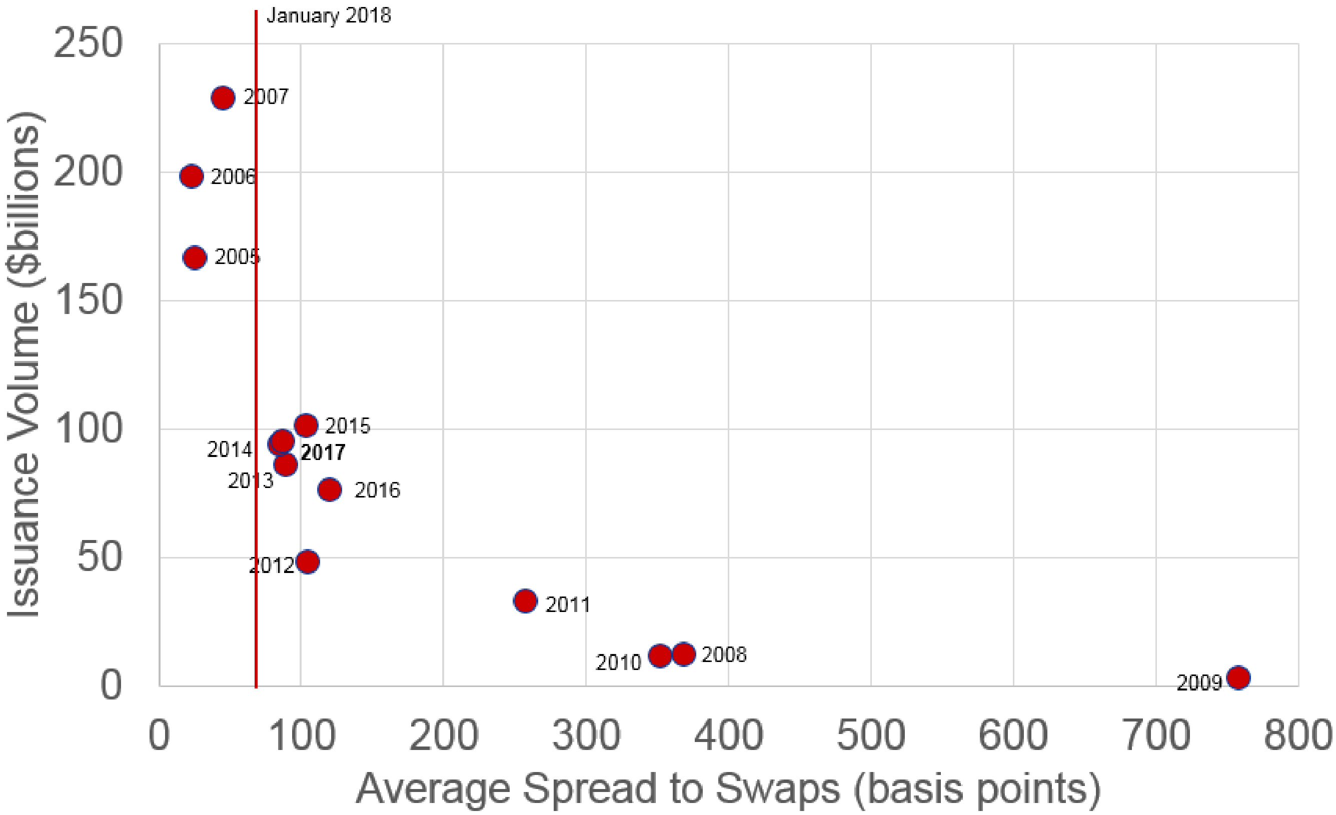
RESEARCH AND ECONOMICS

Chart of the Week – February 2, 2018

CMBS Annual Issuance Volume and Average 10-year AAA Spread to Swaps



Source: Source: J.P. Morgan Securities and CMAlert

This week's chart shows annual private-label CMBS issuance volumes over the last 12 years, where CMBS AAA spreads to swaps are averaged for the year. The clear take-away is that when spreads are tighter (and investor demand higher) issuance volume is higher.

One of the great parlor games at this time of year is projecting commercial mortgage-backed securities (CMBS) issuance over the coming twelve months. Last year, 2017, was robust with $95 billion of private-label issuance – up 25 percent from 2016 and the second highest year since the great recession. There are a raft of factors that affect overall issuance volume, and in 2017, product mix and a greater share of single-asset, single-borrower deals played a key role.

Looking ahead to 2018, most estimates appear to be in the $60-80 billion range – with many analysts expecting the risk on the upside. If spread levels were to stay where they are starting 2018 (averaging 68 basis points across most of January), the traditional relationship between spreads and volumes would seem to suggest issuance of just north of $100 billion. That would affirm many analysts' expectations that the risk to the forecast is to the upside.

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