CMBS Research

DBRS Morningstar Monthly Highlights

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DBRS Morningstar Credit Ratings

October 2019 Remittance

Contents

Executive Summary

- The delinquency rate set another postcrisis low, edging down 2 basis points to 1.37% thanks to a jump in the CMBS universe and a stable volume of delinquent loans.
- The delinquency rate fell in 18 of the past 22 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 Morningstar Watchlist rose $360 million to $33.20 billion, up from $32.84 billion in September. A slowing economy and overbuilding in some markets may push the Watchlist balance higher.
- Despite rising Watchlist volume, the special-servicing unpaid principal balance, or UPB, and special-servicing rate fell to postcrisis lows of $14.6 billion and 1.61%, respectively, as the balance of precrisis loans continues to shrink.
- Our projected losses on specially serviced loans have improved over the past 12 months as well, falling $1.81 billion, or 14.9%, since October 2018.
- The payoff rate of maturing loans in CMBS slipped to 74.9% in October from 91.4% in September, and we expect it to finish the year at roughly 83% based on our maturity analysis.

Table 1 – Significant Value Changes Among Large Loans

Deal ID	Asset Name	Loan Balance ($)	Value Change ($)	Loss Forecast ($)	Previous MORN LTV (%)	Current MORN LTV (%)
WFRBS 2012-C7	Florence Mall	90,000,000	(30,595,064)	1,473,766	78.5	107.0
CSAIL 2015-C3, MSC 2015-UBS8	Cape May Hotels	29,910,477	(17,182,549)	-	63.0	98.7
WFRBS 2012-C7	Fashion Square	34,479,916	(17,169,333)	2,374,625	73.5	116.0
CGCMT 2013-GC15	735 Sixth Avenue	34,000,000	(8,055,921)	12,671,142	114.9	148.5
COMM 2014-CR14	16530 Ventura Boulevard	19,586,369	(7,284,031)	807,529	78.7	111.2
COMM 2014-CR20	DoubleTree Beachwood	25,365,059	(6,978,836)	12,977,615	130.6	201.3
WFRBS 2013-C14	7220 Wisconsin Avenue	10,371,409	(2,106,839)	3,079,356	141.6	198.7
BSCMS 2007-PW17	City Center Englewood	33,000,000	7,110,000	6,245,840	167.5	122.6
BACM 2015-UBS7	Antioch Crossings SC	16,866,277	8,976,000	-	98.2	64.5
JPMCC 2013-LC11	World Trade Center I & II	107,712,552	34,000,000	-	104.6	78.6

Source: DBRS Morningstar

Significant Value Changes Among Watchlist and Specially Serviced Loans

In October, we raised our value on properties securing 21 loans with a combined balance of $449.6 million, while we lowered our values on properties securing 26 loans with a combined balance of $1.15 billion. Of these, 14 loans showed value declines that resulted in increased loss forecasts.

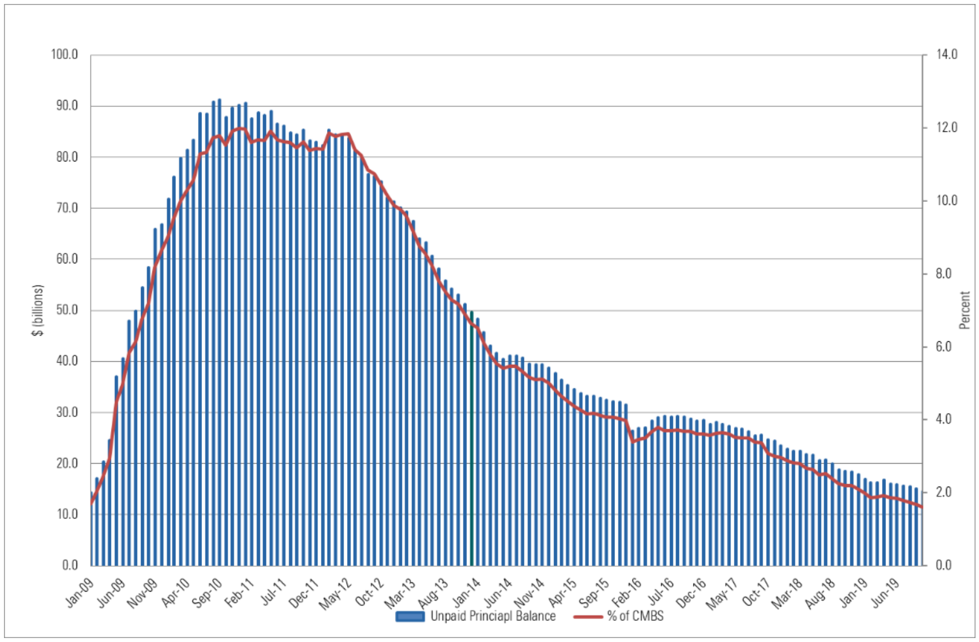
The $90.0 million Florence Mall loan in WFRBS 2012-C7 had the largest value decline among loans on our Watchlist. Like other regional malls in secondary and tertiary markets, the collateral--384,111 square feet of a 957,443-square-foot mall in about 10 miles southwest of Cincinnati in Florence, Kentucky--is experiencing declining sales and occupancy amid a shifting retail environment. The property's net cash flow, which has been dropping since 2016, finished 2018 17.7% below underwriting. Noncollateral anchors include Macy's and JCPenney, and former anchor Sears closed in 2018. All have announced hundreds of store closures over the past couple of years. Occupancy has declined as well, dropping to 83.0% in June 2019, down from 91% in 2012. The property continues to generate positive cash flow; the debt service coverage ratio for the first six months of 2019 was 2.18x, so we believe a term default is unlikely. But there is a risk that if cash flow continues to decline, taking the value of the property down with it, Brookfield Properties Retail Group may find that using internal cash to pay off the loan when it matures in June 2002 is a poor use of resources. Our $84.1 million value suggests a 107.0% loan-to-value.

Special-Servicing Exposure

The special-servicing UPB improved for the sixth-consecutive month, hitting a postcrisis low of $14.60 billion in October, down $495.1 million from September, while the special servicing rate also hit a postcrisis low of 1.61%, down 8 basis points from September. Because the volume of troubled precrisis loans continues to shrink, the portion of specially serviced postcrisis loans now accounts for about 42% of the total, up from roughly 27% last October.

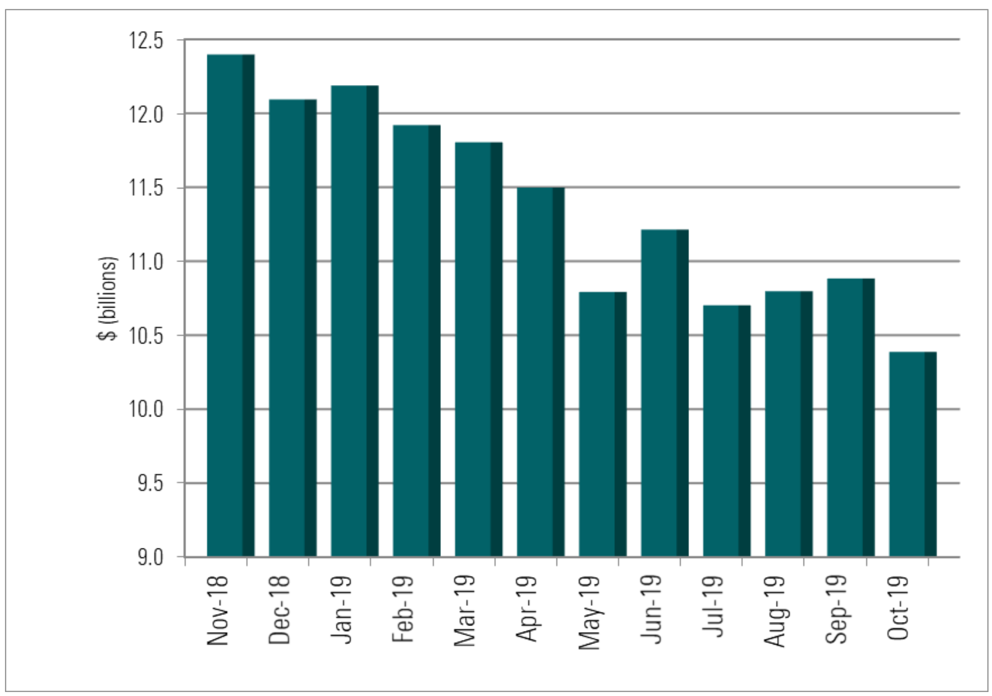
Our projected losses on specially serviced loans edged down $496.4 million to $10.39 from $10.88 billion in September, and has improved over the past 12 months, down $1.81 billion since October 2018.

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



Source: DBRS Morningstar

Chart 2 – Morningstar Loss Forecast on Specially Serviced Loans



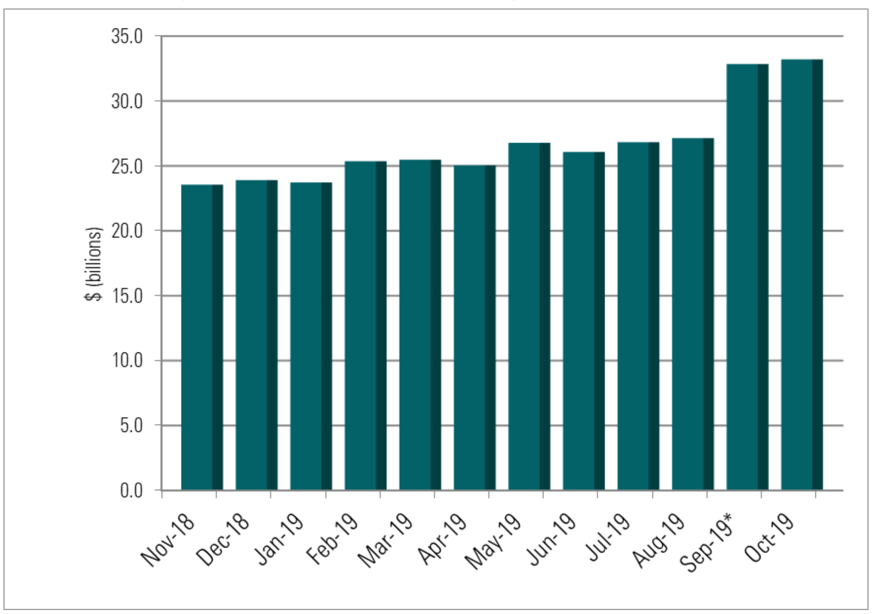
Source: DBRS Morningstar

The volume of special-servicing transfers fell to the lowest level in 16 months, falling to $242.1 million in October from $278.4 million. Of the 18 loans that transferred in October, the $105.7 million Koger Center loan in CSMC 2007-C1 was the largest. The Department of Management Services of the State of Florida--which manages the leases of seven state departments that are housed in the Koger Center, an 18-building office complex totaling 849,765 square feet in Tallahassee, Florida--announced earlier this year that the majority of the state departments would not be renewing their leases in December 2019. The state departments occupy about 68% of the leasable space under seven separate leases. Because of this, the loan is likely to default on or before its February 2020 extended maturity date. We value the collateral at $105.4 million, based on a discounted cash flow analysis, which puts the LTV at 100.1%.

Watchlist Exposure

The Morningstar Watchlist registered $33.20 billion, up from $32.84 billion in September. 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, over time. 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.

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



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

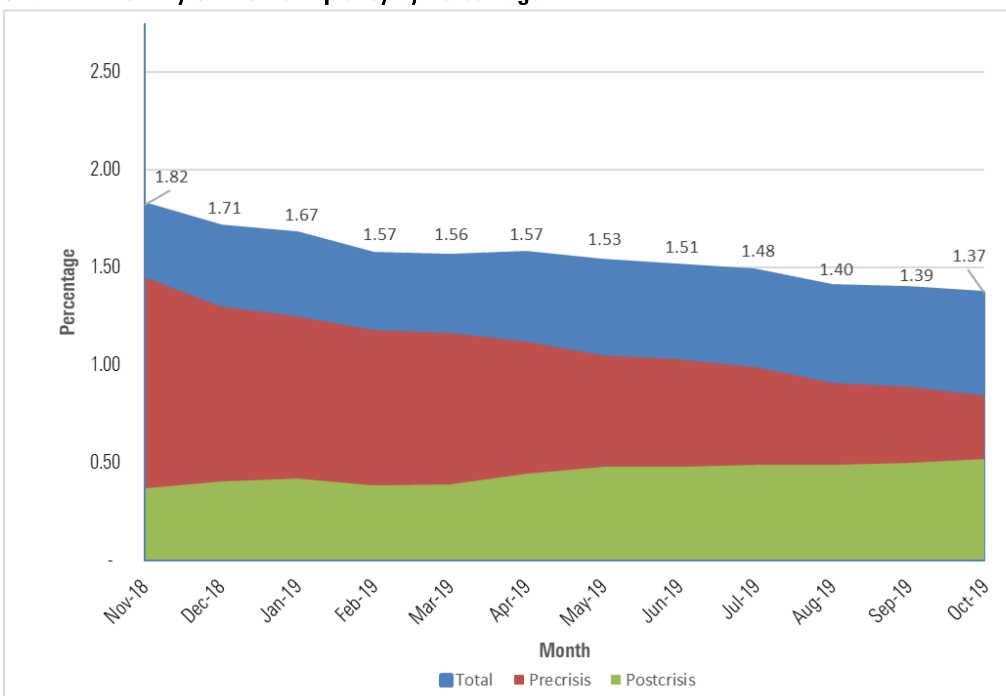
The largest loan we added this month was the $118.5 million Town Center at Cobb loan, which is split between WFRBS 2012-C7 and WFRBS 2012-C8. Despite relatively stable occupancy at the collateral, 559,940 square feet of a 1.3-million-square-foot regional mall about 20 miles northwest of Atlanta, the loan posted a mediocre debt yield of 9.6% as net cash flow declined for two straight years, finishing 2018 down 10.7% from underwriting. The property has several midtier anchors including Macy's, Macy's Furniture, Sears, and JCPenney. Only a portion of the JCPenney space (31,026 square feet) is part of the collateral for the loan, while the remaining anchors own their own stores and are not part of the collateral. None of the anchors at this property are slated to close, but exposure to these struggling retailers should be noted. We have a 105.8% LTV on the loan, which matures in May 2022.

Delinquency

The CMBS delinquency rate posted another postcrisis low in October, ticking down to 1.37% from 1.39% in September, because the size of the CMBS universe rose 1.2% while the balance of delinquent loans was flat, holding steady at $12.45 billion. But it's down $3.10 billion, or 20.0%, 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 October 2019, the rate had risen to 0.52%. 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)

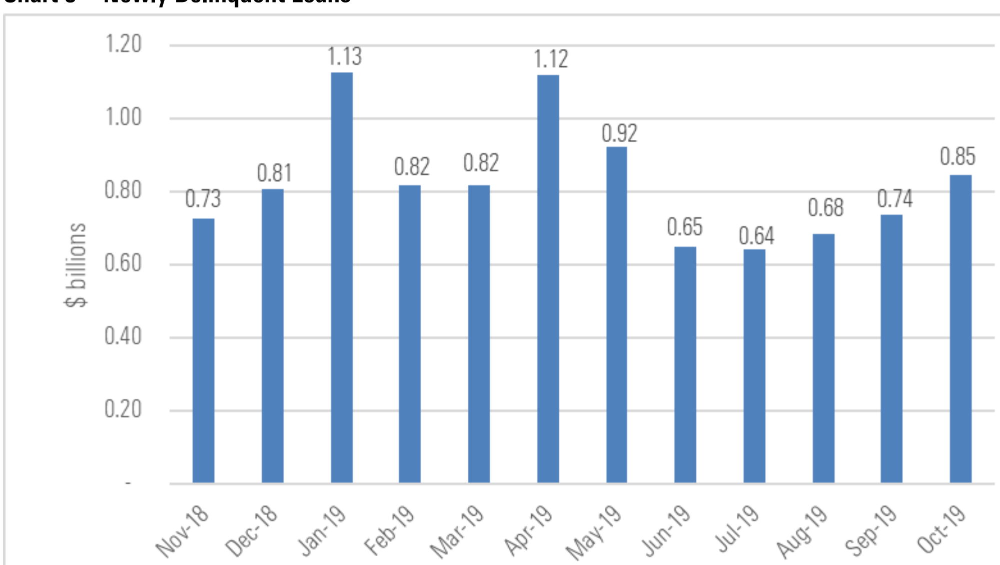
Category	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
30-Day	0.72	0.94	1.25	0.90	0.94	1.30	1.21	1.00	0.73	0.90	0.88
60-Day	0.26	0.39	0.38	0.42	0.51	0.30	0.53	0.60	0.64	0.52	0.56
90-Day	1.70	1.47	1.72	1.65	1.55	1.88	1.77	2.03	2.2	2.08	2.08
Foreclosure	2.86	2.62	2.42	1.93	1.87	1.81	1.72	1.49	1.43	1.55	1.53
Real Estate Owned	9.75	9.07	8.59	8.78	8.64	8.44	7.99	7.95	7.85	7.47	7.4
Total CMBS Del.	15.29	14.49	14.36	13.68	13.51	13.73	13.22	13.07	12.85	12.52	12.45
Current	825.05	834.09	836.63	855.53	854.09	860.62	849.85	850.93	852.49	879.77	880.31
Total CMBS	840.35	848.58	850.99	869.22	867.60	874.35	863.07	864.00	865.34	892.29	892.76
Delinquency %	1.82	1.71	1.69	1.57	1.56	1.57	1.53	1.51	1.48	1.40	1.39

Source: DBRS Morningstar

The volume of newly delinquent loans rose above $800 million for first time in five months, rising to $845.2 million, an increase of $109.2 million from September, and registered above the 12-month moving average of $832.9 million.

After the previously discussed Koger Center loan, the $72.7 million Wyoming Valley Mall loan was the largest newly delinquent loan. The 909,757-square-foot super-regional mall about 20 miles south of Scranton in Wilkes-Barre, Pennsylvania, has underperformed with net cash flow falling 17.8% from underwriting. A low underwritten debt yield of 9.1% left no cushion for a decline in cash flow, prompting the sponsor's CEO Joseph F. Coradino to announce during a recent earnings call that he "does not plan to invest additional capital in Wyoming Valley." We project a $42.3 million loss on the real estate owned asset based on an August 2019 appraisal.

Chart 5 – Newly Delinquent Loans



Source: DBRS Morningstar

Compared with year-ago levels, the industrial sector, which represents just 2.9% of total delinquent loans, saw the largest percentage decline in delinquent balance, tumbling 32.6%, or $174.5 million, to $360.3 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 28.0% to $3.32 billion from $4.61 billion one year ago, as liquidations far outpaced newly delinquent loans.
- Retail loan delinquency dropped 22.4% to $5.01 billion from $6.45 billion one year ago.
- Hotel loan delinquency fell 16.2% to $1.16 billion from $1.39 billion one year ago.
- Multifamily loan delinquency, which represents 14.9% of all delinquencies, rose by 27.6% to $1.85 billion from $1.45 billion one year ago because of a rise in delinquent small-balance agency loans.

Table 3 – October Delinquency by Property Type

Property Type	$ Current Balance	# of Loans	% of CMBS Universe	% of CMBS Delinquencies	% of Property Type
Retail	5,007,462,104	330	0.55	40.22	3.96
Office	3,317,313,400	137	0.36	26.64	2.47
Multifamily	1,850,437,882	358	0.20	14.86	0.40
Hotel	1,164,257,212	87	0.13	9.35	1.41
Other	668,144,243	36	0.07	5.37	0.86
Industrial	360,256,178	21	0.04	2.89	1.42
Healthcare	83,078,236	6	0.01	0.67	3.90
Total	12,450,949,255	975	1.39	100.00	-

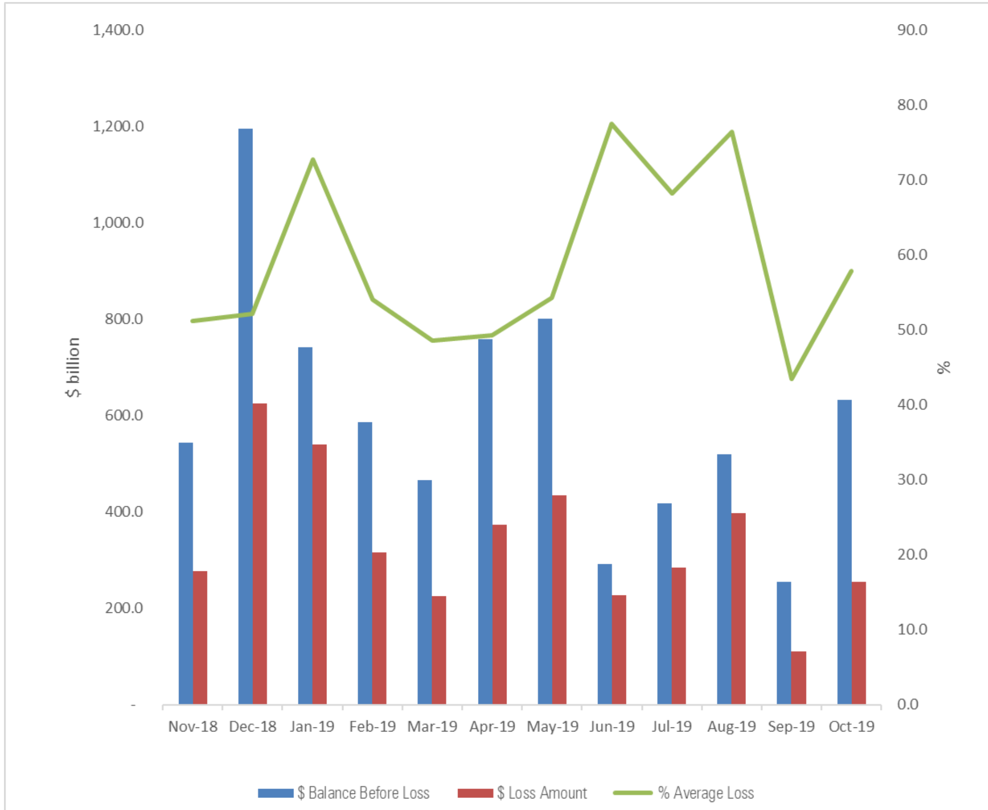
Note: Figures may not sum to totals because they are rounded.
Source: DBRS Morningstar

CMBS Liquidations

Both the volume of liquidated loans and the weighted-average loss severity bounced higher in October after September's severity fell to the lowest level in the past 13 months and the volume of disposed loans hit a more than six-year low. Forty-six loans with a combined balance of $633.6 million were disposed with a weighted-average loss severity of 57.9%, up from $256.0 million disposed at a 43.5% severity in September. The largest write-off came from the liquidation of the $66.4 million Danbury Road loan in LBCMT 2007-C3. The collateral, two cross-collateralized and cross-defaulted office properties in Wilton, Connecticut, saw occupancy decline to 69.0%. Because of this, the loan failed to pay off by its July 2017 maturity. The October liquidation resulted in a $35.8 million loss, or a 54.0% severity.

Losses continue to run ahead of last year. Through the first 10 months of 2019, approximately $5.48 billion across 319 CMBS loans were disposed with a cumulative loss of $3.17 billion, generating a weighted-average loss severity of 57.9%. This is up from an average loss reading of 42.7% on $7.43 billion through September 2019.

Chart 6 – Trailing 12-Month CMBS Liquidations and Losses

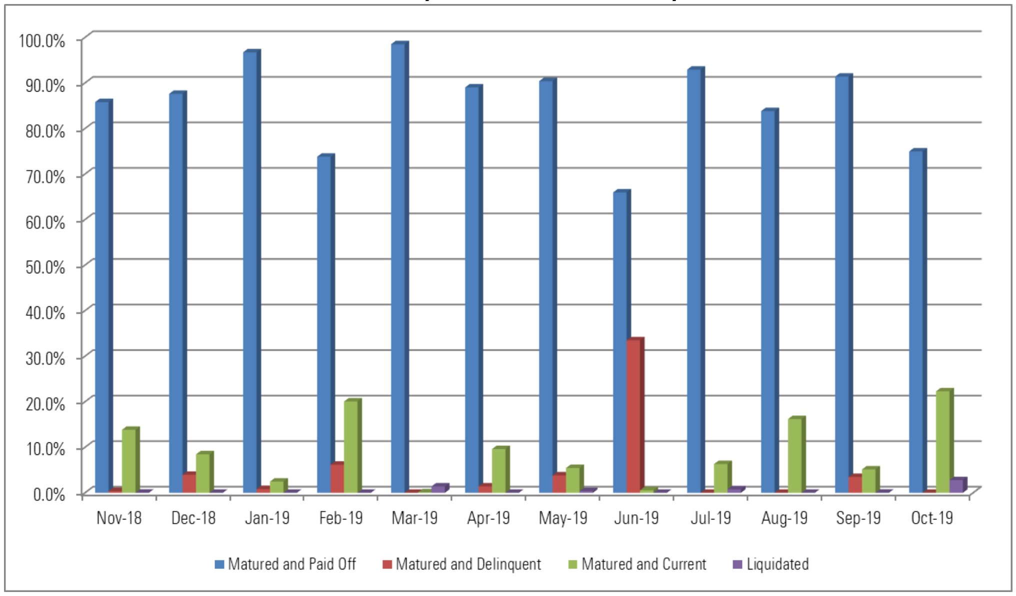


Source: DBRS Morningstar

Monthly Maturity

The payoff rate fell below 75% from 91.4% in September. About $938.9 million in CMBS loans matured in October, $703.7 of which paid off, resulting in a 74.9% payoff rate. The $98.0 million Hampton Inn UN & HIX Herald Square loan in COMM 2015-DC1 was the largest to miss its scheduled payoff. The loan, which was subsequently brought current, was transferred to special servicing for maturity default. The collateral, two limited-service hotels in New York City with 283 combined rooms, was unable to pay off by its October 2019 maturity because of declining net cash flow. Despite stable revenue, rising expenses pushed 2018 NCF 13.9% below underwriting. Further, the loan paid interest only for the full term, preventing any deleveraging. As a result, the 2018 debt yield was low at 7.3%. High leverage, combined with the challenges in an overbuilt market, likely prevented the borrower from securing refinance funding. Our $114.2 million value suggests an 85.8% LTV.

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

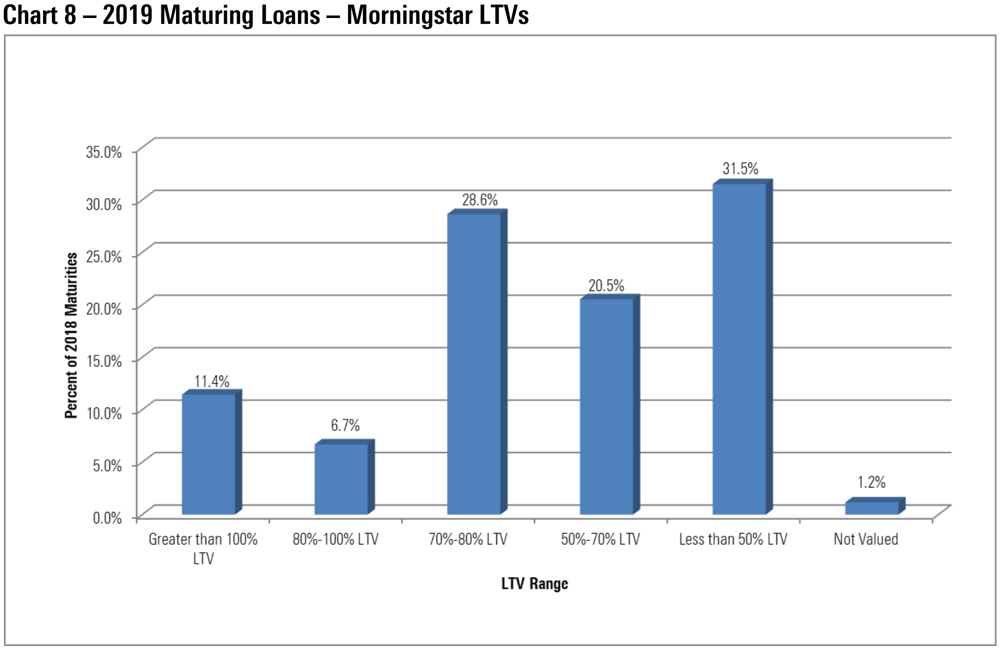


Source: DBRS Morningstar

Maturity Outlook for 2019

Some $1.87 billion of CMBS loans will mature through December. We have valued approximately 98.8% of them, and 18.1% have LTVs greater than 80%. Consequently, we expect the maturity payoff rate for 2019 will come in at about 83%, little changed from 82.2% through the first 10 months of the year. This information is displayed in Chart 8.

Chart 8 – 2019 Maturing Loans – 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 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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