

November 2021

- Spreads continued to widen across most CMBS products in November. AAA bonds saw spreads move 10-20 basis points, while BBB and lower widened 30-50 basis points. As it was in October, the heavy flow of new issue supply remains the primary cause of wider spreads. We remain of the opinion that this supply driven spread widening is a buying opportunity as SASB and CRE CLO offer compelling relative value across the stack.
- New issue is expected to slow towards the end of the year. Outside of a handful of inbound SASB deals, a lately priced pair of CRE CLOs and a conduit deal, the tide may ebb until after the annual Commercial Real Estate Finance Council (CREFC) meeting in early January 2022.
- Expectations for 2022 are for continued robust issuance. The primary drivers will be investors keen to find floating rate spread as the Fed moves closer to hiking and the potential resuscitation of the Conduit market. We remain bullish on select property types (e.g. multifamily and industrial) but note that leverage has ticked up as favored sectors are increasingly priced to perfection.

GENERIC NEW ISSUE CMBS SPREADS & INDEX RETURNS

Sector	Class	Recent			5Y History		
		Last	1y Ago	Chg	Min	Median	Max
Conduit	AAA-LCF	69	82	-13	61	90	300
	BBB-	365	435	-70	195	345	625
CRE CLO	AAA-A1	165	105	60	75	110	265
	BBB-	340	318	22	200	300	550
SASB	AAA	95	142	-47	55	95	397
	BBB-	170	150	20	125	210	600
Single Family Rental	AAA	63	90	-27	45	88	300
	BBB-	245	245	0	150	215	775

CMBS Index	Total Return*			2020	2019
	1 Month	3 Month	YTD		
AAA	-0.1	-0.5	-1.0	7.6	7.7
1 to 5	-0.2	-0.7	-0.4	5.6	5.3
5 to 7	-0.2	-0.5	-1.5	8.7	8.2
7 to 10	-0.1	-0.2	-2.0	10.4	10.6
AA	-0.1	-0.4	0.8	6.8	8.6
A	-0.1	-0.4	4.6	2.3	9.1
BBB-	-0.1	-0.3	6.8	-0.9	11.3

*Includes Agency, Conduit, and SASB

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

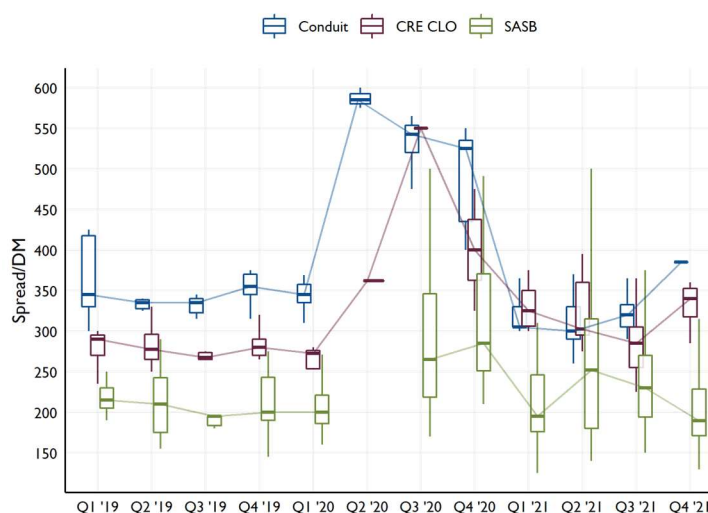
inCREdulous ... CRE TOPIC(s) OF INTEREST: Ask Me Wide, I'll Say I Love You

Yes, indeed, wider spreads do Please Please Us. If the Beatles will forgive the tortured puns, we can forgive the CMBS markets for experiencing supply induced indigestion and spread widening.

As noted above, with fundamentals improving and a potential ~one month respite of new issue, we view the recent pullback as an attractive buying opportunity.

Interesting dynamics have surfaced, though, as we've seen the first meaningful post-COVID spread widening in CMBS (see plot right).

BBB- New Issue Spreads



Source: Payden & Rygel Structured Products Group

Spreads for CRE CLO BBB- remain wide to pre-COVID and offer a strong relative value proposition. In fact, Q3 2021 is the only quarter we saw down the stack CRE CLO spreads close to pre-COVID 250-300 range. More often have been in the 300-350 range in the post-COVID era.

More interestingly, though, the spread between Conduit BBB- and CRE CLO BBB- has narrowed, albeit on lower conduit issuance volume in 2021. Pre-COVID Conduit BBB- were regularly ~50-80 bps wide of CRE CLO but are now more like 0-30 bps wide. Finally, the increased distribution in SASB new issue pricing means that discerning investors can still find attractive opportunities.

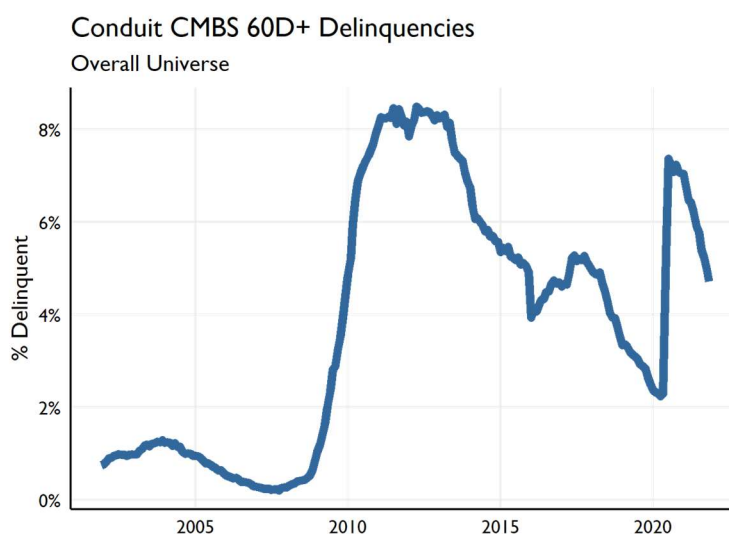
NEW ISSUE HIGHLIGHTS

Deal	BDS 2021-FL10	ARCLO 2021-FL4	FROST 2021-1X	GSTNE 2021-HC2
Type	CRE CLO	CRE CLO	SASB	CRE CLO
Size	\$1,230MM	\$2,100MM	£222MM	\$450MM
Pricing Spreads (AAA/BBB-)	L+135 / L+335	L+135 / L+340	SONIA+135 / SONIA+290	L+180 / L+509
Credit Support (AAA/BBB-)	42.5% / 18.6%	44.2% / 18.4%	59.8% / 20.5%	59.3% / 23.5%
Credit Metrics (LTV/DSCR/DY)	72% / 1.45x / 4.8%	77% / 1.35x / 5.1%	61% / 3.4x / 10.7%	70% / 2.14x / 15.6%
Property Types	Multifamily (92%) Office (4%) Industrial (2%)	Multifamily (100%)	Cold Storage (100%)	Skilled Nursing (52%) Assisted Living (16%) Memory Care (11%)
Notes	BDS's 4th CRE CLO of 2021	Arbor's 4th CRE CLO of 2021	3 UK/EUR Cold Storage Assets	Greystone skilled-nursing CRE CLO

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 13 months of consecutive declines in the conduit delinquency rate. Overall, the serious conduit 2.0 delinquency rate now stands at 4.7%, down from 5% in October.
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 -1.12% on the month. However, office DQs ticked up marginally to 2.2%.



Sources: JP Morgan, Payden & Rygel Structured Products Group

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Thanks for reading,

Payden CMBS Team