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Stability Encumbers CMBS Market

Forged out of crisis and sharpened during a cycle of frenetic activity, the CMBS market is struggling to adjust to a period of relative calm.

While CMBS volume year-to-date through mid-May hit $26.0 billion, up 30 percent from last year's issuance for the same period, according to "Commercial Mortgage Alert," few analysts expect the market to get near the 2017 full-year volume of $93.3 billion. The market's bread and butter—medium-size "conduit" loans on properties in secondary and tertiary markets—is shrinking as a share of issuance. Market share is increasingly moving to single-asset single-borrower (SASB) deals, which represent almost half of 2018 deal volume.

Challenges come from multiple directions. Volume is hard to come by. Market forces are a headwind, as property refinancings and transaction activity are down in 2018. SASB transactions are not only harder to duplicate but also are often less profitable. There is also growing competition for loans from other sources of debt capital. There are other problems as well. The small base of triple-A bond investors limits deal size and helps to enforce relatively uniform loan underwriting. Meanwhile, the regulatory environment continues to evolve, adding some uncertainty.