CMBS Alert

Florence-Related Damage Could Hit Some $1.49 Billion in Securitized Mortgages

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Morningstar Perspective

Morningstar Credit Ratings, LLC has identified some $1.49 billion in securitized commercial mortgages potentially at elevated risk because of major damage in the wake of Hurricane Florence. While the extent of damage still is being assessed, we found 189 properties backing 187 securitized loans in 16 of the 18 North Carolina counties that the Federal Emergency Management Agency declared disaster areas eligible for individual assistance. This includes properties with a combined balance of $1.05 billion in Cumberland and New Hanover Counties, home to the state's sixth- and eighth-largest cities, Fayetteville and Wilmington, respectively. Properties in counties that are not part of the disaster declaration have also seen significant damage.

Freddie Mac-issued deals account for 32.8% of the total exposure by balance. The three deals with the largest property-level exposure are FREMF 2018-KL2P with $118.0 million across five properties, FREMF 2014-KX01 with $40.9 million between two properties, and CSAIL 2015-C4 with $38.0 million in combined balance in two loans.

Nevertheless, Morningstar does not expect waves of loan defaults resulting from this storm because business-interruption insurance should cover the gap in service, if necessary, for most properties. Still, flood damage could prevent refinancing some existing loans and jeopardize the payoff of roughly $51.5 million in securitized loans that mature over the next 12 months. Ultimately, if a property is operating, meeting its debt obligations, and there's no lasting hurricane-related fallout, financing should proceed, and the loan should pay off.

Highest-Exposure Areas

The map below displays commercial mortgage-backed securities exposure to five of the hardest-hit counties. Combined, these counties account for 88.6% of CMBS exposure to the FEMA-designated flood zones eligible for individual assistance.

Tar Heel State CMBS Exposure – Top Five Counties

Source: Google Maps, Morningstar Credit Ratings, LLC

According to the North Carolina Emergency Management Twitter account, the statewide power outage total as of Sept. 16 was 538,577 with the highest concentration in New Hanover, Brunswick, Carteret, Onslow, and Robeson counties. There is roughly $1.32 billion in CMBS exposure to these counties, of which Cape Harbor in the Project Bedrock Loan in FREMF 2018-KL2P and Aspire 349 in FREMF 2015-K48 secure the two largest loans with a combined allocated property balance of $66.1 million. We were unable to reach representatives from either property by phone.

The National Hurricane Center, in its final advisory for Florence, said that southeast North Carolina could see up to 40 inches of rain. Elsewhere, South Carolina had, for the most part, fared better, with 61,000 outages reported, according to emergency-management agencies. Governor Henry McMaster lifted evacuation orders on Sept. 16 for the two remaining counties that had them in effect, Horry and Georgetown, in the Myrtle Beach area.

Uncertain Status

To further quantify the damage caused by the flooding, we called the 10 largest properties backing CMBS loans in the FEMA-designated disaster zones eligible for individual assistance, which account for 12.2% of the balance of loans in FEMA-declared disaster zones. We were able to reach representatives of only two, Addison Ridge Apartments and Addison Ridge Phase II, each of which secures a $25.0 million loan. These are the first two phases of a three-phase apartment property that primarily serves nearby Fort Bragg.

Table 1 - Top 10 Loans in FEMA-Declared Disaster Zones

Deal ID	Property Name	Status	Property Type	City	County	Allocated Property Balance ($)	Maturity Date
FREMF 2018-KL2P	Cape Harbor	Voice mail	Multifamily	Wilmington	New Hanover	33,740,000	1/1/2025
FREMF 2018-KF48	Aspire 349	Voice mail	Multifamily	Wilmington	New Hanover	32,400,000	1/1/2028
CGCMT 2018-GC5	Westlake at Morganton Apartments	Voice mail	Multifamily	Fayetteville	Cumberland	32,000,000	5/6/2028
FREMF 2018-KL2P	Mill Creek	Voice mail	Multifamily	Wilmington	New Hanover	27,825,000	1/1/2025
FREMF 2015-K50	Colonial Grand At Wilmington Apartments	Voice mail	Multifamily	Wilmington	New Hanover	27,560,000	7/1/2025
FREMF 2016-KS07	The Woods At Holly Tree	The community sustained water damage according to its website	Multifamily	Wilmington	New Hanover	27,382,000	9/1/2025
COMM 2014-UBS3	Preserve at Grande Oaks	Voice mail	Multifamily	Fayetteville	Cumberland	26,866,652	5/6/2024
FREMF 2018-KL2P	Clear Run	Voice mail	Multifamily	Wilmington	New Hanover	25,380,000	1/1/2025
CSAIL 2015-C4	Addison Ridge Apartments	Open for business	Multifamily	Fayetteville	Cumberland	25,000,000	10/6/2025
WFCM 2018-C45	Addison Ridge Apartments - Phase II	Open for business	Multifamily	Fayetteville	Cumberland	25,000,000	6/6/2028

Source: Morningstar Credit Ratings, LLC

As damage assessments across hard-hit areas are ascertained, undamaged multifamily properties and hotels could see more demand because families will be forced to find temporary housing.

Loan-level details for all CMBS loans backed by properties in areas hard hit by Hurricane Florence can be found in Excel format by clicking the download icon at the top of page one.

Please see our Morningstar DealView® Credit Risk Analyses in the coming months in which property-level analysis, performance, and value analysis will be available at the loan and deal level.

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