CMBS Research

DBRS Morningstar Monthly Highlights

CMBS Subscribers Excel Download

DBRS Morningstar Credit Ratings

November 2019 Remittance

Contents

Executive Summary

- ► The delinquency rate set another postcrisis low in November, tumbling 13 basis points to 1.24% thanks to a sharp reduction in the volume of delinquent loans.
- ► The delinquency rate fell in 19 of the past 23 months and is down 47 basis points from a year ago. Morningstar Credit Ratings, LLC (DBRS Morningstar) believes the delinquency rate will hold below 2% well into 2020.
- ► The balance of loans on the DBRS Morningstar Watchlist ticked down $321.2 million to $32.88 billion, from $33.20 billion in October. A slowing economy and overbuilding in some markets may push the Watchlist balance higher.
- ► The special-servicing unpaid principal balance (UPB) rose for the first time in seven months, ticking up to $14.83 billion from $14.61 billion in October, while the special-servicing rate remained flat at 1.61%.
- ► The portion of specially serviced postcrisis loans now accounts for about 48% of the total, up from roughly 28% in November 2018.
- ► Our projected losses on specially serviced loans have improved over the past 12 months, falling $2.52 billion since November 2018.
- ► We expect the 2019 maturity payoff rate to finish the year around 80%, and looking ahead, we expect the 2020 payoff rate to come in between 75% and 80%.

Table 1 – Significant Value Changes Among Large Loans

Deal ID	Asset Name	Loan Balance ($)	Value Change ($)	Loss Forecast ($)	Previous MORN LTV (%)	Current MORN LTV (%)
COMM 2014-UBS4	30 Knightsbridge	55,437,706	(23,860,461)	734,725	74.5	109.7
COMM 2014-UBS2	Canyon Crossing	43,469,615	(17,798,002)	12,567,248	89.6	133.6
LBCMT 2007-C3	University Mall	92,000,000	(16,000,000)	70,494,336	227.6	344.6
MSBAM 2014-C16	Aspen Heights - Stillwater	37,702,321	(14,500,000)	2,239,721	75.9	103.9
FREMF 2011-K11	Harbor Cove	15,194,417	(9,870,130)	934,909	66.9	118.2
MLMT 2008-C1	Stony Brook South	14,100,000	(7,600,000)	5,243,470	85.7	158.4
COMM 2015-CR25	Monarch 815 at East Tennessee State	31,334,338	5,670,000	12,254,014	199.1	131.9
JPMCC 2015-JP1	Holiday Inn Baltimore Inner Harbor	37,132,898	7,039,750	16,698,934	245.9	159.3
JPMCC 2014-C20	Lincolnwood Town Center	47,702,065	9,929,000	957,266	140.5	108.7
CGCMT 2015-GC27	Highland Square	38,220,000	11,500,000	3,316,176	162.8	108.9

Source: DBRS Morningstar

Significant Value Changes Among Watchlist and Specially Serviced Loans

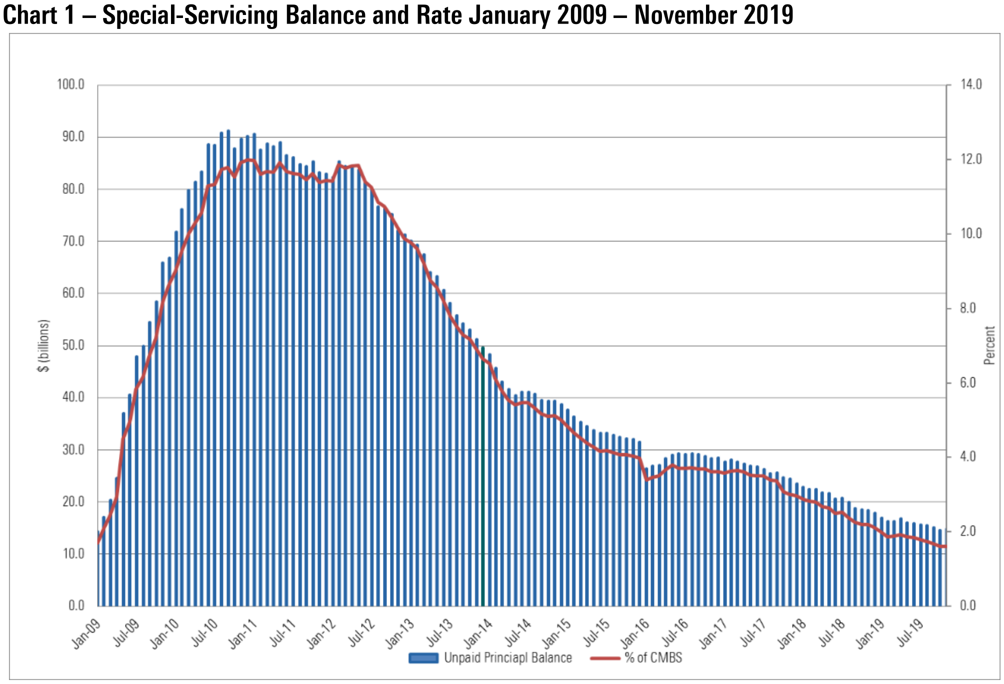
In November, we raised our value on properties securing 19 loans with a combined balance of $1.15 billion, while we lowered our values on properties securing 32 loans with a combined balance of $588.7 million. Of these, 14 loans showed value declines that resulted in increased loss forecasts.

The $55.4 million 30 Knightsbridge loan in COMM 2014-UBS4 had the largest value decline among loans on our Watchlist. We reduced our estimate of collateral value by $23.9 million to $50.5 million because the largest tenant, AT&T, is vacating the nearly 700,000-sf Piscataway, New Jersey office property. The loss of AT&T, which leases roughly 40% of the space on a lease that expires at year-end 2019 and contributes about 32% of underwritten base rent, will cut occupancy to about 54%. The borrower is also responsible for $6.0 million in mezzanine debt. While AT&T's rent was in line with the submarket, CBRE Econometric Advisors projects submarket vacancy will decline to 11.9% in 2024 from 14.3% as of Q3 2019, which should buoy the borrower's prospects for filling the space. Our $50.5 million value is based on a discounted cash flow analysis, which assumes the property is leased to 87.0% market occupancy over five years, and suggests a 101.0% loan-to-value ratio (LTV).

Special-Servicing Exposure

After hitting a postcrisis low of $14.60 billion in October, the special-servicing UPB rose for the first time in seven months, ticking higher to $14.83 billion, up $225.6 million from October, while the special servicing rate was stable at 1.61%. Because the volume of troubled precrisis loans continues to shrink, the portion of specially serviced postcrisis loans now accounts for about 48% of the total, up from roughly 28% in November 2018.

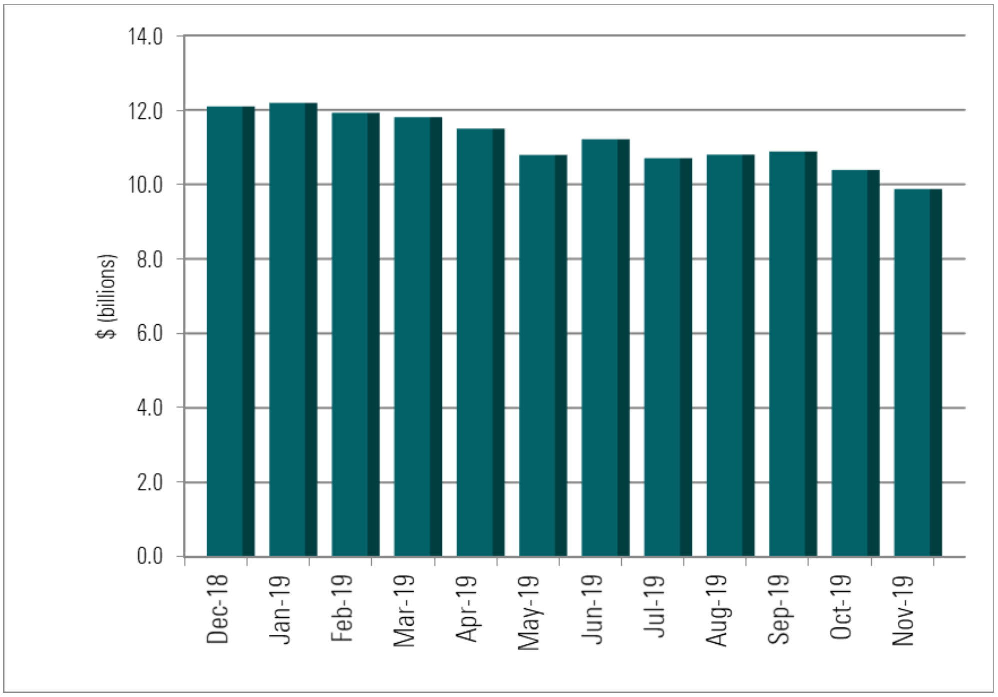
Chart 1 – Special-Servicing Balance and Rate January 2009 – November 2019



Source: DBRS Morningstar

Our projected losses on specially serviced loans edged down $510.6 million to $9.88 billion from $10.39 billion in October and has improved over the past 12 months, down $2.52 billion since November 2018.

Chart 2 – DBRS Morningstar Loss Forecast on Specially Serviced Loans



Source: DBRS Morningstar

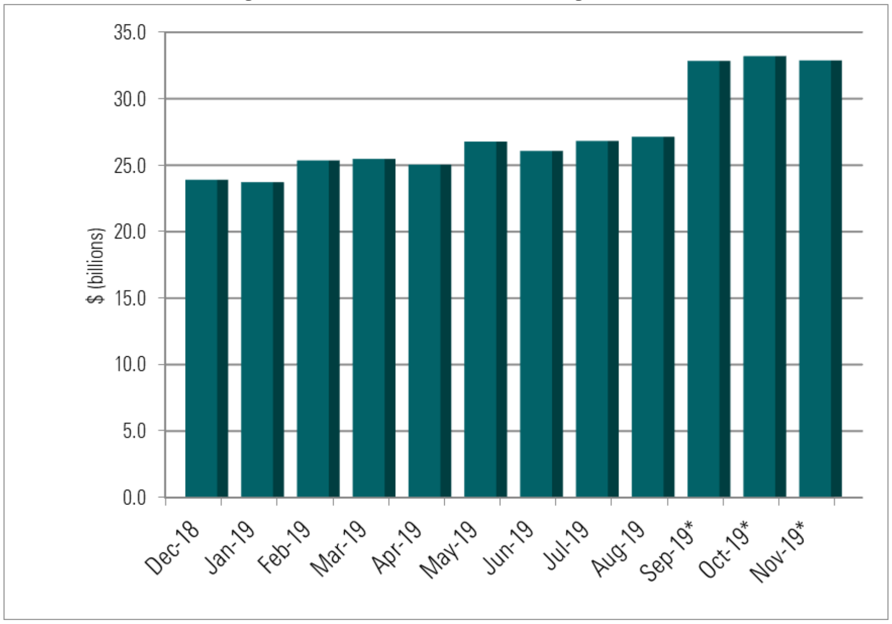
The volume of special-servicing transfers jumped to its highest level since mid-2017, rising to $1.31 billion, up $1.07 billion from October. Of the 34 loans that transferred in November, the $680.8 million Starwood Mall Portfolio was the largest and it's also the largest loan in special servicing. We cut our value of the collateral backing the single-borrower $680.8 million SRPT 2014-STAR deal by $88.0 million to $593.5 million after the loan was transferred to the special servicer in November for the second time because of maturity default. The loan had previously transferred to the special servicer in 2017 as its initial maturity date approached and the collateral's net cash flow (NCF) declined to levels too low to justify an extension. This prompted the special servicer to extend the loan subject to terms of a modification, which included the borrower paying down the principal balance by $44.2 million and lowering the debt yield threshold for a second extension. NCF for the four super-regional malls in Florida, Virginia, North Carolina, and Michigan has steadily declined since issuance, ending 2018 down 20.2% from underwriting. We previously alerted readers in May and October 2019 of elevated maturity default risk and raised concerns over the properties' anchor-tenant losses and bankruptcies affecting in-line tenants. Our valuation based on a discounted cash flow analysis projects a loss of $93.2 million and an LTV of 114.7%.

However, the sponsor, Starwood Capital Group, has considerable equity in the deal, and, after Nordstrom closed its store at the Mall at Wellington Green, Starwood proposed redeveloping the property to include multifamily residential space, retail stores, restaurants, a hotel, and outdoor recreation, according to the *Palm Beach Post*. Consequently, DBRS Morningstar believes the loan will likely be modified and extended, with the potential for an A/B note split, which will give Starwood time to sell off the assets.

Watchlist Exposure

The DBRS Morningstar Watchlist registered $32.88 billion, down from $33.20 billion in October. Given the increase in conduit origination (the outstanding balance is up over 15% in the past four years) we expect the Watchlist percentage to rise as a result of increasing forward-looking risks as postcrisis deals become more exposed to credit events.

Chart 3 – DBRS Morningstar Watchlist Volume – Trailing 12 Months ($)



*Beginning in September 2019, Watchlist volume reflects the addition of certain Freddie Mac Watchlist loans that were not previously reported.
Source: DBRS Morningstar

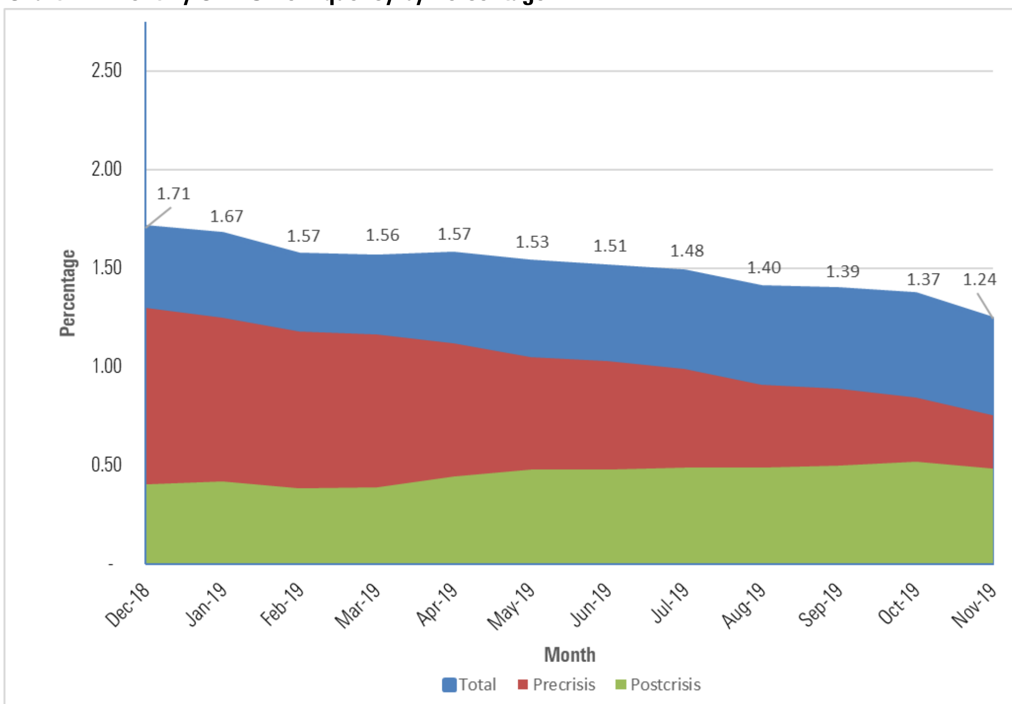
The largest loan we added this month was the $98.6 million Chesterfield Towne Center loan in WFRBS 2012-C9 because the noncollateral Sears store will close in early 2020. The two remaining department store anchors are Macys, with a January 2021 lease expiration, and a noncollateral JCPenney store. With retailers continuing to pull out of secondary and tertiary malls, Chesterfield Towne Center in Richmond, Virginia, has held its own, transitioning the more than 100,000-sf Garden Ridge to an At Home store and maintaining occupancy at more than 90% since underwriting. NCF at the 947,023-sf regional mall and adjacent 71,843-sf shopping center in Richmond, Virginia, has improved since issuance, posting a 1.81x debt service coverage ratio (DSCR) for the first nine months of 2019, up from 1.52x at underwriting. Despite improving cash flow, lenders have become increasingly wary of regional malls, especially those with an empty anchor, potentially jeopardizing the loan’s October 2022 maturity. Our analysis suggests a $110.4 million value and an 89.3% LTV.

Delinquency

The CMBS delinquency rate posted another postcrisis low in November, dropping 13 basis points down to 1.24% from 1.37% in October, because the size of the balance of delinquent loans fell by nearly $1 billion while the balance of the CMBS universe rose more than $12 billion. The balance of delinquent loans is down $3.84 billion, or 25.1%, from the year-earlier period.

However, the delinquency rate of postcrisis, or CMBS 2.0, loans has been climbing. In May 2018, only 0.29% of postcrisis loans were delinquent; by November 2019, the rate had risen to 0.49%. As legacy loans dwindle, their effect on falling delinquency rates will lessen and postcrisis problem loans will take center stage. While we believe the rate could still fall as the remaining legacy loans are liquidated, we anticipate an inflection point in 2020, when a slowing economy and changing consumer trends could cause certain loans to falter.

Chart 4 – Monthly CMBS Delinquency by Percentage



Source: DBRS Morningstar

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

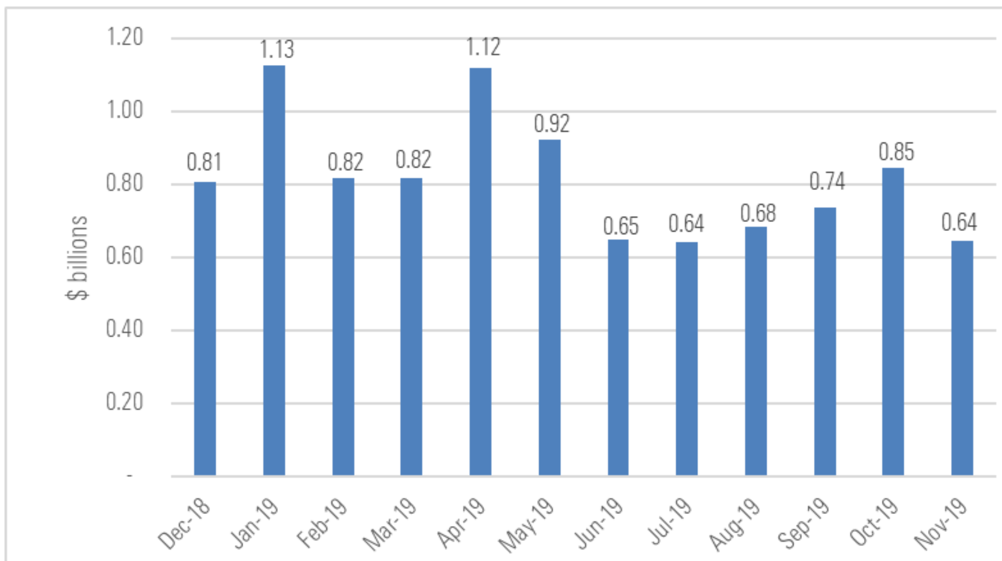
Category	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
30-Day	0.94	1.25	0.90	0.94	1.30	1.21	1.00	0.73	0.90	0.88	1.00	0.72
60-Day	0.39	0.38	0.42	0.51	0.30	0.53	0.60	0.64	0.52	0.56	0.48	0.51
90-Day	1.47	1.72	1.65	1.55	1.88	1.77	2.03	2.2	2.08	2.08	2.23	2.23
Foreclosure	2.62	2.42	1.93	1.87	1.81	1.72	1.49	1.43	1.55	1.53	1.5	1.50
Real Estate Owned	9.07	8.59	8.78	8.64	8.44	7.99	7.95	7.85	7.47	7.4	7.24	6.50
Total CMBS Del.	14.49	14.36	13.68	13.51	13.73	13.22	13.07	12.85	12.52	12.45	12.45	11.45
Current	834.09	836.63	855.53	854.09	860.62	849.85	850.93	852.49	879.77	880.31	897.24	910.56
Total CMBS	848.58	850.99	869.22	867.60	874.35	863.07	864.00	865.34	892.29	892.76	909.69	922.01
Delinquency %	1.71	1.69	1.57	1.56	1.57	1.53	1.51	1.48	1.40	1.39	1.37	1.24

Source: DBRS Morningstar

The volume of newly delinquent loans moved slid to $643.3, million, a decrease of $201.8 million from October and is in line with the 12-month moving average,.

The $127.4 million Two North LaSalle loan in CSMC 2007-C2 was the largest newly delinquent loan. The loan failed to pay off by its extended November 2019 maturity date and was transferred to the special servicer. The collateral, a 691,410-sf, Class B office property in Chicago's central business district, was about 60% leased in November, according to CoStar Group, Inc., down from 99.0% at underwriting. We expect occupancy to rebound next year because the city of Chicago will occupy 222,000 sf at the property, with an option to increase its footprint by another 75,000 sf by 2023. Our valuation based on a 2016 appraisal, which valued the property at $120.0 million, suggests a potential loss of about $7 million. However, we believe the loan will be able to refinance because of occupancy that's expected to improve to more than 90%.

Chart 5 – Newly Delinquent Loans



Source: DBRS Morningstar

Compared with year-ago levels, the industrial sector, which represents just 2.5% of total delinquent loans, saw the largest percentage decline in delinquent balance, tumbling 44.7%, or $230.5 million, to $285.3 million because of several large loans that were liquidated or paid off. By percentage, the other four major property types exhibited the following activity year over year:

- Office delinquency declined by 42.2% to $2.65 billion from $4.58 billion one year ago, as liquidations far outpaced newly delinquent loans.
- Retail loan delinquency dropped 24.9% to $4.85 billion from $6.46 billion one year ago.
- Hotel loan delinquency fell 13.1% to $1.19 billion from $1.37 billion one year ago.
- Multifamily loan delinquency, which represents 15.0% of all delinquencies, rose by 26.2% to $1.72 billion from $1.36 billion one year ago because of a rise in delinquent small-balance agency loans.

Table 3 – November Delinquency by Property Type

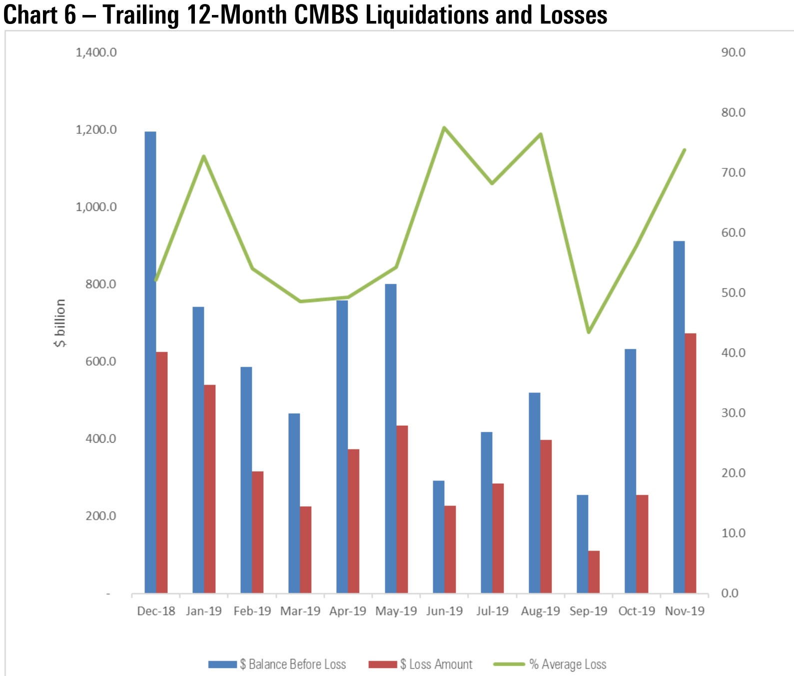
Property Type	$ Current Balance	# of Loans	% of CMBS Universe	% of CMBS Delinquencies	% of Property Type
Retail	4,849,681,116	317	0.53	42.34	3.80
Office	2,649,083,136	127	0.29	23.13	1.94
Multifamily	1,718,511,146	356	0.19	15.00	0.36
Hotel	1,186,812,654	84	0.13	10.36	1.44
Other	700,456,900	38	0.08	6.12	0.88
Industrial	285,317,375	19	0.03	2.49	1.12
Healthcare	64,468,700	4	0.01	0.56	3.31
Total	11,454,331,027	945	1.24	100.00	-

Note: Figures may not sum to totals because they are rounded.
Source: DBRS Morningstar

CMBS Liquidations

Following the liquidation of a long-distressed legacy Washington, D.C., office portfolio that was issued in 2007, CMBS losses and loss severity spiked in November. Average loss severity shot up to 73.9% from 57.9% in October as losses rose to $674.1 million from $254.6 million. The $678 million real estate owned asset behind Vornado Realty's Skyline Portfolio in Falls Church, Virginia, represented nearly 75% of November's overall balance. The portfolio of eight office buildings with 2.6 million sf in Falls Church, Virginia, which previously was owned by Vornado Realty Trust, was securitized among three legacy CMBS deals: GECMC 2007-C1, JPMCC 2007-LDPX, and BACM 2007-1. The Base Realignment and Closure (BRAC) statute, which prompted the Department of Defense to consolidate its space, sharply reduced portfolio occupancy. Following a modification, the debt was split between six A and B note pieces, with the hope notes written off in full while the A notes were paid off with a 60% loss, resulting in a $536.6 million loss.

Chart 6 – Trailing 12-Month CMBS Liquidations and Losses



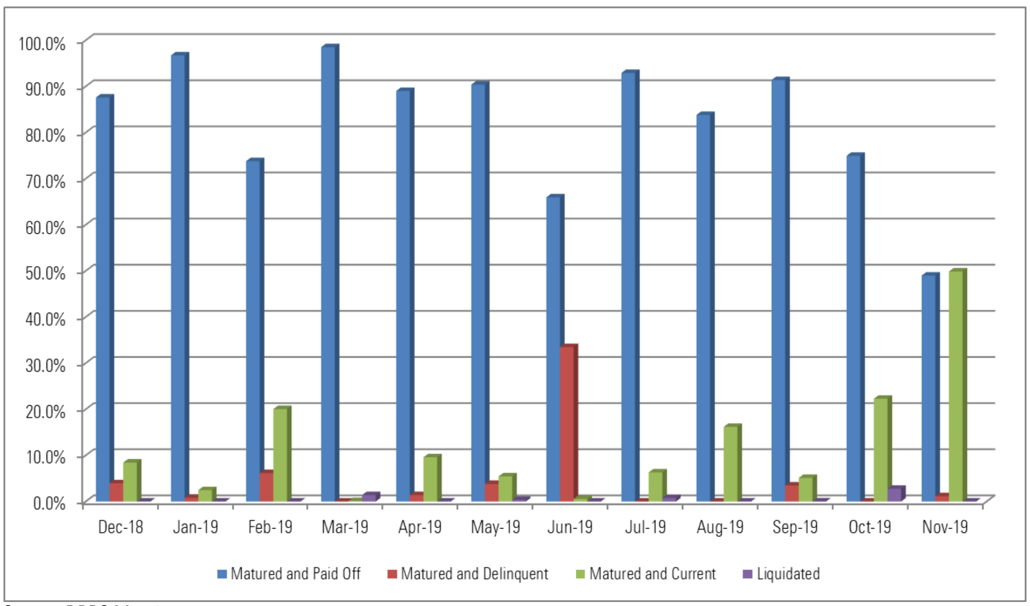
Source: DBRS Morningstar

Monthly Maturity

The payoff rate suffered its worst decline since we began tracking the statistic in 2014, tumbling to 49.0% from 74.9% in October, largely attributable to the $450.0 million Parkmerced loan in LCCM 2014-PKMD, which paid off before the date of this report. Without the Parkmerced maturity default, the November payoff rate would've been 88.8%.

The $46.1 million VA Office Portfolio loan, 4.3% of MSBAM 2015-C20, was the largest loan to default on its November maturity date that remains outstanding. The year-end 2018 NCF for the three office buildings totaling 344,219 sf in Fairfax County, Virginia, and Washington, D.C., fell roughly 37% below underwriting, with occupancy dipping to about 73%. The DSCR for the first nine months of 2019 was 0.63x on 77.0% occupancy. All three locations have historically been strongly dependent on government-driven office demand. While no government tenants lease space at the property, reductions in government spending can have a domino effect on the area's office market. Based on our concluded value, we are calculating an elevated LTV of 117.3%.

Chart 7 – 12-Month Performance Trend by Loan Status at Maturity

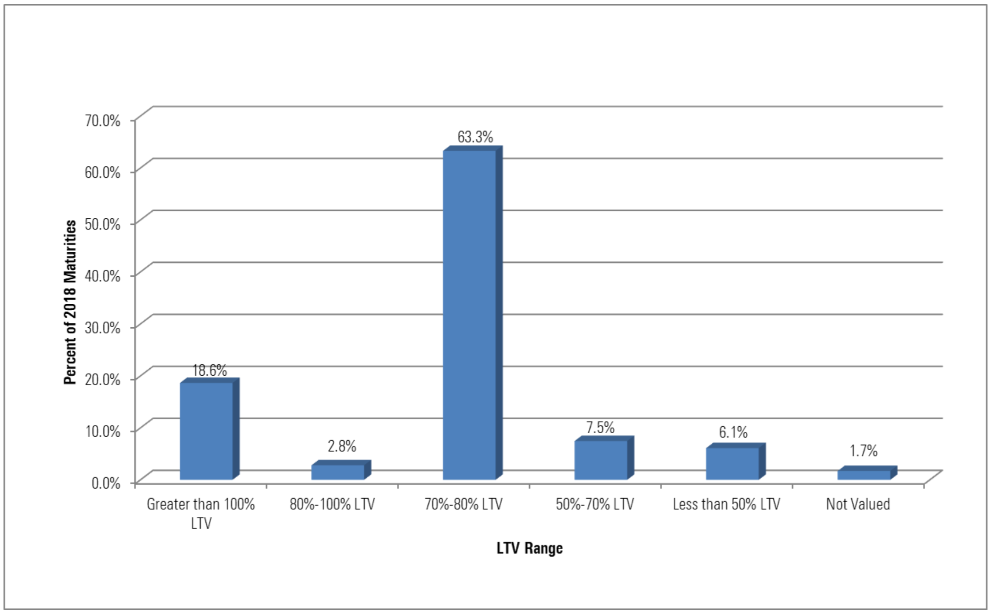


Source: DBRS Morningstar

Maturity Outlook for 2019

About $818.1 million of CMBS loans will mature in December. We have valued approximately 98.3% of them, and 21.4% have LTVs greater than 80%. Consequently, we expect the maturity payoff rate for 2019 will come in at about 80%, little changed from 78.3% through the first 11 months of the year. This information is displayed in Chart 8.

Chart 8 – 2019 Maturing Loans – DBRS Morningstar LTVs

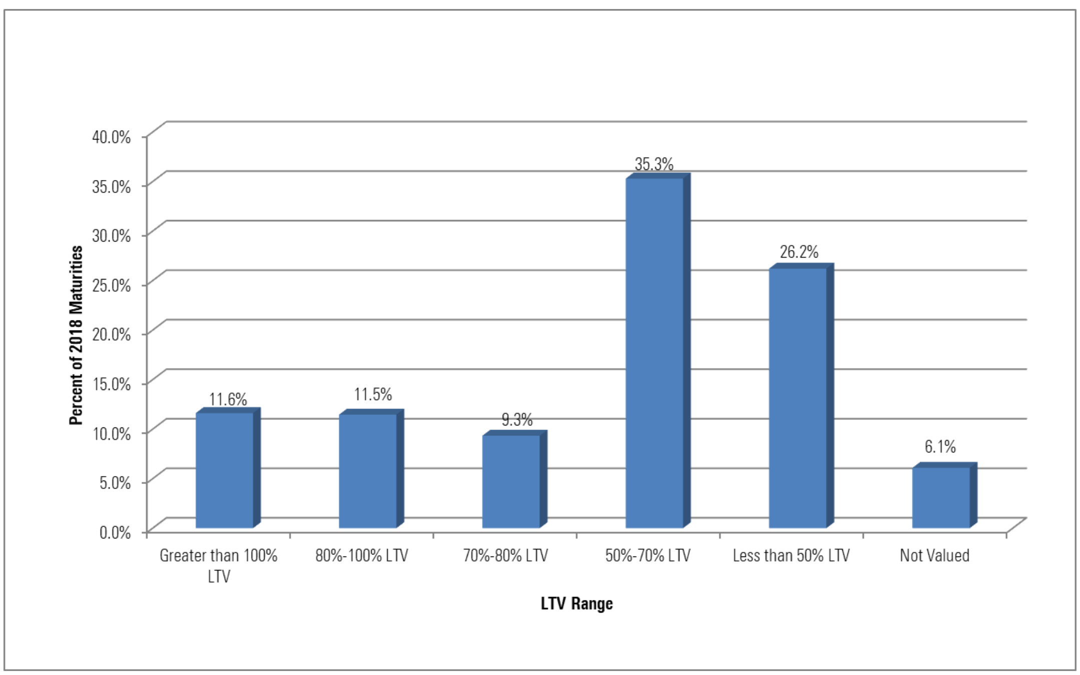


Source: DBRS Morningstar

Maturity Outlook for 2020

Looking ahead to 2020, some $16.68 billion of CMBS loans will mature. We have valued approximately 93.9% of them and project that the on-time payoff rate will come in between 75% and 80%, based on 23.1% of loans with LTVs greater than 80%. This information is displayed in Chart 9.

Chart 9 - 2019 Maturing Loans – DBRS Morningstar LTVs



Source: DBRS Morningstar

Although LTV is a reasonable barometer in DBRS 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 DBRS 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 DBRS Morningstar analyses and value estimates for all delinquent, matured-delinquent, and matured-current loans as well as loans on the DBRS Morningstar Watchlist can be found in the respective DBRS Morningstar DealView CMBS Monitoring Analyses or Watchlists.

DBRS Morningstar

Steve Jellinek
Vice President – CMBS Credit Risk Services
+1 312 244-7906
steve.jellinek@morningstar.com

Beth Forbes
Senior Vice President – CMBS Credit Risk Services
+1 312 244-7912
beth.forbes@morningstar.com

For More Information
+1 800 299-1665
ratingagency@morningstar.com

4 World Trade Center
150 Greenwich Street, 48th Floor
New York, NY 10007 USA