Commercial Mortgage Returns Finish 2016 Lower

BOSTON, April 11, 2017 /PRNewswire/ -- Commercial mortgage loans owned by life insurance companies posted a negative total return of 2.72 percent in fourth quarter, down from positive returns of 1.05 percent in third quarter, 2.27 percent in second quarter, and 3.39 percent in first quarter, according to the LifeComps Commercial Mortgage Index.

In fourth quarter, income contributed 1.11 percent while price subtracted 3.83 percent. The price loss stemmed from higher treasury yields while mortgage spreads tightened to lessen the impact. The yield on the benchmark ten-year Treasury climbed 85 basis points over the quarter to 2.45 percent.

The twelve-month total return dropped to 3.94 percent from 6.81 percent in the prior quarter. Income contributed 4.73 percent while price deducted 0.79 percent. After falling over the first half of the year, Treasury yields ended higher to drive the negative price performance with the 10-year Treasury finishing 18 basis points higher. Spread movement, credit migration and portfolio growth partially offset the negative contribution from Treasury movement.

Of the four major property types, industrial loans performed best for the quarter with a return of -1.94 percent compared to -2.63 percent for office, -2.89 percent for retail and -3.08 percent for apartments. For the year, office fared best with a return of 3.99 percent followed by retail at 3.94 percent, apartments at 3.92 percent and industrial at 3.72 percent.

Commercial Mortgage Loan – Total Return by Property Type as of December 31, 2016

Property	Quarter	12 months
Apartments	-3.08%	3.92%
Office	-2.63%	3.99%
Retail	-2.89%	3.94%
Industrial	-1.94%	3.72%
All*	**-2.72%**	**3.94%**

**Includes hotel, mixed use, and other commercial*

About LifeComps
The LifeComps Commercial Mortgage Loan Index is the only published benchmark for the private commercial mortgage market based on actual mortgage loan cash flow and performance data, which has been collected quarterly from participating life insurance companies since 1996. Active loans in the LifeComps Index number approximately 4,400 with an aggregate principal balance of $114.3 billion. The weighted average duration is 5.4 years and average reported loan-to-value is 51 percent.

Participating life insurers include Allstate Life Insurance Company, CIGNA Investment Management, AXA Equitable,John Hancock, Northwestern Mutual, Principal Financial, Prudential Insurance Company of America, and TIAA. For more information, visit www.lifecomps.com.

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