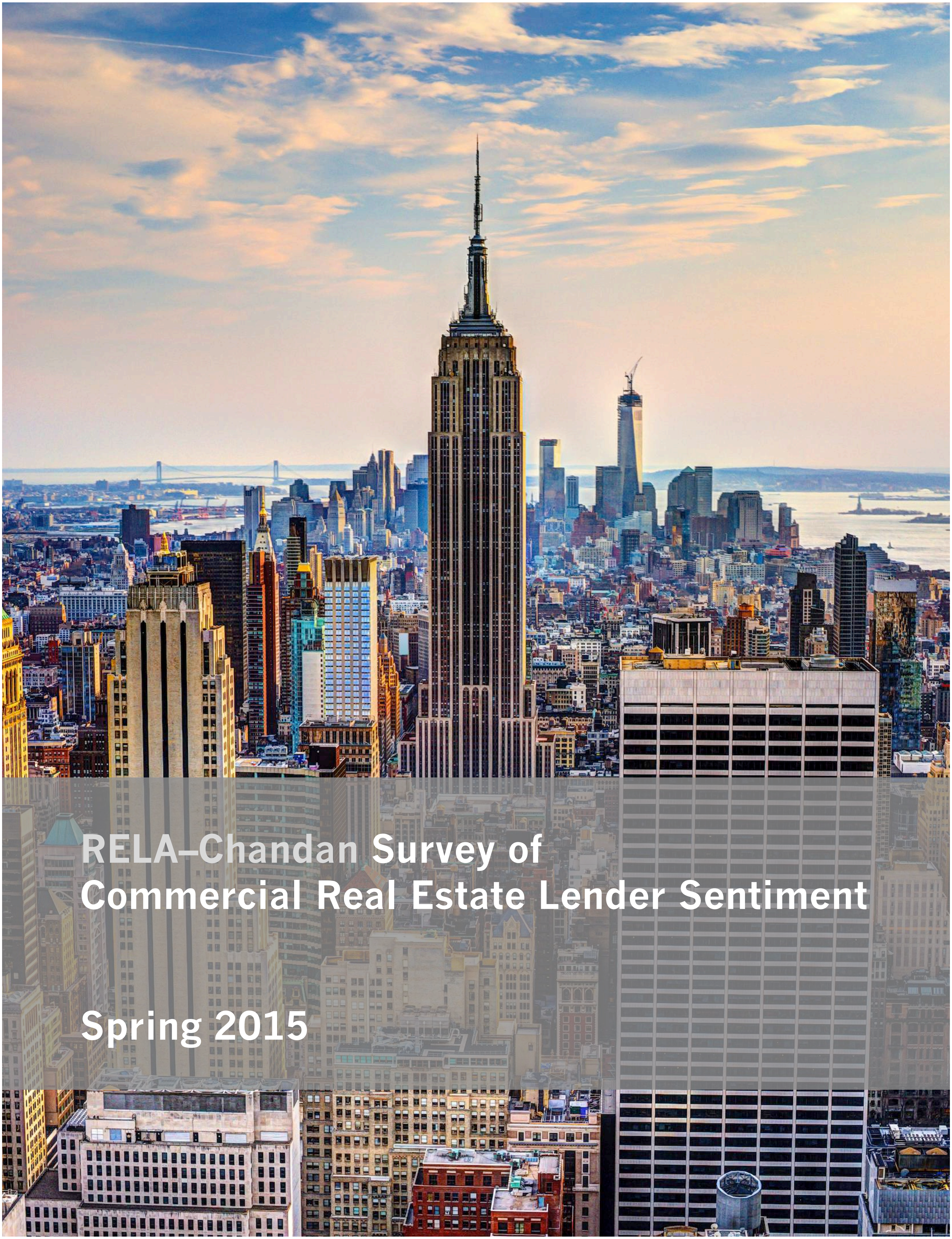


RELA–Chandan Survey of Commercial Real Estate Lender Sentiment

Spring 2015

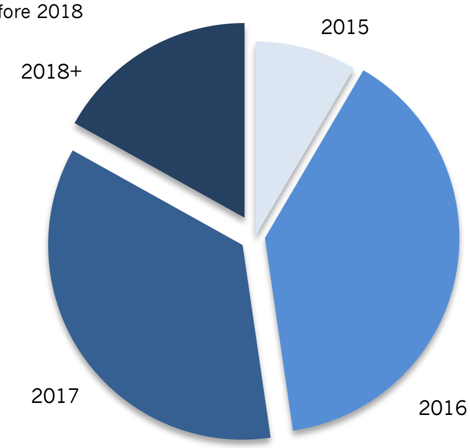
Is Peak Lending Just Around the Corner?

Lenders See Peak in Lending Volume in 2016 or 2017; Lending Standards Projected to Ease Further

Fewer Lenders Expect to Grow Their Business The share of multifamily and commercial property lenders that expects to increase the volume of their lending over the next year declined to 42 percent, according to the Spring 2015 RELA–Chandan Survey of Commercial Real Estate Lender Sentiment, down from 47 percent in the Fall 2014 survey. Lenders are most reserved in their expectations for the hotel sector, where a significant minority of survey participants now expects an outright decline in their institution's new commitments in late 2015 and early 2016.

Non-Agency Multifamily Lending Benefits from GSE Caps In contrast with the general trend of more reserved expectations for volume growth, the outlook for multifamily lending volume improved in the Spring 2015 survey. In comments from market participants, several banks, life companies, and conduit lenders anticipate that caps on agency volume will constrain new multifamily lending by Fannie Mae and Freddie Mac in spite of changes in FHFA exclusion criteria, driving demand for non-agency financing of apartments.

When Will Lending Volume Reach its Cyclical Peak?
More than 80 Percent See a Peak Before 2018

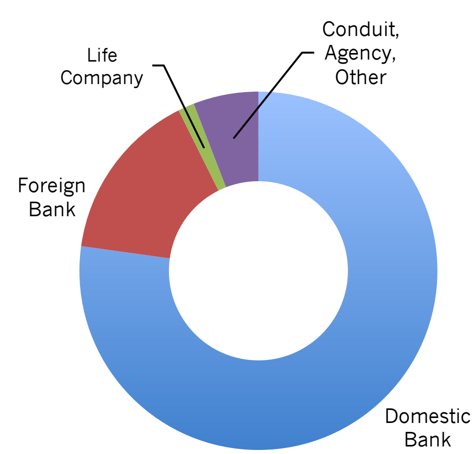


Lenders See the Peak on the Horizon In a pair of special questions about the market cycle, a majority of lenders expects that new lending volume will reach its cyclical peak during 2016 or 2017, coinciding with slower growth in sale transaction and refinancing activity. Just 17 percent of respondents believe that lending will peak in 2018 or later. Asked about the timing of an inflexion in lending standards, the survey results suggest that tightening will begin with some lag on volume. A significant minority of lenders forecasts that standards will ease or remain unchanged until at least into 2018.

About the RELA-Chandan **Survey of Commercial Real Estate Lender Sentiment**

The RELA—Chandan Survey of Commercial Real Estate Lender Sentiment reports on lenders' expectations for mortgage origination volume, underwriting standards, and loan pricing in the US multifamily and commercial property sectors†. The survey is administered on a semi-annual basis to the membership of the Real Estate Lenders Association (RELA), including domestic and foreign banks, life companies, agency lenders, CMBS conduit lenders, and private and other non-bank lenders. Over the life of the survey, approximately 70 percent of respondents identify as domestic bank lenders. Approximately 20 percent of respondents identify as foreign bank lenders; 10 percent, as agency or conduit lenders or another lender type. In terms of geographic focus, 70 percent of respondents identify as national lenders while 30 percent are focused on a particular region of the United States.

Survey Respondents by Lender Class, Life of Survey



†Apartment, Office, Retail, Industrial, and Hotel

Survey responses are reported as net fractions, consistent with reporting by the Federal Reserve Board in the quarterly Senior Loan Officer Opinion Survey on Bank Lending Practices.

Lending Volume

As compared to the last 12 months, do you expect the dollar volume of new loan commitments made by your institution (excluding extending or restructuring any loans currently included in the portfolio) will increase, decrease, or remain unchanged over the next 12 months?

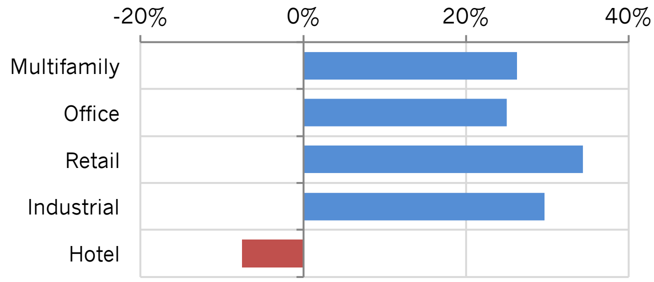
The share of lenders that expects to grow their multifamily and commercial property lending volume over the next year declined to 42 percent in the Spring 2015 survey, down from 47 percent in the Fall 2014 report.

Factoring for nearly one in five lenders who anticipate an outright decline in their lending volume, the net share of lenders that expects an increase in their new commitments over the next year declined to 23 percent, down from 27 percent in the Fall 2014 survey.

Consistent with prior surveys, respondents are most reserved in their expectations for the hotel sector. Expectations for hotel lending weakened further in the current survey, with more lenders now expecting a decline in volume than an increase.

In a departure from recent trends for the apartment business, the net share of lenders forecasting an increase in new multifamily commitments increased in the Spring 2014 survey. In comments from market participants, several banks, life companies, and conduit lenders anticipate that caps on agency volume will constrain new multifamily lending by Fannie Mae and Freddie Mac later this year, driving demand for non-agency financing of apartments in spite of recent cap adjustments by the Federal Housing Finance Administration.

Net Share of Lenders Expecting Increase in Lending Volume, by Property Type



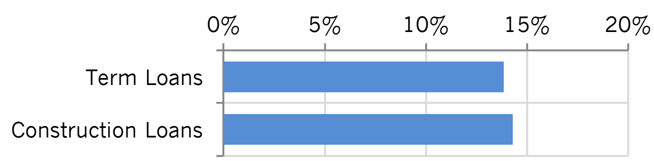
Expecting Increase in Lending Volume	Increase	Unchanged	Decrease	Net Increase
Multifamily	49%	29%	23%	26%
Office	45%	34%	20%	25%
Retail	46%	43%	11%	34%
Industrial	42%	45%	13%	30%
Hotel	24%	45%	31%	-8%
All Property Types	**42%**	**39%**	**19%**	**23%**

Borrower Demand

Across all property types and as compared to the last 12 months, do you expect borrower demand for loans that meet your institution's credit risk profile to increase, remain unchanged, or decrease over the next 12 months?

While nearly half of lenders still see continued improvement, the share expecting a decline in borrower demand increased sharply in the Spring 2015 survey. As a result, the net share of respondents projecting an increase in demand for term loans declined to 14 percent, down from 37 percent in the Fall 2014 survey. The net share for construction loans declined to 14 percent as well, from 27 percent. Based on comments from lenders, the result reflects in part that sale transaction volume and early refinancing activity are expected to grow at a slower rate as the cycle matures.

Net Share of Lenders Expecting Increase in Borrower Demand, by Loan Type



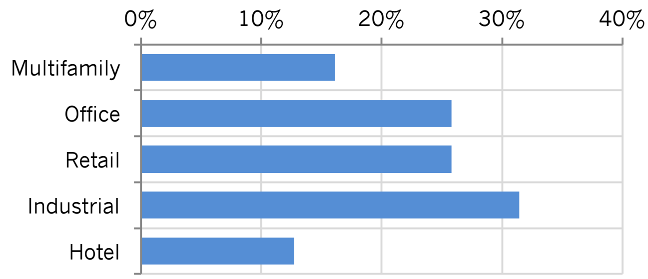
Expecting Increase in Borrower Demand	Increase	Unchanged	Decrease	Net Increase
Term Loans	45%	23%	32%	14%
Construction Loans	44%	25%	30%	14%
All Loan Types	**45%**	**24%**	**31%**	**14%**

Underwriting Standards

As compared to the last 12 months, do you expect market underwriting standards to ease, remain unchanged, or tighten over the next 12 months.

Across all property types, the net share of lenders expecting further easing in underwriting standards over the next year declined to 23 percent in the Spring 2015 survey, down from 29 percent in the Fall 2014 report. While the share of lenders projecting further easing in multifamily standards was comparable to other core property types, apartments saw the largest minority of respondents expecting that standards will tighten. On net, just 16 percent of multifamily lenders expect further easing. The hotel sector garnered the most reserved overall responses, with the net share of lenders expecting easing standards declining to 13 percent from 29 percent in the Fall survey.

Net Share of Lenders Expecting Easing in Lending Standards, by Property Type



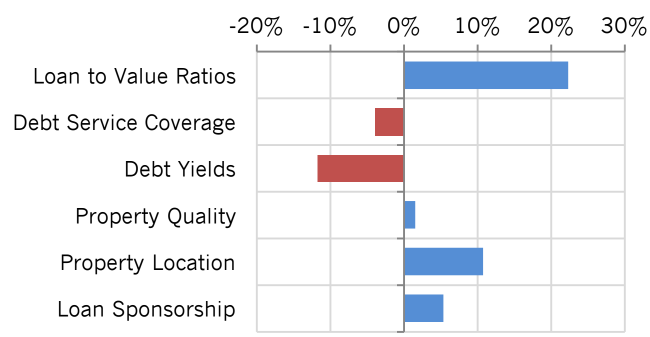
Expecting Easing in Underwriting Standards	Easing	Unchanged	Tightening	Net Easing
Multifamily	42%	33%	25%	16%
Office	43%	40%	17%	26%
Retail	40%	46%	14%	26%
Industrial	45%	42%	13%	31%
Hotel	31%	51%	18%	13%
All Property Types	**40%**	**42%**	**18%**	**23%**

Risk Appetite

Across all property types and as compared to the last 12 months, do you expect your institution's appetite for credit risk to increase, remain unchanged, or decrease over the next 12 months?

As compared to last Fall, lenders report a faded appetite for greater risk-taking even though standards will continue easing under competitive pressure (see above). Across all property and loan characteristics, the net share of lenders projecting an increasing risk appetite fell to 4 percent in the Spring 2015 survey, down from 19 percent in the Fall 2014 report. The responses suggest that loan-to-value ratios at origination will trend higher over the next year. Only a small net share of lenders expects a stronger risk appetite for property quality, location, or sponsorship. Survey responses suggest that lenders are poised to pull back on debt service coverage and debt yield, which may reflect their updated expectations for rate tightening over the next year.

Net Share of Lenders Expecting Increase in Appetite for Credit Risk, by Characteristic



Expecting Increase in Appetite for Credit Risk	Increase	Unchanged	Decrease	Net Increase
Loan to Value Ratios	38%	67%	5%	22%
Debt Service Coverage	13%	70%	17%	-4%
Debt Yields	15%	59%	27%	-12%
Property Quality	12%	78%	10%	2%
Property Location	21%	69%	10%	11%
Loan Sponsorship	14%	78%	8%	5%
All Characteristics	**17%**	**70%**	**13%**	**4%**

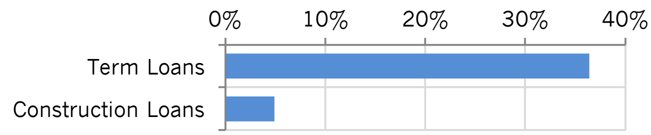
Note: Percentages in tables may not sum due to rounding

Market Pricing

Across all property types and as compared to the last 12 months, do you expect market pricing for loans that meet your institution's credit risk profile to increase, remain the same, or decrease over the next 12 months?

The net share of lenders expecting a decrease in loan pricing declined slightly from the Fall 2014 survey, to 36 percent. Expectations for construction loans showed a larger adjustment, with the net share declining to just 5 percent from 29 percent last Fall. The more reserved view of pricing for construction loans may reflect lenders' updated expectations for short-term interest rates.

Net Share of Lenders Expecting Decrease in Market Pricing, by Loan Type



Expecting Increase in Borrower Demand	Increase	Unchanged	Decrease	Net Decrease
Term Loans	19%	25%	56%	36%
Construction Loans	31%	33%	36%	5%
All Loan Types	25%	29%	46%	21%

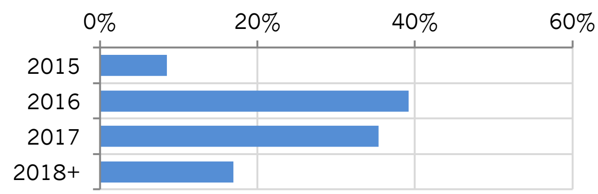
Special Questions on Market Cycle

Peak in Volume

Based on your current assessment of the market, when do you believe that new lending volume (excluding modifications and restructurings of 2005, 2006, and 2007 vintage CMBS) will reach its cyclical peak?

The market is quickly approaching its cyclical peak in lending according to the Spring 2015 survey results. 39 percent of lenders expect peak lending in 2016, while a further 36 percent expect the peak in 2017. Only 17 percent believe that volume will continue to grow into 2018 or beyond.

Share of Respondents Projecting Market Peak, by Year



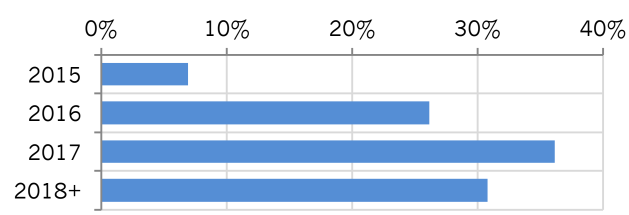
Expecting New Lending Cyclical Peak in a Given Year	
2015	8%
2016	39%
2017	36%
2018+	17%

Lending Standards

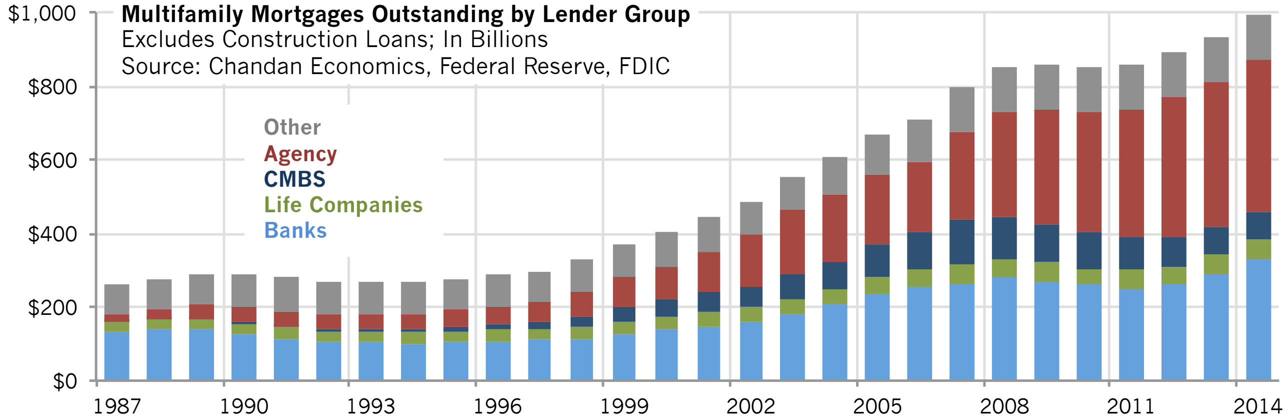
Based on your current assessment of the market, when do you believe that underwriting standards will begin to tighten?

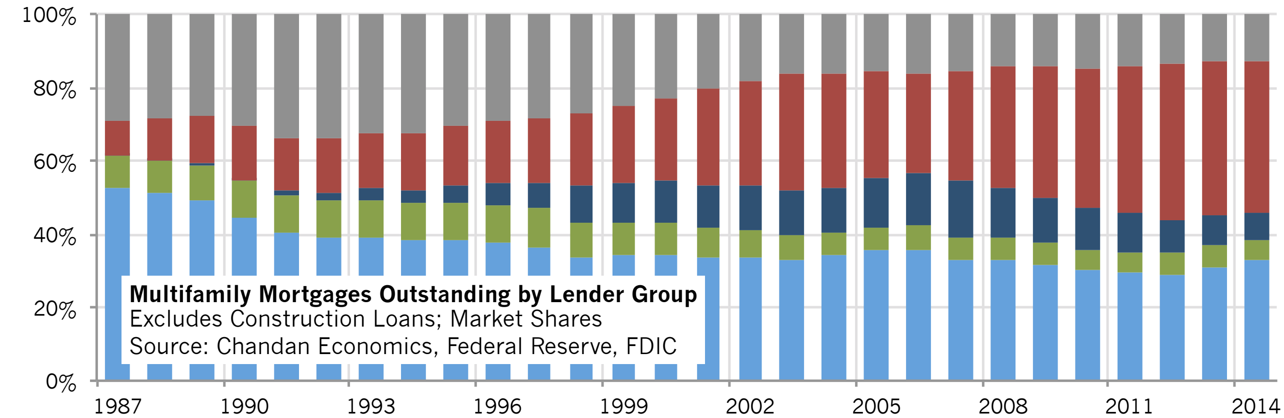
Expectations for lending standards suggest that underwriting will begin to tighten with a lag on volume. As compared to lending, which is widely expected to peak before 2018, 31 percent of respondents believe that tightening of lending standards will begin in 2018 or later.

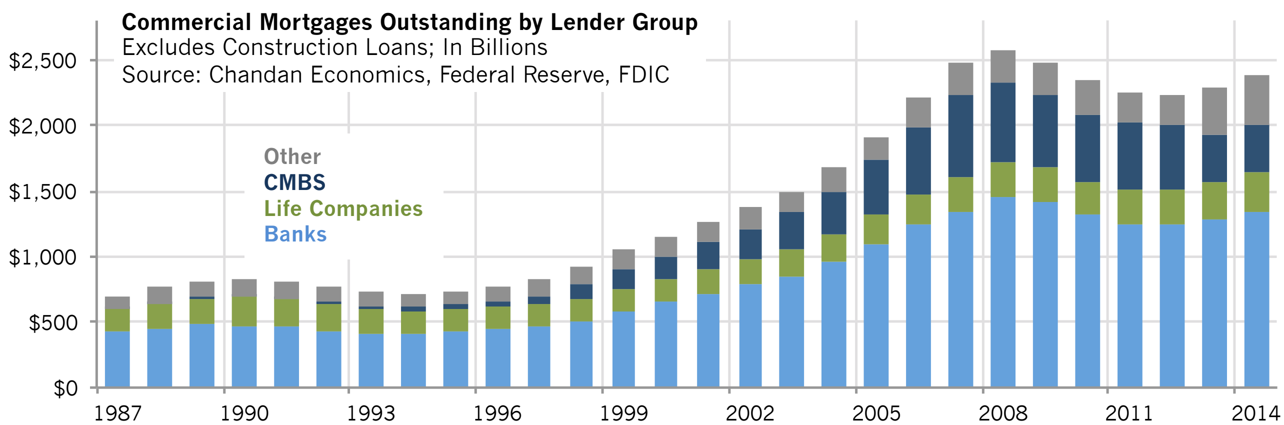
Share of Respondents Projecting Tightening in Lending Standards, by Year

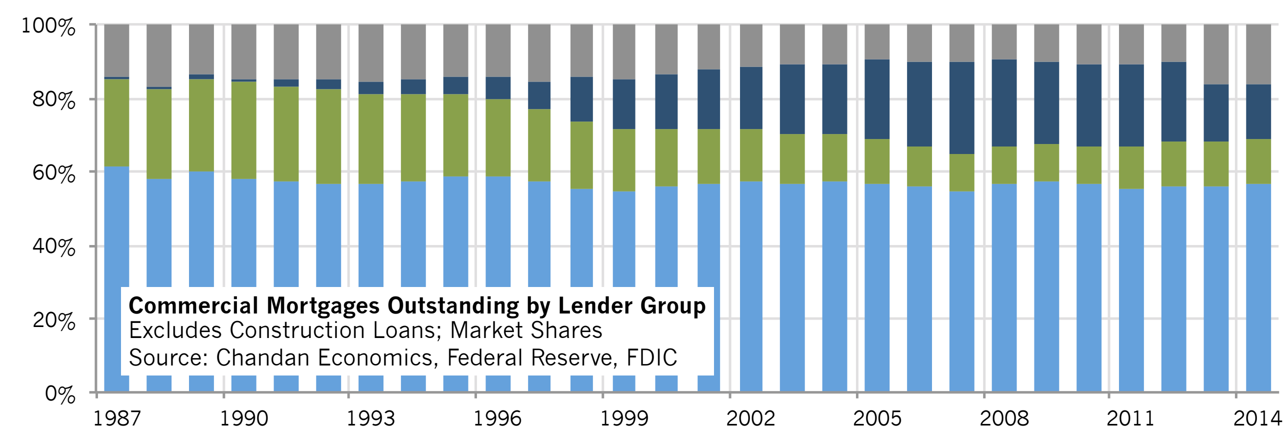


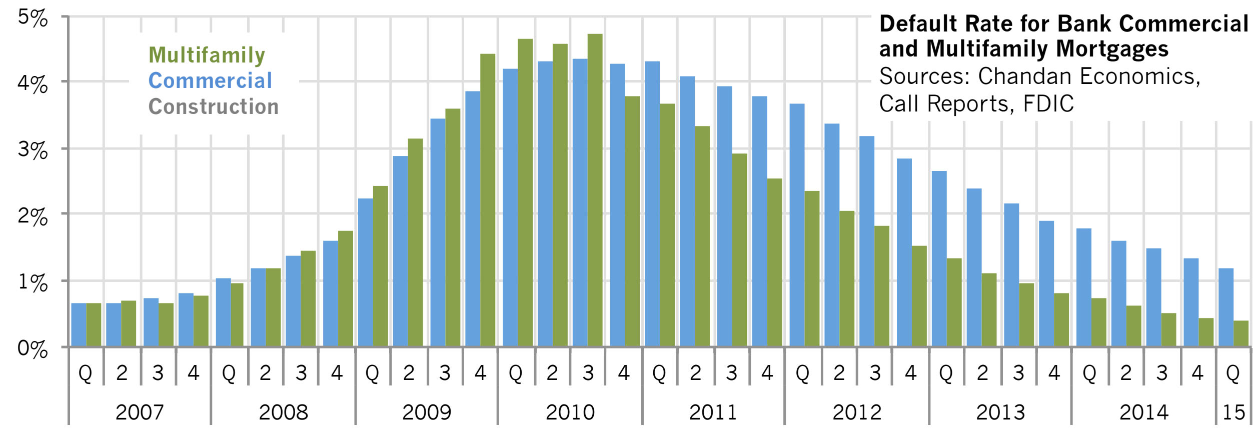
Expecting Tightening	
2015	7%
2016	26%
2017	36%
2018+	31%

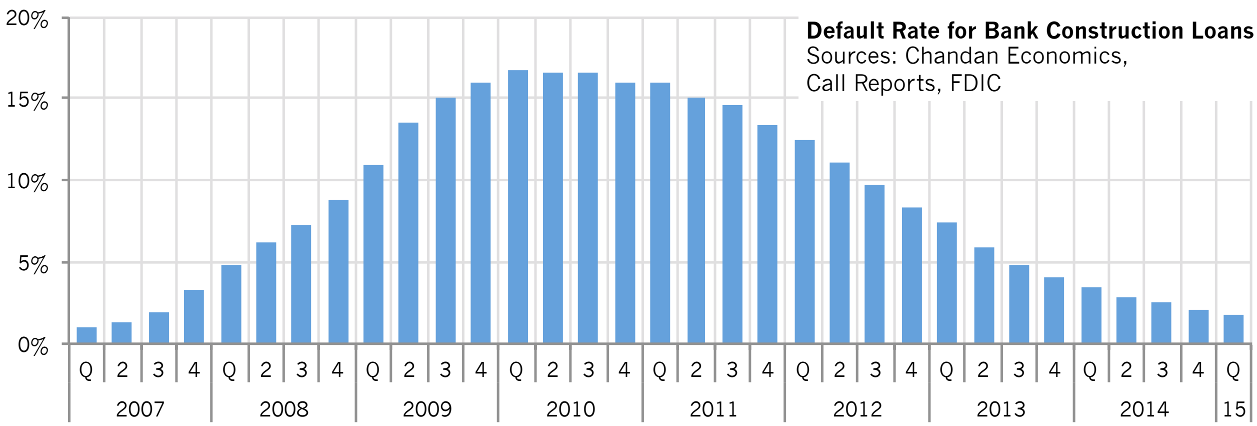

Multifamily Mortgages Outstanding by Lender Group
Excludes Construction Loans; In Billions
Source: Chandan Economics, Federal Reserve, FDIC
Other
Agency
CMBS
Life Companies
Banks
$1,000
$800
$600
$400
$200
$0
1987
1990
1993
1996
1999
2002
2005
2008
2011
2014

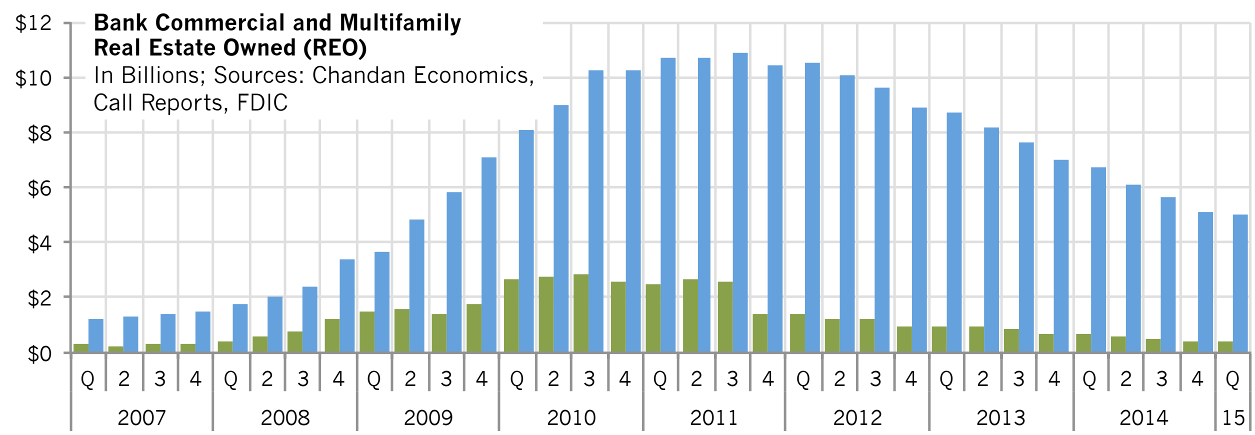

Multifamily Mortgages Outstanding by Lender Group
Excludes Construction Loans; Market Shares
Source: Chandan Economics, Federal Reserve, FDIC
100%
80%
60%
40%
20%
0%
1987
1990
1993
1996
1999
2002
2005
2008
2011
2014

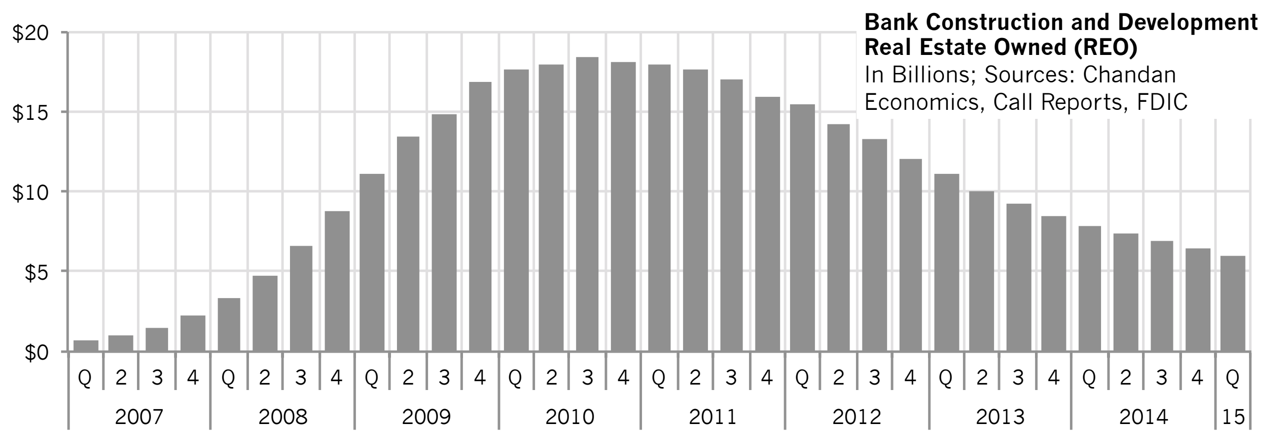

Commercial Mortgages Outstanding by Lender Group
Excludes Construction Loans; In Billions
Source: Chandan Economics, Federal Reserve, FDIC
Other
CMBS
Life Companies
Banks
$2,500
$2,000
$1,500
$1,000
$500
$0
1987
1990
1993
1996
1999
2002
2005
2008
2011
2014

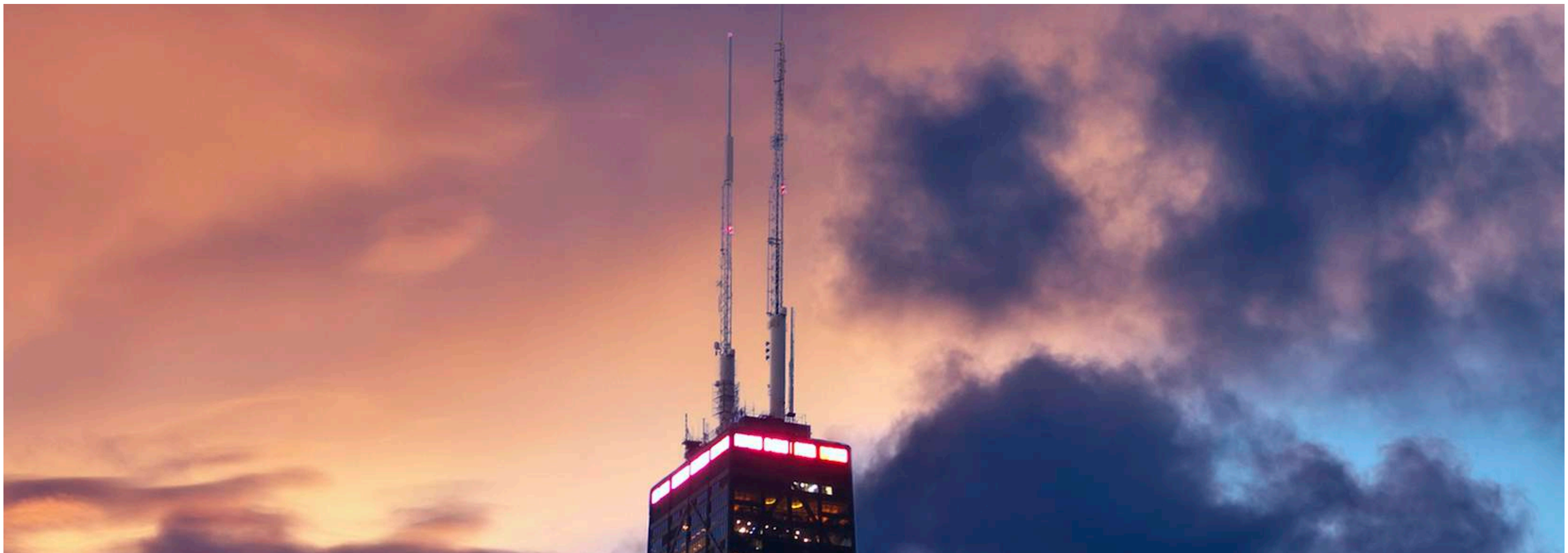

Commercial Mortgages Outstanding by Lender Group
Excludes Construction Loans; Market Shares
Source: Chandan Economics, Federal Reserve, FDIC
100%
80%
60%
40%
20%
0%
1987
1990
1993
1996
1999
2002
2005
2008
2011
2014


Default Rate for Bank Commercial and Multifamily Mortgages
Sources: Chandan Economics, Call Reports, FDIC
Multifamily
Commercial
Construction
5%
4%
3%
2%
1%
0%
Q 2 3 4
2007
2008
2009
2010
2011
2012
2013
2014
15


Default Rate for Bank Construction Loans
Sources: Chandan Economics, Call Reports, FDIC
20%
15%
10%
5%
0%
Q 2 3 4
2007
2008
2009
2010
2011
2012
2013
2014
15


Bank Commercial and Multifamily Real Estate Owned (REO)
In Billions; Sources: Chandan Economics, Call Reports, FDIC
$12
$10
$8
$6
$4
$2
$0
Q 2 3 4
2007
2008
2009
2010
2011
2012
2013
2014
15


Bank Construction and Development Real Estate Owned (REO)
In Billions; Sources: Chandan Economics, Call Reports, FDIC
$20
$15
$10
$5
$0
Q 2 3 4
2007
2008
2009
2010
2011
2012
2013
2014
15



RELA–Chandan Survey of Commercial Real Estate Lender Sentiment

Spring 2015

About the **Real Estate Lenders Association**

The Real Estate Lenders Association, Inc. is a not-for-profit corporation formed in 1991 to provide a forum for real estate lenders and equity investors to advance their knowledge and expertise in their industry. RELA's focus is on education, networking, and opportunity. Membership in RELA is exclusive to institutions with commercial real estate debt and equity under their direct control.

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About **Chandan Economics**

Chandan Economics is a leader in commercial real estate debt market research. Leveraging its database of commercial mortgages originated by balance sheet, agency, and conduit lenders, Chandan reports on national and market lending trends and provides credit risk analytics for banks, life companies, investors in CMBS and agency securities, regulators, and policymakers.

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