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Deeper in the Tranches

Adriano Taylor-Escribano – Rates & Securitized Portfolio Manager

Alex Chansky – Principal, Junior Quantitative Analyst Jennison Fixed Income

Audio Starts

Alex: Hey everyone. Welcome back to Clipping Coupons with Jenison Associates. My name is Alex Chansky, and I'll be your host for the show!

Today I'm speaking with Adriano Taylor Escribano.

Adriano is one of the portfolio managers here at Jenison on the fixed income team who works mostly with rates and structured products.

Adriano, how are you doing today?

Adriano: I'm doing great Alex. Good to be back on.

Alex: Alright, fantastic. I'm going to jump right into things.

Adriano, one of the areas you work in is the commercial real estate market, CRE. Can you highlight three trends for us that you're seeing right now in the CRE market?

Adriano: Yeah, I'll keep it as short and sweet, but very broadly, NOIs are relatively stable and positive

in that 3% to 4% range.

The caveat there is that office is the one sector that broadly speaking, is suffering a little bit and has negative NOI growth.

The other thing that we've seen recently over the last couple years is higher rates. We're in a world now where rates are higher than they were when borrowers started taking out mortgages 5 or 10 years ago. And as a result, cap rates are much higher. To put that into context, if you took out a mortgage debt, commercial mortgage debt 5 years ago, or 10 years ago, your mortgage rates are likely around 200 to 300 basis points above where you took that debt out five or 10 years ago.

As a result, even though you've seen steady NOI growth borrowers need to cough up money in order to refinance their debt, unless they've seen really outsized NOI growth. So as a result, you're seeing increased pressure when maturities come up. And you've seen delinquencies rise, which is my third point, to the point where in the [00:02:00] CMBS space delinquencies are close to their high, the highs that we saw during COVID and during the GFC. They're in that 6% to 7% range.

So CMBS is flashing red warning signals in the CRE market. But if you look at bank delinquencies, they haven't seen the same increase that you've seen in the CMBS market. You might argue that they have better underwriting standards than the CMBS market, or you can argue that the Fed gave banks a lot of leeway in terms of modifying and forbearing loans that are under some amount of hardship.

And as a result, they're displaying or showing lower delinquencies.

Alex: So then when it comes to new issues. The last few years, conduit net issuance has been down while single assets, single borrower, also known as SASB, has dominated the new issue market. What are a few things that an investor should know about this trend?

Adriano: Before I answer that question directly, maybe I'll just take one step back and say, you know, the conduit issuance about five years ago was 90% of the CMBS issuance. Right now it's about 20%. So SASB is dominating that. The one main difference, and it's a very stark difference, is that single asset, single borrower risk or SASB is very different to conduit risk.

And so if you look at the top of the capital structure, AAA conduit is not the same as AAA, SASB. And the reason for that is. Conduit. You have a diversified pool of loans, so you might have, you know, 20 to 60 loans in there. And if one of those loans goes through some sort of a hardship or delinquent, you have subordinate bonds that can absorb that [00:04:00] loss and protect you from hiccups that happen.

At the pool level, in the single asset, single borrower world, you really only have one loan. And if that one loan enters some sort of a problem, then you have to worry about what is my loan or my property ultimately worth? And you kind of have to worry about recoveries if the loan gets liquidated.

So as a result in the last year or two, you have seen AAA, single asset, single borrowers take losses. Now for AAA Bond to take a loss, you might ask yourself, is that really AAA rated bond given the number of loans that you've seen that happen to? But I'll remind you, or I'll remind our listeners here that even at the depths of the GFC in some of the worst deals that were underwritten at the super senior AAA level, so the AAA last cash flows.

None of them took a loss, post GFC, whereas in a, I don't want to call it a benign environment because I don't think it is, but in the last two years, you have seen AAA, single assets, single borrowers take losses.

Alex: And then how are you seeing AI and data centers impact this part of the securitized market?

Adriano: Yeah, it's definitely a bigger part of the market than it was three years ago or five years ago. We're seeing continued issuance in the space. And it's pretty remarkable how we are all positioned in on the trading floor.

So all the PMs sit on the trading floor. And so we have a remarkable position where I can directly speak to or across the floor, speak to a credit PM, or Dmitri who covers, helps cover ABS and mortgages. And we can all have a conversation [00:06:00] around issuance. What's going on, what levels they're seeing, across Corporates, ABS, and CMBS.

It's an interesting sector with not a lot of history, especially at the scale that we're seeing issuance with, you know, some of the largest SAB transactions we've ever seen in the CMBS space are data center deals now.

The other thing that I'll quickly mention too as a quick fun fact.

It has a percentage of GDP if you add large public works projects of the 1930s. So that's like the Hoover Dam, the Golden Gate Bridge, LaGuardia Airport, the Triborough Bridge, and you add the Manhattan Project to that, the Apollo project and the interstate build out during the 1960s, that is less as a percentage of GDP from a spending perspective, than the data set or the tech spending that we saw in 2025. So the numbers that we're seeing are, are phenomenal.

Alex: And then the last fun question I have for you here, is there a recent book or show or movie that you've read or, or watched recently that you want to recommend to others?

Adriano: Yeah, I read a book a little bit ago and it got me down a rabbit hole. It's a book called "Wanting" by Luke Burgis. The focus is on his life and the sort of crisis that he had as an entrepreneur. But the lens that he takes in describing this is, it uses the framework of a philosopher by the name of Rene Girard.

And his work on what's called mimetic desire, which basically tries to answer the question of why do we desire things, and what are the implications of those, from a personal or conflict perspective. And it's fascinating and it's endlessly fascinating because it sort of touches [00:08:00] a lot of different subjects, from psychology to anthropology, history, mythology, and religion.

Alex: Fantastic. I knew whatever recommendation you had was going to have something to do with philosophy, so I'm glad I got that part right. Um, yeah. Thanks so much for recording today, Adriano.

Adriano: Thank you. Alex. This was good.

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