

## Interest Rate Market Commentary

Serafino Tobia, Managing Director & Head of Agency CMBS Trading, Greystone | October 7, 2024

### US Treasuries

The 10-year Treasury yield is currently at 4.02%, 24 basis points higher than the close last Monday (3.78%, 9/23). 10-year yields were holding steady in a range around 3.75% for the past two weeks -- until Thursday and Friday last week. Recall, the recent low print was at 3.61% the day prior to the Fed's half point rate cut (Wednesday 9/18).

Worth noting—the 10-2 year yield curve is now flat again. Two-year Treasuries are now at 4%, moving 30 basis points higher since Friday morning and taking away the market's front-running of the possibility of a ½ point rate cut by the Fed in November. The yield curve now implies a cut in the Fed Funds rate of 0.225% on November 7 and 0.28% on December 18.

Last Friday, September non-farm payroll jobs printed an upside surprise of +254,000 new jobs (versus the market estimate at just 150k). The low point was the July figure with only +89k new jobs but along with Friday's employment report, July job growth was revised higher to +144k (August print was also revised higher to +159k from +142k). September's unemployment rate came in at 4.1%, 0.1% lower than August (4.2%); that's after moving higher in the first half of this year from 3.4% (January) to a recent high mark of 4.3% (July). This past week we also received other labor market data that shows a stabilizing labor market - weekly initial jobless claims are steady in a range of 220k to 230k and the JOLTS job openings report showed higher in August after a drop in June and July.

Of course, one month of job data should not be overstated, but with a strong jobs report like this (along with the upside revisions to July and August), it opens the whole question as to whether this is the start of a new trend and if there is even a need for further rate cuts at this juncture. Austan Goolsbee, the Chicago Fed President, commented on Friday about the need to take a longer view on monetary policy; he's hoping that the unemployment rate settles in the low 4% range and inflation remains on a path towards 2%. Over the past few weeks (before this Friday's employment report), Goolsbee was out-front dovish calling for the Fed to move the Fed Funds rate lower quickly towards neutral; he's now open to a slower pace and a longer timeframe. We will see October's job numbers before the next FOMC meeting and rate decision (11/7) (as well as CPI, PPI and PCE inflation prints).

### Fed Monetary Policy – Next Rate Cut

The overnight Fed Funds rate is currently 4.83% (with the Fed's target range 4.75% - 5%) after the ½ point cut 3 weeks ago (9/18). Arguably another ½ point rate cut is off the table after the September jobs numbers, but the Fed Funds rate is still restrictive versus a neutral level. As discussed last week, we likely see two more interest rate cuts between now and the end of the year – 0.25% point at the next FOMC meeting (11/7) and another 0.25% at the subsequent FOMC meeting (12/18).

### My Take on Longer Term Yields

10-year yield at 4.01% is on the high-end of the recent range; longer term rates could move incrementally higher given the momentum in the recent move (some 25+ basis points higher over the past few days). However, yields in the current range continue to reflect an expectation that inflation stays on a path towards 2%; I'm not expecting yields to move substantially in either direction. The next move in rates will take its cue from the next set of inflation prints.

### Upcoming Economic Calander

At the risk of repeating myself, the inflation data will be the highlight of the economic data this week - consumer prices (CPI) on Thursday and producer prices (PPI) on Friday. The bond market is anticipating friendly prints:

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- Thursday (10/10) - CPI for the month of September is expected to be just a +0.1% increase (versus 0.2% last month). Core CPI (without the more volatile food and energy prices) is expected at +0.2% (versus 0.3% last month). Year over year, Headline CPI prices are expected to be +2.3% (versus 2.5% as of the end of August). Core CPI is expected at 3.2% year over year (the same as last month).
- Friday (10/11) - PPI for the month of September is expected to be just a +0.1% increase (versus 0.2% last month). Core PPI (ex- food and energy prices) is expected at +0.2% (versus 0.3% last month). Year over year, Headline PPI prices are expected to be higher by just 1.6% (versus 1.7% as of the end of August). Core PPI is expected at 2.7% year over year (versus 2.4% as of last month).

## Selected Economic Calendar

Tuesday 10/8	8:30 AM	Trade Balance
Wednesday 10/9	7:00 AM	MBA Mortgage Applications
	10:00 AM	Wholesale Inventories
	2:00 PM	FOMC Meeting Minutes from meeting on 9/18
Thursday 10/10	8:30 AM	Consumer Price Index (CPI)
		Weekly Initial Jobless Claims
Friday 10/11	8:30 AM	Producer Price Index (PPI)
	10:00 AM	University of Michigan Consumer Sentiment
Tuesday 10/15	8:30 AM	Empire Manufacturing Index
Wednesday 10/16	7:00 AM	MBA Mortgage Applications
	8:30 AM	NY Fed Services Business Activity
		Inport and Export Prices
Thursday 10/17	8:30 AM	Retail Sales
		Philadelphia Fed Business Outlook
		Weekly Initial Jobless Claims
	9:15 AM	Industrial Production and Capacity Utilization
	10:00 AM	Business Inventories
		NAHB Housing Market Index
Friday 10/18	8:30 AM	Housing Starts
		Building Permits
Monday 10/21	10:00 AM	Conference Board Leading Index
Tuesday 10/22	8:30 AM	Philly Fed Non-Manufacturing Activity
	10:00 AM	Richmond Fed Manufacturing Index
		Richmond Fed Business Conditions
Wednesday 10/23	7:00 AM	MBA Mortgage Applications
	10:00 AM	Existing Home Sales
	2:00 PM	Fed Beige Book Regional Activity
Thursday 10/24	8:30 AM	Weekly Intial Jobless Claims
		Chicago Fed National Business Index
	9:45 AM	S&P Global Manufacturing, Services and Composite PMI (Purchasers Managers Index)
	10:00 AM	New Home Sales
	11:00 AM	Kansas City Fed Manufacturing Activity

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Friday 10/25	8:30 AM	Durable Goods Orders
	10:00 AM	University of Michigan Consumer Sentiment
	11:00 AM	Kansas City Fed Services Activity
Mnoday 10/28	10:30 AM	Dallas Fed Manufacturing Activity
Tuesday 10/29	8:30 AM	Wholesale and Retail Inventories
	9:00 AM	FHFA House Price Index
		S&P Corelogic House Price Index
	10:00 AM	JOLTs Job Openings
	10:30 AM	Conference Board Consumer Confidence
		Dallas Fed Servicing Activity
Wednesday 10/30	7:00 AM	MBA Mortgage Applications
	8:15 AM	ADP Employment Report
	8:30 AM	Gross Domestic Product (GDP) Q3 first read
		Personal Consumption
	10:00 AM	Pending Home Sales
Thursday 10/31	8:30 AM	Personal Income and Personal Spending
		PCE Price Index
		Weekly Intial Jobless Claims
Friday 11/1	8:30 AM	US Employment Report - Nonfarm Payroll, Unemployment Rate
	9:45 AM	S&P Global Manufacturing Purchasing Managers' Index (PMI)
	10:00 AM	Construction Spending
		ISM Manufacturing Index

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Rates last updated: 10/7/2024



Current Index Rates	
5-Year Treasury	3.86%
7-Year Treasury	3.92%
10-Year Treasury	4.02%
30-day SOFR Avg	5.13%

## AGENCY

Agency-Student									
Term	70%/1.30x			65%/1.35x			60%/1.40x		
	Spread	Rate	Debt Yield	Spread	Rate	Debt Yield	Spread	Rate	Debt Yield
10-Year	200 - 215	6.02% - 6.17%	9.4% - 9.5%	195 - 210	5.97% - 6.12%	9.7% - 9.8%	190 - 205	5.92% - 6.07%	10.0% - 10.1%
7-Year	200 - 215	5.92% - 6.07%	9.3% - 9.4%	195 - 210	5.87% - 6.02%	9.6% - 9.7%	190 - 205	5.82% - 5.97%	9.9% - 10.0%
5-Year	200 - 215	5.86% - 6.01%	9.2% - 9.4%	195 - 210	5.81% - 5.96%	9.5% - 9.7%	190 - 205	5.76% - 5.91%	9.8% - 10.0%
* 5, 7, 10 YR Floater (1yr LO, 1%)	235 - 245	7.48% - 7.58%	10.5% - 10.6%	235 - 245	7.48% - 7.58%	10.9% - 11.0%	235 - 245	7.48% - 7.58%	11.3% - 11.4%

\* Floater DSCR 0.05 inside of Fixed Equivalent. I.e. 1.30x Fixed = 1.25x sizing for floater. Rate based on SOFR

Spread Buydown Grid			
Buydown %	5-yr Adder	7-yr - Adder	10-yr - Adder
2.00%	-0.38%	-0.34%	-0.25%

\* Spread reduction for rate buydown from grid above

Preferred Equity		
DSCR	Rate	LTV
1.05x	13%-15%	65%-75%

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	Floating Rate			Fixed Rate				
	Life Company	Bank B/S	Debt Fund	Life Company		Bank B/S	CMBS	
Loan Term	2+1+1+1 or 3+1+1	2+1+1+1 or 3+1+1	2+1+1+1 or 3+1+1	Five (5) to Ten (10) Years		Five (5) Years	Five (5) to Ten (10) Years	
Max. LTV / LTC	50% - 60%	50% - 60%	60% - 70%	50% - 60%		50% - 65%	60% - 65%	
Min. Debt Yield	9.50% - 10.50%	9.25% - 10.50%	7.00% - 8.50%	9.50% - 10.50%		9.25% - 10.50%	9.50% - 10.50%	
Min. DSCR	1.25 - 1.35x	1.25 - 1.30x	1.00 - 1.20x	1.25 - 1.35x		1.25 - 1.30x	1.30 - 1.40x	
Index	1-Month SOFR	1-Month SOFR	1-Month SOFR	5-Year UST	10-Year UST	5-Year UST	5-Year UST	10-Year UST
Current Index Rate	4.85%	4.85%	4.85%	3.85%	4.00%	3.85%	3.85%	4.00%
Credit Spread	1.95% - 2.25%	2.00% - 2.25%	2.50% - 3.00%	1.90% - 2.20%	1.90% - 2.20%	2.00% - 2.25%	2.45% - 2.75%	2.35% - 2.75%
<b>Current Interest Rate</b>	<b>6.80% - 7.10%</b>	<b>6.85% - 7.10%</b>	<b>7.35% - 7.85%</b>	<b>5.75% - 6.05%</b>	<b>5.90% - 6.20%</b>	<b>5.85% - 6.10%</b>	<b>6.30% - 6.60%</b>	<b>6.35% - 6.75%</b>
<b>Origination Fee</b>	0.10% - 0.25%	0.50% - 1.00%	0.75% - 1.00%	0.10% - 0.25%	0.10% - 0.25%	0.50% - 1.00%	n/a	n/a
<b>Extension Fee(s)</b>	0.10% - 0.25%	0.15% - 0.25%	0.25% - 0.50%	n/a	n/a	n/a	n/a	n/a
<b>Amortization</b>	2-3 Years IO	2-3 Years IO	FTIO	2-3 Years IO	3-5 Years IO	2-3 Years IO	FTIO	FTIO
<b>Prepayment*</b>	12 mos LO, Open thereafter	12 to 18 mos LO, Open thereafter	18 mos LO, Open thereafter	YM + 0.50%, Open last 3-6mos	YM + 0.50%, Open last 6mos	SM, Open last 3-6mos;	YM, Open last 3-6mos;	YM, Open last 3-6mos;
<b>Sub. / Mezz Debt Permitted?</b>	Potentially	Potentially	No	Potentially	Potentially	Potentially	Potentially	Potentially
<b>Principal Recourse</b>	Up to 25%	Up to 25%	None	None	None	Up to 25%	None	None

\* Additional prepayment flexibility available for pricing add-on to credit spread.