CMBS Research

Morningstar Monthly Highlights

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Morningstar Credit Ratings

October 2018 Remittance

Contents

Executive Summary

- After hitting another postcrisis low in September, the delinquency rate rose for the first time in nine months, ticking up 3 basis points to 1.84% from 1.81% in September.
- The delinquency rate is down 84 basis points from a year ago. Given the ongoing liquidations of legacy loans and steady new origination volume, Morningstar Credit Ratings, LLC believes the delinquency rate will hold below 2.0% for the rest of the year. Longer-term, we expect the delinquency rate to gradually increase as postcrisis deals season.
- Morningstar Watchlist volume edged up by $92.3 million last month to $23.94 billion. Although Morningstar's Watchlist balance is down from its recent peak of $25.23 billion in July, it increased significantly since reaching a postcrisis low of $17.34 billion in November 2017. Morningstar's growing Watchlist suggests that forward-looking risk is increasing, possibly signaling an inflection point for the delinquency rate.
- The special-servicing unpaid principal balance improved to a postcrisis low of $18.57 billion, down $207.5 million from September, and the percentage of loans in special servicing dropped 5 basis points to 2.20%.
- Our projected losses on specially serviced loans ticked up to $12.20 billion, an increase of $161.6 million from September, and down $229.6 million from January.
- The payoff rate of maturing loans in CMBS held above 80% for the sixth-consecutive month, rising to 95.9% from 89.2% in September. With the year-to-date maturity payoff rate at 83.8%, we anticipate that the rate will finish the year around 85% because most of the remaining maturing loans have strong metrics.

Table 1 – Significant Value Changes Among Large Loans

Deal ID	Asset Name	Loan Balance ($)	Value Change ($)	Loss Forecast ($)	Previous MORN LTV (%)	Current MORN LTV (%)
MSC 2007-IQ16	Bangor Mall	80,000,000	(14,195,000)	66,313,345	276.8	544.0
BACM 2016-UB10	IPCC Self Storage Portfolio	53,500,000	(36,800,000)	-	57.8	96.1
CGCMT 2014-GC23	Wells Fargo Center	34,837,895	(14,910,000)	-	66.3	92.7
WFCM 2016-LC25	Moreno Valley Plaza	31,500,000	(11,646,692)	33,816	75.0	103.8
JPMCC 2007-CB19	ABB Automation, Inc.	27,141,890	(1,530,000)	24,838,634	462.5	625.7
COMM 2015-LC21	Santa Monica Clock Tower	26,700,000	(20,800,000)	-	54.5	94.7
COMM 2014-CR14, COMM 2014-LC15	McKinley Mall	35,022,184	(16,271,049)	23,302,954	89.0	274.3
GSMS 2012-GCJ9	Signature Place Office	22,967,804	(7,800,000)	1,398,479	88.7	126.9
MSC 2008-T29	Reparto Metropolitano	20,240,461	(6,523,596)	8,775,753	112.5	176.4
MSC 2007-IQ16	Kmart Portfolio Roll-Up	11,356,260	(6,000,000)	244,435	81.1	142.0

Source: Morningstar Credit Ratings, LLC

Significant Value Changes Among Watchlist and Specially Serviced Loans

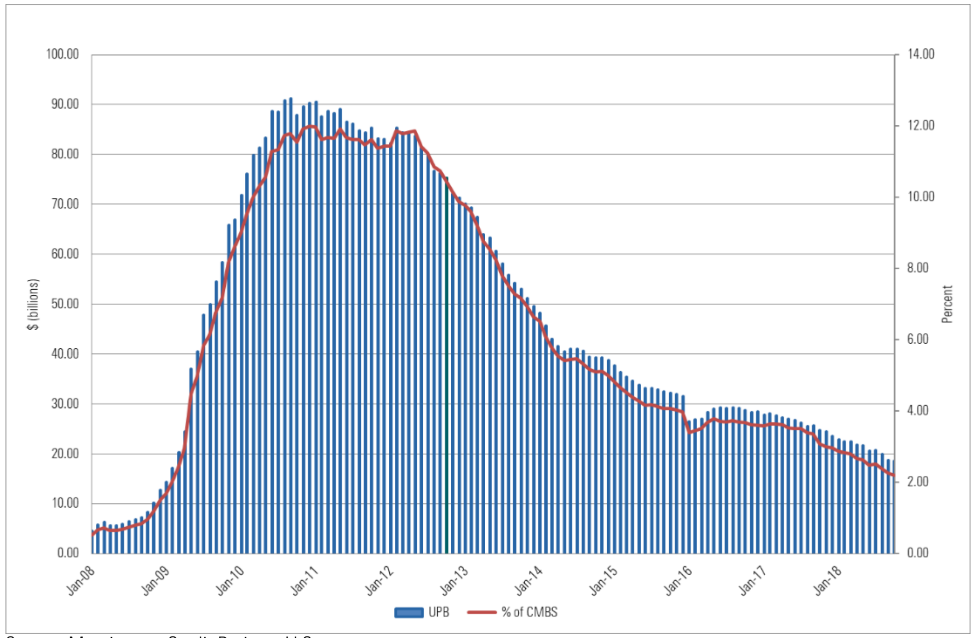
In October, we raised our value on properties securing 15 loans with a combined balance of $562.7 million, while we lowered our values on properties securing 33 loans with a combined balance of $973.0 billion. Of these, 20 loans showed value declines that resulted in increased loss forecasts. For example, we reduced our value of the Bangor Mall to $14.7 million from $28.9 million. The $80.0 million loan in MSC 2007-IQ16 was transferred to special servicing in mid-2017 because of imminent maturity default even though the cash flow at the 534,919-square-foot regional mall in Bangor, Maine, was relatively stable. The loss of the Macy's and Sears and the lack of amortization over the loan term likely contributed to the default. With a significant value decline, Simon Property Group informed the servicer that it would not pursue a loan modification. The property was most recently appraised in August 2018 for $17.3 million, down from $128.0 million at underwriting.

Separately, the collateral backing the $35.0 million McKinley Mall loan, a 728,133-square-foot portion of an 846,000-square-foot regional mall is down two anchors after Macy's and Bon-Ton closed. Further, the mall has lost a number of in-line tenants including Ulta Beauty and Gap, while Old Navy is paying reduced rent in connection with its cotenancy clause. The two remaining anchors at the Buffalo, New York, mall are struggling as well. Sears recently filed for Chapter 11 bankruptcy protection, although the mall's store is not targeted for closure, and J.C. Penney continues to report poor sales and margin growth. The collateral was most recently appraised in July for $15.0 million, down from $56.5 million at underwriting.

Special-Servicing Exposure

The special-servicing UPB continued its descent, hitting another postcrisis low of $18.57 billion, ticking down $207.5 million from September. The special-servicing rate also hit a postcrisis low of 2.20%, down 5 basis points from September. While legacy CMBS now accounts for 3.5% of the CMBS universe, specially serviced loans from deals issued before 2010 represent 73.4% of all specially serviced loans by balance. Retail and office assets continue to represent the bulk of specially serviced loans, with more than 70% of the exposure combined.

Chart 1 – Special-Servicing Balance and Rate January 2008 – October 2018



Source: Morningstar Credit Ratings, LLC

Special-servicing transfers increased by $240.1 million to $500.9 million in October and was evenly divided between precrisis and postcrisis loans. The $67.5 million Southland Mall loan in JPMCC 2014-FL6, the largest postcrisis transfer, may have difficulty paying off on its fully extended maturity date in May 2019 because the largest tenant vacated. Kmart, which occupied 18.2% of the property, closed in 2017 ahead of its November 2019 lease expiration. We believe that the loan metrics coupled with Kmart's closure will make it difficult to find takeout financing. The loan has a large amount of mezzanine debt totaling $51.0 million, which pushes the debt yield down to a mediocre 8.4% on the total debt stack, which may put the borrower in a precarious position. The metrics on the trust loan are strong; however, with a debt yield of 14.8%, leading us to project no loss on the trust debt.

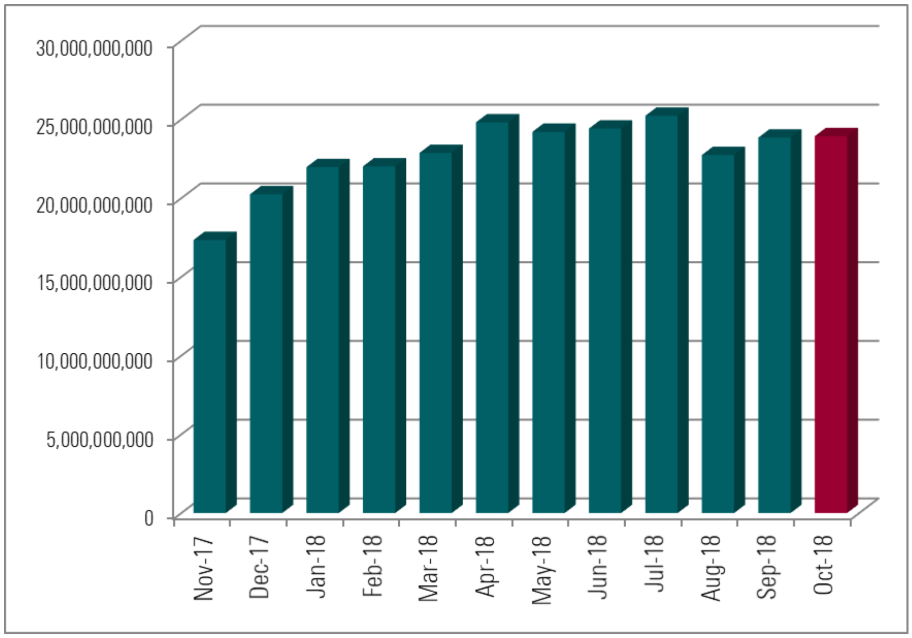
Separately, we project a $24.4 million loss on the $109.6 million Fireman’s Fund loan, with pari passu pieces in GECMC 2005-C4 and BACM 2005-5, which was the largest precrisis transfer. The 710,330-square-foot Class A office complex in Novato, California, has been fully vacant since the sole tenant, Fireman's Fund vacated the property in 2015, however, the tenant continued to make payments through its November 2018 lease expiration. The loan failed to pay off before its final maturity in October, and backfilling the space has been challenging because of the submarket's high vacancy rate of 43%, according to CoStar Group, Inc.

Watchlist Exposure

Following September’s $1.11 billion jump, the Morningstar Watchlist volume edged up by $92.3 million to $23.94 billion. In October, we added 61 loans with a total UPB of $1.09 billion to the Watchlist, down from $1.31 billion added in September. Morningstar also removed 31 loans from the Watchlist, eight of which were transferred to special servicing.

Although Morningstar’s Watchlist balance dropped from its recent peak of $25.23 billion in July, it increased significantly since reaching a postcrisis low of $17.34 billion in November 2017. Its 38.0% increase since late last year suggests that forward-looking risk is increasing. We believe that postcrisis deals will become more exposed to credit events, such as competition from new construction, vacating tenants, and general changes in market demand, as they season. With issuance volumes surging in 2014 and 2015, a large percentage of postcrisis deals are progressing further along the seasonality curve, exposing loans to risks that were not prevalent at issuance, including new supply/increased competition and changing space requirements spurred by technology disruptors across all major property types.

Chart 2 – Morningstar Watchlist Volume – Trailing 12 Months ($)



Source: Morningstar Credit Ratings, LLC

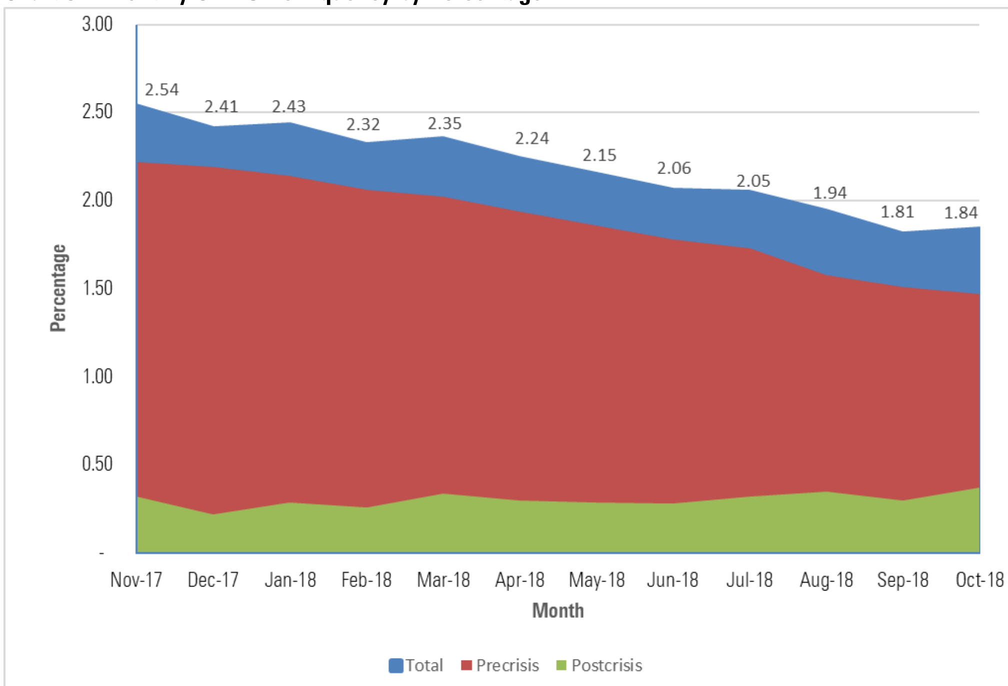
The collateral for the BlueMountain Lodging Portfolio loan in JPMCC 2015-FL7, the largest master-serviced loan added to our Watchlist at $110.0 million, includes 16 Marriott-branded hotels. A high amount of total debt, declining cash flow, and no amortization could leave the borrower on shaky ground as the loan's final maturity approaches in September 2019. Net cash flow for the trailing 12 months ended June 2018 was 11.2% lower than year-end 2017 and 16.8% below the underwritten amount. Further, with total debt of $150.0 million, including $40.0 million in mezzanine debt, our $155.0 million value suggests a total debt loan-to-value of 96.8%. Although total debt is high, the trust debt LTV is more palatable at 71.0%.

Delinquency

After declining for six straight months, the CMBS delinquent UPB rose to $15.55 billion, up $476.8 million from $15.08 billion in September, while the delinquency rate edged up 3 basis points to 1.84% from 1.81% from the prior month. The balance of delinquent loans is down $3.76 billion from January, and down $6.09 billion, or 28.1%, from the year-earlier period. Delinquencies from deals issued from 2010 through 2018 remain a small portion of the total, representing just 0.37% of the CMBS universe, while delinquent precrisis loans account for 1.47%, suggesting that continued loan workouts and resolutions will put downward pressure on the overall delinquency rate.

Since peaking at 8.5% in May 2012, the delinquency rate steadily declined; however, we believe the rate will reach an inflection point in 2019 or 2020. The burning off of legacy loans has been a significant factor in the steady decline in recent years, though its impact will fizzle, with the legacy balance representing less than 4% of the universe today and declining rapidly.

Chart 3 – Monthly CMBS Delinquency by Percentage



Source: Morningstar Credit Ratings, LLC

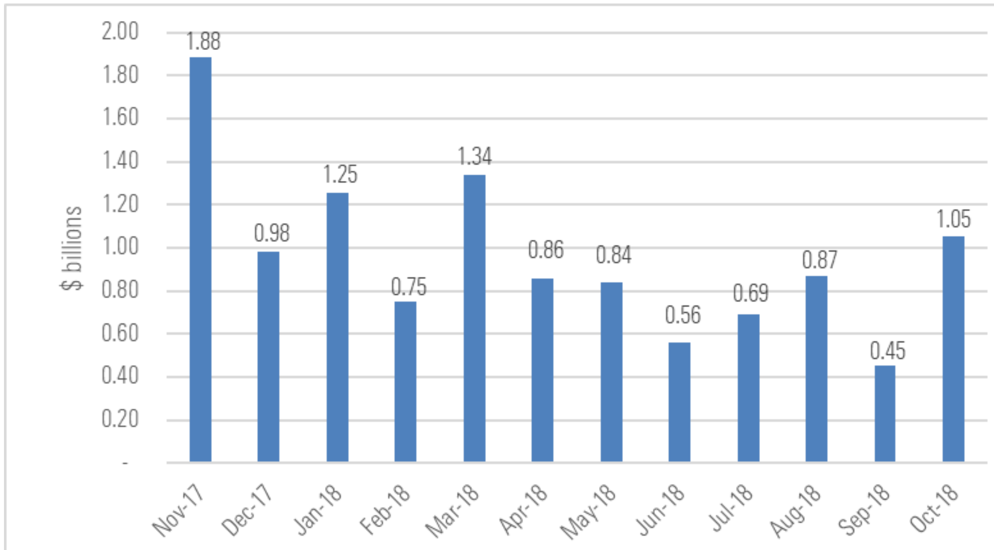
Table 2 – Trailing 12 Months Delinquency ($ UPB in billions)

Category	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
30-Day	2.02	0.95	1.03	0.86	1.27	1.08	0.79	0.67	1.00	1.10	0.54	0.60
60-Day	0.63	0.4	0.68	0.27	0.34	0.62	0.24	0.26	0.30	0.37	0.23	0.31
90-Day	2.95	2.99	2.92	2.57	2.52	2.26	2.25	2.05	1.65	1.79	1.8	1.7
Foreclosure	5.16	5.33	5.3	5.03	4.85	4.55	4.21	4.24	3.89	3.67	3.43	3.15
Real Estate Owned	10.15	9.49	9.39	9.65	9.86	9.86	10.2	9.83	10.05	9.25	9.07	9.79
Total CMBS Del.	20.90	19.16	19.32	18.38	18.85	18.36	17.69	17.05	16.88	16.19	15.08	15.55
Current	801.98	774.77	775.01	774.84	781.77	800.45	804.38	809.30	807.17	818.93	818.27	828.40
Total CMBS	822.88	793.93	794.33	793.22	800.62	818.82	822.07	826.35	824.05	835.12	833.35	843.95
Delinquency %	2.54	2.41	2.43	2.32	2.35	2.24	2.15	2.06	2.05	1.94	1.81	1.84

Source: Morningstar Credit Ratings, LLC

The volume of newly delinquent loans hit a seven-month high, rising by $601.3 million from $453.3 million in September. More than half of this month's increase is attributed to two large loans that became real estate owned and were previously current, including the $405.0 Toys 'R' Us loan and the $108.7 million Central Mall Portfolio loan in MSC 2005-IQ9.

Chart 4 – Newly Delinquent Loans



Source: Morningstar Credit Ratings, LLC

Compared with year-ago levels, the office sector saw the largest decline in delinquent balance, tumbling $2.78 billion, or 37.6%, as liquidations have far outpaced newly delinquent loans. By dollar amount, the other four major property types exhibited the following activity year over year:

- Retail loan delinquency dropped by $1.46 billion, or 18.4%, to $6.45 billion from $7.91 billion one year ago, because more loans were either liquidated or resolved than were replaced with newly delinquent loans.
- Industrial loan delinquency had the largest percentage decrease, falling 49.7% to $534.7 million from $1.06 billion one year ago.
- Multifamily loan delinquency eased by $264.6 million, or 15.4%, to $1.45 billion from $1.72 billion one year ago.
- Hotel delinquency declined by $675.4 million, or 32.7%, to $1.39 billion from $2.06 billion one year ago.

Table 3 – October Delinquency by Property Type

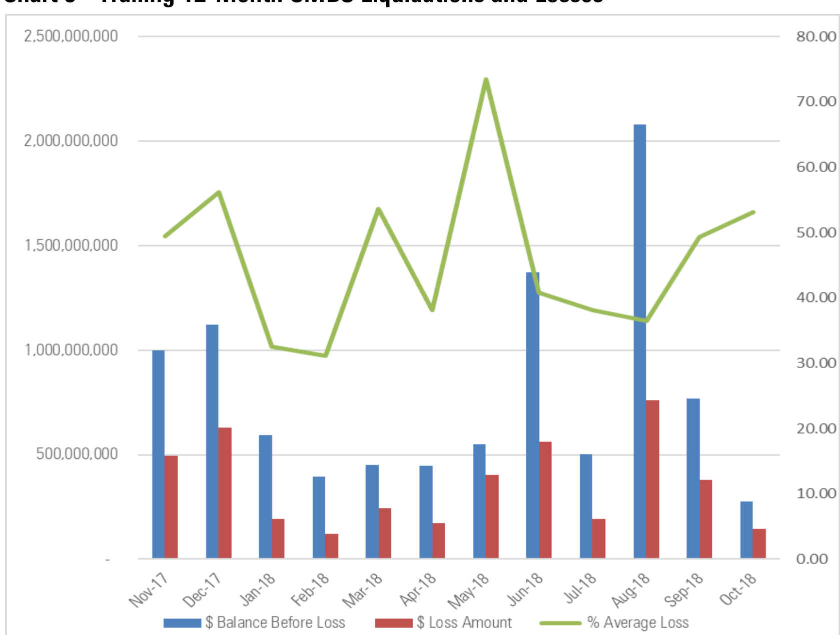
Property Type	$ Current Balance	# Loans	% of CMBS Universe	% of CMBS Delinq.	% of Property Type
Healthcare	59,630,000	3	0.01	0.38	1.95
Hotel	1,389,049,568	80	0.16	8.93	1.78
Industrial	534,707,116	36	0.06	3.44	2.44
Multifamily	1,450,549,722	363	0.17	9.33	0.34
Office	4,605,300,274	216	0.55	29.61	3.66
Other	1,064,777,274	53	0.13	6.85	1.63
Retail	6,450,115,494	426	0.76	41.47	5.09
Total	15,554,129,447	1,177	1.84	100.00	

Figures may not sum to totals because they are rounded.
Source: Morningstar Credit Ratings, LLC

CMBS Liquidations

The volume of liquidated loans eased for the second consecutive month, tumbling to $274.9 million in October from $767.1 million in September. The weighted average loss severity registered 53.1%, up from 49.3% in September, primarily because of the 100% write-off for three loans with a combined balance of $34.6 million and the liquidation of the $59.5 million Stamford Marriott loan, which took a 58.8% loss. A 506-room full-service hotel in downtown Stamford, Connecticut, backed the loan. The loan, which backed 28.7% of JPMCC 2007-C1 at disposition, had been in special servicing since 2015. This is one of a number of large Stamford loans that were liquidated over the past few years. High taxes, an antibusiness environment, and a deteriorating infrastructure have all played a role.

Chart 5 - Trailing 12-Month CMBS Liquidations and Losses

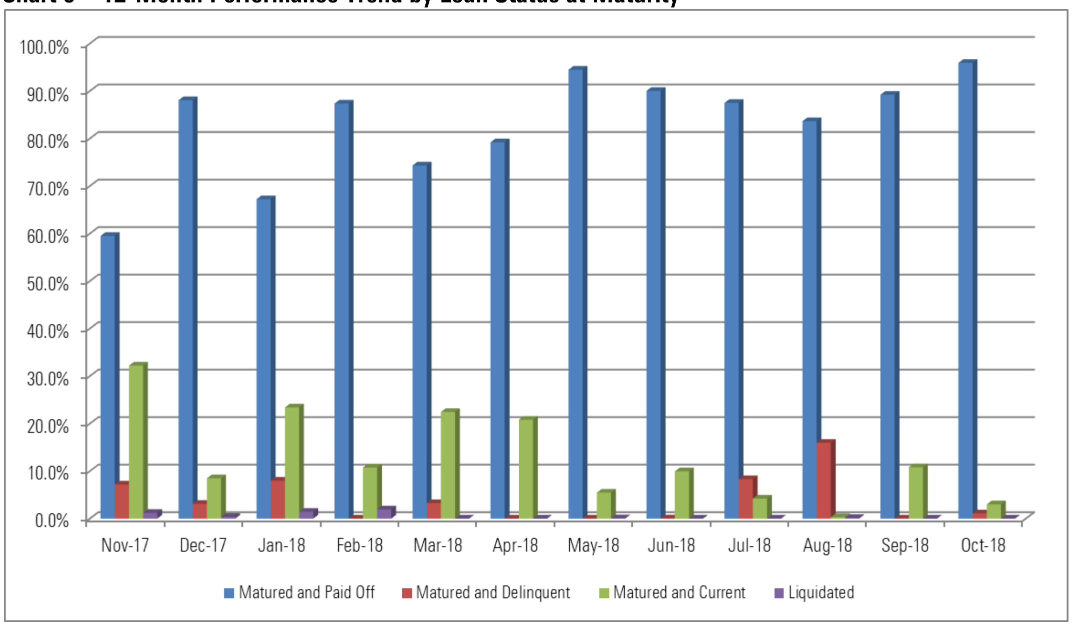


Source: Morningstar Credit Ratings, LLC

Monthly Maturity

With the 2015-17 maturity wave behind us, the maturity payoff rate remained above 80% for the sixth straight month as precrisis loans represented just 4.8% of October's maturing loan balance. The $18.2 million Portofino on the Park loan in FREMF 2012-K706 is the largest loan that failed to pay off that remains outstanding as of the date of this report. According to the servicer, it agreed to a 60-day maturity extension to accommodate refinancing. We have little concern because of performance. The 235-unit, Class B, garden-style multifamily property in Upland, California, saw 2017 net cash flow rise nearly 75% from underwritten.

Chart 6 – 12-Month Performance Trend by Loan Status at Maturity



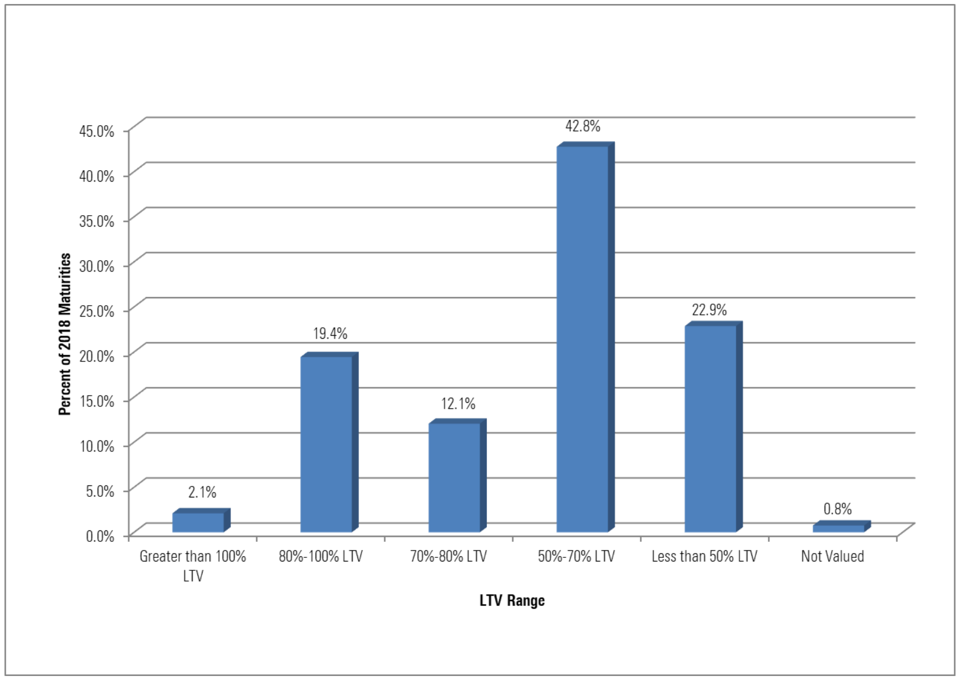
Source: Morningstar Credit Ratings, LLC

Maturity Outlook for 2018

The year-to-date payoff rate stands at 83.8%. With $1.17 billion of CMBS loans that will mature through the remainder of 2018, most with LTVs below 80%, we project that the payoff rate will finish the year around 85%.

The largest loan of concern is the $31.3 million Ridgmar Mall, 2.3 of COMM 2014-UBS5. Our analysis suggests a 92.5% LTV on the loan, which matures in November. Vacancy at the 1.27-million-square-foot in Fort Worth, Texas, has increased because of in-line tenant departures following Neiman Marcus, Macy's, and Sears' departures.

Chart 7 - 2018 Maturing Loans – Morningstar LTVs



Source: Morningstar Credit Ratings, LLC

Although LTV is a reasonable barometer in Morningstar's maturity analysis, a loan's refinancing ability is also subject to its debt service coverage ratio, debt yield, amortization, and lease expiration risk. Beyond an individual property's performance, factors such as capitalization rates and specific real estate market trends also will influence a loan's refinance prospects.

Once logged into Morningstar's CMBS Credit Risk Monitoring and Analytics, clients have access to loan-level details for all maturing loans in Microsoft Excel format by clicking the download icon at the top of Page 1.

Detailed Morningstar analyses and value estimates for all delinquent, matured-delinquent, and matured-current loans as well as loans on the Morningstar Watchlist can be found in the respective Morningstar DealView CMBS Monitoring Analyses or Watchlists.

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