

G-L 1 1Q 2020 Final Results

We released the G-L 1 for 1Q 2020 in late April 2020. We noted that no life companies or pension funds reported pricing any new loans after March 18, 2020. Consequently, we extrapolated quarter-end spreads using data from loans made through March 18 and the trajectory of investment-grade CMBS spreads thereafter; we used these extrapolated spreads for marking all loans to market as of March 31. The absence of transactions near March month end led us to label results “provisional.”

We anticipated that additional loans made in March would be reported in the survey of April lending activity that is generated in May. It was possible that some loans made after March 18 would be reported, which would allow us to re-evaluate March month-end spreads. However, April’s report, which did include additional March loans, confirmed that life company and pension fund lenders basically moved to the sidelines from March 18 through early April.

April activity was light. Numerous survey participants reported that they made no new loans in April. Those that were made (and reported to date) had spreads ranging from about 275 bp to 375 bp over Treasury yields with LTVs ranging from 35% to 75%. For comparison, the provisional G-L 1 spread for major property sectors at 60% to 65% LTV was 254 bp for March.

In addition to April commercial mortgage spread data, we re-visited public market results from March on a more granular basis, looking at spreads on various rating classes within CMBS and spreads on corporate bonds, including those issued by REITs.

After completing this review, we decided to increase March spreads by roughly 70 bp to align more closely with public market results and the April lending results reported so far. The change moved our baseline average spread for March 31 to about 325 bp. For comparison, the spread on AA-rated CMBS was at 320 bp; REIT bonds, which are mostly rated Baa, were at 350 bp; and Baa-rated intermediate-term corporate bonds were at 360 bp. Importantly, the chosen G-L 1 spreads are not truly “market” spreads due to the absence of transactions. We think of them as more akin to an “ask” or indicative spread.

Table 1 provides an updated comparison of total returns. Note that only G-L 1 March total return was affected by the spread revision. Of course, this caused quarterly total return to drop accordingly.

Table 1. Total Return 1Q 2020
In percent

| | Total Return 1Q 2020 | | | |
|---------------------|----------------------|------|-------|---------|
| | Jan. | Feb. | Mar. | 1Q 2020 |
| G-L 1 | 2.05 | 1.73 | -4.56 | -0.92 |
| CMBS | 2.46 | 1.88 | -3.74 | 0.47 |
| Baa Corporates | 1.80 | 0.86 | -9.01 | -6.58 |
| 5-7 year Treasuries | 2.27 | 2.36 | 2.83 | 7.64 |

Sources: Bloomberg Barclays Indices; Giliberto-Levy
CMBS returns are for all investment-grade bonds; corporate bond results were adjusted to match the duration of the G-L 1.