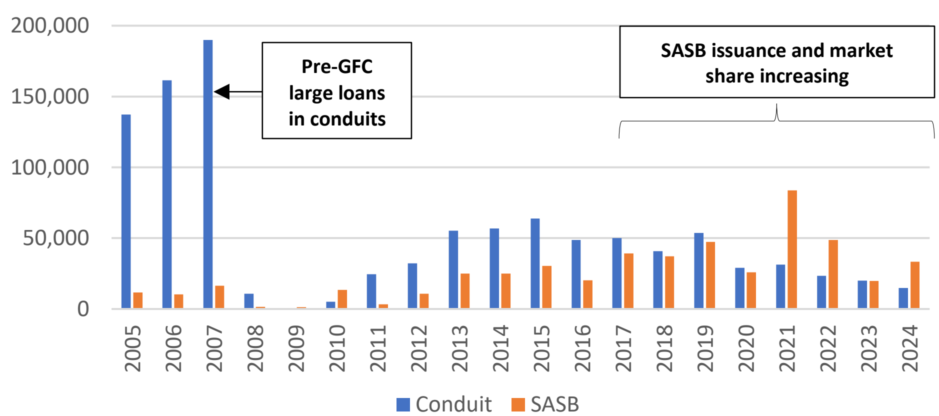
LIBREMAX CAPITAL

**Are Recent Concerns Regarding Single Asset Single Borrower (SASB) CMBS Merited?**
Losses on AAA bonds backed by 1740 Broadway, a NYC office SASB CMBS, have some commentators speculating on the demise of SASB CMBS. Is 1740 Broadway a canary in the coalmine for SASB deals?

**Our View: SASB Deals are Here to Stay**
LibreMax does not believe material SASB-wide concerns are merited by the 1740 Broadway losses. While SASB deals (especially single-asset deals) have a higher concentration of risk versus pooled deals and thus more binary outcomes, they are also the beneficiaries of key offsetting advantages that have sustained investor demand since the mid-1990s. We believe the primary takeaway from 1740 Broadway is a high-profile reminder of the inherent idiosyncratic risk in CRE and the related importance of asset-specific underwriting. We note robust SASB issuance in recent years and expect SASB deals to remain a vibrant part of the CMBS landscape.

**SASB CMBS Have Time-Tested Appeal to Borrowers, Lenders, and Investors**:
The CRE sector is inherently characterized by idiosyncratic risks at the individual property level given the unique characteristics of specific assets. Among CMBS, SASB deals take this idiosyncratic risk in the most concentrated form by virtue of the single exposure to an asset or portfolio versus pooled transactions such as conduits. As such, security performance has a binary outcome profile and in the event of losses the securities have no diversification safety net. The longstanding advantages of SASB to offset this risk are typically lower leverage, more conservative capital structures per rating category, relative ease of single-credit underwriting, higher quality properties and typically institutional borrowers. In the current up-in-quality environment with constrained balance sheet lender capacity and Wall Street aggregation appetite, SASB CMBS offer borrowers, lenders, and investors alike a confluence of lending capacity, investment quality, and competitive pricing. The successful placement of the robust SASB new issue pipeline (note Blackstone upsizing the AIRC multifamily SASB deal in July to $3BN) strongly suggests these dynamics remain firmly in place. (Source: BofA Global Research and Intex, July 2024).

Conduits and SASB Issuance 2005-2024

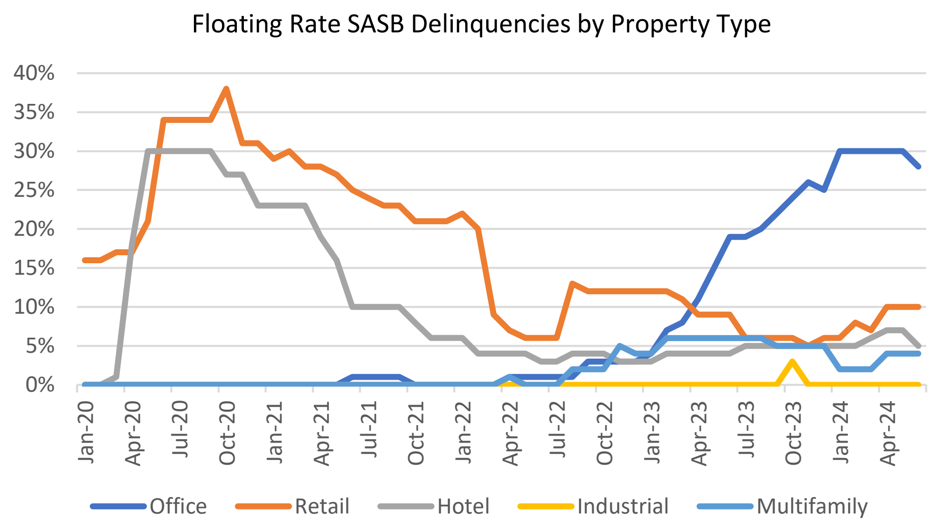



**So, What Does 1740 Broadway Mean?**
First, the 1740 Broadway losses may cause rating agencies to be even more conservative on SASB deals, especially *office properties materially exposed to WFH and with heavily concentrated rent rolls*. By extension, 1740 Broadway is a forceful reminder that CMBS investing requires careful per asset underwriting, especially as transactions season and new issue assumptions are tested by time.

Second, the unprecedented speed and magnitude of the transition from the ZIRP era to higher for longer should be expected to cause corresponding levels of stress in many legacy (pre-2022) capital structures across all CMBS structures. In that context, 1740 Broadway is not solely a SASB story, but also a high-profile example of the new rates era story, and investors should expect repeat episodes. Current performance statistics for SASB ($258BN outstanding) versus conduits ($354BN outstanding) bear out this commonality of performance (source: Trepp and CREFC June 2024).

| % of UPB | 30+ DQ | 60+ DQ | 90+ DQ | In F/C | REO | NPL Matured Balloon | Total DQ | Current & Spec. Serviced | DQ & Specially Serviced | Total Special Servicing |
|---|---|---|---|---|---|---|---|---|---|---|
| Conduit | 0.60% | 0.26% | 0.73% | 1.23% | 1.37% | 1.60% | 5.80% | 2.72% | 5.40% | 8.12% |
| SASB | 0.02% | 0.23% | 0.12% | 2.00% | 0.24% | 2.11% | 4.72% | 3.92% | 4.47% | 8.39% |

**SASB Performance Despite Specific Headwinds**:
SASB performance might have been expected to lag conduits due to a higher proportion of floating rate transactions versus conduits during the industry-wide transition to higher rates. Indeed, legacy floating rate transactions, especially in office deals, are a primary contributor to current SASB-specific performance stress (source: Trepp). SASB's overall performance in line with conduits presents further evidence of the up-in-quality nature of SASB transactions.




**Value in SASB – Seasoned Deals**:
We continue to believe discount priced seasoned mezzanine bonds offer the most attractive risk-adjusted returns in SASB (and conduit) CMBS. LibreMax uses tech-enabled and traditional CRE underwriting tools to re-underwrite property-level cashflows and project loan performance. We find that the market has tended to use indiscriminate assumptions in such analysis. LibreMax believes this may create opportunities for more informed investors to identify shorter duration securities with attractive risk-adjusted yields while still using severe bear-market projections.

Consistent with a soft-landing narrative and the robust depth of the SASB lending market, we find seasoned SASB CMBS have been trading to less attractive levels in recent months. To the extent that 1740 Broadway headlines cause renewed use of indiscriminate valuations of seasoned SASB deals, we believe this would be a renewed opportunity for credit picker investors. More broadly, we continue to monitor individual legacy SASB deals where the industry-wide transition to the new rate and lending environment may create opportunities for our credit-picking approach.

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