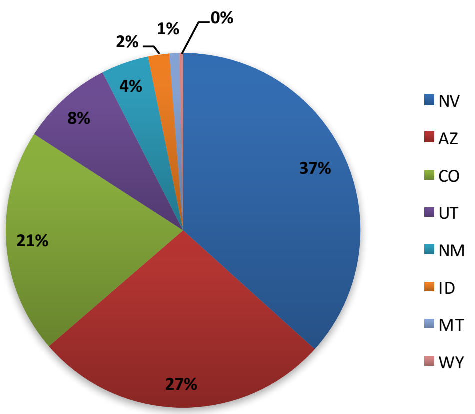
Can Record-Setting Office Demand Help Lower Delinquencies in the Mountain Region?

The Mountain region of the US encompasses Nevada, Arizona, Colorado, Utah, New Mexico, Idaho, Montana, and Wyoming. Just over $22 billion in outstanding CMBS features a Mountain region property as collateral, which makes up about 6.1% of the total private label CMBS balance in the US. The region has a relatively high delinquency rate of 6.7% overall, compared to the 4.51% delinquency rate for all US CMBS loans in January. Nevada loans represent 37% of the region's CMBS balance, with approximately $10.6 billion of outstanding debt. Arizona loans comprise 27% of the total regional loan balance, followed by Colorado loans (21%) and Utah loans (8%). New Mexico, Idaho, Montana and Wyoming loans combine for the remaining 7.5%.

GRAPH 1: CMBS BALANCE ALLOCATION BY STATE



Source: Trepp

The largest MSAs by CMBS balance within these states are Las Vegas, Phoenix, Denver, Salt Lake City, Tucson, and Albuquerque. Las Vegas loans comprise a hefty 33% of all outstanding CMBS debt backed by Mountain region properties. The Las Vegas metro area's economy is driven by the tourism industry, and the Bureau of Labor Statistics reports that more than a quarter of a million people (25% of the MSA's population) work in hotels, restaurants, bars, and casino gaming operations. Retail and lodging loans backed by Las Vegas properties combine for $8.0 billion, which makes up 84% of the MSA's total balance of $9.5 billion.

Demand is High for Phoenix and Denver Offices

Phoenix and Denver office loans combine for 60% of the region's office debt. Office properties in the Denver MSA collateralize nearly $2.0 billion of CMBS debt. The Phoenix market is retail-heavy (with $2.4 billion in loans), but also secures a significant $1.4 billion in office loans. Key industries in both Denver and Phoenix include aerospace and defense, advanced manufacturing, technology, and bioscience. According to research from JLL, the Phoenix office market posted record-breaking sustained demand in 2017, as last year was the fourth straight year with at least 2 million square feet of positive absorption. Tempe, Arizona is Phoenix's most in-demand submarket, and accounts for over 27% of the MSA's absorption thanks to State Farm's class-A, 2.0 million-square-foot office campus which traded hands in Q4. On the other hand, Denver experienced a 15-year record for office construction deliveries last year. This comes at a

CHART 1: LARGEST MOUNTAIN REGION MSAS BY CMBS BALANCE

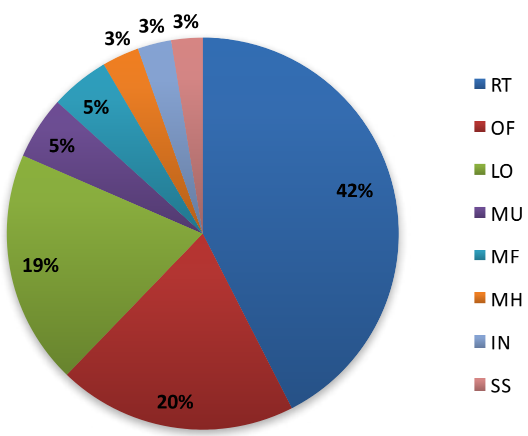
MSA NAME	CURRENT BALANCE ($MM)	LOAN COUNT
Las Vegas, NV	$9,501	304
Phoenix, AZ	$5,859	373
Denver, CO	$3,935	236
Salt Lake City, UT	$1,324	72
Tucson, AZ	$914.8	77
Albuquerque, NM	$753.7	63
Reno, NV	$739.1	55
Colorado Springs, CO	$624.7	66
Provo-Orem, UT	$426.9	30
Boulder, CO	$400.2	19

Source: Trepp

time when Denver's unemployment rate is one of the nation's lowest at 2.6%, and fewer people looking for work could result in reduced office tenant demand. As Denver development remains active, Colorado CMBS loans overall are outperforming with high average DSCRs and below-average delinquency.

Retail notes comprise 42.2% of the total Mountain region CMBS balance. Office loans make up the next highest percentage of the region's total balance with about 19.6%, followed closely by lodging with 19.2%. Las Vegas loans make up 40.6% of the region's total retail balance ($12.1 billion), and 55.1% of the total lodging balance ($5.5 billion). Denver and Phoenix office loans combine for just more than 60% of the region's office debt.

GRAPH 2: PROPERTY TYPE ALLOCATION: MOUNTAIN REGION

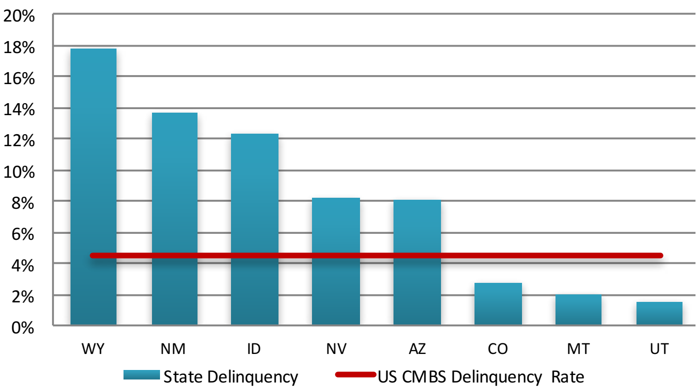


Source: Trepp

Utah Boasts Lowest Delinquency Rate in the Region

By state, Wyoming, New Mexico, and Idaho posted the highest respective delinquency rates of 17.8%, 13.7% and 12.4% in February. While these numbers are well above the overall US CMBS delinquency rate of 4.5%, loans secured by properties in these three states combine for less than 8% of the Mountain region's outstanding balance. After Wyoming, Montana loans represent the smallest amount of CMBS debt ($260 million) by state in the region. However, Montana boasts a low 2.0% delinquency rate. Utah has an even more impressive 1.5% delinquency rate across its $2.4 billion of outstanding loans.

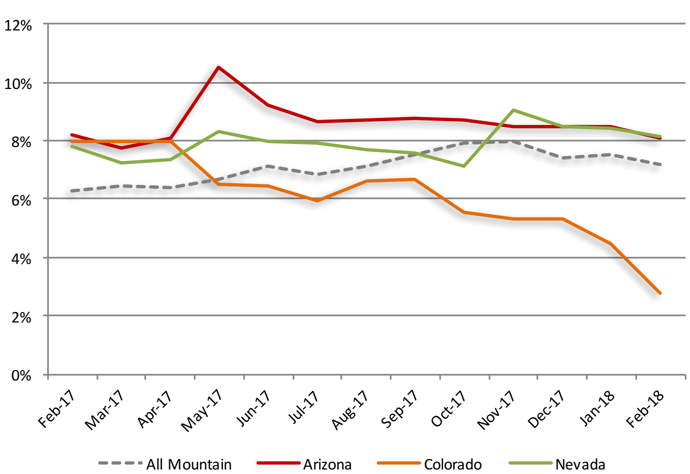
GRAPH 3: MOUNTAIN REGION DELINQUENCY RATES BY STATE



Source: Trepp

The delinquency rate for Colorado loans trended downward for most of 2017, and plunged further to 2.8% in February. That is a drop of more than five percentage points from February 2017. On the other hand, Nevada loan delinquencies have gone up by almost 0.4% over the past year. The state's delinquency rate clocked in at 8.2% last month. Nevada-backed loan delinquencies have likely increased because it is a retail-heavy state, and the slew of retailer bankruptcies throughout 2017 have negatively impacted a number of those retail loans.

GRAPH 4: MOUNTAIN REGION DELINQUENCY RATES



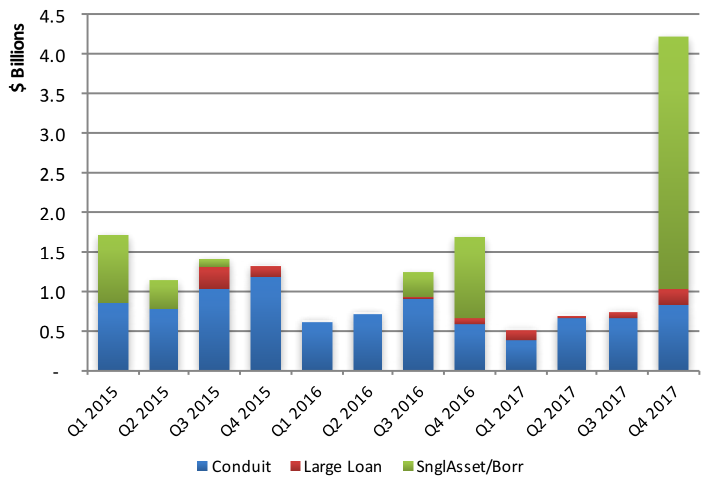
Arizona loan delinquencies were relatively flat for the second half of 2017, fluctuating slightly between 8.5% and 8.75%. However, the Arizona delinquency rate fell to 8.1% last month.

Issuance Skyrockets in Q4 2017

While issuance levels for the Mountain region have been well below the $2.0 billion mark each quarter since 2015, private label CMBS securitizations shot up past the $4.0 billion mark in Q4 2017. Mountain region issuance reached $4.2 billion in the fourth quarter thanks to $3.2 billion of single-asset/single-borrower (SASB) deals closing. The largest of these notes is the $1.55 billion Caesars Palace Las Vegas loan, which represents CZR 2017-VICI in full. The collateral is the famous 3,974-key, luxury hotel and casino in Las Vegas that was renovated last year. The $1.38 billion Cosmopolitan of Las Vegas (CHT 2017-CSMO) loan, which was issued in December, is secured by another neighboring luxury casino on the Las Vegas Strip. The $264 million Marina Heights State Farm note (GSMS 2017-FARM) is another large SASB note that spiked issuance numbers in Q4. The underlying asset is a 2.0 million-square-foot office park next to Arizona State University that was built in 2015 and is fully occupied by State Farm. The class-A mega-campus traded hands in Q4 for a state-record price of $928 million.

Looking at annual conduit totals, Mountain region issuance levels have declined in recent years. Conduit issuance dropped from $3.9 billion in 2015 to $2.8 billion in 2016. Conduit securitizations totaled $2.5 billion in 2017, which is down 8.9% year over year.

GRAPH 5: MOUNTAIN REGION ISSUANCE BY DEAL TYPE



Source: Trepp

Mountain Maturities Led by Arizona Properties

A combined $2.7 million in Mountain debt matures in 2018. Nearly 40% of the regional balance maturing this year is backed by properties in Arizona. Nevada-backed loans make up 23.5% of the maturing volume, followed by Colorado (18.6%) and Utah loans (10.5%).

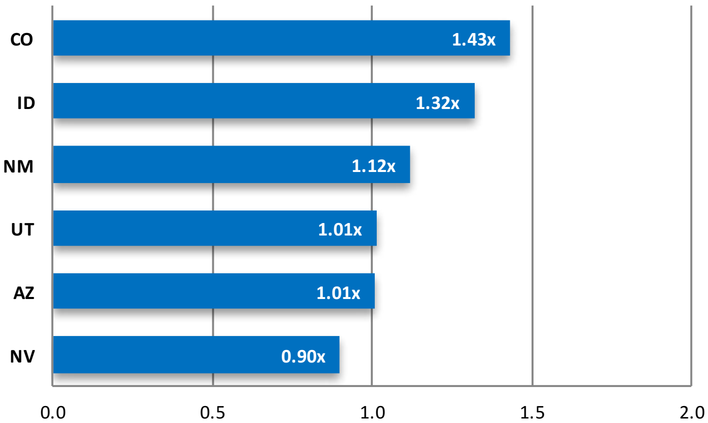
Of all Mountain region loans coming due from January through June, Colorado loans are outperforming with a weighted-average DSCR of 1.43x. Although these loans are the strongest in the region, their average DSCR still trails the overall US average of 1.48x for all CMBS loans maturing in H1 2018. Both Utah and Arizona loans maturing within this time frame carry a WADSCR of 1.01x, while Nevada loans are lagging significantly with an average figure of 0.90x.

CHART 2: LARGEST CMBS LOANS ISSUED IN Q4 2017 – MOUNTAIN REGION

CMBS DEAL	LOAN NAME	BALANCE ($MM)	CITY	STATE	DEAL TYPE
CZR 2017-VICI	Caesars Palace Las Vegas	1,550.0	Las Vegas	NV	SASB
CHT 2017-CSMO	The Cosmopolitan of Las Vegas	1,380.0	Las Vegas	NV	SASB
GSMS 2017-FARM	Marina Heights State Farm	264.0	Tempe	AZ	SASB
MSC 2017-HR2	Harmon Corner	57.2	Las Vegas	NV	Conduit
UBSCM 2017-C4	The District	39.9	South Jordan	UT	Conduit

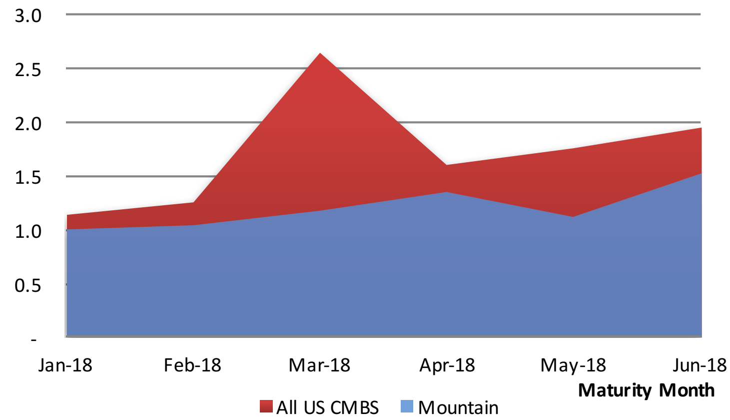
Source: Trepp

GRAPH 6: WEIGHTED AVERAGE DSCR - LOANS MATURING NEXT IN H1 2018



Source: Trepp

GRAPH 7: WEIGHTED-AVERAGE DSCR – LOANS MATURING IN H1 2018



Source: Trepp

Looking ahead, loans backed by Nevada properties are ones to watch, as they currently have a low weighted-average DSCR and a relatively high delinquency rate. Despite shifting fundamentals in the retail sector, Nevada loans may benefit from the thriving travel and leisure industry, which can help lift loan performance up and push the delinquency rate down. Maturing loans secured by properties in Colorado are among the top performing in the Mountain region, and make up the second-highest percentage of the region's maturing balance for 2018. Arizona makes up the largest portion of this year's maturities, and these loans might see improved performance due to record-high office demand in Phoenix. With these positive fundamentals for Colorado and Arizona loans, the Mountain region's overall delinquency rate may retreat in the months ahead.

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