talmage

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Our team attended the 2015 Commercial Real Estate Finance Council (CREFC) winter conference in Miami last week which traditionally launches the new CMBS trading year and is attended by all leading market participants. Overall, the tone was measured optimism tempered by increased competition, deteriorating underwriting standards, anemic interest rates, volatility and macro concerns ranging from oil prices to global terrorism. There was significant discussion of the prominence of foreign capital entering the U.S. market in real estate equity and debt. Foreign investment is the theme of our recently published article, "U.S. CMBS – Five Compelling Attributes for Foreign Investors," which illustrates the attractive features of CMBS for off-shore investors. Despite record CMBS new issuance (post financial crisis) of $98 billion in 2014 and deteriorating credit standards, through careful asset selection and in-depth underwriting, we are finding attractive opportunities across the capital structure providing current income, capital preservation and excellent upside. U.S. CMBS - Five Compelling Attributes for Foreign Investors

2015 CREFC Conference - Talmage Key Takeaways

- Conference enjoyed record attendance of ~1,700 market participants;
- 2014 CMBS issuance ended the year at $98 billion (a 17% YOY increase) with estimates for 2015 ranging from $120 to $140 billion;
- CMBS AAA spreads are anticipated to be "range bound" at current levels (swaps +90 basis points) with estimates ranging from +70bps to +110bps (still 2-5x wide of pre-crisis levels); all expect volatility to be a major factor in 2015;
- CMBS remains "cheap" on a relative basis to corporates and other fixed-income alternatives;
- Despite loosening underwriting standards, a consensus among investors that we have yet to "reach the peak" and that today's CMBS benefit from greater credit enhancement levels, better structure and underlying asset quality;
- B-piece buyers have continued to increase in number while returns have compressed; the new "Risk Retention" rules to be adopted in 2016 will negatively impact overall deal pricing and spur issuance in 2015;
- Increased "mezzanine" debt opportunities (private and certificated) as well as more floating-rate and single borrower transactions;
- Retail exposure remains the top asset class concern for investors;
- Uncertainty regarding the outcome of S&P's settlement with the SEC; and
- Increasing use of leverage by investors to achieve yield hurdles.

Overall, the mood was optimistic but cautious. CMBS seems to have found a new trading range that is cheap to other asset classes and to pre-crisis levels. Volatility and global/macro events will be major factors in 2015. Opportunities will be event driven and plentiful for nimble investors.