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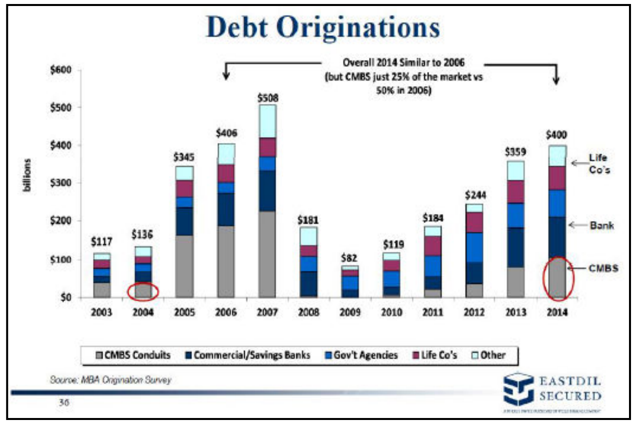
Everest Holdings

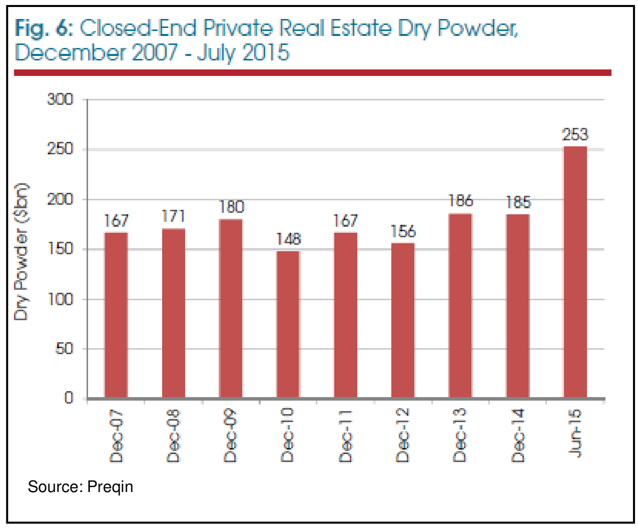
US Real Estate Capital Markets…Better than Ever?

Recent Trends

Real estate capital markets have improved considerably over the past several years, with US debt originations back to 2006-2007 levels. Although debt financing is widely available from all sources, CMBS represents only 25% of the market today vs. 50% in 2006. Filling this void are Banks, GSAs, Life Co's, Debt Funds and other sources, which all have higher shares of the market than before.



On the equity side, private equity firms have a record $254bn in dry powder available globally, up 37% from $185bn at the end of 2014, and representing the *highest amount on record*. The increase in uncalled capital available to fund managers is a result of strong fundraising over the last two years, as global institutional investor confidence in US real estate continues to increase. In addition, offshore investment in US real estate is rapidly accelerating and now accounts for 15% of all US commercial real estate sales volume (vs. only 9% in 2014 and 6% in 2007).



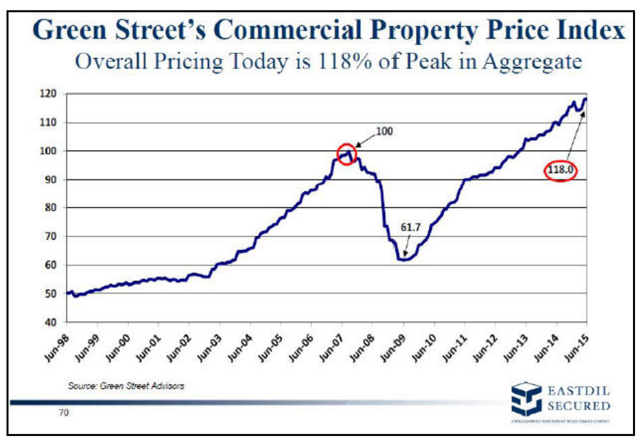
Market Impact

Not surprisingly, the result of so much capital chasing so few opportunities is increased asset pricing. According to Green Street's commercial price index, aggregate US commercial real estate pricing today is 18% higher than the 2007 peak, driven largely by primary assets and markets.

Everest Insight

It is important to note that the pricing index referenced above is value-weighted, not equally-weighted. Thus, a NYC office building impacts the index much more than a strip mall in flyover country. Therefore, a few core cities, primarily NYC, but also LA, Boston, Chicago, San Francisco and DC, have a disproportionately large impact on aggregate US real estate data when value-weighted.

On the contrary, CoStar's equally-weighted commercial price index shows that aggregate US real estate pricing is still just below peak. In other words, most US properties are still below their peak 2007 values. Thus, value-weighted data can be somewhat misleading.



Opportunities

As global capital continues to seek yield, stability and diversification in US real estate, Everest believes more capital (especially foreign) will find its way to Phoenix, which is still in the earlier stages of recovery and which still has some of the largest discounts to peak pricing. And this is starting to show in the data. While Phoenix ranks #10 in US cities for foreign investment, the $1bn in transaction volume YTD 7/15 attributable to foreign investment is already more than double the volume for all of 2014 (per Real Capital Analytics), which represents the 2nd largest percentage increase over that period among the top 10 US cities, behind only Dallas. Everest believes now is an opportune time to get in front of this wave of capital by acquiring well located, high-quality assets that this capital will ultimately seek in the future.

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