

October 2021

- Spreads widened across most CMBS products in October. AAA bonds saw spreads move 5-15 basis points, while BBB and lower widened 25-40 basis points (see inCREdulous section below). Endless new issue supply was the culprit. We view this supply driven spread widening as a buying opportunity as SASB now offers very good relative value.
- The fundamental picture for commercial real estate continues to improve. Macroeconomic data show robust growth and hiring. Alternative datasets, like the OpenTable seated diner indices, have been in a neighborly range of pre-COVID levels for much of the past two months.
- Underlying CRE activity is increasingly vigorous. Real Capital Analytics (RCA) reported in October that overall commercial real estate prices rose 16.1% year-over-year with multifamily and industrial properties leading the way. According to RCA, Q3 apartment deal volume alone exceeded the average annual deal volume from the years 2008-2011! We expect elevated levels of transaction activity to continue to buoy deal volumes and the overall CRE market.

GENERIC NEW ISSUE CMBS SPREADS & INDEX RETURNS

Sector	Class	Recent			5Y History			Total Return*					
		Last	1y Ago	Chg	Min	Median	Max	CMBS Index	1 Month	3 Month	YTD	2020	2019
Conduit	AAA-LCF	71	84	-13	61	91	300	AAA	-0.4	-1.1	-0.9	7.6	7.7
	BBB-	340	525	-185	60	345	700	1 to 5	-0.5	-0.8	-0.2	5.6	5.3
CRE CLO	AAA-A1	125	140	-15	75	108	265	5 to 7	-0.4	-1.4	-1.4	8.7	8.2
	BBB-	300	400	-100	200	300	600	7 to 10	-0.1	-1.5	-1.9	10.4	10.6
SASB	AAA	105	195	-90	55	95	397	AA	-0.3	-1.0	0.9	6.8	8.6
	BBB-	200	285	-85	125	210	600	A	-0.3	-0.8	4.7	2.3	9.1
Single Family Rental	AAA	63	90	-27	45	90	300	BBB-	-0.2	-0.7	6.8	-0.9	11.3
	BBB-	245	245	0	150	220	775						

*Includes Agency, Conduit, and SASB

Sources: Payden & Rygel Structured Products Group, JPMorgan, ICE BofAML

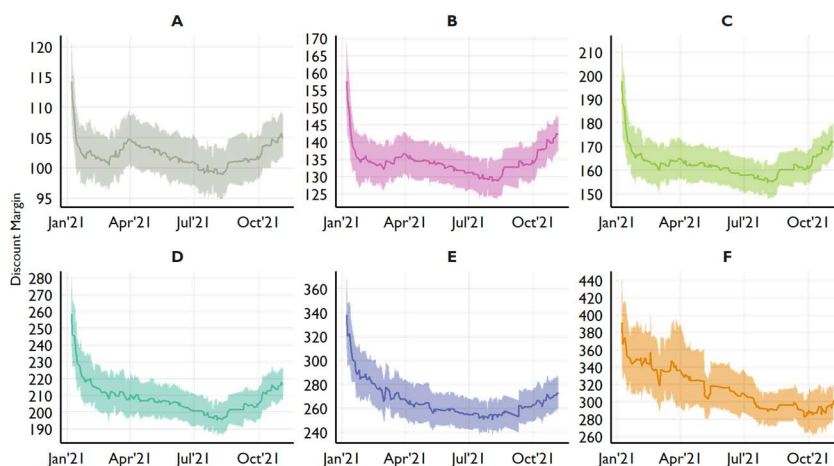
inCREdulous ... CRE TOPIC(S) OF INTEREST: SASB Floaters Get the Discount Double Check

As noted above, spreads widened across most CMBS products in October. AAA bonds saw spreads move 5-15 basis points, while BBB and lower widened 25-40 basis points. Endless new issue supply was the culprit (see plot right).

Bond investors, though, weren't the only market participants taking their lumps. Indeed, the banks behind the loans which serve as collateral for many new issue deals also had to raise their spreads.

But put yourself in those bankers' wing-tipped shoes...say you've

Secondary Market SASB Floater DMs by Class*
Average Spread with 90% Confidence Interval (Y-Axis Relative by Panel)

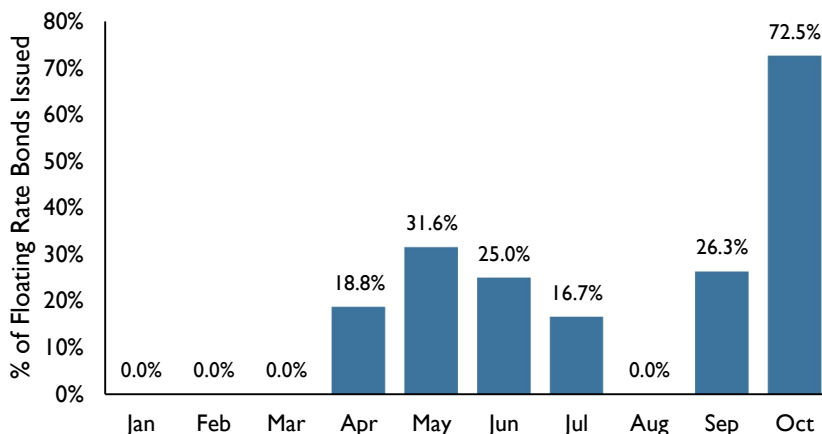


*Data as of 2021-11-05, from JP Morgan runs, only classes A-F shown
Source: Payden & Rygel Structured Products Group, JP Morgan

struck a floating rate loan at L+200. In an ideal world, you price the loan and sell the bonds on the same day—the interest rate on the loan is sufficient to pay the offered spread on the bonds and those spreads are market clearing levels. In such a world, the bonds price at par.

But what of a world where you've made the loan and spreads widened. You bring investors your same L+200 deal, but the coupons you offer are no longer market clearing. What are you to do?? You find yourself issuing bonds at a discount. By issuing at a discount, bond investors receive a more attractive yield without having to move coupon spreads wider. But the bankers must take the loss on the chin (unless a kind sponsor agrees to help make them whole...). And so it was in October (see plot right).

% of SASB Floating Rate Bonds Issued at a Discount



Source: Payden & Rygel Structured Products Group, JP Morgan, Deal Documents

In the end, though, we needn't fret for our banker friends too much. More often than not, the heady spread between the loan they made and the bond coupons they can offer allow for the creation of interest-only bond classes (a story for another day), the sales of which accrue as pure profit to the issuing bank. And it won't be long before the bankers are back out on the street quoting loans at higher margins and selling bonds at par.

NEW ISSUE HIGHLIGHTS

Deal	GPMT 2021-FL4	LNCR 2021-CRE6	JPMCC 2021-NYAH	BX 2021-LGCY
Type	CRE CLO	SASB	SASB	SASB
Size	\$621MM	\$1,250MM	\$506MM	\$575MM
Pricing Spreads (AAA/BBB-)	L+135 / L+345	L+130 / L+345	L+76 / L+219	L+70 / L+190
Credit Support (AAA/BBB-)	44.5% / 19.1%	46.8% / 16.4%	65.3% / 28.7%	65.1% / 37.8%
Credit Metrics (LTV/DSCR/DY)	72% / 1.7x / 6.2%	71% / 1.5x / 5.2%	65% / 2.3x / 5.8%	71% / 3.1x / 5.7%
Property Types	Multifamily (69%) Office (21%) Retail (4%)	Multifamily (66%) Office (22%) Hospitality (6%)	Multifamily (100%)	Multifamily (100%)
Notes	Granite Point's 2nd CRE CLO of 2021	3rd CRE CLO from LoanCore this year	NY affordable housing social bonds	12 Class A multifamily buildings across the US South

LOAN FUNDAMENTALS

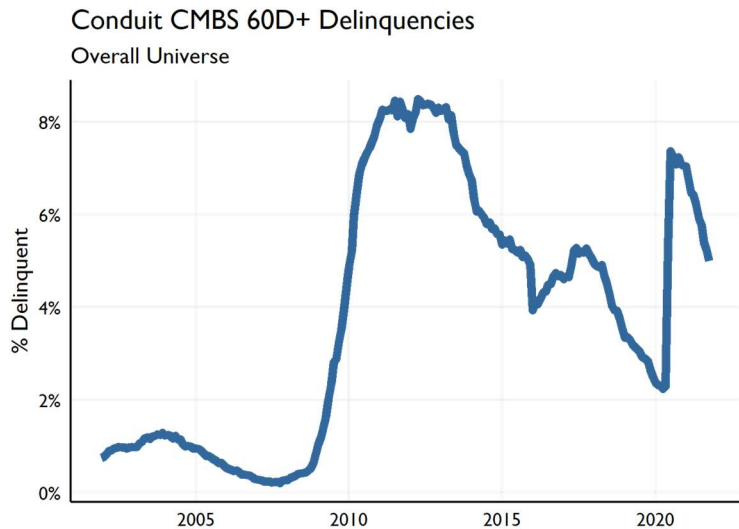
Here we review key developments in the loan assets backing CMBS, as of the most recent monthly remittance reports. Key notes include:

1. We've now seen 1y (12 months) of consecutive declines in the conduit delinquency rate. Overall the serious conduit 2.0 delinquency rate now stands at 5%, down from 5.2% in September.
2. Hotel and retail drove the decline on the month—as has been the case, especially for hotel loans for much of 2021. Hotel DQs fell -0.80% and retail DQs fell -0.44% on the month.

If you have any questions, please get in touch at structuredproductdata@payden.com.

Thanks for reading,

Payden CMBS Team



Sources: JP Morgan, Payden & Rygel Structured Products Group