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CMBS Research

Maturity Report

November 2017 Remittance

CMBS Clients Excel Download

Morningstar Perspective: Spurred by sagging investor appetite for higher leveraged loans, the maturity payoff rate for loans packaged in commercial mortgage-backed securities sank below 60% for the first time in five years, tumbling to 59.5% from 81.2% in October. Despite November's decline, the payoff rate for the year has exceeded our expectations as borrowers took advantage of the availability of credit from non-CMBS lenders that have increased their exposure to commercial real estate and refinanced a significant amount of loans with marginal metrics. Indeed, 26.4% of 2017 maturing loans with loan-to-value ratios greater than 80.0% successfully paid off. As the much-publicized three-year maturity wave of CMBS loans ends, we anticipate that the payoff rate will finish at roughly 72% for the year.

With the wall of maturities behind us, the maturity payoff rate remains on course for a solid rebound in 2018 to roughly 80%-85%. The volume of maturing loans that must be refinanced in 2018 will be far lower at $12.82 billion, down sharply from roughly $80.73 billion this year, and, for the first time, maturing loans from CMBS 2.0 transactions will exceed those from before the crisis. The $10.76 billion in CMBS 2.0 issuance is unlikely to generate the same level of concern as the legacy loans because those transactions were underwritten with more conservative assumptions, low levels of pro forma underwriting, and lower leverage. Further, these assets have generally benefited from rising property valuations throughout the loan term, bolstering the borrower's equity cushion and easing refinancing concerns.

Morningstar Credit Ratings, LLC analyzes the payoff and delinquency rates of maturing loans based on the balance of loans that six months earlier faced maturity, as CMBS borrowers typically can pay off their loans within six months of maturity without incurring any fees. In this report, Morningstar excluded defeased loans, loans that have passed their original maturity date, and floating-rate loans that have not reached their fully extended maturity date (but might not have been reflected as such in the servicer data).

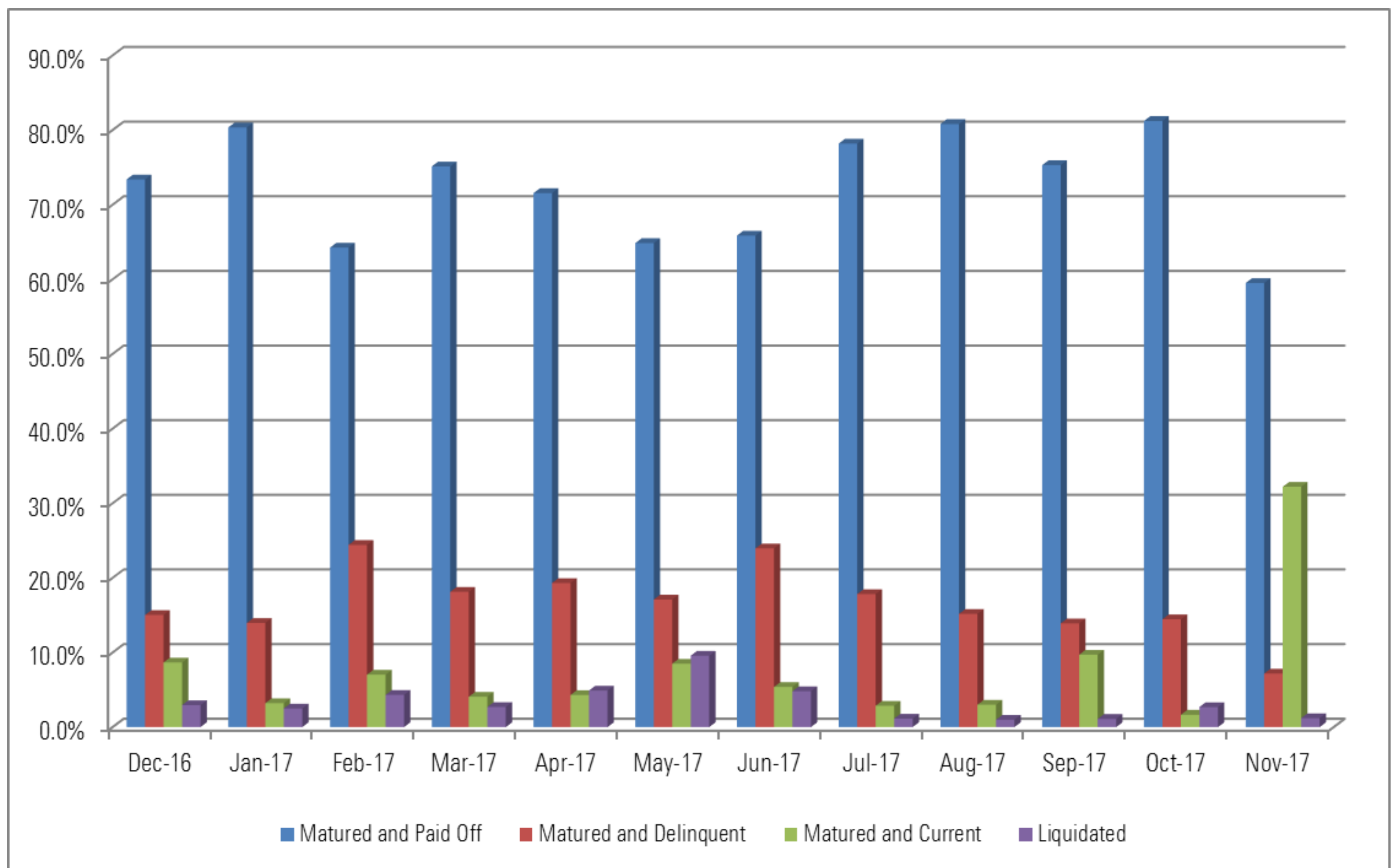
Table 1 – November Maturity Status

Status	Loan Count	Unpaid Balance ($)	% of Loans Maturing
Matured and Paid Off	150	1,457,202,328	59.5
Matured and Delinquent	10	175,242,305	7.2
Matured and Current	26	788,212,740	32.2
Liquidated	4	29,912,804	1.2
	190	2,450,570,178	100.0

Figures may not sum to totals because they are rounded.

Source: Morningstar Credit Ratings, LLC

Chart 1 – 12-Month Performance Trend by Loan Status at Maturity



Source: Morningstar Credit Ratings, LLC

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What Happened: As shown in Table 1, 150 loans with a combined balance of $1.46 billion paid off in full. Loans reported as delinquent in payment status (regarding monthly payments) hit a 21-month low, while loans reported as current in payment status (regarding hit a five-year high.

Matured loans reported as delinquent include the $38.3 million Inland Bradley Portfolio loan, 14.0% of JPMCC 2007-C1. Backed by four industrial properties with a combined 1.1 million square feet, the loan was transferred to the special servicer in January because occupancy tumbled to 62.1% from 100.0% after the largest tenant vacated. The collateral became real estate owned in June and was appraised for $33.2 million, a 51.0% reduction from the $67.8 million underwritten appraised value. Consequently, we forecast a $9.7 million loss after including liquidation expenses.

Matured loans reported as current in payment status (regarding monthly payments) included the $295.0 million One State Street Plaza loan, which paid off before publication of this report. Separately, high leverage and low occupancy is hindering the payoff of the $78.4 million Shadow Lake Towne Center loan, 38.1% of MSC 2008-T29. The 636,297 square feet that serve as collateral of the 769,183-square-foot open-air shopping center outside of Omaha, Nebraska, is 82.0% occupied, down from 90.0% in 2015 because anchor tenant Gordman's vacated earlier this year after filing for Chapter 11 bankruptcy protection. With a value of $77.7 million after liquidation expenses and Morningstar LTV of 100.9%, we believe the sponsor would need to provide additional equity to successfully refinance the loan. We performed a discounted cash flow analysis assuming three years to lease up roughly half of the Gordman's space, to an overall 85.0% occupancy rate. We modeled a market rental rate of $14.56 per square foot, six months of free rent, a 10.8% discount rate, tenant improvement costs of $10.10 per square foot, and 4.0% leasing commissions.

Year of Origination: Ten-year loans issued in 2007 accounted for most of the maturities, registering 69.2% ($1.70 billion) of the maturing unpaid balance. There were 10 postcrisis loans that matured, five of which failed to pay off including the largest, the $66.7 million Fashion Outlets of Las Vegas loan, 6.9% of COMM 2012-CR4, which is in foreclosure. Low occupancy drove 2016 net cash flow down 24.7% from underwritten. Further, the lending environment for malls in tertiary markets is hampering the borrower's ability to secure take-out financing. Because the collateral, a single-story, fully enclosed 375,722-square-foot outlet center, is situated 45 miles south of Las Vegas, we believe there is a limited pool of tenants seeking space at the property. While we are encouraged by the opening of H&M in May 2017, occupancy remains low at 74.0%, a steep decline from 96.2% at issuance. Consequently, the subsequent decline in cash flow to $6.1 million for 2016 from $8.0 million at underwriting lead us to reduce our collateral value to $67.3 million from $125.0 million at underwriting. Our valuation suggests a 99.2% LTV.

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Table 2 – November On-Time Payoff Status by Year of Origination (%)

	Year of Origination		
Status	2007	2008	2012
Matured and Paid Off	61.0	52.2	50.2
Matured and Delinquent	7.1	10.6	0.0
Matured and Current	31.7	32.8	49.8
Liquidated	0.2	4.3	0.0
Total Maturing	100.0	100.0	100.0

Source: Morningstar Credit Ratings, LLC

Property Type: Office had the lowest payoff rate primarily driven by the previously mentioned One State Street Plaza loan, which subsequently paid off. Meanwhile, retail and hotel both reversed several months of above-average performance, as each posted payoff rates of less than 65%. The former saw a number of loans secured by properties hamstrung by retail consolidation including the previously mentioned $78.4 million Shadow Lake Towne Center loan.

Meanwhile, the hotel payoff rate has been declining over the past few months, as hotels could be feeling the pinch of overbuilding. Although our $70.9 million value on the Marriott Houston Westchase is below the $72.2 million loan balance, we consider a modification likely for the largest hotel loan that didn’t pay off. The hotel's performance was lower in 2016; however, the property was in the midst of a renovation program totaling $20.0 million, or $33,000 per room. We believe this will produce a higher value going forward and could lead to a maturity date extension. We valued the property by performing a two-year pro forma analysis. Our assumptions included net operating income of $5.7 million, average daily rate of $133.00 per room, revenue per available room of $94.39 and an unadjusted capitalization of 8.1%. The loan is the largest in BSCMS 2007-PW18.

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Table 3 – November Maturity by Property Type

Property Type	Loan Count	Unpaid Balance ($)	% of Loans Maturing
Retail	91	1,019,701,469	41.6
Office	29	597,108,555	24.4
Hotel	14	342,819,314	14.0
Industrial	15	207,018,802	8.4
Multifamily	26	184,945,612	7.5
Mixed Use	15	98,976,426	4.0
	190	2,450,570,178	100

Source: Morningstar Credit Ratings, LLC

Table 4 – November On-Time Payoff Status by Property Type (%)

Status	Retail	Office	Multifamily	Hotel	Mixed Use	Industrial	Healthcare
Matured and Paid Off	64.1	29.9	97.4	63.1	83.3	70.8	-
Matured and Delinquent	5.4	12.5	0.0	0.0	0.0	21.7	-
Matured and Current	27.9	57.0	2.6	36.9	16.7	7.5	-
Liquidated	2.6	0.6	0.0	0.0	0.0	0.0	-
Total Maturing	100.0	100.0	100.0	100.0	100.0	100.0	-

Source: Morningstar Credit Ratings, LLC

Metropolitan Statistical Areas: The 10 MSAs with the largest dollar volume of maturities are displayed in descending order in Table 5. New York City's low payoff rate is primarily because of the previously mentioned One State Street Plaza loan, and Omaha's 100% default rate is linked to the previously mentioned Shadow Lake Towne Center loan. The $71.7 million Milford Crossing loan accounted for New Haven-Milford, Connecticut's, 0% payoff rate. Backed by a 379,685-square-foot power center built in 2006, the loan's 6.4% debt yield and net cash flow 20.7% below issuance, despite occupancy remaining above 96.3% since issuance. We applied a capitalization rate of 7.7% to the 2016 net cash flow. Our value under this approach is $59.2 million, or $156 per square foot. The loan is 25.4% of MSC 2007-IQ16.

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Table 5 – November Payoff Status by MSA

MSA	Unpaid Balance of Maturing Loans ($)	Matured and Paid Off (%)	Matured and Delinquent (%)	Matured and Current (%)	Liquidated (%)
New York City	360,503,795	15.1	0.0	85.9	0.0
Orange County, California	229,932,892	92.8	7.8	0.0	0.0
Las Vegas	143,306,626	52.9	0.0	47.1	0.0
Houston	121,033,345	39.8	0.0	60.2	0.0
Phoenix	87,023,052	100.0	0.0	0.0	0.0
Omaha, Nebraska	79,135,918	0.0	0.0	100.0	0.0
New Haven-Milford, Connecticut	72,249,083	0.0	0.0	100.0	0.0
Seattle	69,851,048	61.2	38.8	0.0	0.0
Los Angeles	63,305,198	96.4	0.0	3.6	0.0
Chicago	54,845,322	34.2	23.9	28.2	13.7

Source: Morningstar Credit Ratings, LLC

Three-Month Look Back: We comparatively look back at August, which had an 80.8% payoff rate. The three-month postmaturity payoff rate rose above 85% for the first time since July 2016, as an additional $230.6 million paid off. Through August, the year-to-date three-month postmaturity rate stood at 76.1%. This data is displayed in Table 7.

Outstanding loans that matured in August include the $49.1 million Palmer-Rochester Portfolio 1st loan, 24.1% of CSMC 2007-C5. The mixed-use portfolio of multifamily, office, and industrial properties in and around Rochester, New York, never achieved underwritten cash flow, and the debt service coverage ratio was 0.30x for 2016 on 73.5% occupancy. Further, the loan has been in special servicing since 2008, as the portfolio is tied up in litigation. We project a $31.1 million loss based on a July 2016 appraisal that valued the collateral for $24.0 million, a 31.0% reduction from the original appraised value of $34.8 million.

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Table 6 - Maturity Default Three-Month Look Back

Month	Maturing Unpaid Loan Balance ($)	Initial Paid Off Balance ($)	Initial Maturity Payoff Rate (%)	Additional Paid Off Balance ($)	Three Months Postmaturity Paid Off Balance ($)	Three Months Postmaturity Payoff Rate (%)	Increase in Initial Payoff Rate (%)	As Of
Sep-16	5,739,079,884	4,441,602,558	77.4	384,392,656	4,825,995,214	84.1	6.7	Dec-16
Oct-16	7,720,508,063	5,757,771,499	74.6	243,578,078	6,001,349,577	77.7	3.1	Jan-17
Nov-16	8,591,634,656	6,772,794,665	78.8	224,219,620	6,997,014,285	81.4	2.6	Feb-17
Dec-16	9,094,184,138	6,672,648,238	73.4	488,578,037	7,161,226,275	78.7	5.3	Mar-17
Jan-17	10,197,927,748	8,193,237,836	80.3	444,480,495	8,637,718,330	84.7	4.4	Apr-17
Feb-17	9,782,118,783	6,285,187,758	64.3	477,823,817	6,763,011,575	69.1	4.8	May-17
Mar-17	7,676,781,116	5,766,408,668	75.1	297,012,816	6,063,421,485	79.0	3.9	Jun-17
Apr-17	11,520,215,567	8,242,620,243	71.5	508,783,735	8,751,403,978	79.0	7.4	Jul-17
May-17	9,419,678,822	6,108,814,261	64.9	390,419,631	6,499,233,892	69.0	4.1	Aug-17
Jun-17	10,194,923,834	6,713,253,905	65.8	441,941,497	7,155,195,403	70.2	4.3	Sep-17
Jul-17	8,560,414,566	6,692,035,349	78.2	228,967,096	6,921,002,444	80.8	2.7	Oct-17
Aug-17	4,861,074,024	3,927,694,116	80.8	230,611,949	4,158,306,065	85.5	4.7	Nov-17

Source: Morningstar Credit Ratings, LLC

Outlook: With only one month left in the year, the maturity wave has been reduced to $651.1 million of loans that will mature in December, and we project that the payoff rate will hold above 72%, as 70.1% of the remaining loans have LTVs above 80%.

We expect $12.82 billion of CMBS loans to mature in 2018. We have valued 95.6% of the loans maturing during 2018, roughly 20.6% of which have LTVs greater than 80%, suggesting a payoff rate of at least 80%. This information is displayed in Charts 2 and 3.

Although LTV is a reasonable barometer in Morningstar’s maturity analysis, a loan’s refinancing ability is also subject to its debt service coverage ratio, 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.

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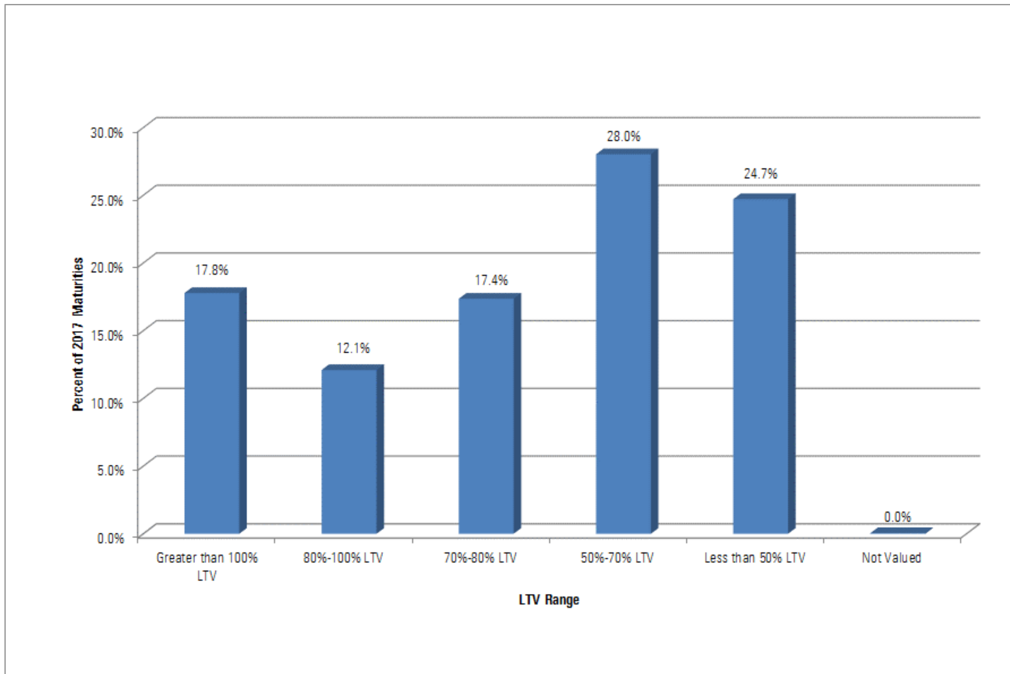
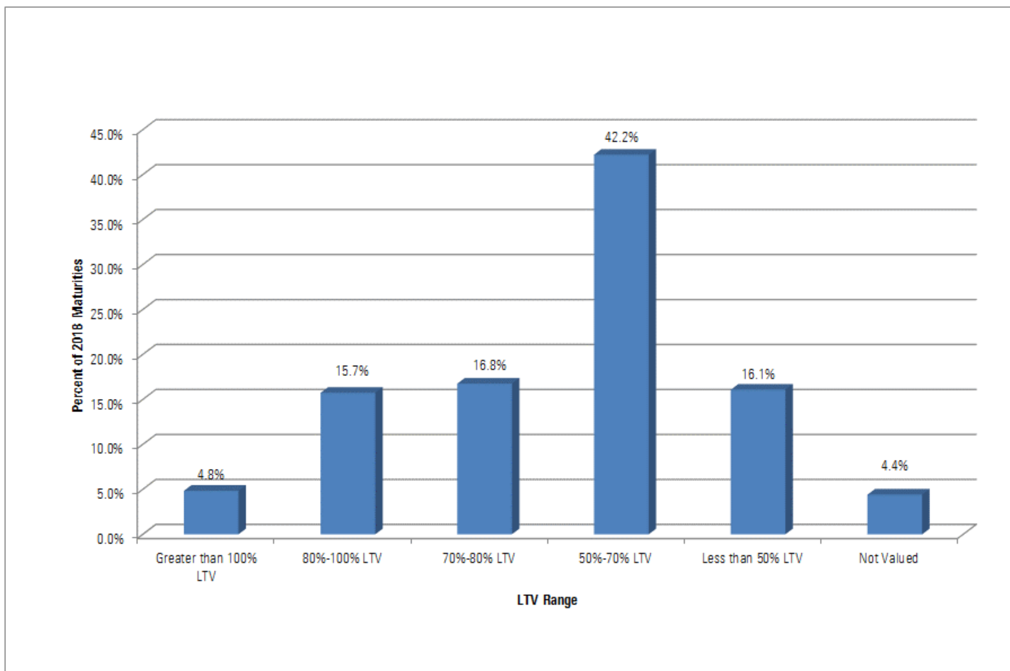
Chart 2 - 2017 Maturing Loans – Morningstar LTVs



Source: Morningstar Credit Ratings, LLC

Chart 3 - 2018 Maturing Loans – Morningstar LTVs



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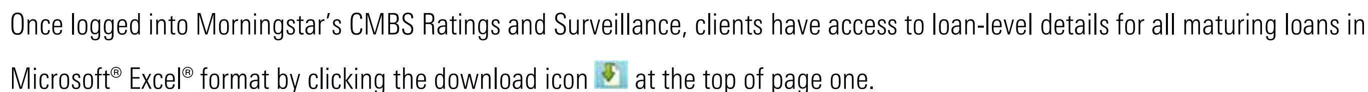
Once logged into Morningstar's CMBS Ratings and Surveillance, clients have access to loan-level details for all maturing loans in Microsoft® Excel® format by clicking the download icon  at the top of page one.

Detailed Morningstar analyses and value estimates for all matured-delinquent and matured-current loans can be found in the respective Morningstar Surveillance Analyses or Watchlists.

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