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CMBS Investors Look at Shorter-Term Deals: Structured Weekly

By Scott Carpenter

(Bloomberg) -- Borrowers in the US commercial mortgage backed securities market are turning to a novel short-term deal structure to avoid locking in high interest rates for too many years.

Last month a group of banks sold a conduit CMBS with a weighted average life of just five years. Conduit deals include loans from multiple properties, often different types of real estate such as retail, office, and hotels, and they almost always come with durations of 10 years, making the new security a rarity.

The deal drew attention at the Structured Finance Association's annual conference in Las Vegas this week, which drew a record 8,400 people, according to SFA's CEO Michael Bright.

More such deals could be coming.

"I think the market is primed for additional 5-year CMBS deals this year," said Holly MacDonald-Korth, president and CFO of KDM Financial, a middle-market commercial mortgage lender that lends nationally.

"Borrowers do not want to be locked into a 10-year loan at current rates, [and] a 5-year horizon makes it easier to predict the leasing

performance of the underlying assets,” she said.

Bond investors, meanwhile, may view the shorter duration deals as attractive because it gives them exposure to higher interest rates. Yields on 5-year Treasuries are higher today than on 10-year notes.

“Investors might see it as an opportunity to get higher yields at the shorter end of the curve,” said Darrell Wheeler, head of CMBS research at Moody’s Investors Service.