US CMBS Delinquency Report: Delinquency Rate Moves Higher Again in July

The long-awaited (and now active) "wall of maturities" was the source of endless hand-wringing over the last five years. The expectation was that these maturing 10-year loans from the frothy CRE lending years of 2006 and 2007 would default in droves. Over time, low interest rates, compressed cap rates, large demand for commercial real estate assets, and rebounding property values led to the belief (one that we shared) that the impact of the dreaded wall of maturities would be more limited than once feared.

While we still believe the final body count for the "wall" will be on the low end of the original dire expectations, the ride certainly won't be bump-free. The July delinquency report highlights one of those bumps, as the delinquency rate moved higher again thanks to another uptick in maturity defaults.

The Trepp CMBS Delinquency Rate moved higher for the fifth straight month in July. The delinquency rate for US commercial real estate loans in CMBS is now 4.76%, an increase of 16 basis points from June. The rate is 66 basis points lower than the year-ago level and 41 basis points lower since the beginning of the year. However, the rate is now 61 basis points above its multi-year low of 4.15% that was reached in February 2016. The all-time high was 10.34% in July 2012.

In June, CMBS loans that were previously delinquent but paid off with a loss or at par totaled about $950 million. Removing these previously distressed assets from the numerator of the delinquency calculation helped move the rate down by 20 basis points. A little over $200 million in loans were cured last month, which helped push delinquencies lower by another four basis points. However, almost $1.8 billion in loans became newly delinquent, which put 37 basis points of upward pressure on the delinquency rate. Also putting upward pressure on the number was a falling denominator: about $3 billion in loans were paid off, forcing the remaining delinquent loans to have an increased weight.

Of note is the percentage of loans that were classified as "non-performing loans that were past their balloon date." That number jumped 11 basis points in July after moving up 14 basis points in June. These would be loans that reached their maturity date and did not pay off or make an interest payment to satisfy the debt service.

The Numbers:

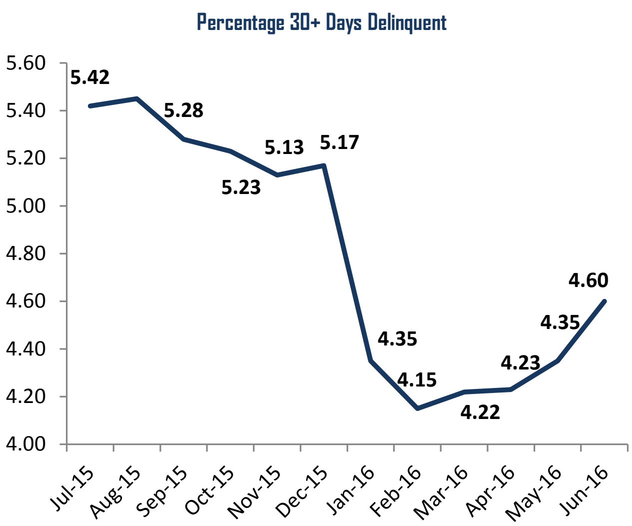
- The overall US CMBS delinquency rate increased 16 basis points to 4.76%.
- The percentage of loans seriously delinquent (60+ days delinquent, in foreclosure, REO, or non-performing balloons) is now 4.67%, up 19 basis points for the month.
- If defeased loans were taken out of the equation, the overall 30-day delinquency rate would be 4.97%, an increase of 16 basis points from June.

Delinquency Status	
Current	95%
30 Days Delinquent	0.09%
60 Days Delinquent	0.08%
90 Days Delinquent	0.23%
Performing Matured Balloon[1]	0.26%
Non-Performing Matured Balloon	0.75%
Foreclosure	1.28%
REO	2.33%

[1] Loans that are past their maturity date but still current on interest are considered current.

Historical Perspective:

- One year ago, the US CMBS delinquency rate was 5.42%.
- Six months ago, the US CMBS delinquency rate was 4.35%.
- One year ago, the rate of loans seriously delinquent was 5.22%.
- Six months ago, the rate of loans seriously delinquent was 4.16%.



Property Type Analysis:

- The industrial delinquency rate fell 32 basis points to 5.63%.
- The lodging delinquency rate decreased 15 basis points to 3.12%.
- The multifamily delinquency rate moved up 16 basis points to 2.51%. Apartment loans are the best performing major property type.
- The office delinquency rate increased 47 basis points to 6.23%.
- The retail delinquency rate added four basis points to 5.76%.

Delinquency Rate by Property Type

	Jul 16	Jun 16	May 16	3 Mo.	6 Mo.	1 Yr.
Industrial	5.63	5.95	5.72	5.95	5.96	7.41
Lodging	3.12	3.27	2.96	2.87	2.82	3.70
Multifamily	2.51	2.35	2.36	2.32	2.31	8.76
Office	6.23	5.76	5.51	5.30	5.24	5.93
Retail	5.76	5.72	5.36	5.20	5.62	5.51

Top 5 Newly Delinquent Loans

Property Name	Current Balance	Prop Type	City	State	New DQ Status	Deal
Portals I	$155,000,000	OF	Washington	DC	Non-Performing Beyond Maturity	GCCFC 2006-GG7
The Alhambra	$135,000,000	OF	Alhambra	CA	Non-Performing Beyond Maturity	GSMS 2006-GG8
DRA/Colonial Office Portfolio	$125,441,349	MU	Various	VR	Non-Performing Beyond Maturity	MLMT 2007-C1
500-512 Seventh Avenue (1)	$105,443,464	OF	New York	NY	Non-Performing Beyond Maturity	WBCMT 2006-C27
500-512 Seventh Avenue	$105,443,464	OF	New York	NY	Non-Performing Beyond Maturity	WBCMT 2006-C28

For inquiries about the data analysis conducted in this research, contact press@trepp.com or call 212-754-1010. For more information on Trepp's CMBS products, contact info@trepp.com.

About Trepp

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