June 11, 2015

Our team attended the 2015 Commercial Real Estate Finance Council (CREFC) summer conference in New York City this week, marking the mid-point of the year. Overall, the tone was positive with strong and improving real estate fundamentals, healthy new CMBS issuance and solid CMBS performance. Investors and market participants registered concerns over rising interest rates, the unevenness of the property market recovery and the ever-increasing competition for yield. These themes were highlighted in our recently published article, "CMBS 2.0 – State of the Market 2015." For this article, we gathered industry leaders who provided their insights on the current risks and rewards in CMBS and the related privately-traded commercial property debt markets. The consensus is that CMBS, and related property debt as an asset class, continues to provide compelling opportunities for seasoned investors who have strong sourcing capabilities, underwriting skills, real estate know-how, and discipline. CMBS 2.0 - State of the Market 2015

2015 CREFC Conference – Talmage Key Takeaways

- Conference was well-attended with nearly 1,300 market participants (+8% YOY).
- Year to date CMBS issuance is $54 billion (+47% YOY) and is on pace to exceed last year's total issuance of $98 billion. The consensus estimate for 2015 is $120 billion.
- Of the $54 billion of issuance, over one-third ($18 billion) was in single-borrower/asset CMBS, providing opportunities to gain exposure to unique assets and sponsors.
- Overall real estate fundamentals are healthy and continuing to improve but are doing so unevenly with the top tier markets driving the recovery.
- While underwriting standards continue to gradually loosen, asset quality remains high and leverage levels remain manageable.
- Liquidity is dear and regulations are crimping dealer balance sheets, creating opportunities.
- The pending adoption of "Risk Retention" in 2016 will create opportunities (and challenges) that will emerge in CMBS and single-asset securitizations.
- The continued growth of foreign capital in U.S. commercial real estate has been driven, in part, by Asian capital, including China and Korea. According Morgan Stanley research, foreign investment was $47 billion for 2015 YTD, which is nearly as much as all of 2014.

Overall, the mood was cautiously optimistic with the consensus that the current real estate cycle will continue for some time due to healthy property fundamentals and asset quality. Opportunities for investors will be driven by a number of factors including: the "wall of maturities," interest rate volatility, the pending implementation of Risk Retention, and a "bolt from the blue." In particular, single asset/borrower transactions, floating rate loans, and subordinate debt (whether in the form of mezzanine debt, "rakes" or B-Notes) will present compelling investments. Of course, given current property valuations and the substantial demand for yield by investors, in-depth underwriting, due diligence and discipline have never been more important.

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