CMBS MONTHLY

Payden&Rygel
Investment Management

Note: Going forward we will publish this document quarterly*

December 2022

- December was a weak month for CMBS new issue as investors seek clarity on property valuations. Only two SASB deals priced, one of which was placed very quietly. Spreads only began to rally in sympathy with broader credit towards the end of the month. This low supply technical bodes well for a rally in credit-risk remote bonds in Q1 2023.
- Most continue to expect credit fundamentals to deteriorate through 2023. In particular, office properties requiring refinancing will struggle with cap rates 150-200 bps wider since 2021.
- Our preferences are unchanged from last month. 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

		Recent			5Y History		
Sector	**Class**	**Last**	**1y Ago**	**Chg**	**Min**	**Median**	**Max**
Conduit	AAA-LCF	158	105	53	61	92	300
	BBB-	610	400	210	195	342	650
CRE CLO	AAA-A1	310	145	165	75	115	310
	BBB-	440	332	108	205	305	635
SASB	AAA	275	105	170	55	105	397
	BBB-	450	200	250	125	220	600
Single Family Rental	AAA	250	88	162	45	95	300
	BBB-	430	0	430	150	200	775

	Total Return*				
CMBS Index	**1 Month**	**3 Month**	**YTD**	**2021**	**2020**
AAA	0.3	2.6	-9.6	-1.1	7.6
1 to 5	0.4	1.7	-6.1	-0.5	5.6
5 to 7	0.2	3.3	-11.8	-1.7	8.7
7 to 10	0.1	4.6	-16.1	-2.2	10.4
AA	-0.1	1.6	-11.6	0.5	6.8
A	-0.9	0.2	-13.0	4.3	2.3
BBB-	-1.1	-0.1	-14.2	6.5	-0.9

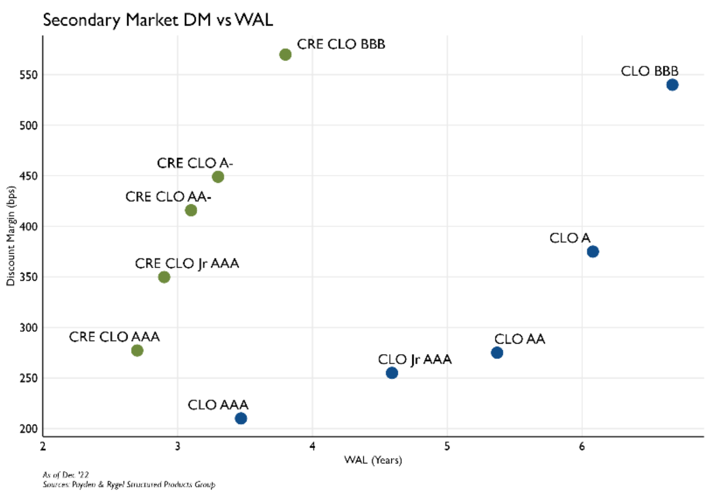
*Includes Agency, Conduit, and SASB

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

inCREdulous … CRE TOPIC(s) OF INTEREST: CLO Showdown

In light of a very slow month across CMBS, we take the opportunity to reflect here on relative value across the securitized product opportunity set. In particular, we compare CRE CLOs against Corporate CLOs and wonder at the differences. While spreads have tightened meaningfully at time of writing versus YE 2022, the broader themes remain intact.

We root the discussion in the secondary market where, across the capital stack, CRE CLOs trade at wider spreads and shorter weighted average lives (WAL) compared to their corporate cousins.



A screaming buy? Why go longer for less spread? In a word(s), liquidity, buyer base, and credit.

First up, liquidity. Corporate CLOs are a more mature market with a long list of well-established collateral managers and buyers. New issue BSL CLOs printed ~$115B in 2022 new issue, versus ~$30B in CRE CLO. What's more, AAA corporate CLOs trade with an 1/8th to 1/4 bid-ask spread. AAA CRE CLOs often change hands with a 1/4 to 1/2 point bid-ask. Down the stack these differences only magnify. Investors in CRE CLOs must accept their higher spreads with lower liquidity.

Relatedly, the buyer base for corporate CLOs is much broader. This is both because the market is more mature, as mentioned, but also because the universe of corporate credit analysts who cover the issuers of the underlying loans far exceeds the universe of CUSIP-aware CRE analysts who cover the underlying mortgages.

This chasm translates to a much smaller universe of "crossover" buyers who might not ordinarily invest in securitized products but will crossover from corporates to buy CLOs when they are cheap. Anecdotally, despite much wider spreads, we only heard of a dozen or so crossover buyers in the CRE CLO market—not enough to keep a lid on spread widening.

Finally, the underlying CRE assets in CRE CLOs are more highly levered and so more affected by higher interest rates. Additionally, the properties securing CRE CLO loan collateral (typically) only have one form of (floating rate) debt.

Corporate loan issuers may have other (fixed rate) financings which hedge them against difficulty servicing/refinancing floating rate debt which has become very expensive given the rise in SOFR. Some of the optical "cheapness" in CRE CLOs likely betrays investors' concern that the realized WALs will be longer than expected as loans must extend in an effort to survive the adverse market environment.

Overall, we see virtues in both markets. CRE CLOs do offer very attractive profiles for accounts able to hold relatively less liquid instruments. Both CRE and corporate CLOs benefit from loan paydowns which make WALs more "real" for AAA bonds, even in a tough market. For BBB CRE CLOs, though, investors must ensure they've done their credit homework to pick bonds who's advertised WALs will materialize and reward them with higher discount margins.

NEW ISSUE HIGHLIGHTS

Deal	JPMCC 2022-CGSS	BX 2022-FOX2	
Type	SASB	SASB	**No Other Deals Issued**
Size	$167MM	$645MM	
Pricing Spreads (AAA/BBB-)	SOFR+280 / SOFR+455	SOFR+290 / SOFR+480	
Credit Support (AAA/BBB-)	34.7% / 0.0%	59.1% / 41.4%	
Credit Metrics (LTV/DY/DSCR)	51.2% / 9.7% / 1.52x	62.4% / 6.3% / 0.98x	
Property Types	Self-Storage (100%)	Industrial (97%) Office (2%)	
Notes	JV of Cerberus and MCG with $100MM cash equity	Refi of 137 industrial and 1 office property	

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 held steady at 3.7% in December.
2. Office loan serious delinquencies fell 2.3% and retail loan delinquencies dropped to 6.8%.

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

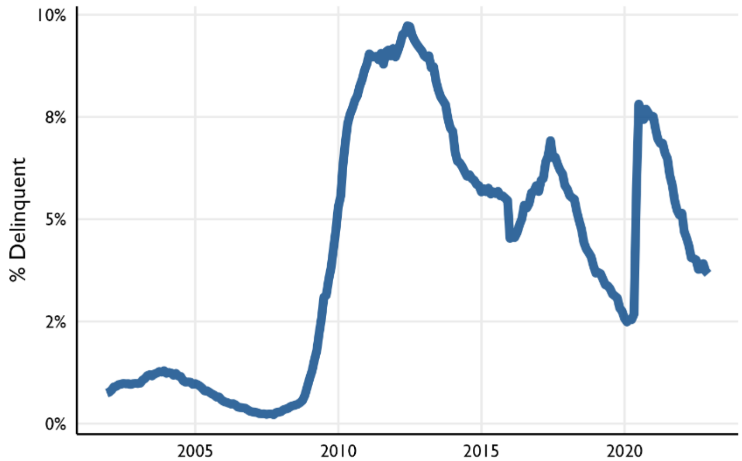
Thanks for reading,

Payden CMBS Team

(See following page for disclaimer)

Conduit CMBS 60D+ Delinquencies

Overall Universe



Sources: JP Morgan, Payden & Rygel Structured Products Group

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