Market Analysis

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CMBS Choking on High Spreads

Recent volatility in the fixed-income market is proving to be disastrous for CMBS programs, which have virtually stopped lending, with no clear end in sight.

CMBS prices have dropped precipitously since last fall, which in turn has forced securitization programs not only to widen loan spreads but to decline to lock in rates until closing. Few borrowers will agree to those terms, so most CMBS programs have essentially put their pencils down for the moment. Meanwhile, the market's troubles come as it is struggling to deal with new regulations, scheduled to take effect in 2017, that some are concerned will have a chilling effect on volume.

Through Feb. 26, issuers had floated $11.4 billion worth of CMBS, one-third less than the $16.9 billion issued through the same period in 2015, according to "Commercial Mortgage Alert." The prospect is that volume will remain weak through the end of the first quarter—or even longer.

The withdrawal of CMBS lending has left a void in the markets most serviced by that product. CMBS lenders concentrate on loans in secondary and tertiary markets, and on out-of-favor property types. In 2015, CMBS constituted 16% of all commercial mortgages originated, but 28% of the loans funded in tertiary markets, 32% of hotel loans and 28% of retail loans, according to Real Capital Analytics Inc.

The heart of the immediate problem is bond-market volatility, as CMBS spreads have widened sharply since last summer. The widening is due to a combination of factors, including the higher spreads of corporate bonds and other fixed-income products and concerns about sovereign bonds and prospects for CMBS.