CMBS Subscribers Excel Download

CMBS Research
Morningstar Monthly Highlights

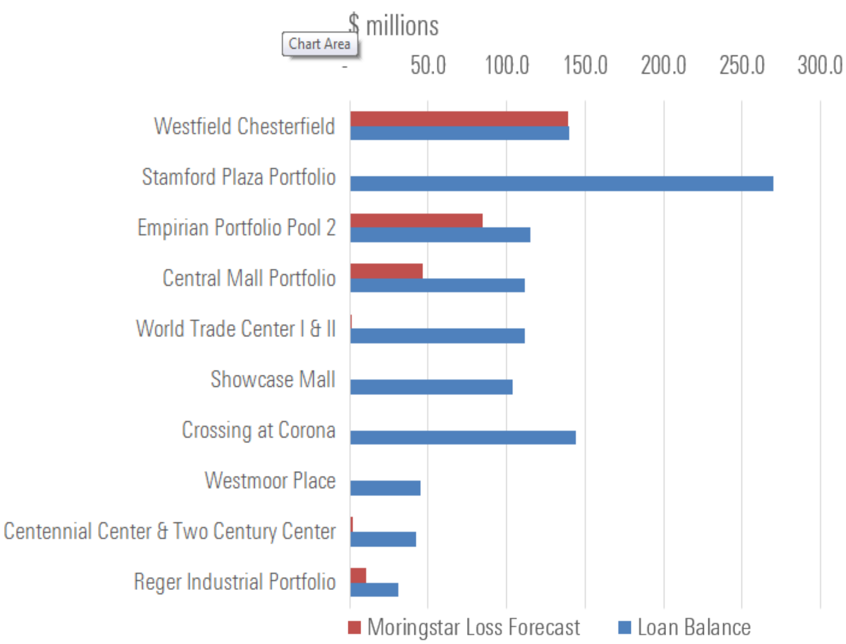
Morningstar Credit Ratings
January 2018 Remittance

Contents

Executive Summary

- The delinquency rate in January edged up to 2.43%, up 2 basis points from December. The delinquency rate is down 58 basis points from a year ago, and, with steady new issuance volume pushing the outstanding balance of commercial mortgage-backed securities loans higher and special servicers actively resolving or liquidating assets, Morningstar Credit Ratings, LLC believes the delinquency rate will hold below 3.0% after reaching an 18-month high of 3.19% in June.
- Delinquencies from deals issued from 2010 through 2018 represent just 0.3% of CMBS universe, while precrisis loans account for 2.14% of the CMBS universe.
- In January, the payoff rate of maturing loans in CMBS was below 70.0% for the second time in the past three months, slipping to 67.2%, down from 88.1% in December. Nevertheless, we anticipate that the maturity payoff rate will finish the year in the mid-80% range, as most of the remaining maturing loans have strong metrics.
- The Morningstar Watchlist grew by $1.72 billion to $21.97 billion, the second-consecutive monthly increase after hitting a multiyear low in November. The special-servicing unpaid principal balance fell for the fourth consecutive month to $22.90 billion, down $662.0 million from December, and the percentage of loans in special servicing fell to 2.88%, the lowest since March 2009, when it registered 2.43%.
- Our projected losses on specially serviced loans was virtually unchanged, declining by $40.6 million to $12.43 billion.

Chart 1 – Significant Value Declines Among Large Loans



Deal ID	Previous Morn LTV (%)	Current Morn LTV (%)	Value Change ($)	Forecast Loss ($)
LBUBS 2006-C6	515.1	1,250.00	(15,980,000)	139,437,123
GSMS 2014-GC24, WFRBS 2014-C22, and CGCMT 2014-GC25	56.2	98.5	(153,200,000)	-
MLCFC 2007-8	94.2	376	(91,600,000)	84,596,985
MSC 2005-IQ9	111.6	172.2	(35,170,000)	46,813,821
JPMCC 2013-LC11	80.5	108	(35,200,000)	943,649
JPMBB 2014-C21	70.8	99.5	(42,100,000)	-
WFRBS 2014-C23, WFRBS 2014-C23	65	100.2	(78,000,000)	15,360
JPMCC 2013-LC11	71	94.7	(16,000,000)	-
WFRBS 2014-C23	90.4	151.8	(19,000,000)	2,175,000
MSBAM 2016-C29	67.6	152.4	(25,254,120)	10,563,766

Source: Morningstar Credit Ratings, LLC

Significant Value Changes

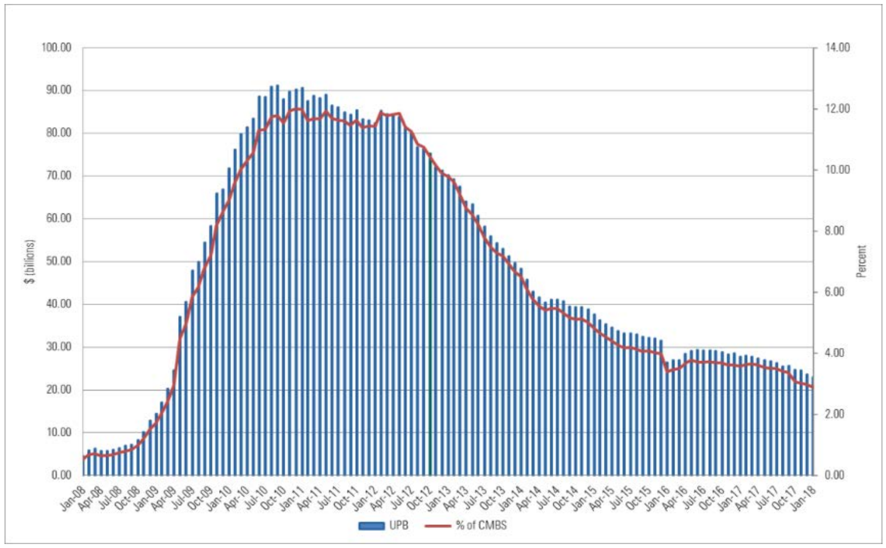
In December, we lowered our values on properties securing 65 loans with a combined balance of $3.90 billion. Of these, 49 loans showed value declines that resulted in increased forecasted losses. An updated appraisal valued the Westfield Chesterfield property at $12.4 million in December 2017, down from $30.2 million in April 2017. The asset accounts for 41.9% of LBUBS 2006-C6 and we are forecasting a loss of $139.4 million if the real estate-owned asset, since renamed the Chesterfield Mall, is liquidated in the short term; however, if the asset, 641,800 square feet of in-line space at a 1.3 million-square-foot super-regional mall about 20 miles west of St. Louis, is not sold quickly, rising exposure would increase the loss. According to the special servicer, eight tenants vacated prior to their January and February 2018 lease expirations. As at many malls in secondary and tertiary markets, sales and occupancy declined thanks to a shifting retail environment. The property saw its value tumble 95.7% from $286.0 million at underwriting as several newer competitors (including the St. Louis Premium Outlets and Taubman Prestige Outlets, which both opened in 2013) siphoned some of its traffic.

Separately, we lowered our value by 35.9% on Stamford Plaza. The property, backing three pari passu notes with a combined $270.0 million balance in GSMS 2014-GC24, WFRBS 2014-C22, and CGCMT 2014-GC25, saw year-end 2016 net cash flow decline 18.3% from underwriting, while occupancy posted a marginal gain of 2.0% over the same period. We are concerned that the 982,483 square feet of space in the four-building Stamford, Connecticut, office complex will be stressed by a market that has been hit hard by tenant departures, resulting in large blocks of available space. According to CoStar Group, Inc. as of January 2018, submarket vacancy has increased to 22.0%. There is currently 37% of space available for lease across the portfolio. Expiring tenants could use the large amount of supply as leverage in renegotiating leases for reduced rents. Consequently, we lowered our value to $274.0 million from $427.2 million at underwriting, based on a 6.8% capitalization rate and 2016 NCF of $18.6 million. Further, we believe the collateral's value could drop to $204.0 million in a bearish scenario in which occupancy declines to the submarket average of 78.0% from 90.0% as of year-end 2016.

Special-Servicing Exposure

The special-servicing unpaid principal balance fell for the fourth consecutive month to $22.90 billion, down $662.0 million from December, and the percentage of loans in special servicing fell to 2.88%, the lowest since March 2009, when it registered 2.43%.

Chart 2 – Special-Servicing Balance and Rate January 2008 – January 2018



Source: Morningstar Credit Ratings, LLC

The $111.4 million Central Mall Portfolio loan in MSC 2005-IQ9 was the largest legacy-era loan transferred to the special servicer in January. Backed by three regional malls, totaling about 1.8 million square feet in Texas and Oklahoma, the loan was transferred because the borrower was unable to refinance the loan. Two of the properties lost their Sears anchor in 2017, and the cash flow for all three properties decreased since the loan was modified in 2016. We value the collateral at $64.8 million, based on a discounted cash flow analysis. Accordingly, we project a loss of about $47.4 million. Our value is about 50% of the most recent appraisal as it considers the loss of income from Sears and the possible loss of additional anchors and in-line tenants at the affected malls.

Morningstar has observed that, following a foreclosure, values of lower-quality regional malls generally do not recover and often decrease. With the properties in tertiary locations in Texas and Oklahoma, the pool of buyers for these assets is likely to be limited, which could also depress the ultimate liquidation value.

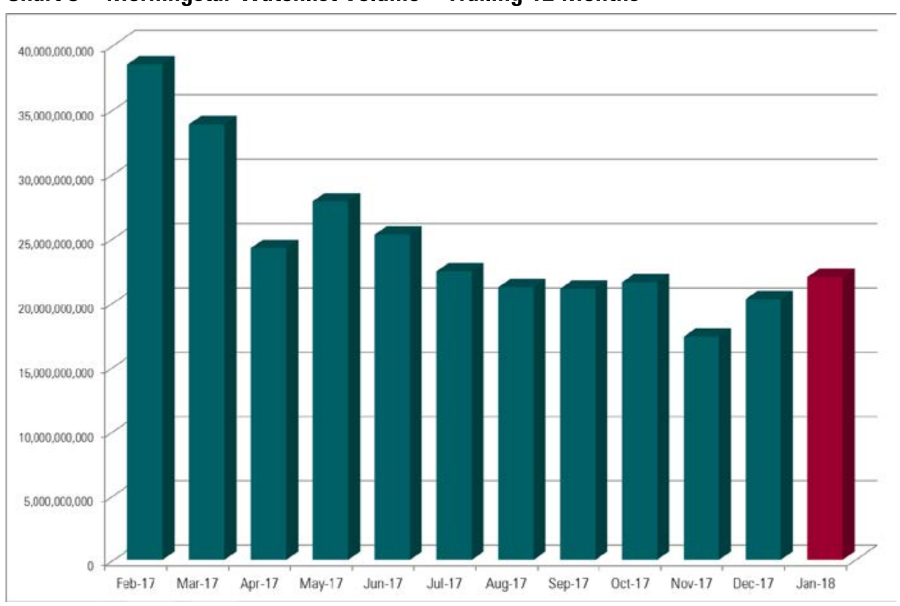
Special-servicing transfers include 14 postcrisis loans totaling $186.2 million. Of these, we project losses on eight loans, with the $34.7 million loan 1033 Richmond loan, 3.2% of JPMBB 2014-C22, being the largest. The loan, backed by a 218,680-square-foot office building in the Westchase neighborhood of Houston, experienced a falloff in occupancy and NCF that is likely the result of the drop in energy prices as several of the original tenants were in the oil and gas industry. The debt service coverage ratio was 0.78x for the first nine months of 2017 on 67.0% occupancy. We believe it will take the borrower some time to re-lease the space to a stabilized level. We valued the property using a discounted cash flow model assuming it will take three years to lease up to 80.0%. Our $27.6 million value suggests a 125.8% loan-to-value ratio and a $7.1 million projected loss.

Watchlist Exposure

In our effort to inform clients of potentially troubled loans that could ultimately default or be transferred to special servicing. Each month, Morningstar identifies loans that may ultimately default or be transferred to the special servicer. Many of these loans are also on the servicer's watchlist, while we have identified others through market research. Last month we added 75 loans with a total UPB of $2.41 billion to the Morningstar Watchlist, up from $1.27 billion added in December. In total, 860 loans with a UPB reaching $25.55 billion comprised our Watchlist. Morningstar also removed 34 loans totaling $680.5 million from the Watchlist, resulting in a net increase of $1.72 billion.

As shown in Chart 3, Morningstar Watchlist exposure has grown over the past two months after hitting a multiyear low in November. Retail and office represent roughly eight out of every 10 new Watchlist loans, and we expect this trend to continue. The wave of retail bankruptcies that began in 2017 and has continued into 2018 could lead to higher vacancy rates over the next year. In addition, consolidation in the grocery and apparel sectors could result in further store closures, especially at Class B and C assets. Meanwhile, new construction in the office market may start to weigh on occupancy this year. CBRE projected 65 million square feet in new office space in 2017, the highest level since 2007. While economic growth should help maintain strong absorption, this likely signals a turn in the market.

Chart 3 – Morningstar Watchlist Volume – Trailing 12 Months



Source: Morningstar Credit Ratings, LLC

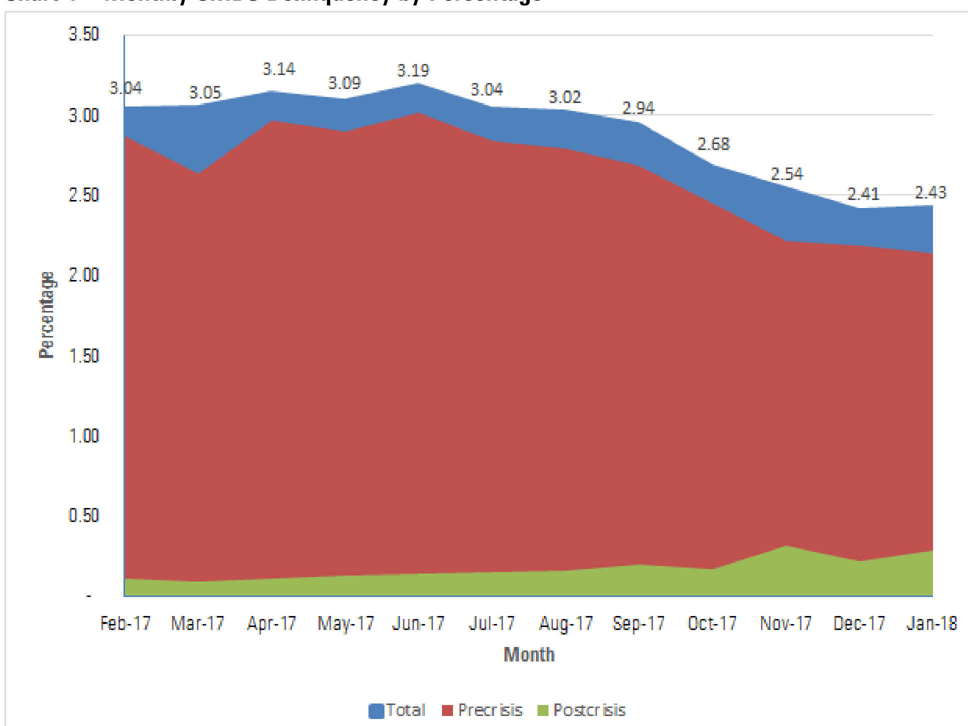
The $213.0 million 225 Bush Street loan was the largest added to our Watchlist because of short- and long-term risks surrounding the high lease rollover during the life of the five-year loan. The short-term risk is associated with roughly 20.0% of leasable space that will expire in 2018 with Lithium Technologies Inc.'s and Zillow's spaces. Further, the largest tenant, Twitch, formerly Justin TV, occupies 14.6% of the space with a lease that expires three months before the loan's November 2021 maturity. The collateral, a 575,363-square-foot office building in San Francisco's North Financial District, backs $235 million in debt split between two pari passu loans in GSMS 2016-GS4 and GSMS 2017-GS5.

Delinquency

After sinking to a 20-month low last month, the CMBS delinquent unpaid balance crept up to $19.32 billion, up $159.2 million from the prior month, and down $4.25 billion, or 18.1%, from the year-earlier period. While legacy CMBS now accounts for roughly 5.0% of the CMBS universe, delinquencies from deals issued before 2010 represent 87.9% of all delinquencies by balance. Comparatively, delinquencies from deals issued from 2010 through 2018 contribute 12.1% of all delinquencies and represent 0.3% of CMBS universe.

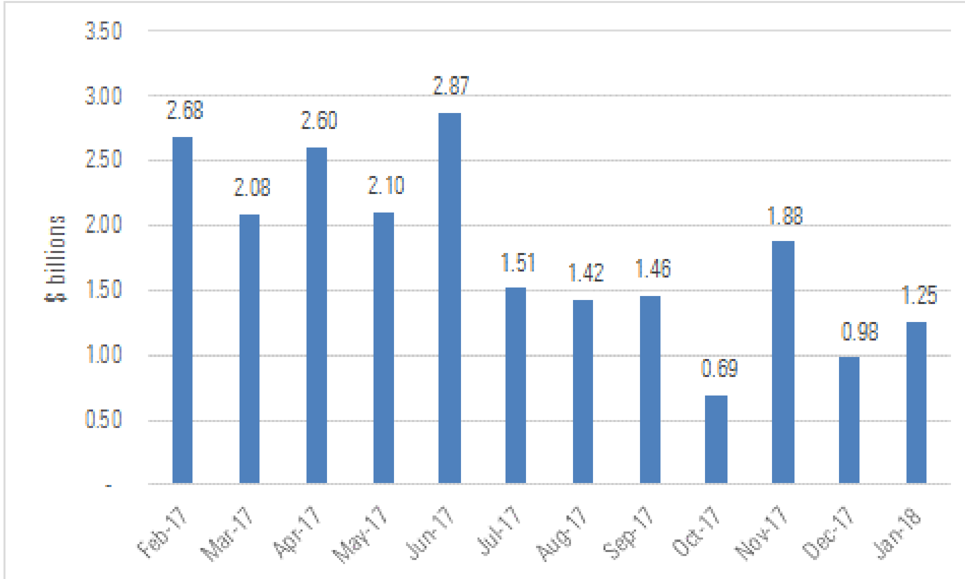
The volume of newly delinquent loans rose above $1.00 billion for the 10th month out of the last 12, registering $1.25 billion, up from $980.0 million the prior month. Newly delinquent loans include the $80.0 million Bangor Mall loan, which is 29.6% of MSC 2007-IQ16. Backed by a 534,919-square-foot portion of a regional mall in Bangor, Maine, the loan was transferred to the special servicer for maturity default even though the cash flow remains relatively stable. The loss of the Macy's anchor and the lack of amortization over the loan term likely contributed to the default. Our valuation of $28.9 million results in an LTV of 276.8%. Simon Property Group, Inc. informed the servicer that it will not pursue a loan modification. Consequently, there will likely be a loss when the asset is liquidated. Our value is based on a December 2017 appraisal.

Chart 4 – Monthly CMBS Delinquency by Percentage



Source: Morningstar Credit Ratings, LLC

Chart 5 – Newly Delinquent Loans

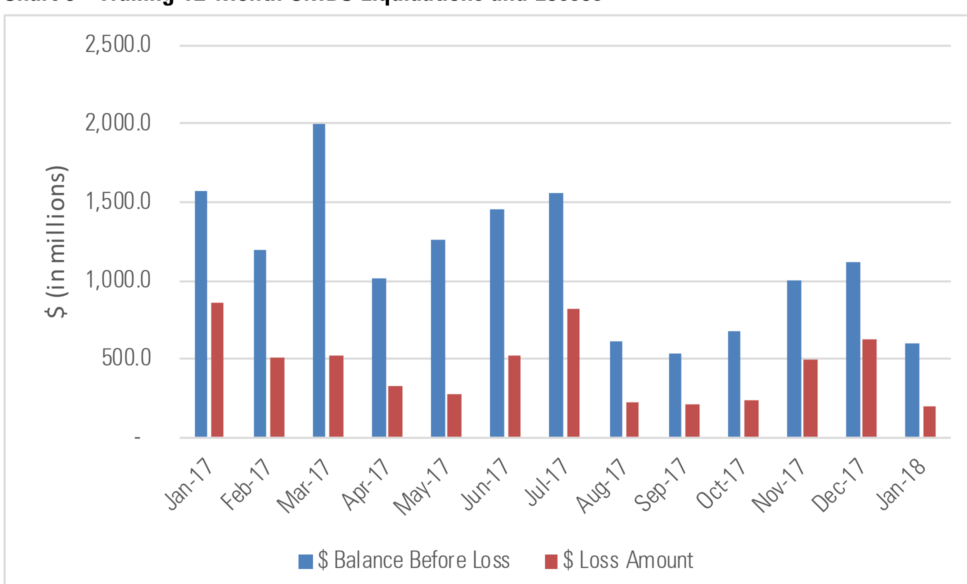


Source: Morningstar Credit Ratings, LLC

Monthly CMBS Liquidations

Liquidation volume tumbled to $594.8 million in January, down from $1.12 billion in December. The overall loss severity dropped below 33.0% for the first time since June, falling to 32.6% from 56.2% in December, and it also dipped below the 12-month moving average of 38.2%. By property type, office loans incurred the largest disposed balance, resulting in $101.4 million in realized losses, which includes the $44.0 million Maxtor Campus loan in CSMC 2006-C4, which incurred a $38.1 million loss and represented an 86.8% loss severity. The Longmont, Colorado, industrial building's performance deteriorated when the property's single tenant vacated in 2016. The $10.9 million sales price was an 83.7% discount to the original $67.0 million appraised value.

Chart 6 - Trailing 12-Month CMBS Liquidations and Losses

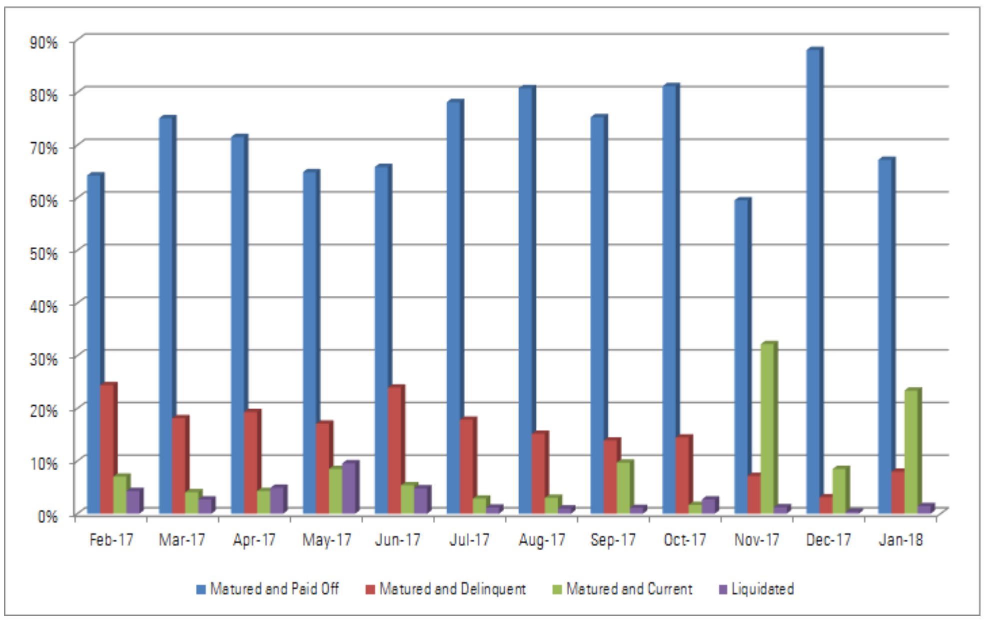


Source: Morningstar Credit Ratings, LLC

Monthly Maturity

With the maturity wave of 2015-2017 behind us, the volume of maturing loans remained below $2.00 billion for the second consecutive month, registering $1.85 billion, down 81.8% from a year ago. After registering at or above 70.0% for 13 of the past 15 months since August 2016, the maturity payoff rate was below 70% for the second time in the past three months, dropping to 67.2% from 88.1% in December. The largest loan that failed to pay off is backed by the Westfield Southlake Mall, which remains current with regard to monthly payments. Now known as Southlake Mall, the property is a 1.4-million-square-foot regional mall in Merrillville, Indiana, that backs a $140.0 million loan in LBUBS 2008-C1. The property has the advantage of being the only enclosed regional mall in Northwest Indiana, which is part of the Chicago metropolitan area. The five anchor tenants include struggling retailers Sears, JCPenney, Macy's, Carson Pirie Scott, and Kohl's, though none are slated to close. While the 12.0% debt yield today would typically be adequate for the borrower to obtain refinancing, the property's 2016 NCF of $16.9 million has not increased from its issuance level, and our 99.3% LTV may not provide enough cushion for the borrower to obtain a new loan.

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



Source: Morningstar Credit Ratings, LLC

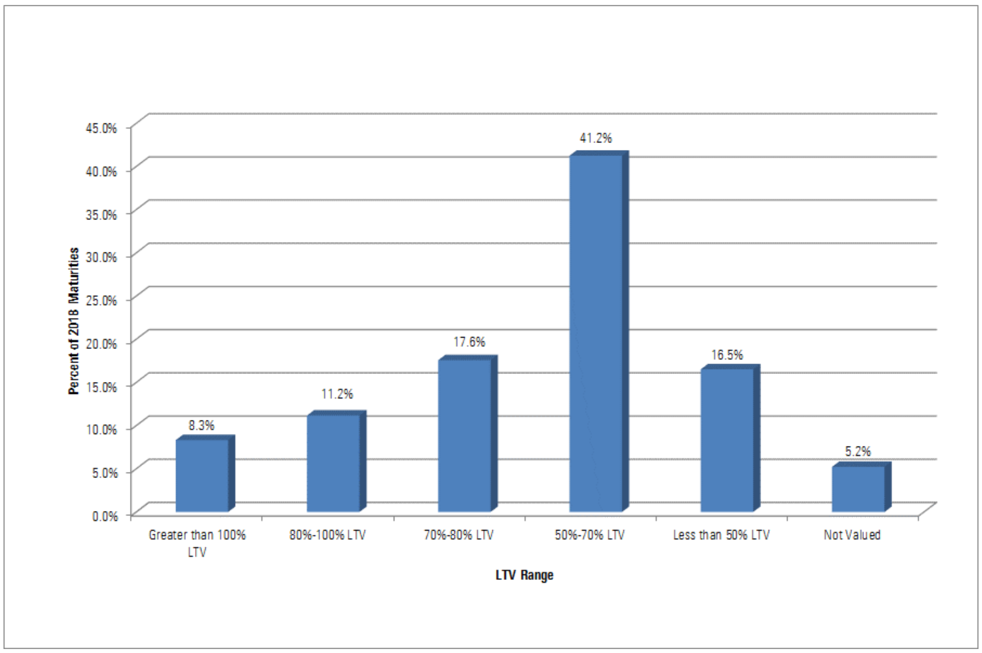
Matured loans reported as delinquent include the $21.4 million 65 Infanteria Shopping Center loan, 12.9% of MSC 2008-T29. Backed by a 142,470-square-foot anchored retail property built in 1959 in Rio Piedras, Puerto Rico, the loan transferred to the special servicer in October 2017. Prior to the transfer, the loan was on Morningstar's Watchlist because occupancy had dropped to 74.0% in June 2017, down from 92.0% at underwriting. Some tenants have re-opened since Hurricane Maria, though power was not fully restored until 2018. We value the property at $17.8 million based on a 9.0% capitalization rate and $1.8 million in NCF. This suggests a loss of about $4.0 million.

Maturity Outlook for 2018

Some $8.66 billion of CMBS loans will mature through the remainder of 2018. We have valued 97.0% and project that the payoff rate will come in at roughly 85%, as 90.0% of the loans have LTVs below 80.0% or are defeased.

The largest loan of concern is the $81.7 million Regions Harbert Plaza, 24.0% of LBUBS 2008-C1. We are forecasting a loss of about $26.9 million on the loan, which matures in March 2018, as the largest tenant vacated and the third-largest tenant's lease expires one year after maturity. Losing both tenants could severely diminish cash flow and hamper the borrower's efforts to refinance as maturity approaches. Because a significant capital infusion will be required to secure take-out financing, we believe the borrower could seek an extension or modification from the special servicer. The collateral is a 613,764-square-foot office building in Birmingham, Alabama.

Chart 8 - 2018 Maturing Loans – Morningstar LTVs



Source: Morningstar Credit Ratings, LLC

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.

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 one.

Detailed Morningstar analyses and value estimates for all Morningstar Watchlisted, delinquent, matured-delinquent and matured-current loans can be found in the respective Morningstar DealView® CMBS Monitoring Analyses or Watchlists.

Morningstar Credit Ratings, LLC

Steve Jellinek
Vice President – CMBS Research
+1 267 960-6009
steve.jellinek@morningstar.com

Edward Dittmer, CFA
Senior Vice President – CMBS Credit Risk Services
+1 267 960-6043
edward.dittmer@morningstar.com

Lea Overby
Managing Director, Head of CMBS Research and Analytics
+1 646 560-4583
lea.overby@morningstar.com

For More Information
+1 800 299-1665
ratingagency@morningstar.com

4 World Trade Center
150 Greenwich Street, 48th Floor
New York, NY 10007 USA