Green Street

Commercial Mortgage Alert

THE WEEKLY UPDATE ON REAL ESTATE FINANCE & SECURITIZATION

Hot CRE CLO Market Drawing More Issuers

More commercial real estate CLO issuers are dusting off programs — or initiating new ones — in what's shaping up to be a record-setting year.

Lument, the New York bridge lender formerly known as **ORIX Real Estate Capital,** is preparing its first deal since it merged three originators and rebranded in October. It's expected to begin tapping the market regularly again. Charlotte-based **Barings,** another bridge lender, is tentatively slated to launch its debut deal in the second half.

Some $14.6 billion of CRE CLO deals have priced through May 13, and the market is on track to break the annual record of $19.2 billion set in 2019 by midyear. The activity comes alongside a reinvigorated commercial MBS market, which continues to produce a steady stream of deals.

Several issuer counsels said they expect to see the strong momentum continue.

"With active loan origination, availability of investor capital and attractive funding levels, we are seeing CRE CLO activity that is strong and continuing," said **Steven Kolyer,** who leads the CLO practice at **Sidley Austin.** "The current strong CRE CLO market is looking less temporary and more sustainable for some time."

Richard Jones of **Dechert** said more issuers will enter the market. There have been three newcomers so far this year, and Barings will be a fourth.

"I've said for a long time that the CRE CLO business is destined to keep growing," he said. "There is spectacular alignment between investors and issuers. As the market sees more [deals], they get more used to it, and scale begets scale."

Lument isn't new, but it's been out of the market for several years. Its last offering was a $350 million deal in 2018 under its previous name. One of the three originators it acquired was

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BMO Capital has hired commercial MBS structuring veteran **Mary Kunka,** who starts June 1 as a managing director in New York. As part of the CMBS group led by **Paul Vanderslice,** she'll structure agency and private-label offerings. Kunka's coming from New York-based **Lument,** formed via last year's merger between **Hunt Real Estate Capital** and **ORIX Real Estate Capital.** Prior to joining Hunt as a managing director in 2018, she was a director at **Citigroup** and also spent five years at **UBS.**

Citadel this month hired **Adam Moriwaki** as a CMBS specialist in New York. At the Chicago-based firm, he helps evaluate

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CMBS Shops Back Huge Multi-Family Buy

Morgan Stanley, Bank of America and **Barclays** have committed to originate $890 million of floating-rate debt to finance a **Blackstone** partnership's purchase of a sprawling apartment portfolio in the San Diego area.

The New York fund giant and its partner, Los Angeles investment manager **TruAmerica Multifamily,** struck a deal this week to pay more than $1.4 billion to buy the workforce-housing portfolio. The seller is the **Conrad Prebys Foundation,** a local organization that plans to use the sale proceeds to continue its charitable activities.

Eastdil Secured is brokering the sale and advised the Blackstone partnership on the financing, which is expected to close in the next two weeks or so. The loan will have an initial term of two years, plus three one-year extension options. The lenders, led by Morgan Stanley, intend to securitize the debt right away in a stand-alone

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Starwood Seeks Debt for Big Apartment Deal

Starwood Capital is in the market for $790 million of debt to finance its purchase of a far-flung portfolio of multi-family properties.

Eastdil Secured has the assignment. It's asking for quotes on a floating-rate debt package with a five-year term. Sources suggested a portion of the financing deal could be broken out as mezzanine debt.

Starwood, of Miami Beach, has agreed to acquire the roughly 5,200-unit pool of properties from Atlanta fund operator **Centennial Holdings** for about $1.2 billion, or around $231,000/unit.

The collateral consists of properties in Florida, Georgia, Maryland, North Carolina, Tennessee and Texas built between 2006 and 2017.

More detail on the portfolio's makeup couldn't be learned immediately. Centennial typically focuses on Class-A garden-style and mid-rise apartment complexes in the Southeast, Southwest and Mid-Atlantic. It targets properties that are 10 to

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Hunt Real Estate Capital, which issued two deals in 2017 and 2018 totaling $634.2 million. Lument has been ramping up during the pandemic, opening a Boston office and adding originators there. Investors have said they expect it to become a more frequent issuer.

Barings is building its staff. It has a deep-pocketed parent in **MassMutual** and vast experience with corporate CLOs. That side of its business issues in the U.S. and Europe, and has long been among the more active producers, with 11 deals totaling $4.2 billion during the pandemic.

Those who have issued CRE CLOs since the onset of the coronavirus crisis last year include a mix of lenders that rely heavily on the capital markets, such as **Arbor Realty, Bridge Investment, LoanCore Capital** and **MF1 REIT,** as well as others that are more opportunistic, such as **Starwood Property.** The latter is among shops that have ready access to many forms of cheap capital and typically tap the CLO market only when spreads are very tight.

Blackstone Mortgage was thought to be in the opportunistic camp, but as investor appetite has grown along with deal sizes, it became a more regular issuer. It's completed three deals in 15 months after a gap of two years following its first offering.

Production last year was dismal, with $8.7 billion in deals ending three consecutive years of CLO growth. Only seven firms, including Blackstone, have done at least two deals since the pandemic struck.

But sharply tightening spreads in January prompted numerous issuers to come to the market and empty warehouse lines. The loan portfolios of nine of this year's 18 deals were seasoned more than one year, according to **Commercial Mortgage Alert's** CRE CLO Database. Investors are optimistic that issuers will ramp up loan production and bring another slew of deals in the second half.

One said the uncertain nature of the crisis and an expected need for transitional loans are being met with investor appetite for shorter-term, floating-rate bonds.

"This is the flavor of the month," he said of CLOs. "If you look at the supply/demand technicals, it makes sense. You have a lot of people who need these loans, you have lenders who are starved to make them, new-issue volume overall is down, and you have a buyer base that is willing to take [deals] out at reasonable levels."

That dynamic, the investor said, could last anywhere from three to five years, allowing the CRE CLO sector to run hot as the market adjusts to the new normal. Eventually, he believes, borrowers will go back to wanting the stability of long-term, fixed-rate loans.

"As the economy comes out of the pandemic, we expect to see continued strong demand from both borrowers and lenders for properties that are ripe for a transitional play and think there will be robust [CLO] activity over the next couple of years," said **Stuart Goldstein,** who co-leads **Cadwalader Wickersham's** capital-markets practice. "It's hard to know what will happen after that."

Jeff Rotblat, also a partner with Cadwalader, added that as long as loans continue to perform and meet investors' expectations, the only question is how much demand there will be for transitional properties.

But increased lending activity may lead to more transactions, which could fuel the market further, one issuer said. "More loan origination could allow people who haven't done a deal to do one or, for those who have, to do another one," he said.

Some issuers already are thinking longer term. Regarding the possibility that bridge lenders could eventually be pushed aside by conduit CMBS lenders as properties stabilize, one said it could be the other way around. While adding fixed-rate loans to CLO portfolios might be complicated, requiring hedges by both issuers and investors, it might still make sense.

"Lending is picking up, so by the time the pre-Covid loans run out, everyone can rebuild the next bundle," he said. "This could be a $25 [billion] to $30 billion issuance year, which would be great. The bigger it gets, the more liquid it gets, and the better spreads get. There is a real argument that we could supplant the conduit market." ❖