

November 2022

- November saw CMBS spreads move lower, at the margin. The tentative tightening was largely in sympathy to, and lagged behind, the impressive risk-on move witnessed in high yield (which saw returns of nearly 2% on the month).
- More generally, expectations for next year are for CRE credit conditions to deteriorate. While investors tangled with lower property values as a result of higher rates in '22, consensus suggests '23 will be the year of softening fundamentals and modest NOI growth.
- Given our outlook and attractive all-in yields, we see opportunities in higher rated, discount dollar price SASB / CRE CLO bonds (A or better). We also believe investors would be well served to survey the remainder of the SASB fixed rate market for opportunities to capitalize on a potential dovish Fed in '23. Incremental duration—subject to strong credit work—could benefit CMBS investors in '23.

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	2021	2020
Conduit	AAA-LCF	208	73	135	61	92	300	AAA	2.3	1.0	-9.9	-1.1	7.6
	BBB-	610	380	230	195	340	650	1 to 5	1.3	0.5	-6.4	-0.5	5.6
CRE CLO	AAA-A1	310	140	170	75	115	310	5 to 7	3.1	1.4	-12.0	-1.7	8.7
	BBB-	440	370	70	205	305	635	7 to 10	4.5	1.7	-16.2	-2.2	10.4
SASB	AAA	275	102	173	55	104	397	AA	1.7	0.3	-11.4	0.5	6.8
	BBB-	450	214	236	125	220	600	A	1.1	-0.7	-12.3	4.3	2.3
Single Family Rental	AAA	250	88	162	45	94	300	BBB-	1.0	-1.0	-13.3	6.5	-0.9
	BBB-	430	200	230	150	200	775						

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

*Includes Agency, Conduit, and SASB

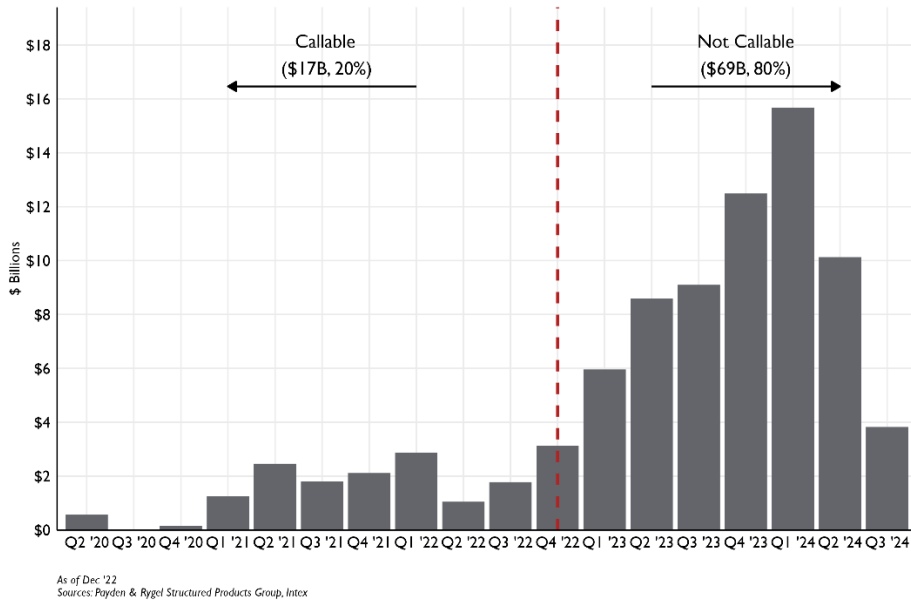
inCREdulous ... CRE TOPIC(s) OF INTEREST: Many Are Called, Few Are Chosen

As we've [discussed previously](#) in these pages, the callability of CRE CLOs is both an economically rational decision for an issuer (when cost of funds rise and leverage falls), but also provides a potential early takeout for bond investors—a particularly attractive feature when bonds trade at a discount to par.

Through 2021, the historical record was clear. Managed CRE CLOs, deals with reinvestment periods generally lasting two years from new issue before they are callable, had a 95% chance of being outstanding after 2.5 years but only a 10% chance of being outstanding after 4 years. In the 1.5 years between 2.5 and 4, the economics described above—again, AAA classes paying down causing leveraged returns for the sponsor to fall—motivated behavior.

Does this dynamic persist with rates higher this year and CMBS credit markets all but frozen? And what should investors make of the outlook for 2023? In short, we've seen some call activity in 2022 and the future will largely be contingent on the velocity of underlying CRE transaction activity. The major answer will come in late '23, early '24.

Timeline of CRE CLO Call Dates by Current Balance

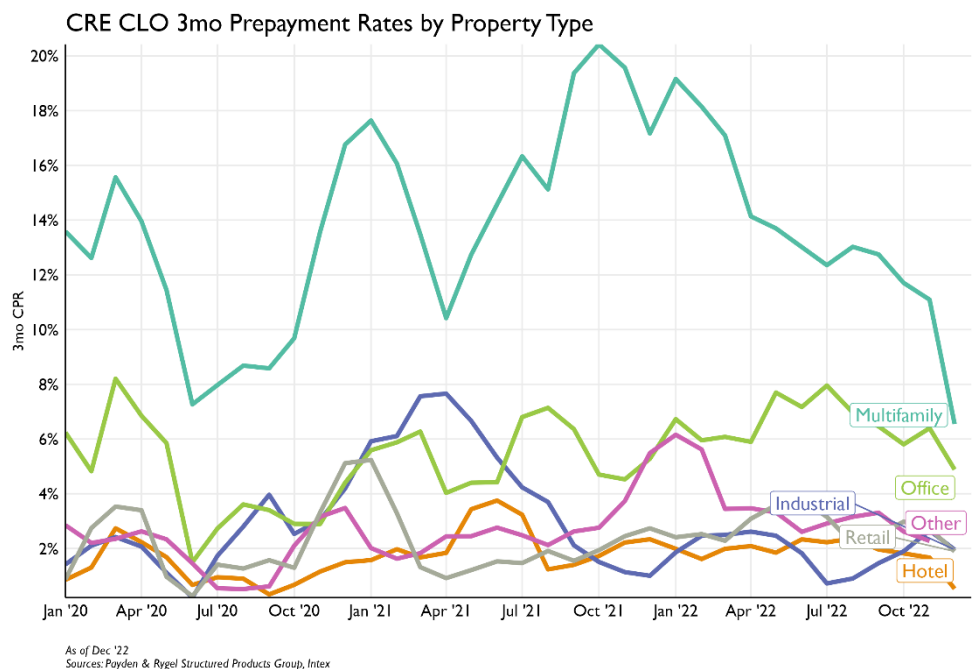


In 2022, of the 22 deals which were eligible to be called within 1 year, 5 were (23%). Compare that to the 7 deals which were called in 2021 (25%). So, while call activity has slowed, it hasn't fallen as precipitously as some might expect. But the reckoning awaits.

Much of the massive '21 CRE CLO issuance volume (\$45B [see last month's CMBS Monthly](#)) came in the form of managed deals with two year reinvestment periods, translating into a first call option in '23/'24 (plot left).

The key question, of course, is will these calls materialize? Away from predicting the temperament of capital markets in *n* months' time, we'd point inquiring minds to prepayment trends in the loan pools underlying CRE CLOs for clues.

While prepayment rates for loans in CRE CLOs slowed this year, the decline was limited largely to multifamily. Now, as it comprises ~2/3rds of the sector's collateral by property type, a decline in multifamily prepayment rates will mean a slower prepayment landscape overall. However, for those deals with non-multifamily collateral, prepayment profiles have largely remained the same—even for office (see plot right)!



In the final analysis, only time will tell. Given current market pricing, with many seasoned bonds trading at steep dis counts implying longer time outstanding, we think the odds might skew more favorably than some think to shorter-than-expected average deal lives. Investors who are willing to ride out the next 10-12 months and allow deals to continue to pay down (or become callable) may yet be rewarded.

NEW ISSUE HIGHLIGHTS

Deal	GSMS 2022-AGSS	BANK 2022-BNK44	BBCMS 2022-C18	3650R 2022-PF2
Type	SASB	Conduit	Conduit	SASB
Size	\$252MM	\$1,026MM	\$808MM	\$728MM
Pricing Spreads (AAA/BBB-)	SOFR+275 / SOFR+540	P+205 / P+820	T+153 / T+445(A-)	P+208 / P+340 (AA-)
Credit Support (AAA/BBB-)	49.5% / 5.0%	30.0% / 6.8%	30.0% / 12.3%	30.0% / 15.3%
Credit Metrics (LTV/DY/DSCR)	51.4% / 9.2% / 1.3x	51.3% / 12.5% / 2.12x	51.7% / 13.6% / 2.01x	53.2% / 20.7% / 2.17x
Property Types	Self Storage (100%) □	Retail (43%) Office (22%) Industrial (9%)	Retail (27%) Office (21%) Industrial (20%)	Retail (25%) Industrial (19%) Office (14%)
Notes	50 self-storage properties totaling 3.8 million sf across 11 states	Conduit anchored by \$100MM portion of \$235MM mall loan to Simon Property Group	37 loans backed by 114 properties across 38 states	Conduit shares a \$60MM loan piece with BNK44 backed by mall

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. Overall, the 60D+ delinquency rate dropped 0.2% in November 2022 to 3.7%.
2. Hotel loan performance again continued to improve, sporting the largest month-over-month decline, from 6.4% to 5.9%.

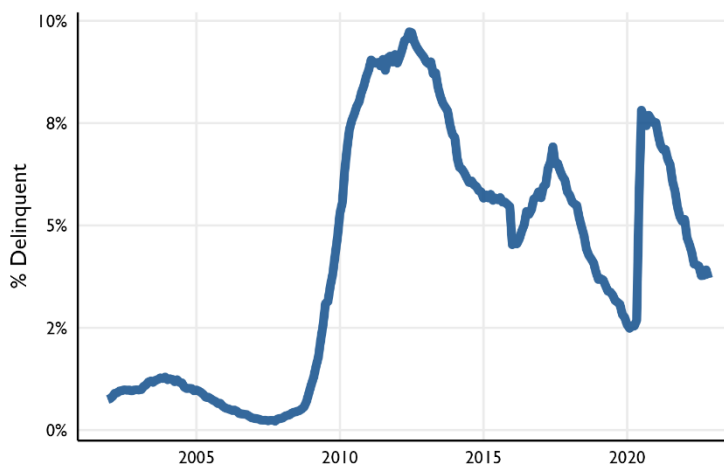
If you have any questions, please get in touch at structuredproductdata@payden.com.

Thanks for reading,

Payden CMBS Team

Conduit CMBS 60D+ Delinquencies

Overall Universe



Sources: JP Morgan, Payden & Rygel Structured Products Group

(See following page for disclaimer)

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