CMBS Research

DBRS Morningstar Monthly Highlights

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DBRS Morningstar Credit Ratings

September 2019 Remittance

Contents

Executive Summary

- The delinquency rate set another postcrisis low, edging down 1 basis point to 1.39% thanks to a slight uptick in volume of loans in the CMBS universe and the continued resolution of distressed legacy debt.
- The delinquency rate fell in 17 of the past 21 months and is down 42 basis points from a year ago. Morningstar Credit Ratings, LLC (DBRS Morningstar) believes the delinquency rate will hold below 2% well into 2020.
- The special-servicing unpaid principal balance, or UPB, and special-servicing rate fell to postcrisis lows of $15.10 billion and 1.69%, respectively, as the balance of precrisis loans continues to shrink.
- Our projected losses on specially serviced loans have improved over the past 12 months, falling $1.16 billion, or 9.7%, since September 2018.
- The payoff rate of maturing loans in CMBS improved to 91.4% in September from 83.8% in August, and we expect it to finish the year at roughly 80% to 85% 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 (%)
JPMCC 2007-LD11, GSMS 2007-GG10	Franklin Mills	270,527,626	(58,790,274)	141,132,993	143.8	209.1
CD 2016-CD1	Fiserv at 2900 Westside	64,913,754	(27,600,000)	-	67.1	93.8
COMM 2014-UBS5	Ridgmar Mall	30,849,076	(23,570,000)	18,813,892	86.7	253.9
MSBAM 2013-C7	Scripps Research Building	32,101,593	(23,336,000)	-	55.7	91.7
COMM 2015-DC1	115 Mercer	37,000,000	(18,200,000)	22,061,737	111.5	238.7
MSBAM 2013-C7	Valley West Mall	43,573,655	(15,948,000)	17,700,054	104.2	166.9
BACM 2006-3	Rushmore Mall	89,000,000	(13,455,000)	69,110,090	266.9	447.5
JPMBB 2016-C1	University Parke	17,798,704	(12,900,000)	13,286,217	102.0	273.8
WFRBS 2011-C3	Oakdale Mall	49,329,310	(5,300,000)	38,055,387	273.3	362.7
GSMS 2014-GC24	Stamford Plaza Portfolio	139,836,300	84,575,000	7,321,188	108.6	126.5

Source: DBRS Morningstar

Significant Value Changes Among Watchlist and Specially Serviced Loans

In September, we raised our value on properties securing 24 loans with a combined balance of $608.2 million, while we lowered our values on properties securing 32 loans with a combined balance of $1.15 billion. Of these, 19 loans showed value declines that resulted in increased loss forecasts.

The $270.5 million Franklin Mills loan with pari passu pieces in JPMCC 2007-LD11 and GSMS 2007-GG10 had the largest value decline among distressed loans. The loan, backed by a 1.6-million-square-foot outlet mall in Philadelphia renamed Philadelphia Mills, was unable to pay off by its June 2019 maturity because of declining revenue, and subsequently modified for a second time in August. That modification, which extended the loan maturity five-years to June 2024, followed a 2012 modification that split the loan into a $200.0 million A note and a $90.0 million B note, and extended the maturity date to 2019. Among the property's issues, JCPenney closed in 2017 and the space is marketed for sublease; the department store's lease runs until early 2022. Based on our valuation, we project a loss of more than $140 million.

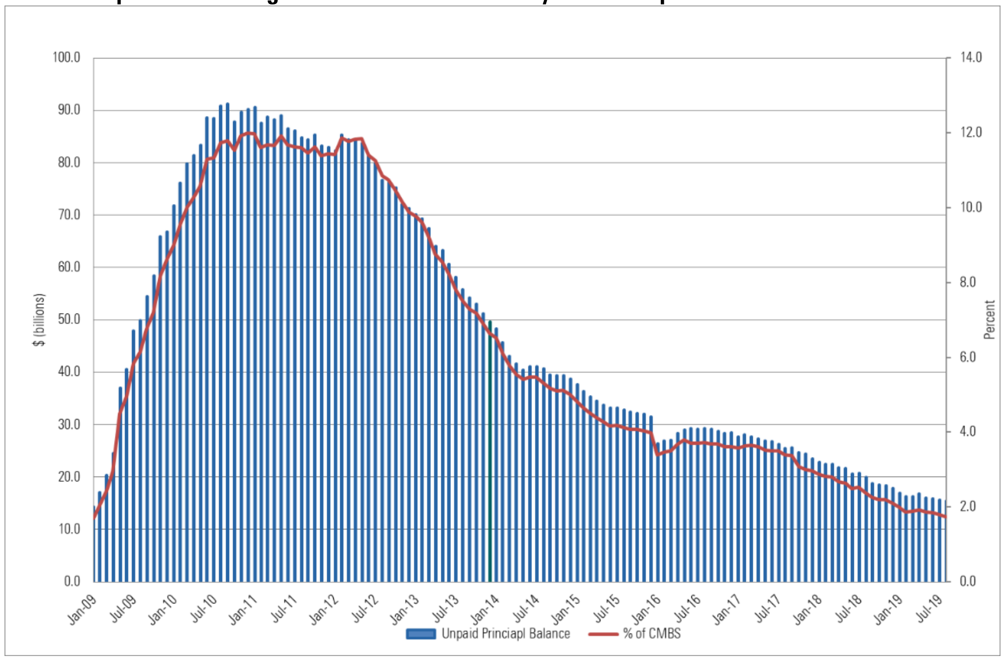
Separately, we added the $32.1 million Scripps Research Building in MSBAM 2013-C7 to the Morningstar Watchlist and reduced our estimate of collateral value 40.0% because the sole tenant, the Scripps Research Institute, vacated when its lease expired in June. The La Jolla, California, property is vacant and undergoing extensive renovations with an August 2020 estimated completion date. The property is in a biotech hub with numerous demand drivers including the University of California, San Diego; the Salk Institute for Biological Studies; and the Sanford Burnham Prebys Medical Discovery Institute; as well as over 200 private biotechnology companies. Our valuation of the 112,161-square-foot single-tenant office and research laboratory building suggests a 91.7% loan-to-value ratio and no loss.

Special-Servicing Exposure

The special-servicing UPB ticked lower for the fifth-consecutive month, hitting a postcrisis low of $15.10 billion in September, down $447.1 million from August, while the special servicing rate also hit a postcrisis low of 1.69%, down 5 basis points from August. As the volume of troubled precrisis loans continues to shrink, the portion of specially serviced postcrisis loans now accounts for more than 40% of the total, up from roughly 25% last September.

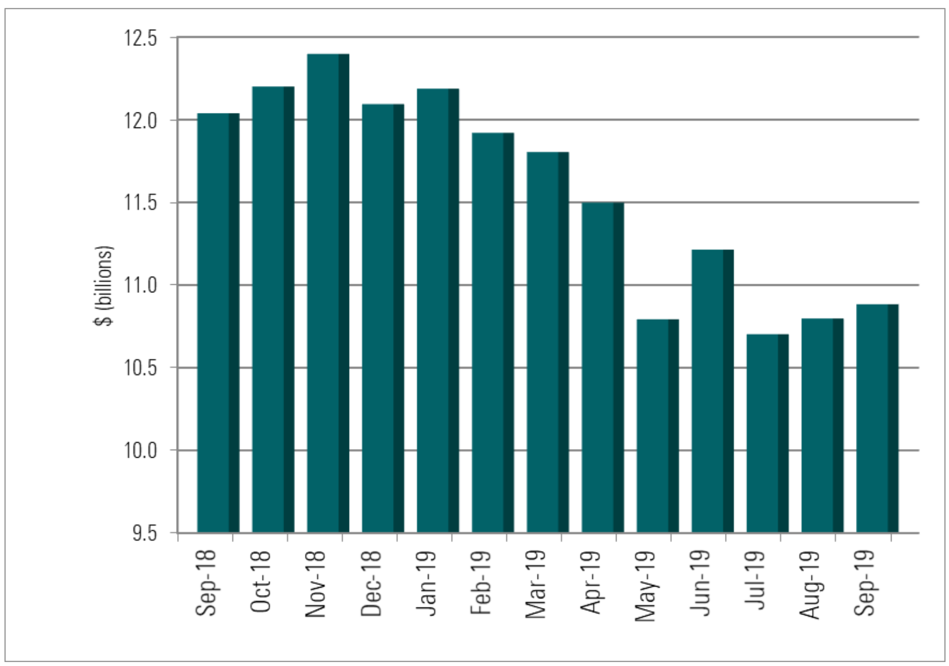
Our projected losses on specially serviced loans ticked up to $10.88 billion from $10.80 billion in August, an increase of $86.1 million, but has improved over the past 12 months, down $1.16 billion since September 2018.

Chart 1 – Special-Servicing Balance and Rate January 2008 – September 2019



Source: DBRS Morningstar

Chart 2 – Morningstar Loss Forecast on Specially Serviced Loans



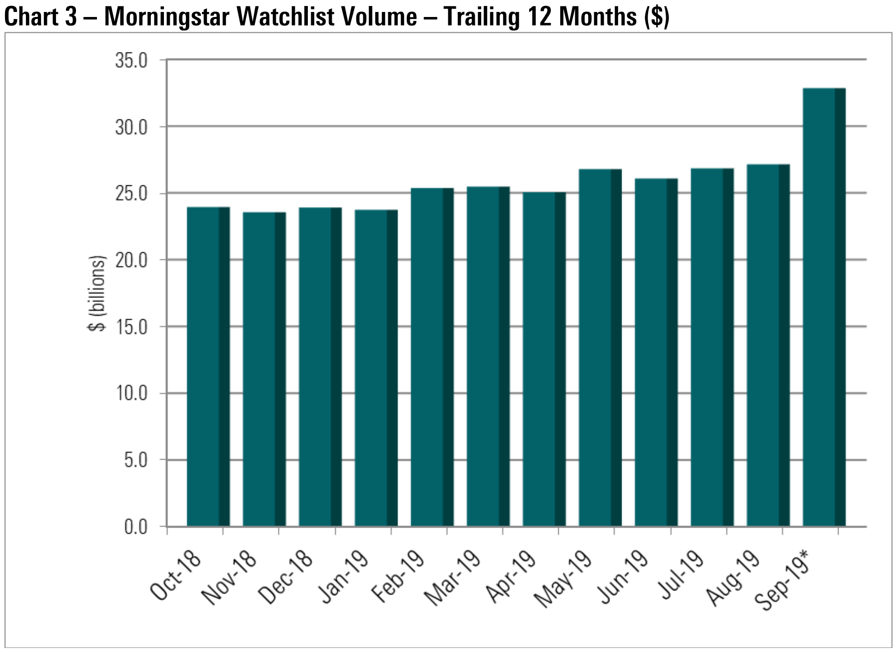
Source: DBRS Morningstar

The volume of special-servicing transfers fell to the lowest level in five months, sinking to $278.4 million in September from $797.9 million in August. The $44.0 million Salmon Run Mall loan in WFCM 2010-C1 was the largest loan transferred to special servicing in September. The 671,766-square-foot regional mall in Watertown, New York, saw June 2019 occupancy tumble to 68.0% from 94.0% at underwriting as Sears and Bon-Ton both vacated. More recently, Camping World Holdings announced that it intends to shift away from stores that do not sell recreational vehicles and other accessories by the end of the year. Because of this, we believe the Gander Outdoors at Salmon Run Mall, which occupies 8.2% of the space on a lease that expires in 2028, has a good chance of closing. On a positive note, the mall has inked a national tenant to take about 65% of the space vacated by Sears. Further, the loan was conservatively underwritten with a 14.6% debt yield, which gives it some cushion. Accordingly, we don't project a loss based on our $62.0 million value.

Watchlist Exposure

The Morningstar Watchlist registered $32.84 billion, up from $27.14 billion in August because we began capturing certain Freddie Mac loans that were not previously posted on our Watchlist.

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



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

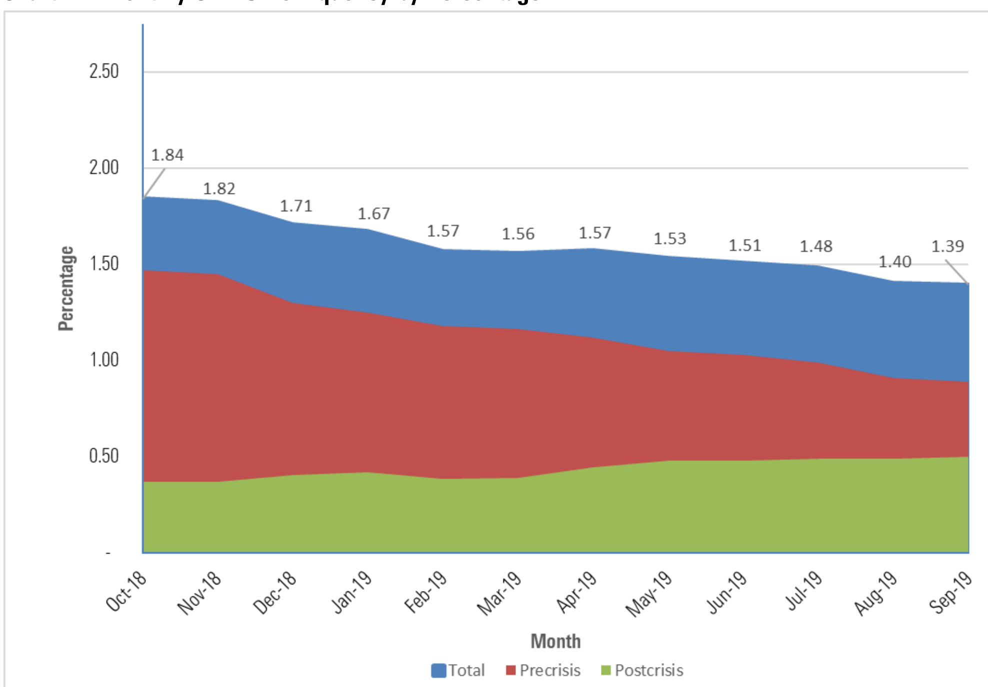
The largest loan we added this month was the $418.5 million Palisades Center Mall loan. Lord & Taylor, which occupies 120,000 square feet as a noncollateral anchor at the West Nyack, New York, regional mall, will close in January 2020, according to rcbizjournal.com. This follows JCPenney's 2017 departure from the 2.2-million-square-foot mall, of which about 1.9 million square feet serve as collateral. Although the Palisades Mall benefits from its location and strong trade-area demographics, we are concerned about the total amount of debt tied to the property, as well as its competitiveness going forward. Located just 25 miles away, the roughly 3-million-square-foot American Dream complex is set to open in October. Increasing vacancy and rent reductions pushed 2018 net cash flow down 9.6% since underwriting, while June 2019 occupancy dropped to 84.0% from 94.0%. Based on our valuation, the total debt loan-to-value ratio, which includes two mezzanine loans, is 103.7%. Further, the loan won't deleverage over its term because it doesn't amortize. In addition to $388.5 million in debt in PCT 2016-PLSD, there's a $30.0 million pari passu piece in JPMDB 2016-C2, as well as $141.5 million in mezzanine debt.

Delinquency

The CMBS delinquency rate posted another postcrisis low in September, ticking down to 1.39% from 1.40% in August, as the balance of delinquent loans declined 53 basis points while the size of the CMBS universe was relatively unchanged. The balance of delinquent loans fell to $12.45 billion from $12.52 billion in August, and it's down $2.63 billion, or 17.4%, from the year-earlier period. Delinquencies from deals issued from 2010 through 2019 remain a small portion of the total, representing just 0.50% of the CMBS universe, while delinquent precrisis loans account for 0.89%.

However, the delinquency rate of postcrisis, or CMBS 2.0, loans has started to climb. In May 2018, only 0.29% of postcrisis loans were delinquent; by September 2019, the rate had risen to 0.50%. 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)

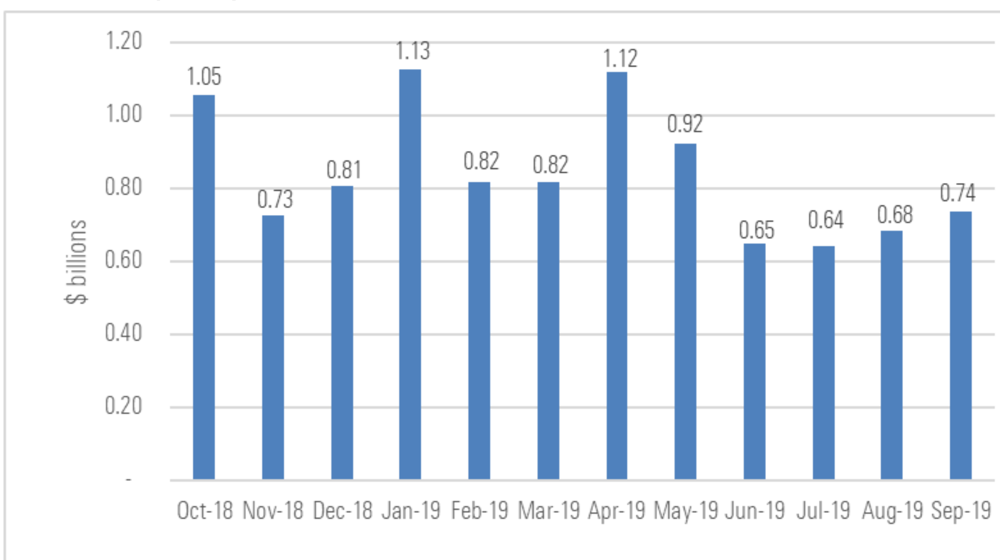
Category	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
30-Day	0.60	0.72	0.94	1.25	0.90	0.94	1.30	1.21	1.00	0.73	0.90	0.88
60-Day	0.31	0.26	0.39	0.38	0.42	0.51	0.30	0.53	0.60	0.64	0.52	0.56
90-Day	1.7	1.7	1.47	1.72	1.65	1.55	1.88	1.77	2.03	2.2	2.08	2.08
Foreclosure	3.15	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	9.79	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.	15.55	15.29	14.49	14.36	13.68	13.51	13.73	13.22	13.07	12.85	12.52	12.45
Current	828.40	825.05	834.09	836.63	855.53	854.09	860.62	849.85	850.93	852.49	879.77	880.31
Total CMBS	843.95	840.35	848.58	850.99	869.22	867.60	874.35	863.07	864.00	865.34	892.29	892.76
Delinquency %	1.84	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 remained below $800 million for the fourth straight month, rising to $735.9 million, an increase of $53.0 million from August, and registered below the 12-month moving average of $841.4 million.

The $49.2 million specially serviced Shopko Industrial Portfolio loan in COMM 2015-CR25 was the largest newly delinquent loan that remains delinquent as of the date of this report. The collateral, three warehouses in Nebraska, Wisconsin, and Idaho, were the only regional distribution centers for Shopko, a Green Bay, Wisconsin-based retailer that liquidated and closed all stores after filing for bankruptcy protection in January. Following a June appraisal that valued the properties at $60.8 million, we do not project a loss.

Chart 5 – Newly Delinquent Loans



Source: DBRS Morningstar

Compared with year-ago levels, the industrial sector, which represents just 3.1% of total delinquent loans, saw the largest percentage decline in delinquent balance, tumbling 30.2%, or $166.0 million, to $382.8 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 26.4% to $3.44 billion from $4.68 billion one year ago, as liquidations far outpaced newly delinquent loans.
- Hotel loan delinquency fell 23.9% to $1.12 billion from $1.48 billion one year ago.
- Retail loan delinquency dropped 15.0% to $5.06 billion from $5.95 billion one year ago.
- Multifamily loan delinquency, which represents 13.4% of all delinquencies, rose by 32.7% to $1.67 billion from $1.26 billion one year ago because of a rise in delinquent small-balance agency loans.

Table 3 – September Delinquency by Property Type

Property Type	$ Current Balance	# of Loans	% of CMBS Universe	% of CMBS Delinquencies	% of Property Type
Retail	5,056,543,108	354	0.57	40.61	4.02
Office	3,443,163,154	143	0.39	27.65	2.59
Multifamily	1,669,810,190	351	0.19	13.41	0.37
Hotel	1,124,838,027	80	0.13	9.03	1.38
Other	696,332,799	38	0.08	5.59	0.91
Industrial	382,848,636	24	0.04	3.07	1.57
Healthcare	78,264,448	5	0.01	0.63	3.39
Total	12,451,800,362	995	1.39	100.00	-

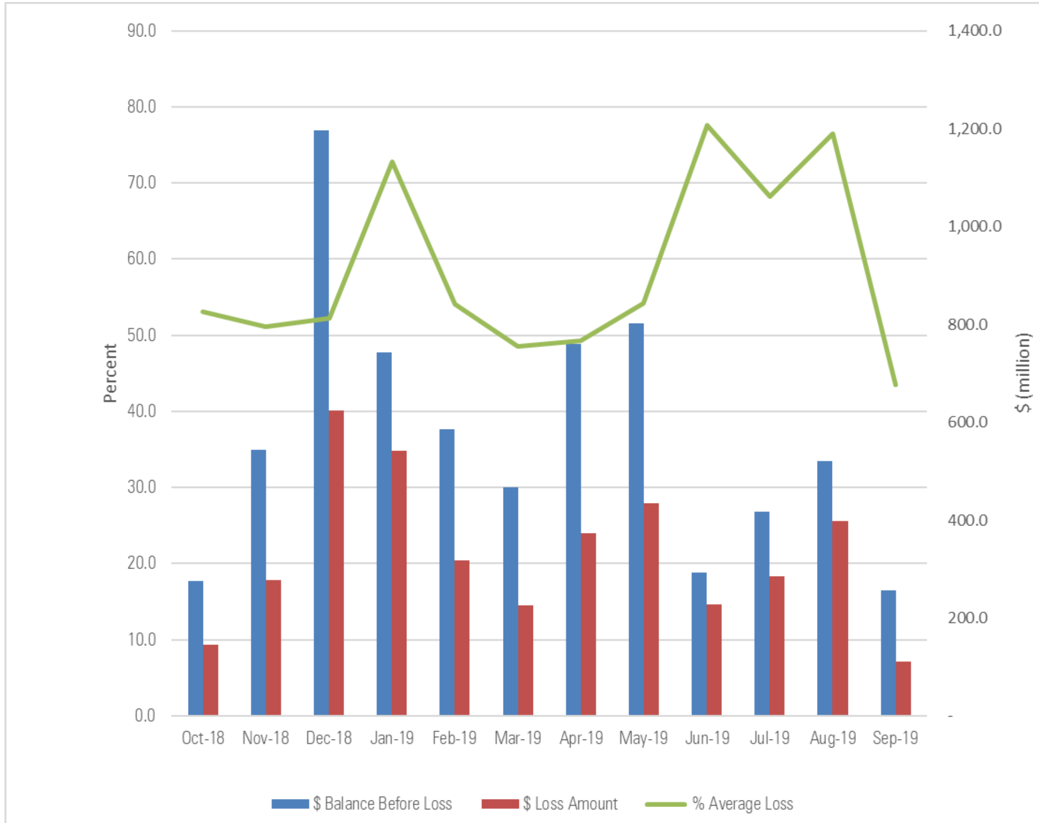
Note: Figures may not sum to totals because they are rounded.
Source: DBRS Morningstar

CMBS Liquidations

After the weighted-average loss severity hit its second-highest level in August since we began tracking it, 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. Thirty loans with a combined balance of $256.0 million were disposed with a weighted-average loss severity of 43.5%, down from $520.3 million disposed at a 76.5% severity in August. The largest write-off came from the liquidation of the asset that formerly backed the $15.3 million Rockwell Automation loan in JPMCC 2006-CB15. The collateral, a 130,000-square-foot real estate owned single-tenant manufacturing facility in Shirley, New York, remained fully vacant since Rockwell Automation vacated when its lease expired in 2013.

Losses continue to run ahead of last year. Through the first nine months of 2019, approximately $4.84 billion across 273 CMBS loans were disposed with a cumulative loss of $2.92 billion, generating a weighted-average loss severity of 60.2%. 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

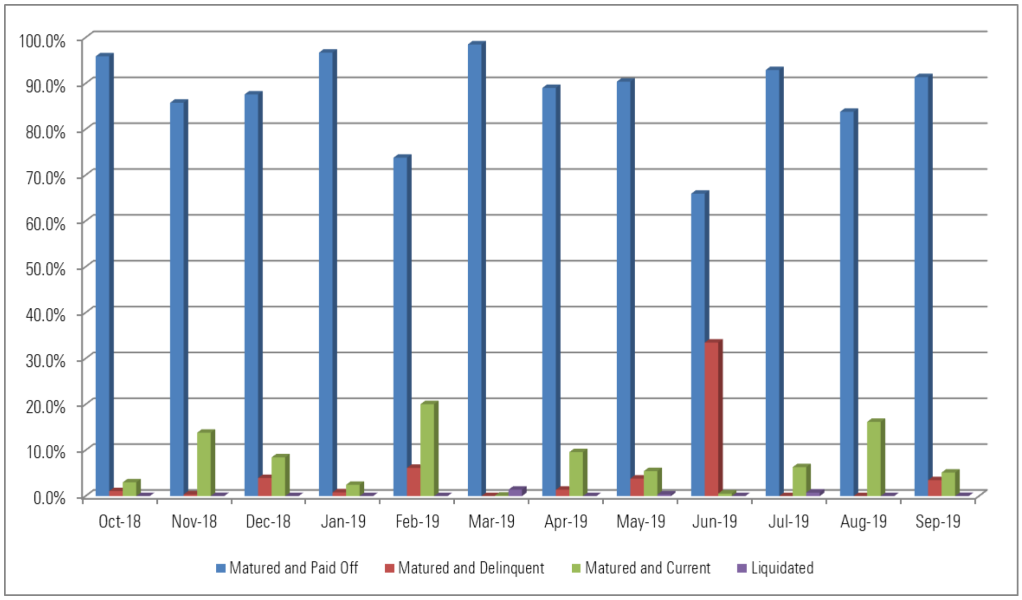


Source: DBRS Morningstar

Monthly Maturity

The payoff rate rose back above 90% after dropping to 83.8% in August. About $492.8 million in CMBS loans matured in September, $450.3 million of which paid off, resulting in a 91.4% payoff rate. The $16.9 million World Houston Plaza loan in COMM 2014-LC17 was the largest to miss its scheduled payoff. The more than 215,000-square-foot Houston office property saw March occupancy tumble to 29.0% from 100% at underwriting as a number of oil service tenants vacated. Based on a January 2019 appraisal that valued the property at $9.0 million, we project a $10.5 million loss.

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

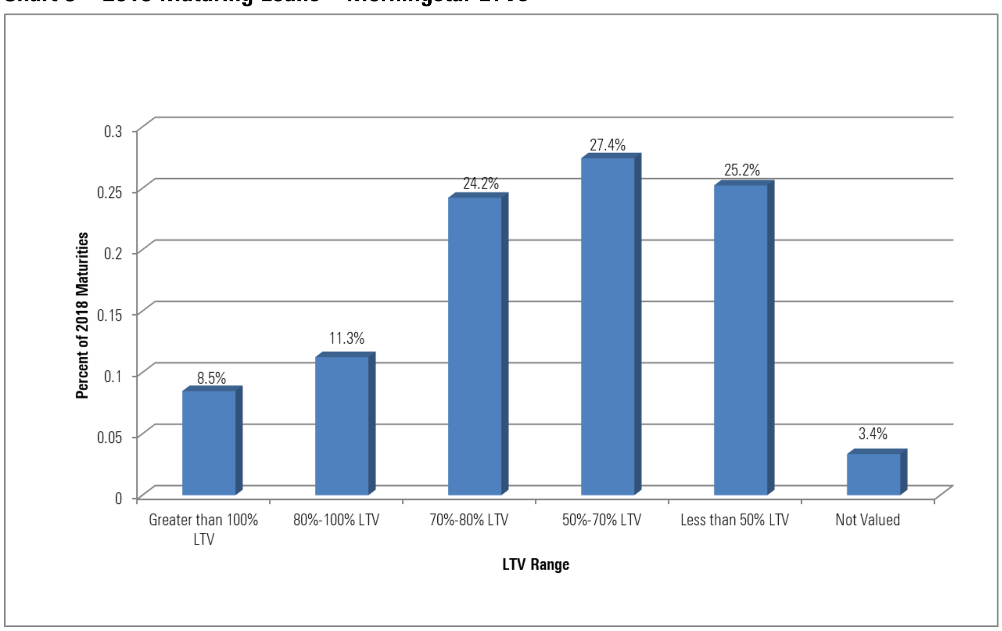


Source: DBRS Morningstar

Maturity Outlook for 2019

Some $2.79 billion of CMBS loans will mature through December. We have valued approximately 98.4% of them, and 20.1% have LTVs greater than 80%. Consequently, we expect the maturity payoff rate for 2019 will come in at about 80% to 85%, little changed from 83.0% through the first nine 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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