January 15, 2016

This week, our team attended the 2016 Commercial Real Estate Finance Council (CREFC) winter conference in Miami which traditionally launches the new CMBS trading year and is attended by all leading market participants. Overall, the tone was bearish with concerns focused on liquidity, deteriorating underwriting standards, risk retention, hedge fund redemptions and increasing global volatility due to a host of factors ranging from plummeting oil prices to China's decelerating growth. We feel that these factors, coupled with the estimated $110 billion of pre-risk retention CMBS issuance, will create meaningful opportunities. We favor CMBS as an asset class as it provides current income, capital preservation and upside potential.

2016 CREFC Conference – Talmage Key Takeaways

- The Conference enjoyed record attendance of ~1,800 market participants;
- 2015 CMBS issuance was $101 billion (a 3% YOY increase) with a consensus estimate of $110 billion for 2016;
- AAA CMBS spreads are anticipated to be "range bound" at current levels of approximately swaps + 140 basis points and remain significantly wider than levels as tight as swaps + 82 basis points experienced in 2015;
- Volatility is expected to be a major factor in 2016;
- CMBS remains more stable than comparable corporate bonds and other fixed-income alternatives;
- Despite deteriorating underwriting standards, the consensus among investors is that real estate fundamentals remain relatively healthy and that today's CMBS benefit from greater credit enhancement levels, improved structure and asset quality, particularly for Single Asset/Single Borrower ("SASB") transactions;
- The new "Risk Retention" rules to be enacted in December 2016 will negatively impact overall pricing and spur issuance prior to implementation;
- Increased mezzanine debt opportunities and more floating-rate and SASB transactions are expected;
- The prominence of foreign capital entering the U.S. market in real estate equity and debt;
- Retail remains a top asset class concern for investors;
- "Fed Liftoff" has market participants anticipating between two and four rate hikes in 2016; and
- Over $250 billion of CMBS contractually matures within the next two years creating dislocation and opportunities.

Although the mood was cautious, CMBS remains stable with spread widening potential while global equity and credit markets continue to experience significant volatility. In summary, the major factors for 2016 are expected to be volatility, liquidity, risk retention and global/macro events. Opportunities are expected to be event-driven and plentiful for nimble and well-capitalized investors.

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