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# SFA Research Corner

## Container Lease ABS - A Port in the Global Shipping Storm

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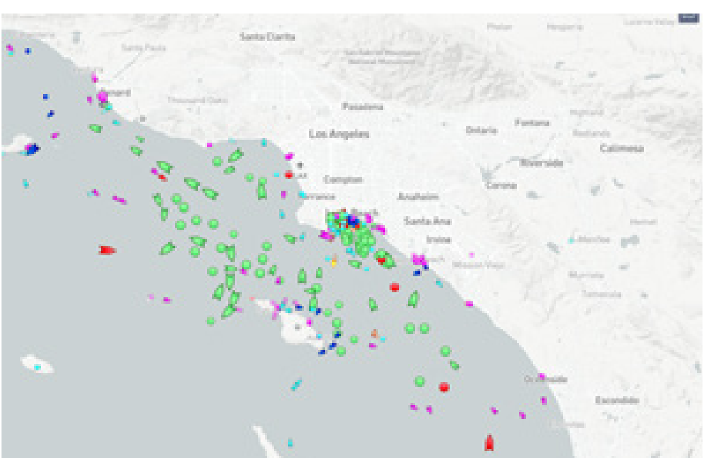
## WHAT WE'RE WATCHING

Shipping containers are stackable standardized containers that allow goods to be moved easily between ship, rail, and truck. First used in the 1950s, container shipping transformed the freight transport industry, resulting in improved efficiencies and economies of scale. Container leasing companies, which own 50% of the containers in circulation, have been relying on the securitization market for funding since the 1990s. Even as the broader shipping industry continues to be buffeted by supply chain complexities, container lease ABS have been buoyed by the rebound in global trade as demand for shipping containers has kept lease rates at all-time highs.

And the complexities are significant. As recently as October 13, more than 86 container ships carrying an estimated half a million cargo containers, representing a "floating warehouse" value of $26 billion, had been waiting for an average of two weeks outside the twin ports of Los Angeles and Long Beach to be unloaded. The Los Angeles and Long Beach port complex is the largest in the U.S. and receives 41% of shipments bound for the U.S.; 30% of all U.S. exports depart from this location. The bottlenecks, which started one year ago, are not limited to the U.S. In southern China, for example, 237 ships wait to be unloaded according to Bloomberg. Since transport does not flow one way, these backlogs result in fewer empty containers and containerships available to pick up goods and restart the shipping cycle. The result?
Shipping prices are now five times what they were one year ago, and consumer prices have risen accordingly.

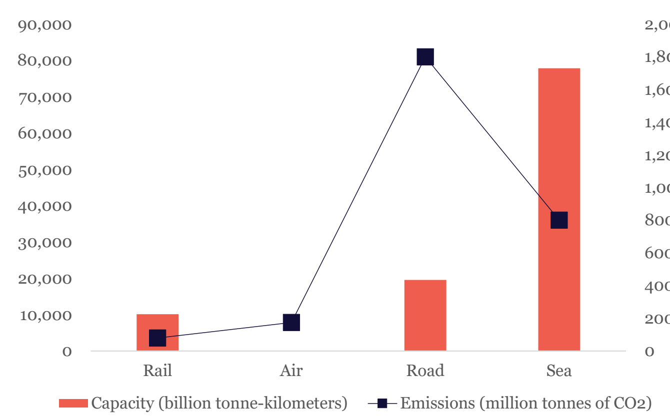
Although slower and less reliable than air freight, with today's shipping delays as prime evidence to this point, ocean freight remains the most common mode of international transport. In fact, given its lower cost and higher capacity, about 90% of all shipped goods are transported in ocean freight containers. Shipping by sea has fewer legal and regulatory restrictions. Moreover, sea freight has a much lower carbon footprint than air freight, a point of interest to ESG-sensitive investors. While sea freight moved roughly three-quarters of the world's cargo, this mode of transport was responsible for only one-third of freight carbon emissions. Road freight, by contrast, moves less than 20% of cargo but is responsible for roughly two-thirds of freight carbon emissions.

### Congestion at Los Angeles/Long Beach Ports Has Reached Record Levels




*Source: https://www.marinetraffic.com/en/ais/home/centerx:-118.6/centery:33.6/zoom:10*

### Sea Freight is the Most Efficient Way to Move Cargo




*Source: https://climate.mit.edu/explainers/freight-transportation*

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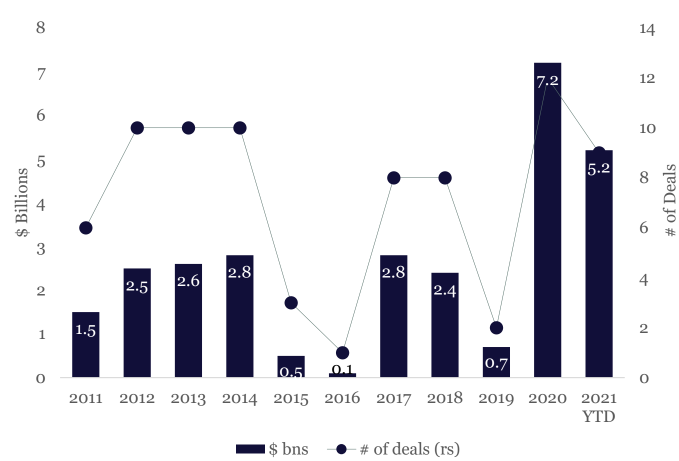
In 2020, the ABS market saw 12 container lease ABS transactions totaling $7.2 billion, a record for the sector. This amount surpassed the combined amount issued from 2015 through 2019. S&P has attributed this to several factors, including the opportunity to refinance existing securitizations at today's still low interest rates. Triton, a top container lessor and ABS issuer, cut its interest and debt expenses by 10% from 2Q 2020 to 2Q 2021 due, in part, to ABS refinancing.

With $5.2 billion issued so far this year, 2021 is on track for another robust year. Demand from investors looking for yield and issuers looking to get ahead of the specter of rising interest rates and funding costs have supported the 2021 market. Strong investor demand has also been driven by the sector's solid credit performance. Since rental revenue and proceeds from container sales are the main source of cash flow to repay container lease ABS, credit performance is, by and large, driven by utilization of containers and strength of global trade. "[O]ther factors affecting demand include the needs of shipping lines (marine cargo containers' major customers), the available supply and cost of equipment, and the availability of capital to purchase or lease the needed equipment," according to S&P. The rating agency further notes that delinquency and attrition rates remained low and that there were no negative rating actions in the sector.

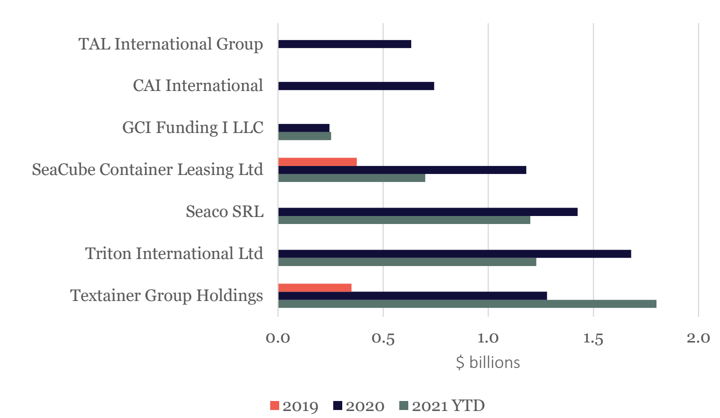
Early in the pandemic, global trade slowed significantly, and utilization of containers fell. However, as early as June/July 2020, global trade saw a resurgence thanks to lockdowns and social distancing protocols as consumer consumption shifted away from services and experiences and toward goods. Consumption of goods still remains strong today. Triton attributes today's "exceptionally strong" market conditions to "...strong trade volumes and significant logistical disruptions, [s]ustained surge in demand leading to very high container prices and lease rates, and [s]hipping lines relying heavily on leasing to fulfill supply requirements." By June month-end, Triton's leasing revenue was up 15% year over year, and a "vast majority" of its debt had moved to fixed rate. The company's utilization rate had climbed to 99.5%, well above the industry average of 95%. Continued supply chain "chaos" and heightened demand for containers, which some expect to last until 2023, will continue to benefit container lease companies and their ABS.

**2020 was a Record Year for Container Lease ABS; 2021 On Track for Another Robust Year**




*Source: Finsight*

**Top Issuers of Container Lease ABS 2019 to YTD 2021**




*Source: Finsight*

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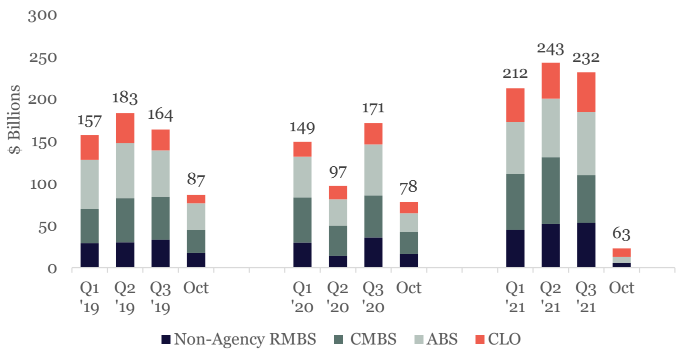
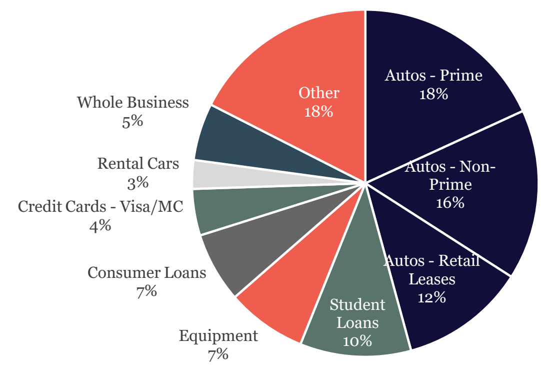
# MARKET SUMMARY

## Issuance for Non-Agency RMBS, CMBS, ABS, and CLO 2021 ($710 Billion) Versus 2019, 2020



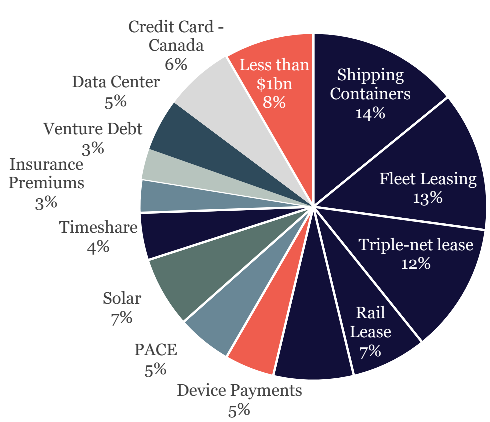

*Source: Deutsche Bank, Market Compilation*

## ABS Only 2021 YTD: $215 billion



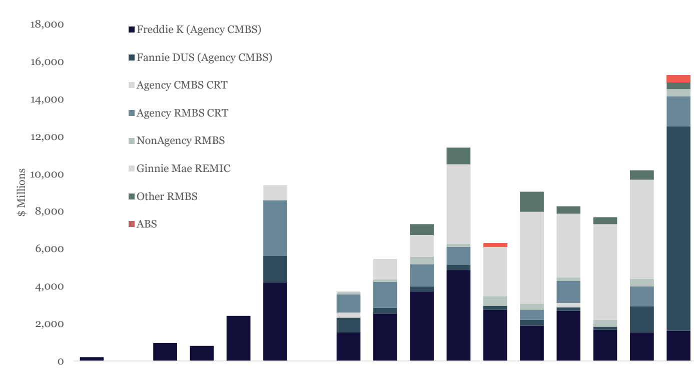

*Source: Deutsche Bank, Market Compilation*

## Other ABS Only 2021 YTD: $37 billion




*ABS with YTD volume that is less than $1 bn YTD include ABS backed by venture debt, data centers, auto dealer floorplan loans, small business loans, tax liens, commercial loans, secured fund fee, oil contracts, UK credit cards, litigation funding, retail credit cards.*
*Source: Deutsche Bank, Market Compilation*

## SOFR (30 Day Average) Securitizations 2019 to 2021 YTD: $98.5 billion




*Other RMBS includes mortgage insurance-linked securities.*
*Data begins Q3 2019. Ginnie Mae data as of September 2021. Source: Market Compilation*

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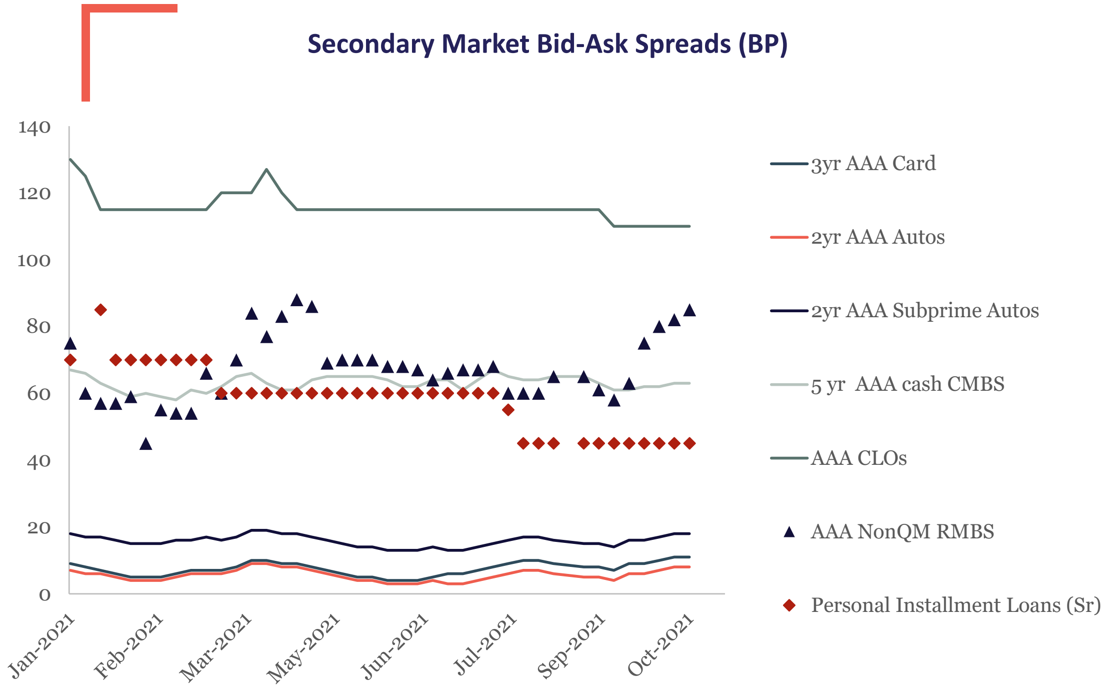


*Source: Market Compilation*

| Secondary Market Bid-Ask Spreads | | |
|---|---|---|
| (bps) | 15-Oct | 17-Sep |
| 3yr AAA Card | 11 | 9 |
| 2yr AAA Prime Autos | 8 | 6 |
| 2yr AAA Subprime Autos | 18 | 16 |
| 5yr AAA Cash CMBS | 63 | 61 |
| AAA CLOs | 110 | 110 |

*Source: Market Compilation*