Green Street

Commercial Mortgage Alert

THE WEEKLY UPDATE ON REAL ESTATE FINANCE & SECURITIZATION

MAY 21, 2021

Morgan Stanley, Wells Leading Big NY Loan

Morgan Stanley and **Wells Fargo** are in advanced talks to lead a roughly $860 million loan on the office building at 1301 Avenue of the Americas in Manhattan.

The floating-rate debt would run five years. Morgan Stanley appears poised to take an administrative agent role, but specifics will be formalized over the next week or two. A portion of the financing package is expected to be carved out as mezzanine debt, and some of the senior loan will likely be syndicated to other lenders. The sizes of those pieces couldn't be learned.

The owner of the 1.8 million-sf tower, **Paramount Group,** hit the market looking to line up the loan a couple of months ago, via advisor **Eastdil Secured.** Paramount plans to use most of the proceeds from the new deal to repay a mortgage it took out five years ago.

AXA Equitable, MetLife and **New York Life** originated that loan, which matures in November. It's split between a $500 million fixed-rate portion with a 3.05% coupon

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CMBS, CRE CLO Deals Test Risk Appetite

Spreads on commercial mortgage securitizations trended wider this week, as issuers brought to market deals backed by collateral that's been considered riskier since the onset of the coronavirus crisis.

Deals included a rare but well-received single-borrower commercial MBS offering backed by a mall and a wave of commercial real estate CLOs, several of which had a hefty proportion of office loans.

The biggest deal in the market was a $1.03 billion CRE CLO from **LoanCore Capital,** its fifth such offering (LNCR 2021-CRE5). **Goldman Sachs** structured the managed deal and got bookrunning assists from **J.P. Morgan** and **Wells Fargo.**

The top tranche, rated triple-A by **Moody's** and **DBRS Morningstar,** was offered at 125 bp to 130 bp over one-month Libor in early "whisper" talk.

That's wider than recent deals, partly due to the unprecedented volume of offerings that have hit the market recently. Including deals in the market this week, CRE

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Big Groups Wary of Tax Hit on Small Players

It's an issue that unites the institutional giants and the "moms and pops."

Small, private investors are the most common users of like-kind exchanges, which allow sellers to defer capital-gains taxes on property sales if proceeds are invested in another property. But their activity helps support liquidity throughout the sales and lending markets, pros say, so the industry at large has an interest in fending off President **Joe Biden's** proposal to eliminate the tax break for all but the smallest transactions.

A study commissioned by industry groups last fall concluded that the strategy, under Section 1031 of the IRS Code, is used in roughly 10% to 20% of all commercial real estate transactions, with an average size of just over $2 million. Those small to mid-size deals provide a steady flow of opportunities for banks and other lenders, including conduit shops.

While the largest commercial MBS loans are unlikely to be affected by the

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THE GRAPEVINE

Veteran originator **Andy Leonard** has joined **Barclays'** commercial real estate finance group in New York. He started May 3 as a managing director, reporting to originations chief **Steve Caldwell.** Leonard focuses on Texas, but he also may originate loans elsewhere. He was among a number of staffers laid off when **CIBC** shut down its U.S. commercial MBS group in March 2020. Before joining that firm's New York office in 2012, Leonard worked at **UBS, Eurohypo** and **Lehman Brothers.**

Portfolio manager **Simon Miller** left **DoubleLine Capital** this week for **Western Asset Management.** Miller starts

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proposed tax change, bankers say small loans are key to rounding out and diversifying conduit pools.

"This is something people are losing sleep over," said **Justin Ailes,** managing director for government relations at the **CRE Finance Council,** noting that conduit lenders don't want to lose any transactions as they rebuild their business in the aftermath of the pandemic.

In an analysis last month, **Bank of America** said "unintended consequences" of eliminating the capital-gains referral "could curb investors' willingness to purchase new properties, lead to higher leverage on properties purchased in an effort to maximize returns, or decrease investors' desire to invest in and improve the assets they currently own."

Industry pros say the change could chill the time-worn practice of buying small buildings, fixing them up and rolling sale profits into bigger buildings.

"This is how so many investors get started — through sweat equity, buying a single-family home and fixing it up and exchanging it for a small building and moving up," said **Karlin Conklin,** a principal at **Investors Management Group.** The firm has parlayed the strategy into 4,000 apartment units in the Southeast and West. Conklin cited the industry study's finding that about 40% of like-kind exchanges involve rental housing. "That is how we have built our housing stock in this country," she said.

The tax strategy also helps fuel purchases of net-lease

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INITIAL PRICINGS

GS Mortgage Securities Corporation Trust, 2021-ROSS

Pricing date:	May 14
Closing date:	May 28
Amount:	$691.0 million
Seller/borrower:	Goldman Sachs fund, Monday Properties
Lead manager:	Goldman Sachs
Master servicer:	KeyBank
Special servicer:	Trimont Real Estate
Trustee:	Wells Fargo
Certificate admin.:	Wells Fargo
Offering type:	Rule 144A

Property type: Office (100%).
Concentration: Virginia (100%).
Loan contributor: Goldman Sachs (100%).
Risk-retention sponsor: Goldman Sachs.
Notes: Goldman Sachs securitized a $691 million floating-rate mortgage it is set to originate on seven Virginia office properties, totaling 2.1 million sf, in the Rosslyn submarket of Arlington, Va. The portfolio, appraised at $1.17 billion, is owned by a joint venture between Goldman's U.S. Real Estate Opportunities 1 (89% ownership) and Monday Properties (11%). The mortgage and a $150 million mezzanine loan make up an $841 million loan package, expected to close by May 28, that will refinance the portfolio. The interest-only debt has a two-year term and three one-year extension options. The mortgage will be pegged to one-month Libor plus 292 bp. The mezzanine loan, with a rate of one-month Libor plus 972 bp, is anticipated to be securitized in a separate transaction. The borrowers will use $758.1 million of the total proceeds to retire existing debt, including a $500 million CMBS loan (RPT 2017-ROSS) and related mezzanine loans. After factoring in closing costs and reserves, the joint venture will have about $63.3 million left over. To comply with U.S. risk-retention rules, Goldman is retaining the RR Interest, which effectively is a 5% vertical strip. Blackstone is expected to purchase a majority of the Class G and H certificates.
Deal: GSMS 2021-ROSS. **CMA code:** 20210145.

Class	Amount ($Mil.)	Rating (S&P)	Rating (DBRS)	Subord. (%)	Coupon (bp)	Dollar Price	Maturity (Date)	Avg. Life (Years/Ext)	Spread (bp)	Note Type
A	218.823	AAA	AAA	66.67	L+115	100.000	6/15/36	2.05/5.05	L+115	Floating
B	51.490	AA-	AA (H)	58.82	L+160	100.000	6/15/36	2.05/5.05	L+160	Floating
C	38.627	A-	AA (L)	52.94	L+200	100.000	6/15/36	2.05/5.05	L+200	Floating
D	47.367	BBB-	A (L)	45.72	L+250	100.000	6/15/36	2.05/5.05	L+250	Floating
E	71.687	NR	BBB (L)	34.80	L+320	100.000	6/15/36	2.05/5.05	L+320	Floating
F	56.962	NR	BB (L)	26.12	L+390	100.000	6/15/36	2.05/5.05	L+390	Floating
G	59.888	NR	B (L)	17.00	L+465	100.000	6/15/36	2.05/5.05	L+465	Floating
H	111.606	NR	NR	0.00	L+590	100.000	6/15/36	2.05/5.05	L+590	Floating
RR Interest	34.550	NR	NR				6/15/36	2.05/5.05		Floating
X(IO)	656.450*	NR	AAA				6/15/36			Floating

*Notional amount

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properties, which are seen as safe, stable investments by family offices and other private-capital investors. **Alex Sharrin,** a managing director who heads **JLL's** net-lease platform, said research by his company shows about 30% of net-lease transactions involve Section 1031. Nonetheless, he said, JLL believes eliminating the benefit would have only a modest impact on dealflow, with hold periods shrinking by about 8%.

He said the mere announcement by Biden last month that he wanted to limit 1031 exchanges appeared to prompt a surge of selling. "Private capital tends to be emotional in spirit," he said. "A lot of decisions are made on headlines, so we're already seeing the near-term surge. In the long term we predict slightly diminished liquidity."

At the moment, a change in Section 1031 is one of many proposals to pay for infrastructure spending and Biden's social agenda under discussion in the House Ways and Means Committee. House Speaker **Nancy Pelosi** (D-Calif.) has said she'd like to see an infrastructure bill on the House floor by July 4.

Bill Killmer, a senior vice president for legislative and political affairs at the **Mortgage Bankers Association,** said he was "encouraged" by some 200 virtual meetings the group's members had with lawmakers last week to provide input on the practical implications of such changes.

"We have our guard up, but there are a lot of folks who understand the positive impact that 1031 has on affordable housing and related transactions," he said. ❖

INITIAL PRICINGS

MHC Trust, 2021-MHC2

Pricing date:	May 14
Closing date:	May 27
Amount:	$352.0 million
Seller/borrowers:	Brookfield, RHP Properties
Lead managers:	Morgan Stanley, Bank of America, Barclays
Master servicer:	Midland Loan Services
Special servicer:	CWCapital Asset Management
Operating advisor:	Park Bridge Financial
Trustee:	Wells Fargo
Certificate admin.:	Wells Fargo
Offering type:	Rule 144A

Property type: Manufactured housing (100%).
Concentrations: Florida (26.9%), Utah (21.3%) and Indiana (21%).
Loan contributors: Morgan Stanley (40%), Bank of America (40%) and Barclays (20%).
Risk-retention sponsor: Morgan Stanley.
Notes: Morgan Stanley, Bank of America and Barclays securitized a $352 million floating-rate mortgage they originated April 29 for Brookfield (95% interest) and RHP Properties (5%) on 39 manufactured-housing communities in eight states. The interest-only loan, pegged to one-month Libor plus 195 bp, has a two-year initial term and three one-year extension options. The properties, encompassing 7,417 pads, have an appraised value of $452.3 million. Brookfield controls the portfolio through Brookfield Strategic Real Estate Partners 2. Loan proceeds were primarily used to finance the $144.5 million acquisition of 27 properties from Heritage Financial and retire $116.6 million of existing debt on the remaining 12 properties, which Brookfield had previously acquired from a NorthStar Realty partnership in 2017. After factoring in prepayment penalties and closing costs, the Brookfield partnership had $75.5 million left over. In compliance with U.S. risk-retention rules, Blackstone Real Estate Income is acquiring Class K-RR at a price that equals at least 5% of the total deal proceeds.
Deal: MHC 2021-MHC2. **CMA code:** 20210144.

Class	Amount ($Mil.)	Rating (Fitch)	Rating (KBRA)	Subord. (%)	Coupon (bp)	Dollar Price	Maturity (Date)	Avg. Life (Years/Ext)	Spread (bp)	Note Type
A	146.400	AAA	AAA	58.41	L+85	100.000	5/15/38	1.97/4.97	L+85	Floating
B	21.800	AA-	AA+	52.22	L+110	100.000	5/15/38	1.97/4.97	L+110	Floating
C	16.800	A-	AA-	47.44	L+130	100.000	5/15/38	1.97/4.97	L+130	Floating
D	24.000	BBB-	A-	40.63	L+150	100.000	5/15/38	1.97/4.97	L+150	Floating
E	29.835	NR	BBB-	31.15	L+195	100.000	5/15/38	1.97/4.97	L+195	Floating
F	28.268	NR	BB-	24.12	L+240	100.000	5/15/38	1.97/4.97	L+240	Floating
G	34.902	NR	B-	14.20			5/15/38	1.97/4.97		Floating
J	32.295	NR	NR	5.03			5/15/38	1.97/4.97		Floating
K-RR	17.700	NR	NR	0.00			5/15/38	1.97/4.97		Floating
X-CP(IO)	56.340*	BBB-	AAA				5/15/22			Floating
X-NCP(IO)	62.600*	BBB-	AAA				5/15/38			Floating

*Notional amount