

THE MID-YEAR

2015



HOW MUCH GAS DO WE HAVE LEFT?

**PROPERTY VALUES TOP PRIOR PEAKS,
MARKETS STILL IN RECOVERY**

**NEW CMBS INDEX
SINCE MARKET COLLAPSE, CMBS
OUTPERFORMED CORPORATE BONDS**

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LETTER FROM THE EDITOR



Orest Mandzy
Managing Editor

With the commercial real estate and CMBS markets humming along nicely, and some arguing that they might even be entering their frothy phase, it's probably a good idea to take a step back and see where the industry is in the cycle. Inside our second *Mid-Year* magazine, we do just that.

Are lenders too aggressive? Are investors paying too much for properties in their search for yield? From where we sit, it appears that the current cycle still has at least a couple of years to run.

Loan growth is well below the 2004-2008 pace. Some of that deceleration has been driven by regulations that have made it more difficult for banks to lend, leaving a hole that a growing number of institutional investors are trying to fill. Thus far, \$22.4 billion of equity has been raised through debt-investment vehicles.

Meanwhile, CMBS loan delinquencies, a solid harbinger of cyclical downturns, are at levels similar to those in 2006. In other words, they're still completely manageable. CMBS conduit spreads have remained in a relatively stable band so far this year. Meanwhile, broader markets underwent a number of disruptions, driven by concerns of a hike in interest rates and the drop in oil prices to less than \$50/barrel earlier in the year.

Through these developments, CMBS have performed nicely, according to the new Markit iBoxx Trepp CMBS Indices. The key for investors is to keep alert of potential risk. In this issue, we bring you insight from a number of industry leaders on some of those hazards. BuildFax highlights the aging of the country's building stock and how rents are impacted by deferred maintenance; EDR shows that environmental site assessments are way up in secondary markets, which indicates where the investment dollars are going; and Real Capital Analytics points out possible borrower concentration risks in CMBS, something that bond investors ought to know.

I hope you enjoy our *Mid-Year* magazine as much as we enjoyed putting it together. As always, we look forward to your feedback.

Best Regards,

Orest Mandzy

A Relative Value Analysis of CMBS vs. U.S. Corporate Bonds

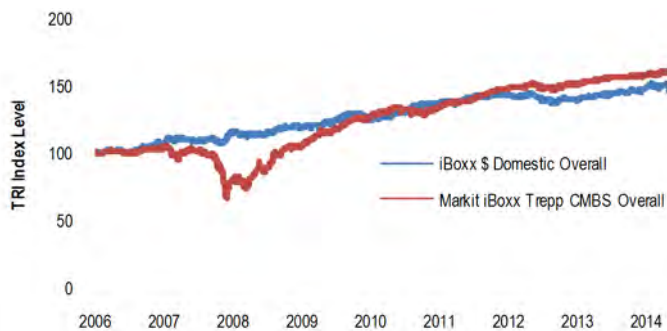
By Marc Barrachin and Tom Fink

Since the ebb of the 2007 financial crisis, CMBS issuance has grown consistently each year, with issuance expected to top \$100 billion in 2015. The recovery of the CMBS market has been driven by a combination of sustained low interest rates and the strong rebound in fundamental real estate performance. In turn, the strength of commercial real estate has produced worldwide growth in the number of pension funds, sovereign wealth vehicles and other institutional investors expanding their exposure to real estate. CMBS is one of the instruments investors can use to gain exposure to the commercial real estate debt market.

Looking at the CMBS market compared to the U.S. dollar corporate bond universe, a few key facts stand out. Over the historical period of Dec. 31, 2006 to Dec. 31, 2014, the Markit iBoxx Trepp CMBS Investment Grade Benchmark index outperformed the corporate market by 7.66 percent, as measured against the Markit iBoxx USD Corporate Benchmark Index. As of May 15, corporate and CMBS market yields were relatively close, at 3.16 percent for CMBS and 3.76 percent for corporates. However, the CMBS yield has a much shorter duration (3.49 years compared to 6.97 years for corporates), which should be attractive in today's interest-rate environment.

The detailed graphical comparison underscores the divergent performance of these two fixed-income asset classes over the eight-year time period.

CMBS - Corporate Total Return Comparison



Source: Markit

- The performance of CMBS and corporates was quite similar pre-crisis.
- CMBS significantly underperformed corporates during the crisis, reaching a total return level of 65.1 on Nov. 28, 2008.
- Post-crisis, CMBS so outperformed corporates that by mid-2011 the asset class had made up the 40+ percent loss incurred during the crisis. To date, CMBS has continued to outperform the corporate market.
- The performance of CMBS investments was affected by the rating of the debt purchased. The performance of the AAA CMBS sub-index follows the benchmark pattern of outperformance over the entire eight-year

The Scoop on the Index

Trepp and Markit introduced a new family of indices for CMBS market participants that serves as a performance and attribution benchmark, enabling detailed research on the CMBS market.

The Markit iBoxx Trepp CMBS index family combines Trepp's deep understanding and broad coverage of the reference data and pricing for the underlying bonds with Markit's index expertise in fixed income and credit markets. The index series used for this article begins pre-crisis on Dec. 31, 2006 and ends Dec. 31, 2014, which provides history throughout the credit cycle and highlights the performance during the period.

Returns for the indices are published daily.

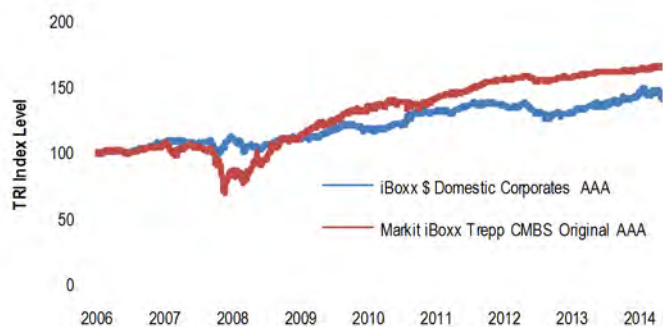
period, even after accounting for the underperformance during the crisis.

- The AAA CMBS sub-index reached parity with its corporate equivalent as early as 2010, and has dominated corporates ever since.
- BBB CMBS outperformed BBB corporates post-crisis, but underperformed its equivalent corporate index when viewed over the entirety of the eight-year period.
- Breaking down the performance between price and yield returns, the CMBS outperformance was driven by increased yields post-crisis (upwards of 15 percent), as CMBS price returns have reached parity and have tracked corporate returns closely but have not outperformed. The yield differential is driven by the lower rated tranches, particularly BBB.

Benchmarking Considerations

The Markit iBoxx Trepp CMBS indices provide users with comprehensive coverage of the CMBS market. The various sub-indices allow users to reference whichever index best represents their investment strategy, whether it's an overall market play, a ratings category focus or another criteria. Choosing the appropriate sub-index will impact what kind of performance is seen for the index. The

AAA CMBS - Corporate Comparison



Source: Markit

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Markit iBoxx Trepp CMBS indices offer flexibility and comprehensive coverage of a range of characteristics underlying the market.

The rating buckets used in the previous analysis, for instance, leverage original rating sub-indices, which means a AAA issued bond will remain in the AAA bucket. (That's how cash investors manage their portfolios.) If we were to run the same analysis using the current rating sub-indices, the analysis would produce slightly different results. Current rating sub-indices would still outperform, but by less than original rating indices. AAA original rating indices outperform their current rating brethren by 13.71 percent.

Byproducts of Market Growth

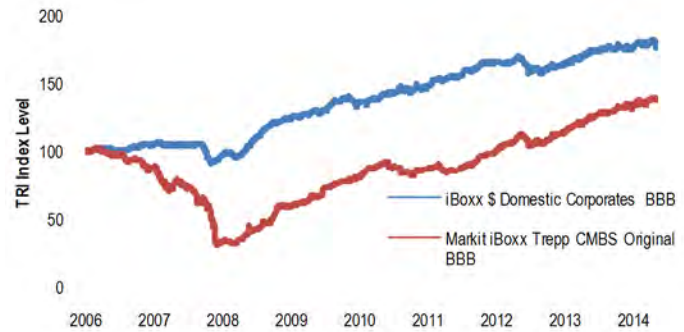
As can be seen by the cranes dotting the skyline of major cities, commercial real estate is alive and well.

CMBS - Corporate Yields Comparison



Source: Markit

BBB CMBS - Corporate Comparison



Source: Markit

With appealing return/duration characteristics, CMBS should become an even more attractive mechanism to gain exposure to commercial real estate debt.

With growth comes the need to provide tools for market participants to research, analyze, gain exposure or hedge their market activities. The Markit iBoxx Trepp CMBS index provides an additional tool to track the risk/return characteristics of the CMBS market and drill down into granular trends. ■

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Tom Fink, CRE, is a senior vice president and managing director at Trepp, the leading provider of information, analytics and technology to the CMBS, commercial real estate and banking markets.

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The Sponsors Behind the Loans

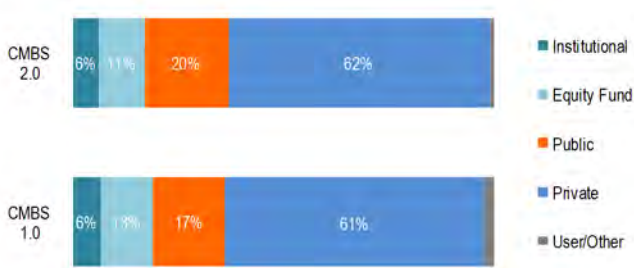
By Robert M. White Jr.

Behind each loan in a CMBS pool is a sponsor, effectively the borrower. Since 2003, more than 7,500 firms have taken out loans on roughly 82,000 properties that wound up as collateral in nearly \$1 trillion of CMBS. The composition of that borrower base is extraordinarily diverse, ranging from giant institutions to mom-and-pop businesses with a single small loan in a pool.

The sponsors tend to be very loyal; of the 7,500, about 63 percent have at least two loans in CMBS pools. Nearly 2,100 sponsors have financed five or more properties through CMBS, while just 2,800 are associated with only a single loan.

Related sponsors within an issue are well disclosed, but borrower concentrations across pools previously have been tough to understand. It is important, however, because

Composition of Sponsors



Source: Real Capital Analytics

relatively few firms account for a large share of CMBS, and the most prolific borrowers are in as many as 146 issues.

By and large, the composition of CMBS borrowers reflects the overall composition of the commercial real estate market, with few exceptions. Many REITs can borrow in the unsecured market, and since institutional investors typically use low or no leverage on their properties, both groups may be slightly underrepresented in CMBS.

Private investors, meanwhile, have been the chief beneficiaries of the CMBS market, making up the borrower base for about 62 percent of all loans. Remarkably, this composition of borrowers has changed little between CMBS 1.0 (transactions issued between 2003 and 2009) and 2.0 (2010 to present).

However, CMBS 2.0 is more concentrated among the top borrowers. In CMBS 1.0, the top-10 borrowers represented 12 percent of the borrower pool and the top 50 represented 27 percent. In CMBS 2.0, however, the top 10 represents 20 percent of the total borrower pool and the top 50, 41 percent. This could be due to a smaller sample size, as CMBS 1.0 is more than three times the size of 2.0, but it also reflects the fact that CMBS 2.0 has been dominated by larger loans.

Property types with the highest concentration of top-10 and top-100 borrowers are in the more specialized sectors: seniors housing and hotels. In the hotel sector, the top-100 borrowers account for more than 80 percent of CMBS loan volume, while for seniors housing, the top 10 account for more than 70 percent of the loans for that sector. Owners of seniors-housing and hotel properties tend to have specialized management teams, which limits the number of players in the sector. Apartment and industrial have the least concentration of sponsorships.

Top-10 CMBS Loan Sponsors

Borrower	CMBS 1.0		
	Volume (\$bil)	# of Issues	# of Props
Blackstone	24.9	29	1,164
General Growth	12.8	88	133
Simon Property Group	9.4	50	65
Inland Real Estate	6.5	106	640
Tishman Speyer	6.2	23	61
Lehman Brothers	4.5	27	68
Vornado Realty Trust	4.3	27	52
Morgan Stanley	4.3	25	144
Beacon Capital Partners	4.0	23	57
Broadway Partners	3.9	20	31

Borrower	CMBS 2.0		
	Volume (\$bil)	# of Issues	# of Props
General Growth	10.6	49	61
Blackstone	7.8	20	2,048
Simon Property Group	5.8	39	53
Vornado Realty Trust	4.9	13	53
Macerich	2.9	11	11
SL Green	2.7	4	4
Paulson & Co.	2.6	4	1,318
ADIA	2.4	5	372
Starwood Capital	2.3	22	94
Centerbridge Partners	2.1	3	1,315

Source: Real Capital Analytics

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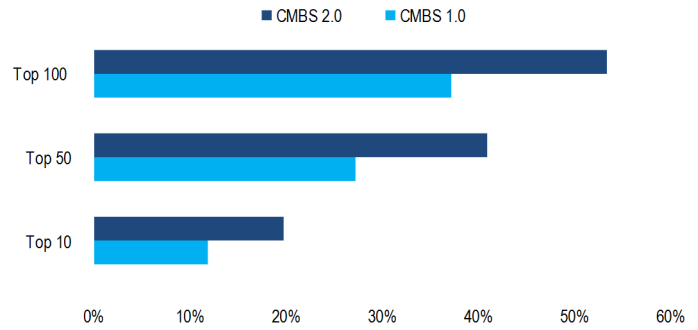
The three largest sponsors tapping the CMBS market in both 1.0 and 2.0 remain the same: General Growth Properties Inc., Simon Property Group and Blackstone Group. After those three firms, however, the rankings diverge quite a bit between CMBS 1.0 and 2.0. The credit crisis shuffled the deck, as some big players became inactive or were bought, while others stepped up activity. There is still a great deal of commonality between CMBS 1.0 and 2.0 sponsors since many 1.0 loans are being refinanced in 2.0.

A small percentage of the 7,500 sponsors dominate CMBS pools. The 350 largest sponsors each have accounted for at least \$500 million of CMBS loans and collectively represent 60 percent of all CMBS origination volume. About 365 companies have taken CMBS loans on 25 or more properties each. Collectively, they account for 47 percent of all loans by count.

Another way to look at diversity in the borrower universe is by the number of CMBS issues that hold loans against their properties as collateral. Somewhat surprising is the volume of borrowers that are repeat CMBS customers.

Two companies stand out in the rankings of top borrowers by number of CMBS deals: Inland Real Estate Group, topping the list with 146, which means its loans are present in more than one of every five CMBS deals, and General Growth, taking second place with 137. All told, 133 companies are borrowers in 20 or more CMBS deals each

Concentration of Sponsors



Source: Real Capital Analytics

and 457 are borrowers in at least 10 each. For lenders, the lesson is that satisfied borrowers can become important repeat customers. For investors, the lesson is that borrowers don't have to be household names to have an oversized impact. ■

Robert J. White, CRE, is founder and president of Real Capital Analytics Inc., a New York data and analytics company that tracks the capital markets for commercial real estate globally.

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Deferred Maintenance on Aging Structures

Should CMBS investors be concerned about property maintenance as commercial assets age?

By Holly Tachovsky

Both commercial and residential real estate buildings are aging. At the end of 2012, the median age for commercial buildings in the United States was 32 years, with about half of all buildings constructed prior to 1980. The median age for residential buildings is 39 years.

However, as structures age, a major divergence is seen between those that are maintained or improved, and those that are not. That raises the question, as the commercial building stock ages, does tracking repairs and remodels become more important for CMBS investors?

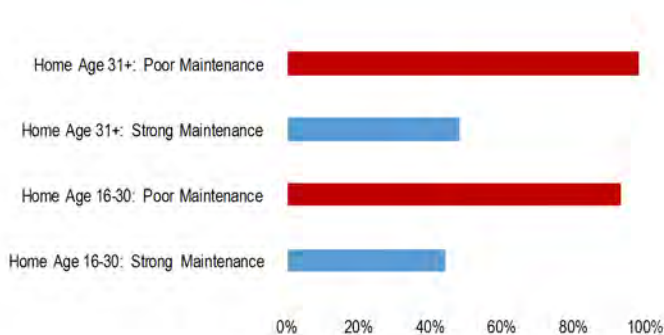
If property maintenance on older buildings is considered one of the drivers of rent charges, and there is a history of strong property maintenance, then a well-kept property should be expected to maintain rents or even outperform other buildings of its age. Conversely, if there is a history of poor maintenance, then a decline in rents and a strong potential for defaults should be expected.

If one was to take a lesson from the insurance industry, there is a clear divergent pattern between strong and poor maintenance.

Among new residential structures, insurance loss rates are relatively consistent from one property to the next. However, as residential structures age, differences in maintenance and upkeep lead to greater variation in loss rates. Poorly maintained structures become compromised over time, resulting in higher loss rates. Well-maintained properties are significantly lower risk for insurance carriers.

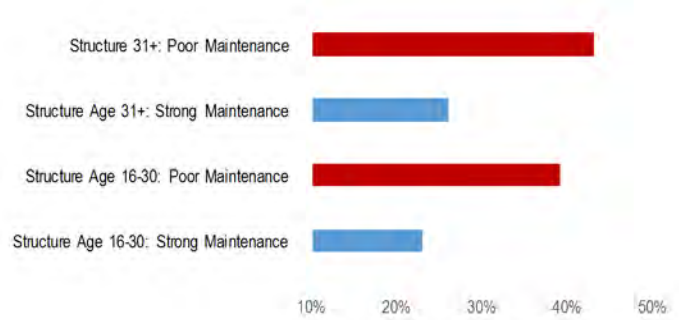
The Residential-Total Loss Ratio chart shows the relationship between property maintenance and residential loss rates, using building permits as a proxy for property maintenance. The total loss ratio of a property is the ratio

Residential - Total Loss Ratio



Source: BuildFax

Commercial Structure - Total Loss Ratio



Source: BuildFax

of losses incurred to premiums earned—Loss Ratio = (Loss Adjustments / Premiums Earned). The loss ratio shows what percentage of payouts are being settled; the lower the loss ratio the better. Higher loss ratios are indicative of higher risks and less money retained by the insurance carrier.

The Residential-Total Loss Ratio chart also shows that residential loss rates decrease when there is a strong history of property maintenance. Properties older than 31 years with a strong history of maintenance performed two times better than properties of the same age with a poor history of maintenance.

Furthermore, a lack of maintenance was indicative of loss regardless of age of the building—all home ages with a strong history of maintenance performed similarly very well, while homes of all ages with a lack of maintenance performed poorly.

The Commercial Structure - Total Loss Ratio chart demonstrates a similar relationship between property maintenance (again, as evidenced by building permits) and loss rates for commercial structures. The divergent trend between the well maintained and the unmaintained only gets stronger as buildings age.

Coming back to the question of whether tracking repairs and remodels becomes more important to CMBS investors as commercial building stock ages, the fact that buildings will only continue to age and property maintenance is a key influencer of rents suggests that the signal for CMBS holders to track updates only stands to get stronger. ■

Holly Tachovsky is co-founder and chief executive officer of BuildFax, which maintains a national database of construction permits. It helps insurance carriers, lenders, investors and others make better decisions about a property's current condition and changes over time.

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Dodd-Frank Reform: A View from Capitol Hill

By *Martin Schub and Christina Zausner*

Early in the year, the 114th Congress signaled it might break with recent tradition and act in a more bipartisan manner. Since that time, things have changed. When the Senate Banking Committee passed a Dodd-Frank reform bill on May 21, it was again along party lines and against a backdrop of line drawing and grand pronouncements. So, the 114th Congress is another game of “Chutes and Ladders.”

The reform bill that was sponsored by Senate Banking Committee chairman Richard Shelby (R-Ala.) and voted on last month by the full committee was intended to provide clarity and, in some cases, regulatory relief for community and regional banks. It drew ire for its provisions regarding increased transparency and discipline around non-bank systemically important financial institutions, or SIFI, designations and Federal Reserve Board oversight. At the same time, most of the provisions had bipartisan support and, in many cases, even regulatory support. Where the “Hell-No Coalition,” which outright opposes all challenges to the Dodd-Frank Act, recast some of these issues in a good-bad light, they were essentially ignoring the wishes of some of the lead U.S. regulatory officials.

Bipartisanship Remains an Issue

Even before the formal committee consideration, the partisan divide became clear.

The ranking member, Sherrod Brown (D-Ohio), gained unanimous support among committee Democrats for his alternative bill in the days leading up to the May markup. Ultimately, the Shelby bill passed on a party-line vote of 12-10. It now heads to the full Senate, but we suspect that Shelby will work quietly behind the scenes on a manager’s amendment that would address some of the concerns of moderate Democrats between now and when full debate takes place on the Senate floor.

While Shelby’s bill was broader than many anticipated, it steered clear of most of the truly contentious issues. As anticipated, there were no provisions that directly impacted the commercial real estate sector.

The bulk of the bill provides regulatory relief to smaller financial institutions. Banks with less than \$1 billion in assets would qualify for longer examination cycles of 18 months, while banks with less than \$10 billion in assets would be exempt from Volcker Rule restrictions on proprietary trading and investments in hedge funds. However, the community bank changes by no means represented a full industry wish list and were in fact moderate in content.

When Brown offered a Democratic alternative first made public May 19, it was clear that the majority and minority were still having trouble talking to each other. While the tactic of offering alternative bills is customary, the depth and

breadth of the differences and tones were unmistakable. And so, what started as a promising new congressional dynamic reverted back to the expected mode.

A moderate Democrat, Senator Mark Warner of Virginia, put a finer point on it with a rather impassioned speech, saying that the process was the most partisan and frustrating in his five years on the committee. When the minority members had to retrieve the Shelby bill off the public website instead of actually receiving a draft, Warner commented, “it turned this markup into a sideshow.”

If a financial services bill were brought to a floor vote as soon as this summer and it were to pass, it would advance to the House before the end of the third quarter. But this timeline is aspirational given the advancement of the presidential race. The kick-off caucus in Iowa is only six months away, suggesting that issues will become even more politicized when the debates and campaigns accelerate.

Focus Turns to Moderate Democrats

In the days and weeks to come, other moderate Democrats will be the focus—and the battleground—for this bill and for any financial reform measures. Many observers have been keeping a close eye on Warner and fellow moderate Democrats Jon Tester (Mont.), Heidi Heitkamp (N.D.) and Joe Donnelly (Ind.). While they opposed the chairman’s bill last month, they will be key players between now and the full floor consideration.

With only 54 Senate Republicans, the party in power remains six votes shy of winning a vote under the rules of cloture. In this light, Donnelly’s “yes” vote in favor of a Republican amendment establishing a higher threshold for applicability of Consumer Financial Protection Bureau-monitoring for smaller banks can be viewed as a single moment of common ground in the May markup of Shelby’s financial reform bill.

When these issues, which have been on the table for years, clear the legislature, new subjects, including those that pertain to the commercial real estate sector, can be advanced in earnest.

In the meantime, the CRE Finance Council and other real estate trade associations have engaged in Capitol Hill education initiatives in hopes of raising awareness and of advancing toward an eventual bipartisan solution. ■

Martin Schub is vice president, legislative and regulatory policy, and Christina Zausner is vice president, industry and policy analysis, of the CRE Finance Council, which is based in Washington, D.C.

Crowdfunding for Commercial Real Estate to Double This Year

By John Covalesski

Promoters are expected to double the volume of capital they raise for commercial real estate via crowdfunding this year.

Crowdfunding—raising relatively small sums of capital from large numbers of investors via the Internet—is relatively new to the commercial real estate sector, having been used as a capital-raising strategy for fewer than two years. And yet it’s already making its mark, with estimates for the capital raised last year ranging from \$250 million, according to operators of crowdfunding platforms, to \$468 million, as reported by Massolution, a research group affiliated with crowdfunding trade organization crowdsourcing.org.

Those numbers are tiny relative to the overall size of the commercial real estate market—the commercial mortgage market, for instance, weighs in at \$2.6 trillion. Nonetheless, the totals are significant in that crowdfunding essentially allows for the syndication of properties to the masses.

Some site operators say that Massolution’s number may be inflated as it likely includes platforms that are not available to the general public, as well as those with minimum investment requirements that far surpass the typical \$5,000-\$25,000 minimums, effectively putting them out of reach of the “crowd.”

Crowdfunding sites typically are operated by technology companies that charge fees for accessing investors through their sites. Sponsors pay to syndicate interests in properties they’ve either acquired or agreed to acquire, while broker-dealers charge fees based on the amount of money raised.

So far, most crowdfunded offerings have been restricted to accredited investors—those with a net worth of at least \$1 million or annual income of \$200,000.

While site operators and Massolution differ on the amount of crowdfunding completed for commercial real estate last year, both expect the market to double or grow even more in 2015. Year-to-date results from some of the better-known commercial real estate crowdfunding platforms bear that out.

Fundrise of Washington, D.C., reports raising about \$10 million per month this year and expects to complete at least \$100 million of capital-raising by year-end. If achieved, that level would be up from the \$35 million raised in 2014.

RealCrowd of Palo Alto, Calif., is on pace to double the \$25 million it raised last year, while CrowdStreet of Portland, Ore., is on pace to raise \$18 million, versus the \$6 million it raised for commercial real estate offerings last year.

SEC Regulation May Impact Crowdfunding

A potential for a gigantic gain in capital-raising for the sector comes into play June 19, when an SEC rule goes into effect, broadening the potential reach of crowdfunding platforms to include non-accredited investors who have a net worth of less than \$1 million each.

Crowdfunding sites became prominent following the passage of the Jumpstart Our Business Startups (JOBS) Act

Crowdfunding sites typically generate equity by targeting investors with a net worth of at least \$1 million each. Now, the sites are branching out to target non-accredited investors.

of 2012, which lifted a ban on the general solicitation of capital investments that had been in effect since 1933 and directed the SEC to develop rules for broader solicitations. The rule that takes effect this month revises the agency’s original ruling that offerings to non-accredited investors could not be advertised publicly.

The new regulation allows for investments to be mass marketed to non-accredited investors in offerings that could raise up to \$50 million in one year. It also exempts sponsors from having to register in each state where they are raising non-accredited investor capital.

Currently, crowdfunding platforms are able to market to non-accredited investors in states that allow for such marketing, but with offerings raising no more than \$5 million each.

“This rule change is generating excitement across crowdfunding because you’ll have hundreds of millions of non-accredited investors with the opportunity to invest in stuff they’ve never had access to,” said Scott Andersen, general counsel of FundAmerica of New York, a provider of compliance services to crowdfunding companies.

Andersen said that mass marketing to non-accredited investors has not been cost-effective in the past when considering the offerings could raise no more than \$5 million and their sponsors had to pay individual state registration fees.

While Fundrise has raised some of its money from non-accredited investors in three states, other crowdfunding operators said they’re unlikely to jump into the non-accredited space because of the potential costs and liabilities.

However, the non-accredited market’s vast size will no doubt attract established and new real estate crowdfunding operators. One of those is Ted Farnsworth, a Miami hotel developer who launched iCrowd Hotels Inc. last month. iCrowd will post offerings for debt and equity investments in hotels across the country and overseas.

Farnsworth said he launched the platform because of the potential to reach non-accredited investors and expects to entice them by offering name-brand hotels that are familiar to most people.

Crowdfunding Gaining Awareness

Regardless of new access to the non-accredited market, Massolution and crowdfunding operators both expect much of the commercial real estate fund-raising to be driven by sponsors’ increased awareness of the platforms and established players’ ability to build off last year’s success.

“We figured out a model that works and have gotten it to grow,” explained Ben Miller, co-founder of Fundrise. The firm’s \$35 million in capital raising last year ranks among the top for commercial real estate crowdfunding platforms. Others include RealCrowd, which raised \$25 million last year, and Realty Mogul, which has raised \$70 million since launching in 2013.

Continued on next page

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Carlton Group, meanwhile, operates a crowdfunding site on which it has posted offerings that include a stake in the 217,613-square-foot Plaza at Harmon Meadow retail and office property in Secaucus, N.J., which it acquired in March for \$64 million, or \$294.10/sf. Carlton has been seeking \$8 million of capital through its site.

Sponsors typically tap the crowdfunding market to raise no more than \$10 million per property.

Much higher targets are being set for commercial real estate investment-fund offerings that are popping up on certain

crowdfunding sites. Case in point, Pathfinder Partners, a San Diego investment manager, is using the RealCrowd platform to offer stakes in a vehicle designed to invest alongside its Pathfinder Partners Opportunity Fund V. Capital for the fund is being raised from high net-worth investors and institutions.

Fund V and its sidecar, Fund V-A, will invest in multifamily and for-sale residential properties. So far, the two vehicles have raised \$36 million of a combined capital-raising target of \$150 million. ■

Now and Then: CMBS Delinquencies

Delinquencies for CMBS loans written since 2010 are tracking close to loans written at about the same time during the last credit cycle.

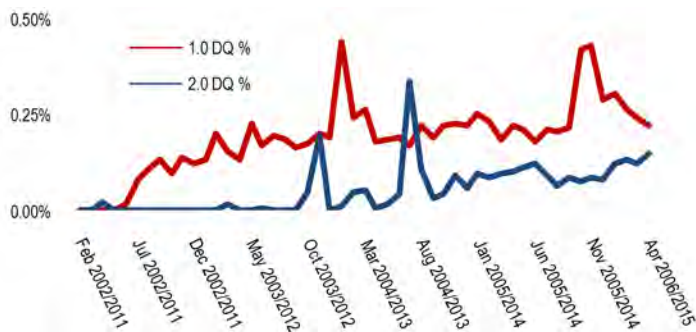
By Joe McBride

Recessions make people wary for years after recovery—just think of the grandfather who lived through the Great Depression and still keeps his cash in a mattress. The million (billion) dollar question these days is just how long will we remain cautious and, if you believe in a cyclical economy, where are we in the current cycle? (Hint: The real answer is nobody can know for sure until the cycle does what it will and, well, cycles.) For now, we're forced to look at the past as a vague predictor of the future.

The consensus view among researchers and pundits in the CMBS and commercial real estate industries is that, in terms of underwriting standards and issuance velocity, we are about where we were in 2006. After making that simplified leap, we can analyze the delinquency trends now, as compared to the same time in 2006.

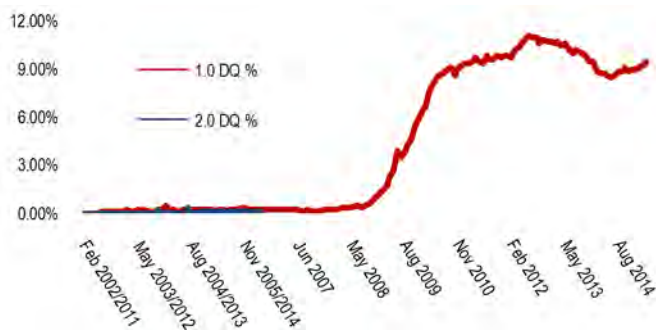
Using CMBS 1.0 loans and excluding loans written before 2002, the pattern and level of delinquencies is fairly similar to those of CMBS 2.0. Delinquency, albeit below 50 basis points of the universe, was relatively volatile and upward sloping during the last cycle. As of April 2015, CMBS 2.0 delinquency stood at 15 bps compared to 22 bps in April 2006.

Delinquency Percentages for CMBS 1.0 and 2.0



Source: Trepp LLC

Looking Forward



Source: Trepp LLC

Commercial real estate lending and CMBS issuance had another two years to run from April 2006 before delinquencies spiked and lending froze. If we zoom out on the chart above, it paints a frightening picture of the last cycle's downturn, as it affected CMBS 1.0 loan performance.

So, do we have another two years to run? Should everyone get while the getting's still good? Or, are today's property fundamentals, underwriting and regulations enough to stave off a serious deterioration in loan performance in the future?

Regulators are instituting a regime of risk retention for CMBS issuers and additional oversight for bank lenders in the form of Comprehensive Capital Analysis and Review and Dodd-Frank Act stress testing in the hope of preventing another crash.

CMBS B-piece buyers, meanwhile, are again more active in kicking loans out of CMBS deals that they might find too risky, and investors are demanding more transparent loan data in CMBS. All of these factors point to an environment of caution. Investors have not forgotten the bad times.

On the other hand, non-bank lenders are popping up everywhere, ultra-low yields are causing capital to shift to more risky and less liquid assets and crowdfunding is close to bringing even more competition to the commercial real estate lending market. As rates increase, borrowers who lined up loans with very low rates in recent years might face challenges refinancing or selling collateral properties, especially if they haven't enjoyed significant growth in fundamentals.

Two questions remain: Is it possible to take advantage of the current environment while effectively managing risk? And how long will the industry's memory last, or is all the cash already out of the mattress? ■

Have Commercial Real Estate and Lending Markets Overheated?

By Susan Persin

YES: Property prices are above their previous peaks and lenders are as generous as ever.

Investor competition for assets is strong, which has driven property values to levels that are 8.2 percent higher than their 2007 peaks, according to the Moody's/RCA Commercial Property Price Indices.

U.S. markets have mostly recovered and are well into the growth phase of the real estate cycle.

Real estate is attractive compared to other investment options in today's low interest-rate environment. U.S. lenders and investors, awash with capital seeking yield, are finding it in real estate. The stability of domestic markets and lower relative valuations compared to some international gateway cities are also drawing overseas capital to the U.S. The result is high asset prices and low capitalization rates, raising concerns about whether investors are overpaying for properties. Some markets and property types appear downright frothy. But the answer to whether conditions are overheated or underlying fundamentals support pricing may be market specific.

Meanwhile, U.S. lenders have loosened their credit standards, citing aggressive competition from bank and non-bank lenders, as well as a more certain outlook for real estate market fundamentals. In the Federal Reserve Board's April 2015 survey, "Senior Loan Officer Opinion Survey on Bank Lending Practices," banks noted that they eased commercial real estate lending terms during the first quarter for both property and construction loans. Banks have eased spreads, increased loan sizes and stretched loan maturities. Survey respondents expect commercial real estate lending to increase this year.

Similarly, the Office of the Comptroller of the Currency's 20th Annual Survey of Credit Underwriting, released early this year, showed further easing of underwriting standards, more aggressive pricing and heightened risk as banks try to increase volume and yield.

These strategies caused commercial mortgage lending to reach \$399.8 billion last year, according to the Mortgage Bankers Association, up 11.5 percent from 2013. The trade group expects origination volumes to climb by another 7 percent this year, largely because of its expectation that interest rates will remain at very low levels and property values would continue climbing, which should drive property-sales transactions.

Meanwhile, CMBS underwriting appears to have reached levels similar to those before the market's collapse. Underwritten leverage and coverage levels look healthy—the weighted average loan-to-value ratio for conduits that have priced this year was 65.12 percent, while the debt-service coverage ratio was a healthy 1.82x.

However, many argue that underwritten levels aren't always realistic. Moody's Investors Service, for instance, has said that loans today have stressed leverage levels that haven't been seen since late 2007, just prior to the last market collapse.

See FROTHY, on next page

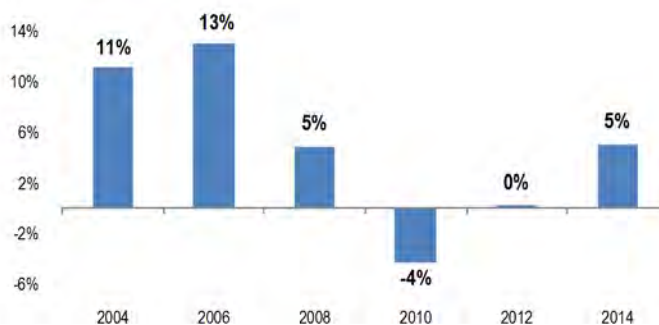
NO: Markets are still in recovery, so property fundamentals and values will continue to improve.

Conditions in most of the country's commercial real estate markets are continuing to recover and the outlook for growth is healthy, making concerns of overheating overblown.

The economic recovery has fueled real estate demand and contributed to improved real estate market fundamentals. A total of 3.1 million jobs were added last year and monthly job growth has averaged 194,000 during the year's first four months. Increased hiring has generated more need for space. Meanwhile, employed people tend to spend more, which has had an impact on retail and hotel properties. Across all property types, vacancies are down and rents are increasing.

Commercial real estate loan growth has accelerated, but is well below the rapid pace that was seen in the 2004-2008 time period. CMBS origination has increased but is still well below

Commercial Real Estate Loan Growth



Source: Trepp LLC

2005-2007 levels. So far this year, \$41.2 billion of loans have been securitized, putting the year on track to see \$100 billion of total issuance. That total compares to last year's \$89.9 billion of issuance, which is dwarfed by the \$230.5 billion issued at the market's peak in 2007.

Thanks in large part to current low interest rates and improving property fundamentals, mortgage delinquencies have declined significantly.

Trepp's May 30-day delinquency rate of 5.40 percent was down 87 basis points from year-ago levels. Lenders are acting cautiously, even as they have eased some lending terms. The previously mentioned April 2015 Fed survey did not show that lenders had loosened loan-to-value or debt-service coverage ratio requirements.

CMBS lending has become more concentrated in the nation's largest markets. Trepp data show that 73 percent of CMBS loan originations so far this year are secured by properties in the country's top 20 markets. That's up from 61 percent in the pre-2011 period.

Similarly, international investors coming to the U.S. are focusing their efforts on trophy properties in the largest markets because they are easiest to understand and offer the greatest liquidity. The amount of capital flowing into the

See GROWTH, on next page

FROTHY, from previous page

While strong real estate fundamentals, especially in technology and energy-focused markets, appear to be propelling markets forward, cracks could be developing in the armor. For example, space available for sublease in San Francisco is increasing. Salesforce, Conversant, Microsoft, Rocket Fuel Inc., Trulia and Zillow are among the companies making office space available. In most cases, the firms initially leased more space than they needed in anticipation of growing into it, but they haven't grown as quickly as expected.

Savills Studley reports that space available for sublease in San Francisco has grown by 220,000 square feet in recent months. The risk of attaining more space than needed, however, is mitigated by the still-strong demand for large blocks of space in the city and the fact that very little new space is coming online.

And in Houston, energy companies are aiming to reduce their real estate expenses, following the sharp drop in oil prices earlier this year. ■

Origination Volume by Market Size

Metros	Pre-2011	2011	2012	2013	2014	2015 (YTD)
\$Blns						
Top 20	173.5	28.2	40.7	52.3	57.3	7.7
Next 80	79.2	13.6	22.9	21	26	1.9
Rest	32.6	6.3	7.5	7.7	9.5	1
Share %						
Top 20	61	59	57	65	62	73
Next 80	28	28	32	26	28	18
Rest	11	13	11	10	10	9

Source: Trepp LLC

GROWTH, from previous page

largest U.S. markets differentiates them from second- and third-tier area, where commercial real estate is generally much less heated.

Many real estate markets today appear to be generally well balanced, with fundamentals supporting rising property values. However, not all markets are equal. ■

Congress Seeks to Permanently Authorize EB-5 Regional Centers

By Josh Mrozinski

Congress is looking to make permanent the authorization of EB-5 regional centers, which are instrumental in helping foreigners earn visas by investing in commercial enterprises such as real estate projects. The centers are key to the EB-5 immigrant-investor program because they vet potential investment opportunities to ensure they meet the program's criteria. In addition, they establish special-purpose entities (SPEs) that foreigners can invest in and serve as managing members of those SPEs.

Last year, some \$2.5 billion was deployed through the EB-5 program, with roughly 80 percent of that going to real estate projects.

Congressional authorization for the regional centers is set to lapse when the federal government's fiscal year ends on Sept. 30. Currently, a bill is making the rounds in Congress that would make their authorization permanent.

The bill, the American Entrepreneurship and Investment Act, is sponsored by U.S. Rep. Jared Polis (D-Col.) and Rep. Mark Amodei (R-Nev.). If passed, the bill would make the legislation that authorizes the regional centers permanent. Since its first expiration in 1995, the program has been extended for three years at a time.

The new bill would exempt family members of investors from the current 10,000 annual visa cap, which would free up potential visas for other investors. It's designed to shorten the time frame needed to get a visa by requiring the Department of Homeland Security to expedite initial applications. Those

reviews have taken as long as 14 months. Under the new bill, they will be limited to 180 days.

The EB-5 program was created by the Immigration Act of 1990 and was designed to stimulate job-creating investments. Foreigners seeking visas are required to invest \$1 million, or \$500,000 in certain high unemployment areas, in a project that creates at least 10 permanent jobs. To facilitate the program, in 1992 Congress designated a series of regional centers authorized by the U.S. Citizenship and Immigration Services to coordinate the process.

"It's not used to replace bank financing, but to supplement it," explained Steven Polivy, chairman of the economic development and incentives practice of Akerman LLP. "It is becoming more widely used for larger projects. We've seen that particularly in New York, where all the major developers are now accessing EB-5 funds to help finance their projects."

The Polis/Amodei bill was introduced in January and in March was referred to a House of Representatives subcommittee on immigration and border security. It is awaiting markup before it is referred to the full House for a vote.

"There are over 13,000 [EB-5] investor petitions currently pending, so there is \$6.5 billion waiting to enter the U.S. economy," explained Peter D. Joseph, executive director of Invest in the USA, a trade group for the regional center program. He explained that the program has blossomed since 2008, when it raised only \$320 million of capital.

A total of 9,128 of the slightly more than 10,000 EB-5 visas issued last year went to Chinese investors. That amount was up from 6,895, or 81 percent of the total number of visas issued, in 2013.

If the EB-5 regional centers program isn't reauthorized, experts warn that certain real estate projects funded by EB-5

Continued on next page

A Tale of Two Types of Cities: Are Secondary Markets Still Secondary?

By Dianne P. Crocker

Over the past several years, the nation's gateway markets have dominated commercial real estate headlines.

Peel back the layers to look at what is happening in property due diligence, a harbinger of where commercial real estate deals are shifting, and an interesting trend emerges: secondary and even tertiary markets are the real story of growth.

Moderate, Sustainable Growth in CRE

Transaction activity continues to be the highlight of this commercial real estate recovery, with solid growth in both large and small property sales. It is hard to ignore the slower-than-expected first quarter, which was attributable largely to record-low temperatures and a tough winter in the northern United States and New England.

Despite the disappointing start to the year, market indicators that include job growth, construction activity and the housing market continue to point to moderate and sustainable growth in lending and transactions. In fact, by most accounts, market conditions are starting to look more and more like the days of 2005 and 2006—and in some cases, even better.

Migration to Secondary Markets Evident

While the story of the past several years has been one of steady growth in commercial property deal-making, another exciting trend for the market is taking root.

For the first time in this protracted recovery, secondary markets are seeing more investor and lending activity. The latest results from EDR's ScoreKeeper model, the industry barometer for Phase I environmental site-assessment activity, show that environmental due-diligence activity (measured in terms of the volume of Phase I environmental site assessments) was up strongly in smaller metropolitan areas across the U.S. in the first quarter.

Top-10 High-Growth Metros for Property Due Diligence 1Q 2015

Las Vegas	52%
Columbia, SC	42%
San Antonio	38%
Charleston, SC	26%
Milwaukee, Wis.	22%
San Francisco	19%
Sacramento, Calif.	19%
Stamford, Conn.	16%
Portland, Ore.	14%
Raleigh, N.C.	13%

Source: EDR Insight

This metro trend aligns very closely with what is happening in commercial real estate. Primary markets were responsible for much of the double-digit growth thus far since the recession. Only very recently have investors shown a willingness to go further out on the risk curve in search of higher yields and less competition.

ScoreKeeper data for the first quarter reflects a slow migration away from the safe primary metro areas, like New York City and Los Angeles, into smaller secondary metros.

The 10 metros in the table to the left had Phase I growth rates in the first quarter that ranged from 13 percent to 52 percent, well above the overall U.S. growth rate of 4 percent. The increasing popularity of cities such as Las Vegas, Columbia, S.C., San Antonio and Charleston, S.C., is the result of peaking prices and stiff competition, especially from foreign capital, in primary metros.

Investor attention is shifting to cities with strong growth profiles like Portland, Ore., Seattle, Denver, Austin, Atlanta and Tampa, Fla., that did not have access to capital just a few years ago. Common denominators among the economies in these metros include growing—in some cases, burgeoning—technology sectors, healthcare and financial services industries. They also tend to have above-average job growth, strong population growth (especially for millennials), low vacancy rates in office and apartment buildings and rising property values.

As the mid-year mark approaches, anyone whose business relies on a healthy flow of commercial real estate transactions can be reasonably optimistic about the near-term, and take solace in the fact that conditions are steady and holding their own. The increasing popularity of smaller metros is likely to become more transparent as the year plays out, a trend that will only gain steam as the overall economy strengthens. In coming quarters, ScoreKeeper output will point to the next stars of the commercial real estate recovery, those that show robust and consistent growth. ■

Dianne P. Crocker is principal analyst of EDR Insight, the analytical research arm of EDR, a national provider of data, technology tools and insight for property due diligence and compliance.

Continued from previous page

capital could be halted or collapse. However, few expect that to happen.

"I think that it will be reauthorized," said Rick Spees, chairman of Akerman LLP's government affairs and public policy practice. But it might not be through passage of the American Entrepreneurship and Investment Act. "Congress doesn't do things until they have to do things, and this does not expire until September."

The Polis/Amodei bill isn't the only one to address the potential EB-5 sunset. Rep. Darrell Issa, (R-Calif.) introduced a bill two years ago that, among other things, would have permanently reauthorized the regional center program. But the bill never came up for a vote in the House.

The program has support from both sides of the aisle in Congress. In 2012, a bill to extend authorization by three years passed the full House by a vote of 412 to 3. ■

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Real Estate Fund Managers Keen on Debt

According to London research firm Prequin, 31 investment funds raised \$22.4 billion of equity last year. A total of 19 of those vehicles, with \$13.7 billion, were focused on U.S. investments.

By John Covaleski

Commercial property debt in the United States has become the darling of fund managers and their institutional investor clients worldwide.

A total of 31 investment funds raised \$22.4 billion of equity commitments last year. And 19 of those, with \$13.7 billion of commitments, were slated to invest all or the majority of their money in the U.S. Those were record numbers, up a whopping 53 percent from 2013.

The data, from Prequin, a London research firm, tracks only closed-end funds, meaning those with pre-defined lives.

Demand from institutional investors for debt funds began gaining steam after the market crash of 2008, when the traditional lending market became illiquid. Sensing an opportunity to make potentially high-yielding investments in the face of that illiquidity, investment managers quickly raised capital to lend.

The tally of U.S. debt funds that closed marketing increased from 10 funds that raised \$2.4 billion in 2010, when the market recovery began, to 20 that raised \$8.8 billion a year later.

“Real estate is a relatively young asset class for institutional investors and real estate debt is even younger,” explained Ryan Krauch, principal of Mesa West Capital, a Los Angeles debt investment fund manager. “What we saw after the financial crisis was institutions becoming more aware of real estate debt and making it a defined part of their overall real estate strategies.”

Mesa West operates an open-end debt vehicle, Mesa Core Lending Fund, which so far has raised \$800 million of commitments, and a closed-end vehicle, Mesa West Real Estate Income Fund III LP, which has invested or committed almost all of the \$752 million raised in 2013.

Forty-six percent of institutional investors in a recent survey include debt investments as part of their real estate allocations, up from 43 percent of respondents a year earlier. The survey was part of a study of institutional investors worldwide by Hodes Weill & Associates, a New York investment management consulting firm, and Cornell

University’s Baker School of Real Estate.

Investors have warmed up to real estate debt because of the asset class’ lower risk when compared with equity real estate, and their ability to more easily match durations with their liabilities.

“Debt does a couple of things,” explained Greg Spick, real asset portfolio manager for United Parcel Service Inc.’s pension fund, which has \$28 billion of assets under management. “It preserves value ... and when the world can be uncertain, I’m generally able to generate a return that’s income-based. And I can preserve capital if there are some hiccups down the road.” Spick’s comments were made in an interview webcast on PrivcapRE.

“I’m seeing a lot of others go out in search of return and they are leveraging up their real estate, going into more risky strategies,” he added. “We’re going the other way, we are looking at some debt strategies. We’re looking for things that complement the portfolio.”

The Hawaii Employees’ Retirement System, which has about \$14 billion of assets under management, is among the large institutional investors that have been considering committing to debt funds this year. Late last year, its investment consultant Courtland Partners told the fund’s managers, “Look into real estate debt funds for potential protection of value in the down markets.”

The amount raised by debt funds last year was boosted by several very large vehicles, such as Pimco’s Bravo Fund II, which raised \$5.5 billion, and Goldman Sachs’ Broad Street Real Estate Credit Partners II, which raised \$2.4 billion.

A total of 26 funds are looking to raise a combined \$12.4 billion, but not all are expected to close before year’s end. Two funds closed marketing between January and mid-May, raising \$840 million.

“There’s still a great deal of interest in debt funds, but this year’s number will not be as big as \$13 billion,” said Andrew Moylan, head of real asset products for Prequin.

Three debt funds in the market seeking \$1 billion each are managed by investment managers Torchlight Investors of New York and Pretium Partners Inc. of Columbus, Ohio, as well as hedge fund manager Children’s Investment Fund Management of London.

In the two fund closings this year, Stabilis Capital Management, a New York hedge fund manager, raised \$540 million for its Stabilis Fund IV, and Rialto Capital Management, a Miami investment manager, raised \$300 million for its Rialto Mezzanine Partners Fund. ■

Conduit Spreads Continue Gyrating

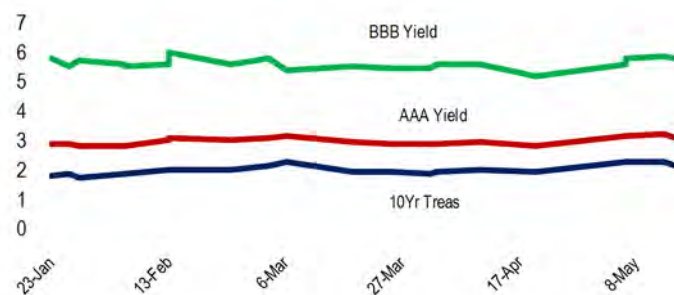
By Orest Mandzy

Spreads for new-issue CMBS have continued to fluctuate this year. Benchmark bonds, with 30-percent subordination, 10-year average lives and the highest agency ratings, have priced to yield from 82 basis points to 97 bps more than swaps this year. Spreads for BBB- bonds, meanwhile, ranged from a low of 305 bps more than swaps to 385 bps more than swaps.

Credit Suisse's first conduit in seven years enjoyed the year's tightest spreads of 82 bps more than swaps for its benchmark bonds and 302 bps more than swaps for its BBB- class. The transaction, CSAIL Commercial Mortgage Trust, 2015-C1, was said to have been wildly oversubscribed. Investors jumped on it, given what was viewed as its somewhat conservatively underwritten collateral pool. Investors also were convinced that Credit Suisse would support the deal on the secondary market, given its intention to become a regular issuer. The deal also benefited from having four rating agencies on it.

However, the deal came to market as Treasury yields had inched up, so the yields that investors got were actually greater than what they got from other deals that priced that month. That wasn't the case for the BBB- bonds, which

CMBS Conduit Spreads



Source: Commercial Real Estate Direct

priced to yield 5.4 percent, slightly less than other deals.

With Treasury yields climbing, CMBS spreads have narrowed as yields made bonds more attractive to absolute-yield investors.

The 20 conduit deals that were issued this year through May 15 priced to yield from 2.8 percent (JPMBB Commercial Mortgage Securities Trust, 2015-C28) to 3.2 percent (Wells Fargo Commercial Mortgage Trust, 2015-C28.) That's a difference of only 40 bps in yield. The difference in yield for the lowest yielding and highest yielding BBB- bonds was 83 bps. ■

1H 2015 Conduit Issuance

Px Date	Trepp Abbr	Amt \$mln	top10%	AAAjrLvl	BBB-Lvl	UW/DSCR	IO%	Part IO%	PX10AAA-Sr	PXJRAAA	PXBBB
23-Jan	MSBAM 2015-C20	1,147.88	40.5	23.00	7.75	1.77	5.6	60.6	95	130	380
26-Jan	COMM 2015-LC19	1,423.09	53.5	24.75	7.63	2.09	40.7	29.3	91	125	360
28-Jan	CGCMT 2015-GC27	1,194.03	41.3	23.50	8.38	1.62	22.9	43.8	97	140	385
5-Feb	WFCM 2015-C26	962.07	34.2	22.00	7.63	1.87	0.01	54.6	94	135	370
5-Feb	JPMBB 2015-C27	836.53	56.4	24.09	8.63	1.66	23.6	41.5	90	135	360
13-Feb	MSBAM 2015-C21	871.25	51.5	22.63	7.25	2.04	28.4	41.8	86	117	345
13-Feb	GSMS 2015-GC28	913.54	41.2	23.75	7.13	1.89	29.8	34.9	92	128	385
24-Feb	COMM 2015-DC1	1,402.70	48.8	23.25	7.88	1.71	33.7	41.4	88	125	345
3-Mar	WFCM 2015-C27	1,047.83	37.0	22.38	7.25	1.67	9.1	59.8	87	125	355
6-Mar	CSAIL 2015-C1	1,213.52	47.1	23.00	8.00	1.85	27.6	47.4	82	110	305
18-Mar	COMM 2015-CR22	1,296.49	51.7	23.75	8.25	1.60	30.1	41.2	86	115	340
25-Mar	WFCM 2015-LC20	829.62	45.9	26.63	8.88	1.63	18.4	56.6	87	115	350
1-Apr	CGCMT 2015-GC29	1,118.52	57.2	25.00	8.00	1.91	17.1	44.0	89	115	350
2-Apr	JPMBB 2015-C28	1,142.79	51.5	23.125	7.52	1.88	36.2	40.4	90	120	360
10-Apr	MSBAM 2015-C22	1,107.32	47.9	24.50	8.50	1.74	27.1	34.5	93	118	355
20-Apr	WFCM 2015-NXS1	955.22	44.8	24.25	8.38	1.65	24.6	43.7	85	110	320
6-May	CSAIL 2015-C2	1,380.70	35.2	21.617	7.50	1.78	26.7	22.9	86	120	330
6-May	COMM 2015-CR23	1,369.71	47.6	22.625	7.13	2.09	31.8	36.3	85	115	345
13-May	WFCM 2015-C28	1,164.69	47.3	22.375	7.63	1.69	16.2	58.8	87	120	355
15-May	GSMS 2015-GC30	1,238.75	49.4	21.711	6.75	2.19	26.6	41.0	86	125	360

One More “CRE Derby” Loan Gets Paid Off; Eight Remain

By Orest Mandzy

The venture that owns the office space in Manhattan’s Woolworth Building refinanced the \$250 million of CMBS debt against it in May with a \$320 million mortgage from Blackstone Mortgage Trust.

That leaves eight loans that were in the *1st Commercial Real Estate Derby* left to refinance or pay off. The derby was published in January detailing refinancing odds on 14 large loans that were set to mature between April and December.

Of the 14 big-ticket mortgages, four have prepaid at or before their maturity date and two have been partially or fully defeased. Those that are left are nearly all sure things.

One, however, was a longshot and might no longer be in the running. The \$380 million loan securitized through MSC 2007-HQ12 against Seattle’s Columbia Center, a 1.5 million-square-foot office property owned by Beacon Capital Partners, was recently put it up for sale. Beacon notified the loan’s servicer that it would be exercising the first of two one-year extensions, moving the modified loan’s maturity out to June 2016.

Meanwhile, the 76-story building’s prospects have improved, with a number of leases pending or in negotiations, which could bring occupancy to more than 90 percent from 81 percent. Cash flow was \$16.8 million last year, about 23 percent shy of fully servicing the mortgage.

Another loan yet to payoff since the January derby is the \$450 million Universal Hotel Portfolio loan, which is

scattered among five CMBS deals (JPMCC 2005-CB12, JPMCC 2005-LDP3, COMM 2005-C6, GECMC 2005-C3 and CD 2005-CD1), and is expected to pay off before its July maturity. The loan is secured by three Orlando, Fla., hotels—the Royal Pacific, Portofino Bay and Hard Rock—with a total of 2,400 rooms owned by a venture led by Loews Corp. The three properties generated \$56.7 million of cash flow during the 12 months through March 2014, which was nearly three times the amount needed to fully service the interest-only loan with a coupon of 4.73 percent.

The other loans should pay off at or before their maturity dates. The biggest of those, with a balance of \$571.7 million that’s divvied up among three deals (GECMC 2006-C1, BACM 2006-1 and BACM 2005-6), is backed by a portfolio of 713 children’s centers that are net leased to the Knowledge Learning Corp., which acquired KinderCare Learning Centers in 2005.

Also anticipated to payoff is One Court Square, a 1.5 million-sf office building in Long Island City, N.Y., that was recently put on the sales block. It is owned by a venture led by Savanna Partners, which acquired a stake in the property last year from David Werner and his partners.

One Court Square backs a \$315 million loan, most of which is securitized through CD2005-CD1. The building, which is fully leased through 2020 to Citibank, generated \$18.1 million of cash flow last year for a debt-service coverage ratio of 1.16x. Its loan matures in September. ■



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The Good, the Bad and the Ugly - 1H 2015

By Manus Clancy

January

- CNL Healthcare buys nine class-A, medical-office facilities backing \$94 million of 1996 CMBS debt.
- Oil prices drop below \$50/barrel for the first time since 2009; CMBS investors worry about Houston exposure.
- The U.S. CMBS 30-day delinquency rate ends 2014 at 5.75 percent, down 168 basis points for the year.
- Staples announces plans to close 170 stores.
- JCPenney, Macy's announce more store closings.
- \$120 million loan against Montehiedra Town Center in Puerto Rico modified—borrower granted five-year extension.
- \$170 million Parkoff Portfolio loan permitted to prepay without penalty—super-senior bonds see 5 percent of value wiped out in one day—“Crazy Ivans” concept introduced by Nomura analysts.

CMBS Loan Maturities

\$Bln	2015	2016	2017	2018	Total
Industrial	2.29	5.54	6.43	0.49	14.75
Hotel	4.34	10.01	9.83	2.54	26.72
Multifamily	5.94	15.37	14.48	1.22	37.01
Office	14.85	32.57	38.43	3.67	89.53
Other	5.52	8.90	10.58	2.37	27.37
Retail	17.52	31.51	32.81	3.01	84.85
Grand Total	50.45	103.90	112.56	13.31	280.22

Source: Trepp LLC

- IRS announces plans to vacate San Diego office behind 2012 deal.
- \$314 million Brookdale Office Portfolio defeased.
- Bank of New York Mellon looks to sell its 525 William Penn Place office property in Pittsburgh.

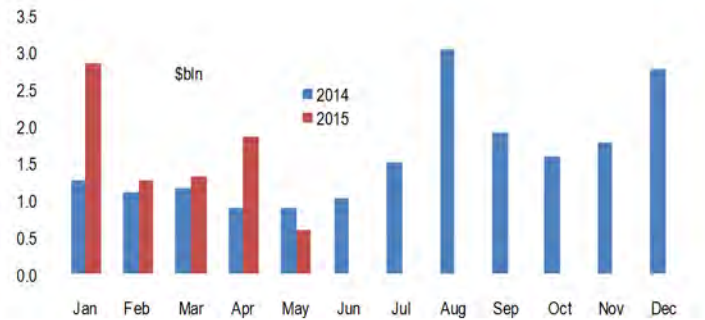
February

- Tom Brady and the New England Patriots win their 4th Super Bowl.
- Houston Galleria refinances with \$1.2 billion loan led by JPMorgan.
- Rupert Murdoch mulls a move from Manhattan's Sixth Avenue corridor.
- Frederick's of Hollywood says it will close one-third of its stores.

March

- British musician Zayn Malik leaves boy band One Direction.
- Chicago's Willis Tower offered for sale.

CMBS Defeasance Volume



Source: Trepp LLC

- Rate-hike fears send U.S. stocks lower.
- Heinz and Kraft announce merger.

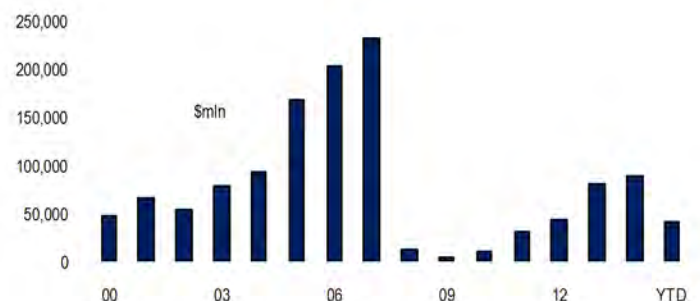
April

- Belnord (NYC Multifamily, pro forma loan) saga ends as loan is paid off.
- MetLife announces plans to consolidate N.Y. offices.
- Hillary Clinton announces run for the Democratic Presidential nomination.
- Value of 400 Atlantic St. in Stamford, Conn., which backs \$265 million of CMBS debt, gets slashed by 54 percent.
- \$50.1 million loan against Hudson Valley Mall in Kingston, N.Y., sent to special servicing; largest CMBS 2.0 loan to go to special servicing so far.
- Schlumberger increases layoffs to 20,000 as oil prices remain near \$50/barrel.

May

- Picasso's "The Women of Algiers" sets art auction record, selling for \$179.3 million.
- 100 Wall St. sells for \$275 million—a record \$528/sf for lower Manhattan office building.
- Woolworth Building in Manhattan refinances.
- \$96.4 million Ty Warner Hotels & Resorts loan gets sent to special servicing.
- SL Green Realty Corp. strikes deal to buy 11 Madison Ave. in Manhattan for \$2.3 billion.

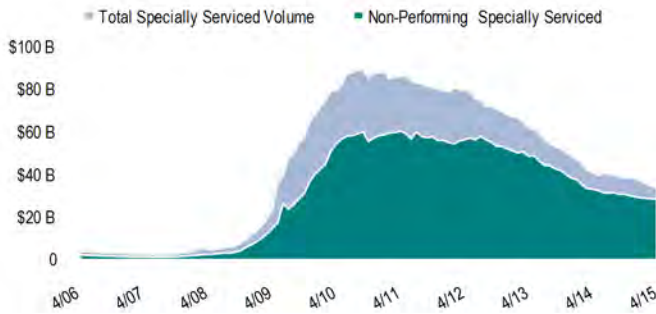
CMBS Issuance



Source: Commercial Real Estate Direct

The Data Digest

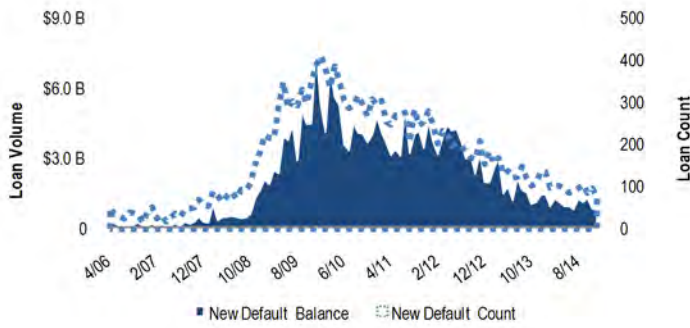
Special Servicer Volume



Source: Trepp LLC

◀ In April, a total of \$34.4 billion of debt was in special servicing. That's the lowest volume since April 2009, when \$23.8 billion of debt was in the hands of CMBS special servicers.

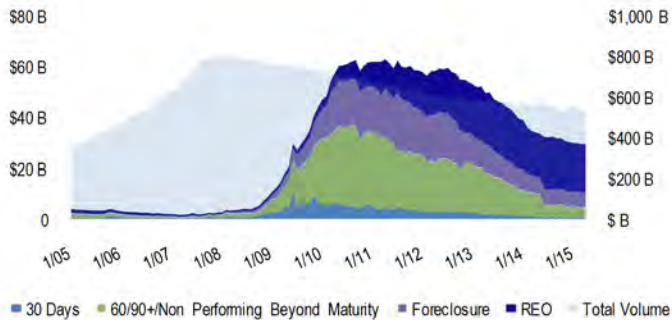
Monthly New Defaults



Source: Trepp LLC

◀ Defaults remain on a downward trend as \$29.5 billion, or 52 percent of securitized debt, was behind in payments as of April 1. That amount peaked in 2010, when \$61.6 billion of CMBS, or 9.07 percent of the universe, was in default.

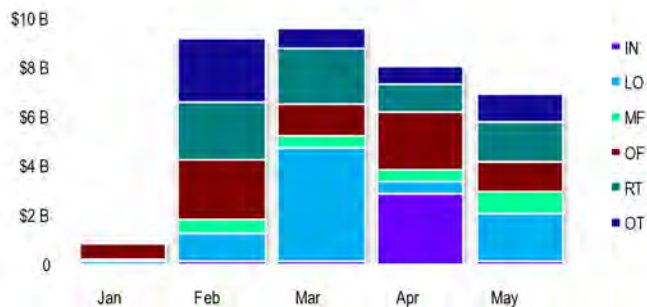
Monthly Delinquencies



Source: Trepp LLC

◀ The volume of loans that are 30-days delinquent has declined consistently. However, the volume of loans that didn't pay off at maturity and are now in foreclosure or are real-estate owned (REO) has increased and now stands at \$26.6 billion.

YTD 2015 CMBS Issuance



Source: Trepp LLC

◀ Through May, \$41.1 billion of loans have been securitized. A total of \$8.5 billion of that is backed by hotels and \$7.9 billion by office properties.

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