ANGELO GORDON

Angelo Gordon's Capital Markets Perspectives

SECOND QUARTER 2023

Published May 2023

Table of Contents

Co-CIO Overview 3

Economic Dashboard and Market Indices 4

Investment Strategies

- Performing Credit 7
- High Yield Credit 9
- Structured Credit 11
- Middle Market Direct Lending 17
- Merger Arbitrage 19
- Convertible Arbitrage 20
- U.S. Real Estate 21
- Europe Real Estate 23
- Asia Real Estate 25
- Net Lease Real Estate 31

Angelo Gordon's Capital Markets Perspectives (CMP) is a quarterly publication that provides information and our portfolio managers' views on the credit and real estate markets. We hope you find this to be a valuable resource and enjoy our latest look at the markets.

Angelo Gordon is a leading alternative investment firm, managing approximately $73 billion* across a broad range of credit and real estate strategies. Founded in 1988, the firm has been investing on behalf of pension funds, corporations, endowments, foundations, sovereign wealth funds, and individuals for over 30 years.

Over our entire history, Angelo Gordon's investment approach has consistently relied on disciplined portfolio construction backed by rigorous research and a strong focus on capital preservation.

We have grown by pursuing strategies that complement and build on our core capabilities, and we now have over 650 employees in offices across the U.S., Europe, and Asia. Combining deep industry sector and market expertise with a collaborative, knowledge-sharing culture, we creatively seek out investment opportunities that allow us to exploit inefficiencies in global credit and real estate markets.

** Angelo Gordon's (the "firm") currently stated AUM of approximately $73 billion as of December 31, 2022 reflects fund-level asset-related leverage. Prior to May 15, 2023, the firm calculated its AUM as net assets under management excluding leverage, which resulted in firm AUM of approximately $53 billion as of December 31, 2022. The difference reflects a change in the firm's AUM calculation methodology and not any material change to the firm's investment advisory business. For a description of the factors the firm considers when calculating AUM, please see the disclosure linked here.*

Co-CIO Overview

In the credit markets, a strong January was followed by a pull-back that started in February and continued into early March, as concerns about the banking sector emerged.

In corporate credit, both U.S. and European high yield markets posted positive returns in the first quarter, as mild spread tightening was accompanied by strong rate compression. Lower-quality bonds outperformed higher-rated counterparts in the U.S., while Europe saw a flight to quality, with BB-rated bonds outperforming CCCs. Default rates remained muted, at 1.9% in the U.S. and 0.4% in Europe. U.S. primary market activity rebounded in the first two months of the quarter but took a pause in March amid interest rate volatility and concerns about the banking sector.

In structured credit, national home prices fell 5% from their peak, and we expect prices will continue to fall on reduced affordability and increasing supply in certain areas, though overall supply remains constrained. The commercial real estate market was rattled by rate volatility and a number of high-profile property owners defaulting on mortgages, which was then compounded by the turmoil in the banking sector. In many areas of structured credit, primary issuance volume increased quarter-over-quarter but fell year-over-year. Structured credit markets were well-behaved following the regional bank dislocation in March; although spreads widened slightly, there wasn't a flurry of forced sellers and limited new issuance supported spreads.

Sponsored middle market lending volume, including direct and syndicated activity, fell 39% quarter-over-quarter and 40% year-over-year, driven by seasonality and slower M&A and LBO activity. However, middle market direct lending terms continued to favor lenders, who benefited from higher base rates and spreads.

In merger arbitrage, U.S. M&A volume and deal count increased quarter-over-quarter, with a shift toward midsize transactions, as banks were more selective in funding large-cap deals while they continued working to reduce the number of hung financings on their books from last year. While spreads widened on growing concerns about regulatory risk in the U.S. and Europe for much of the quarter, they tightened when a string of deals cleared regulatory approvals in late March.

Convertible new issuance rebounded from 2022's muted pace, with greater issuer and sector diversity, as higher credit quality and larger market capitalization issuers began to dominate. There was some price volatility amid the banking sector turmoil, though convertible bonds and convertible arbitrage strategies performed well during the quarter.

Turning to real estate, the headwinds already facing the commercial real estate market were enhanced by the turmoil in the global banking sector in the first quarter. In the face of a rapid increase in interest rates during 2022 and early 2023, capital base concerns have caused banks to become even more cautious and conservative in their underwriting. As a result, the slowdown in real estate transaction activity persists and there continues to be a broad acknowledgement in the market that valuations need to be adjusted downward. The realities of surging borrowing costs and less available leverage coupled with public market repricing suggests significant price erosion and widening cap rates are to come in the private markets. We believe the ongoing turbulence in the banking sector will lead to a further, sharper reduction in liquidity and credit availability for the real estate financing markets, which is likely to spur stressed and distressed real estate investment opportunities.

In the U.S., the collapse of Silicon Valley Bank and Signature Bank followed by the rescue of Credit Suisse has turned attention to the health of regional and midsize banks. With regional banks now in the spotlight, we expect credit availability to tighten further. This has the potential to create additional challenges, as banks account for approximately 40% of total commercial real estate debt, representing a very significant part of the market ecosystem. The reduction in credit availability has intensified the stress and distress already building in the market, as it coincides with over $1 trillion of commercial real estate debt that is maturing in 2023 and 2024 and has become increasingly difficult to refinance.

In Europe, tightening monetary policy and high prices have reduced household and business spending. With eurozone GDP growth of just 0.1% in the fourth quarter of 2022, fears of a recession have been looming in the region for some time—even before banking sector turmoil and expectations of credit tightening took hold. Real estate investment activity remains slow as investors monitor the economic situation. Investment volume in the eurozone decreased 18% year-over-year in 2022, and real estate investment activity appeared to remain weak in the first quarter of 2023.

Economies in Asia have been less impacted by macroeconomic headwinds, though we are starting to see some signs of distress in certain regions—particularly in South Korea, where interest rates have risen alongside those in the U.S. Conversely, in Japan, rates have remained low and real estate fundamentals have been strong, and China has exhibited economic growth with the reopening of its borders and relaxation of its zero-COVID policy.

Josh Baumgarten
Co-Chief Executive Officer
Co-Chief Investment Officer
Head of Credit

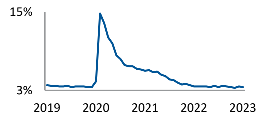
Adam Schwartz
Co-Chief Executive Officer
Co-Chief Investment Officer
Head of Real Estate

Economic Dashboard & Market Indices

Job Market

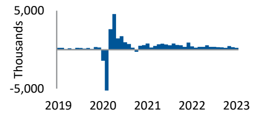
U.S.—Unemployment Rate
As of 3/31/2023

Latest Level	3.5
Change from Prior Period	▼ (0.1)
Frequency	Monthly



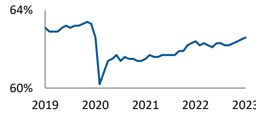
U.S.—Non-Farm Payroll
As of 3/31/2023

Latest Level	236.0
Change from Prior Period	▼ (90.0)
Frequency	Monthly



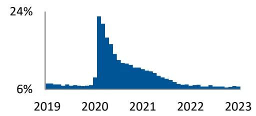
U.S.—Labor Participation Rate
As of 3/31/2023

Latest Level	62.6
Change from Prior Period	▲ 0.1
Frequency	Monthly



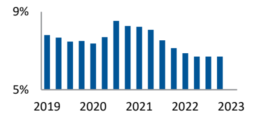
U.S.—U-6 Unemployed & Margin & Part-Time as Percent of Labor Force & Margin
As of 3/31/2023

Latest Level	6.7
Change from Prior Period	▼ (0.1)
Frequency	Monthly



Eurozone Unemployment Rate
As of 12/31/2022

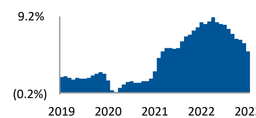
Latest Level	6.7
Change from Prior Period	0.0
Frequency	Quarterly



Inflation

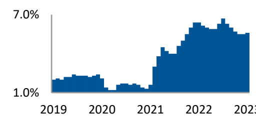
U.S. Consumer Price Index (CPI) Y-o-Y (%)
As of 3/31/2023

Latest Level	5.0
Change from Prior Period	▼ (1.0)
Frequency	Monthly



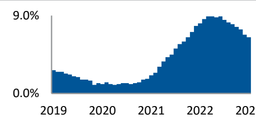
U.S. CPI Goods Less Food & Energy Y-o-Y (%)
As of 3/31/2023

Latest Level	5.6
Change from Prior Period	▲ 0.1
Frequency	Monthly



U.S. Producer Price Index (PPI) Y-o-Y (%)
As of 3/31/2023

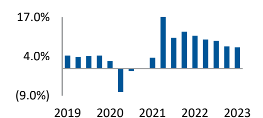
Latest Level	6.5
Change from Prior Period	▼ (0.3)
Frequency	Monthly



GDP Growth

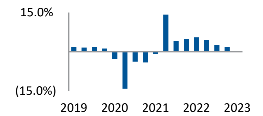
U.S.—GDP Y-o-Y (%)
As of 3/31/2023

Latest Level	7.0
Change from Prior Period	▼ (0.3)
Frequency	Quarterly



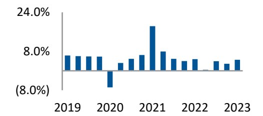
Eurozone—GDP Y-o-Y (%)
As of 12/31/2022

Latest Level	1.8
Change from Prior Period	0.0
Frequency	Quarterly



China—GDP Y-o-Y (%)
As of 3/31/2023

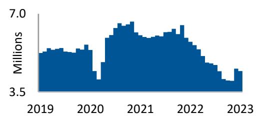
Latest Level	4.5
Change from Prior Period	▲ 1.6
Frequency	Quarterly



Housing

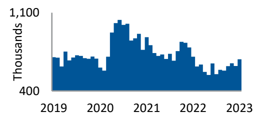
Existing Home Sales
As of 3/31/2023

Latest Level	4.4
Change from Prior Period	▼ (0.1)
Frequency	Monthly



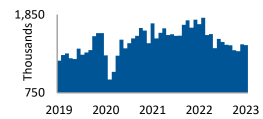
New Home Sales
As of 2/28/2023

Latest Level	683.0
Change from Prior Period	▲ 60.0
Frequency	Monthly



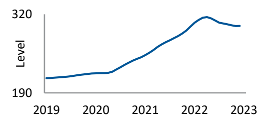
Housing Starts
As of 3/31/2023

Latest Level	1,420.0
Change from Prior Period	▼ (12.0)
Frequency	Monthly



Case-Shiller Index of Home Value in 20 Cities
As of 2/28/2023

Latest Level	300.7
Change from Prior Period	▲ 0.2
Frequency	Monthly



Note: All charts are based on a five-year trend.
Source: Bloomberg (All).

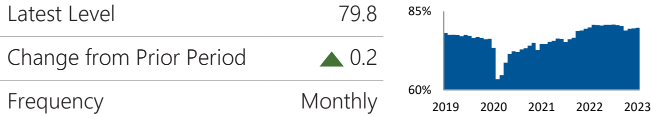
Return to Table of Contents

Economic Dashboard & Market Indices *(continued)*

Economic & Market Confidence

Capacity Utilization as a Percent of Capacity
As of 3/31/2023

Latest Level	79.8
Change from Prior Period	▲ 0.2
Frequency	Monthly

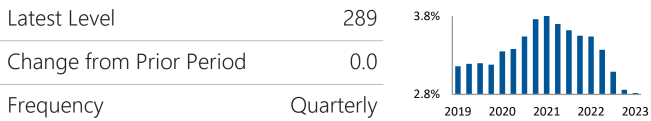


Private Fixed Investment Nonresidential SAAR
As of 3/31/2023

Latest Level	3,535.6
Change from Prior Period	▲ 65.1
Frequency	Quarterly

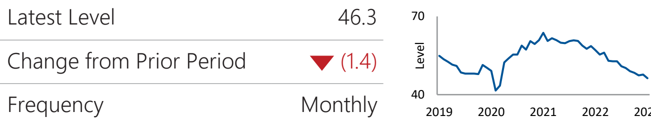
Residential Fixed Investment as a Percent of GDP
As of 3/31/2023

Latest Level	289
Change from Prior Period	0.0
Frequency	Quarterly



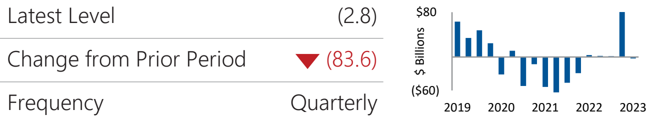
ISM Manufacturing Index
As of 3/31/2023

Latest Level	46.3
Change from Prior Period	▼ (1.4)
Frequency	Monthly



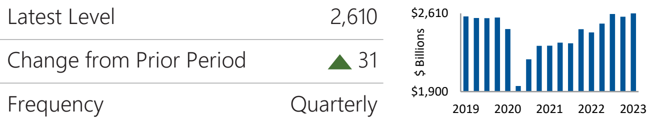
Manufacturing Inventory Change Q-o-Q ($)
As of 3/31/2023

Latest Level	(2.8)
Change from Prior Period	▼ (83.6)
Frequency	Quarterly



Exports of Goods/Services
As of 3/31/2023

Latest Level	2,610
Change from Prior Period	▲ 31
Frequency	Quarterly



Shipping Rates
As of 3/31/2023

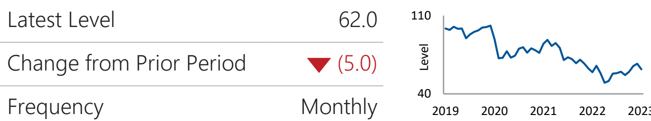
Latest Level	1,389
Change from Prior Period	▲ 399
Frequency	Quarterly

Personal Income Level
As of 2/28/2023

Latest Level	22,643
Change from Prior Period	▲ 73
Frequency	Monthly

Michigan Consumer Confidence Sentiment
As of 3/31/2023

Latest Level	62.0
Change from Prior Period	▼ (5.0)
Frequency	Monthly



Equity

U.S. Equity Markets—Russell 3000
As of 3/31/2023

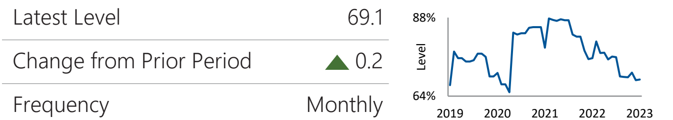
Latest Level	2,366.3
Change from Prior Period	▲ 57.9
Frequency	Monthly

U.S. Equity—VIX
As of 3/31/2023

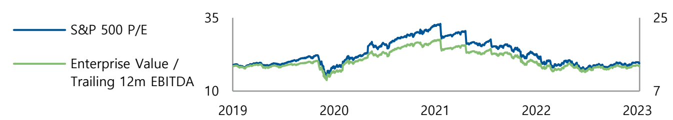
Latest Level	18.7
Change from Prior Period	▼ (2.0)
Frequency	Monthly

S&P 500 Percentage Exceeding Earning Estimates
As of 3/31/2023

Latest Level	69.1
Change from Prior Period	▲ 0.2
Frequency	Monthly



S&P 500 Historical Valuation Levels
As of 3/31/2023

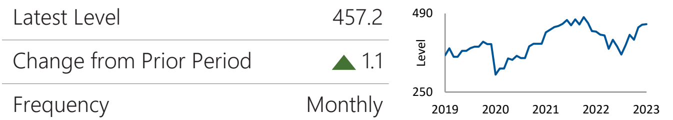


Trailing P/E on S&P 500
As of 3/31/2023

Latest Level	19.7
Change from Prior Period	▲ 0.7
Frequency	Monthly

Equity Markets—Euro Stoxx
As of 3/31/2023

Latest Level	457.2
Change from Prior Period	▲ 1.1
Frequency	Monthly

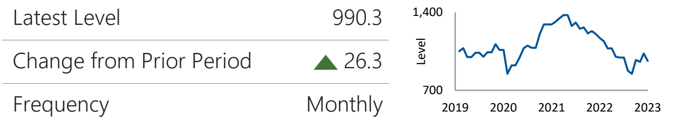


Equity Markets—MSCI EAFE
As of 3/31/2023

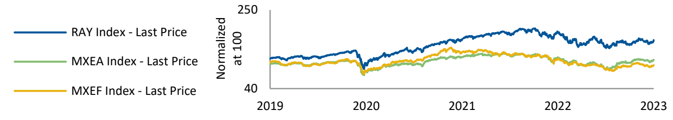
Latest Level	2,092.6
Change from Prior Period	▲ 38.9
Frequency	Monthly

Equity Markets—MSCI EM
As of 3/31/2023

Latest Level	990.3
Change from Prior Period	▲ 26.3
Frequency	Monthly



Russell 3000 & MSCI EAFE & MSCI EM
As of 3/31/2023



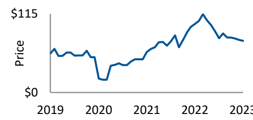
Note: All charts are based on a five-year trend.
Source: Bloomberg (All).

Return to Table of Contents

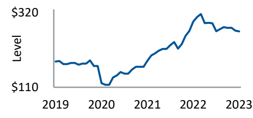
AG

Commodities

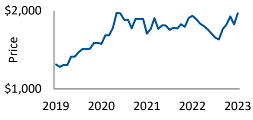
WTI Crude Oil Price	As of 3/31/2023
Latest Level	75.7
Change from Prior Period	▼ (1.4)
Frequency	Monthly



Reuters/Jefferies Commodity Index	As of 3/31/2023
Latest Level	267.7
Change from Prior Period	▼ (2.1)
Frequency	Monthly

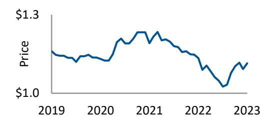


Gold	As of 3/31/2023
Latest Level	1,969.3
Change from Prior Period	▲ 142.4
Frequency	Monthly

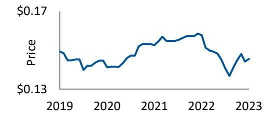


Foreign Exchange Rates

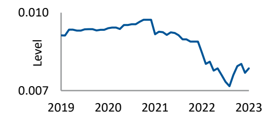
Euro Spot Rate vs. 1 USD	As of 3/31/2023
Latest Level	1.08
Change from Prior Period	▲ 0.03
Frequency	Monthly



Yuan Spot Rate vs. 1 USD	As of 3/31/2023
Latest Level	0.1455
Change from Prior Period	▲ 0.0013
Frequency	Monthly

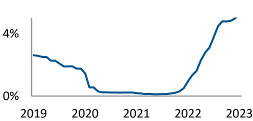


Yen Spot Rate vs. 1 USD	As of 3/31/2023
Latest Level	0.0075
Change from Prior Period	▲ 0.0002
Frequency	Monthly

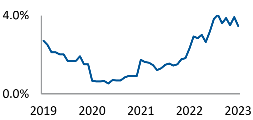


Rates

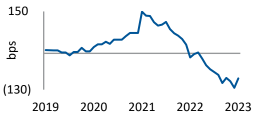
Libor 3M	As of 3/31/2023
Latest Level	5.19
Change from Prior Period	▲ 0.22
Frequency	Monthly



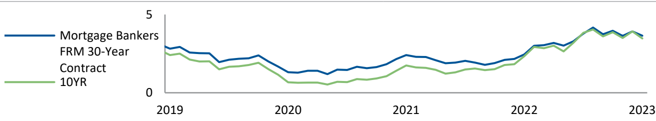
Treasury 10-Yr Yield	As of 3/31/2023
Latest Level	3.47
Change from Prior Period	▼ (0.45)
Frequency	Monthly



Swaps 2-Yr vs. 10-Yr	As of 3/31/2023
Latest Level	(89.39)
Change from Prior Period	▲ 33.77
Frequency	Monthly



30-Yr Mortgage & 10-Yr Treasury — As of 3/31/2023



Note: All charts are based on a five-year trend.
Source: Bloomberg (All).

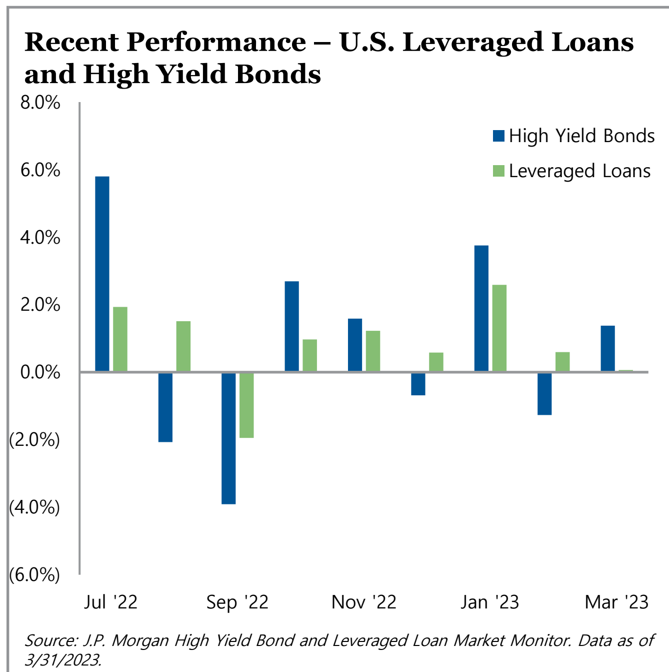
Performing Credit

Leveraged loan performance was strong in the first quarter of 2023. The J.P. Morgan U.S. Leveraged Loan Index posted a 3.1% return and ended the quarter with a yield of 9.4%. The index ended the quarter with a spread of 564 basis points, after reaching a peak spread of 591 basis points during the quarter. The weighted average price of the J.P. Morgan U.S. Leveraged Loan Index at the end of the quarter was $93.80. Continuing the trend observed in the fourth quarter of 2022, the yield on leveraged loans exceeded the yield on high yield bonds, with yields at 10.1% and 9.0%, respectively, at the end of March. In our view, the high average coupon for leveraged loans makes the asset class well-positioned for investor inflows as we continue through 2023.

Issuance in the U.S. was fairly muted in the first quarter, with gross loan supply totaling $70 billion and net supply totaling $24.4 billion. This was largely the result of amend-and-extend deals dominating the primary market. We saw a relatively healthy amount of new issuance in February, though the eruption of turmoil in banking sector in March effectively put a halt to new issuance activities. In the first quarter, net CLO issuance totaled $31.7 billion, outpacing loan issuance and creating a supportive technical environment for leveraged loans against continued strong demand for yield products.

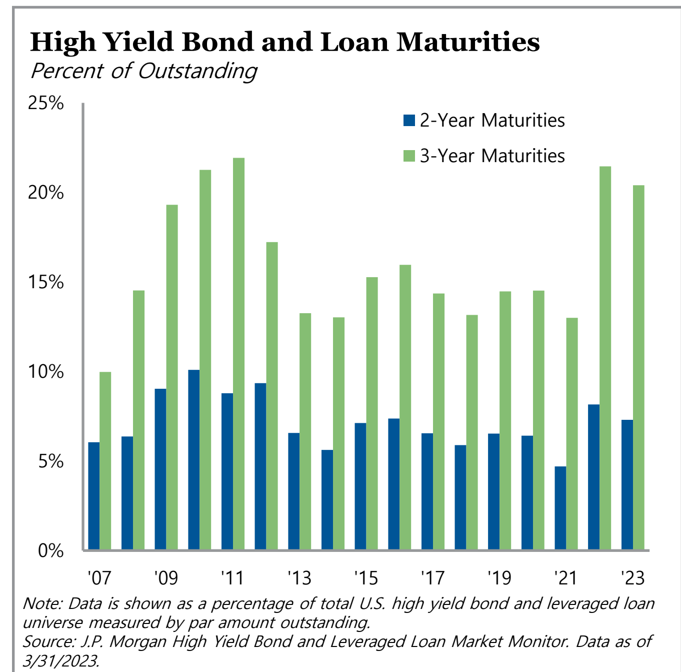
In Europe, the J.P. Morgan European Leveraged Loan Index posted a 3.8% quarterly return, ending the first quarter with a weighted average price of €92.90 and yield of 10.0%. Similar to the U.S., new loan issuance in Europe was muted during the first quarter of 2023, with €5.8 billion of new loans issued. Looking ahead, J.P. Morgan projects there will be €30 billion of total institutional loan issuance for fiscal year 2023.

The major theme we will be monitoring throughout 2023 is the impact rising rates will have on free cash flow. Thanks to the dramatic move in the base rate from 10 basis points in the first quarter of 2022 to approaching 500 basis points at the end of the first quarter of 2023, we expect cash flows for leveraged credits that did not hedge their floating rate debt will meaningfully decline. In this environment, we believe market participants will be closely monitoring corporate earnings and seeking to ensure issuers have adequate sources of liquidity to manage operations and drive earnings growth.



Source: J.P. Morgan High Yield Bond and Leveraged Loan Market Monitor. Data as of 3/31/2023.

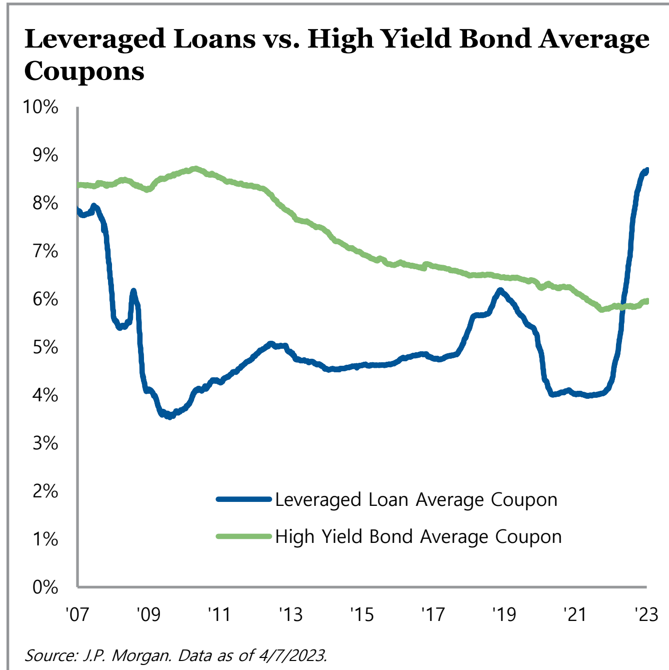
Loans have continued to show resilience in 2023, as the asset class has benefited from demand for floating assets, CLO demand, and solid issuer fundamentals.



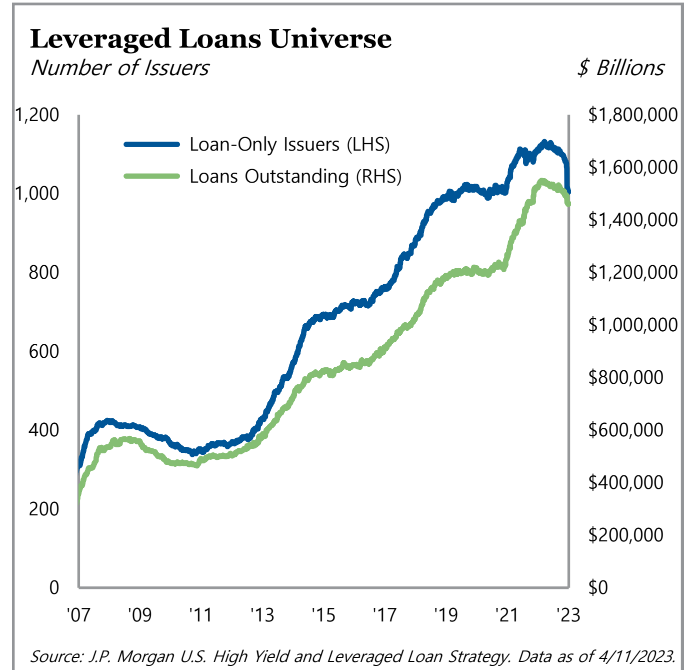
Note: Data is shown as a percentage of total U.S. high yield bond and leveraged loan universe measured by par amount outstanding.
Source: J.P. Morgan High Yield Bond and Leveraged Loan Market Monitor. Data as of 3/31/2023.

Near-term maturities are muted. We expect issuers will start needing to address their maturing liabilities in early 2024.

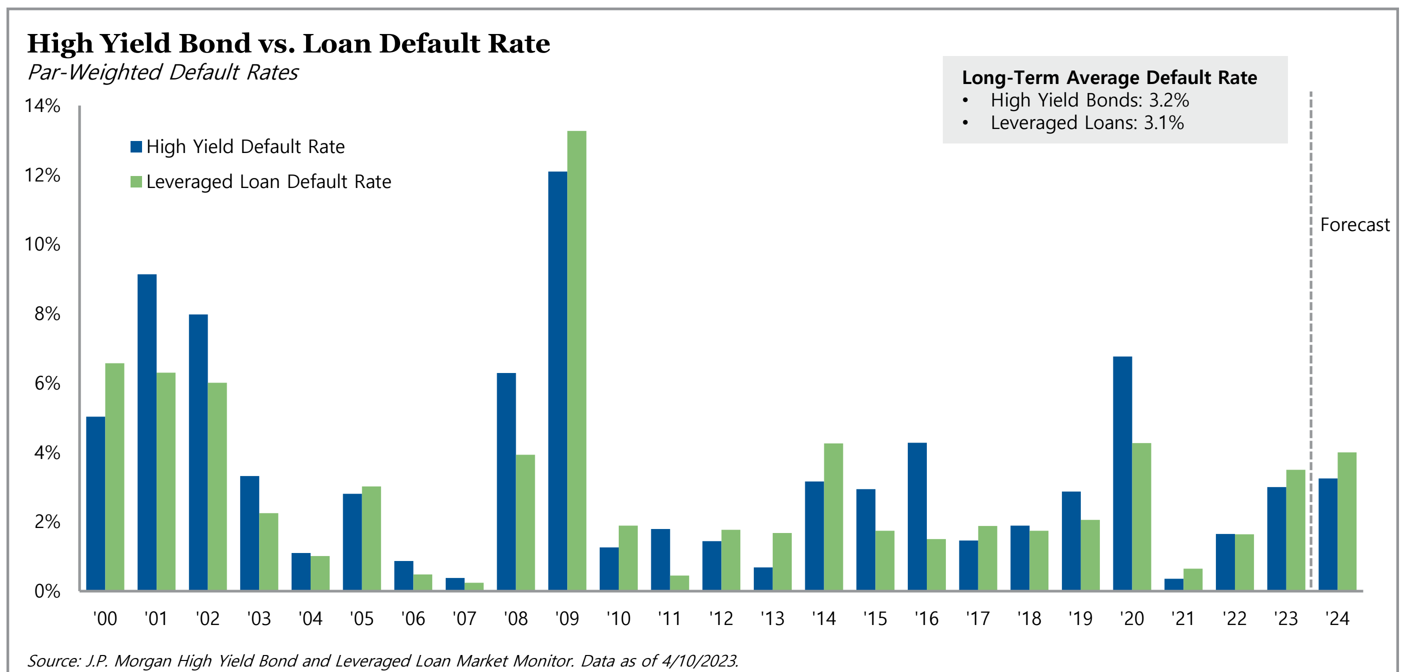
Performing Credit *(continued)*



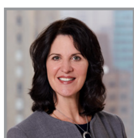
The average coupon for leveraged loans continued to exceed that of high yield bonds.



Despite muted new issuance, opportunity to add value abounds in the secondary market, as the size of the loan universe and the number of issuers has more than doubled post-GFC.



We expect default rates to rise for both loans and bonds, as most sell-side analysts expect 2023 default rates to hover around their long-term averages.



Maureen D'Alleva
Portfolio Manager

For more information on Performing Credit, click here.

High Yield Credit

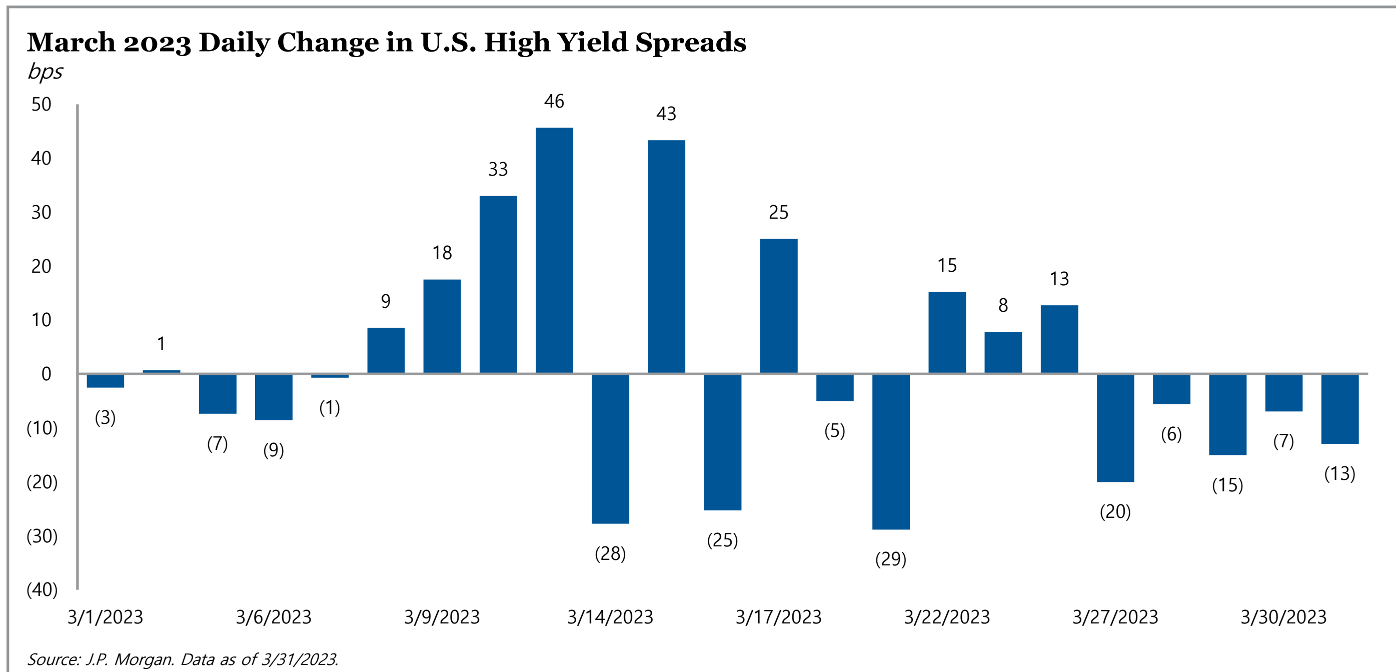
Following the strongest January start in high yield since 2019, improving macro trends reinvigorated hawkish sentiment, and turmoil in the banking sector and fears of broader systemic contagion led to elevated spread and rate volatility in February and March—ultimately contributing to a positive but highly turbulent first quarter of 2023. U.S. high yield bonds gained 3.84% and euro-currency high yield markets rose 3.26% for the three-month period ended March 31, 2023.

Although U.S. high yield bond spreads tightened 11 basis points over the first quarter, they compressed below 440 basis points in early February and then peaked in the 560-basis-point range in mid-March before settling at 499 basis points by the end of March. Similarly in Europe, spreads tightened 15 basis points over the three-month period to close the quarter at 567 basis points, though there were 160 basis points between the high and low points recorded during the period. High yield yields also varied during the quarter in reaction to rapidly changing rates across the Treasury curve. In the U.S., despite BB-rated bonds outperforming CCCs by approximately 364 basis points in the month of March—returning 1.37% versus -1.21%, respectively—lower-quality bonds outperformed higher-rated bonds over the entirety of the first quarter, with returns of 5.0% for CCCs and 3.8% for BBs. In Europe, a 2.9% quarterly return for BBs exceeded the 1.5% gain of CCCs.

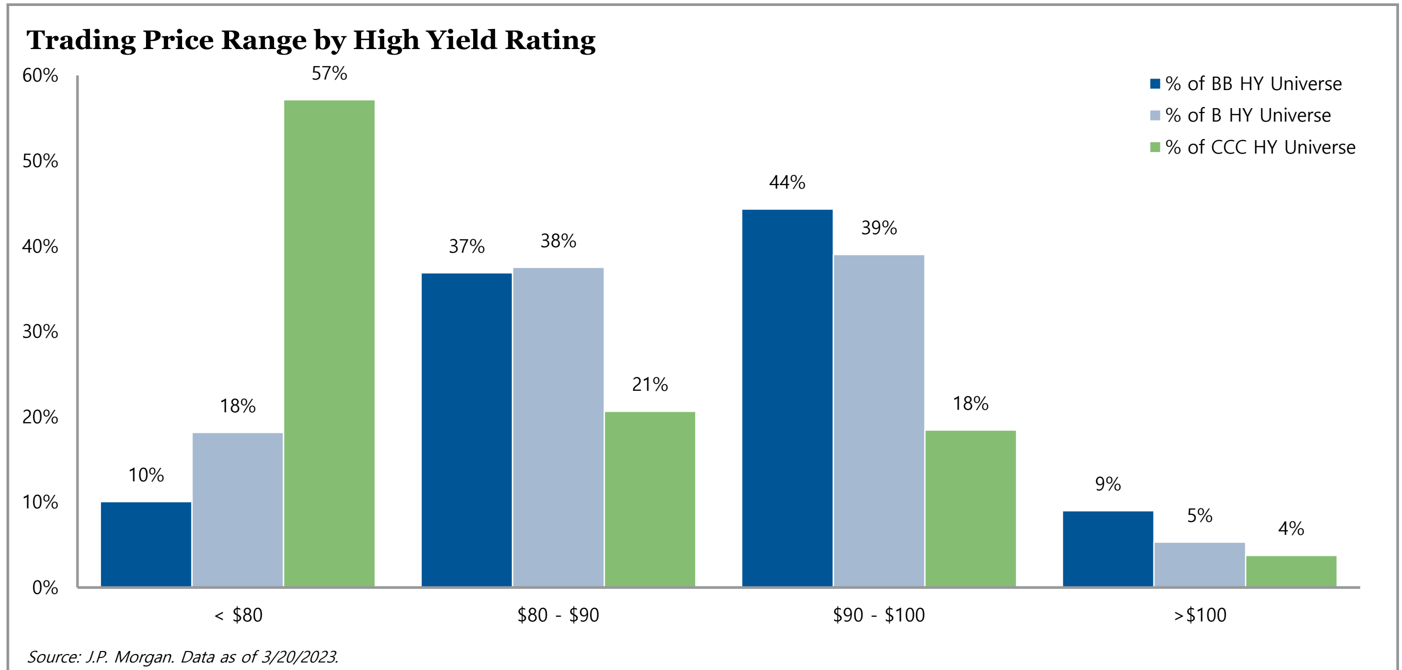
During the first quarter, 17 U.S. companies defaulted or completed a distressed exchange on a combined $21 billion of debt; this resulted in an increase in the 12-month trailing default rate from 1.65% to 1.91%, though the rate was still inside the 30-year historical average of 3.2%. In the same three-month period, the European high yield market experienced three defaults, with the default rate remaining steady at 0.4%.

After U.S. high yield primary activity totaled just $107 billion in 2022—the lightest annual amount since 2008—new issuance rebounded with approximately $35 billion of volume in the first two months of 2023. However, the pace declined significantly over the second half of the quarter amid rate volatility and fears of bank contagion. In Europe, high yield new issuance totaled €16.3 billion in the first quarter, which was the highest quarterly volume since the fourth quarter of 2021.

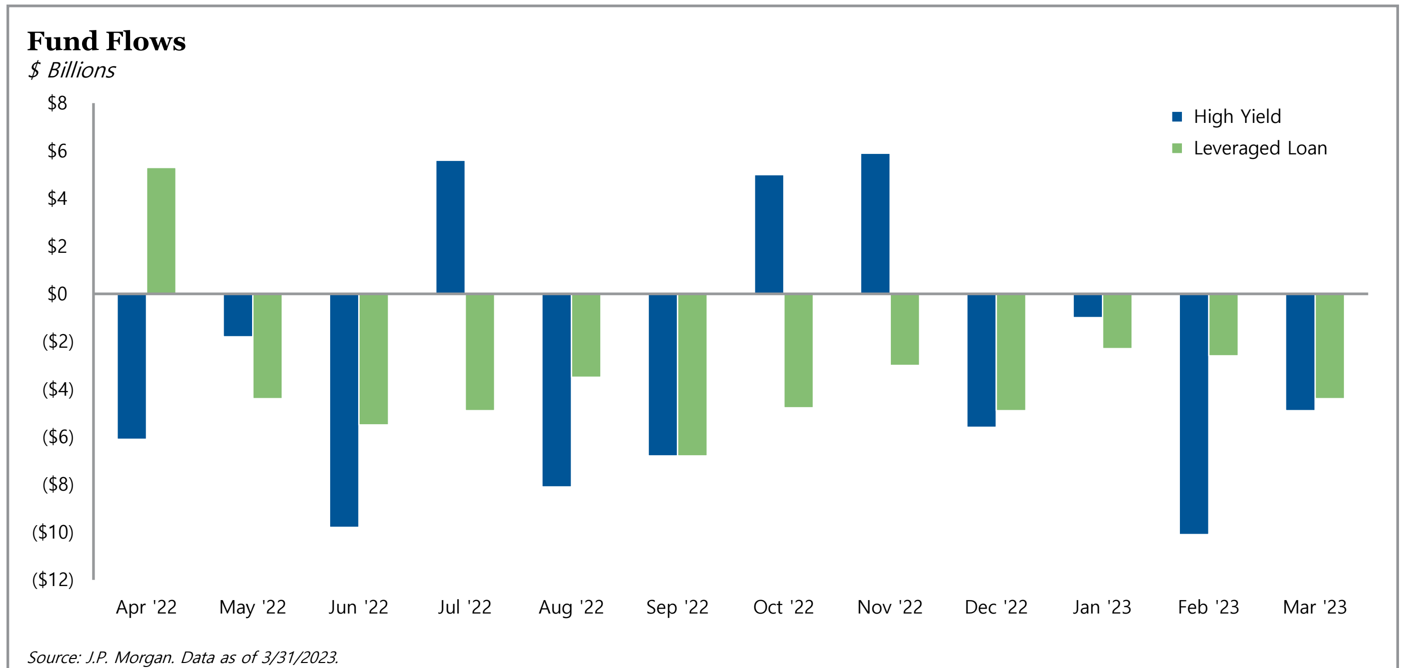
After a record $47 billion of outflows in 2022, U.S. high yield mutual funds experienced further net redemptions in each of the first three months of 2023, totaling $16 billion for the quarter and bringing the outflow tally to 12 of the past 15 months. Conversely in Europe, high yield funds experienced inflows of €617 million during the first quarter, though at one point in March, year-to-date inflows peaked at more than €1.5 billion before reversing sharply in reaction to market volatility.



There was significant volatility in U.S. high yield in Q1 2023, highlighted by the daily change in spreads-to-worst during March.



Over 55% of the B-rated universe and nearly 80% of the CCC-rated universe traded below a $90 price.



Both high yield bond and leveraged loan funds have experienced significant outflows over the past 12 months.

Ryan Mollett
Global Head of Distressed &
Corporate Special Situations

For more information on Distressed Debt, click here.

Structured Credit: RMBS

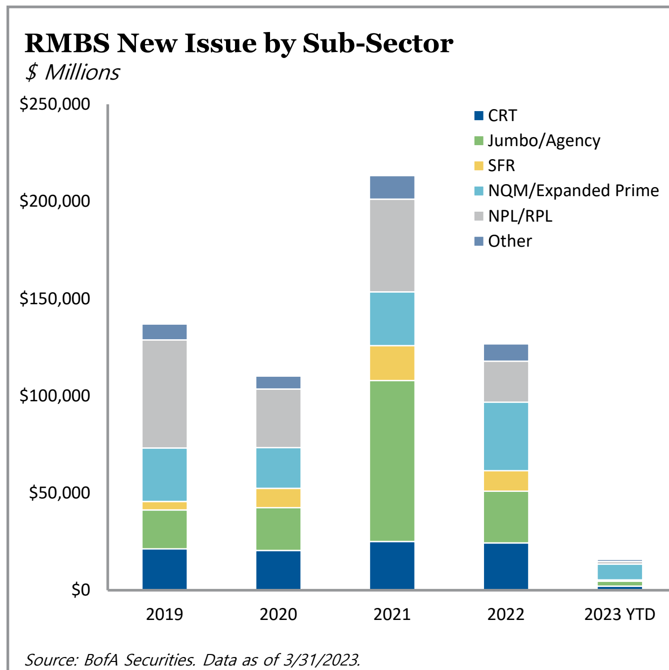
After narrowing in January and February, spreads for securitized residential debt sectors widened in March, resulting in flat-to-tighter spreads during the first quarter of 2023. Credit risk transfer (CRT) tranches tightened by up to 60 basis points, led by the bottom of the capital stack. Senior and mezzanine non-qualified mortgage (NQM) spreads were volatile but roughly unchanged, and legacy RMBS spreads ended the quarter approximately 30 basis points tighter. Compared to the first quarter of 2022, RMBS spreads were considerably wider—particularly at the bottom of the capital stack, where spreads were as much as 200 basis points wider year-over-year.

Quarterly new issuance more than doubled to $15.9 billion—up from $7.1 billion in the fourth quarter of 2022—with CRT, NQM and jumbo contributing to the rise. However, issuance fell sharply year-over-year, down from $54.6 billion in the first quarter of 2022. Several factors have limited new issue activity, including persistently wide spreads, higher mortgage rates, and generally muted housing activity. Sell-side analysts expect full-year 2023 issuance to be between $60-110 billion, down from $127 billion in 2022 and $213 billion in 2021.

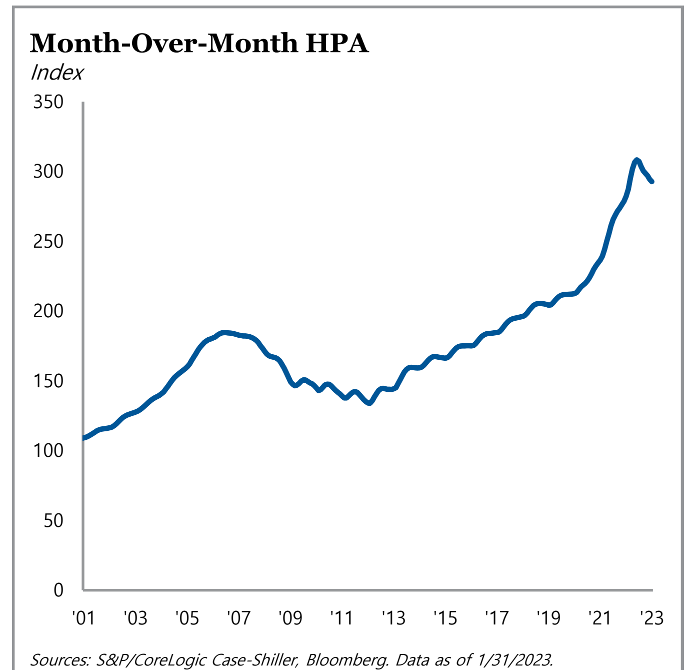
Monthly home price readings have remained negative since reaching a peak in June of last year. The January reading of the S&P/CoreLogic Case-Shiller Index was down 0.55% on a non-seasonally adjusted basis; this most recent reading marked the seventh consecutive month of falling prices, bringing national home prices to approximately 5% below their peak. We expect home prices will continue to fall on reduced affordability and increasing supply in certain areas, though overall supply still remains constrained. Our underwriting currently assumes national home prices will record a peak-to-trough decline of 20% and gradually recover to a long-term annual rate of +3% thereafter; however, recent home price data has been more encouraging than our current outlook suggests.

Mortgage rates ended the first quarter around 6.2%, down from the post-global financial crisis (GFC) peak of 7.1% recorded in October 2022. Housing activity modestly benefitted from the rally in mortgage rates, which at times dipped below 6%. Tight existing home inventory began to thaw in the second half of 2022, but has since stalled, remaining below one million homes for a third consecutive month in February. Furthermore, Realtor.com estimates new listings are 20% lower year-over-year and at the lowest level since 2017.

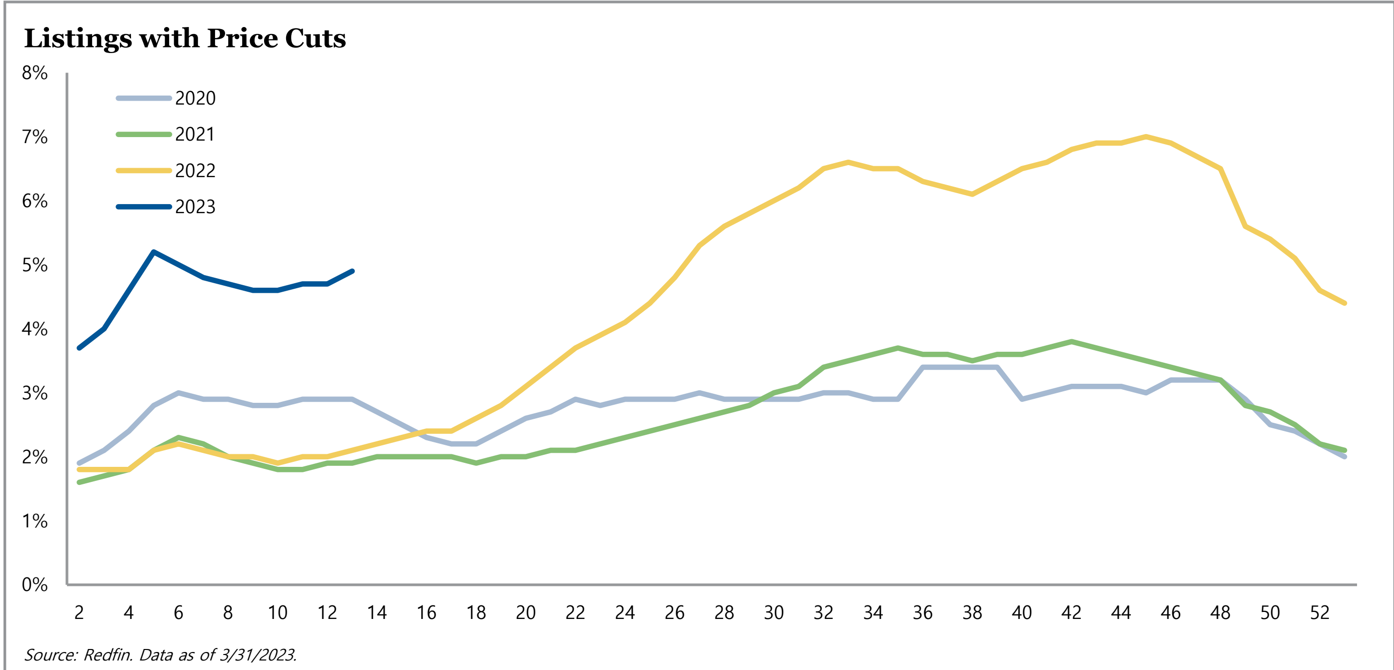
While tight home supply has supported national home prices, home ownership affordability is at a record low—largely due to the rise in prevailing mortgage rates alongside the rise in home prices. Compared to similar historical periods, pricing power is still weak: The average sale-to-list ratio remains under 1x, the percentage of active listings with price cuts is higher at 5%, and the share of listings going off market within two weeks is lower.



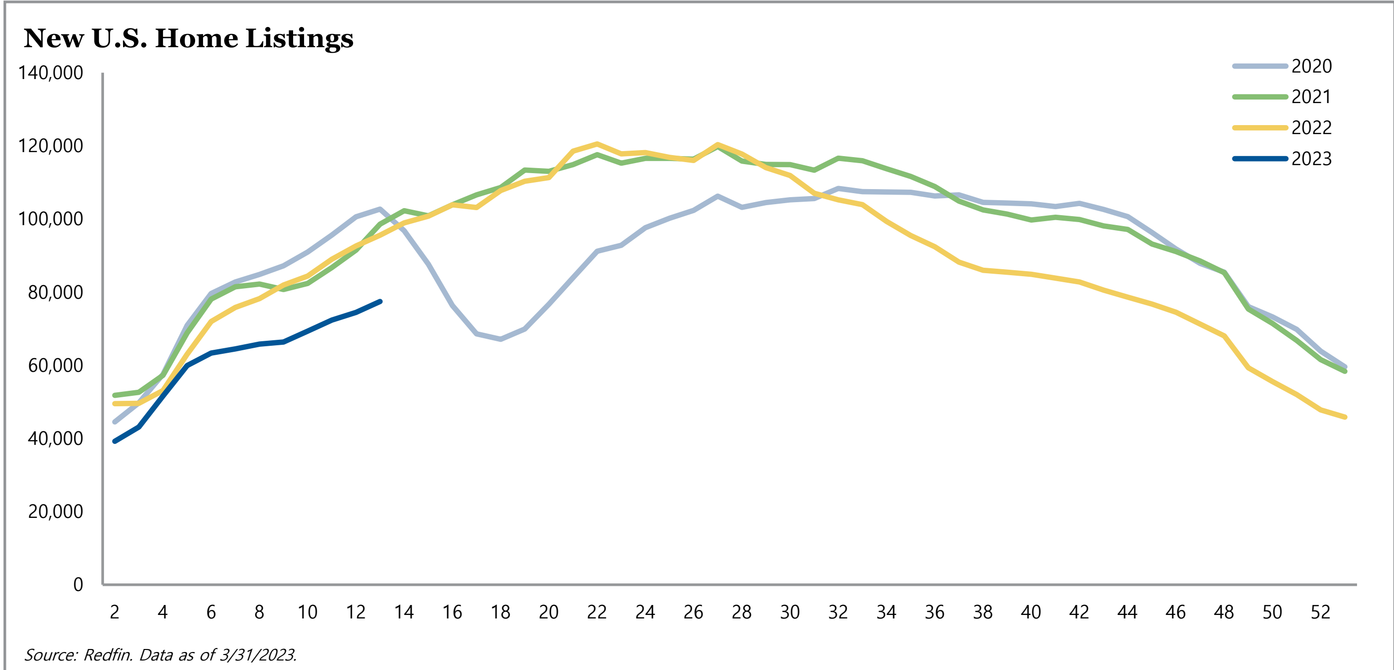
Muted housing activity has limited RMBS new issuance.



National home prices were around 5% lower than their peak.



At 5% as of the end of Q1, the frequency of price cuts has outpaced prior years.



In Q1 2023, new listings were 20% lower year-over-year.

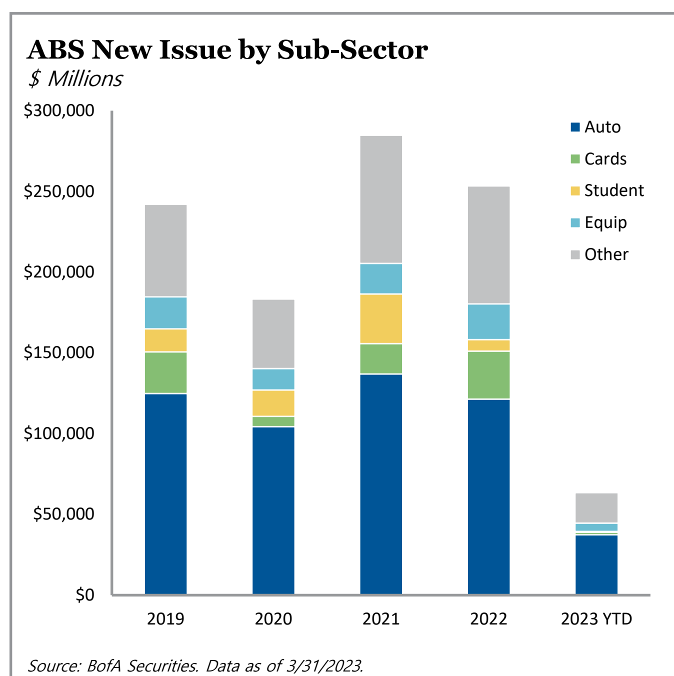
Structured Credit: ABS

After narrowing in January and February, ABS spreads widened in March and ended the first quarter of 2023 mixed overall. A-rated credit card ABS spreads were generally 15-20 basis points wider at quarter-end, while BBB-rated private credit student loan ABS spreads widened by 10 basis points. Conversely, FFELP student loan ABS spreads were 15 basis points tighter. Single-A and BBB-rated subprime auto ABS spreads were sharply tighter—by 45 and 95 basis points, respectively—driven by better-than-expected new issue subscription levels earlier in the quarter. BB-rated consumer loans tightened approximately 60 basis points to a spread of 740+ basis points at quarter-end. With that said, ABS spreads were generally wider compared to the first quarter of 2022.

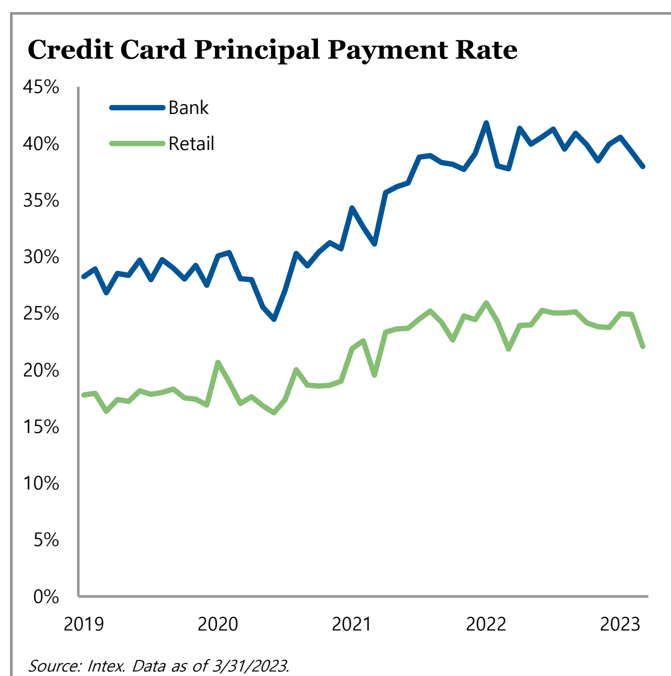
Primary ABS issuance activity totaled $63 billion in the first quarter, down approximately 9% year-over-year but up 27% quarter-over-quarter. Elevated auto and esoteric ABS issuance contributed to the quarterly increase. Auto ABS deals that were postponed in 2022 have resurfaced in the securitization pipeline for 2023, resulting in a busy issuance calendar for this sector. Sell-side analysts generally expect full-year 2023 issuance to hover around $230 billion, down from $253 billion last year and $285 billion in 2021.

We have cited weakness in unsecured consumer and subprime auto loans in prior quarterly commentary, but in the first quarter of 2023, tax refunds provided a seasonal lift to broad measures of consumer debt performance. That said, the seasonal improvement in auto loan performance was less impressive than that of prior years, leading us to believe these sectors will continue to underperform after the positive impacts of tax refunds wane. On the other hand, credit cards continued to demonstrate stable and resilient performance, with range-bound payment rates and delinquency rates that remained well below pre-pandemic levels. Student loan performance was more mixed; prepayments slowed and the seasonal decline in delinquencies was smaller than expected, but the decline in defaults exceeded seasonal norms. Legacy private credit student loans continued to generate ample recovery proceeds but saw slower prepayments and higher defaults.

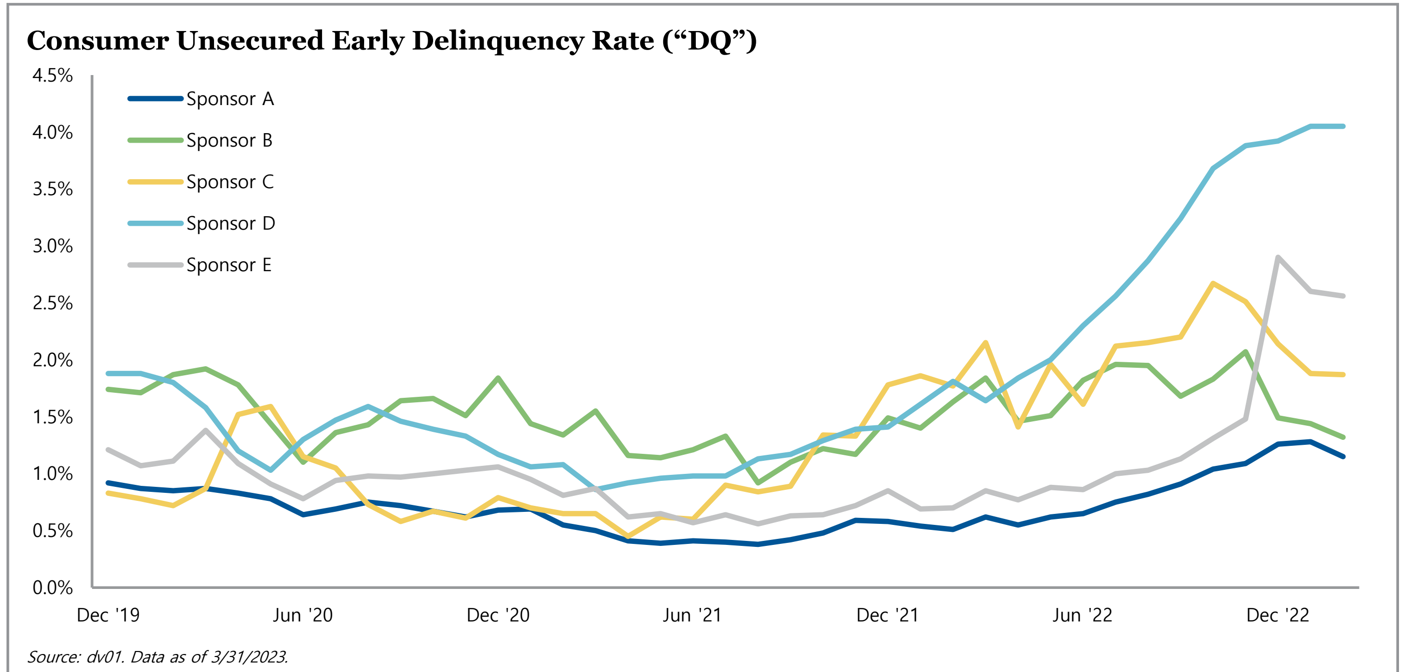
The ABS market, and structured credit markets more broadly, were well-behaved following the regional bank dislocation in March. Although spreads widened slightly in March, there was not a rush of forced sellers flushing holdings at distressed prices, and a lack of new issue supply appeared to further support secondary spreads. In the week following quarter-end, securitization sponsors slowly returned to the primary market, and spreads were moderately tighter across markets.



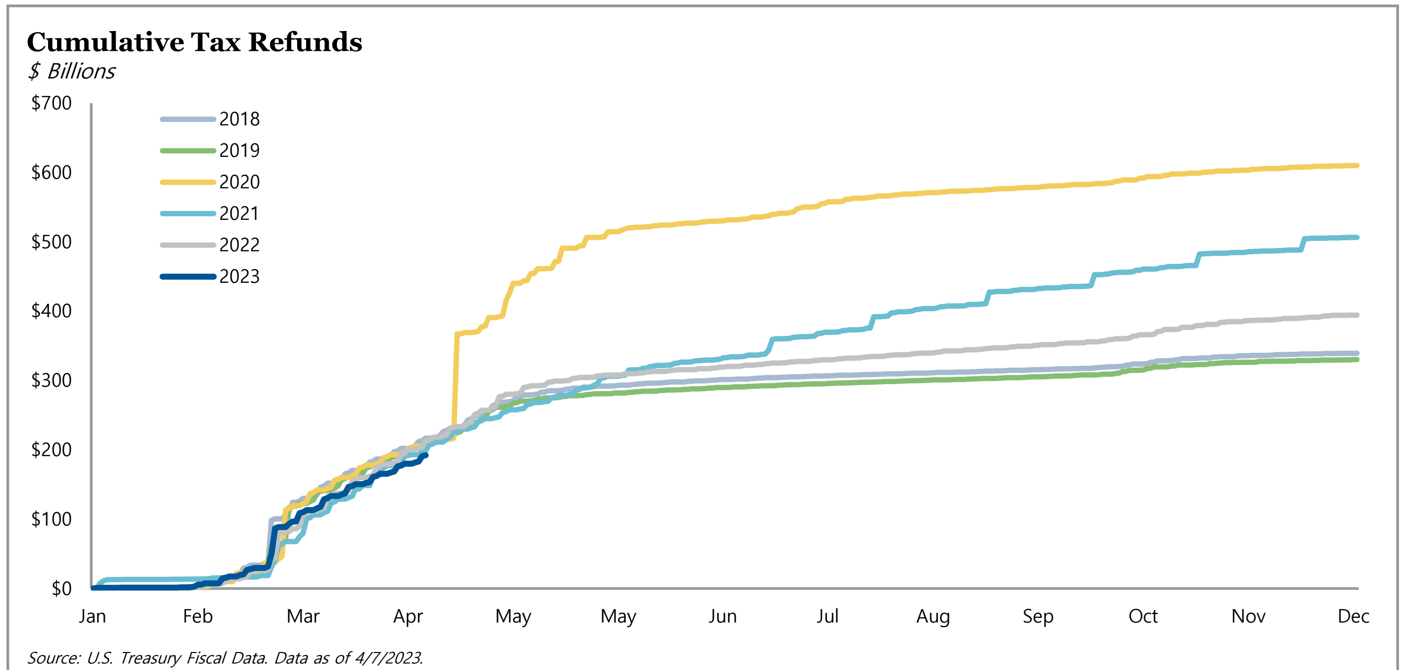
ABS issuance rose sequentially in Q1 but is a little lower than year-ago levels.



Credit card principal payment rates remained stable.



Unsecured DQs stabilized slightly, likely due to seasonal effects.



Tax refunds are providing a seasonal lift to consumer fundamentals but are running a little behind previous years.

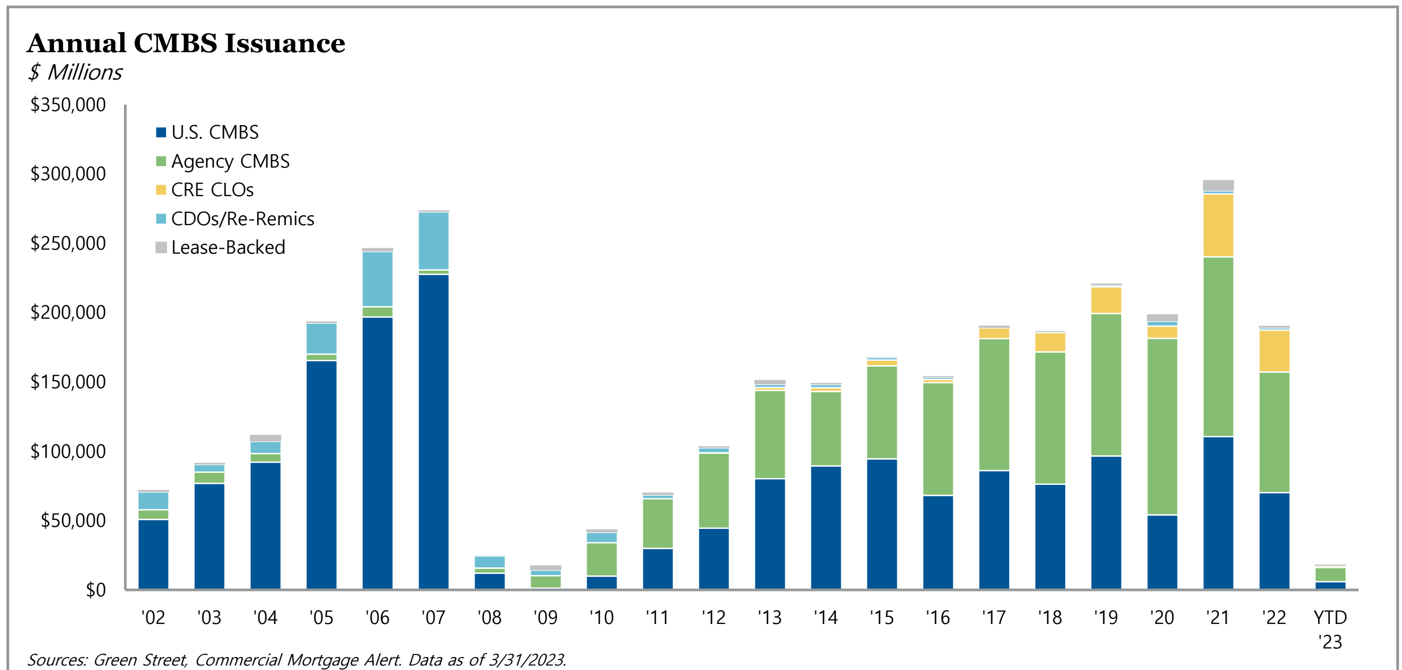
Structured Credit: CMBS

In the first quarter, the commercial real estate market was rattled by rate volatility and a large number of high-profile property owners defaulting on their mortgages, especially in the office sector. The RCA CPPI National All-Property Index reported a year-over-year decline of 8.0% in the first quarter of 2023, including a year-over-year decline of 10.3% in the previously highly regarded multifamily sector—price declines not witnessed since 2010. However, since late March, there have been some positive developments. First, concerns about the overall health of the U.S. banking system subsided after the federal government quickly implemented emergency measures to stabilize markets. The yield on the 10-year Treasury bill has returned to around 3.5%—where it started the year—as inflation appears to be easing. Lastly, tightening lending standards are expected to help mitigate inflationary pressures.

In commercial real estate, a challenging financing market was made more difficult by stresses in the banking system. Banks hold approximately 40% of U.S. commercial real estate loans, with small and regional banks representing 70% of that total. New CMBS transactions are still being priced, but volumes are a fraction of what they were in previous years. Property price discovery is murky, as sales in this environment tend to be episodic and forced in nature.

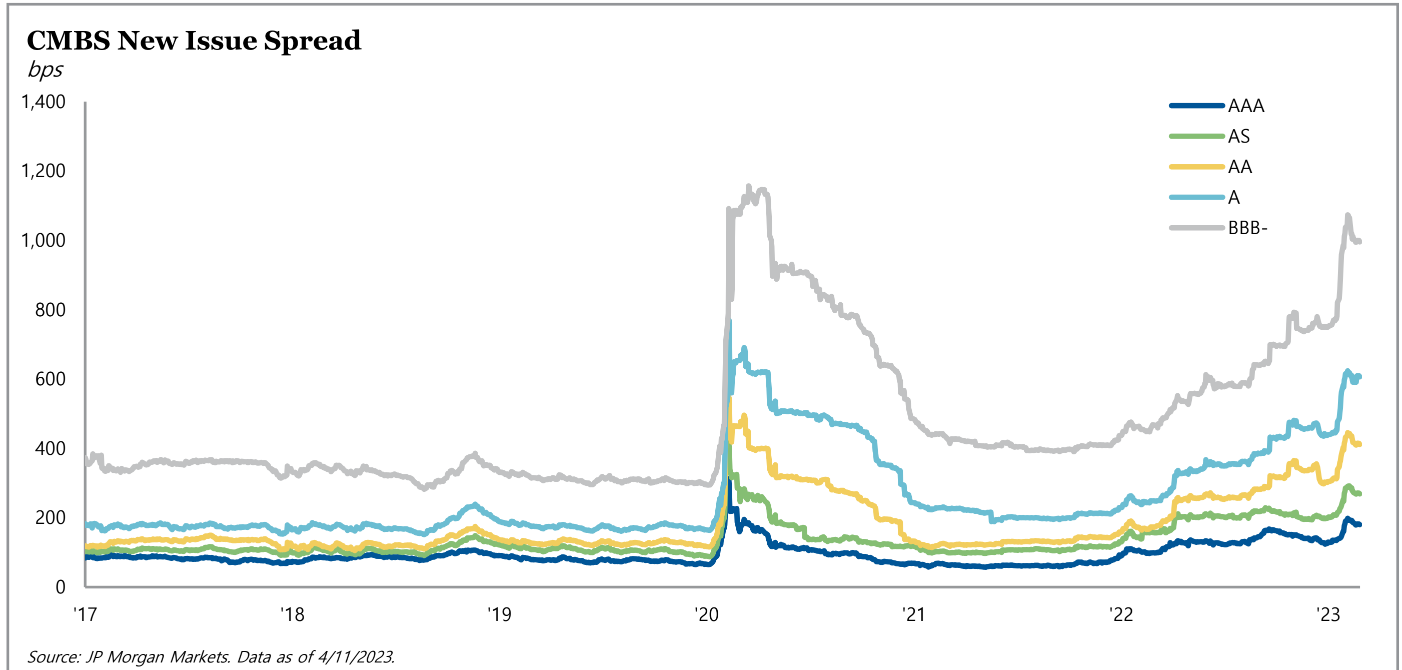
Post-GFC conduit deals are diversified pools with average overall exposure to office properties of approximately 27%; this number grows to 32% with a 50% weighting for assets classified as mixed-use. The overall CMBS delinquency rate ended the first quarter at just 3.09%—only slightly higher than the third and fourth quarters of 2022, and down more than 50 basis points year-over-year. The conduit loan refinance success rate stands at 78% on a trailing six-month basis.

CMBS special servicers have wide discretion when it comes to how they deal with defaulted loans. Borrowers that want to hang on to assets and are willing to put some additional capital at risk are likely to get the opportunity to do so. Negative developments can take place at the individual property-level, but loans underwritten post-GFC have an average LTV of approximately 65%—a far cry from the 90% LTV loans that were securitized pre-GFC. Additionally, recent conduit CMBS capital structures are more resilient than those issued pre-2009, as deals that were originally rated investment grade now typically need to experience seven-plus percentage points of loss to take an impairment—in contrast to less than four percentage points in comparable legacy CMBS deals. To put losses of that magnitude in historical context, since the inception of this asset class in 2000, cumulative defaults have totaled 19.7%, while cumulative losses amount to just 5.1%. These numbers include the aggressively underwritten 2006-2008 vintages, where average realized losses exceeded 10%.

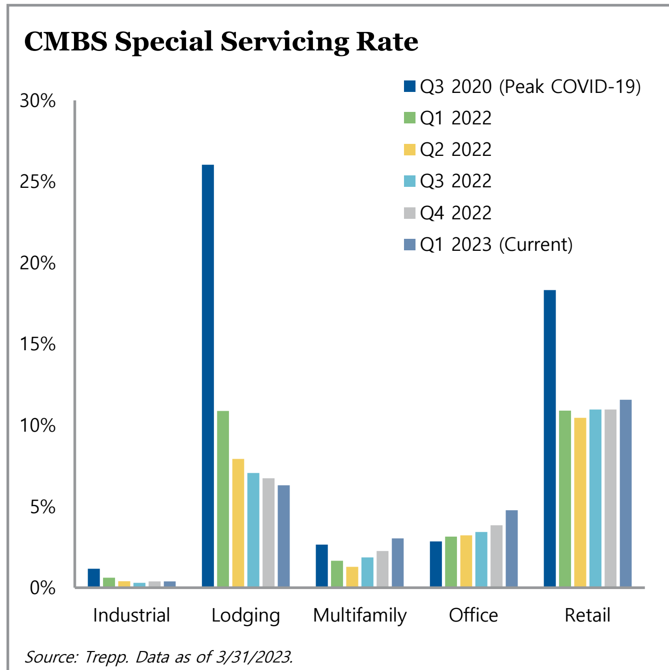


Sources: Green Street, Commercial Mortgage Alert. Data as of 3/31/2023.

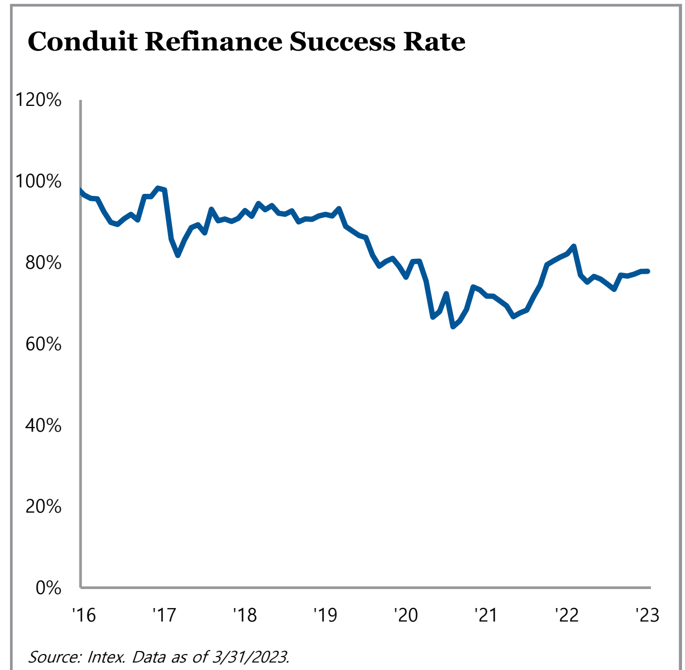
While 2022 issuance volumes were consistent with historical averages, high interest rates and low transaction volumes are likely to result in limited new issuance in 2023.



CMBS spreads gapped wider in February and March, approaching levels last seen at the peak of the COVID-19 panic.



The percentage of CMBS loans in special servicing increased by 38 basis points in the first quarter, with office, retail, and multifamily assets all showing increases during the period.



The percentage of CMBS loans repaying their stated maturity date remains healthy but is expected to decline in the second half of the year.

TJ Durkin
Head of Structured Credit

Yong Joe
Co-Portfolio Manager, Structured Credit

Andrew Solomon
Portfolio Manager, Commercial Real Estate Debt

For more information on Structured Credit, click here.

Middle Market Direct Lending

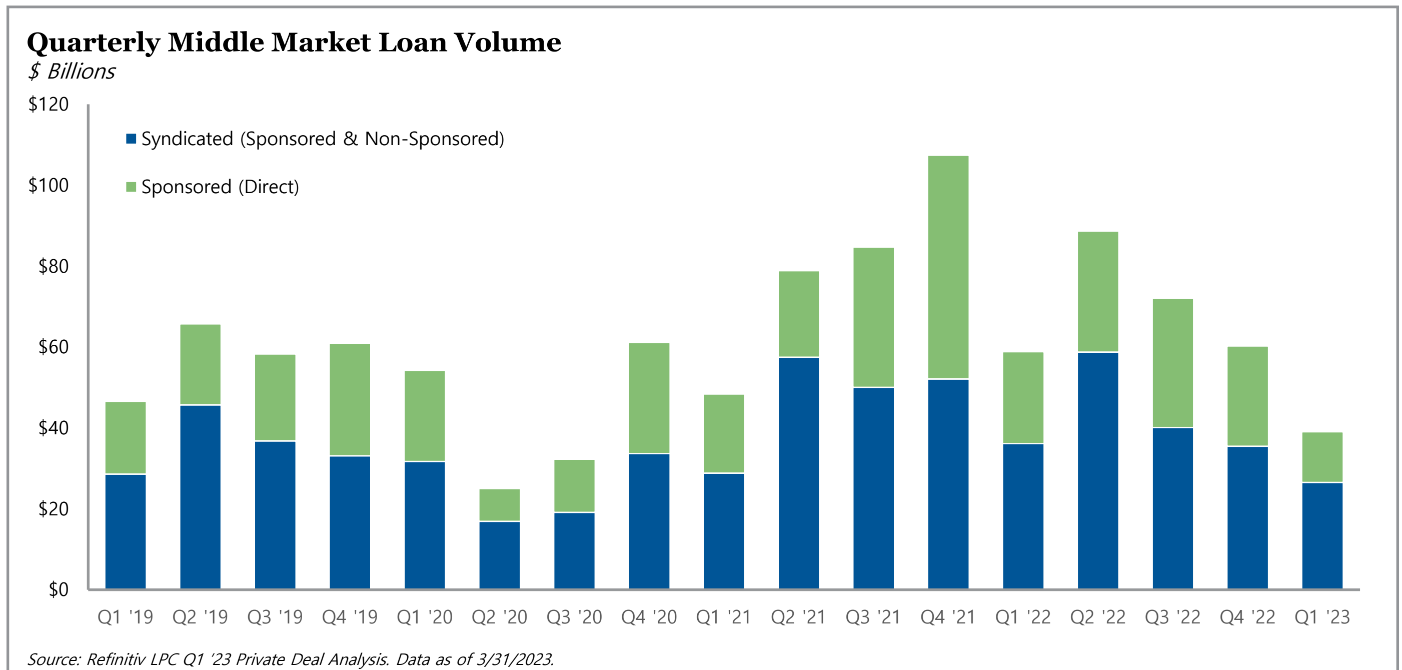
Sponsored middle market volume, including direct and syndicated activity, totaled $19 billion in the first quarter of 2023—down 39% quarter-over-quarter and 40% year-over-year. Direct lending volume fell to $12.5 billion, its lowest quarterly level since the second quarter of 2020. While deal volume decreased due to seasonality as well as slow M&A and LBO activity—down 48% and 33% year-over-year, respectively—private credit continued to hold market share. The volume of leveraged buyouts financed in the direct lending market was 4.7x higher than the volume of syndicated leveraged buyouts in the first quarter of 2023—the third-largest quarterly difference between the two segments thus far, according to Refinitiv. In the first quarter, LBO activity continued to represent the majority of capital deployed at 51% of total volume, with the preceding three quarters ranging from 45% to 65% of overall activity.

Middle market direct lending terms continued to favor lenders, offering attractive risk-adjusted returns driven by elevated all-in-yields; as of quarter-end, the SOFR Index was at 4.91%, spreads were wider, and leverage levels were generally lower. Average yields in the lower middle market reached 12.1%, a 510-basis-point increase from the first quarter of 2022. In contrast, broadly syndicated loan yields tightened slightly to 9.46% in the first quarter of 2023, widening the middle market yield premium. Excluding unitranche loans—which shed one basis point—spreads widened across the board in the first quarter, albeit at a slower pace, implying that spreads may be flattening. Spreads for lower middle market loans rose 21 basis points from year-end 2022, reaching 638 basis points.

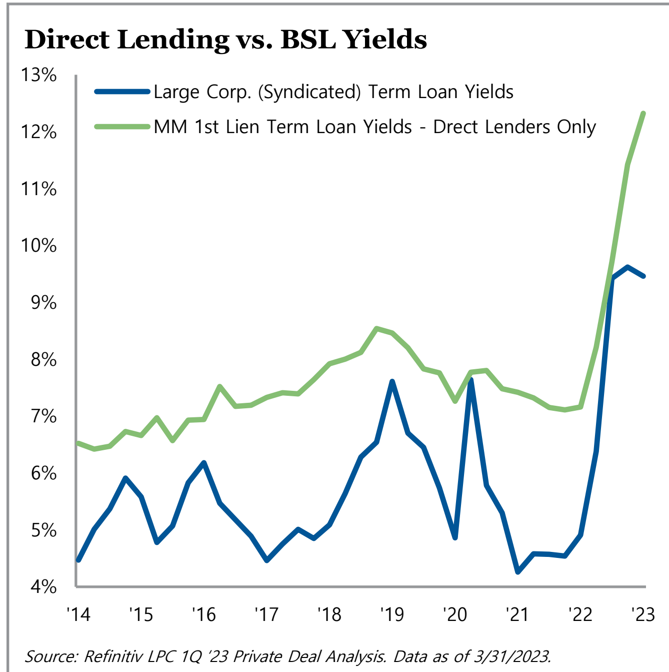
Leverage profiles declined across companies of all sizes in the first quarter. Total leverage levels on middle market sponsored deals tightened to 4.4x EBITDA, the lowest level since the fourth quarter of 2016; this also marks the fourth consecutive quarter leverage levels have tightened. The lower middle market continues to offer the lowest leverage multiples, ending the quarter at 4.2x on average, with the core and upper middle markets at 4.8x and 4.5x, respectively.

The annualized private credit default rate increased for the second straight quarter to 2.06%, up from 1.56% in the fourth quarter of 2022, representing a 50-basis-point increase. Prior to the third quarter of 2022, the default rate had largely trended downward since the 8.1% peak recorded in the second quarter of 2020. Default rates rose across the middle market universe, with the most significant increases driven by the manufacturing, consumer goods, and retail sectors.

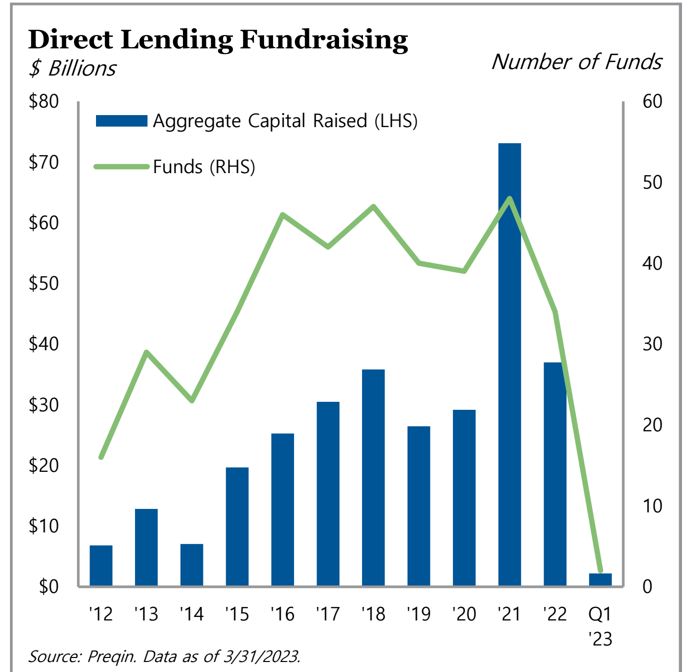
Fundraising activity in the U.S. direct lending market slowed in the first quarter of 2023, with only two funds closing with a total of $2.2 billion raised, compared to nine funds closing with a total of $15 billion raised in the first quarter of 2022. It is important, however, to keep in mind that 2021 was a record year followed by a strong start to 2022. The slower pace observed in the first quarter of 2023 appears to be a continuation of the normalization trend that began in the latter half of last year, and we believe interest in the asset class remains robust.



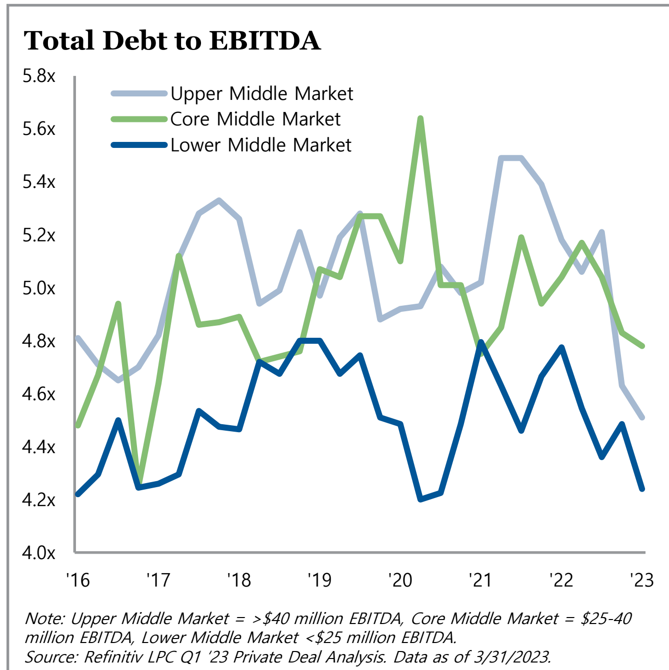
U.S. middle market loan volume totaled $39.1 billion in the first quarter of 2023, the lowest level since the third quarter of 2020.



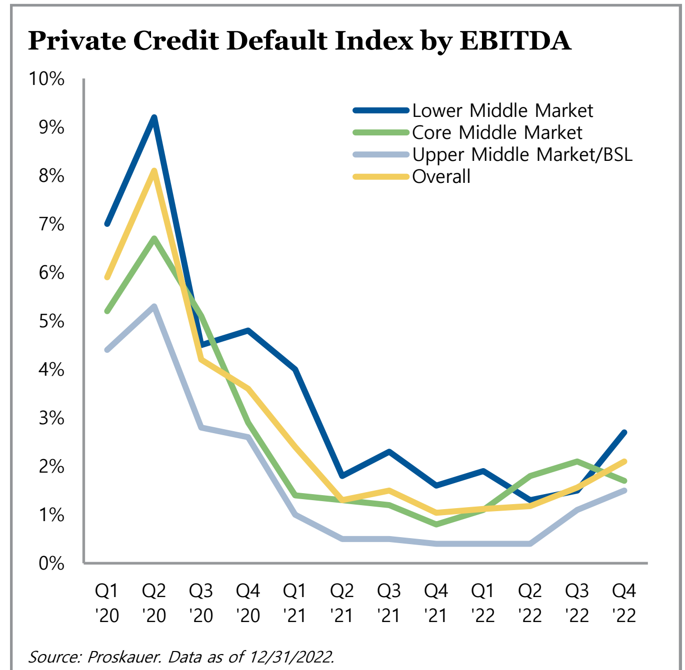
The direct lender yield premium over large corporate deals widened in Q1 2023.



Q1 2023 fundraising was well behind that of Q1 2022, at $2.2 billion compared to $15 billion.



Across the sponsored middle market direct lending landscape, total leverage multiples are at the lowest level since the fourth quarter of 2016.



The annualized private credit default rate increased for the first time in 18 months; however, default rates have been trending downward since Q1 2020 and remain muted.

Trevor Clark
Portfolio Manager

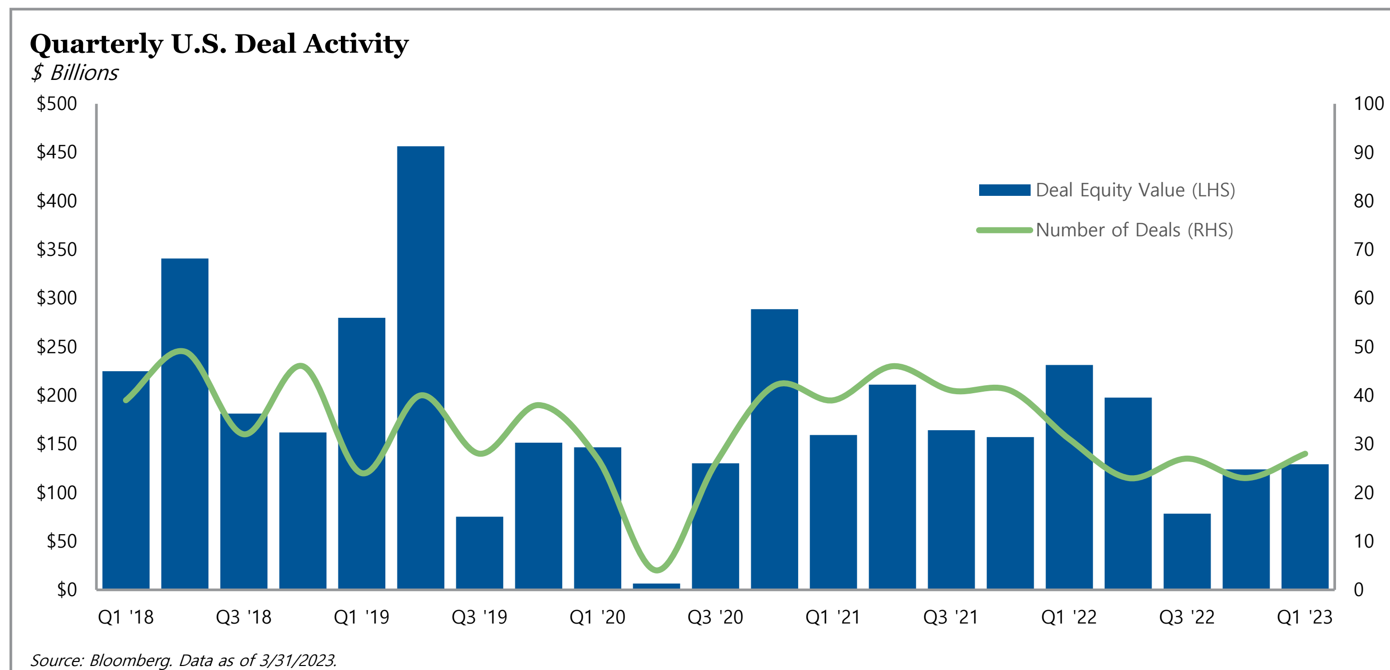
For more information on Middle Market Direct Lending, click here.

Merger Arbitrage

In the first quarter of 2023, U.S. M&A volume increased 4% quarter-over-quarter and deal count increased 22%. This dynamic highlights the shift toward midsize deals during the quarter, as banks were more selective in funding large-cap M&A while they continued working to reduce the number of hung LBO financings on their books from last year. Led by Pfizer Inc.'s $43 billion acquisition of Seagen Inc.—the largest deal of the quarter—healthcare was the most active sector, representing 46% of deal value. Private equity had another strong quarter, accounting for 30% of deal value, as the industry continued its steady pace of deploying dry powder. Four of the top ten deals announced during the quarter included a private equity firm as the majority buyer or seller, with Silver Lake's $12.5 billion acquisition of Qualtrics representing the largest LBO and the second-largest deal of the quarter.

For much of the quarter, spreads widened on investors' growing fear that regulators in the U.S. and Europe would block or delay a number of impactful deals. In early March, investors were dealt a surprise when U.S. banking regulators delayed TD Bank Group's purchase of First Horizon Corporation. Soon after, the failures of Silicon Valley Bank and Signature Bank caused a broader reevaluation of bank stocks and challenged the resolve of arbitrage investors. However, in late March, a string of deals cleared their respective regulatory approvals, including Rogers Communications Inc.'s acquisition of Shaw Communications Inc. and CVS Health's acquisitions of Signify Health and Oak Street Health. This quickly restored investor confidence, leaving many encouraged that regulators would follow well-founded precedents.

While the M&A outlook for the balance of 2023 largely remains consistent with what we described in last quarter's CMP report, the month-over-month growth in both deal volume and count during the first quarter was an encouraging sign. In fact, five of the top ten deals by value were announced in March, including the two largest deals of the quarter. Additionally, the aggregate value of investable deals increased to $372 billion, with an attractive unlevered average non-annualized spread of 12.3%.



U.S. deal activity grew sequentially in Q1; however, activity declined significantly year-over-year, as market participants continued to adjust to tighter financial conditions and an uncertain economic outlook.

Mark Wojtusiak
Head of Merger Arbitrage

For more information on Merger Arbitrage, click here.

Convertible Arbitrage

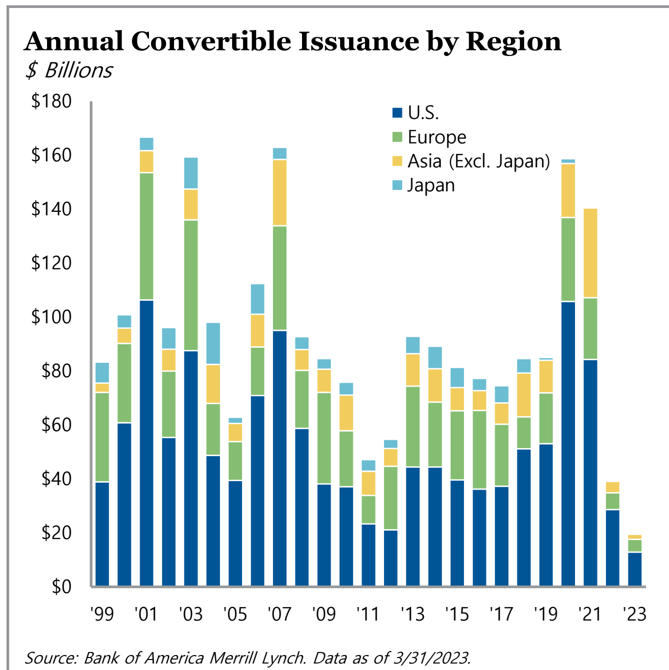
Volatility took center stage again, as asset prices—including those in the bond market—fluctuated dramatically during the first quarter of 2023. The collapse of Silicon Valley Bank and the rescue deal for Credit Suisse triggered broader concerns that the rapid pace of rising interest rates may have led to instability across the global financial system. A perceived banking crisis at a time when inflation remains persistently high introduced more uncertainty to the expected path of central bank policies. Remarkably, despite the apparent turmoil, most asset classes produced solid gains in the first quarter. Global equities rallied 6.96%, and corporate credit and government bonds advanced. Weakness was only felt in the energy sector and agricultural commodities.

Against this backdrop, convertible bonds performed well, gaining 3.24% on an outright basis in the first quarter. Convertible arbitrage strategies also managed to navigate this period and benefit from the volatile environment, returning 3.06%.

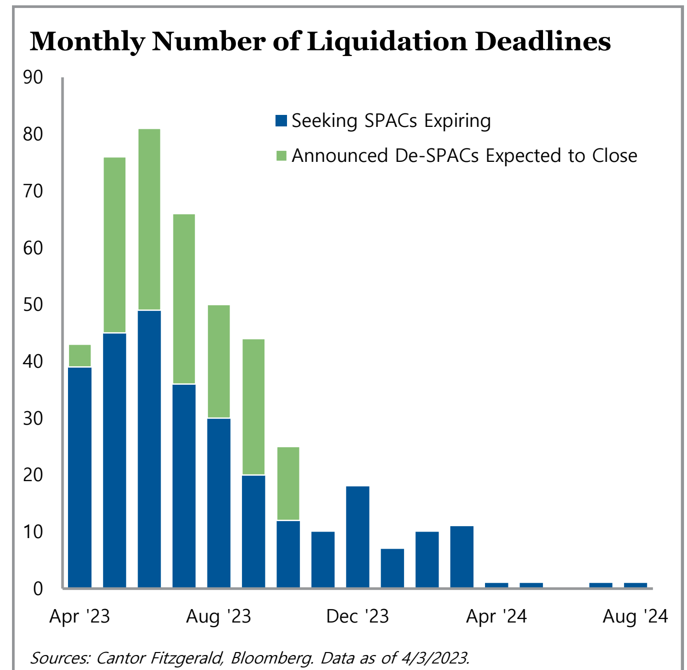
Convertible new issuance rebounded from last year's slow pace. Globally, $19.7 billion of new deals came to market during the first quarter of 2023, compared to just $7.9 billion during the same period in 2022. The U.S. and Europe were the most active regions, respectively accounting for $12.9 billion and $4.7 billion of issuance. Historically, the primary market has largely consisted of lower credit quality, high-growth technology sector issuers; however, we have recently witnessed increased issuer and sector diversity, with higher credit quality and larger market capitalization issuers beginning to dominate.

In the global SPAC market, new issues and business combination deals remained largely absent. Investor focus continued to be on evaluating trust and escrow account balances, treating redeemable SPAC shares as short-dated yield instruments that could offer appealing low-risk returns.

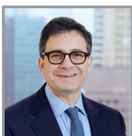
Looking ahead, we believe the overall market environment and macro backdrop should support volatility and be conducive to convertible arbitrage investment strategies. We expect the convertible primary pipeline will be an ongoing source of attractive opportunities for convertible market participants, and in our view, supplementing this with a diversified portfolio of SPAC yields appears sensible.



In Q1 2023, convertible new issuance rebounded from last year's slow pace.



A substantial portion of the current SPAC universe will have disappeared by the end of the summer.



Gary Wolf
Head of Convertible Arbitrage

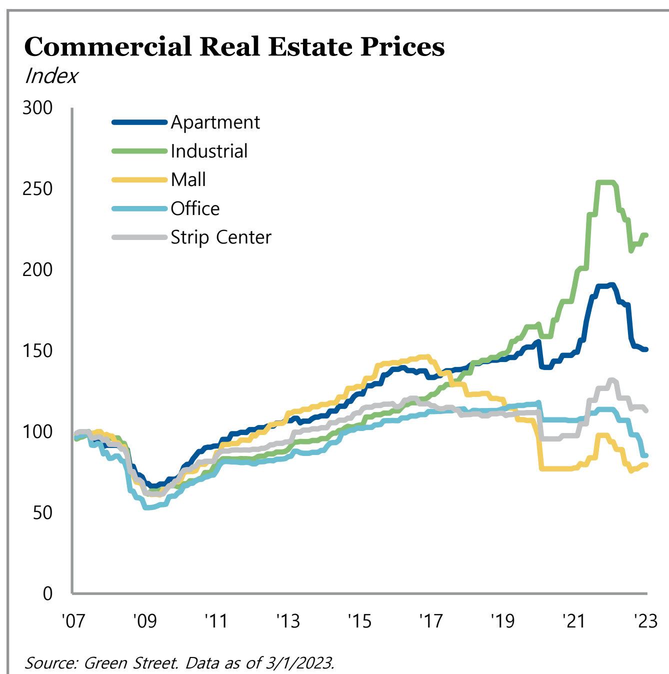
For more information on Convertible Arbitrage, click here.

U.S. Real Estate

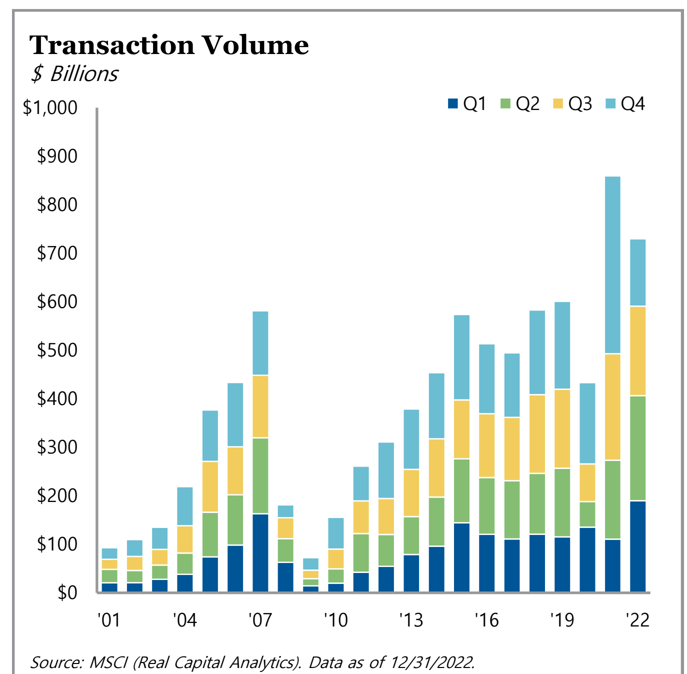
The first quarter of 2023 began with inflation remaining stubbornly high and the Fed telegraphing continued rate increases, causing market participants to rethink their forward rate expectations and wonder what might break in the system. In early March, the breaking point was reached when Silicon Valley Bank collapsed, which led to growing concerns about the health of regional and midsize banks. Signature Bank was the next to fall, followed by the rescue deal for Credit Suisse. During this time period, the bond market saw some of its largest moves in history, with the two-year Treasury yield experiencing the greatest three-day decline in over 30 years—after reaching a peak of over 5%—and the market's forward expectations for short-term rates resetting sharply lower. At the time of this writing, it seems that concerns about a systemic banking crisis have abated, but attention is turning to structural headwinds that regional and midsize banks face, including deposit flight to "global systemically important banks" and concern over credit issues in existing loan books, particularly commercial real estate loans.

All signs point to a sharp reduction in liquidity and credit availability for the real estate markets. Money center banks had already started tightening credit availability in response to regulatory pressure before acute stress began to hit regional banks, and we have now witnessed regional banks begin to follow suit. Banks account for around 40% of total commercial real estate debt, representing a very significant part of the market ecosystem. Small- and medium-sized banks became increasingly active over the last year as money center banks tightened their purse strings, with sub-$250 billion banks now accounting for 80% of all outstanding commercial real estate bank loans. As the credit crunch continues to permeate across the banking sector, it's clear that there is no capital source big enough to fill the void left by banks. This sharp reduction in credit availability will serve to magnify the stress and distress that was already building in the real estate market and coincides with over $1 trillion of commercial real estate debt maturing in 2023 and 2024, which continues to become increasingly difficult to refinance.

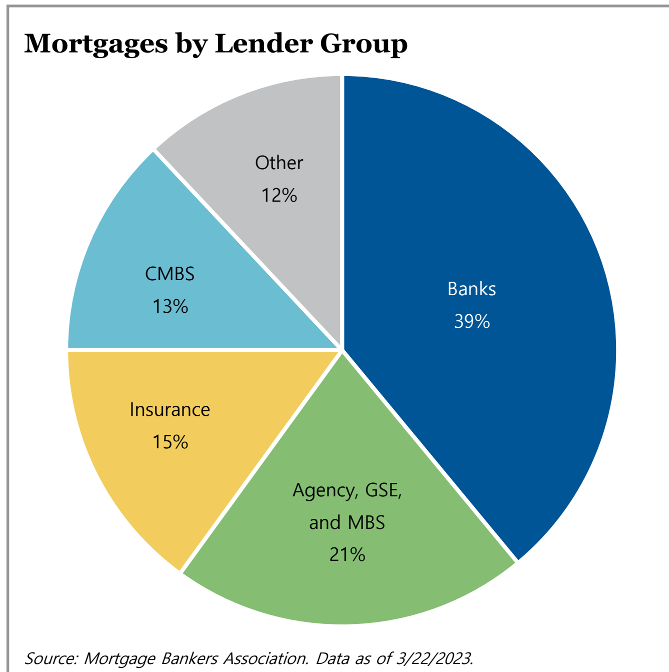
We think the secular decline in interest rates—and hence cap rates—is now likely behind us, thus a significant source of market beta is gone. Accordingly, we believe that investors will be forced to shift their focus to alpha generation to produce attractive returns going forward. Looking ahead, we believe there will be significant dispersion in returns and individual asset selection will be more important than ever.



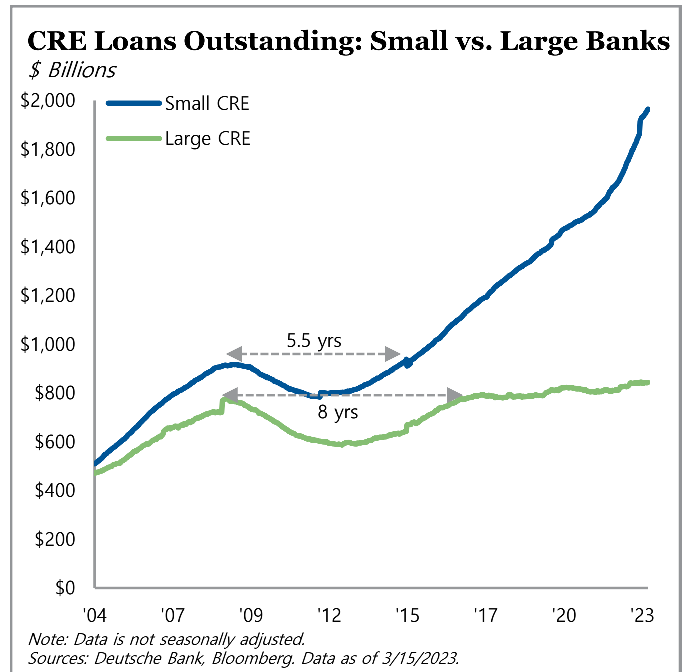
Key indicators imply that private real estate pricing is declining, driven by surging borrowing costs and recessionary fears.



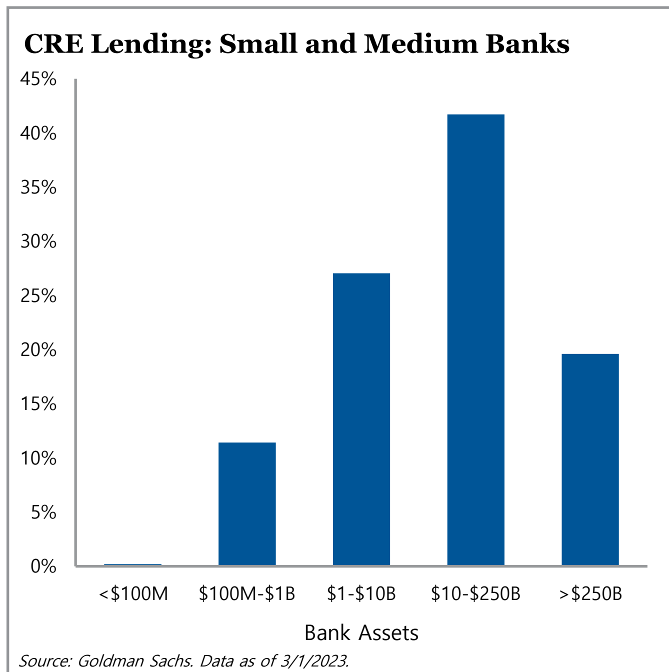
After falling during 2020 and rebounding to record levels in 2021, there has been a significant pullback in transaction volume.



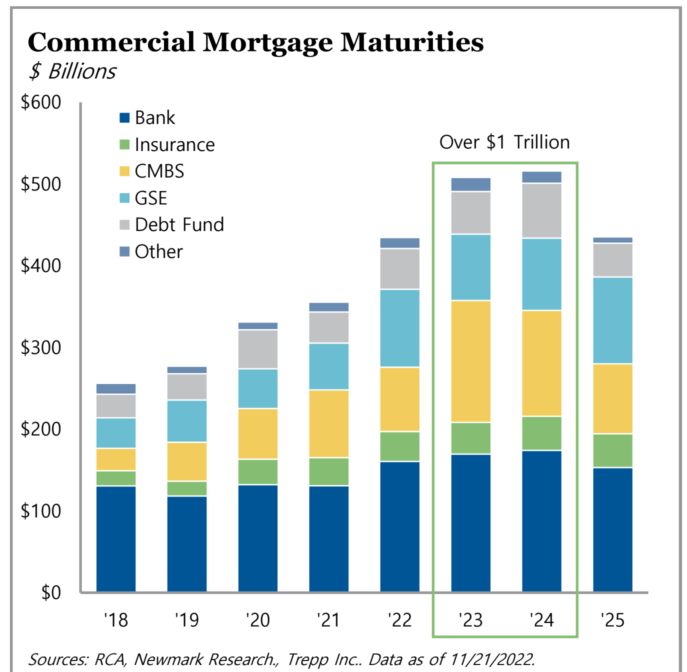
Banks hold nearly 40% of the $4.5 trillion of outstanding commercial/multifamily mortgages in the U.S.



Smaller banks have rapidly scaled up commercial real estate lending since 2015.



Banks with less than $250 billion of assets account for 80% of overall commercial real estate bank lending.



As loans mature, we expect increased borrowing costs and lower proceeds to create stress and distress.

Reid Liffmann
Co-Portfolio Manager
Head of U.S. Real Estate

Matt Jackson
Co-Portfolio Manager
U.S. Real Estate

For more information on U.S. Real Estate, click here.

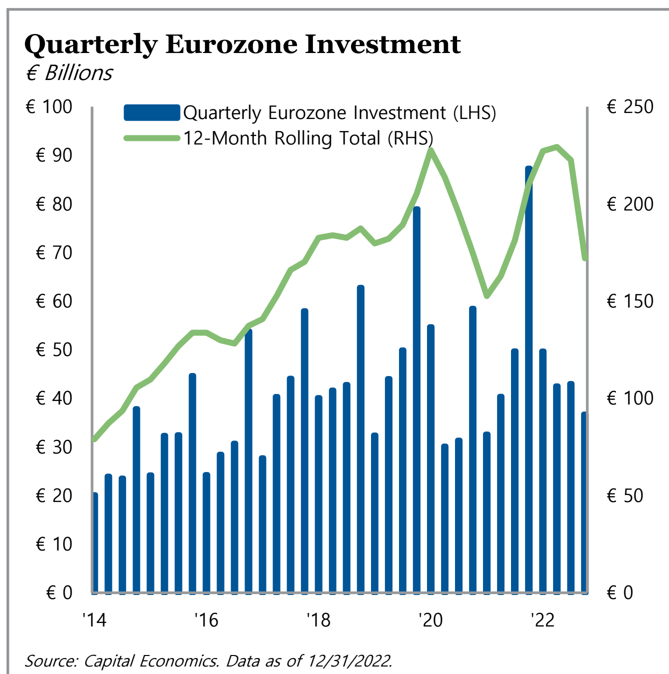
Europe Real Estate

The tightening measures implemented by the ECB in 2022 have been impacting inflation, which dropped to an annual rate of 8.5% in January 2023, compared to 9.2% at the same time last year. Unsurprisingly, eurozone GDP grew by a mere 0.1% quarter-over-quarter during the fourth quarter—which was before the recent banking sector turmoil and resulting expectations of credit tightening—suggesting the region may slide into a recession this year. The labor market remained tight late in 2022, with unemployment standing at a record-low 6.6% in the fourth quarter.

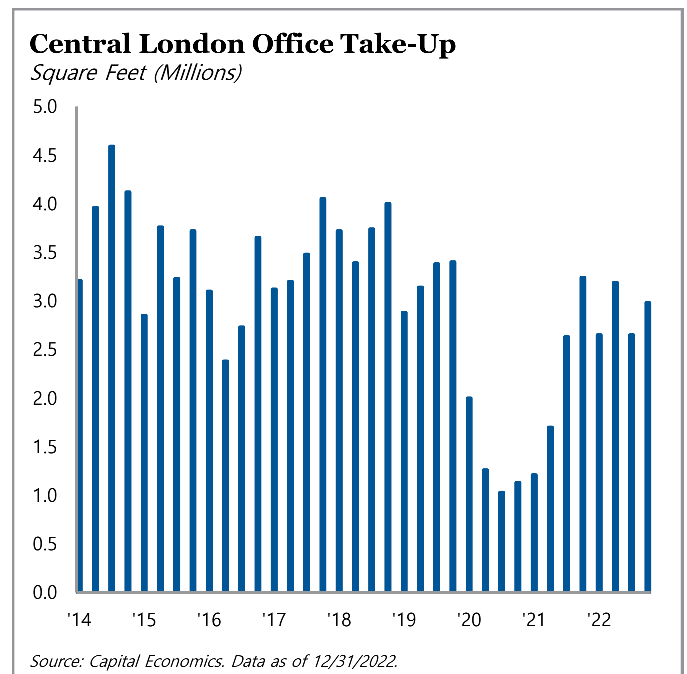
In the real estate markets, activity continues to be slow as investors monitor the economic situation. During the fourth quarter, only €36.7 billion of real estate was transacted, marking the lowest fourth-quarter level since 2013. Overall, 2022 investment volume was down 18% compared to 2021. This reduction was most pronounced in the office sector, but industrial properties also saw a notable contraction in activity. Despite the slowdown, we continue to observe tenant and buyer interest in prime products located in central submarkets of major cities. Prime office rents across the eurozone were up 1.3% quarter-over-quarter in the fourth quarter, bringing growth in full year 2022 to 5.4% year-over-year. However, with a possible recession on the horizon, we expect demand will continue to wane.

The European banking sector is still processing the Credit Suisse rescue, and the longer-term market impacts of the situation have yet to be determined. While European banks are generally less well-capitalized than U.S. banks, most are overseen by the European Banking Authority (EBA), which regulates banks larger than €30 billion—in contrast to the U.S. regulatory threshold of $250 billion. Additionally, smaller banks are subject to stress tests conducted in accordance with the rigorous Basel III standards. As a result, European banks have been reluctant lenders to commercial real estate, especially transitional real estate. According to the IMF, European and UK banks' exposure to commercial real estate averages approximately 6% of bank loans—well below the 18% exposure of U.S. banks.

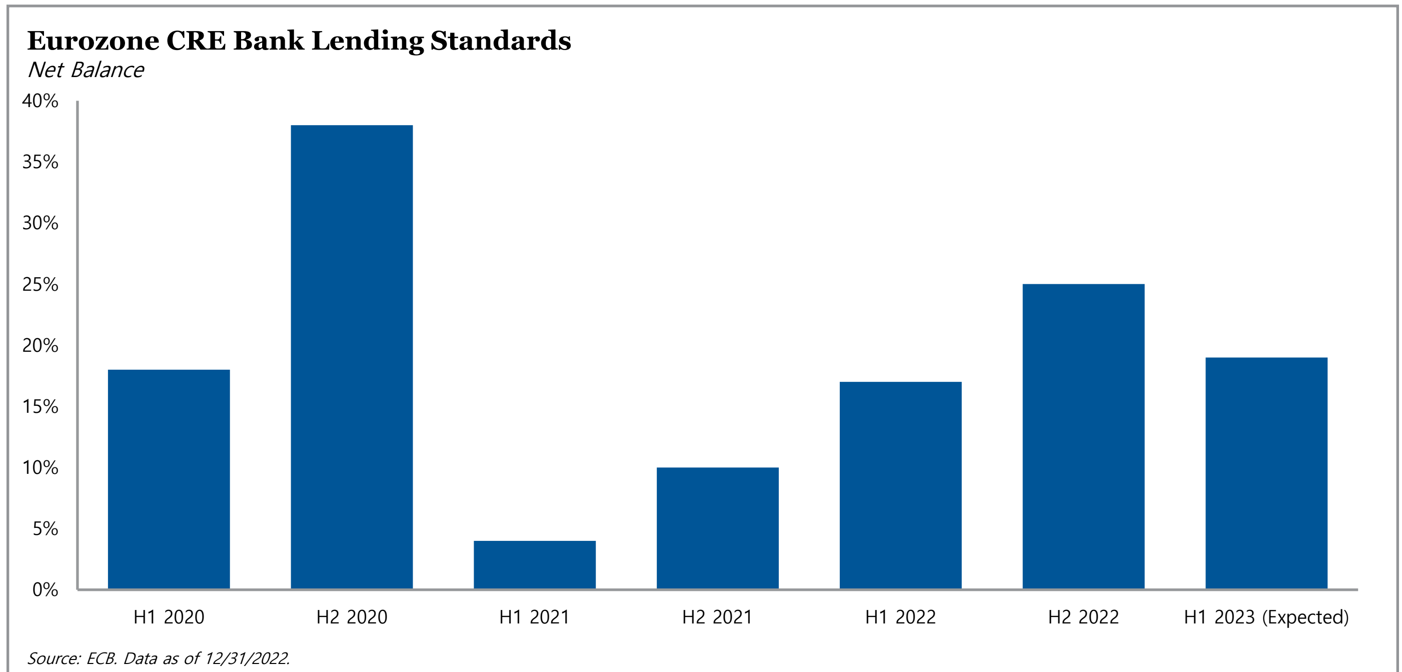
In the UK, the Bank of England continued to increase interest rates, announcing a hike to 4.25% in March after inflation edged back up in February. The unemployment rate held steady at 3.7% in January, and it appears GDP increased slightly during the first quarter, though a recession may still be on the horizon as the country adjusts to the rapid rate hikes. Like the continent, the UK saw weak real estate investment activity in early 2023. In January, transaction volume totaled a mere £1.3 billion—the lowest January level since 2009. Unsurprisingly, CBRE reported minimal tenant demand for central London office space, and February office take-up was 57% lower than the 10-year average. Despite sluggish demand, rental growth increased month-over-month in February in the City of London and West End submarkets.



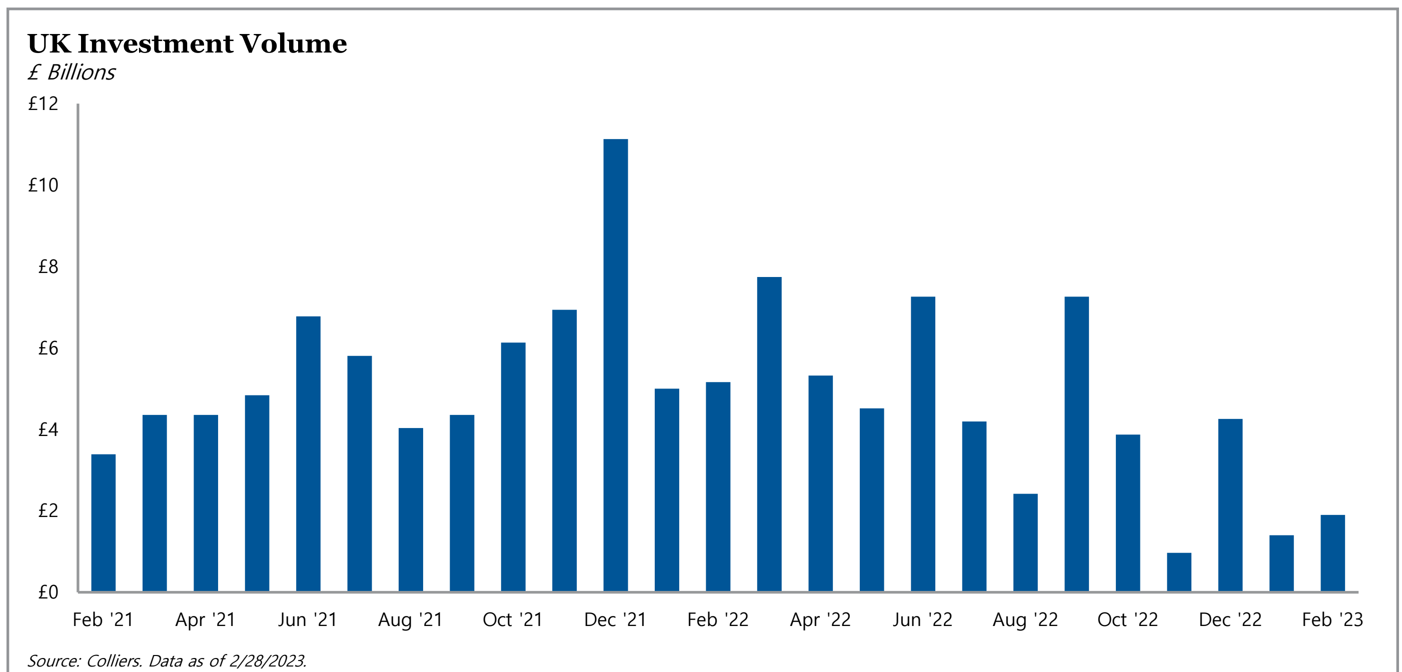
Rising interest rates and uncertain economic conditions have caused a slowdown in investment volume.



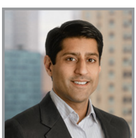
Despite decreased leasing activity across sectors, tenants continue to demand prime office space.



Lenders have become more reluctant to finance real estate assets.



Similar to the U.S. and the eurozone, the UK has seen a major decrease in investment volume since late 2022.



Anuj Mittal
Co-Portfolio Manager
Head of Europe Real Estate

Tom Rowley
Co-Portfolio Manager
Europe Real Estate

For more information on Europe Real Estate, click here.

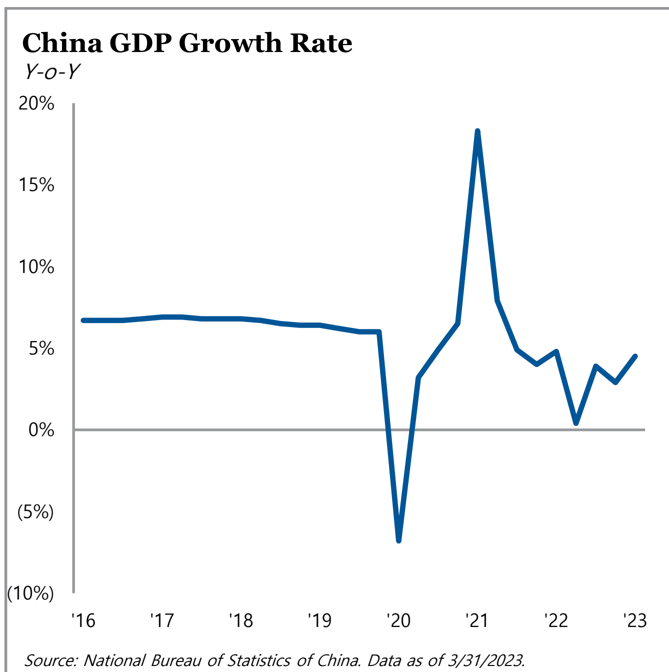
Asia Real Estate: China

China's economy grew 3.0% year-over-year in full year 2022 and 2.9% in the fourth quarter of 2022, despite the impact of pandemic-related restrictions, geopolitical tensions, and overseas interest rate hikes. In December 2022, China shifted its focus to economic growth and announced the reopening of borders and relaxation of its zero-COVID policy. Several major new economic stimulus measures were also introduced in the fourth quarter, including a 25-basis point reduction of the central bank's required reserve ratio and the introduction of the "three arrows" lending policy to support financing for real estate enterprises. In full year 2022, exports increased 7.7% year-over-year, while value-added industrial output rose by 3.6%. Domestic retail sales decreased 0.2% in 2022, and online retail sales increased 4.0%. China remains highly focused on developing its advanced manufacturing sector, particularly in industries such as life sciences, integrated circuitry, and new energy. While total fixed-asset investment activity only grew 5.1% year-over-year, fixed-asset investment in high-tech industries grew 18.9% year-over-year in 2022.

In Beijing, we observed stagnant office leasing demand, mainly driven by another COVID-19 outbreak that started in November and impacted key office submarkets. No new supply was delivered in the fourth quarter. Negative net absorption was recorded in the fourth quarter, resulting in 82% of the total net absorption for 2022 being from the first quarter. Domestic companies accounted for nearly half of the leasing demand. Overall, Grade A office rents decreased by 1.1% in the fourth quarter, and decreasing leasing activities and some early terminations led to an increase in the office market's overall vacancy rate—rising from 9.7% to 10.0%. In the Zhongguancun submarket of Beijing, known as China's Silicon Valley, rents declined slightly—down 1.2%—and vacancy increased to 5.2%.

Industrial and logistics leasing continued to recover in the fourth quarter. In Shanghai, industrial rents rose 2.9% year-over-year; meanwhile, vacancy declined 0.2 percentage points to 9.6%.

In terms of overall market activity, total commercial real estate transaction volume amounted to RMB 219 billion in 2022—a 22% decrease year-over-year but an improvement compared to 2020. Business parks and logistics warehouses remained the most popular asset classes and are well-positioned to benefit from China's structural shift toward innovation-driven growth as well as the continued expansion of e-commerce and third-party logistics companies.



China's GDP growth ticked upward as the post-pandemic economy recovered.

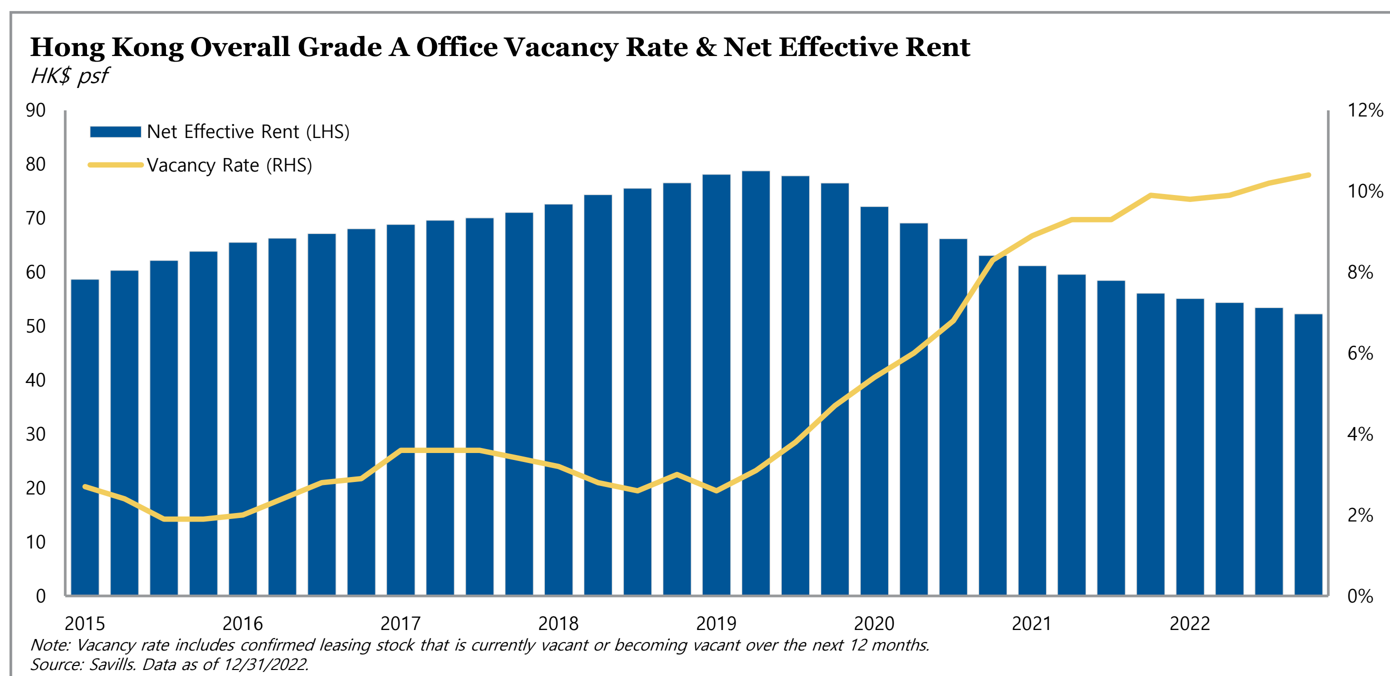
CNY values eased in the first quarter of 2023.

Asia Real Estate: Hong Kong

With Hong Kong's border opening and relaxation of COVID-19 restrictions during the fourth quarter, we began to see an improvement in overall market sentiment, and we expect this trend to continue into 2023. That said, Hong Kong has followed the U.S. interest rate-hike cycle, which has caused distress among some property owners. This unique dynamic could create an attractive investment entry point for opportunistic real estate investors, who may seek to take advantage of the near-term capital market disruption while market fundamentals improve over the coming year.

Hong Kong's economy registered a year-over-year contraction of 3.5% in 2022, after growing 6.4% in 2021. Economic activity was initially dampened by the fifth wave of the pandemic and subsequently impacted by the deteriorating global market environment and tighter financial conditions. Total exports of goods declined significantly in 2022, falling 13.9% year-over-year. Private consumption recorded a mild decline of 1.0% in 2022. Additionally, unemployment declined from 3.9% in the third quarter to 3.5% in the fourth quarter. In December 2022, Hong Kong announced that it was reopening its borders with mainland China in January 2023, without the need for quarantine, which was a positive surprise that is expected to support economic recovery in 2023.

After reaching a high in September 2021, residential prices retreated 15.1% year-over-year and decreased 7.4% quarter-over-quarter in the fourth quarter of 2022. The decline in residential prices was primarily driven by smaller flats; pricing for larger units, over 1,000 square feet, remained resilient. Industrial buildings continued to be keenly sought-after, with HK$20.6 billion worth of industrial assets changing hands in 2022. Commercial real estate investment transaction volume rose 50.2% quarter-over-quarter to HK$52.2 billion, driven by a few large transactions, but remained below average deal volumes prior to the pandemic. Investment demand in 2022 was largely supported by property funds, which accounted for 44% of the annual transaction volume. The office sector continued to remain weak, both in terms of tenant demand and investor interest. As of December 2022, Hong Kong's office vacancy increased slightly to 10.4%, while rents fell by 2.3% in the fourth quarter.



Note: Vacancy rate includes confirmed leasing stock that is currently vacant or becoming vacant over the next 12 months.
Source: Savills. Data as of 12/31/2022.

Hong Kong's office market vacancy remains stubbornly high; however, the recent border opening should improve fundamentals.

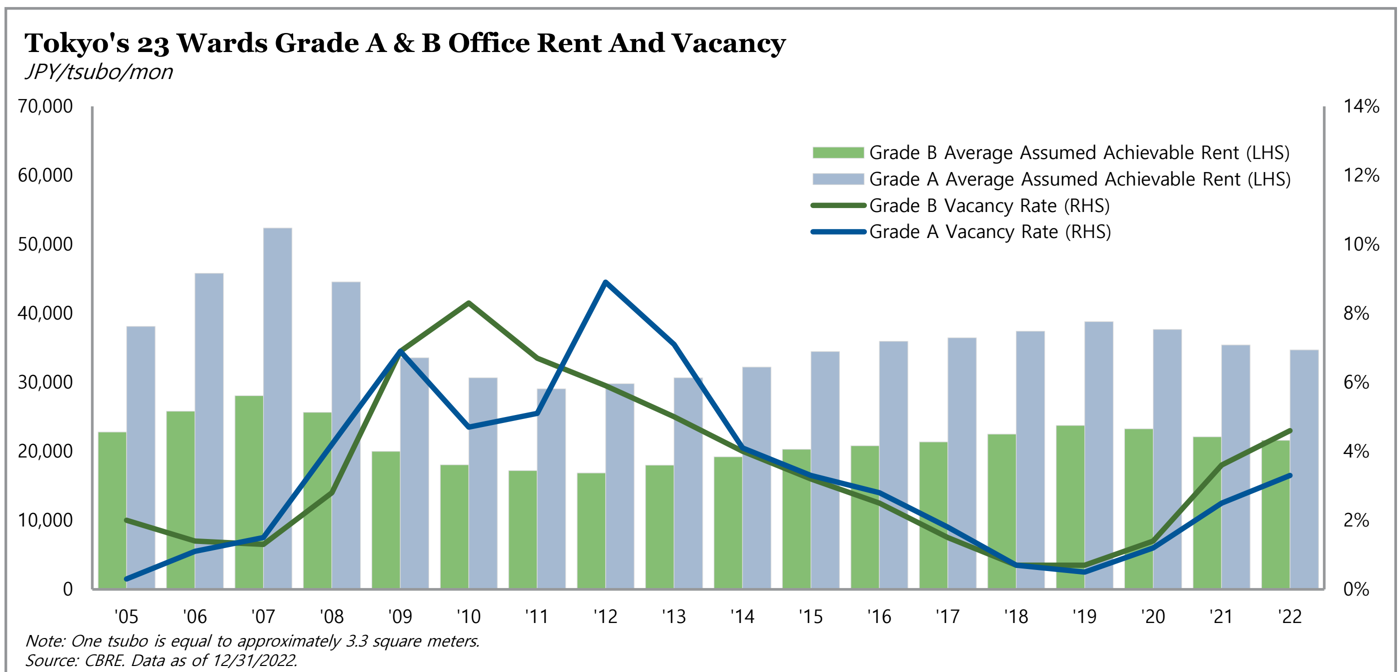
Asia Real Estate: Japan

In the fourth quarter of 2022, Japan's real GDP was flat quarter-over-quarter, largely due to sluggish consumer spending. Japan's labor market remained healthy, with unemployment at 2.4% as of January 2023. The inflation rate hit a 41-year high of 4.2% in January, but many economists expect inflation to peak in the first half of 2023. In February, Kazuo Ueda—an economist and former board member of the Bank of Japan (BoJ)—was nominated as the BoJ's next governor. Mr. Ueda started his term in April, and he reiterated that the BoJ would continue its current monetary easing policy at a recent parliamentary hearing. The BoJ's consistent policy management has contributed to the stability of the Japanese interest rate market, with Japan's base rate (TIBOR) remaining below 10 basis points.

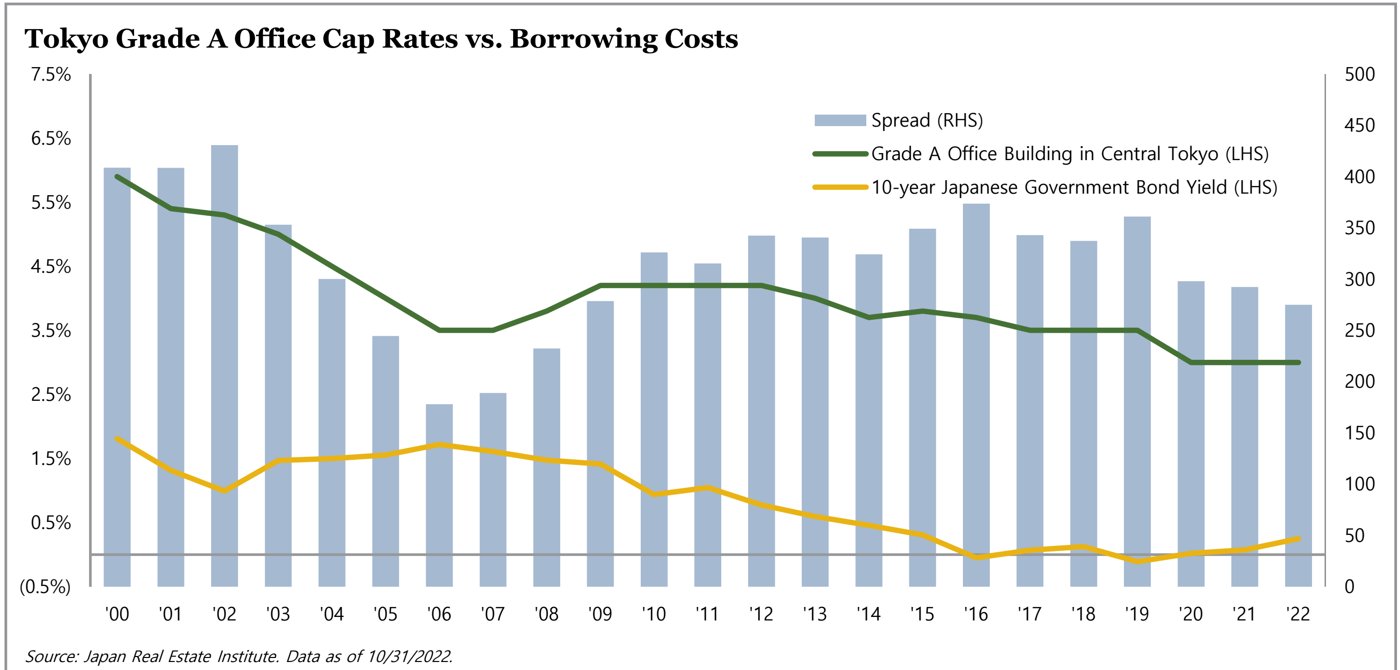
Office real estate fundamentals remained robust in the fourth quarter. Grade A vacancy rates fell from 3.8% to 3.3% in Tokyo and from 4.7% to 4.3% in Osaka. Strong tenant demand combined with relatively low supply contributed to the decline in vacancy rates. We have started to observe a trend, with many companies seeking to improve their offices in order to hire talented employees and retain teams. We expect office demand will remain stable given the limited impact of work-from-home culture in Japan.

Logistics fundamentals softened slightly in the fourth quarter, with vacancy rates for multi-tenant facilities in the greater Tokyo area rising slightly to 5.6%, up from 5.2%. There are more options for tenants in the logistics market, which caused pre-leasing activities to slow modestly—especially in areas with significant supply. On the other hand, the vacancy rate for facilities that were built more than one year ago improved, declining from 1.7% to 1.1%. Demand from logistics companies remains strong, supported by the continued growth in the e-commerce industry.

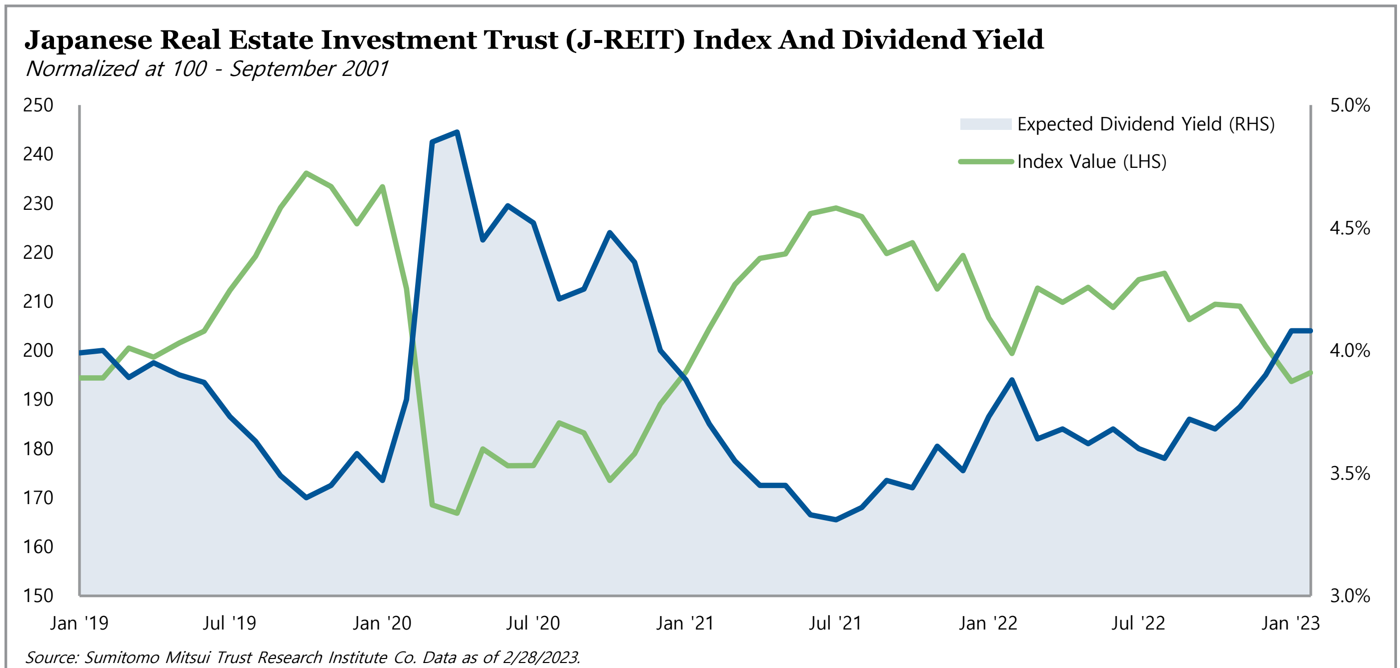
Annual transaction volume in 2022 was significant and above the pre-pandemic levels recorded in 2018 and 2019. Both domestic and foreign buyers were active throughout the year, with foreign buyer transaction volume up 12% year-over-year. Meanwhile, Japanese REIT (J-REIT) transaction volumes declined due to stagnant stock prices, and opportunities to acquire underperforming assets from J-REITs—which tend to be less proactive when it comes to property management—are beginning to be observed. Given the robust lending market and stable current financial environment, we believe the buyer pool will remain strong, resulting in high liquidity for stabilized assets.



Tokyo's office vacancy edged up slightly, while overall market fundamentals remained stable.



Despite global interest rate rises, interest rates in Japan remained low and, as a result, office cap rate spreads continued to remain wide.



J-REIT performance declined, which resulted in higher yields and limited their ability to execute accretive acquisitions.

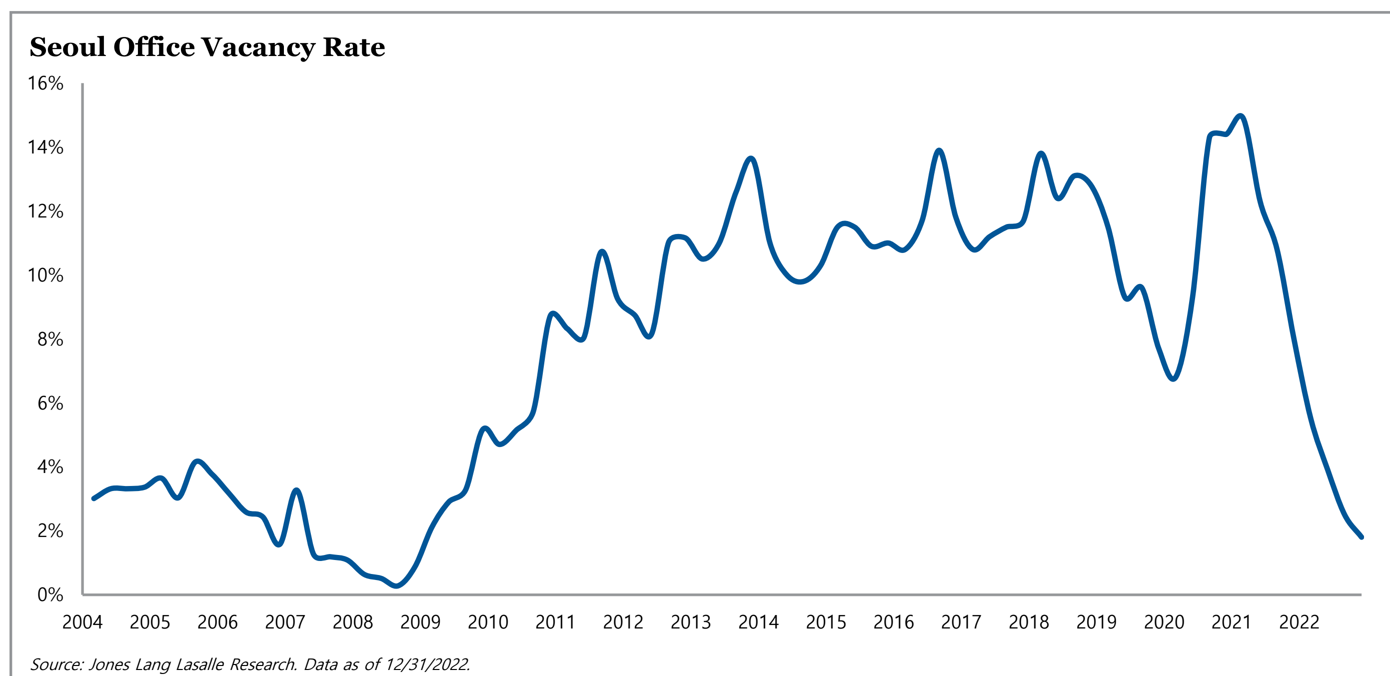
Asia Real Estate: South Korea

The Bank of Korea (BoK) maintained its hawkish stance and continued to fight inflation by raising interest rates, increasing the base rate 150 basis points in the second half of 2022 to reach 3.25% in December. In the fourth quarter, South Korea's GDP contracted for the first time since the second quarter of 2020, falling 0.4% quarter-over-quarter. The decline in GDP was mainly driven by higher interest rates, lower domestic consumption due to fading reopening effects, and decreased exports spurred by weak global demand. Although Korea recorded annual economic growth of 2.6% in 2022, the BoK lowered its forecast for 2023 growth to 1.7% given expectations of continued GDP contraction. Additionally, despite inflation reaching 5.1% in 2022, the BoK has projected inflation will slow to 3.5% by the end of 2023.

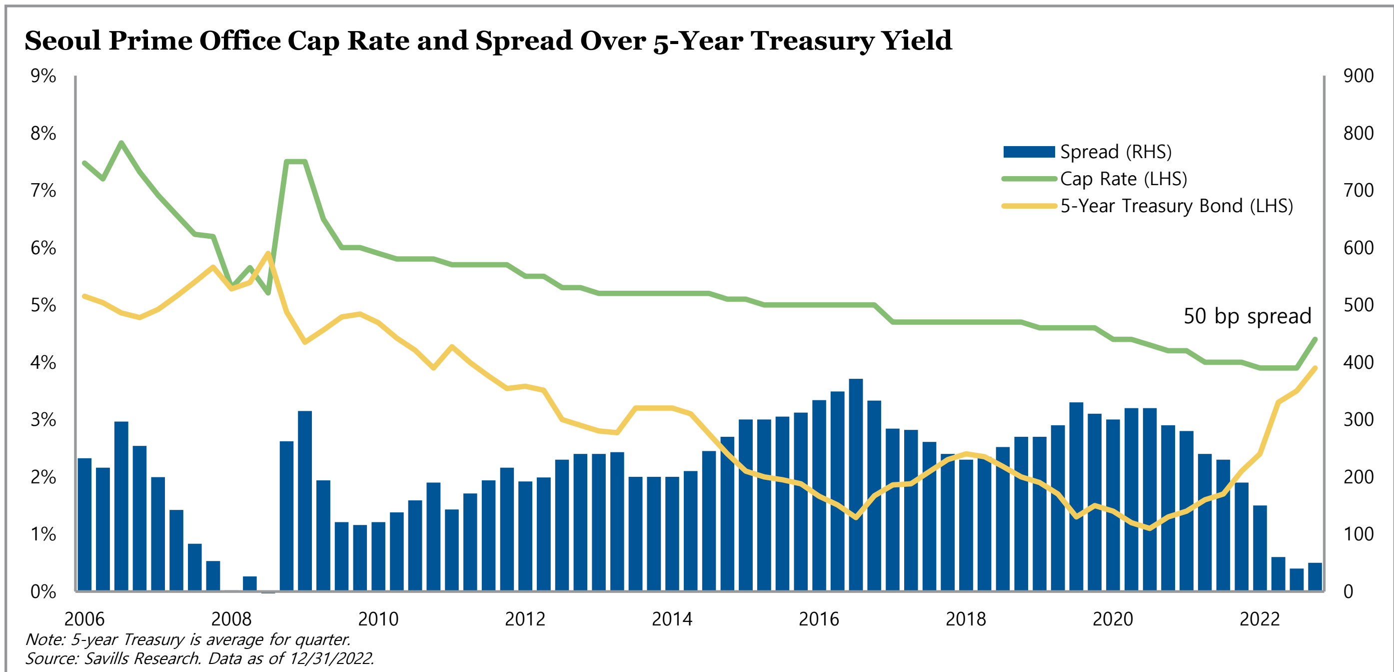
On the real estate front, office cap rates stood at 4.4% in the fourth quarter of 2022—a 50-basis point increase from the previous quarter, spurred by the BoK's continued rate hikes. Spreads between prime office cap rates and Korean government bond yields (i.e., 5-year treasury bonds) tightened and stood at approximately 50 basis points as of the end of the fourth quarter. This was a significant contraction compared to the spread of 150 basis points recorded in the first quarter of 2022. This spread tightening can be attributed to higher treasury yields, which stood at 3.9% at the end of the fourth quarter—up 40 basis points quarter-over-quarter and 180 basis points year-over-year.

Despite the spread compression, office fundamentals remained robust. Prime office vacancy in Seoul decreased to 2.2% at the end of the fourth quarter—down 1.1 percentage points from the previous quarter—with all major business districts indicating a decrease in vacancy, healthy office demand, and limited supply. Additionally, office rents increased an average of 7.3% year-over-year across all business districts in Seoul due to the positive fundamentals. Investment activity totalled ₩2.7 trillion in the fourth quarter and ₩13.4 trillion in full year 2022—90% of the record-high ₩14.9 trillion of annual transaction activity recorded in 2021. That said, a notable contraction in capital markets activity was observed in 2022 in light of continued rate hikes and reduced market liquidity.

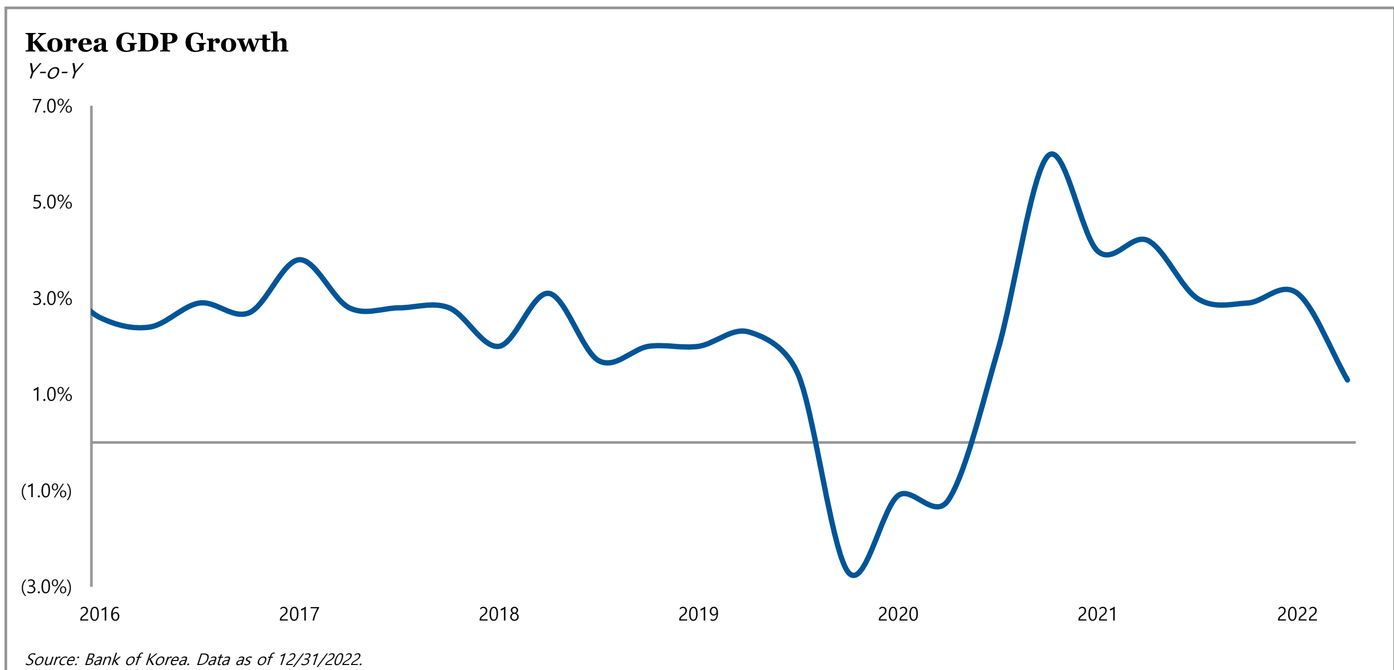
Logistics vacancy in Greater Seoul increased to 8.2% in the fourth quarter—the highest level since the first quarter of 2020—though the vacancy spike was the result of new supply from the completion of one large-scale center in the Incheon West submarket. Other submarkets remained stable, exhibiting no significant changes in vacancy rates. Investment activity declined meaningfully, with transaction volume totalling only ₩0.5 trillion in the fourth quarter, down approximately 86% year-over-year. Despite limited capital markets activity, prime-grade logistics assets traded at cap rates of 4.8-4.9% in the fourth quarter. Given the tightening lending market, opportunities to acquire attractive assets from distressed sellers at significant discounts have been emerging.



Strong tenant demand driven by IT companies continued to drive down office vacancy rates, and vacancy is nearing all-time lows.

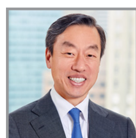


Cap rate spreads tightened significantly as Korean Treasury yields have moved in response to U.S. rate hikes.



Korea's GDP growth declined as higher interest rates weighed on the economy.

Wilson Leung
Co-Portfolio Manager
Head of Asia Real Estate



Steven Cha
Co-Portfolio Manager
Asia Real Estate

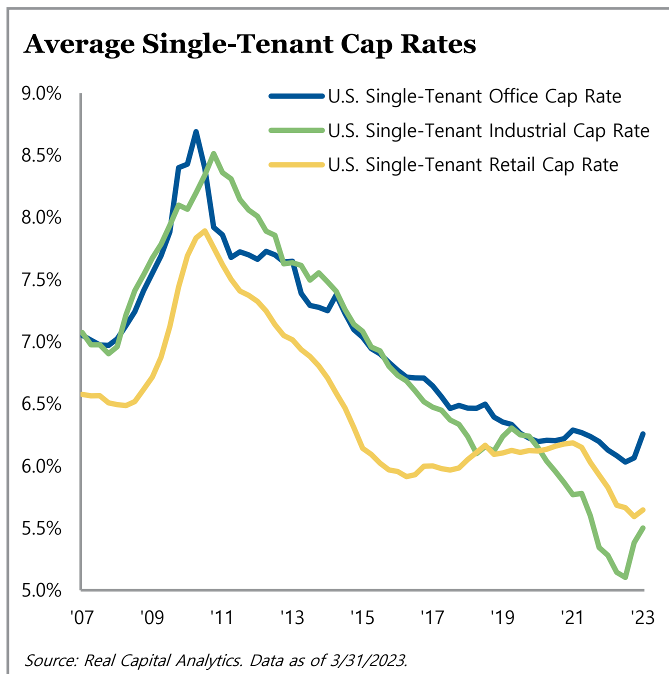
For more information on Asia Real Estate, click here.

Net Lease Real Estate

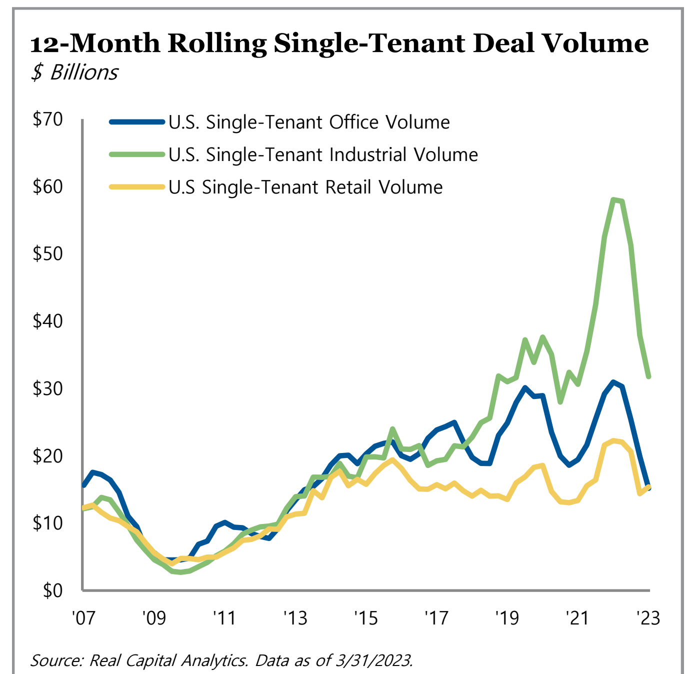
As of the first quarter of 2023, trailing 12-month U.S. single-tenant transaction volume totaled $62 billion, according to Real Capital Analytics (RCA). Since the peak in the second quarter of 2022, trailing 12-month transaction volume declined by 45%. Single-tenant office volume declined by 51%, industrial volume was down 47%, and retail volume fell 34%.

While volume has declined, sale-leasebacks have become a cheaper capital source for tenants compared to high-yield debt, which should drive a growth in volume as corporate debt matures. Additionally, we believe private equity sponsors will be more likely to pursue sale-leasebacks in this environment, given the relative cost of capital sale-leasebacks offer compared to corporate debt.

The quarterly movement in single-tenant cap rates was more muted than that of volume. On a trailing 12-month basis, as of the first quarter of 2023, industrial cap rates and office cap rates increased modestly, whereas retail cap rates remained stable. As this RCA data rolls forward to include more recent quarters, we expect cap rate increases will likely be more noticeable.



Industrial and office cap rates have increased, while retail cap rates have remained more stable.



Since the peak in Q2 2022, volume has declined by 45%.

Gordon Whiting
Portfolio Manager

For more information on Net Lease Real Estate, click here.

+1.800.805.0024 | information@angelogordon.com | www.angelogordon.com

NEW YORK • LOS ANGELES • SAN FRANCISCO • CHICAGO • LONDON
AMSTERDAM • FRANKFURT • MILAN • SINGAPORE • HONG KONG • TOKYO • SEOUL

Private and confidential. Not for further distribution.

The information contained herein is for educational and informational purposes only and does not constitute an offer to sell, or a solicitation of an offer to buy any security. Such an offer may only be made by means of the definitive Confidential Offering Memorandum of a specific Angelo Gordon fund and will be made exclusively to investors satisfying the applicable eligibility criteria.

The information contained herein may not be reproduced in whole or in part without the prior written consent of Angelo Gordon.

Data and views presented are as of the date hereof unless otherwise indicated and are subject to change without notice. Certain information has been obtained from third-party sources. While such information is believed to be reliable for the purposes used herein, Angelo Gordon has not independently verified such information and makes no representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein. Certain information regarding economic and market conditions contained herein has been obtained from published sources and/or prepared by third-parties and in certain cases has not been updated through the date hereof. All information contained herein is subject to revision and the information set forth herein does not purport to be complete.

Certain information contained in this presentation constitutes "forward-looking statements" that can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "target," "project," "estimate," "intend," "continue," or "believe" or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of any Angelo Gordon investment may differ materially from those reflected or contemplated in such forward-looking statements.