDAMENTALS

➢ Regulatory Developments
  • Reduced capital for construction/higher capital costs for overall CRE/multifamily debt: blessing and a curse
    • High Volatility Commercial Real Estate
    • Rising Risk-Based Capital Costs – Basel III and IV
    • Volcker Rule

➢ Mega Trends
  • Sharing economy – think Air B&B, WeWork
  • E-commerce
  • Telecommuting
  • Millennials and Baby Boomers

➢ Protracted Economic (Albeit Anemic) May Give Legs to Current Cycle

➢ Foreign Investment in U.S. Commercial and Multifamily Real Estate
GAUGING SENTIMENT – CREFC MARKET OUTLOOK SURVEY

➢ OVERALL CRE PICTURE FOR 2017
  • 55% say CRE markets have peaked (multifamily and hotel assets)
  • 67% say economy to perform at least somewhat better than 2016

➢ CRE CAPITAL AVAILABILITY AT LEAST SOMEWHAT FAVORABLE

➢ ATTRACTIVENESS OF CRE DEBT
  • Majority expect domestic investment in debt & equity to be about the same this year vs. 2016 (66%; 67%)
  • Expectations for foreign investment in debt and equity are higher
  • 72% believe 50-75% of 2017 CMBS maturing loans will pay off

Q25. How much total CMBS issuance do you expect in 2017?

- $25-50 billion, 2.6%
- $50-75 billion, 39.5%
- $75-100 billion, 44.7%
- $100-125 billion, 13.2%
- $75-100 billion, 39.5%
FOREIGN INVESTMENT IN U.S. CRE/MULTIFAMILY

- Chinese (Life Cos) largest group of foreign investors in 2016 at $19.2b, up 10%
- Safety (15% outside investment limit), diversify away from slowing economy, depreciating yuan, $1b+ buys
- 2nd largest was Canada at $13.1b (Forbes)
- FIRPTA and EB5 developments

FEDERAL RESERVE / REGULATORS CITE CAUTION

- Loosening credit risk underwriting practices
- CRE growth and concentration risk on bank portfolios

Q12. How do you see foreign investment in commercial real estate debt products trending in 2017?

- Higher, 51.9%
- About the Same, 38.3%
- Lower, 9.9%
Global disruption (Brexit, slowing Chinese economy) and low/negative rates driving foreign investment into U.S. markets as safe haven

Most anticipate foreign capital into U.S. CRE to increase

US CRE privy to higher yields and reasonable expectations of continued privy appreciation

Strength of U.S dollar detrimental to international flow

95% of foreign real estate investors plan continued investment in the U.S. (Association of Foreign Investors in Real Estate)
  • NYC top global city for 3rd year in a row.
GAUGING SENTIMENT – CREFC MARKET OUTLOOK SURVEY

➢ LOAN ORIGINATION VOLUMES
  • Expected to be healthy, even outpacing 2016
  • Exceptions:
    • Multifamily & hotel caution
    • Regulatory factors affecting bank and construction lending
  • 84% anticipate CMBS issuance of $75b in 2017

➢ INTEREST RATES
  • ~80% of respondents expect interest rates to rise 25-100 bps
  • Majority anticipate some impact on business performance.

➢ EXTERNAL FACTORS OF MOST CONCERN
  • Contagion
  • Geopolitical trends
<table>
<thead>
<tr>
<th>Sector</th>
<th>Most Attractive</th>
<th>Most Concerning</th>
</tr>
</thead>
</table>
| Multifamily | 1. Demographics (millennials, renting)  
2. Stable demand  
3. Restrictive housing market | 1. Overbuilding/Supply  
2. Rent growth flattening on high end  
3. Capitalization Rates |
| Retail      | 1. Nothing  
2. Limited Supply/Better Quality  
3. High street/urban/ grocery anchored | 1. E-commerce/online shopping  
2. Anchor tenant closures  
3. Overbuilt/ supply in some areas |
| Office      | 1. Economic Growth  
2. Strong Tenants; Long leases  
3. Urban office demand is strong | 1. Suburban Offices  
2. Companies are more efficient with space  
3. Trends (teleworking, co-working) |
| Industrial  | 1. Online retailers/ e-commerce  
2. Strong Demand  
3. Re-emphasis on manufacturing | 1. Obsolete/Older Properties  
2. Speculative Construction  
3. Supply |
| Hotel       | 1. Strong Cash flow  
2. Growing Economy  
2. New Competition (Airbnb)  
3. Volatility |
| Esoteric    | 1. Continued demand  
2. Nothing  
3. Ability to Specialize | 1. Overbuilding  
2. Unpredictability  
3. Specialized uses |
IMPACT OF HIGHER BENCHMARK RATES ON CRE/MULTIFAMILY VALUATIONS

Higher rates threaten higher cap rates
- Avg. long-term cap spread of 250 bps, spread still in the 300-350 bps area today, but shrinking
- Stronger core markets approaching peak/at peak pricing
- Pushing investors into value add assets in core markets, and top assets in secondary and tertiary markets
CRE AND MULTIFAMILY LOAN VOLUME IN 2017 AND BEYOND

- Loan originations ended 2016 healthy
  - Lower in 2016 by just 1% compared to full-year 2015
  - Down 7% in 4Q16

<table>
<thead>
<tr>
<th>Origination Volume Index (2001 Avg. Qtr * 100)</th>
<th>Percentage Change</th>
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<tbody>
<tr>
<td>Q1</td>
<td>Q2</td>
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<tr>
<td>-----------------------------------------------</td>
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<tr>
<td>2013</td>
<td>123</td>
</tr>
<tr>
<td>2014</td>
<td>122</td>
</tr>
<tr>
<td>2015</td>
<td>182</td>
</tr>
<tr>
<td>2016</td>
<td>182</td>
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</table>

- Reflects decline in CRE/Multifamily transaction volume
  - Lower YOY of 8% to $434.96 billion
WHO’S LENDING?

• Banks
  • Increased lending activity, slowed more recently
  • Regulatory factors at play
  • Fed Beige Book highlighting growing CRE exposure, particularly in community and regional banks
  • could slow origination volume – HVCRE, Risk-Based Capital Treatment

• Life Companies – Going all out in 2016

• CMBS Challenges -- $75 Billion in 2016 and 2017
  • Loan pricing volatility,
  • Borrower reticence over CMBS servicer practices – overall servicer experience, excessive fees/time required for post securitization requests,

• Alternative Lenders – Filling a void
SHIFT IN LENDING SOURCES

- CMBS MORTGAGE ORIGINATIONS FELL IN 2016
- PORTFOLIO & GSE LENDERS THRIVED
- ALTERNATIVE LENDERS ROSE EVEN AMIDST DECLINING YIELDS

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<tr>
<th>CRE/Multifamily Mortgage Bankers Originations Index</th>
<th>Percentage Change</th>
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<tr>
<td></td>
<td>YOY Q4</td>
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<td>CMBS</td>
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<td>2015</td>
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<tr>
<td>2016</td>
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<td>Commercial Banks</td>
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<td>2013</td>
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<td>2015</td>
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<td>Life Insurance Companies</td>
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<td>2015</td>
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<tr>
<td>2016</td>
<td>-6</td>
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<td>Fannie Mae/Freddie Mac</td>
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<td>2013</td>
<td>-43</td>
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<td>2014</td>
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<td>2015</td>
<td>24</td>
</tr>
<tr>
<td>2016</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: MBA
Do you expect GSE loan demand in 2017 to:
- Increase, 39.1%
- Stay About the Same, 51.6%
- Decrease, 9.4%

Do you expect non-GSE loan originations to:
- Increase, 28.1%
- Stay About the Same, 60.9%
- Decrease, 10.9%

How do you see multifamily supply in your markets affecting rent growth and thus property valuations?
- Negatively, 65.6%
- No Effect, 7.8%
- Positively, 7.8%
WHAT FUELS LOAN VOLUME IN 2018 AND BEYOND

Status of the 2017 Wall of Maturities:

- Close to $90b in loans maturing in 2017
- Research suggests that about 25% won't pay-off.
- Still leaves a good amount of fodder for new originations

What happens post refi wave?

- Origination volume slows
- Fewer loan refinancings as 2008 and 2009 slow years for commercial mortgage originations
- Reduced transaction volume
CMBS RISK RETENTION IS OFFICIALLY HERE. WHAT’S THE PROGNOSIS?

- Slow 1Q17 After Flurry of Issuance in December 2016

- Picking up now
  - 28.7 billion as of 6/9/2017
  - $29.0 billion same period 2016

- Risk retention viewed as a positive governor for credit quality

- Yet, not the only reason for improvement – investors, market volatility
CMBS RISK RETENTION: THE BASICS

- **5% Retention.** CMBS sponsors must retain 5% of the credit risk of an issuance on a proceeds, fair-value basis

- **Unique CMBS-Only Option.** Final Rule allowed for CMBS-specific 3rd-party purchaser retention that permits retention obligations to be borne by qualified CMBS B-piece investors in combination with/in lieu of the sponsor

- **3-Ways to Comply – Unique to CMBS.**
  - CMBS sponsor retention obligation can be satisfied through retention of:
    - Eligible vertical interest (5% of each class of securities within the CMBS structure)
    - Eligible horizontal residual interest (EHRI) or the B-piece
    - Any combination of the above, as long as retention amount constitutes at least 5%
CMBS RISK RETENTION: HORIZONTAL INTEREST

- **B-Piece Investor Horizontal Interest Further Explained**
  - Allows either 1 or 2 B-piece buyers to bear the retention obligation on a pari-passu basis.
  - No senior/subordinate B-piece structure allowed
  - 3rd-party purchaser *may not* receive any financing to purchase its interest from sponsor
  - 3rd-party purchase cannot be affiliated with the transaction’s sponsor, depositor, or servicer other than a special servicer affiliated with the third-party purchaser

- **Affiliations.** The third-party purchaser may be affiliated with originators provided that they do not collectively provide more than 10%

- **Collateral Review.** Each 3rd-party purchaser must conduct a review of the underwriting standards, collateral, and expected cash flows of each loan in a CMBS pool

- **Hedging of Retained Credit Risk Prohibited.** Allows only hedging for interest rate and/or foreign-exchange risk
CMBS RISK RETENTION: 5% HORIZONTAL STRUCTURE

$100MM Pool of Mortgages

$90MM Investment Grade
AAA
AA
A
BBB/BBB+

$10MM BBB-, BB, B, NR

5% Horizontal Retention on a Proceeds Basis, Not Face Value*

First Horizontal Risk Retention Transaction:

$1.093MM JPMCC, 2017-JP5
March 7, 2017

* To reach the 5% retention requirement on a proceeds basis, B-piece investor must purchase sufficient IG bonds, given that non-investment-grade bonds trade at a deep discount to par. Thus, while the face value translates into a 10% retention piece, discount pricing on the below-IG rated bonds translates into less than 5% on a proceeds basis.
First Vertical Risk-Retention CMBS

$977.1MM BAML 2017-BNK3

Priced on February 2, 2017
CMBS Risk Retention: 5% L-Structure

First L-Shaped Risk Retention Transaction:

$1.327.5MM CD, 2017-CD3

Priced on January 27, 2017

Combines vertical and horizontal retention pieces to equal 5% on proceeds basis.
CMBS RISK RETENTION: QUALIFIED CRE (QCRE) LOANS

➢ “Qualified” CRE Loan Retention Exemption
   • Any QCRE loan is exempt from any retention obligation.
   • QCRE Loans must satisfy specified underwriting standards.
   • CMBS composed solely of “qualified” loans completely exempt from any retention obligation
   • QCRE and Non-QCRE loans may be combined into a single issuance
     • Retention obligation reduced by the proportionate percentage of “qualified” loans
     • Retention obligation cannot be lower than 2.5%

➢ What Makes a QCRE Loan?
   • 10-year minimum maturity term; 30-year amortization for multifamily, 25-year for all CRE loans
   • No interest-only loans
   • LTV less than or equal to 65%, CLTV less than or equal to 70%
   • No blanket exemption for single-asset/single-borrower CMBS transactions
RISK RETENTION IS OFFICIALLY HERE. IMPACT ON CREDIT QUALITY?

<table>
<thead>
<tr>
<th></th>
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<tr>
<td><strong>Deal Summary</strong></td>
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<td>Deal Size ($)</td>
<td>1,053,441,511</td>
<td>856,070,802</td>
<td>1,041,753,385</td>
<td>1,170,496,044</td>
<td>1,180,512,613</td>
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<tr>
<td>No. of Loans/No. of Properties</td>
<td>58 / 76</td>
<td>51 / 102</td>
<td>73 / 117</td>
<td>71 / 112</td>
<td>68 / 104</td>
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<td><strong>Credit Enhancement</strong></td>
<td></td>
<td></td>
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<tr>
<td>A-S</td>
<td>22.1%</td>
<td>23.0%</td>
<td>23.7%</td>
<td>23.8%</td>
<td>21.8%</td>
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<tr>
<td>AA-</td>
<td>17.1%</td>
<td>17.7%</td>
<td>17.7%</td>
<td>17.5%</td>
<td>15.4%</td>
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<tr>
<td>A-</td>
<td>12.7%</td>
<td>13.1%</td>
<td>12.9%</td>
<td>13.4%</td>
<td>11.5%</td>
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<tr>
<td>BBB-</td>
<td>7.7%</td>
<td>7.8%</td>
<td>7.9%</td>
<td>7.6%</td>
<td>7.0%</td>
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<tr>
<td><strong>Underwriting Metrics</strong></td>
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<tr>
<td>Underwritten DSCR</td>
<td>1.94</td>
<td>2.01</td>
<td>1.80</td>
<td>1.76</td>
<td>1.89</td>
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<tr>
<td>Underwritten Wtd. Avg. LTV</td>
<td>58.6%</td>
<td>59.8%</td>
<td>64.5%</td>
<td>65.8%</td>
<td>63.1%</td>
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<tr>
<td>Underwritten Wtd. Avg. Balloon LTV</td>
<td>54.1%</td>
<td>53.1%</td>
<td>56.6%</td>
<td>57.1%</td>
<td>53.8%</td>
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<tr>
<td>Underwritten Wtd. Avg. Debt Yield</td>
<td>10.7%</td>
<td>11.0%</td>
<td>9.9%</td>
<td>10.1%</td>
<td>10.5%</td>
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<tr>
<td><strong>Outliers</strong></td>
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<tr>
<td>&lt;9% Debt Yield</td>
<td>34.7%</td>
<td>36.6%</td>
<td>45.3%</td>
<td>40.9%</td>
<td>27.4%</td>
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<tr>
<td>&lt;8% Debt Yield</td>
<td>9.2%</td>
<td>9.2%</td>
<td>15.2%</td>
<td>11.8%</td>
<td>4.0%</td>
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<tr>
<td>&gt;74% Underwritten LTV</td>
<td>2.0%</td>
<td>7.2%</td>
<td>16.3%</td>
<td>18.1%</td>
<td>10.9%</td>
</tr>
</tbody>
</table>

Source: Wells Fargo CMBS Research
RISK RETENTION IS OFFICIALLY HERE. IMPACT ON CREDIT QUALITY?

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<thead>
<tr>
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<td><strong>Collateral</strong></td>
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<td>Gross WAC</td>
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<td>4.5%</td>
<td>4.4%</td>
<td>4.7%</td>
<td>4.5%</td>
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<tr>
<td>IO/Partial IO/Amort. (% of Bal.)</td>
<td>51 / 23 / 26</td>
<td>34 / 34 / 33</td>
<td>23 / 43 / 33</td>
<td>19 / 44 / 37</td>
<td>17 / 33 / 50</td>
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<tr>
<td>Largest Loan %</td>
<td>7.4%</td>
<td>8.8%</td>
<td>9.3%</td>
<td>10.0%</td>
<td>10.7%</td>
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<tr>
<td>Top-10 Loan %</td>
<td>50.4%</td>
<td>54.3%</td>
<td>48.0%</td>
<td>50.9%</td>
<td>54.1%</td>
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<td>Loans with Subordinate Debt %</td>
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<td>15.1%</td>
<td>11.1%</td>
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<tr>
<td><strong>Property Types</strong></td>
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<td>Hotel</td>
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<td>Industrial</td>
<td>4.2%</td>
<td>5.9%</td>
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<td>Manufactured Housing</td>
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<td>Office</td>
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<td>Retail</td>
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<td>28.5%</td>
<td>25.7%</td>
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<td>Self-Storage</td>
<td>5.8%</td>
<td>3.9%</td>
<td>4.0%</td>
<td>3.6%</td>
<td>3.6%</td>
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<tr>
<td>Other</td>
<td>9.9%</td>
<td>8.1%</td>
<td>7.9%</td>
<td>9.2%</td>
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<td><strong>Pricing at Issuance</strong></td>
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<tr>
<td>AAA (30%)</td>
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<td>123</td>
<td>107</td>
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<td>628</td>
<td>430</td>
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Source: Wells Fargo CMBS Research
RISK RETENTION IS OFFICIALLY HERE. PRICING AND LOAN RATES

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<tr>
<th>CMBS Conduit</th>
<th>JPMCC 17-JP5</th>
<th>GSMS 17-GS5</th>
<th>WFCMT 17-RC1</th>
<th>BCBMS 17-C1</th>
<th>BAML 17-BNK3</th>
<th>CD 17-CD3</th>
<th>CSMC 16-NXSR</th>
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<td>Wells</td>
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FACTORS AFFECTING THE 2017 LEGISLATIVE AGENDA

➢ THE REMAINING TIME AND ISSUES ON THE LEGISLATIVE CALENDAR
  • Raising the Debt Limit
  • Passing the FY 2018 Budget
  • Health Insurance Reform
  • Flood Insurance Reform
  • Congressional Recesses (July, August, End of Year)

➢ AND, OF COURSE...
GSE REFORM

- Senator Crapo (R-ID), Chair of the Senate Committee on Banking, believes that GSE reform should be a “priority.”
- However, ACA, TAX Reform, Funding the Government, the debt ceiling, and Dodd-Frank reform would take precedence this year.
- Expect Senator Crapo to begin work in 2018; difficult to pass a full reform bill in second-half of Trump Presidency.
- Multifamily – both parties agree that multifamily has performed exceptionally well at the GSEs.
  - Business model works
  - Fully privatize or maintain “Government Sponsored”
- Objectives for Multifamily
  - GSEs to continue to provide debt finance liquidity to multifamily borrowers, particularly for ‘affordable’
  - Highlight distinct performance issues between multifamily and single-family
  - Considerations for non-GSE multifamily lending
HIGH VOLATILITY COMMERCIAL REAL ESTATE RULE

- HVCRE rule under Basel III requires all acquisition, development and construction (ADC) loans assigned 150% risk weighting – equal to 12% of loan value being held in capital
  - Represents a 50% increase in capital held for construction loans historically

- Key issue is how to appropriately interpret the final HVCRE rule.
  - Grandfathering of Certain ADC Loans from the HVCRE Final Rule
  - Prohibition on the Withdrawal of Internally Generated Capital
  - Prohibition on the Withdrawal of Contributed Capital in Excess of 15 percent
  - Appreciated Land Value

- Regulatory Action.
  - Regulators (OCC, FDIC, FED) indicated working on “guidance and possibly even a few revisions” for various aspects of Basel III, including HVCRE sometime in 1H17

- Legislative Action – HR 2148 Introduced by Congressmen Pittenger (R-NC) and David Scott (D-GA)
  - House Financial Services Committee sympathetic to industry’s position regarding lack of clarity
The Choice Act:

- Creates off-ramp from bulk of current bank capital regime so long as bank maintains a leverage ratio (tangible equity divided by leverage exposure) of at least 10%
- Removes risk retention requirements for every asset-class (including CMBS), with the exception of RMBS

Bill cleared House on June 8 (along party lines and helped by removal of Durbin Amendment)

- Senate require 60 votes (8 Democrats) to pass
- Senator Crapo (R-ID), Chair Senate Banking Committee, publicly stated will work only on bipartisan basis

Our View: Industry has adjusted to retention; investors generally prefer retention-compliant CMBS

If changes made to CMBS risk retention, legislation may serve to clarify and refine existing rules:

- Revisions to QCRE – currently, less than 1% of all CMBS loans ever made would qualify for QCRE
- Exemption to Single-Asset/Single-Borrower CMBS
- Senior-Subordination of B-Pieces – would help pricing issues in this high-yield sector
- Reg AB-II – CEO Certification – costly for issuers
DODD FRANK’S VOLCKER RULE

- Volcker rule original intent:
  - Separate risk taking/non-bank activities from less risky/bank activities (funded with consumer deposits)

- Volcker was not intended to effect standard market-making and hedging activity for CMBS

- Due to complexity, it has done just that, making it difficult for large banks who act as broker-dealers to effectuate trades in the secondary market on behalf of investors

- IMPORTANT TO NOTE: Some regulators and pro-regulatory associations point to liquidity in the corporate bond markets to disprove arguments that money is available for lending
  - CMBS and corporate bond markets are very different
  - Recent Fed report indicates they now see Volcker as an impediment to debt market liquidity, including CMBS
Tax Reform Proving To Be a Difficult Tax – Despite Some Consensus of Its Need

- President Trump said ACA first, then Tax; Treasury Secretary Mnuchin said bill to President by August.
- Difficult timeline considering current Congressional schedule -- they all leave to get re-elected by August

Still no Bill: House 35-page high-level “blueprint” & 1-pager from the White House

Two main goals for this blueprint:
- Territorial tax system; Border Adjustment Tax (BAT) high-level sticking point
- Lower corporate tax rate to 15%-20%

Issues Important to CRE
- Immediate Expensing – 100% expensing of investment costs
- Interest Limitation – limit amount of interest deductions to the amount of interest income
- Potential Elimination of:
  - Like-Kind (1031) Exchanges, REIT’s and Master Limited Partnerships
  - Carried Interest
CAPITAL AND LIQUIDITY

Basel III and IV

- **Fundamental Review of the Trading Book (FRTB)**
  - U.S. Regulators (OCC, FDIC, Fed) now decide when/whether to implement in the U.S.
    - This would require a rulemaking process, and for regulators to propose an rule for comment
    - Unlikely, if at all, until President appoints new OCC Comptroller & Fed Governor for Supervision

- **Liquidity Coverage Ratio (LCR)**
  - Finalized in the U.S. a few years ago
  - Requires banks to have appropriate level of High Quality Liquid Assets (HQLA) or sufficient liquid assets for a 30-day period of stress (Level 1, Level 2A and 2B)
  - No ABS/CMBS classes, outside of GSE’s, assigned any HQLA status (Level 1, Level 2A and 2B)
    - Rule did give investment-grade corporate debt level 2B HQLA status
    - Seems illogical for investment grade CMBS to not receive at least equal status, considering relative performance during the crisis
CAPITAL AND LIQUIDITY

**Basel III and IV**

➢ **Net Stable Funding Ratio**
  - Proposed in the U.S. (OCC, Fed, FDIC), but not finalized as of yet
  - Same as LCR, but requires banks to have appropriate levels of liquidity (or assets it can sell that are liquid) for an annual period of distress
  - Current proposal does not assign ANY ABS/CMBS, outside of GSE’s, any HQLA status

➢ **A Regulatory Shift Underway**
  - Do not expect the agencies to propose FRTB or finalize NSFR in the near future
    - Expect regulators to following the Administration’s Executive Order on halting regulation until Administration changes hands
  - Do expect some changes to rules
    - Presidential EO asking for FSOC/Regulators to review rules to ensure they allow for adequate lending and liquidity (due to Treasury Secretary Mnuchin in June)
    - Treasury Secretary Mnuchin has said government will take an “America first” approach in its international dealings, and will pull back a bit from those negotiations until the agencies are fully staffed
NATIONAL FLOOD INSURANCE PROGRAM

- Program expires in September 2017; important to reauthorize, especially for residential mortgage market

- Bi-partisan support to reauthorize

- Some questions as to whether private flood insurance can/should be allowed as a healthy alternative to direct flood insurance from the agency

- Industry looking for a long-period reauthorization (more than 3 years) for planning purposes.
FOREIGN INVESTMENT IN REAL PROPERTY TAX ACT (FIRPTA)

➢ First introduced in the late 1970s to prevent foreigners from driving up prices and acquiring excessive amounts of agricultural land, covers all types of real estate held by non-U.S. investors.

➢ Discourages Investment in U.S. Real Estate by Non-US Citizens
  • Treats a gain or loss by a foreign investor from the sale of a U.S. Real Property Interest (“USRPI”) as if effectively connected with a U.S. trade or business.
  • Foreign investors faces no U.S. tax liability from income realized from other forms of investments, such as stocks and bonds or the interest earned on U.S. bank accounts, to name a few.

➢ In 2015, Congress reduced FIRPTA’s negative impact by:
  • Increasing from 5% to 10% the ownership stake a foreign investor may take in a U.S. publicly traded REIT without triggering tax
  • Removed a tax penalty FIRPTA imposed on foreign pension funds investing in U.S. real estate

➢ THE ASK...to unlock ‘significant foreign capital to help refinance CRE loans and drive new investment
EB-5 PROGRAM

‘Chinese investors pumped an estimated $45.6 billion into various projects and companies in the US during 2016 – three times the $15 billion invested in 2015.’

➢ Concerns Trump Administration may consider rolling back the United States’ EB-5 Investor Visa program

➢ Reasons EB-5 Accretive to Commercial Real Estate
  • Department of Commerce estimates that the EB-5 created 174,000 new jobs for EB-5 projects approved in 2012 and 2013
  • Illegal Immigration focus of this Administration, but regulated immigration of wealthy individuals looking to invest in the U.S. is different
  • Capital for U.S. business and commercial real estate projects
Quality of Infrastructure Is a Significant Driver of Real Estate Investment

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<th>Factor</th>
<th>Percentage</th>
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<tr>
<td>Availability of Recreation and Cultural Activities</td>
<td>54%</td>
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<tr>
<td>Quality of Schools</td>
<td>58%</td>
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<tr>
<td>Quality of Government (Transparency, Accountability, Service)</td>
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<tr>
<td>Tax Structure (Development Incentives, Ongoing Tax Burden)</td>
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<td>Regulations That Encourage or Discourage Development</td>
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<td>Availability of Skilled Workforce</td>
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<td>Consumer Demand</td>
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<tr>
<td>Quality of Infrastructure</td>
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INFRASTRUCTURE

- President’s $1T Infrastructure Plan
- Quality of infrastructure strongly informs commercial and multifamily real estate decisions
- Infrastructure & real estate positive two-way relationship
  - Power
  - Transportation
  - Telecommunications
  - Water Supply Networks
- Fuels job creation and stimulates economy
- Bi-Partisan support by how funded?
  - Public-Private Partnerships
  - Public Financing - Direct Federal Spending
  - Tax incentive
- May need to pair tax reform with infrastructure spending to gain bipartisan support
Office increasing as percentage of CMBS new-issue loans as retail exposures lower

Life Co/bank lenders prefer office loans for portfolio – taking market share from CMBS and other lenders

Jobs growth spurs office demand – but companies still cautious about adding office space

Key trends is space usage and migration into urban markets creating ‘haves’ and ‘have nots’

Office vacancy rate continued to fall at 10.7% (CBD) and 14.3% for suburban office (CBRE)

Rental growth continues but at more moderate pace

Tepid new construction and office employment growth positive, but demand not overly robust suggesting rent growth in the 3% to 3.5% range.

Co-Star repeat sales data show office prices grew 6.5% late in 2016, but still 6% below 2007 peaks.
CRE FUNDAMENTALS – WHERE WE ARE IN THE CYCLE – RETAIL

- 23% decline in overall retail loan originations (MBA) – growing conservativeness amongst lenders
- E-Commerce disruptors, old concepts suggest multi-year stabilization process
- Vacancy rates low at 7.3% (CBRE) – Binary performance
- Positive absorption
- Jobs/increased spending spurring retail demand
- Significant divergence between Class A and B/C malls, extension to grocer anchored community centers?
- New mixed-use – live/work/play venues with entertainment, high-end dining, and digital/showroom retail combinations (ULI)
CRE FUNDAMENTALS – WHERE WE ARE IN THE CYCLE – INDUSTRIAL

- Successive quarterly increases in occupancy and rent growth
- E-Commerce, strong demand for logistics space are positives.
- 26 quarters reported of positive net absorption
- Best performance is large props (>100k sf) in port cities, regional distribution hubs and large metropolitan areas – Inland Empire, Dallas and Atlanta
- National vacancy rate in the low-5% area
- Rent growth up by 6.5% to 7.0% -- All metro areas reporting rent gains.
- Warehouse/distribution centers registering faster growth than fled/R&D space
  - Expect new/expanded distribution facilities closer to 24/7 cities for expedited delivery
  - New warehouse construction up sharply due to e-commerce demand and traditional retailers developing omni-channel retail strategies.
- Overall industrial price appreciation up around 5.5%
CRE FUNDAMENTALS – WHERE WE ARE IN THE CYCLE – MULTIFAMILY

- Lowest vacancy rate of all core property types at 4.5% (CBRE) – may rise some but below 15-year average of 6.1%
- Class-A vacancy most likely to see increase in vacancy due to most aggressive new construction volume
- Rental rates in 2016 rose ~3.9% (CoStar)
  - Still remain above 15-year average of 1.9% (CoStar)
- New construction deliveries down ~10% in 2016; 3rd year of deliveries of 200k units since Great Recession
- MBA says 26% YOY increase in multifamily origination volume in 2016
- Lots of new supply – but most borrowers utilizing GSE debt capital
- Homeownership rate still near historical low at 63.7% vs. 62.9%
- Marcus and Millichap survey: Foreign & domestic CRE investors place multifamily at top of list of safe investments
CRE FUNDAMENTALS – WHERE WE ARE IN THE CYCLE – HOTEL

- STR:
  - Occupancy - 67.1% -- flat
  - ADR - $124.53 -- higher
  - RevPAR - $83.57 -- +3.2% YOY

- Lots of new construction – STR says rooms under construction up 35% as of 3Q16
- Overall supply projected up 2% in 2017 – highest since 2009 (CBRE)
- Exceeds industry long-term average of 1.9%
- Strong supply: NY, Miami, Houston – largest declines in RevPAR
- Strong dollar negative overall, weaker energy hits Houston and others
- Overall 2017 forecast of 2.8% to 3.9% RevPAR growth in 2017 driven by rising ADR vs. occupancy
- According to the CoStar Group Commercial Repeat Sale Indices, the US hospitality index increased by 10.4% in the 12 months ended September 2016, but is still 6.0% below its previous peak in September 2007.