Trepp®

CRE Research

July 2017

Solid Multifamily Loan Performance Makes Up for Dearth of New Issuance

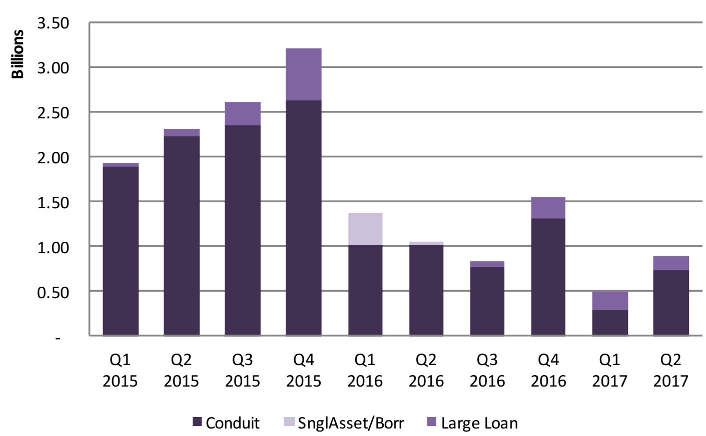
The US multifamily market has experienced tepid issuance and transaction volume in 2017 year-to-date, as peak levels of new supply slated for this year continue to be a concern. The markets with the highest number of units in the pipeline include top-tier and major markets such as New York, Dallas, Houston, Atlanta, Washington D.C., Seattle, Los Angeles, Denver, and Austin. According to Marcus & Millichap, developers are expected to bring 371,000 new units to market in 2017, which would be the highest number of completions posted in 30 years. Although the numbers indicate there is a glut of new supply, some experts assert that occupancy levels will be able to keep pace and remain at healthy levels as unemployment is expected to remain low, and millennials continue to drive high apartment demand. On the other hand, many are observing cap rates trending lower and dampened deal volume, which indicate rising prices and investor uncertainty. Trepp Research Associate Joe McBride remarked that "the multifamily sector has been relatively insulated from broader market downswings due to GSE involvement and a drop in homeownership rates over the past several years. Although legislative and interest rate uncertainty kept a lid on private-label issuance early in the year, activity has picked up nicely as it appears that legislation and rate hikes will happen slowly."

Multifamily Issuance Slows in 2017

Private-label issuance for multifamily CMBS loans in Q2 2017 came in at $888.4 million, compared to $500.9 million for the first quarter. Despite the increase, the issuance level for the first half of 2017 is still down 42.5% compared to the first half of 2016. Multifamily issuance has been dwindling since the start of last year, and hasn't reached the $2 billion mark in a quarter since 2015. Conduit loans comprised 82% of last quarter's volume, while the large loan category represented 18%.

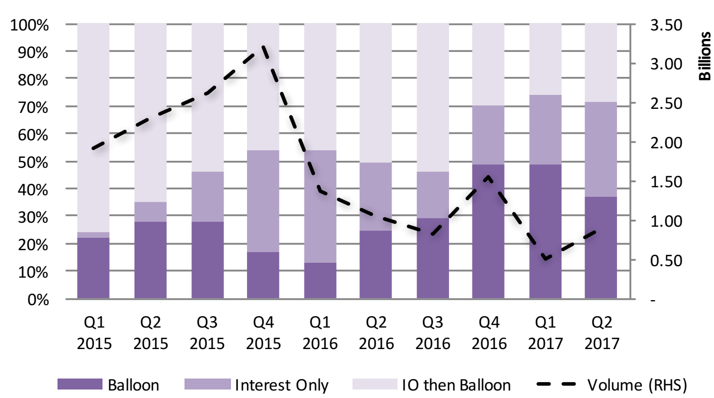
Multifamily loans with an interest-only structure made up 63.2% of second quarter securitizations. Balloon

MULTIFAMILY CMBS - ISSUANCE BY DEAL TYPE



Source: Trepp

MULTIFAMILY CMBS - ISSUANCE BY AMORTIZATION TYPE

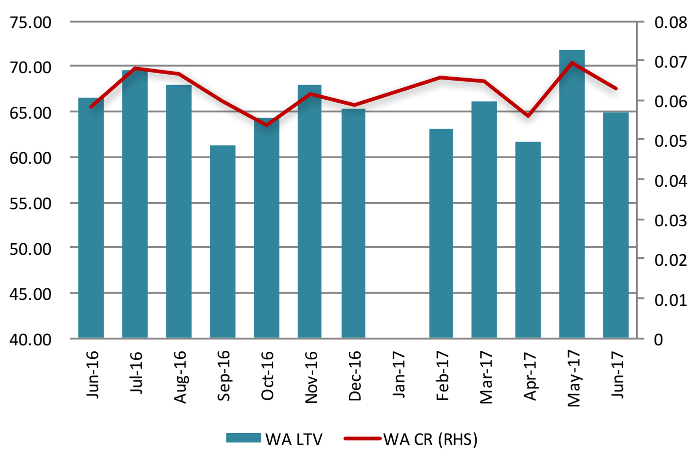


Source: Trepp

loans have been representing a larger share since Q4 2016, when it neared 50% of multifamily issuance. This may indicate that lenders are tightening credit standards on apartment loans.

The weighted average LTV for loans securitized last month dropped to 64.9%, compared to 71.8% in the month prior. The weighted average cap rate also dipped from 6.92% in May to 6.27% in June. Securitized cap rates for conduit multifamily debt have fluctuated between 5.36% and 7.01% over the past 12 months.

MULTIFAMILY CMBS - CONDUIT LTV & CAP RATES

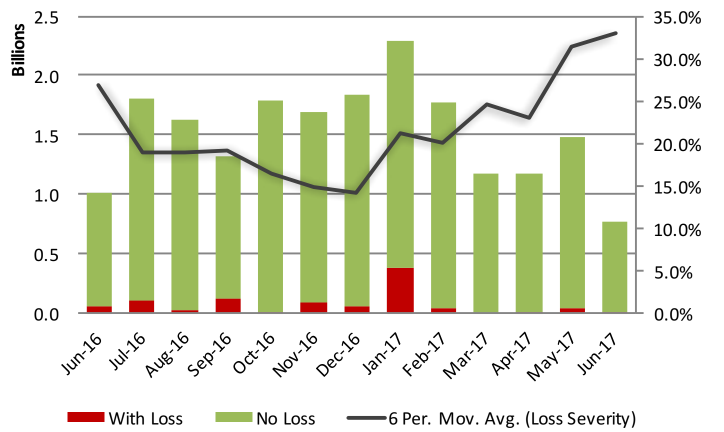


Source: Trepp

Losses & Dispositions

Last month, about $12.7 million in multifamily loans paid off with a loss. Multifamily loans with losses represented a low 1.7% of the month's total disposition volume, which is below the 12-month average of 3.0%. The six-period moving average loss severity inched up to 33.0% last month (compared to 31.4% and 22.9% in the two months prior). However, the average loss severity for multifamily loans disposed in June shrank down to 15.0%.

MULTIFAMILY CMBS - MONTHLY DISPOSITION & LOSS VOLUMES

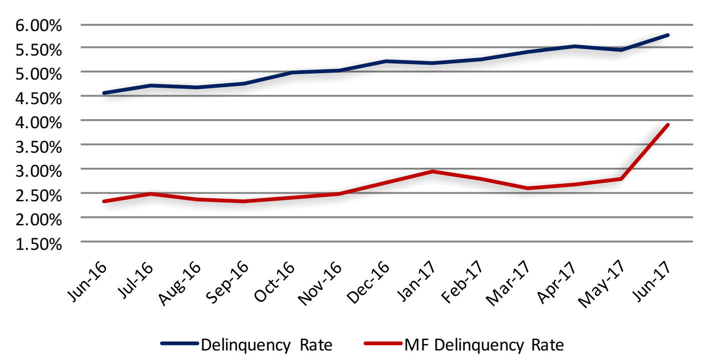


Source: Trepp

Delinquency Rate Still Low Despite Massive June Hike

The multifamily delinquency rate jumped 110 basis points to 3.92% in June, while the overall delinquency rate rose to 5.75%. The multifamily delinquency rate had not experienced a monthly uptick that steep in 18 months. The upturn is mainly due to two large portfolio loans totaling $318.6 million that defaulted at their June maturity dates.

MULTIFAMILY CMBS - DELINQUENCY RATES



Source: Trepp

The overall CMBS delinquency rate has been on an upward trend over the last 17 months, as a large volume of 2006 and 2007 loans continue to come due. Multifamily loans make up a relatively small portion (5.8%) of the overall delinquent loan pool.

The five largest multifamily loans to become newly delinquent in June (by balance) are as follows:

CMBS Deal	Loan Name	Current Balance	City	State	Delinquency Status
MLMT 2007-C1	Empirian Multi-family Portfolio Pool 1 - A note	$177.7M	Various	-	Non-Performing Beyond Maturity
MLMT 2007-C1	Empirian Multi-family Portfolio Pool 3 - A note	$140.9M	Various	-	Non-Performing Beyond Maturity
MSC 2007-IQ16	Art Institute Student Housing	$23.5M	Pittsburgh	PA	Foreclosure
MLMT 2007-C1	Weston Ranch Apartments	$22.5M	Madison	AL	Non-Performing Beyond Maturity
CGCMT 2014-GC23	Houston Multifamily Portfolio	$12.2M	Houston	TX	30 Days

Source: Trepp

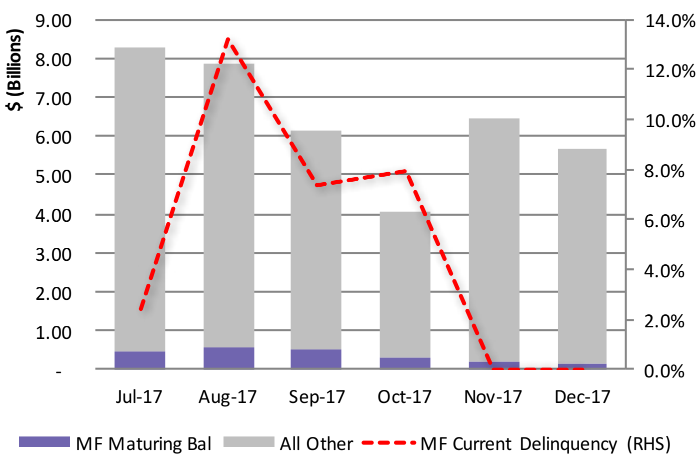
The two large portfolios that pushed the multifamily delinquency reading higher in June were the $177.7 million Empirian Multifamily Portfolio Pool 1 - A note and the $140.9 million Empirian Multifamily Portfolio Pool 3 - A note. The two loans collectively represent 24.0% of the remaining balance behind MLMT 2007-C1. Both loans defaulted at their maturity dates in early June, and have been with the appointed special servicer since March. The Pool 1 A-note is secured by 40 multifamily buildings, and the Pool 3 A-note is collateralized by 35 apartments. The majority of the buildings are located in Georgia, Ohio, Florida, Indiana and Kentucky. According to special servicer commentary, both notes have been given a maturity date extension with two 12-month options, and the borrower is permitted to request partial releases of up to 20 properties resulting from sales.

Last Chunk of Multifamily Maturities Need Resolution

Over the next six months, $2.25 billion worth of multifamily loans will come due, which represents 5.85% of the total maturing balance from now through the end of the year. About 6.68% of those loans are currently delinquent, and 7.72% are currently in special servicing.

This month, 48 multifamily loans totaling $468.0 million are slated to mature, and only 2.46% of that balance is delinquent. Next month, $580.3 million across 72 loans will come due, and the delinquency rate for that batch jumps to 13.18%. Our data indicates another high delinquency rate of 7.90% for the $300.5 million maturing in October.

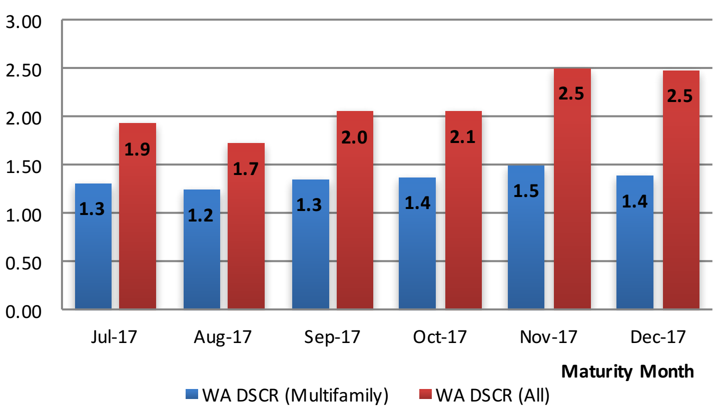
MATURING MULTIFAMILY CMBS - VOLUME AND DISTRESS RATES



Source: Trepp

Multifamily loans coming due in the remainder of 2017 carry a weighted average DSCR of 1.33x, compared to 2.09x for all US CMBS loans maturing within the same time frame. Multifamily loans maturing in August contribute the lowest DSCR, as the weighted average for those notes is a modest 1.24x.

WEIGHTED AVERAGE DSCR



Source: Trepp

Monthly Property Type Stats

- Multifamily CMBS loans currently have the second-lowest delinquency rate at 3.92%, trailing only loans at 3.53%.
- Collateral for multifamily CMBS loans currently boast an average occupancy of 93.7%. Industrial loans average the highest occupancy at 95.8%.
- Multifamily loans incurred a very low average loss severity in June, with just a 15.0% severity for the $12.7 million disposed with losses.
- June CMBS issuance for the apartment sector totaled $766.9 million across 52 loans. Offices received the largest issuance volume with $3.25 billion, and the lodging sector followed with $3.0 billion.

Looking Ahead

The multifamily sector may begin to regain momentum during the second half of the year, as demand levels are high and national CMBS occupancy is just under 94%. Apartment research firm Axiometrics reports that occupancy has increased year-to-date in 45 of the top 50 multifamily markets (based on number of units). Apartment market fundamentals have been historically strong for nearly a decade, which is resultant of the low supply levels following the financial crisis and weakness of the single-family market. Fundamentals are now slowing as new supply continues to catch up with demand. However, Hoya Capital Real Estate notes that the demographics over the next ten years are highly favorable to apartment demand, as a "generation of 20-34-year-olds, currently in prime renting age, has roughly 3 million more people than the prior 14-year generation." Taking this into account, completions are expected to peak later in the year, which may keep investors cautious and soften activity for the remainder of 2017.

About Trepp

Trepp, LLC, founded in 1979, is the leading provider of information, analytics and technology to the CMBS, commercial real estate and banking markets. Trepp provides primary and secondary market participants with the web-based tools and insight they need to increase their operational efficiencies, information transparency and investment performance. From its offices in New York, San Francisco and London, Trepp serves its clients with products and services to support trading, research, risk management, surveillance and portfolio management. Trepp is wholly-owned by dmgi, the information publishing division of the Daily Mail and General Trust (DMGT).