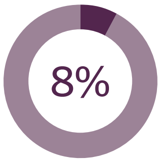
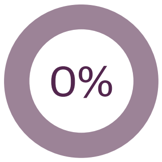
Commercial Real Estate Debt

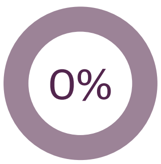
Nearing the Peak



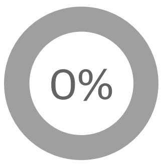
Guggenheim Core



Guggenheim Core Plus



Guggenheim Multi-Credit



Bloomberg Barclays U.S. Aggregate

Jennifer A. Marler
Senior Managing Director

William Bennett
Managing Director

Ted Jung
Director

As we near the end of the current expansion cycle, investors will continue to see attractive real estate debt opportunities.

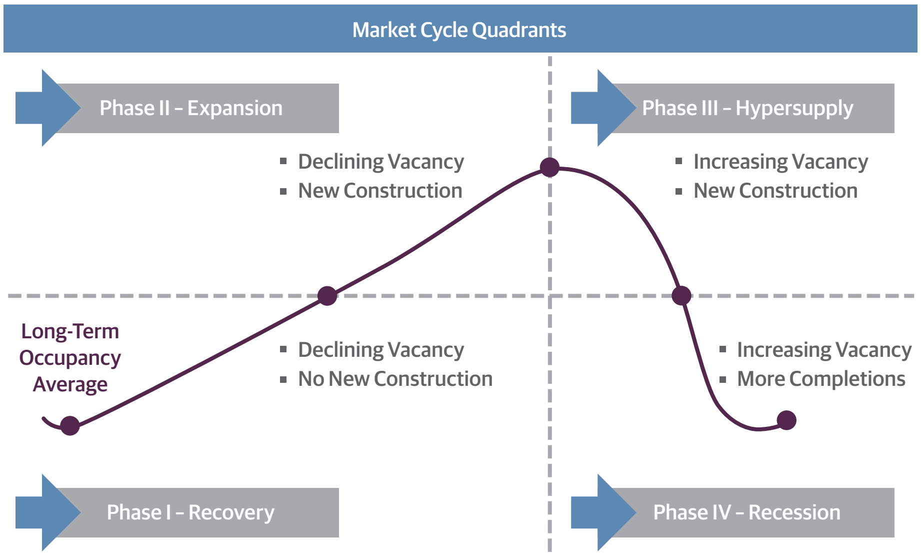
Commercial real estate cycles tend to flow from recovery to expansion, peak after a period of new construction and declining vacancies, and then turn from hyper-supply into a recessionary period as construction declines and vacancies start to rise (see chart, top right). As we begin 2019, we are climbing toward a cycle peak, but not yet ready to descend from the mountain.

Vacancies across all real estate sectors remain low, even as we are starting to see net income growth beginning to slow (see chart, bottom right). Absorption of new product continues to be strong. Dodge Data & Analytics forecasts that total U.S. new construction starts in 2019 will total approximately $808 billion, in line with total new construction starts for 2018. However, Dodge notes that the rate of expansion in the U.S. construction industry has moderated over the past three years, consistent with historical patterns that typically emerge as an expansion matures. Dodge's proprietary Momentum Index, which measures the initial report for commercial building projects in planning, is also falling, indicating that planned projects likely to lead to new construction spending are declining.

Real estate investors are beginning to face headwinds, but the market is unlikely to see any material downward cycle trend until supply begins to overtake demand. With 10-year U.S. Treasury yields falling and the yield curve flat, loan terms of five and seven years are more attractive for lenders. Unique value-added opportunities, such as the planned conversion of the former Westside Pavilion Mall in Los Angeles into creative office space for Google, are also allowing investors to unlock value in underused properties in attractive locations and create debt opportunities for higher-yield bridge financing investments. Respondents to the Mortgage Bankers Association's 2019 Commercial Real Estate Outlook Survey predicted strong demand from both borrowers and lenders for mortgage loans in 2019, albeit a bit weaker than in 2018, and capital sources remain plentiful for real estate investors.

GUGGENHEIM

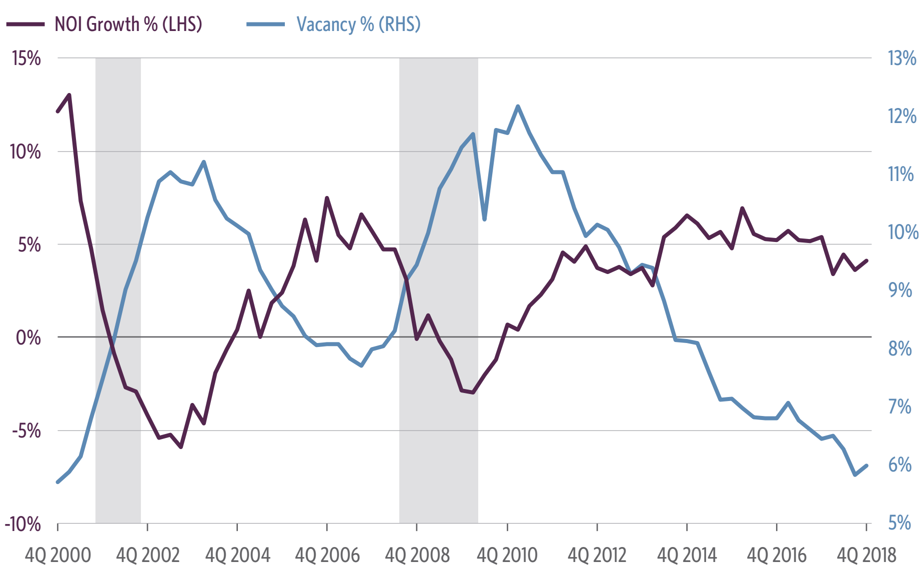
The Commercial Real Estate Sector Has Room to Run



Source: Mueller, Real Estate Finance, 2016.

Commercial real estate cycles tend to flow from recovery to expansion. As we begin 2019, we are climbing toward a cycle peak, but not yet ready to descend from the mountain.

Vacancies Remain Low Even as Net Operating Income Growth Slows



Source: Guggenheim Investments, NCREIF, Morgan Stanley Research. Data as of 12.31.2018. Shaded areas represent periods of recession.

Vacancies across all real estate sectors remain low, even as net income growth has slowed.