

CMBS Research

DBRS Morningstar Monthly Highlights

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DBRS Morningstar Credit Ratings

December 2019 Remittance

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Executive Summary

- ▶ After setting another postcrisis low in November, the delinquency rate climbed 7 basis points to 1.31 primarily because the volume of delinquent loans rose by more than \$600 million.
- ▶ The delinquency rate fell in 19 of the past 24 months and is down 40 basis points from a year ago. Morningstar Credit Ratings, LLC (DBRS Morningstar) believes the delinquency rate will likely hit an inflection point this year. As legacy loans dwindle, their effect on falling delinquency rates will lessen, and postcrisis problem loans will take center stage.
- ▶ The balance of loans on the DBRS Morningstar Watchlist ticked up \$75.1 million to \$32.96 billion, from \$32.88 billion in November. A slowing economy and overbuilding in some markets may push the Watchlist balance higher.
- ▶ After rising for the first time in seven months in November, the special-servicing unpaid principal balance (UPB) resumed its downward trend, ticking down to \$14.36 billion from \$14.83 billion in November, while the special-servicing rate fell to 1.56% from 1.61%.
- ▶ The portion of specially serviced postcrisis loans now accounts for about 47.4% of the total, up from roughly 32% in December 2018.
- ▶ Our projected losses on specially serviced loans have improved over the past 12 months, falling \$2.73 billion since December 2018.
- ▶ The 2019 maturity payoff rate met our expectations, finishing the year at 78.9%, just below our initial projection of 80%. Looking ahead, we anticipate that the 2020 maturity payoff rate will come in at roughly 85%, as most maturing loans have strong metrics.

Table 1 – Significant Value Changes Among Large Loans

Deal ID	Asset Name	Loan Balance (\$)	Value Change (\$)	Loss Forecast (\$)	Previous MORN LTV (%)	Current MORN LTV (%)
CGCMT 2016-C3	The Townhouse Apartments - Stamford	58,000,000	(32,400,000)	-	63.0	97.3
JPMCC 2007-LDPX	Ross Retail Portfolio	43,893,747	(19,323,000)	26,251,396	118.3	237.0
WFRBS 2014-LC14	Williams Center Towers	43,779,535	(11,612,865)	16,992,083	114.0	163.4
JPMCC 2011-C5	LaSalle Select Portfolio	28,403,049	(11,300,000)	10,148,970	96.7	121.4
GSMS 2013-GC10	Parkwood Plaza	17,931,870	(7,946,000)	15,985	74.1	110.2
COMM 2013-CR12	Monarch 544 at Coastal Carolina	21,821,481	(6,141,000)	7,816,682	107.9	144.8
CD 2006-CD3	Greendale Mall	45,000,000	4,245,000	41,706,451	1,695.5	631.6
WFRBS 2014-LC14	West Side Mall	24,491,895	5,171,165	1,251,881	155.6	117.1
WFRBS 2012-C10	Towne Mall	20,383,022	13,100,000	-	131.5	71.3
WFCM 2015-LC22	West Palm Beach Marriott	28,898,127	17,894,000	-	90.0	57.8

Source: DBRS Morningstar

Significant Value Changes Among Watchlist and Specially Serviced Loans

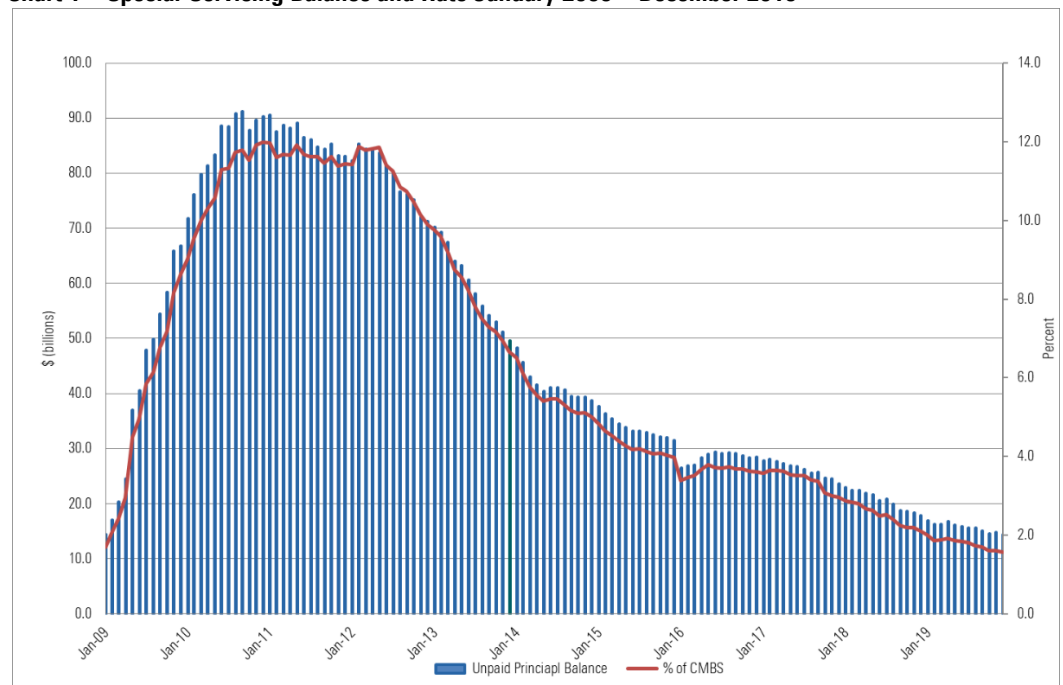
In December, we raised our value on properties securing 21 loans with a combined balance of \$679.4 million, while we lowered our values on properties securing 28 loans with a combined balance of \$1.05 billion. Of these, 16 loans showed value declines that resulted in increased loss forecasts.

The \$58.0 million The Townhouse Apartments - Stamford loan in CGMT2016-C3 had the largest value decline. We reduced our estimate of collateral value by \$32.4 million to \$59.6 million because net cash flow fell 15.1% below underwriting on the back of a 30.6% rise in expenses at the 270-unit high rise apartment complex in Stamford, Connecticut. The loan, which is current, continues to easily cover its debt service posting a 1.54x debt service coverage ratio for the first nine months of 2019 on 95.0% occupancy. The property benefits from a strong market including employers such as UBS, Danbury Hospital, and Sikorsky Aircraft Corp., and is less than 40 miles from New York City. Our \$59.6 million value suggests a 97.3% loan-to-value ratio (LTV).

Special-Servicing Exposure

After rising for the first time in seven months in November, special servicing UPB continued its downtrend, dropping to \$14.36 billion, down \$467.7 million from November, while the special servicing rate fell 5 basis points to 1.56%. Because the volume of troubled precrisis loans continues to shrink, the portion of specially serviced postcrisis loans now accounts for 47.4% of the total, up from roughly 32% in December 2018.

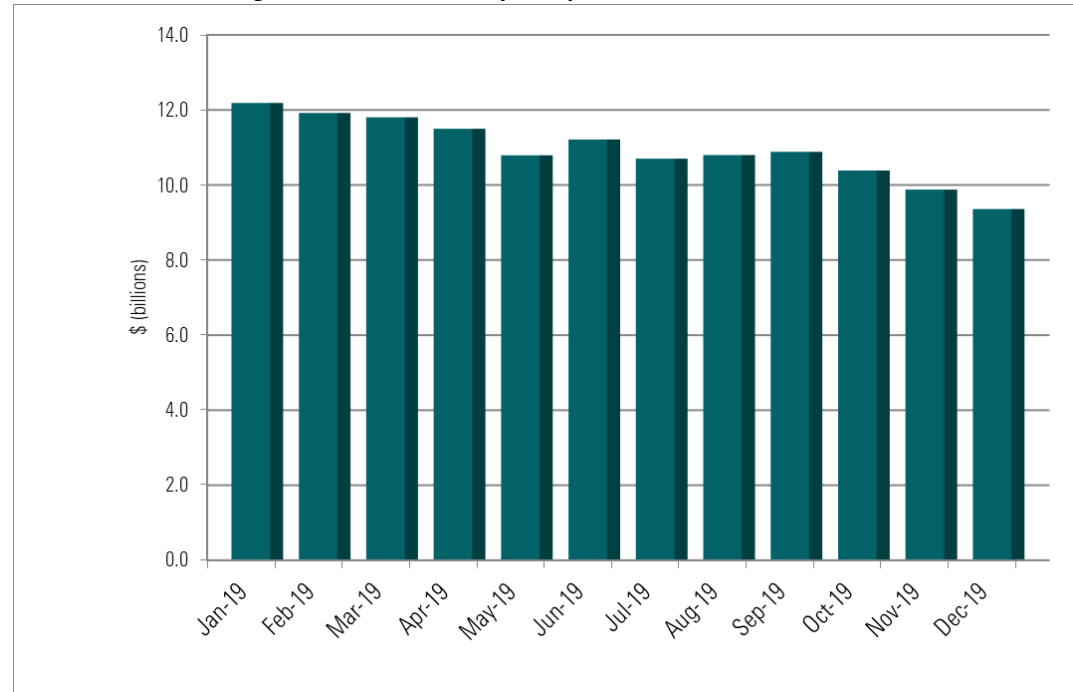
Chart 1 – Special-Servicing Balance and Rate January 2009 – December 2019



Source: DBRS Morningstar

Our projected losses on specially serviced loans edged down \$515.7 million to \$9.36 billion from \$9.88 billion in November and has improved over the past 12 months, down \$2.73 billion since December 2018.

Chart 2 – DBRS Morningstar Loss Forecast on Specially Serviced Loans

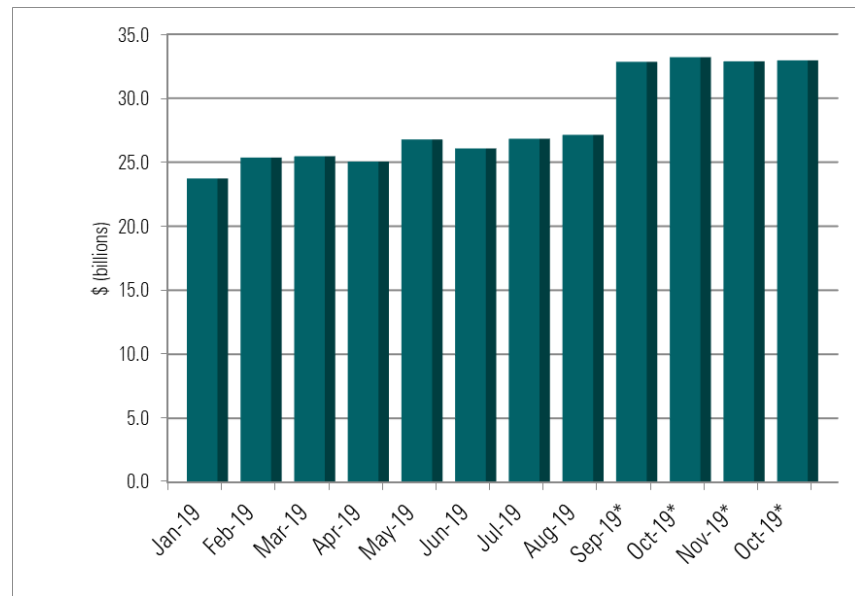


Source: DBRS Morningstar

After jumping last month to its highest level since mid-2017, the volume of loans transferred to special servicing fell to \$518.5 million, down \$789.4 million from November. Of the 26 loans that transferred in December, the \$127.4 million Two North LaSalle was the largest. The loan failed to pay off by its extended November 2019 maturity date and was transferred to the special servicer. The collateral, a 691,410-sf, Class B office property in Chicago's central business district, was about 60% leased in November, according to CoStar Group, Inc., down from 99.0% at underwriting. We expect occupancy to rebound this year because the city of Chicago will occupy 222,000 sf at the property, with an option to increase its footprint by another 75,000 sf by 2023. We value the property at \$120 million based on a 10-year discounted cash flow analysis, which suggests a loss of about \$8.8 million. However, we believe the loan will be able to refinance because of occupancy that's expected to improve to more than 90%.

Watchlist Exposure

The DBRS Morningstar Watchlist ticked up \$75.1 million to \$32.96 billion in December. 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 as postcrisis deals season, they will become more exposed to credit events, such as competition from new construction, vacating tenants, and general changes in market demand.

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

*Beginning in September 2019, Watchlist volume reflects the addition of certain Freddie Mac Watchlist loans that were not previously reported.

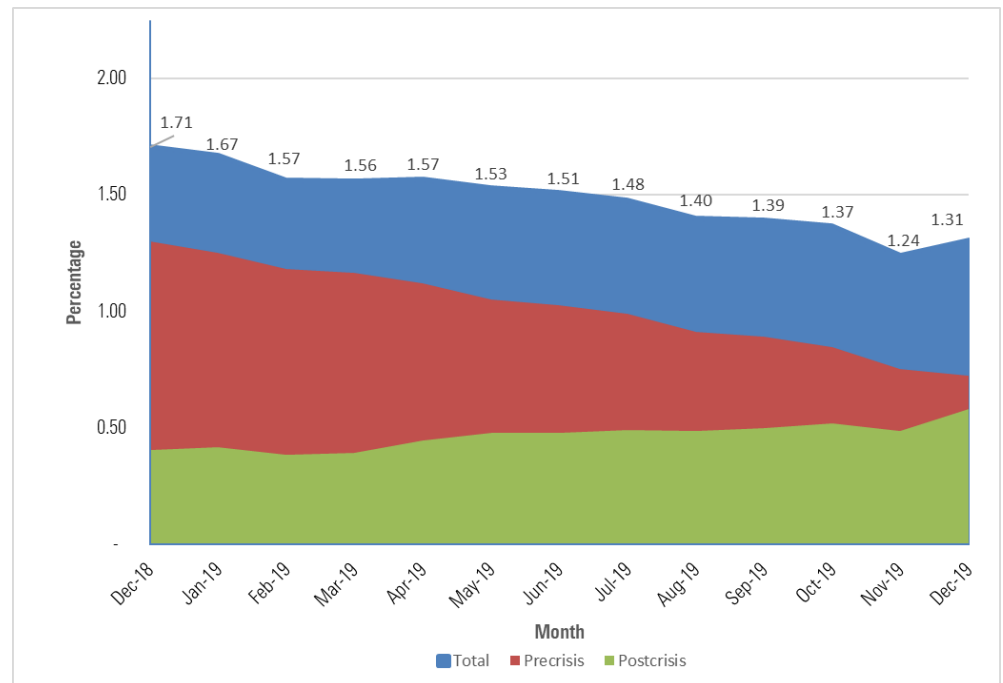
Source: DBRS Morningstar

The largest loan we added this month was the \$400.0 million 350 Park Avenue loan with pari passu pieces in VNDO 2016-350P, GSMS 2017-GS5, and JPMDB 2017-C5, because of occupancy concerns. Ziff Brothers Investments, which occupied roughly half the 570,784-sf New York City office property on a lease that runs through April 2021, partially vacated and subleases about 65% of its space, however, it will not renew at its lease expiration, which will likely reduce occupancy to about 50%. DBRS Morningstar values the asset at \$450.6 million (\$789 per square foot) using a 10- year discounted cash flow analysis assuming occupancy rises to 90.0% by 2022 and the tenants who are currently subleasing from Ziff Brothers will ultimately sign direct leases.

Delinquency

After hitting another postcrisis low in November, the delinquency rate rose 7 basis points in December, rising to 1.31% from 1.24% the previous month, because the size of the balance of delinquent loans rose more than 5% while the balance of the CMBS remained stable, rising by just 0.1%. The balance of delinquent loans is down \$2.43 billion, or 16.8%, from the year-earlier period.

However, the delinquency rate of postcrisis, or CMBS 2.0, loans has been climbing. In December 2018, only 0.41% of postcrisis loans were delinquent; by December 2019, the rate had risen to 0.58%. 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

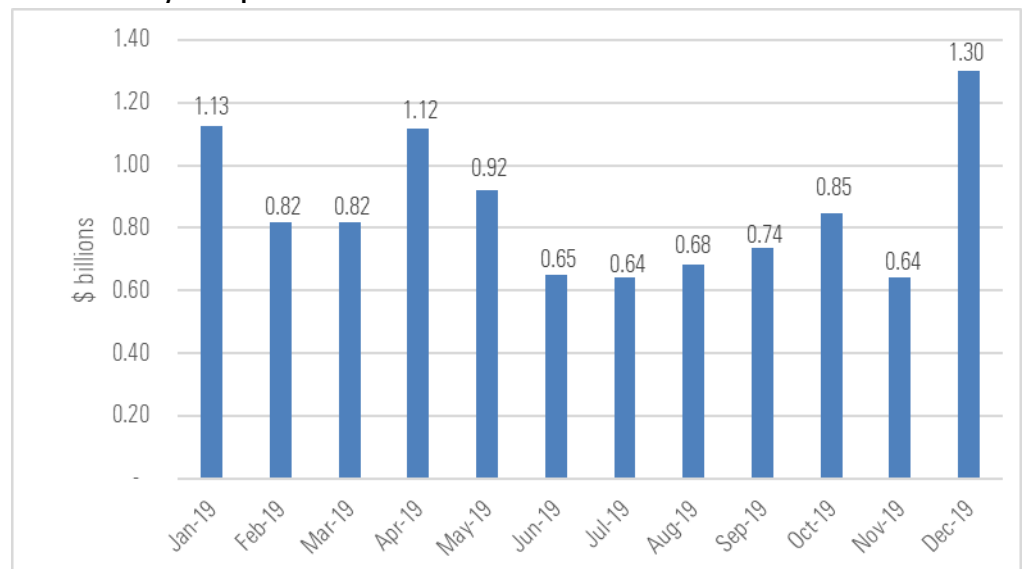
Table 2 – Trailing 12-Month Delinquency (\$ UPB in billions)

Category	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
30-Day	1.25	0.90	0.94	1.30	1.21	1.00	0.73	0.90	0.88	1.00	0.72	1.50
60-Day	0.38	0.42	0.51	0.30	0.53	0.60	0.64	0.52	0.56	0.48	0.51	0.57
90-Day	1.72	1.65	1.55	1.88	1.77	2.03	2.2	2.08	2.08	2.23	2.23	2.35
Foreclosure	2.42	1.93	1.87	1.81	1.72	1.49	1.43	1.55	1.53	1.5	1.50	1.44
Real Estate Owned	8.59	8.78	8.64	8.44	7.99	7.95	7.85	7.47	7.4	7.24	6.50	6.19
Total CMBS Del.	14.36	13.68	13.51	13.73	13.22	13.07	12.85	12.52	12.45	12.45	11.45	12.06
Current	836.63	855.53	854.09	860.62	849.85	850.93	852.49	879.77	880.31	897.24	910.56	911.03
Total CMBS	850.99	869.22	867.60	874.35	863.07	864.00	865.34	892.29	892.76	909.69	922.01	923.09
Delinquency %	1.69	1.57	1.56	1.57	1.53	1.51	1.48	1.40	1.39	1.37	1.24	1.31

Source: DBRS Morningstar

The volume of newly delinquent loans jumped above \$1 billion for the first time in eight months, rising to \$1.30 billion, an increase of \$659.2 million from November largely because the \$681.6 million Starwood Mall Portfolio fell delinquent. It was brought current as of the date of this report. The loan transferred to the special servicer in November 2019 because of maturity default. The Starwood Portfolio has experienced a steady decline in net cash since issuance, hampering the borrower's ability to obtain refinancing. The consolidated occupancy at the four super-regional malls in Florida, North Carolina, Virginia, and Michigan, and has trended down since issuance to a low of 83.0% in June 2019 from 96.0% in 2014 because loss of anchor tenants and bankruptcies affecting in-line tenants. Based on our likely valuation, we are modeling a loss of \$88.1 million.

Chart 5 – Newly Delinquent Loans



Source: DBRS Morningstar

Compared with year-ago levels, the industrial sector, which represents just 1.9% of total delinquent loans, saw the largest percentage decline in delinquent balance, tumbling 40.8%, or \$160.9 million, to \$233.7 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 30.8% to \$2.79 billion from \$4.03 billion one year ago, as liquidations far outpaced newly delinquent loans.
- Retail loan delinquency dropped 16.4% to \$5.28 billion from \$6.32 billion one year ago.
- Hotel loan delinquency rose 5.6% to \$1.16 billion from \$1.10 billion one year ago.
- Multifamily loan delinquency, which represents 15.5% of all delinquencies, rose by 8.8% to \$1.86 billion from \$1.71 billion one year ago because of a rise in delinquent student housing and small-balance agency loans.

Table 3 – December Delinquency by Property Type

Property Type	\$ Current Balance	# of Loans	% of CMBS Universe	% of CMBS Delinquencies	% of Property Type
Retail	5,279,524,752	305	0.57	43.78	4.12
Office	2,789,822,832	127	0.30	23.13	2.03
Multifamily	1,864,485,732	430	0.20	15.46	0.39
Hotel	1,156,415,247	84	0.13	9.59	1.43
Other	672,003,943	37	0.07	5.57	0.85
Industrial	233,652,487	17	0.03	1.94	0.92
Healthcare	64,454,107	4	0.01	0.53	3.36
Total	12,060,359,100	1,004	1.31	100.00	-

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

Source: DBRS Morningstar

CMBS Liquidations

Despite a significant drop in the UPB of liquidated loans, the average loss severity barely changed, remaining above 70% for the second straight month. Disposition volume fell to \$371.7 million among 27 loans, down from \$912.8 million spread among 26 loans in November, while average loss severity registered \$260.4 million, down from \$674.1 million. Average loss severity for 2019 registered 60.9%, up significantly from 44.4% for 2018.

The \$106.2 million real estate owned asset behind the Central Mall Portfolio, which represented roughly 90% of MSC 2005-IQ9 at disposition, was disposed with a \$69.0 million loss, representing a 65.0% loss severity, and accounted for more than a quarter of December's total losses. The collateral value suffered steep declines through the years, from \$173.4 million at securitization to \$43.8 million in early 2019 as the three department store-anchored regional malls in Lawton, Oklahoma, and Port Arthur and Texarkana, Texas, each lost a Sears store following the retailer's bankruptcy filing. The portfolio was sold for \$44.4 million, representing a 75% value decline from underwriting.

Chart 6 – Trailing 12-Month CMBS Liquidations and Losses

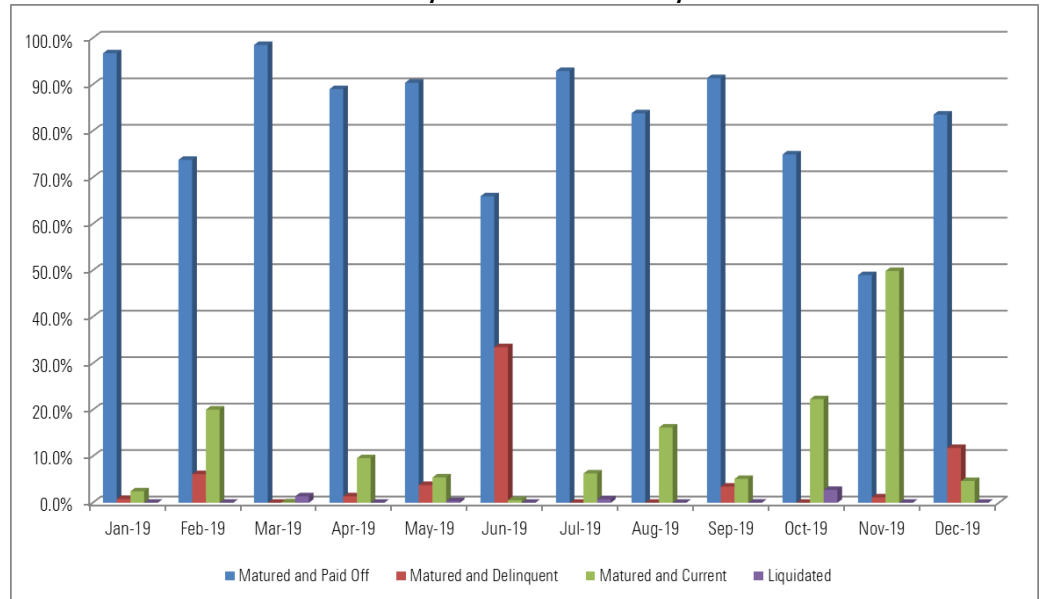
Source: DBRS Morningstar

2019 Maturity

After suffering its worst decline in November since we began tracking the statistic in 2014, the maturity payoff rate rebounded to 83.5% in December from 49.0% in November. The maturity payoff rate finished 2019 at 78.9% payoff rate, which is in line with our January 2019 projection of about 80%.

The \$112.1 million Wellpoint Office Tower loan, one of two remaining loans in GECMC 2007-C1, was the largest loan to default on its December maturity date and represents nearly 65% of December’s defaulted loan balance. The property, a 448,072-sf office property outside Los Angeles in Woodland Hills, California, lost its sole tenant, Anthem Blue, when its lease expired at year-end 2019. DBRS Morningstar values the property at \$96.9 million based on a discounted cash flow analysis assuming it will take five years to backfill the vacated space.

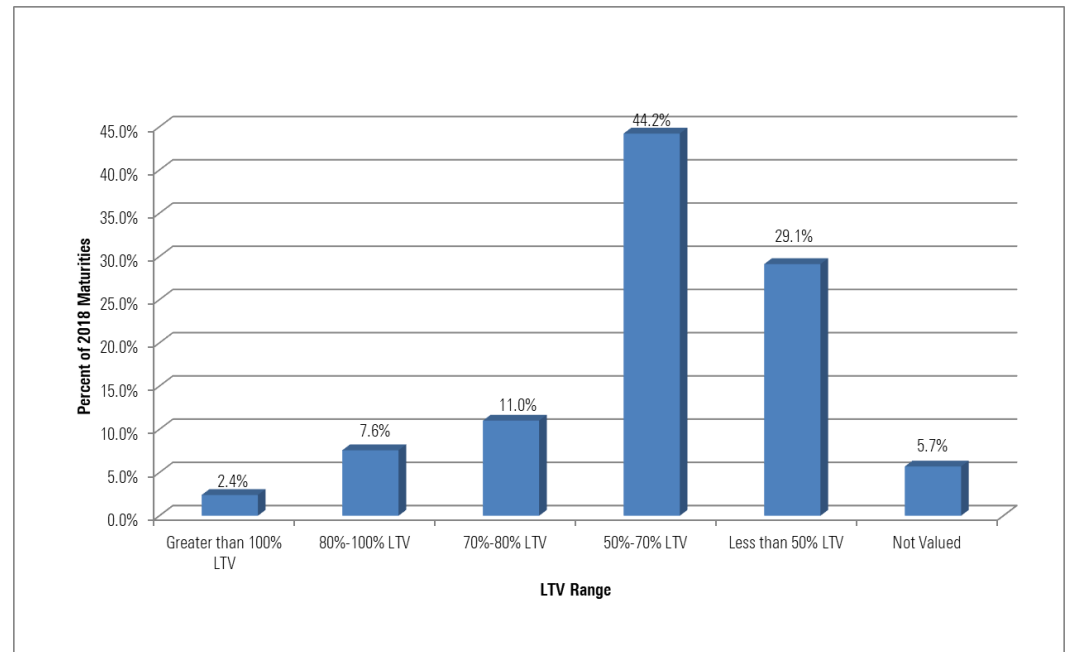
Chart 7 – 12-Month Performance Trend by Loan Status at Maturity



Source: DBRS Morningstar


Maturity Outlook for 2020

Looking ahead to 2020, some \$13.74 billion of CMBS loans will mature. We have valued approximately 94.3% of them and project that the on-time payoff rate will come in at roughly 85%, based on 84.3% of loans with LTVs less than 80%. This information is displayed in Chart 8.

Chart 8 - 2020 Maturing Loans – DBRS 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 DBRS 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 DBRS Morningstar analyses and value estimates for all delinquent, matured-delinquent, and matured-current loans as well as loans on the DBRS Morningstar Watchlist can be found in the respective DBRS Morningstar DealView CMBS Monitoring Analyses or Watchlists.

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