CMBS Research
Morningstar CMBS Monthly Highlights

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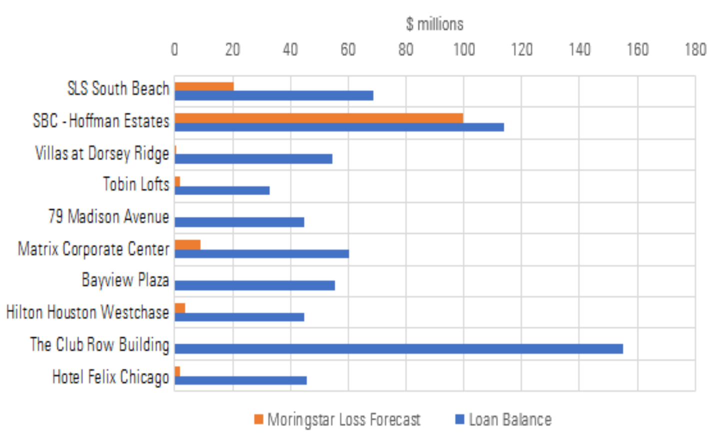
Morningstar Credit Ratings
February 2018 Remittance

Contents

Executive Summary

- The delinquency rate in February improved to 2.32%, down 11 basis points from January, as the balance of delinquent loans fell 4.9%. The delinquency rate is down 72 basis points from a year ago, and, with steady new issuance volume pushing the outstanding balance of commercial mortgage-backed securities loans higher and special servicers actively resolving or liquidating assets, Morningstar Credit Ratings, LLC believes the delinquency rate will hold below 3.0% after reaching an 18-month high of 3.19% in June.
- Delinquencies from deals issued from 2010 through 2018 remain a small portion of the total, representing just 0.3% of CMBS universe, while delinquent precrisis loans account for 2.1% of the CMBS universe.
- The February payoff rate of maturing loans in CMBS darted above 80.0% for the fourth time in the past seven months, rising to 87.3% from 67.2% in January. We anticipate that the maturity payoff rate will finish the year in the mid-80% range, as most of the remaining maturing loans have strong metrics.
- The Morningstar Watchlist remained stable at $22.02 billion, up a modest $48.0 million from January. This is the third month-over-month increase after it hit a multiyear low in November.
- The special-servicing unpaid principal balance fell for the fifth consecutive month to $22.43 billion, down $469.2 million from January, and the percentage of loans in special servicing fell to 2.83%, the lowest since March 2009, when it registered 2.43%.
- Our projected losses on specially serviced loans edged lower to $12.40 billion, down $25.3 million from January.

Chart 1 – Significant Value Declines Among Large Loans



Deal ID	Previous MORN LTV (%)	Current MORN LTV (%)	Value Change ($)	Loss Forecast ($)
DBJPM 2016-C1, Unsecuritized	55.0	164.0	(83,200,000)	20,212,500
MSC 2006-T21, BSCMS 2006-PW11	255.2	601.7	(25,650,000)	99,529,101
MSBAM 2015-C25	70.9	109.9	(27,283,920)	492,392
WFRBS 2014-C25	23.7	130.7	(84,000,000)	1,752,032
CGCMT 2016-P3	67.5	80.2	(34,504,000)	-
MSBAM 2013-C11	59.1	110.0	(35,700,000)	8,724,444
UBSBB 2013-C6	94.0	95.2	(16,300,000)	-
MSBAM 2015-C22	62.0	143.1	(82,000,000)	3,701,995
JPMBB 2015-C27, JPMBB 2015-C28	94.6	92.3	(12,300,000)	-
WFRBS 2013-C18	70.9	126.9	(27,283,920)	1,740,300

Source: Morningstar Credit Ratings, LLC

Significant Value Changes

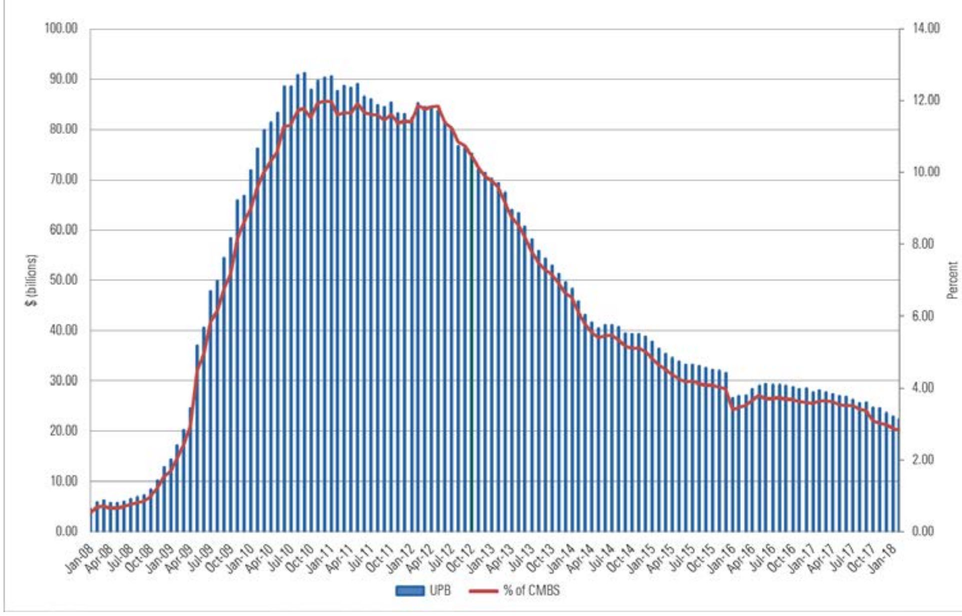
In February, we lowered our values on properties securing 66 loans with a combined balance of $2.42 billion. Of these, 33 loans showed value declines that resulted in increased loss forecasts. We lowered our value by 66.7% on the SLS South Beach. The hotel backs two pari passu notes with a combined $68.8 million balance, one of which is in DBJPM 2016-C1, while the other is not included in a CMBS transaction. By year-end 2017, the property's net cash flow declined 56.6% from underwriting, while occupancy posted a gain of 4 percentage points over the same period. We are concerned about the rising supply within the market, which may stress the 140-room, full-service hotel in Miami Beach. There has been a large influx of new supply, as 17 new hotels were completed in the surrounding area in 2016. Per CBRE Econometric Advisors, supply rose by 5.2% in the third-quarter of 2017, compared with the quarterly average of 0.8% for 2017. Revenue per available room at the property fell to $237 in 2017, down from $301 in 2015, the most recent full-year period before issuance. Previously, RevPAR was as high as $330 in 2014, which represents the beginning of the current downturn. Consequently, we lowered our value to $41.8 million from $125.0 million at underwriting, based on a 7.5% capitalization rate and 2017 net cash flow of $3.1 million, which is down from $7.2 million at underwriting.

Separately, an updated appraisal valued the SBC – Hoffman Estates office property at $21.0 million in December 2017, down from $49.5 million in October 2016. The asset, a 1.7 million-square-foot three-building office property outside of Chicago, accounts for 48.8% of MSC 2006-T21 and 62.2% of BSCMS 2006-PW11, and we forecast a loss of $99.5 million if the real estate owned asset is liquidated in the short term; however, if the asset is not sold quickly, rising exposure would increase the loss. The buildings were constructed as the regional headquarters for SBC Services Inc., with the lease guaranteed by its parent company, AT&T. The tenant vacated at expiration, and the property saw its value tumble 93.8% from $338.9 million at underwriting as large office complexes in suburban Chicago have been in low demand because of numerous companies moving back to the central business district.

Special-Servicing Exposure

The special-servicing unpaid principal balance fell for the fifth consecutive month to $22.43 billion, down $469.2 million from January. Special-servicing exposure fell to 2.83%, the lowest since March 2009, when it registered 2.43%.

Chart 2 – Special-Servicing Balance and Rate January 2008 – February 2018



Source: Morningstar Credit Ratings, LLC

Special-servicing transfers include 10 postcrisis loans totaling $136.3 million. Of these, we project losses on five loans, with the $57.5 million Eagle Ridge Village loan in GSMS 2013-GC12, being the largest. Backed by a military-housing property near Fort Drum, New York, the loan was transferred because of a dramatic reduction in occupancy in 2015 that has continued to date. Several factors contributed to the declining occupancy including reported cutbacks of over 2,000 personnel at Fort Drum, and while troops were previously able to choose their own housing, new rules in 2015 required that many soldiers live on base to minimize the vacancy of on-base lodging. Another issue is the sheer amount of competition the collateral faces, including seven nearby properties. The oversupply was exacerbated in 2014 when an additional 700 new units were built. Although the collateral is of a newer vintage and closer to the base than several of its competitors, the incremental distance from the fort compared with other properties is negligible and does not represent a legitimate advantage. Our $35.1 million value is about 40% of the original appraised value.

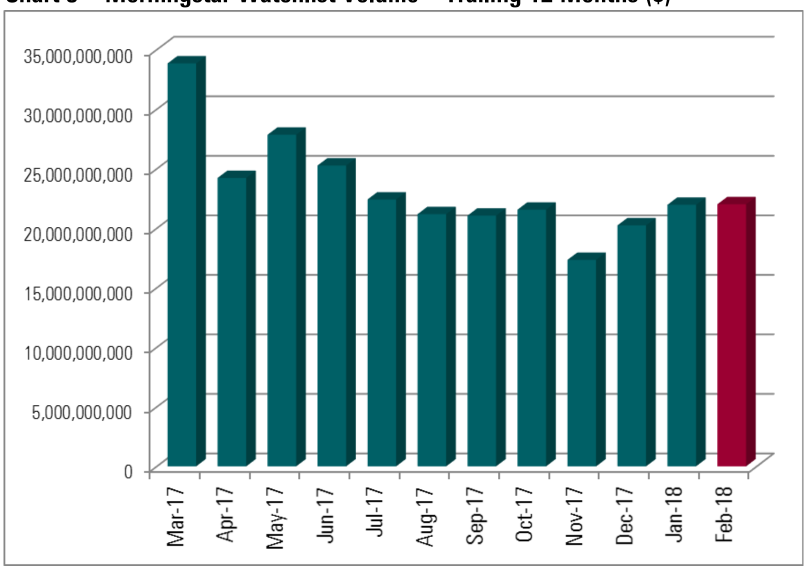
Separately, our $2.4 million projected loss on the $21.3 million Alpine Commons Shopping Center loan in CD 2006-CD2 is the largest among precrisis loans. The 209,200-square-foot retail property south of Poughkeepsie, New York, saw occupancy slide to 69% from 100% after the departure of Tops Markets in February 2018, which prompted the loan's second trip to special servicing in two years. The remaining tenants at the property include BJ's Wholesale Club, A.C. Moore, and The Salvation Army, none of which has a lease that expires before 2022. Our $19.3 million value is based on a discounted cash flow analysis and represents a 37.7% reduction from the initial $31.0 million appraised value.

Watchlist Exposure

In total, 868 loans with an unpaid principal balance reaching $22.02 billion were on our Watchlist, virtually unchanged from $22.00 billion in January. In February, we added 76 loans with a total unpaid principal balance of $1.23 billion to the Morningstar Watchlist, down from $2.41 billion added in January. Morningstar also removed 23 loans from the Watchlist, four of which were transferred to special servicing. The remaining 45 loans either paid off or were defeased, resulting in a net increase of $48.0 million.

As shown in Chart 3, the growth in the Morningstar Watchlist stabilized in February after hitting a multiyear low in November. Further, the rate of loans being added to the Watchlist tumbled by nearly 50% to $1.23 billion from $2.41 billion last month. However, we expect the volume of transfers to pick up in the coming months with office and retail continuing to account for the bulk of new Watchlist loans. The wave of retail bankruptcies that began in 2017 and has continued into 2018 could lead to higher vacancy rates over the next year. In addition, consolidation in the grocery and apparel sectors could result in further store closures, especially at Class B and C assets. Meanwhile, new construction in the office market may start to weigh on occupancy this year as CBRE Econometric Advisors projected 65 million square feet in new office space in 2018, the highest level since 2007. While economic growth should help maintain strong absorption, this likely signals a turn in the market.

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



Source: Morningstar Credit Ratings, LLC

The $210.0 million Eastview Mall and Commons loan was the largest added to our Watchlist. The collateral for the loan, which is composed of two pari passu notes in COMM 2012-CR4 and COMM 2012-CR5, includes an 725,303-square-foot, one-story, super-regional mall and an 86,368-square-foot power center about 15 miles southeast of Rochester, New York. The collateral does not include 918,182 square feet leased to seven anchor tenants including Macy's, JCPenney, Von Maur, Sears, Lord & Taylor, Target, and Home Depot. Based on 2017 figures, net cash flow declined 17.6% from underwriting and the debt yield is 8.4%, down from 10.2% over the same period, primarily because of increased property taxes.

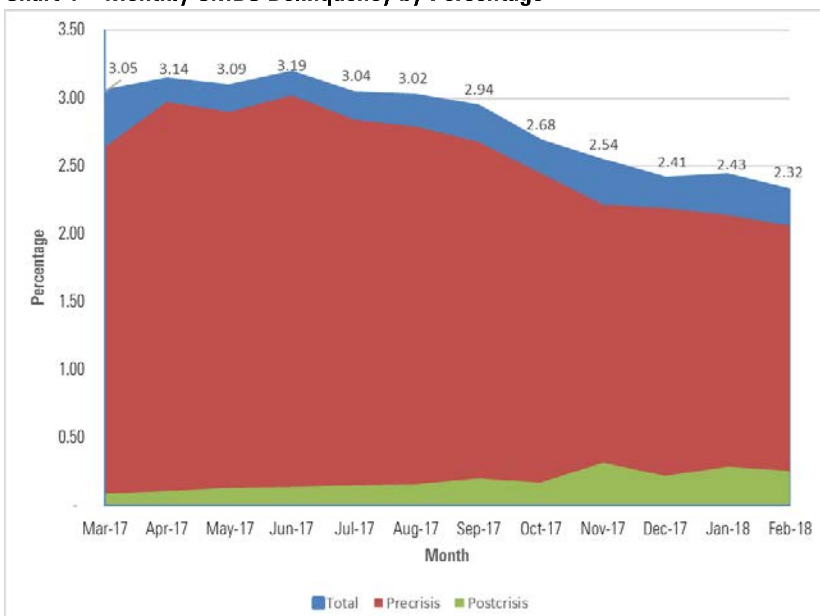
Nevertheless, the loan is a low term default risk largely thanks to the low leverage at issuance. Although the loan structure included a full interest-only term, the 2.17x debt service coverage ratio and 57.1% loan-to-value ratio at issuance allow for some cushion should cash flow decrease further. We did not adjust the 7.5% market capitalization rate to arrive at our $234.7 million value because we view the property as a high-quality destination mall rather than a Class B regional mall. With an 89.5%

LTV, the loan may have trouble refinancing without an increase in value. Wilmorite, a commercial real estate development and management company, is the loan sponsor.

Delinquency

The CMBS delinquent unpaid balance fell to $18.38 billion in February, a level not seen since May 2009, while the delinquency rate dropped to 2.32%, down 11 basis points from the prior month. The balance of delinquent loans is down $937.2 million from January, and down $5.25 billion, or 22.2%, from the year-earlier period. While legacy CMBS now accounts for less than 5.0% of the CMBS universe, delinquencies from deals issued before 2010 represent 89.0% of all delinquencies by balance. Comparatively, delinquencies from deals issued from 2010 through 2018 contribute 11.0% of all delinquencies and represent 0.3% of CMBS universe.

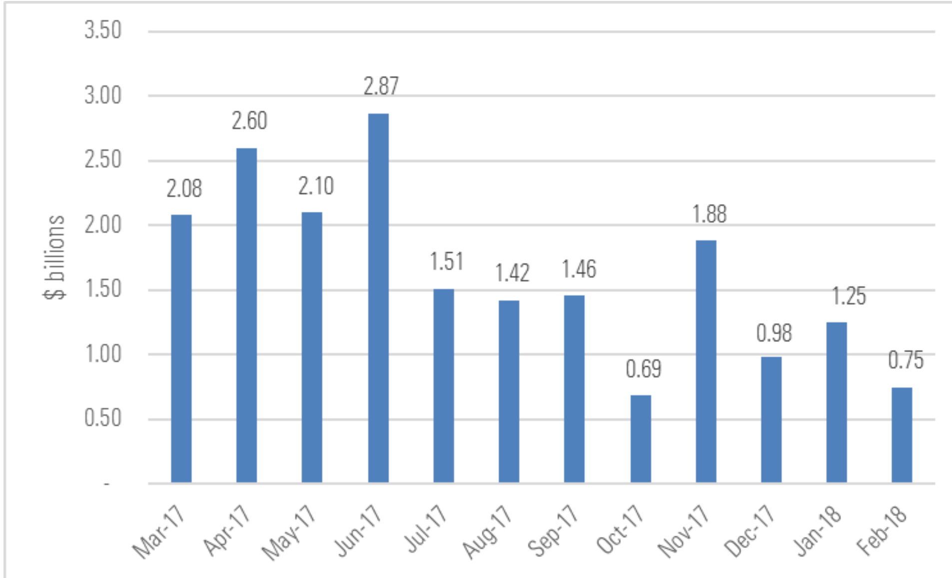
Chart 4 – Monthly CMBS Delinquency by Percentage



Source: Morningstar Credit Ratings, LLC

The volume of newly delinquent loans fell below $1.00 billion for just the third month out of the last 12, registering $751.9 million, down from $1.25 billion the prior month. Newly delinquent loans include the $43.1 million Crossroads Office Portfolio loan, which is 4.0% of COMM 2015-CR26. Occupancy at the two Long Island, New York, office properties, with 392,003 combined square feet, fell to 74.0% in September 2017, the latest available, from 85.1% at underwriting, which pushed the DSCR down to 1.05x from 1.48x over the same period. We are concerned that the property is underperforming the submarket's vacancy rate of 8.2%, according to CoStar Group, Inc. While the property benefits from a granular rent roll with more than 70 tenants and no single tenant representing more than 8.3% of the gross leasable area, rollover risk remains a concern because a majority of the leases will expire before the loan's 2025 maturity. We value the collateral at $56.5 million based on a discounted cash flow analysis that assumes stable occupancy of 85%, new lease rate slightly below the market rate, a 7.6% capitalization rate and a 10.6% discount rate.

Chart 5 – Newly Delinquent Loans



Source: Morningstar Credit Ratings, LLC

Compared with year-ago levels, the office sector saw the largest decline in delinquent balance, tumbling $2.62 billion, or 30.0%, as liquidations have far outpaced newly delinquent loans. By dollar amount, the other three major property types exhibit the following activity year over year:

- Retail loan delinquency tumbled by $1.03 billion, or 12.8%, from $8.02 billion one year ago, because more loans were either liquidated or resolved than were replaced with newly delinquent loans.
- Industrial loan delinquency eased by $122.0 million, or 11.3%, from $1.08 billion one year ago.
- Multifamily loan delinquency dropped by $506.6 million, or 29.4%, from $1.72 billion one year ago.

Table 1 – February Delinquency by Property Type

Property Type	$ Current Balance	# Loans	% of CMBS Universe	% of CMBS Delinq.	% of Property Type
Healthcare	71,410,390	5	0.01	0.39	1.77
Hotel	1,752,414,161	98	0.22	9.53	2.48
Industrial	960,381,635	58	0.12	5.23	4.59
Multifamily	1,217,616,724	257	0.15	6.63	0.31
Office	6,113,470,877	297	0.77	33.26	4.99
Other	1,269,365,795	69	0.16	6.91	2.13
Retail	6,994,234,033	536	0.88	38.06	5.59
Total	18,378,893,615	1,320	2.32	100.00	

Figures may not sum to totals because they are rounded.

Source: Morningstar Credit Ratings, LLC

CMBS Liquidations

Liquidation volume touched a five-year low, tumbling to $393.5 million in February, down from $594.8 million in January. The overall loss severity continued to slide, slipping to 31.1% after registering a five-month high of 56.2% in December, and it also dipped below the 12-month moving average of 37.5%. By property type, retail loans incurred the largest disposed balance, resulting in $66.9 million in realized losses, which includes the $59.9 million Chesapeake Square loan in JPMCC 2004-LN2, which incurred a $51.1 million loss and represented an 85.2% loss severity. The Chesapeake, Virginia, regional mall's performance deteriorated when anchor stores Sears and Macy's vacated in 2015 and 2016, respectively. The $19.5 million sales price was an 81.3% discount to the original $104.0 million appraised value.

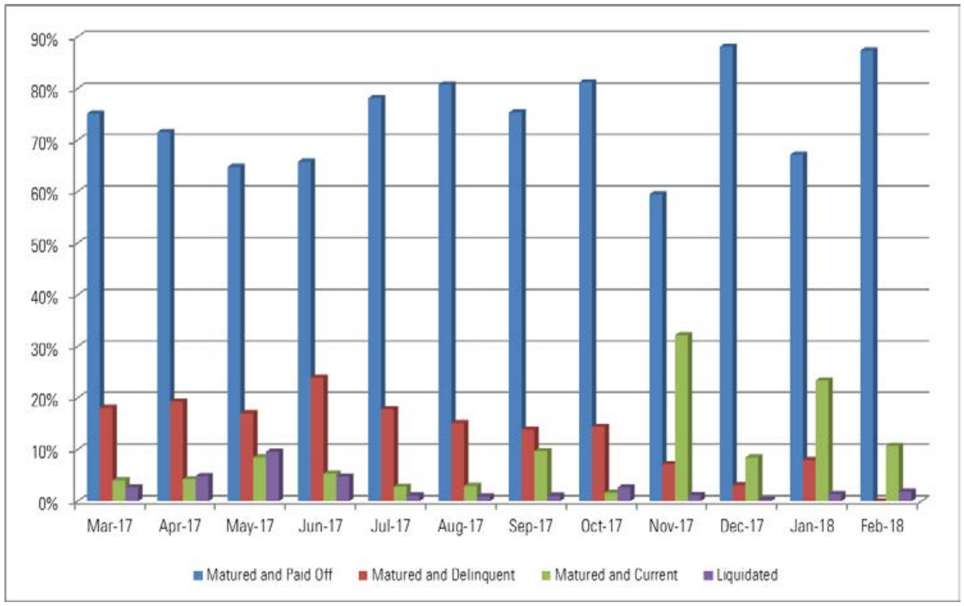
Chart 6 - Trailing 12-Month CMBS Liquidations and Losses

Source: Morningstar Credit Ratings, LLC

Monthly Maturity

With the maturity wave of 2015-17 behind us, the volume of maturing loans dipped below $1.00 billion for the for time since 2014, registering $788.6 million, down 91.9% from a year ago. After dipping below 70% last month, the maturity payoff rate registered above 80% for the fourth time in the past seven months, climbing to 87.3% from 67.2% in January. The $47.5 million Promenade Shops at Centerra loan JPMCC 2011-C3 was largest loan that failed to pay; however, it paid off before we published this report. Separately, the $12.6 million Home Depot - 87th & Dan Ryan loan, 30.3% of BACM 2008-1, failed to pay off as the borrower requested a five-year extension loan extension, which would coincide with the single tenant's 2023 lease expiration. The 131,522-square-foot property in Chicago is fully occupied by Home Depot. We value the property at $17.0 million based on a 7.9% capitalization rate and $1.3 million in 2016 net cash flow, which suggests a 74.1% LTV.

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



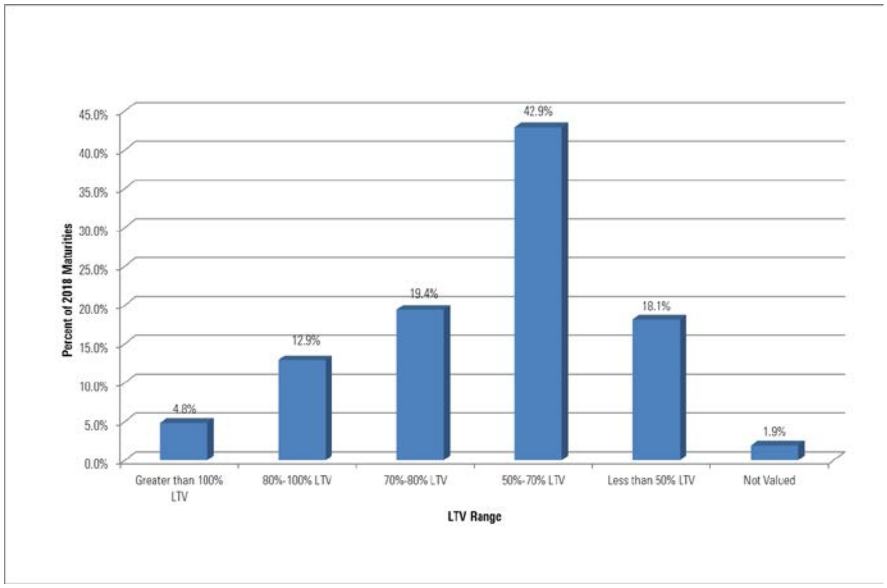
Source: Morningstar Credit Ratings, LLC

Maturity Outlook for 2018

Some $7.73 billion of CMBS loans will mature through the remainder of 2018. We have valued 98.1% and project that the payoff rate will come in at roughly 85%, as 90.0% of the loans have LTVs below 80.0% or are defeased.

The largest loan of concern is the $81.5 million Regions Harbert Plaza loan, 50.1% of LBUBS 2008-C1. We forecast a loss of about $27.4 million on the loan, which matures in March 2018, as the largest tenant vacated and the third-largest tenant's lease expires one year after maturity. Losing both tenants could severely diminish cash flow and hamper the borrower's efforts to refinance as maturity approaches. Because a significant capital infusion will be required to secure take-out financing, we believe the borrower could seek an extension or modification from the special servicer. The collateral is a 613,764-square-foot office building in Birmingham, Alabama.

Chart 8 - 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 DSCR, 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 one.

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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