# CMBS Issuance: From $125B to $60B?

**New York City**—What a difference three months can make. In December of last year, Kroll Bond Rating Agency predicted that CMBS issuance in 2016 could reach $125 billion, due in large measure to an economic environment that continued to favor commercial real estate investment, as well as upcoming loan maturities. Now KBRA has revised its forecast downward by a significant margin, saying that total issuance this year could be less than half the December 2015 projection at $60 billion.

Year-to-date numbers point in this direction. KBRA notes that $7.8 billion of private label CMBS priced in February, bringing the YTD total to $10.6 billion, down 34.5% on a year-over-year basis.

A major stumbling block is the spread widening in credit bonds, which have broadened by several basis points in recent months, and it's not clear when this will stop. It's being influenced by "a number of macro events," including the energy downturn, stock market volatility, the slowing of the Chinese economy and other political events, says KBRA.

"Recent deal pricings seemed to suggest that spreads are about +165 basis points for AAA LCF and +775 basis points BBB-, but we have heard from some investors that they are reluctant to 'catch a falling knife' given the duration and rapidity with which prices have blown out," according to KBRA's latest CMBS Trend Watch report. "Originators are facing too many challenges in regard to loan pricing given the capital markets environment, which has put the brakes on issuance."

The brake pedal won't be pushed to the floor permanently, of course. However, KBRA says, "timing is everything this year as it relates to originations. If pricing begins to stabilize in April or May, it isn't clear that issuance will ramp as robustly as it otherwise would, as we suspect the market will be testing the waters on risk retention as we enter the summer months."

Assuming that the securitizations in the pipeline for this month are realized, KBRA projects first-quarter CMBS originations of about $18.6 billion, about 30% lower than the year-ago period. Should volatility and caution over risk retention continue to keep issuance lean for the balance of 2016, "it isn't hard to see how the low end of our range could play out."—*Paul Bubny*

## BEHIND THE DEAL
## Traction in Secondary Markets

**Roseville, CA**—Tri Counties Bank's recent acquisition of an office building at Slate Creek Corporate Center will consolidate major operations into a location where a great number of banks and financial services firms are located. That 40,000-square-foot 3700 Douglas Blvd. is to serve as Tri Counties' new regional headquarters.

The bank has multiple offices in Roseville, where it had a Small Business Administration loan office, a separate commercial lending office, several branches and supermarket branches. CEO Rick Smith says, "Consolidating our major operations into one facility will create efficiencies as well as give us an identity in the Sacramento and Roseville area. It's in the heart of the business district, where all of the banks and financial services are."

The seller in the transaction was Ellis Partners LLC, which purchased Tri Counties' new regional headquarters along with other office assets in Roseville a few years ago from Hines. The highly visibly class-A building was constructed in the late 1990s and features modern architectural design, private offices with natural light and is within walking distance to multiple new shopping and restaurants amenities. The property also offers ample on-site parking and is a short distance to Interstate 80 and Highway 65 freeways.

TRI Commercial/CORFAC's Robb Osborne, Cole Sweatt and Brandon Sessions represented the bank in the acquisition. "As our market continues to build momentum while the primary markets nationally are beginning to plateau, 3700 Douglas Blvd. represents one of the last quality owner/user properties of size, not only on the Douglas corridor but throughout the Sacramento region as a whole," Osborne says.—*Lisa Brown*


Slate Creek Corporate Center

## BRICKS AND STICKS
## The New Math on Downsizing Space

**Washington, DC**—A new white paper by Newmark Grubb Knight Frank has connected a few dots about rightsizing, confirming what many have suspected: when companies, or the federal government for that matter, squeeze too many employees into a space, productivity declines.

That's common sense. But NGKF went on to establish, though, that the margin is surprisingly very thin between productivity and the savings, or conversely additional rent paid for better space.

"Only a 2% decline in productivity [resulting from cramped space] would wipe out the savings a company realizes by" downsizing space, says the report's co-author, Bethany Schneider, senior research analyst. Conversely, she adds, "it only takes a 3% increase in productivity to recoup the cost of upgrading to trophy space."

While these precise numbers may come as a surprise to tenants, the general sentiments behind them probably do not. "Anecdotally we hear that the pushback against densification is continuing,"