



Lower-credit pieces of Angel Oak small-balance commercial deal already spoken for

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An Angel Oak REIT on Tuesday found eager buyers for the riskiest portions of its USD 180.6m **AOMT 2020-SBC1** deal backed by small-balance commercial loans, according to an investor and a syndicate source.

Lower-rated classes from the deal — backed mostly by loans of less than USD 1m on property types including light industrial, retail and multifamily — were already “subject” at the deal’s announcement by lead manager Citigroup on Tuesday, according to the sources, and information in a private term sheet seen by *Debtwire ABS*.

The USD 119.16m AAA rated 2.31-year A1s with 34% credit enhancement, on the other hand, were guided at S+ 170bps-175bps, the sources said. The yield, based on the two-year swap rate, would be around 2%.

Levels on the A2 through B2 classes weren’t disclosed.

Seniors from ReadyCap Commercial’s last small-balance commercial securitization priced a year ago at S+ 115bps to yield 2.85%, according to *DW ABS* data.

The demand for the bottom of the capital structure comes as the prospects for a vaccine for the COVID-19 coronavirus has given investors a rosier view on macroeconomic risks.

Small businesses were hit hard by the pandemic, however. Small-cap commercial real estate occupancies across office, industrial and retail sectors contracted by 33m sq ft in 3Q20, the largest amount in the 44 previous quarters, according to an October [blog post](#) by Boxwood Means, which provides data analytics and valuations on small-cap commercial properties. The year-to-date losses of 67m sq ft erased occupancy gains going back to 4Q18, the Boxwood Means data show.

There has been a rebound in direct leasing activity for industrial properties, however, and some positive signs in retail, according to Boxwood's blog.

Property values have held up even as year-to-date sales volume of USD 107bn through August represented a 28% drop compared with the same period last year, Boxwood data show. The Boxwood Small Balance Commercial Price Index has gained 1.3% this year, including 40bps since the pandemic worsened in March. Its Small Multifamily Price Index is up 3% YTD and 1.8% since March.

Loans in the AOMT deal were originated by Cherrywood Mortgage, a small-balance commercial lender acquired by Angel Oak in 2018. Cherrywood originated USD 58m in loans in the first three months of the year, a pace that, if continued through December, would have represented more than 50% growth, according to information in the private term sheet.

In March, Angel Oak consolidated all small-balance commercial lending under its Angel Oak Commercial Lending business, the term sheet shows. Two sources familiar in April told *Debtwire ABS* that Cherrywood was out of business.

All but three of the 236 loans in AOMT 2020-SBC1 are current and the pool has a weighted average mortgage rate of 7.439%, a weighted average current LTV of 61.55% and a weighted average original DSCR of 1.5%, the term sheet shows.

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