CMBS Research

Maturity Report

October 2017 Remittance

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Morningstar Perspective: The October payoff rate of maturing loans in commercial mortgage-backed securities rose above 80% for the second time in the past three months, climbing to 81.2%, up from 75.3% in September. The maturity payoff rate for CMBS loans, which has been at or above 70% for 13 of the past 15 months since August 2016, has exceeded our expectations. What has been most surprising is that borrowers with highly leveraged loans have successfully repaid them at their maturity dates, which indicates that there is liquidity in the commercial real estate market and that lenders and investors don't see property values declining significantly anytime soon. Low interest rates and the availability of additional subordinate debt also have contributed to the higher-than-expected payoff rate.

We anticipate that the maturity payoff rate will remain above 70% for the remainder of 2017, as there are fewer CMBS loans left to pay off and we expect continued non-CMBS financing for loans with weaker metrics.

Morningstar 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).

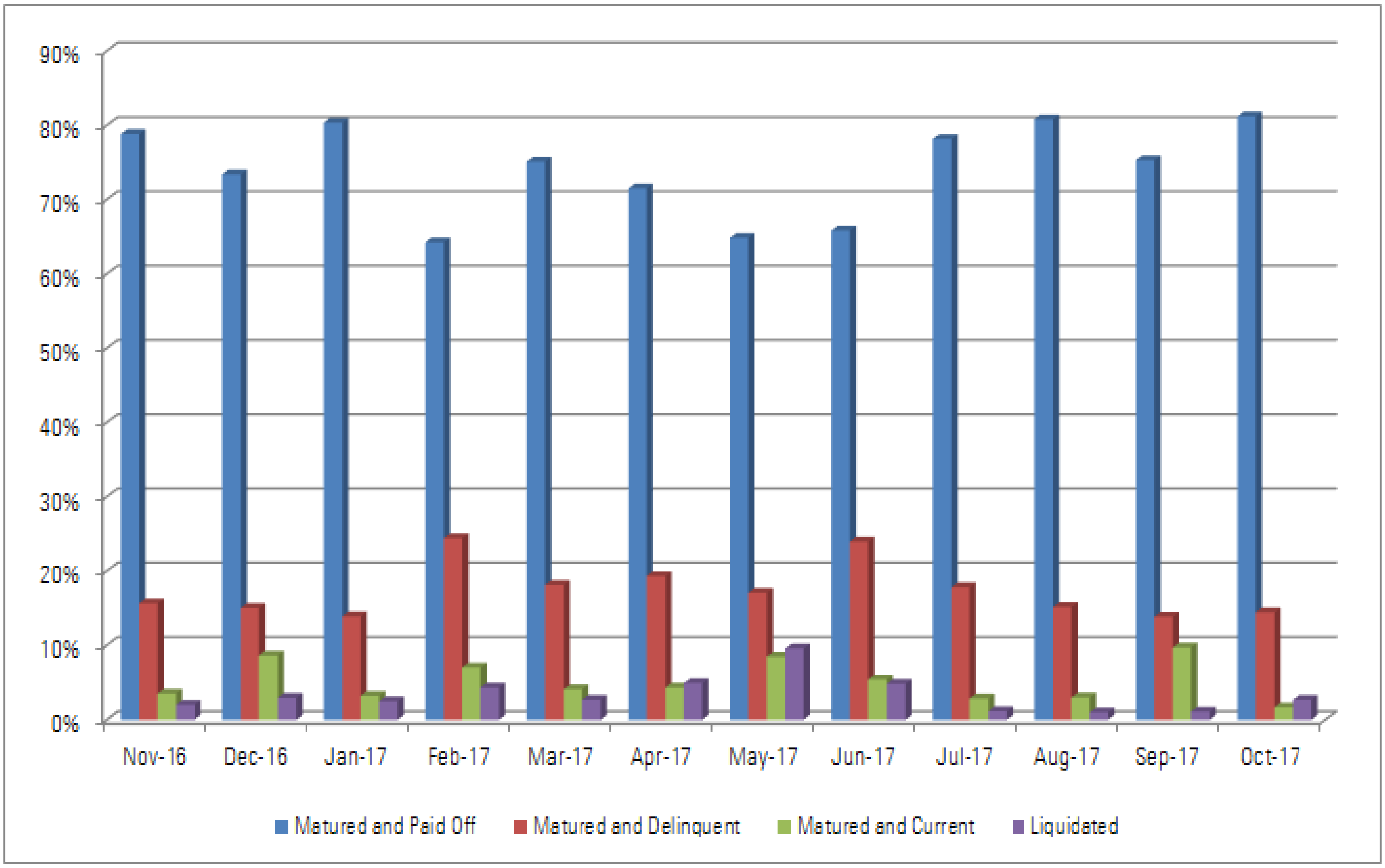
Table 1 – October Maturity Status

Status	Loan Count	Unpaid Balance ($)	% of Loans Maturing
Matured and Paid Off	205	2,128,081,028	81.2
Matured and Delinquent	38	378,675,786	14.5
Matured and Current	8	43,481,106	1.7
Liquidated	2	70,285,734	2.7
	253	2,620,523,654	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

What Happened: As shown in Table 2, 205 loans with a combined balance of $2.13 billion paid off in full. Loans reported as delinquent in payment status (regarding monthly payments) accounted for 14.5% of maturing loans. Over the past 12 months, the percentage of delinquent loans at maturity averaged 17.4%, up from the prior 12-month period (November 2015-October 2016) average of 13.8%.

Matured loans reported as delinquent include the $80.0 million Bangor Mall loan, 26.6% of MSC 2007-IQ16. Backed by a 534,919-square-foot regional mall in Bangor, Maine, the loan was transferred to the special servicer for maturity default even though the cash flow has been stable. The loss of the Macy's anchor and the lack of amortization over the loan term likely contributed to the default. The loan’s sponsor, Simon Property Group, Inc., may seek to modify the loan; however, this could still result in a longer-term loss if there is an A/B note split or some write-down of the mortgage. Our valuation is less than the loan balance and if the property is taken back in foreclosure, there could be a loss when the asset is liquidated. Our $66.6 million value is based on a discounted cash flow analysis, assuming the property has stabilized occupancy of 80% at the in-place rent. We included leasing costs assuming a renewal probability of 65%. We used a 10.0% capitalization rate on our terminal net cash flow of $8.8 million and a 13.0% discount rate on $166.0 million in net cash flow over a 10-year period.

Matured loans reported as current in payment status (regarding monthly payments) include the $13.9 million Ashley Overlook loan, 6.1% of MLMT 2008-C1. While performance of the 103,728-square-foot Class A office property in Charleston, South Carolina, has been stable, with a 10.8% debt yield and full occupancy since year-end 2015, the second-largest tenant, occupying 22.6% of the gross leasable area, has a lease that expires in December, which could be hampering the loan's payoff. We do not project a loss based on our $19.4 million value.

Year of Origination: Ten-year loans issued in 2007 accounted for most of the maturities, registering 65.7% ($1.72 billion) of the maturing unpaid balance. There were 19 postcrisis loans that matured, all of which paid off.

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

	Year of Origination		
Status	2007	2008	2012
Matured and Paid Off	78.8	78.8	100.0
Matured and Delinquent	16.3	16.9	0.0
Matured and Current	0.8	4.3	0.0
Liquidated	4.1	0.0	0.0
Total Maturing	100.0	100.0	100.0

Source: Morningstar Credit Ratings, LLC

Property Type: Retail and office continue to perform well, registering above their year-to-date average for the fifth consecutive month, while the payoff rate for multifamily rose above 90% for the first time since July. Mixed use, with just 5.8% of the maturing unpaid balance, had the highest payoff rate for the second consecutive month at 93.8%. This data is reflected in tables 4 and 5.

Table 3 – October Maturity by Property Type

Property Type	Loan Count	Unpaid Balance ($)	% of Loans Maturing
Retail	99	900,364,621	35.2
Office	54	923,496,046	34.4
Multifamily	36	266,824,219	10.2
Hotel	18	231,687,323	8.8
Mixed Use	25	151,575,201	5.8
Industrial	21	146,576,244	5.6
	253	2,620,523,654	100

Source: Morningstar Credit Ratings, LLC

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

Status	Retail	Office	Multifamily	Hotel	Mixed Use	Industrial	Healthcare
Matured and Paid Off	77.8	83.6	90.6	67.1	93.8	79.3	-
Matured and Delinquent	20.4	12.5	9.4	6.6	6.2	20.7	-
Matured and Current	0.5	3.9	0.0	1.4	0.0	0.0	-
Liquidated	1.3	0.0	0.0	24.9	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 6. The previously mentioned Bangor Mall, which failed to pay off, accounted for nearly all the maturing loan balance in the Bangor, Maine, MSA. Separately, the Norfolk, Virginia, MSA payoff rate was dragged below 50.0% primarily because of the $26.9 million Fairfield Shopping Center loan, 6.8% of LBUBS 2007-C7. The loan’s metrics at issuance were not favorable with a 1.10x underwritten debt service coverage ratio. While the Virginia Beach, Virginia, retail property has generated positive cash flow and has a favorable debt yield of 9.2%, the property can’t overcome the financing challenges presented by its 1.07x debt service coverage ratio for the first six months of 2017 on 93.0% occupancy. We have an 87.0% loan-to-value ratio based on $2.5 million in net cash flow and an 8.0% capitalization rate.

Table 5 – October Payoff Status by MSA

MSA	Unpaid Balance of Maturing Loans ($)	Matured and Paid Off (%)	Matured and Delinquent (%)	Matured and Current (%)	Liquidated (%)
New York City	221,439,834	92.7	7.3	0.0	0.0
Washington, D.C	201,760,343	100.0	0.0	0.0	0.0
Dallas-Fort Worth	115,066,999	75.9	24.1	0.0	0.0
Northern New Jersey	106,922,818	100.0	0.0	0.0	0.0
Boston	105,257,862	100.0	0.0	0.0	0.0
Houston	103,996,759	100.0	0.0	0.0	0.0
Bangor, Maine	80,082,131	0.1	99.9	0.0	0.0
Atlanta	65,177,061	100.0	0.0	0.0	0.0
Norfolk, Virginia	65,106,901	49.2	50.8	0.0	0.0
Phoenix	63,898,446	98.4	1.6	0.0	0.0

Source: Morningstar Credit Ratings, LLC

Three-Month Look Back: We comparatively look back at July, which had a 78.2% payoff rate. The three-month postmaturity payoff rate rose above 80% for the first time since January, as an additional $229.0 million paid off. Through June, the year-to-date three-month postmaturity rate stood at 75.4%. This data is displayed in Table 7.

Outstanding loans that matured in July include the $200.0 million Independence Mall loan, 28.1% of WBCMT 2007-C33. Lack of amortization and stagnant cash flow are likely preventing a full take-out of the loan. The full-term interest-only loan had a 7.4% debt yield at issuance. Cash flow is up marginally since issuance, and the debt yield increased to 7.6% at year-end 2016. The loan, backed by 398,009 square feet of a 1.0-million-square-foot, super-regional mall in Independence, Missouri, transferred to special servicing in May. Anchors include Sears, Dillard's, and Macy's, none of which are part of the collateral. We believe a modification is likely because of the property's positive cash flow. We value the collateral at $187.5 million, suggesting a 106.7% LTV.

Table 6 - Maturity Default Three-Month Look Back

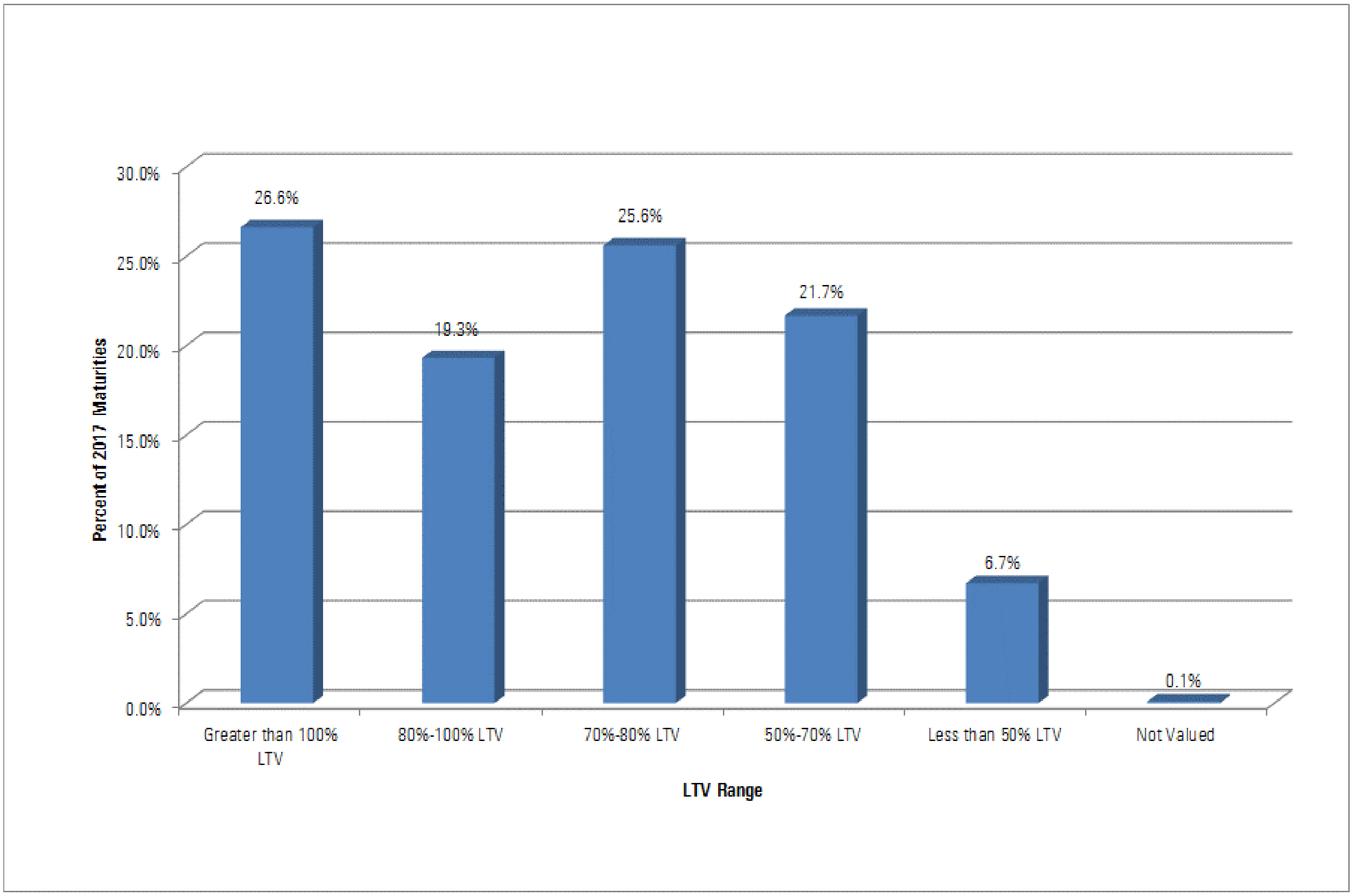
Month	Maturing Unpaid Loan Balance ($)	Initial Paid Off Balance ($)	Initial Maturity Payoff Rate (%)	Additional Paid Off Balance ($)	Three Months Postmaturity Paid Off Balance ($)	Three Months Postmaturity Payoff Rate (%)	Increase in Initial Payoff Rate (%)	As Of
Aug-16	6,192,089,971	4,411,869,244	71.3	319,982,183	4,731,851,427	76.4	5.1	Nov-16
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

Source: Morningstar Credit Ratings, LLC

Outlook: Some $2.37 billion of CMBS loans will mature through the remainder of this year. We have valued 99.7% and project that the payoff rate will hold above 70%, as 45.9% of the loans have loan-to-value ratios above 80%. Successfully refinancing many of these loans will be difficult without sharp improvement in cash flow or an equity infusion. This information is displayed in Chart 2.

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.

Chart 2 - 2017 Maturing Loans – Morningstar LTVs



Source: Morningstar Credit Ratings, LLC

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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