

Blog Post

CMBS 2.0: An Overview of Changes and Challenges

Posted on **September 30, 2011** by Peter K. McKee, Jr., Charles T. Marshall

The Line is pleased to bring you an article from our esteemed colleague, Pat Sargent.

Capital Markets Overview

For over 20 years an increasing percentage of commercial real estate has been financed efficiently through the packaging of commercial mortgages into commercial mortgage backed securities (CMBS) sold into the capital markets. Issuance exploded in 2007 to over \$230 billion, right before the broader economy imploded into the Great Recession, after which issuance plummeted: \$12 billion in 2008, and a paltry \$2.9 billion in 2009. In 2010, lenders returned to the market with issuance of a still anemic \$12 billion. Yet investors made it clear they wanted more transparency, better underwriting and stronger alignment of risk. Thus began an effort to bring about changes that would encourage a return to the sector by investors as well as loan originators and issuers, led in part by the Commercial Real Estate Finance Council (CREFC), a key industry group composed of participants in all aspects of CMBS. Meanwhile, Congress, trying to address the economic catastrophe, passed the Dodd-Frank Act in July of 2010, calling for significant financial market regulations and studies. The new and evolving changes in the market for CMBS, which include self imposed industry standards and implementation of legislative and regulatory mandates, are referred to as CMBS 2.0.

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