Green Street

Commercial Mortgage Alert

THE WEEKLY UPDATE ON REAL ESTATE FINANCE & SECURITIZATION

Distressed-Bond Pro Jumps Back In

The market disruption stemming from the coronavirus pandemic has lured veteran structured-product trader **John Devaney** out of retirement.

The distressed-asset specialist is jump-starting **United Capital Markets,** the broker-dealer operation he founded in 1999. The Key Biscayne, Fla., firm had been largely dormant in recent years due to a lack of arbitrage opportunities.

"I had some investments, but I wasn't really talking to people in the market anymore because the yields were too low," Devaney said. The fallout from the pandemic "has taken me off the sidelines," he added.

United Capital, which had no securitized products on its books at yearend, initially aims to build an inventory of at least $25 million of commercial MBS, residential mortgage bonds, corporate CLOs and asset-backed securities. Its portfolio currently includes a little more than $10 million of steeply discounted bonds from the lower-rated classes of five seasoned CMBS deals Devaney bought last week.

United Capital put the word out this week that it's willing to sell those positions at 60-68 cents on the dollar. The offering includes $9 million of triple-B bonds from a conduit deal floated early last year (BANK 2019-BNK16) and $1.4 million of notes, with ratings in the single-A range, from three conduit transactions issued in 2012. There's also a small amount of paper from a single-borrower hotel deal issued last year.

The offering sheet Devaney sent to traders and investors indicated that the bonds from two of the 2012 deals are among the 25 reference securities for the single-A tranche of credit-default swaps tracked by **IHS Markit's** CMBX.6 series. Those swaps were "grossly overpriced" this week at 85-89 cents on the dollar, Devaney said. "I'm providing transparency to the market," he said, noting the price United Capital paid for the 2012 notes was in the 50-60 cent range.

The firm purchased some of the CMBS from banks that recently seized the securities from bondholders that had financed or leveraged those investments via repurchase facilities. The recent plunge in bond prices has put buy-side shops that use such "repo lines" in a bind if they can't come up with sufficient cash or securities to meet bank demands for additional collateral.

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Lenders Seeking to Restart CMBS Issuance

Commercial MBS shops are working to bring out a few multi-borrower deals in the coming weeks, in hopes of thawing a market that's been frozen since mid-March.

Goldman Sachs and **Citigroup** are crafting a slimmed-down version of a conduit offering that was on deck when the market turmoil forced it to the sidelines. The retooled deal (GSMS 2020-GC47) could be rolled out in 2-3 weeks.

Meanwhile, **Deutsche Bank, J.P. Morgan,** Citi and Goldman are planning an issue backed entirely by pari-passu slices of investment-grade loans. And **CCRE** is preparing to float a multi-borrower securitization of its own. The sizes of the offerings are unknown.

"We're trying to do our best to jump-start the market," one CMBS banker said this week, noting that fixed-income liquidity has started to rebound this month.

The deals would be the first private-label CMBS transactions since March 12, the day after the **World Health Organization** classified coronavirus as a global

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Servicers Face Flood of Forbearance Pleas

Commercial MBS servicers, awash in forbearance requests, believe loan reserves could play a key role in helping borrowers weather the coronavirus crisis.

Facing hordes of borrowers whose property cashflows have been crushed by the pandemic, servicers are under pressure to come up with an efficient way to handle missed payments without transferring loans to special servicing en masse. One strategy that appears to be gaining traction: allowing borrowers to divert funds set aside for capital projects and the like to cover debt service for up to 90 days. In addition, certain property-performance requirements could be suspended during that period.

The advantage of such a tactic is that it "can be implemented fairly quickly without the loan being transferred to the special servicer" — a costly and time-consuming process for borrowers, one servicing executive said.

Troubled borrowers often seek permission to tap loan reserves to avoid missing

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Heavy Pre-Crisis Issuance Bolstered REITs

The fast pace of corporate-bond issuance by U.S. REITs continued right up to the start of the coronavirus crisis — and market experts say that puts the sector in relatively strong shape to withstand the current economic turbulence.

After shattering annual volume records with $67.3 billion of issuance in 2019, commercial-property REITs priced another $18.4 billion of unsecured notes in the first quarter — the second-largest quarterly total ever — despite a sharp slowdown in March as the crisis took hold.

By using unsecured bond sales to pay down lines of credit and anticipate upcoming debt maturities, commercial-property REITs generally fortified their balance sheets at a fortuitous time. Still, many face serious challenges related to their business operations — particularly those focused on hotels, retail properties and senior-care facilities — and could face losses and declining portfolio values as the

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THE GRAPEVINE

Veteran originator **Dan Hartman** joined **Pacific Western Bank** this month as a managing director in New York, focused on construction and bridge loans. He jumped from **Terra Capital,** a New York firm that originates high-yield loans. Hartman had been with Terra since 2015, and before that spent nine years at Los Angeles-based **Ares Management.** He previously worked at **GE Capital, Mercedes-Benz USA, ORIX** and **J.P. Morgan.** Pacific Western, based in Beverly Hills, writes loans of up to $200 million on properties nationwide.

The word is that **Morgan Stanley** plans to syndicate a portion of a $1.3 billion debt package on an office tower in Manhattan's Times Square. Last month the bank originated an $820 million senior loan on the 1.2 million-square-foot Five Times

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"When I think it's a repo liquidation, I'm on it," Devaney said, noting that repo lenders will sometimes unload seized collateral at below-market prices just to get rid of it.

Devaney was a high-profile trader in the asset-backed securities market before the previous downturn, known for sponsoring headline entertainers at industry conferences. After the crash, United Capital continued to deal in securitized products, trading up to roughly $4 billion per year, before pulling back from the market in 2017. The firm, which has three employees besides Devaney, expects to hire a few traders and analysts by yearend. ❖