CMBS MONTHLY

Payden&Rygel
Investment Management

May 2022

- CMBS new issue volume slowed in May as the commercial real estate markets began to adjust to higher spreads, making many deals non-economic for issuers.
- The sharp move higher in interest rates has left some properties with negative leverage (borrowing costs are higher than unlevered cash flow returns). Property owners and operators in these cases will struggle to refinance assets and must work to raise rents and/or reduce expenses (or pray for lower interest rates). While only a small minority of deals currently sit in this position, business plan viability and credit vigilance will remain top of mind of 2022.
- Given the difficult macro backdrop, expectations are for spreads to continue to leak higher. Much of the CMBS market remains in "wait and see" mode, where sales tend to be motivated by non-economic considerations (e.g., outflows) and buyers are waiting for wider levels. Time will tell if the slowing of new issue supply will support secondary market pricing. With a flat term structure, we continue to like seasoned, shorter WAL, SASB and CRE CLOs, especially up the stack.

GENERIC NEW ISSUE CMBS SPREADS & INDEX RETURNS

		Recent			5Y History		
Sector	Class	Last	1y Ago	Chg	Min	Median	Max
Conduit	AAA-LCF	155	67	88	61	90	300
	BBB-	550	290	260	195	345	600
CRE CLO	AAA-A1	255	110	145	75	113	270
	BBB-	565	295	270	205	310	580
SASB	AAA	220	110	110	55	99	397
	BBB-	445	285	160	125	210	600
Single Family Rental	AAA	155	55	100	45	90	300
	BBB-	245	155	90	150	210	775

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

	Total Return*				
CMBS Index	1 Month	3 Month	YTD	2021	2020
AAA	0.1	-2.0	-6.9	-1.1	7.6
1 to 5	0.3	-0.7	-4.2	-0.5	5.6
5 to 7	0.1	-2.6	-8.3	-1.7	8.7
7 to 10	-0.2	-4.2	-11.4	-2.2	10.4
AA	-0.3	-2.4	-7.1	0.5	6.8
A	-0.5	-2.5	-7.3	4.3	2.3
BBB-	-0.6	-2.6	-7.6	6.5	-0.9

*Includes Agency, Conduit, and SASB

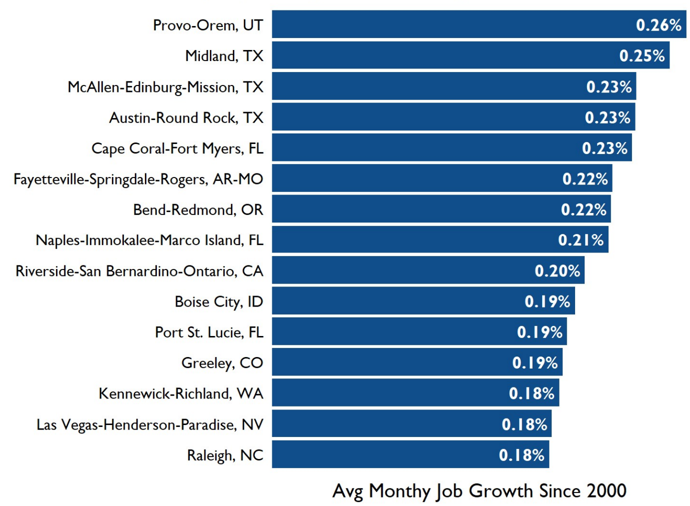
inCREdulous … CRE TOPIC(s) OF INTEREST: Do You Have Minute for Our Savior (Job Growth)?

The souring macroeconomic backdrop—and the higher interest rates it has wrought—is hardly the ideal set up for commercial real estate. With many deals underwritten to very tight cap rates in 2021, questions plague investors about future viability of their deals should economic underperformance continue.

In times such as these, we turn to the closest thing we can imagine to a superhero or savior for CRE: job growth. All else equal, identifying markets where job growth has been stronger bodes well for all property sectors as more jobs translate into higher retail spending, more housing demand, higher office demand (at the margin), and more travel. So where should investors look?

Top 15 Fastest U.S. Metro Areas by Monthly Job Growth

Data Since 2000, Seasonally Adjusted Payrolls for 250 Largest U.S. Metro Areas



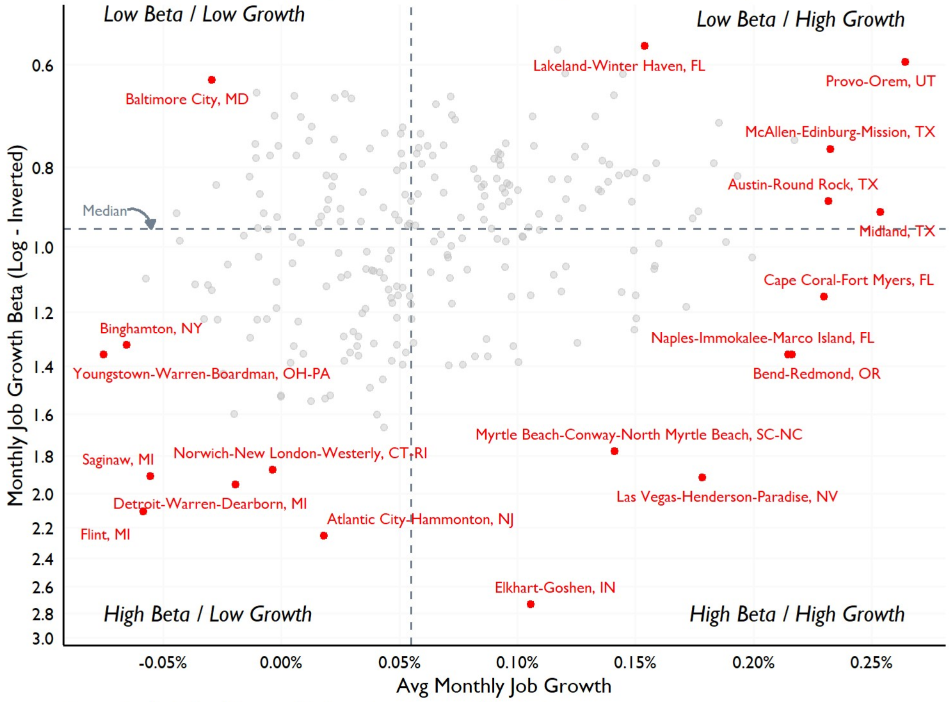
Sources: Payden & Rygel Structured Products Group, Bureau of Labor Statistics

The plot on the previous page gives us initial clues. The metro areas with the fastest average job growth tend to be concentrated away from the coasts—with the exception of Florida) and, in the main, are mid-sized cities.

Some of the fastest growers have special stories—the Fayetteville, AR MSA is home to three fortune 500 companies (Walmart, Tyson Foods, and J.B. Hunt Transport)—while others have attracted employers with lower cost of living and a more business friendly context (see you, Texas).

U.S. Metro Area Job Growth vs. Job Growth Beta

Data Since 2000, Seasonally Adjusted Payrolls for 250 Largest U.S. Metro Areas, Outliers in Red



Sources: Payden & Rygel Structured Products Group, Bureau of Labor Statistics

As useful as understanding raw job growth might be, the question still remains: *are these areas poised to outperform in a broader macroeconomic slowdown*? To investigate and recommend the best geographies for investors to play we can steal from modern portfolio theory, estimate "job growth beta" for each metro area, and use it to contextualize job growth (see plot above).

Readers can interpret "job growth beta" as a measure of how tightly coupled a metro area's job growth is to the job growth of the broader U.S. economy. A beta of 1 means it moves in lock step. A beta > 1 means job growth in the MSA moves more violently than overall U.S. job growth, and vice versa. The best combination is low beta (less sensitive to the overall economy) and high growth.

Consider the difference between Provo-Orem, UT and Las Vegas, both top 15 growers. Provo has a job growth beta of 0.6 which means it is relatively decoupled from overall changes in U.S. employment. Meanwhile, Vegas has a beta of ~2! That means, on average, we'd expect Vegas employment to be 2x the monthly change of the overall U.S.—if the U.S. economy produces 1% job growth, Vegas grows 2%, and if we lose 1% of jobs, Vegas loses 2%.

By focusing on metro areas with lower beta and high job growth (top right quadrant), we believe investors can improve their odds of outperforming in commercial real estate investing. The perils of focusing on other quadrants should be clear with only a brief glance to the "high beta / low growth" MSAs. At a minimum, using this growth and beta approach reduces the risk of permanent capital loss as investors will hitch their wagons to areas more capable of independently producing jobs, rather than depending on U.S. economic growth to bail them out.

NEW ISSUE HIGHLIGHTS

Deal	BPCRE 2022-FL2	ARCLO 2022-FL2	BX 2022-CSMO	LIFE 2022-BMR2
Type	CRE CLO	CRE CLO	SASB	SASB
Size	$609MM	$1,050MM	$3,025MM	$2,875MM
Pricing Spreads (AAA/BBB-)	SOFR+240 / SOFR+510	SOFR+185 / SOFR+500	SOFR+220 / SOFR+445	SOFR+140 / SOFR+265
Credit Support (AAA/BBB-)	45.9% / 18.9%	69.8% / 45.9%	60.9% / 29.9%	41.2% / 8.2%
Credit Metrics (LTV/DY/DSCR)	69.5% / 5.8% / 1.17x	71.0% / 4.9% / 1.36x	54.0% / 21.3% / 3.33x	53.2% / 8.5% / 3.20x
Property Types	Multifamily (97%) Mfd Housing (1%) Mixed Use (1%)	Multifamily (100%)	Hotel (100%)	Office (88%) Mixed-Use (12%)
Notes	Varadero's 2nd CRE CLO	Arbor continues to print new deals	Las Vegas Cosmo Refinance	Biomed/BX Life Science

LOAN FUNDAMENTALS

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

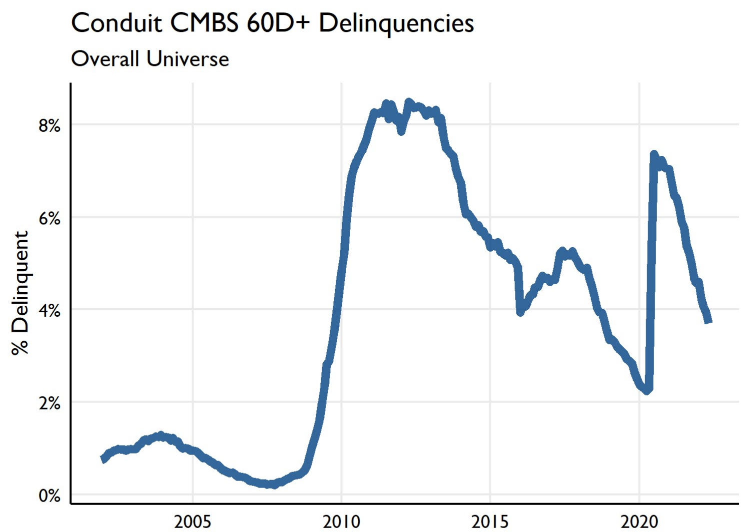
1. 60D+ delinquencies in the conduit universe fell to 3.7% from 3.9%, as retail and hotel loans continued to see improved performance.

2. Office loan performance was largely flat, with serious delinquencies declining 5 bps on the month to 2.2%

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

Thanks for reading,

Payden CMBS Team



Sources: JP Morgan, Payden & Rygel Structured Products Group

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