Trepp®
CMBS Research
November 2017

Q3 CMBS Issuance Recap: Surging Volume, Tighter Spreads, and Hotel Deals Galore

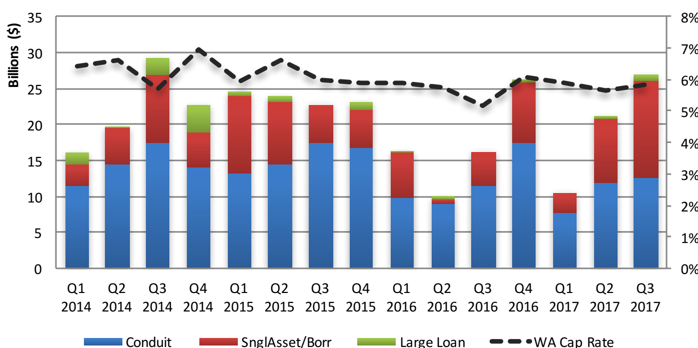
If you're looking to spend the day outside, it's not often that you can say the conditions are perfect. But so far in 2017, CMBS issuers have had perfect conditions for lending, including tighter spreads than those seen in 2016, low interest rates, yield-hungry investors, an absence of volatility, and an ample volume of loans in need of refinancing.

Just about $26.8 billion in private-label securitized mortgages officially cleared the issuance pipeline between July and September 2017, making it the most active quarter for the CMBS industry since Q3 2014. With only a handful of lenders testing the waters of risk retention early in the year, CMBS issuance activity totaled just $10.5 billion in Q1 2017, but later picked up with $21.2 billion in Q2. The Q3 total of $26.8 billion brings year-to-date issuance to $58.6 billion through the first nine months of the year, which is a 38% increase in volume compared to the same period in 2016.

Vertical Risk Retention Structure Remains Most Lenders' Choice

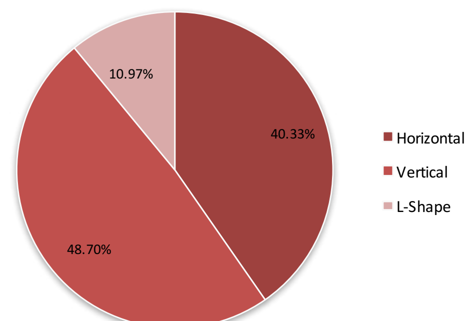
Under Dodd-Frank risk retention provisions implemented in late 2016, sponsors and third-party investors of an asset-backed securitization (ABS) are required to retain a 5% interest in the transaction under the form of a vertical (5% of each class), horizontal (5% of the lowest bonds in the deal waterfall), or hybrid structural holding (combination of the vertical and horizontal structures equal to 5%). The vertical risk retention structure, which was employed in 19 CMBS deals totaling $13.1 billion in Q3, continues to be the most frequently-used structural option among issuers, particularly for lenders in the single-asset space. An additional 17 deals totaling $10.8 billion were structured with a horizontal structural holding last quarter. During this time period, usage of the hybrid approach declined, as only three deals with a combined balance of $2.95 billion included the "L-shaped" strategy. That amounts to just less than 11% of the aggregate balance of deals that closed in the last three months, down from roughly 25% of the Q2 issuance balance. Of the three risk retention options, vertical deals carry the highest weighted-average (WA) LTV, cap rate, and DSCR ratios due to the inclusion of several single-asset lodging portfolios. Many of these hotel properties boast elevated NOI and mortgages relative to their appraised values, which ultimately elevated other loan metrics. From a leverage standpoint, hybrid deals were the most conservatively underwritten; the collateral pool behind the CSAIL 2017-CX9 hybrid deal from September currently features the lowest WA LTV ever seen on a conduit transaction.

GRAPH 1: QUARTERLY CMBS ISSUANCE BY DEAL TYPE



Source: Trepp

GRAPH 2: Q3 2017 CMBS ISSUANCE - RISK RETENTION STRUCTURE



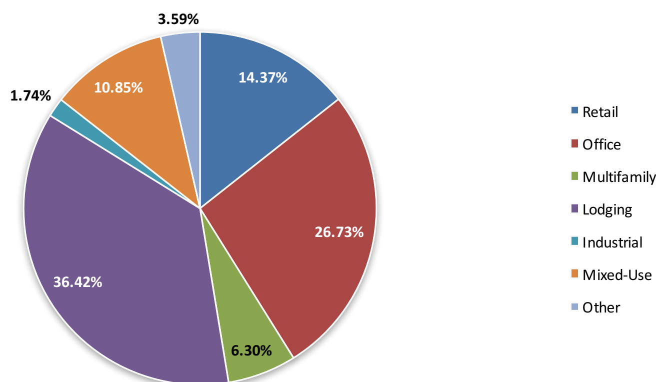
Source: Trepp

CHART 1: Q3 2017 CMBS ISSUANCE - RISK RETENTION STRUCTURE

	HORIZONTAL	VERTICAL	L-SHAPE
Balance	$10.83	$13.08	$2.95
% of Q3 Issuance	40.33%	48.70%	10.97%
# of Deals	17	19	3
WA LTV	57.53%	58.02%	52.83%
WA Cap Rate	6.32%	6.97%	6.29%
WA DSCR	2.56	3.16	2.54

"Hotels, Motels, Holiday Inns" Dominate Q3 Issuance

GRAPH 3: Q3 2017 CMBS ISSUANCE - PROPERTY TYPE



**A sizable portion of loans categorized as mixed-use include collateral consisting both office and retail space*

Source: Trepp

Driven by significant hotel merger and acquisition activity during the last few months, the hospitality sector has been carving up an increasingly larger chunk of new issue volume. While the sector only represents about 15% of the total CMBS universe, lodging properties backed 36.42% of all CMBS debt issued between July and September of this year. Year-to-date, just more than 25% of all 2017 new issues were hotel loans, which is the second-highest total among all property types, behind only the office segment. Much of this momentum can be attributed to greater acquisition, financing, and sales activity from hotel operators seeking international expansion via brand procurement and consolidation strategies.

As investor sentiment towards the retail segment remains tepid, quarterly issuance tied to mall and shopping centers once again came in lower than that of previous periods. Retail loans accounted for just less than 15% of total issuance from July to September, while origination also dwindled to a comparable level. Looking at the other major property types, lending on trophy office towers situated in metropolitan hubs like New York, Boston, and San Francisco remains high. Elsewhere, new multifamily issues rose to $1.7 billion this quarter (or 6.24% of the Q3 total), while industrial properties only backed $461.4 million in new issuance (1.72% of the Q3 total).

The largest loan issued in the third quarter was the $2.08 billion Motel 6 Portfolio, which fully comprises the MOTEL 2017-ML6 single-borrower transaction. In addition to $225 million in mezzanine debt, the loan was used to refinance an existing $1.8 billion CMBS loan that was securitized in 2015. Built between the years 1960 and 2009, the underlying collateral is a portfolio of 460 lodging properties located across 47 states in the US and Canada that operate either under the Motel 6 franchise, or its extended stay subsidiary, Studio 6. The collateral pool was most recently appraised for $2.7 billion in September 2017 and contains heavy exposure to the West coast, as approximately 47.5% of its allocated balance is backed by hotels in California, Arizona, Oregon, Washington,

CHART 2: FIVE LARGEST CMBS LOANS ISSUED IN Q3 2017

DEAL NAME	PROPERTY NAME	DEAL TYPE	PROP TYPE	STATE	SECURITIZED BALANCE	LTV	DSCR
MOTEL 2017-MTL6	Motel 6 Portfolio	Single-Asset	LO	Various	$2,075,000,000	72.60%	3.85
BX 2017-SLCT	BRE Select Portfolio	Single-Asset	LO	Various	$1,393,500,000	61.78%	3.77
PRK 2017-280P	280 Park Avenue	Single-Asset	OF	New York	$1,075,000,000	58.10%	2.54
GWT 2017-WOLF	Great Wolf Resorts Pool	Single-Asset	LO	Various	$1,000,000,000	52.81%	4.15
CGDBB 2017-BIOC	2017-BIOC	Single-Asset	OF	California/ Massachusetts	$825,000,000	44.10%	4.73

**Based only on deals that closed in Q3 (For large pari-passu notes securitized across several quarters, only the loan balance securitized in the third quarter was included in our analysis)*

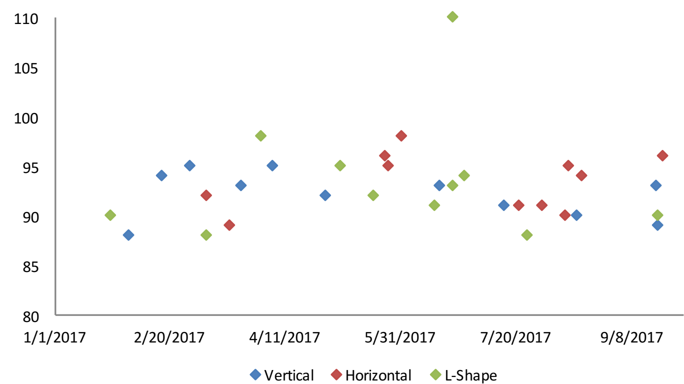
and Nevada. Other major hospitality portfolios that rank among the five largest CMBS issues in Q3 include the $1.4 billion BRE Select Portfolio (BX 2017-SLCT) and the $1.0 billion Great Wolf Resorts Pool (GWT 2017-WOLF).

Outside of the lodging sector, the largest loan securitized during this time frame was the $1.1 billion mortgage against 280 Park Avenue in the Midtown East section of Manhattan. The collateral is a class-A trophy office that spans 1.26 million square feet, and houses such tenants as PJT Partners, Franklin Templeton, and Blue Mountain Realty.

Spreads on New Conduit Issues Continue to Tighten

Buoyed by persistently low market volatility, favorable investor reception, and issuer buy-in from risk retention mandates, new conduit deals continue to showcase tight pricing levels throughout the capital stack. AAA spreads on conduits that closed in Q3 clocked in between 88 basis points and 96 basis points over swaps, down from a range of S+91 and S+110 on deals that closed in the second quarter. In the BBB- segment, spreads were noticeably less varied for Q3 issues compared to previous quarters, settling at S+345 to S+410. Overall, subordinate spreads have remained steady thus far, though many anticipate greater widening on bonds in the lower credit spectrum if volatility in the equity markets heats up. New pricing levels have been re-setting established expectations in the market, making CMBS more competitive to balance sheet lenders compared to other types of fixed income products.

GRAPH 4: Q3 2017 CMBS ISSUANCE - AAA SPREADS ON NEW CONDUIT ISSUES



Source: Trepp

Q3 2017 Market Trends

- Since CMBS serves as a popular lending source for high-quality urban offices and hotel portfolios with large financing requirements, pari passu notes (or

CHART 3: Q3 CONDUIT CMBS ISSUANCE - PRICING

CLOSING DATE	CMBS DEAL	AAA SPREAD	BBB- SPREAD	RISK RETENTION TYPE
7/13/17	WFCM 2017-C38	94	365	L-shape
7/27/17	BANK 2017-BNK6	91	345	Vertical
7/31/17	JPMCC 2017-JP7	91	Not Disclosed	Horizontal
8/15/17	CD 2017-CD5	88	375	L-shape
8/17/17	UBSCM 2017-C2	90	Not Disclosed	Horizontal
8/22/17	WFCM 2017-C39	90	Not Disclosed	Horizontal
8/24/17	GSMS 2017-GS7	95	Not Disclosed	Horizontal
8/29/17	CGCMT 2017-B1	90	360	Vertical
8/31/17	UBSCM 2017-C3	94	Not Disclosed	Horizontal
9/28/17	COMM 2017-COR2	96	Not Disclosed	Horizontal
9/28/17	BANK 2017-BNK7	89	370	Vertical
9/29/17	CSAIL 2017-CX9	90	375	L-Shape
9/29/17	CGCMT 2017-P8	93	410	Vertical

loans with an A-note and B-note structure) continue to represent a significant share of the issuance pipeline. Large mortgage transactions such as the $1.2 billion 245 Park Avenue loan, the $2.2 billion General Motors Building note, and the $1.1 billion Starwood Capital Group Hotel Portfolio were split into notes securitized across several quarters, with exposure spanning several CMBS deals.

- Although some in CMBS initially anticipated lower lending volume in 2017 as a result of regulatory uncertainty, strong securitization activity has led many industry participants to revise their annual issuance estimates for the year. Total issuance for 2017 is expected to reach $80-85 billion and should easily surpass last year's total which came during a time of global uncertainty and macro volatility. On the flip side, many still believe that issuance is running well below the expected pace considering the large maturing volume.
- While the US was challenged with rising political tensions and several natural disasters throughout the third quarter, the overall long-term impact on the market was minimal despite greater precaution and risk aversion being incited for some.
- The hybrid risk retention structure is still the least-utilized option among the three strategies, due in part to indemnification problems that typically arise between issuers and third-party investors. Thus far, no single-asset issuers have adopted the L-shaped alternative.

For more information about Trepp's commercial real estate data, contact info@trepp.com.
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