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Commercial Mortgage ALERT

THE WEEKLY UPDATE ON REAL ESTATE FINANCE AND SECURITIZATION

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Mood Improves as Conduit Lending Picks Up

The conduit market is slowly regaining its footing.

The spate of well-received bond offerings in recent weeks is giving conduit originators the flexibility — and the courage — to offer loan rates that are more competitive with those of balance-sheet lenders.

As a result, conduit shops are now receiving more inquiries from prospective borrowers, putting more loans under application and, most importantly, closing more loans.

"I don't hear anybody saying that their pipelines are bursting yet," said one longtime originator, "but nearly everybody is saying their business has picked up. The mood has improved all around."

Early this year, CMBS spreads blew out, significantly raising the cost of capital for conduit lenders. Many were forced to offer loan spreads that were 75 bp wider than the rest of the lending market — effectively causing the sector to freeze up.

But since March, the benchmark CMBS spread has tightened by roughly 60

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Strain Exits Goldman, Plans a B-Piece Shop

Industry veteran **Jon Strain** resigned as co-head of U.S. real estate finance at **Goldman Sachs** last Friday and is expected to start a B-piece investment shop.

Strain, a managing director who joined Goldman two years ago, is making the move as the commercial MBS market braces for the implementation of risk-retention regulations that are expected to reshape the B-piece sector.

The buzz is that Strain has already lined up some capital from backers and plans to formally launch his business after Labor Day, following a three-month gardening leave from Goldman.

With Strain's departure, managing director **Ted Borter** has resumed sole leadership of the U.S. real estate finance unit. Borter formerly ran the group himself, becoming co-head when Strain arrived in 2014.

It's unclear if Strain will be replaced. Managing director **David Lehman,** Goldman's global real estate finance chief, made some exploratory calls this week to

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Och-Ziff Enters B-Piece Fray, Nabs First Deal

Och-Ziff Capital has circled its first conduit B-piece and plans to continue buying after risk-retention rules kick in late this year.

The New York hedge-fund manager is teaming up with **LNR Partners** to acquire the below-investment-grade portion of a commercial MBS deal that **J.P. Morgan** and **Deutsche Bank** will bring to market next month (JPMCC 2016-C2).

Och-Ziff is one of the first new B-piece buyers to emerge in the wake of risk retention, which will reshape the CMBS market. The regulations, effective Dec. 24, require CMBS issuers — or B-piece buyers in their stead — to retain 5% of transactions for at least five years. Because of the restricted liquidity, some existing buyers are expected to exit the sector while new investors enter.

LNR, one of the most-active B-piece buyers, is leading the JPMCC investment. It negotiated the purchase agreement and brought in Och-Ziff as a minority partner.

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THE GRAPEVINE

Todd Harrop is departing as head of **Nationwide's** commercial real estate investment platform. Harrop has been at the insurer for about 25 years, managing debt and equity investments at its Columbus, Ohio, headquarters. He's heading to **Bellwether Enterprise,** a Cleveland advisory shop and brokerage, where he'll start in a few weeks as national director of capital markets. Bellwether helps line up debt on a range of assets across the U.S. Nationwide was No. 11 on **Commercial Mortgage Alert's** 2015 list of the top insurance lenders, with $2.2 billion of originations and $8.3 billion of mortgage holdings.

Freddie Mac has hired **Aaron Dunn** as a senior director in New York, responsible for investor outreach. He started in the last week or two. Dunn most recently was a managing director of capital markets at **Redwood Trust,** where he spent four years. He had a previous

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KGS-Alpha Exits Conduit Market

Squeezed by the shrinking number of issuers willing to take on small-loan contributors, **KGS-Alpha Capital** has pulled the plug on its conduit-lending business.

The New York broker-dealer laid off eight of the nine members of its commercial real estate lending unit two weeks ago. The remaining staffer, unit head **Andrew Noonan,** will unwind the business. Meanwhile, KGS-Alpha will continue to operate its commercial MBS trading desk.

KGS-Alpha, which entered the conduit market only last year, was one of the sector's smallest players — but is hardly the only one buffeted by shifting market conditions and volatile bond prices. It was among 37 shops that contributed loans to conduit transactions in 2015, and two of those previously exited the market: **Redwood Commercial Mortgage** and **Liberty Island,** which was a joint venture between **Prudential Mortgage Capital** and **Perella Weinberg.** Additional casualties are expected.

The conduit sector saw an influx of new lenders in the first half of last year. In addition to KGS-Alpha, shops that contributed loans to transactions for the first time included **Benefit Street Partners, BNY Mellon, Freedom Commercial Real Estate** and **Principal Commercial Capital.** But the market soon began to face headwinds. Investors expressed concern about the quality of loans originated by smaller shops, especially nonbanks, and bond spreads blew out. Some lenders began to have trouble lining up issuers willing to include their loans in conduit pools. As a result, warehouse periods lengthened, increasing the risk that loan values would decline before securitization occurred.

Those factors forced KGS-Alpha to reconsider its strategy. "The process of originating and contributing smaller-sized loans to conduit deals became extremely challenging for a variety of reasons," said Noonan, who emphasized that KGS-Alpha remains "very committed and focused" on CMBS trading. The firm recently added seven CMBS sales and trading professionals, and Noonan will move over to the trading desk once the conduit operation officially closes.

In recent months, several issuers have trimmed their lender line-ups in order to create "bank-only" or "bank-heavy" deals, in which most or all of the collateral is originated by banks. New regulations require issuers to certify that deal information supplied to investors is accurate, and banks generally feel more comfortable certifying the loans of other banks. What's more, the strategy gives them a marketing hook: They can play to the market perception that banks write higher-quality loans because their underwriting process is more rigorous than those of nonbanks, especially small shops — although nonbanks hotly contest that idea.

Two issuers, **Wells Fargo** and **Credit Suisse,** still routinely use multiple lenders, including nonbanks, in their conduit line-ups. But with more than 30 conduit lenders still actively writing loans, competition to be included in those shelfs is hot.

Seven of the departing KGS-Alpha staffers were based in New York, and the eighth worked in Chicago. Among those let go was originator **Greg Porter.** Before joining a different unit of KGS-Alpha in 2013, he had stints at **Barclays** and **J.P. Morgan.** He previously was head of conduit underwriting at **Eurohypo** for two and half years, until mid-2008.

Underwriting and credit head **Ryan Lebrecht** also exited. He had joined KGS-Alpha in 2014 and previously spent nearly four years at **LNR Partners.**

Also caught in the downsizing was transaction-management head **Anthony Merolla.** He had joined KGS-Alpha in 2014 and previously spent eight and a half years at Eurohypo.

Last year, KGS-Alpha contributed $53 million of loans to two conduit deals, both led by **Citigroup** and **Goldman Sachs.** This year, the shop has supplied $74.7 million of loans to one deal, likewise from Citi and Goldman (CGCMT 2016-GC37). ❖

CBRE Recruits 2 Pros From Deutsche

CBRE Capital Markets has hired two senior **Deutsche Bank** originators as part of a push to expand its large-loan brokerage business.

Thomas Traynor and **James Millon** left the bank a week ago and will start at CBRE this summer as executive vice presidents in New York. Both were members of a Deutsche unit that specializes in originating mortgages on big commercial properties and portfolios.

Brian Stoffers, global president of CBRE's debt and structured-finance business, said the pair's relationships with major borrowers and experience with structuring large loans will help the brokerage in its effort to capture more of those assignments. "Our objective is to be a bigger contender in the large-loan space," Stoffers said. "We're looking to expand our presence in gateway cities across the U.S., and bringing Tom and James on board will enhance our capabilities in a very important space in Manhattan."

Stoffers said 20% of CBRE's debt-brokerage work in 2015 involved loans with proceeds of $100 million or more. The goal is to boost that portion of the firm's business and build up its advisory team, he said, adding that CBRE has been expanding in San Francisco and is looking to add personnel in Los Angeles.

Traynor was a managing director at Deutsche, where he spent 19 years. Millon was with the bank for four years, most recently as a director. A New York lender familiar with them said they helped originate some of the bank's hefty loans in recent years.

Examples include a $1.65 billion debt package originated by Deutsche, **Morgan Stanley** and **Citigroup** on **Brookfield Property's** Atlantis Resort in the Bahamas in 2014; a $900 million loan this year, also to Brookfield, on the office tower at 225 Liberty Street in Lower Manhattan; and a $560.2 million floater that financed **Blackstone's** 2014 acquisition of Park Avenue Tower in Manhattan. CBRE said Traynor was involved in some $9.2 billion of financings on single assets or portfolios since 2014.

Millon will start at CBRE in mid-July and Traynor in August. They'll work with **Shawn Rosenthal,** also an executive vice president in Manhattan. ❖

First Risk-Retention Deal Shaping Up

More details are emerging about a plan by **Wells Fargo, Bank of America** and **Morgan Stanley** to float the first commercial MBS offering designed to comply with risk-retention rules.

As previously reported, the banks are aiming to launch a conduit deal next month that would be backed by loans that each will contribute. Now comes word that Wells alone will retain risk to the transaction by holding on to 5% of the face amount of each class. Also, the banks have agreed to jointly issue additional conduit deals and rotate the risk-retention responsibility.

Next month's transaction, backed by up to $1 billion of loans, will be a road test for the risk-retention rules, which take effect on Dec. 24. Specifically, there's uncertainty about how much capital a bank issuer would have to hold in reserve against retained bonds, and by floating transactions in advance of the deadline, issuers are hoping to get feedback from regulators and pave the way for a smooth implementation of the rules.

Under risk retention, which aims to force lenders to maintain credit quality, CMBS issuers can retain a "vertical strip" encompassing 5% of every tranche, a "horizontal" 5% strip at the bottom of the capital stack, or an "L-shape" strip that combines the first two options.

CMBS issuers can also pass off all or part of the retention responsibility to B-piece buyers, which must use the horizontal option. Under all the choices, the bonds must be retained for five years.

The guidelines, required by the Dodd-Frank Act, permit any lender that originates at least 20% of a deal's collateral to assume a corresponding share of the risk-retention responsibility. But Wells, BofA and Morgan Stanley have decided against that route, concluding it is simpler for compliance purposes to have one party — Wells, in this case — fulfill that duty and serve as the transaction's sponsor. There are various restrictions on parties that retain risk — for example, bonds must be held for five years and can't be leveraged. If multiple participants retained risk, the sponsor could conceivably be liable for rule violations by others.

A key open question about the vertical option stems from a separate set of federal rules that require banks to hold capital in reserve against various exposures. Banks are hoping that retained vertical strips will qualify for treatment as commercial real estate loans rather than real estate bonds, because the set-asides required for loans are far less onerous. ❖

Insurers Market Performing Portfolio

Two life companies affiliated with **Guggenheim Partners** are taking bids on a nearly $750 million portfolio of seasoned performing loans.

The 21 fixed-rate mortgages have an average weighted remaining term of five years. They are backed by various types of commercial properties with a weighted average occupancy rate of 96.1%.

The loans, with an aggregate outstanding balance of $746.1 million, have been sorted into five pools by property type. Investors may bid on any single pool or combination, or on the entire portfolio. **Eastdil Secured** has the marketing assignment.

The average seasoning of the loans is 28 months. The average debt yield is 10.9%, based on 2015 net operating income. About half the loans — with a combined balance of $318 million — are backed by properties in large markets, including Atlanta, Dallas/Fort Worth, Chicago, Los Angeles, New York and Phoenix.

The largest pool, with a balance of $238.6 million, consists of three loans on triple-net-leased, single-tenant office and industrial properties. On average, those mortgages have an interest rate of 3.9% and a loan-to-value ratio of 56%. A $237.6 million pool of 10 office loans has an average coupon of 3.8% and LTV of 66%. Another pool has three loans, totaling $141.5 million, on Southern California retail properties (3.9% coupon, 58% LTV). There is an $86.6 million pool of three multi-family mortgages (4.2% coupon, 71% LTV) and a two-loan, $41.8 million pool of loans on mixed-use properties in New York (3.7% coupon, 58% LTV).

The insurers offering the loans are unidentified, and a Guggenheim spokesman declined to comment. The investment advisor has a number of insurance affiliates. ❖

Junior CMBS Spreads Fluctuate Widely

The wide variation in spreads seen on the latest crop of conduit offerings was especially pronounced for the most-junior investment-grade bonds, reflecting a relatively thin, and fickle, field of commercial MBS buyers at that level.

As four conduit deals priced last week, buyers showed a clear preference throughout the capital stack for bonds from the transactions with the lowest leverage. But while the triple-A benchmark paper traded within a 15-bp range, 110-125 bp over swaps, spreads on the triple-B-minus classes varied by 125 bp.

The triple-B-minus spread was 660 bp in the most recent issue, which priced last Friday: an $876.3 million offering led by **Bank of America, UBS, Barclays** and **Morgan Stanley** (BACM 2016-UBS10). That was up from dealer price guidance of 640 bp-area, but fell squarely in the middle of the corresponding spreads in last week's other deals (see Initial Pricings on Pages 9-10).

The equivalent spread was 565 bp for a $750.6 million conduit offering backed only by loans from **Goldman Sachs** (GSMS 2016-GS2). But the triple-B-minus spread was 690 bp for a $755.7 million transaction led by **Citigroup** and **Cantor Fitzgerald** (CGCMT 2016-C1). The equivalent spread couldn't be learned for a $767.5 million conduit offering led by **Credit Suisse** (CSAIL 2016-C6).

As happened at the triple-A level, tighter spreads corresponded with lower leverage. The weighted average loan-to-value ratio was just 58% for collateral in the GSMS transaction, 60.5% in the BACM issue and 66.1% in the CGCMT transaction.

One explanation for the recent outsized difference in spreads is the uneven demand from insurers and other buy-and-hold investors. Such "real money" buyers typically focus on higher-rated bonds, but lately have also been looking down the capital stack to pick up yields on deals they like. Whether or not they jump in can make a big difference in pricing. Without them, the pool of triple-B-minus buyers is dominated by "fast money" investors, such as hedge funds, who are more focused on short-term returns.

"Everyone cares about liquidity," one trader said. "But if insurers aren't buying at the bottom, then the hedge-fund guys who will buy it are even more concerned about it." They will demand a "liquidity premium" from issuers, he said, because they realize the real-money buyers won't be any more interested in purchasing the same bonds in the secondary market.

Another trader said the disparity seems exaggerated. "I believe the market is getting a little silly at this point," he said. "There is value in these triple-B-minuses." He noted the CGCMT bonds looked especially cheap because they came with 9.25% of subordination — versus a range of 8% to 8.75% in last week's other deals. ❖

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bp. Now the loan spreads offered by conduit shops are usually within 20 bp of the level offered by rival banks and insurers.

"In February, the coupon on conduit loans was around 5%, and nobody was biting," said one longtime originator. "Now we're at 4.25% to 4.5%, and there's a lot of interest. It's a big change."

Many lenders described the prevailing mood as "cautious optimism," but said they will feel more confident if the current batch of loans makes it through the securitization process without any hiccups.

To be sure, everything isn't rosy. The conduit sector got a black eye early this year because lenders sharply increased quoted rates on many loans that were already in application. The spreads on the vast majority of pending loans without rate locks were hiked by as much as 50 bp. That prompted a backlash, with some borrowers shunning conduit programs.

Lenders admit they have some fences to mend. "It's the brokers who get the worst of it — they take a lot of heat from the borrowers when the loan terms change in mid-stream," said one lender. "They're the ones we have to win back now."

Overall production is still well shy of the normal level. One lender estimated that conduit activity is about half the level seen last fall. But he expected that to change quickly. "You have to give people about 90 days to get comfortable with CMBS pricing again," he said. "They want to see that the market has settled down before they come back in. By the end of the summer, I think we'll be back to normal." ❖

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REIT Negotiates Discounted Payoff

Special servicer **Torchlight Investors** has accepted a discounted payoff from **Mack-Cali Realty** on a 2004-vintage securitized loan backed by four office properties in New Jersey.

Torchlight last month agreed to take a payment of $51.9 million to retire the loan, which had paid down to $62.8 million. At origination, the mortgage had a balance of $73 million and a 10-year term. It was securitized in a $1.3 billion pooled offering (WBCMT 2004-C15).

Iron Hound Management arranged the payoff on behalf of Mack-Cali, a REIT in Edison, N.J.

The loan was transferred to special servicing in August 2014 as it approached maturity. Declining occupancy had caused the portfolio's cashflow to decline. The properties, totaling 574,000 square feet and known as the Gale Office Pool, were 96% occupied when the loan was securitized, but that figure had fallen to 83% by 2013.

The 1980s-vintage buildings had an appraised value of $89.6 million when the loan was originated. As of December, their valuation was down to $57.2 million. The interest rate on the mortgage, initially 6.3%, had risen to 10.3% due to penalties imposed by the special servicer. Torchlight simultaneously pursued foreclosure and the negotiations with Mack-Cali that led to the payoff agreement.

The largest of the properties is a 226,000-sf building at 20 Waterview Boulevard in Parsippany. The others are in Roseland: 85 Livingston Avenue (125,000 sf), Six Becker Farm Road (129,000 sf) and 75 Livingston Avenue (94,000) sf. ❖

Buyers Take Pieces of CMBS 'Bid List'

A $44.3 million batch of commercial MBS floated in 2014 and 2015 was put up for grabs this week, but less than a third of the fixed-rate bonds wound up changing hands.

The offering by an undisclosed asset manager on Monday attracted some attention from dealers and buysiders amid thin trading in the secondary market. Sizable "bid-list" offerings have been rare since last year.

The partial sale appeared to be an example of how some bondholders are engaging in "very controlled selling" — testing the market in hopes of capturing a rise in prices, one CMBS portfolio manager said. He said there's an expectation that spreads will tighten as the flow of fresh offerings subsides following a recent flurry of issuance.

The auction consisted mostly of paper rated triple-B-minus or single-A-minus. That was unusual, the portfolio manager said, "because most of the bid lists we're seeing now tend to include bonds from further up the capital stack."

The $17 million of bonds that traded included $10 million of triple-B-minus notes from a $1.3 billion conduit offering led by **Goldman Sachs** and **Citigroup** (GSMS 2014-GC26). The sale price was undisclosed, but the word is they were shopped with swap-based spreads ranging from just over 700 bp to around 750 bp.

A buyer also was found for $4 million of equivalent bonds from an $829.6 million conduit transaction led by **Wells Fargo** (WFCM 2015-LC20). The second-highest, or "cover" bid, was 725 bp.

The cover bid was 290 bp on $3 million of single-A-minus rake bonds from Class LNC-2 of a $1.6 billion offering led by **Morgan Stanley** and **Bank of America** (MSBAM 2014-C19). That tranche and five others in the deal are tied to a subordinate piece of a $240 million loan to **Rockrose Development** of New York on the 709-unit Linc LIC apartments in the Long Island City section of Queens, N.Y. A $70 million senior portion of that loan is part of the MSBAM deal's pooled collateral.

The bonds on Monday's bid list that didn't trade included $10 million of triple-B-minus paper from a $1.5 billion conduit offering led by **Deutsche Bank, UBS** and **Jefferies** (COMM 2015-PC1). The price talk was in the high 700-bp area.

Also failing to trade were $10 million of single-A-minus notes from a $1 billion conduit issue led by **J.P. Morgan** and **Barclays** (JPMBB 2015-C31) and $7.3 million of corresponding paper from a $1.4 billion transaction led by Deutsche, UBS and **Cantor Fitzgerald** (COMM 2014-UBS5).

The auction also included a $200 million piece of an interest-only strip from a single-borrower offering floated early last year (SFAVE 2015-5AVE). The cover bid on that paper, with a $200 million notional value, was 350 bp. ❖

Nationwide Writes Pa. Retail Loan

Nationwide has written a long-term loan on retail portions of a mixed-use development near Pittsburgh.

The $70 million fixed-rate mortgage is backed by 355,000 square feet at McCandless Crossing in McCandless, Pa. The insurer closed and funded the 10-year loan a few weeks ago. **HFF** arranged the financing for a partnership led by **AdVenture Development** of Selma, N.C.

The collateral includes a Trader Joe's grocery and stores leased to CVS, Dick's Sporting Goods, HomeGoods, Lowe's and Old Navy.

McCandless Crossing is on 130 acres near the intersection of McKnight Road and Duncan Avenue, about 10 miles north of downtown Pittsburgh. Development began in 2009 and has proceeded in phases. The AdVenture group has sold off some portions as they were completed, including a 12-screen movie theater, additional retail space, an extended-stay hotel and a residential component. The developers recently began moving forward with plans for a 55,000-sf office building at the site. ❖

Correction

An item in The Grapevine on May 20 reporting **Brett Ulrich's** promotion to head of **MetLife's** commercial-mortgage operation in Washington misidentified his predecessor. He succeeded **Theresa Kloster,** who left the company, not **R. Steven Taylor,** a regional director who headed the Washington office before leaving in January. ❖

REITs Eye Initial Public Bond Issues

The long drought of public REIT-bond offerings by debut issuers may be nearing an end.

For more than a year, REITs floating unsecured corporate bonds for the first time have stuck with private placements, partly due to resistance from buyers of public issues. But it appears increasingly likely that some first-timers will test the public market in the coming months, said **Wells Fargo** analyst **Thierry Perrein.** He said several self-storage companies appear poised to give it a try.

"I think investors are more open now to first-time issuers than they had been for a long time," said Perrein. He's on record predicting debut issues will account for about $1 billion of this year's volume of publicly offered, investment-grade REIT bonds in the U.S.

That could help bolster a market where overall volume appears to be slumping. Perrein last week trimmed his annual forecast for the second time this year, to a range of $18 billion to $20 billion, down from his original estimate of $25 billion to $27 billion. Just over $7 billion has been sold year-to-date.

Sovran Self Storage of Buffalo has signaled that it will tap the public bond market to help fund its pending purchase of **LifeStorage** of Roseville, Calif. The $1.3 billion acquisition, announced last week, is slated to close in the third quarter. Sovran, which does business as **Uncle Bob's Self Storage,** has been a regular issuer of private bonds.

"Sovran will be an interesting test case, because they've been vocal about possibly doing an inaugural public bond issuance," said **Steven Marks,** who leads the U.S. REIT group at **Fitch.** Sovran is currently rated Baa2/BBB/BBB by **Moody's, S&P** and Fitch. But Fitch has put it on watch for a one-notch downgrade, noting concerns about Sovran's willingness or ability to raise equity to maintain its leverage at current levels. Fitch also cited the "premium price" Sovran agreed to pay for LifeStorage.

Other REITs eyeing their first offerings of public bonds include **Public Storage** of Glendale, Calif., and **Extra Space** of Salt Lake City. Public Storage, whose senior unsecured debt is rated A2/A by Moody's and S&P, has sold 342 million euros ($380 million) of bonds via private sales in Europe since November, while Extra Space has never issued before.

All things being equal, REIT-bond issuers generally get more favorable pricing in the public market. Because privately placed bonds trade infrequently in the secondary market, initial buyers demand a discount to compensate for the lack of liquidity.

But first-time issuers have been effectively frozen out of the public market since March 2015 — a result, analysts say, of a sour taste left by a big merger that was announced the following month. **Blackstone** acquired **Excel Trust,** a San Diego retail REIT, in a $2 billion deal that closed in July. Via a tender offer, Blackstone bought back Excel's $250 million of publicly issued paper at par value — well below the 105.9 dollar price at which it was trading just before the merger announcement.

That prompted buyers in the public market to become wary of offerings from new issuers, which they saw as potential takeover targets. Other factors also played a role in their pullback, Marks said, but the concern about change of control "is a big issue that will have to be settled before the logjam is cleared."

To address it, some issuers have entertained the idea of adding a "change of control put option" to their offerings. That provision isn't usually seen in public deals, but has long been included in debt covenants for the relatively illiquid private bonds. It generally guarantees that in the event of a takeover, outstanding paper will be paid off at 101 cents per dollar of par value.

While many buyers of public bonds favor that idea, so far they've been unwilling to pay up for it, according to REIT-bond traders and investors. Word has it that issuers believe they should be able to shave up to 25 bp off the spread on a new issue with the put option.

Market pros will be watching to see if any public deals come to market with a put-option provision. Either way, there are signs that an end to the standoff could be near. Perrein said investors have taken heart from Blackstone's handling of its $8 billion takeover of San Diego REIT **BioMed Realty** in January.

In that case, Blackstone executed a "make-whole call" that paid off $900 million of BioMed bonds at a premium over par, using a formula based on the net present value of all future coupon payments. That premium totaled about $90 million, according to a Wells research report at the time. Another $400 million of bonds, which were about to mature, were paid off at par.

"That deal set a good precedent," Perrein added. "Investors didn't get shortchanged that time and they're feeling better about potentially buying from debut issuers again." ❖

Refi Sought for Downtown Seattle Mall

The owner of a large retail complex in downtown Seattle is looking for up to $250 million of debt.

The mortgage would be backed by Pacific Place, a 335,000-square-foot enclosed mall with a roster of upscale tenants. The borrower is a partnership between **Madison Marquette** of Washington and Canadian pension manager **PSP Investments.** The preference is for a five- or seven-year mortgage with proceeds of between $200 million and $250 million. **Eastdil Secured** is pitching the assignment.

The five-level property, completed in 1998, has an estimated value of about $360 million. The Madison Marquette team acquired it in 2014 for $271 million from a group that included Seattle-based **Bentall Kennedy.** Details of the financing of that deal are unknown, but some of the proceeds from a new loan would go to retire the existing debt.

Pacific Place fills a block bounded by Sixth and Seventh Avenues, Olive Way and Pine Street, a block from the Washington State Convention Center. The property includes an underground garage with roughly 1,200 spaces. Tenants include such upscale retailers as Barneys New York, Coach, Kate Spade and Tiffany & Co. Also among the larger tenants are a Barnes & Noble bookstore and an 11-screen AMC movie theater. The mall is connected via a skybridge to a Nordstrom that's described as one of that department-store chain's top performers. ❖

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LNR, a Miami Beach unit of **Starwood Property,** will also be special servicer of the roughly $850 million conduit offering, backed by loans from J.P. Morgan, Deutsche, Starwood Mortgage Capital, **Benefit Street** and **Walker & Dunlop.**

Och-Ziff will make the investment via its structured-products division, rather than its commercial real estate investment platform. The commercial real estate unit rolled out an $800 million high-yield-debt fund last year — but it focuses on originating mezzanine and bridge loans, not acquiring B-pieces.

Och-Ziff has "a lot of different pockets of capital, and they are nimble, so they can move in and out as market conditions change," said one source.

Matt Tuten, whom Och-Ziff hired last year to oversee CMBS trading, will manage the B-piece investments. Tuten, who reports to U.S. structured-products chief **Akhil Mago,** had previous stints at New York fund shop **Prosiris Capital** and **RBS.**

The risk-retention rules, mandated by the Dodd-Frank Act, require lenders to "keep skin in the game" by retaining 5% of securitizations for five years. They can hold on to a "vertical strip" encompassing 5% of the face amount of each class, a "horizontal" 5% strip at the bottom of the capital stack, or an "L-shape" strip that combines the first two options. Alternatively, all or part of the risk-retention responsibility can be passed off to B-piece buyers, which must use the horizontal option.

If an issuer retains a vertical strip, the remaining 95% of bonds can be sold to investors with no retention restriction. In other words, a B-piece buyer could acquire 95% of the below-investment-grade paper in the conventional fashion. However, if the risk-retention responsibility is passed off to a B-piece buyer in the form of a horizontal strip, that buyer must retain those bonds for at least five years.

Initially, the big bank issuers are expected to employ the vertical option to ensure that the market continues to function smoothly. However, that isn't seen as a long-term strategy for most, because of the required capital set-asides for retained bonds.

That has raised the question of whether there will be enough long-term capital available at an acceptable price for B-piece purchases if the horizontal strip becomes the default option. At first, market pros feared it would be hard to find enough investors willing to enter into the illiquid investments. But recently, more players are expressing confidence that investors will step up. The emergence of a giant investor like Och-Ziff reinforces that confidence, although it remains to be seen, of course, whether the prices that buyers will pay for horizontal strips will leave enough profit for issuers.

While this will be Och-Ziff's first purchase in the private-label market, the shop did acquire the B-pieces of two **Freddie Mac** securitizations more than five years ago — the $156.3 million FREMF 2010-K7 offering and the $153 million FREMF 2011-K11 deal. Both issues were led by **Bank of America** and Deutsche. ❖

Strain ... From Page 1

gauge the interest of senior executives at other shops, according to market pros.

Risk-retention regulations, which take effect Dec. 24, are intended to maintain credit-quality standards by forcing lenders to "keep skin in the game." CMBS issuers have a few choices to fulfill the requirement. They can retain a "vertical strip" encompassing 5% of every tranche, a "horizontal strip" at the bottom 5% of the capital stack, or an "L-shape strip" that combines the first two options. CMBS issuers can also pass off all or part of the retention responsibility to B-piece buyers, which must use the horizontal option. Under all the choices, the bonds must be retained for five years.

If an issuer retains a vertical strip, the other bonds in the offering can be sold with no restrictions on the buyers. In other words, the issuer could sell a conventional B-piece made up of 95% of the below-investment-grade bonds. However, if an issuer elects to pass on the risk-retention responsibility to a B-piece buyer, that investor must retain the junior 5% of the bonds for five years. What's more, the 5% calculation will be based on total deal proceeds, rather than the face amount of the bonds. So under that option, the B-piece will be substantially larger than the traditional size.

The five-year retention requirement is expected to drive some current investors out of the market and bring in new ones. What's more, larger B-pieces would mean that more total capital would be needed in the industry, all other factors remaining equal.

Strain's new shop is expected to have the capacity to buy both conventional B-pieces and ones subject to a five-year hold.

Strain is one of the longest-serving executives in the CMBS industry. He spent 13 years at **Morgan Stanley,** starting in 1993 as a CMBS product manager. He later spent a year at **UBS** and then moved to **J.P. Morgan,** where he rose to head of real estate capital markets. Strain joined Goldman a few months after capital-markets chief **Dan Bennett** left for a similar post at **Jefferies LoanCore.** Strain was widely viewed as Bennett's replacement, although their titles differed. His duties included placing the B-pieces of Goldman's conduit transactions.

"Jon is one of the guys who truly understands this business," said one industry veteran. "You know the old story about how blind men touch different parts of an elephant and can't agree what it is? Jon is one of the few people in the industry who actually sees the whole elephant."

Strain evidently thinks the changes that risk retention will impose on the industry present an opportunity. For one thing, there has been concern about whether there will be enough capital available to buy B-pieces under risk retention. "If Strain is able to get a risk-retention shop off the ground, that would be a bellwether move for the industry," said one longtime pro. "It would be a very hopeful sign for the market." ❖

INITIAL PRICINGS

Bank of America Merrill Lynch Commercial Mortgage Trust, 2016-UBS10

Pricing date:	May 20
Closing date:	June 7
Amount:	$876.3 million
Seller/borrower:	UBS, Barclays, Morgan Stanley, Bank of America
Lead managers:	Bank of America, UBS, Barclays, Morgan Stanley
Co-manager:	Drexel Hamilton
Master servicers:	Wells Fargo, Midland Loan Services, KeyBank
Special servicers:	Rialto Capital, CWCapital Asset Management, LNR Partners, C-III Asset Management, Torchlight Loan Services
Operating advisor:	Park Bridge Lender Services
Trustee:	Wilmington Trust
Certificate administrator:	Wells Fargo
Offering type:	SEC-registered

Property types: Office (31.3%), retail (26.6%), hotel (16.4%), multi-family (8.6%), mixed-use (8.5%), self-storage (7.4%), manufactured housing (0.7%) and land (0.5%).
Concentrations: Texas (17.1%), California (11%), North Carolina (10.9%) and Pennsylvania (10.5%).
Loan contributors: UBS (55.7%), Barclays (18.3%), Morgan Stanley (13.1%) and BofA (13%).
Largest loans: A $60 million portion of a $200 million loan to Robert Mayer Corp. and Hyatt Hotels on the 517-room Hyatt Regency Huntington Beach Resort & Spa in Huntington Beach, Calif.; a $60 million portion of a $90 million loan to In-Rel Properties on four office properties, three retail centers and a mixed-use property, encompassing 1.5 million sf, in six states; a $58 million loan to Samuel Jacobson on the 474,000-sf Belk headquarters office complex in Charlotte; a $53.5 million loan to Inland Real Estate on 17 self-storage facilities, encompassing 1 million sf, in Texas, Kansas and Georgia; a $44 million portion of a $176 million loan to Olmstead Properties and Enterprise Asset Management on the 508,000-sf office building at 525 Seventh Avenue in Manhattan; a $40.3 million loan to Durhman & Bassett Realty and Whitfield Co. on the 252,000-sf Burleson Crossing power center in Bastrop, Texas; a $37.8 million portion of a $98 million loan to Thomas Dundon on the 844,000-sf office building at 2100 Ross Avenue in Dallas; a $35 million portion of a $150 million loan to Macerich and Heitman on the 855,000-sf Twenty Ninth Street lifestyle center in Boulder, Colo.; a $33 million loan to Transcendent Investment on the 170-unit Valencia at Doral multi-family complex in Doral, Fla.; and a $29.5 million portion of a $57.5 million loan to Lexington Realty on the 330,000-sf Gateway Plaza office building in Richmond, Va.
B-piece buyer: Rialto Capital.
Notes: UBS, Barclays, Morgan Stanley and BofA teamed up to securitize commercial mortgages they had originated.
Deal: BACM 2016-UBS10. **CMA code:** 20160115.

Class	Amount ($Mil.)	Rating (Moody's)	Rating (Fitch)	Rating (DBRS)	Rating (Kroll)	Subord. (%)	Coupon (%)	Dollar Price	Yield (%)	Maturity (Date)	Avg. Life (Years)	Spread (bp)	Note Type
A-1	31.300	Aaa	AAA	AAA	AAA	30.00	1.559	99.998	1.541	7/15/49	2.62	S+45	Fixed
A-2	135.900	Aaa	AAA	AAA	AAA	30.00	2.723	103.000	2.055	7/15/49	4.82	S+75	Fixed
A-SB	49.500	Aaa	AAA	AAA	AAA	30.00	3.019	102.995	2.564	7/15/49	7.30	S+105	Fixed
A-3	175.000	Aaa	AAA	AAA	AAA	30.00	2.903	100.995	2.787	7/15/49	9.55	S+112	Fixed
A-4	221.682	Aaa	AAA	AAA	AAA	30.00	3.170	102.993	2.822	7/15/49	9.78	S+114	Fixed
A-S	43.813	Aa2	AAA	AAA	AAA	25.00	3.385	102.997	3.037	7/15/49	9.86	S+135	Fixed
B	46.003	A1	AA-	AA	AA	19.75	3.790	102.993	3.441	7/15/49	9.92	S+175	Fixed
C	44.909	NR	A-	A	A	14.63	4.913	100.336	4.942	7/15/49	9.94	S+325	Fixed
D	51.480	NR	BBB-	BBB	BBB-	8.75				7/15/49	9.94	S+660	Fixed
E	21.906	NR	BB	BB (high)	BB+	6.25				7/15/49	10.01		Fixed
F	10.954	NR	B	BB (low)	BB-	5.00				7/15/49	10.02		Fixed
G	18.620	NR	NR	B (low)	NR	2.88				7/15/49	11.89		Fixed
H	25.193	NR	NR	NR	NR	0.00				7/15/49	14.73		Fixed
X-A(IO)	613.382*	Aaa	AAA	AAA	AAA		2.013	12.950	4.144	7/15/49		T+245	Fixed
X-B(IO)	89.816*	A1	AA-	AAA	AAA		1.321	10.847	4.000	7/15/49		T+219	Fixed
X-D(IO)	51.480*	NR	BBB-	AAA	BBB-					7/15/49			Fixed
X-E(IO)	21.906*	NR	BB	AAA	BB+					7/15/49			Fixed
X-F(IO)	10.954*	NR	B	AAA	BB-					7/15/49			Fixed
X-G(IO)	18.620*	NR	NR	AAA	NR					7/15/49			Fixed
X-H(IO)	25.193*	NR	NR	AAA	NR					7/15/49			Fixed

*Notional amount

INITIAL PRICINGS

Colony Starwood Homes, 2016-1

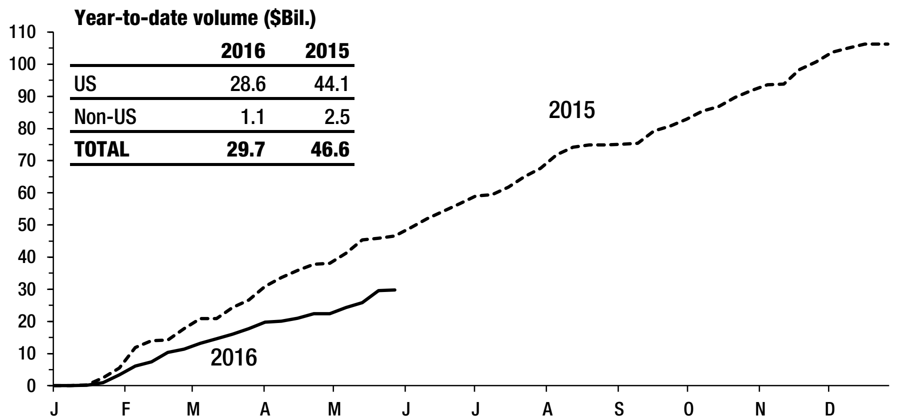
Pricing date:	May 24
Closing date:	June 7
Amount:	$535.9 million
Seller/borrower:	Colony Starwood Homes
Lead managers:	J.P. Morgan, Bank of America, Citigroup
Master servicer:	Midland Loan Services
Special servicer:	Midland Loan Services
Trustee:	Christiana Trust
Certificate administrator:	Wells Fargo
Offering type:	Rule 144A

Property types: Single-family rentals (100%).
Concentrations: Florida (28.9%), Georgia (15.7%), Texas (12.9%), California (10.8%) and Colorado (10.5%).
Notes: Colony Starwood Homes raised $535.9 million by selling bonds backed by a floating-rate mortgage on single-family homes it had acquired in the secondary market and then rented. The mortgage, which will be funded with the proceeds of the bond sales, has a two-year term, with three one-year extension options. It in turn is backed by individual mortgages on 3,566 homes in eight states, as well as Colony Starwood's equity interest in the properties. The homes have an aggregate value of $783.3 million, based on broker price opinions. Colony Starwood, which formed in January from the merger of Colony American Homes and Starwood Waypoint, spent $686 million acquiring and renovating the properties. The aggregate underwritten annual net cashflow is $32.7 million.

Class	Amount ($Mil.)	Rating (Moody's)	Rating (Kroll)	Rating (MStar)	Subord. (%)	Coupon (%)	Dollar Price	Maturity (Date)	Avg. Life (Years)	Spread (bp)	Note Type
A	266.320	Aaa	AAA	AAA	50.31	L+150	100.000	7/17/33	5.10	L+150	Floating
B	58.747	Aa2	AA+	AA	39.35	L+215	100.000	7/17/33	5.10	L+215	Floating
C	46.997	A2	A	A	30.58	L+265	100.000	7/17/33	5.10	L+265	Floating
D	43.081	Baa2	BBB+	BBB+	22.54	L+310	100.000	7/17/33	5.10	L+310	Floating
E	70.496	NR	BBB-	BBB	9.38	L+415	100.000	7/17/33	5.10	L+415	Floating
F	23.499	NR	BB+	BBB-	5.00			7/17/33	5.10		Floating
G	26.797	NR	NR	NR				7/17/33	5.10		Floating

MARKET MONITOR

WORLDWIDE CMBS

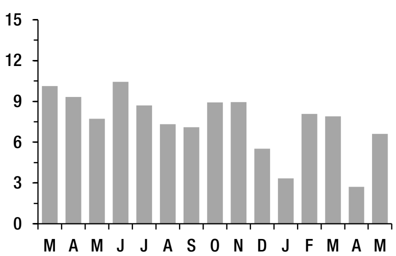


Year-to-date volume ($Bil.)

	2016	2015
US	28.6	44.1
Non-US	1.1	2.5
TOTAL	**29.7**	**46.6**

US CMBS

MONTHLY ISSUANCE ($Bil.)



CMBS TOTAL RETURNS

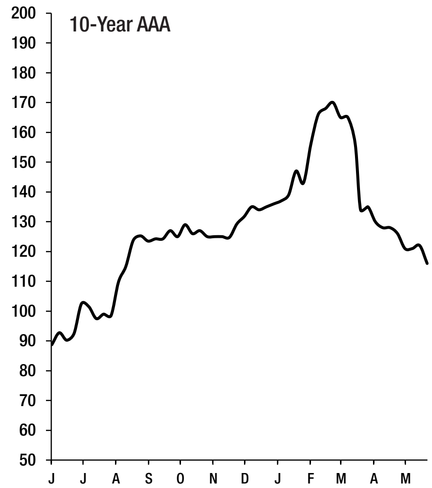
CMBS INDEX

As of 5/25	Avg. Life	Total Return (%) Month to Date	Year to Date	Since 1/1/97
Inv.-grade	6.0	-0.1	3.9	221.3
AAA	6.0	-0.1	4.0	206.2
AA	6.6	0.1	4.3	96.2
A	6.2	0.1	3.2	79.2
BBB	6.0	-0.0	2.8	86.0

Source: Barclays

CMBS SPREADS

NEW-ISSUE SPREAD OVER SWAPS



New Issue Fixed Rate (Conduit)	Avg. Life	Spread (bp) 5/25	Week Earlier	52-wk Avg.
AAA	5.0	S+91	S+85	85
	10.0	S+116	S+122	126
AA	10.0	S+257	S+198	212
A	10.0	S+391	S+319	299
BBB-	10.0	S+726	S+632	550

Markit CMBX 6	Dollar Price 5/25	Week Earlier	52-wk Avg.
AAA	98.3	98.1	97.7
AS	98.0	97.8	98.2
AA	96.4	96.2	97.9
A	94.1	93.7	96.2
BBB-	92.5	91.6	96.1
BB	87.2	87.3	94.2

Sources: Trepp, Markit

LOAN SPREADS

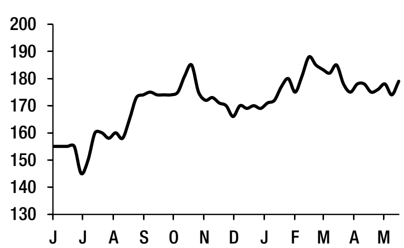
ASKING SPREADS OVER TREASURYS

10-year loans with 50-59% LTV

	5/20	Month Earlier
Office	179	175
Retail	165	165
Multi-family	166	164
Industrial	166	165

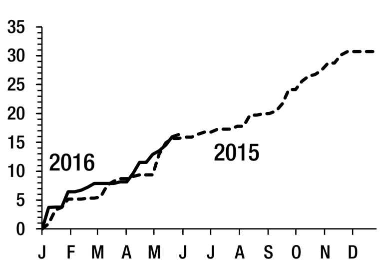
Source: Trepp

ASKING OFFICE SPREADS

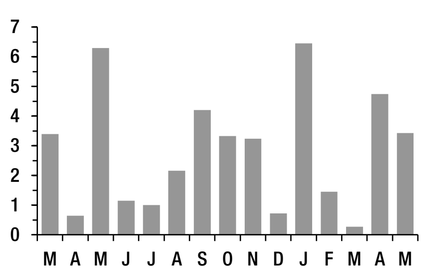


REIT BOND ISSUANCE

UNSECURED NOTES, MTNs ($Bil.)



MONTHLY ISSUANCE ($Bil.)



Data points for all charts can be found in The Marketplace section of CMAlert.com

AGENCY CMBS SPREADS

FREDDIE K SERIES

	Avg. Life	Spread (bp) 5/26	Week Earlier	52-wk Avg.
A1	5.5	S+62	S+62	56
A2	10.0	S+75	S+75	73
B	10.0	S+330	S+340	315
C	10.0	S+530	S+540	447
X1	9.0	T+255	T+255	214
X3	10.0	T+695	T+695	551
Freddie K Floater	7.0	L+58	L+61	

FANNIE DUS

	5/26	Week Earlier	52-wk Avg.
10/9.5 TBA (60-day settle)	S+80	S+80	82
Fannie SARM	L+59	L+62	

Source: J.P. Morgan

THE GRAPEVINE

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three-year tour at Freddie, overseeing whole loan trading. Before that, Dunn worked at **Wells Fargo** and **LaSalle Bank.** He reports to **Robert Koontz,** Freddie's vice president of multi-family capital markets.

After two years in the B-piece group at **Rialto Capital,** credit analyst **Will Krasnoff** is leaving to join **Och-Ziff Capital.** He starts Tuesday in the money manager's New York headquarters. Krasnoff will report to buy-side trader **Matt Tuten,** who focuses on both new-issue and outstanding commercial MBS. Tuten, who works for U.S. structured-product chief **Akhil Mago,** also runs Och-Ziff's new B-piece investment program (see article on Page 1).

The **Mortgage Bankers Association** has hired **Ashley Gunn** as an associate director focusing on commercial real estate. Her duties include work on industry standards and practices, regulatory policy and member engagement. Gunn joined the trade group's Washington headquarters on May 9 from a similar role as a senior banking analyst at the **American Bankers Association,** where she had worked since 2014. She previously spent four years at **Bank of America**. Gunn reports to **Kathy Marquardt,** the MBA's vice president of commercial servicing.

Longtime **Wells Fargo** originator **Ed Gras** has transferred out of the CMBS lending unit into another part of the bank's "specialized lending and investment" group. The buzz is that his old position won't be filled, and its duties have been split among other members of the CMBS team. A spokeswoman at the bank declined to comment.

Prudential seeks a seasoned structured-product attorney. The vice president would join a seven-member team, headed by vice president **Dan Malooly,** that provides legal counsel to the Prudential Fixed Income asset-management unit of **PGIM,** Prudential's investment management business. The opening in Pru's Newark, N.J., headquarters requires at least eight years of experience. The recruit would take primary responsibility for advising the $550 billion unit on matters pertaining to structured bonds and loan transactions — including investments in CMBS and asset-backed securities.

Real estate finance executives will gather in Manhattan on June 8 for the second annual "Laugh to Remember" comedy show — a benefit for **Columbia University's** Taub Institute, which conducts research into Alzheimer's and other neurodegenerative illnesses. **Broadacre Financial** president **Christopher Haynes** is organizing the event at the Gotham Comedy Club. Comedian and talk-show host **Joy Behar** is the headliner, and the **NCAA** and the **NHL** have donated items for a live auction. Attendees will include executives from **Bank of America, Five Mile Capital, Ladder Capital, Mack Real Estate, Principal Real Estate** and **Macquarie.** For more information, call **Jennifer Wayne** at 212-305-4896.

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