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The Definitive Source on Commercial Property Sales, Financing and Investment

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Financing

Deutsche Bank-Cantor Deal Pushes Pari Passu Structure

A new commercial mortgage-backed securities deal from **Deutsche Bank** and **Cantor Commercial Real Estate** includes a large pari passu securitization structure—a strategy of splitting jumbo commercial real estate loans into two or more pools—that was popular prior to the downturn. Pari passu loans have been seen since, but investors say this time around it is a more significant feature of the deal. COMM 2013-CCRE8 features a $209 million loan on the Seagram Building in New York that represents 15.1% of the total pool. COMM 2013-CCRE8 is also notable for combining conduit-style and large loans into a fusion deal, which have also been rare since the start of the downturn, market players said.

The original $782.8 million loan on the property was split

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Pari Passu Loans In COMM CCRE8

Mortgage Loan	Balance	Controlling PSA	Master Servicer	Special Servicer	Voting Rights
375 Park Avenue	$209M	CGCMT 2013-375P	Wells Fargo	Wells Fargo	CGCMT 2013-375P
Moffet Towers	$115M	COMM 2013-CCRE7	Midland Loan Services	Situs	COMM 2013-CCRE7
Paramount Building	$55M	COMM 2013-CCRE8	Midland Loan Services	Midland Loan Services	COMM 2013-CCRE8

Source: REFI

Property Sales

Investors Split Approach To REO-To-Rental Market

Investors are starting to diverge on their approaches to the single-family rental home market, as market players disagree on the sector's long-term potential for returns. While mega-money players like **Colony American Homes** (REFI 5/13) and **Ellington Housing** are gearing up for initial public offerings, **Carrington Holding** has just announced its intention to quit the business of acquiring U.S. rentals.

"This business was clearly an opportunistic cycle play. The investors who are halting their purchases prove it. Now they can

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Mortgage Rate Spreads

Macro Concerns Emerge, But Lending Mart Stays Hot

The commercial real estate lending market is maintaining its momentum, even as market players are scoping a new wave of macroeconomic headwinds on the horizon. The conduit lenders continue to ramp up the competition for new loan originations, which market players say is helping somewhat offset the current move up in yield on the 10-year **Treasury**. "Floating rate money is becoming increasingly available and continues to be priced very well," said **Dave Karson**, exec. managing director at **Cushman & Wakefield.** He added that rates below 2% are

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Dow Jones Industrial Average is up 17% year-to-date and would be the biggest flight to equities since 2000 if that pace is kept. Also giving bond investors heartburn is the **Bank of Japan**'s own asset purchase program that market players say will divert money that would have otherwise gone toward U.S. Treasury bonds, offsetting some of the upward momentum in rates.

For this month's spread matrix, turn to page 6. —***Max Adams***

Investors Split *(Continued from page 1)*

sell and reap the gains from the housing lift," noted **Steve Duffy**, managing director of real estate investment banking at **Moss Adams Capital**. "The others who are converting to perpetual owners and are continuing to buy believe in the operating property model. That's the model that's unproven at scale. I love the opportunistic model and need to see the operating model work [for investors] to believe it," he added.

The moves show that investors are at odds with the question of the REO-to-rental market's future. There are two schools of thought. One, the Carrington line, says that the sector is sustainable only as a short-term flipping model. Those investors like Colony that have chosen to take their holdings public have more of a long-term belief in the market's earning potential.

Hedge fund manager and ceo of Carrington **Bruce Rose** told *Bloomberg* that it no longer makes sense to be a buyer, with house prices climbing at the fastest pace in seven years and investors piling into the rental market. Instead, the firm will now focus on buying nonperforming loans on rental houses, and modifying them to keep the owner in—rather than waiting for the owner to default and then flipping the properties.

"Focusing on NPL's rather than asset buys makes perfect sense to me *if* you are still playing this opportunity out. It should result in a lower basis even net of foreclosure costs," said Duffy of the move.

Carrington's announcement follows several red flags in the sector. Investors' returns have been muted thanks mainly to the cost of individually leasing and managing properties spread over the country. Colony American Homes, for example, has an average occupancy of 51% and has also reported losses as has Silver Bay Realty Trust, although in the latter case company officials point out that there are extenuating circumstances (REFI, 5/13).

—***Eleanor Duncan***

QUOTE OF THE WEEK

"We have a lot of intuition about what was happening in the space. But we wanted to take an objective view of what was happening in the industry and get some data behind our emotion."—**Michael Glimcher**, ceo of **Glimcher Realty Trust**, on the Columbus-based real estate investment trust's plan to rethinking the physical footprint of its retail centers (see story, page 8).

ONE YEAR AGO

Bank of America was planning a sale-leaseback transaction of 540 West Madison in Chicago. The bank tapped **Jones Lang LaSalle** to handle the sale of the 1.1 million square-foot trophy office. The sale was part of BofA's move to shed assets across the U.S...Spreads on commercial mortgage-backed securities were widening and investors were dialing down their risk appetite as the European debt crisis dragging on. New issue super seniors were at 140 basis points over swaps, while legacy AAA bonds were at around 250 basis points. [Spreads since that time have come in dramatically, to 80 and 130 bps for new issue and legacy AAAs, respectively.]

FIVE YEARS AGO

Standard & Poor's revised its methodology for rating commercial real estate CDOs and re-REMICs, placing $18 billion worth of bonds on ratings-watch negative. The move caused a panic among CMBS investors. [S&P recently revised its ratings methodology again, after inconsistencies forced it to pull ratings on a conduit deal in 2011.]...**Boston Properties** was expected to tap the bond market to complete a planned acquisition of the General Motors building and three other Midtown office properties. The developers' available $1.1 billion worth of cash was tied up in other projects.