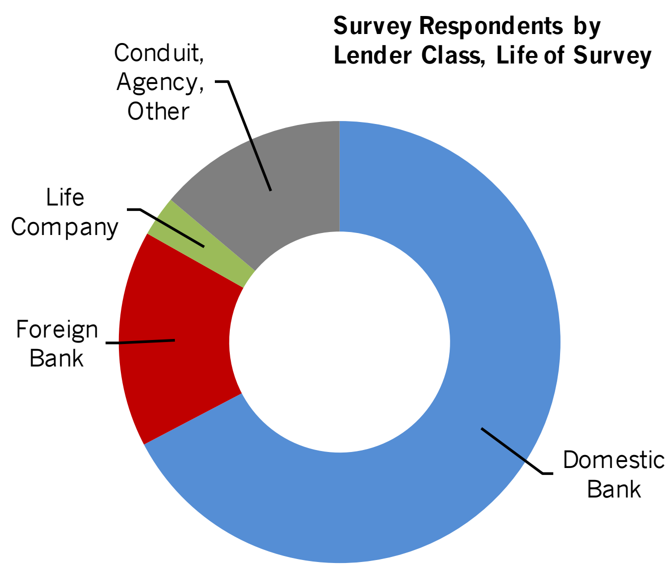
LENDERS SEE DROP IN ACTIVITY AS LOAN DEMAND SOFTENS ON LOWER INVESTMENT SALES & LENDING STANDARDS TIGHTEN

Following an extended period of growth in investment and lending activity, multifamily and commercial real estate lenders offered a more reserved assessment of the market trajectory in the 2017 Survey of Commercial Real Estate Lender Sentiment. Overall lending volume is expected to decline over the next year, reflecting more limited growth in loan demand, primarily as a result of softening investment sales, and tightening of underwriting standards. The retail sector is expected to see the sharpest pullback, consistent with lenders' concerns of broader disruptions in retailing and a continuing shift to online commerce. Expectations for the industrial sector are more sanguine, with lenders projecting further easing of standards and opportunities for growth in lending activity as property fundamentals continue to improve. While lenders are divided in their expectations for interest rates and the direction of pricing for term loans, regulatory demands are projected to exert persistent upward pressure on the cost of construction lending by banks. The 2017 survey included special questions on lenders' expectations for property prices in both 2017 and 2018. Nearly 90 percent of respondents expect that overall measures of prices will remain stable or increase in 2017. The balance of responses tips towards weakness in pricing in 2018, with the share of respondents projecting a price decline rising from 12 percent in 2017 to 40 percent the following year.

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 an 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 region of the United States. Following the formal survey data collection period, Chandan Economics conducts informal interviews with lenders. Comments from those interviews appear in this report's discussion of findings.



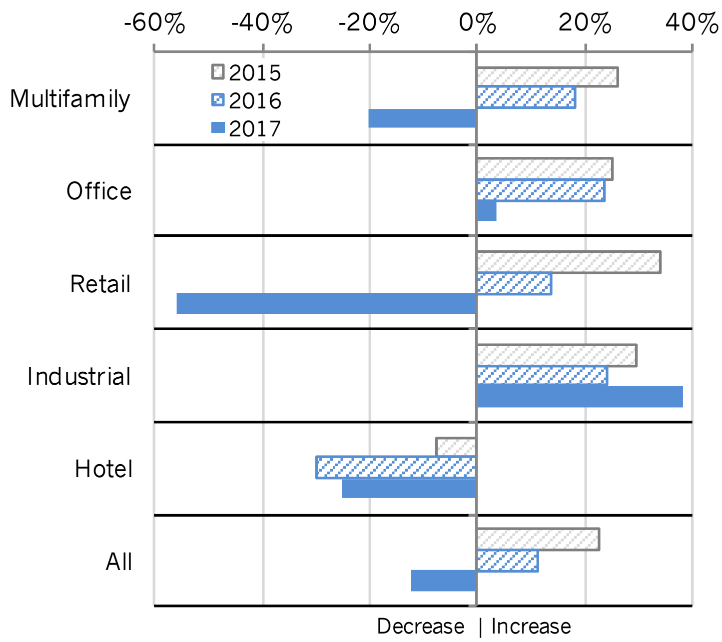
†Apartment, Office, Retail, Industrial, and Hotel

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.

OUTLOOK FOR **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?

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



Following a protracted expansion in commercial real estate investment and lending activity, participants in the 2017 Survey of Commercial Real Estate Lender Sentiment expect an overall decline in lending volume over the next year. The anticipated contraction follows a dip in growth expectations between the 2015 and 2016 surveys. In the current survey, net 12 percent of survey participants expect a decrease in overall volume.

By property type, lenders expect decreases in volume in the hotel, multifamily, and retail sectors, with the latter seeing the widest consensus on a pullback. Nearly two-thirds of respondents expect that retail volume will decrease, compared with just 8 percent projecting an increase and 27 percent projecting that volume will be unchanged. The shift in expectations for the multifamily sector is also notable given apartments' sustained outperformance in property fundamentals performance and investment and lending growth during the current expansion. Industrial was the only property type to show an improvement in expectations compared to the 2016 survey. Comments by survey participants collected following the formal survey period referenced the favorable impact of electronic commerce on industrial space demand and investment attractiveness, particularly for logistics and urban fulfillment centers.

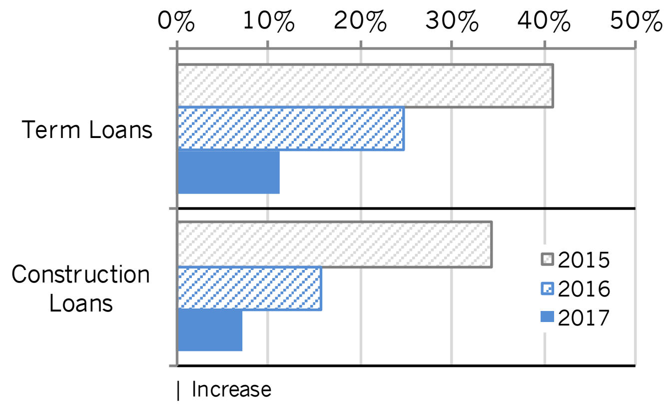
Share of Respondents Expecting Loan Volume Will Increase, Remain Unchanged, or Decrease

Property Type	Increase	Unchanged	Decrease	Net Increase
Multifamily	25%	30%	45%	-20%
Office	30%	44%	26%	4%
Retail	8%	27%	64%	-56%
Industrial	53%	32%	15%	39%
Hotel	17%	41%	42%	-25%
All	**27%**	**35%**	**39%**	**-12%**

Outlook for **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?

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



While participants in the 2017 Survey of Commercial Real Estate Lender Sentiment anticipate an overall decline in lending volume, growth in demand from well-qualified borrowers is expected to soften but not decline outright. This loss of momentum is expected for both term loans and construction loans. In the 2015 survey, the net share of respondents projecting an increase in term loan demand surpassed 40 percent. Expectations for term and construction loans have fallen sharply over the last two years, to 11 percent for term loans and just 7 percent for construction loans in the current survey. Comments collected from survey participants following the formal survey period point to cooling in property sales volume and drags on early refinancing demand from higher interest rates and slower appreciation. Among balance sheet lenders, these forces will be offset in part by higher demand for refinancing of maturing non-CMBS loans.

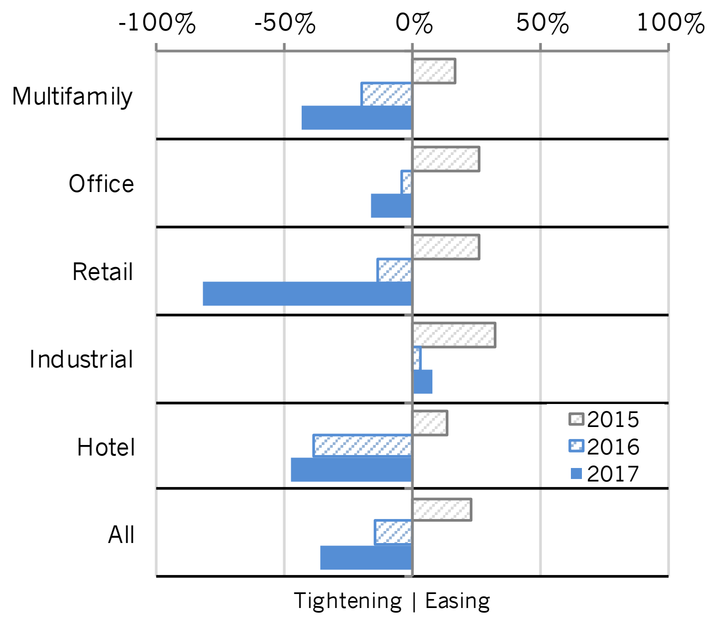
Share of Respondents Expecting Borrower Demand Will Increase, Remain Unchanged, or Decrease

Loan Type	Increase	Unchanged	Decrease	Net Increase
Term	34%	44%	22%	11%
Construction	37%	33%	30%	7%

Outlook for **Lending 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?

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



Apart from more limited growth in demand for term and construction loans, the projected decline in lending volume reported in the 2017 Survey of Commercial Real Estate Lender Sentiment is consistent with participants' expectations of tighter underwriting standards across all property types with the notable exception of industrial.

For all but industrial properties, lending standards shifted from easing to marginal tightening between the 2015 and 2016 surveys, with the share of respondents anticipating tighter standards increasing again in the current survey. Consistent with respondents' expectations of a pullback in retail lending volume, 84 percent expect that lenders will tighten standards over the next year. Expectations of further easing—albeit modest—for industrial lending also track projections for lending volume. Comments by respondents collected following the survey referenced the favorable impact of electronic commerce on industrial space demand and investment attractiveness. Concerns about new industrial supply were mitigated by a relatively stronger focus on high-density locations, such as urban fulfilment centers, and persistent drags on bank construction lending from regulation.

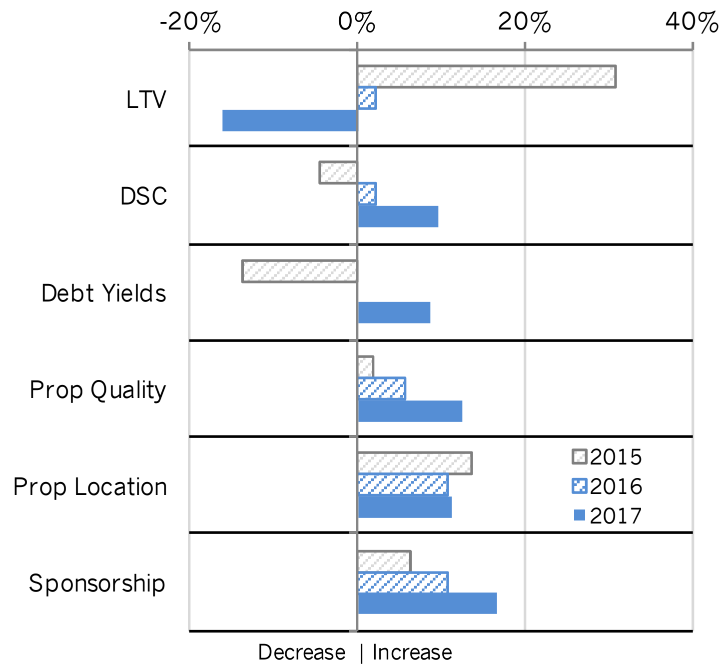
Share of Respondents Expecting Lending Standards Will Tighten, Remain Unchanged, or Ease

Property Type	Ease	Unchanged	Tighten	Net Easing
Multifamily	13%	31%	57%	-44%
Office	13%	58%	29%	-17%
Retail	2%	14%	84%	-82%
Industrial	24%	59%	17%	8%
Hotel	6%	41%	53%	-48%
All	11%	40%	48%	-37%

Outlook for **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?

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



While participants in the 2017 Survey of Commercial Real Estate Lender Sentiment anticipate that standards will generally tighten when measured across property types, responses to survey questions relating to their appetite for risk along other dimensions show a less reserved outlook. The sole exception, the share of respondents anticipating higher loan-to-value (LTV) ratios dropped to just 7 percent in the current survey, outnumbered more than three-to-one by respondents who expect to tighten their LTV criteria. By other metrics, including debt service, debt yields, property quality and location, and sponsorship, only a small minority of lenders anticipate tightening over the next year.

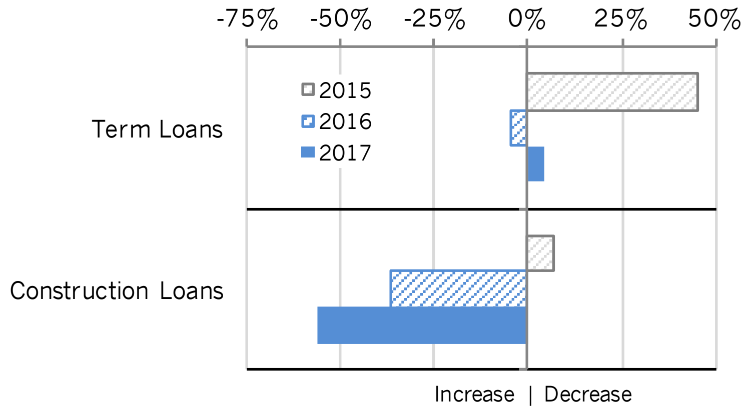
Share of Respondents Expecting Risk Appetite Will Increase, Remain Unchanged, or Decrease

Property Type	Increase	Unchanged	Decrease	Net Increase
LTV	7%	70%	23%	-16%
DSC	21%	68%	11%	10%
Debt Yields	22%	64%	14%	9%
Property Quality	22%	68%	10%	13%
Property Location	24%	64%	13%	11%
Sponsorship	28%	60%	12%	17%

Outlook for **Market Pricing**

Across all property types and as compared to the last 12 months, do you expect market pricing for loans to increase, remain unchanged, or decrease over the next 12 months?

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



Similar to the 2016 survey, lenders' expectations for pricing of term and construction loans diverged sharply in the 2017 Survey of Commercial Real Estate Lender Sentiment. In the case of construction loans, two-thirds of respondents expect an increase in prices over the next year while only 11 percent expect a decline. Comments by respondents collected following the formal survey period evince a widely-held view that regulatory treatment of construction loans has raised the cost of construction lending and, in a relatively conservative environment for construction loans, will continue to exert upward pressure on pricing.

Even for term loans, where the net response suggests a stable outlook for pricing, respondents were divided in their comments on the interest rate outlook and its impact on pricing. One-third of respondents expect a decrease in pricing, in some cases reflecting competitive pressure, while the share who expect an increase was only marginally lower at 29 percent.

Share of Respondents Expecting Market Pricing Will Increase, Remain Unchanged, or Decrease

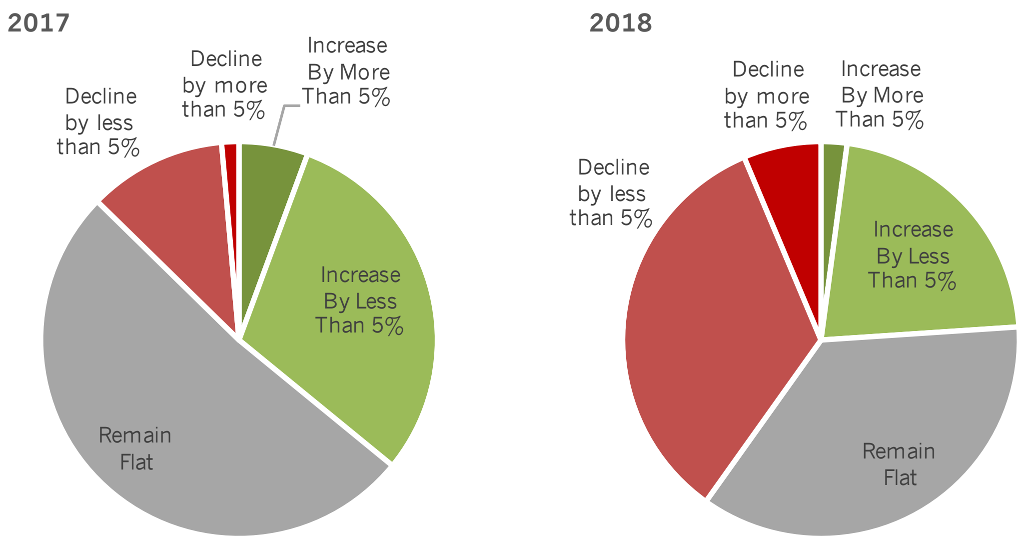
Loan Type	Increase	Unchanged	Decrease	Net Decrease
Term	29%	38%	33%	4%
Construction	67%	21%	11%	-56%

Special Questions on the Market Cycle

The Green Street Commercial Property Price Index, which captures price trends for high-quality commercial real estate transactions, increased by 10.0% in 2014, 9.6% in 2015, and by 3.2% in 2016. Based on these trends, how do you expect that commercial prices will move in 2017 and 2018, respectively.

Following substantial increases in prices leading up to 2016 and an initial loss of momentum in price appreciation last year, a slight majority of respondents to the 2017 Survey of Commercial Real Estate Lender Sentiment expect that commercial real estate values will remain flat in 2017. The outlook for the current year is benign, with another 36 percent of respondents still projecting some increase in prices this year. However, sentiment shifts as survey participants look further ahead. The share of respondents projecting some decline in property prices increases sharply from 12 percent for 2017 to 40 percent for 2018. As compared to the last downturn, expectations weigh strongly in favor of a soft landing for the industry during this cycle. Only a small minority of respondents foresee price declines of more than 5 percent in 2018.

Expected Change in Commercial Property Prices in 2017 and 2018 Benchmarked Against Green Street CPPI



Share of Respondents Expecting Property Prices Will Increase, Remain Flat, or Decrease in 2017 and 2018

Year	Increase > 5%	Increase < 5%	Remain Flat	Decrease < 5%	Decrease >5%
2017	6%	30%	51%	11%	1%
2018	2%	22%	36%	34%	6%