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Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 866-1124 x2403

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Chris Nebenzahl
Senior Analyst
Chris.Nebenzahl@Yardi.com
(800) 866-1124 x2200

Justin Dean
Real Estate Market Analyst
Justin.Dean@Yardi.com
(800) 866-1124 x2071

CMBS Worries: Delinquency Decline May Reverse

Although the CMBS delinquency rate continues to steadily improve, the industry is bracing for the impact of the large number of loans originated at the height of the last bubble that will be maturing over the next year.

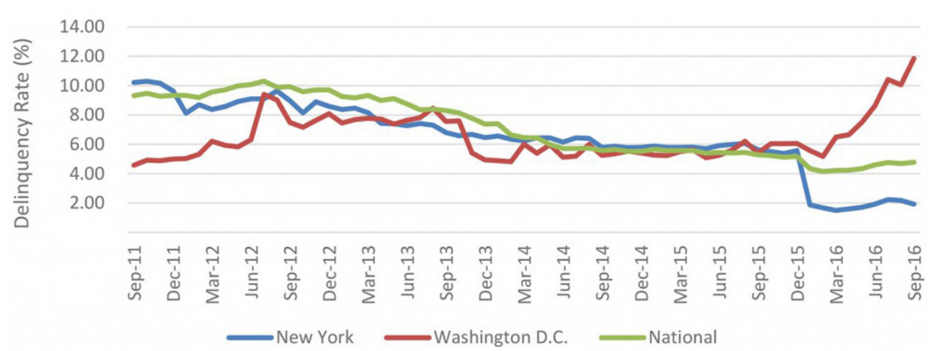
Roughly $126 billion of CMBS 1.0 loans are still outstanding, and just over $105 billion have a maturity date through 2017, according to Trepp, a New York-based research and analytics firm. These loans have to be refinanced at a time when lenders are adhering to stricter standards that include lower loan-to-value ratios, which will make it difficult for a number of those loans to be refinanced without some sort of recapitalization.

CMBS delinquency rates ballooned in 2010, in the wake of the financial crisis, as property values dipped and net income declined. CMBS delinquencies were less than 1 percent in 2007, but shot up to about 9 percent by 2009. They stayed near that level for several years before beginning a steady decline in 2013, as many loans were gradually worked out. They are now at 5 percent, according to Trepp.

Typically, a loan goes into default when the property's income drops below the level needed to make debt service payments. The concern for the upcoming wave of CMBS 1.0 maturities, however, is not income but the total proceeds. Many of the loans were written when lenders were routinely originating debt packages of 80 to 90 percent of property value, but today's lenders are reluctant to go above 60 to 65 percent. If owners are not willing to put in extra equity and can't refinance, the result is a "maturity default."

While the market is concerned about a rise in maturity defaults, the CMBS market is also being hit by the new risk retention regulations set to be enacted on Dec. 24. As part

New York, Washington D.C., and National Deliquency Rates



Source: Trepp