

Issuers of Last CMBS Tried Public Route; Investors Balked



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The underwriters of the last CMBS deal to price, Morgan Stanley Capital I Inc., 2011-C2, had strongly considered registering it publicly. But push-back from investors prompted them to go the private, 144a route.

Since the market's collapse in 2008, no CMBS transaction has been publicly registered. All have been done through the 144a market.

That could serve as a limiter on the market's size. That's because the indices that some of the largest buyers of AAA-rated bonds use as performance benchmarks include only publicly-registered securities. So they're generally restricted to buying only public bonds, which come with substantial costs.

Many investors, however, prefer privately placed issues because of the greater access to collateral information they provide. That data often includes full rent rolls for collateral properties, operating statements, appraisals and environmental reports.

Said one panelist who spoke at this week's Commercial Real Estate Finance Council's convention at Manhattan's Waldorf-Astoria hotel: "Without public bonds, CMBS becomes a smaller portion of the Barclays Capital Aggregate Bond index." That could further limit the potential size of the CMBS market as investors who track the index would then allocate smaller pieces of their investment pie to the sector.

So there's the rub. While many industry players believe that the CMBS market must adopt publicly registered issues to become larger and more liquid, investors prefer the greater transparency that private issues provide.

The Commercial Mortgaging Industry Standards Maintenance Organization, or C-Mismo, which sets technology standards for the mortgage industry, has been pushing for greater transparency across the board, arguing that the CMBS market would be more efficient if investors had information on every lease in every building backing every loan in a CMBS transaction.

The group **last year** released a standard, Rent Roll and Operating Statement v. 2.0.1, that would allow more lease information to be included in the investor reporting package, or IRP, which lays out what mortgage-level information must be made available to CMBS investors. To facilitate the added information, the group has been trying to get the industry to adopt the more flexible XML format, as opposed to the current spreadsheet format, for maintaining and tracking data.

Earlier this year, CREFC, which sets standards for the industry, **moved to require that additional information be included in deals' Annex A**. Specifically, it required that information on the top-five tenants in a collateral property be outlined, up from the top three of the previous Annex A.

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