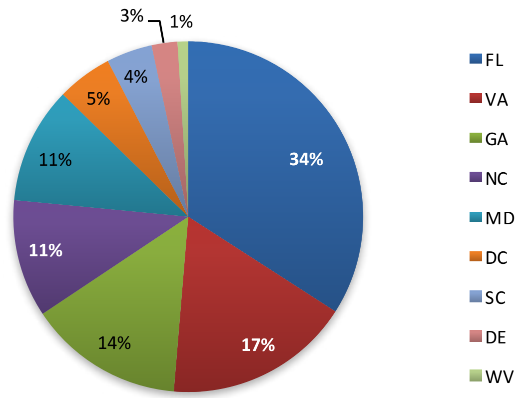
Regional CRE Snapshot: Can the South Atlantic Overcome High Delinquency Rates?

Of the country's nine Census Bureau regions, none is more populous than the South Atlantic United States. The South Atlantic region of the US is comprised of Washington, D.C., Delaware, Maryland, Virginia, West Virginia, Georgia, North Carolina, South Carolina, and Florida, and it also represents a key portion of the CMBS market. More than $65.3 billion in outstanding CMBS features a South Atlantic property as collateral, the second-highest total of all nine regions. However, the region's delinquency rate hit 7.87% in August, compared to the 5.44% delinquency rate for all US CMBS loans last month. Virginia loans are underperforming the set, while Florida and Georgia loans are outperforming with high DSCR levels and below-average delinquencies.

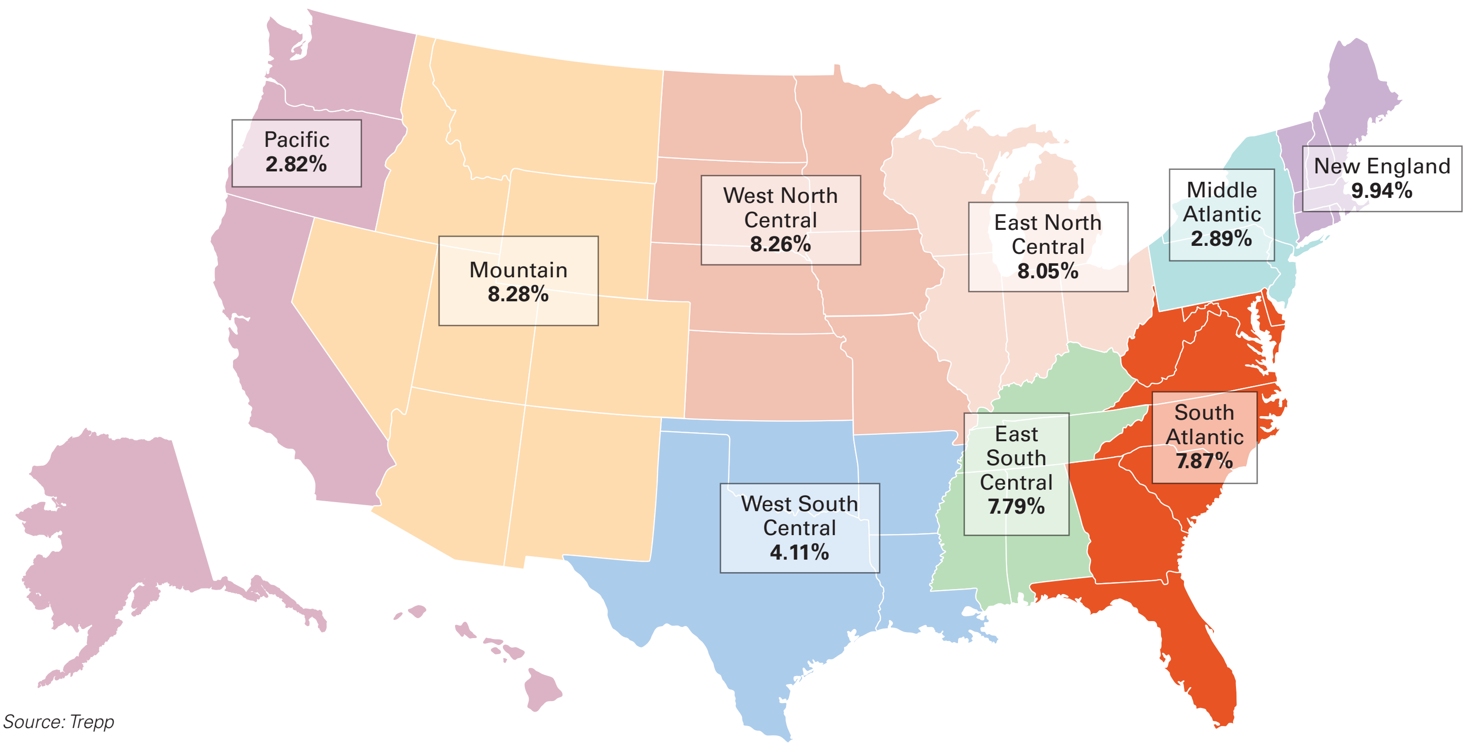
GRAPH 1: SOUTH ATLANTIC CMBS – OUTSTANDING BALANCE BY STATE



Source: Trepp

The largest MSAs by CMBS balance in the South Atlantic are Washington, D.C., Miami, Atlanta, Orlando, and Charlotte. The Washington, D.C. metro area has a high concentration of office loans, and the local economy is driven by federal government, education, and tourism. Loans backed by properties in the District and Virginia

MAP: US CMBS: DELINQUENCY RATES BY REGION



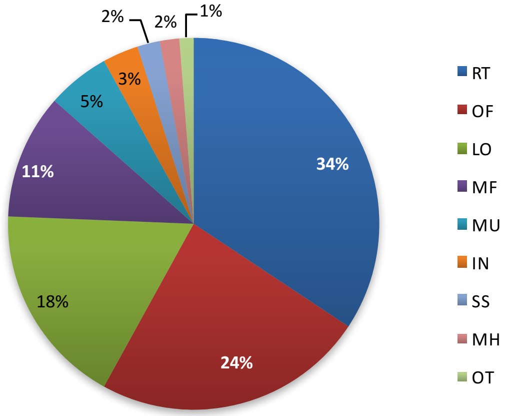
Source: Trepp

have helped pull the broader region's delinquency rate up, as the suburban office sector in particular has reported rising delinquency and vacancy rates in recent quarters. On the other hand, loans backed by properties in Miami, Orlando, and Atlanta have outperformed and pushed their delinquency readings down. The two largest Florida markets – Miami and Orlando – both have a strong leisure and tourism base. The media, international trade, and banking industries also fuel Miami's economy. However, loan performance in both MSAs will likely be under close scrutiny for the foreseeable future as both areas have a high concentration of mall and shopping center loans. Both metros also feature plenty of exposure to Hurricane Irma's path of destruction. Atlanta loans are also currently outperforming and pushing the region's delinquency rate lower, as the area is becoming a top center of business, trade, and manufacturing.

Malls, Offices Most Prevalent in South Atlantic

Retail loans comprise 34% of the South Atlantic region's total loan balance. Florida loans carry, by far, the highest retail volume by state at $9.2 billion. Office loans make up 24% of the region's total CMBS debt. Virginia, Florida, and D.C. contribute the highest office balances by state with $5.0 billion, $3.2 billion, and $2.9 billion outstanding, respectively. Florida loans also contribute over 50% of the region's total lodging balance, with $6.5 billion alone backed by hotels in the Sunshine State.

GRAPH 2: SOUTH ATLANTIC CMBS – LOANS BY PROPERTY TYPE

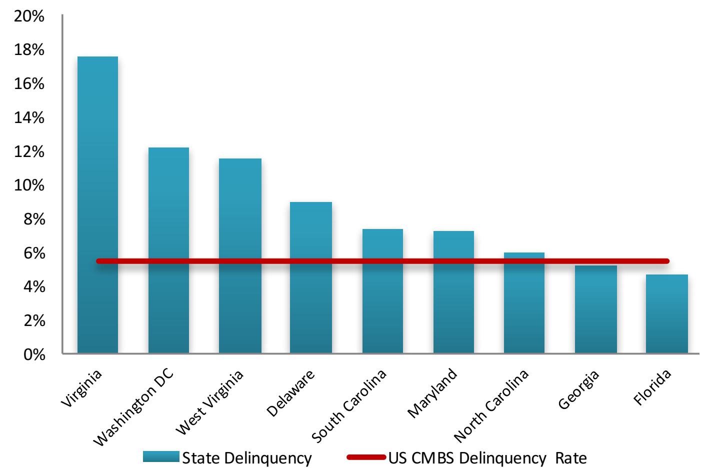


Source: Trepp

Virginia at Forefront of Rising Delinquency Rates

Virginia and Washington, D.C. featured the highest delinquency rates measured for August, while Florida and Georgia outperformed with the lowest. Each state in the South Atlantic – except for Florida and Georgia – had a delinquency rate higher than that of the overall US CMBS rate.

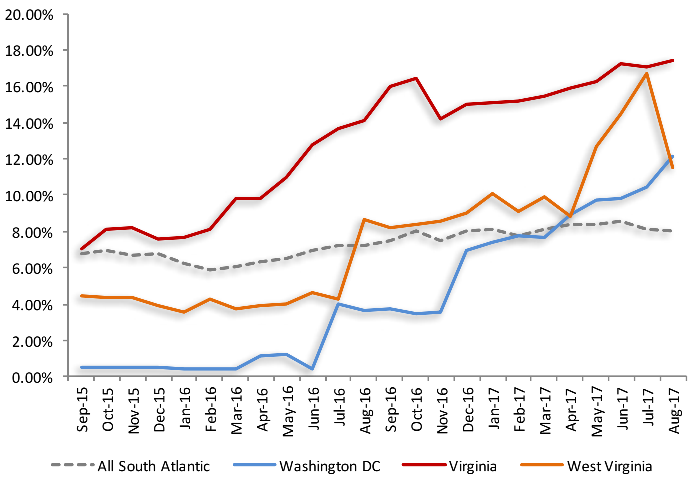
GRAPH 3: SOUTH ATLANTIC CMBS – DELINQUENCY RATES BY STATE



Source: Trepp

The delinquency rates for Virginia, West Virginia, and Washington, D.C. began to notably trend upwards in mid-2016. Loans collateralized by Virginia properties have the highest delinquency rate in the region, which came in at a multi-year high of 17.4% last month. Washington, D.C. followed with a 12.1% delinquency rate. Both states are likely feeling pressure from recent weakness in the D.C. metro area job market. According to Colliers International, employment in office-using sectors fell in the second quarter, and net absorption for office space was negative in both the first and second quarters for the D.C. MSA. West Virginia, which is more retail-heavy, posted the third highest delinquency rate of 11.5% last month. Overall, the South Atlantic region has a delinquency rate of 7.87%, compared to 5.44% for all US CMBS.

GRAPH 4: SOUTH ATLANTIC CMBS – DELINQUENCY RATES



Source: Trepp

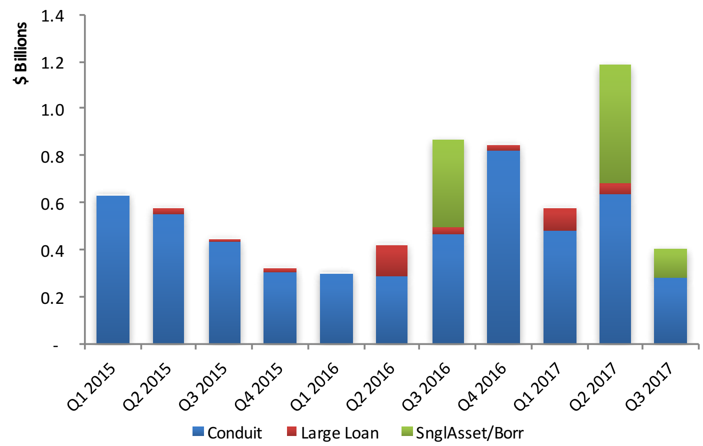
The largest South Atlantic note to become newly delinquent in August was the $53.0 million 4000 Wisconsin Avenue loan. The note is secured by a 492,192 square-foot office building in Washington, D.C. that was constructed in 1988. The collateral's largest tenant is Fannie Mae, which leases 90% of the net rentable area through April 2018. According to servicer commentary, the loan was transferred to special servicing last month after the borrower received notice that Fannie Mae will vacate after its lease expires. The note represents 11.4% of the remaining balance behind BACM 2007-5.

Another loan to become newly delinquent last month was the $30 million Venice Shoppes loan, which is once again non-performing past maturity. The note originally defaulted at its May maturity date. The special servicer has approved a loan extension which requires an infusion of new equity from the borrower. The modification was expected to close last month.

South Atlantic Issuance for 2017 Eclipses $2 Billion

South Atlantic securitizations that were issued last month totaled $214.8 million, bringing the 2017 year-to-date total to $2.17 billion. The average monthly issuance for the region in 2017 amounts to roughly $271 million. Private-label CMBS issuance totaled approximately $1.76 billion in the first half of 2017. Issuance approached $1.2 billion in the second quarter alone, largely due to the $500 million Rosslyn Office Portfolio loan. The single-asset/single-borrower loan represents RPT 2017-ROSS in full, and is backed by seven office properties located in Arlington, Virginia.

GRAPH 5: SOUTH ATLANTIC CMBS – ISSUANCE BY DEAL TYPE



Source: Trepp

CHART 1: SOUTH ATLANTIC CMBS – FIVE LARGEST NEWLY DELINQUENT LOANS (AUGUST 2017)

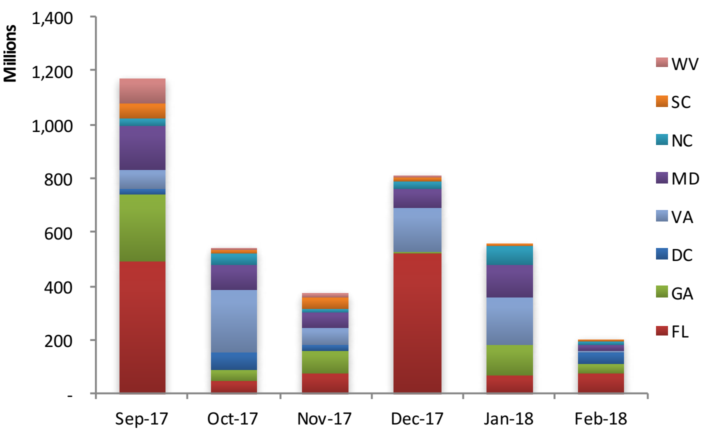
CMBS DEAL	PROPERTY NAME	CURRENT BALANCE	CITY	STATE	AUGUST DELINQUENCY STATUS
BACM 2007-5	4000 Wisconsin Avenue	$53.0 M	Washington	DC	30 Days
JPMCC 2007-LD11	Venice Shoppes	$30.0 M	Venice	FL	Non-Performing Beyond Maturity
JPMCC 2012-C8	Main Street Tower	$14.0 M	Norfolk	VA	30 Days
CSMC 2007-C4	University Square	$13.8 M	Sarasota	FL	Non-Performing Beyond Maturity
MLMT 2006-C1	Wachovia Center	$12.4 M	Gainesville	GA	30 Days

Yearly issuance volume rose from $2.0 billion in 2015 to $2.4 billion in 2016. With just less than $2 billion already securitized in 2017, issuance will likely outpace the 2016 total, even if monthly issuance lags the eight-period average for the remainder of the year.

Maturing Loans

A combined $2.9 billion in South Atlantic CMBS matures in the remaining months of 2017. Loans backed by Florida properties comprise $1.1 billion – or 39.1% – of that volume, followed by Virginia ($522.8 million) and Maryland ($385.1 million). Washington, D.C. loans make up a small percentage of the maturing balance, with just $113.6 million of debt slated to mature through December.

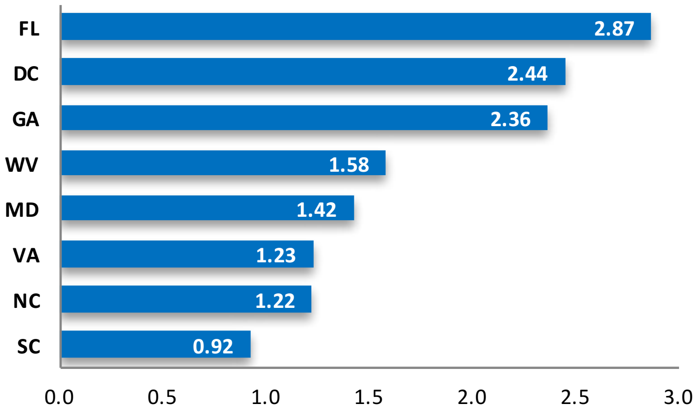
GRAPH 6: SOUTH ATLANTIC CMBS – MATURING LOANS



Source: Trepp

Of all South Atlantic loans maturing through the end of the year, Florida loans are outperforming with a robust weighted-average DSCR (NCF) of 2.87x. Washington, D.C. and Georgia loans trail with respective DSCR figures of 2.44x and 2.36x. Looking ahead, loans backed properties in Virginia, North Carolina, and South Carolina are ones to monitor, as

GRAPH 7: SOUTH ATLANTIC CMBS – WEIGHTED AVERAGE DSCR (NCF)



Source: Trepp

these three states carry the region's lowest average DSCR levels of 1.23x, 1.22x, and 0.92x, respectively.

Looking ahead, maturing loans with collateral in Florida are among the top performing in the region, although they may hold a higher risk than meets the eye. Despite Florida's low delinquency rates and strong DSCR levels, Hurricane Irma brought forth considerable state-wide property damage, which will likely drive expenses up and may cause tenants to leave some properties. Washington, D.C. has a small volume of maturing loans, meaning the majority of its "wall of maturities" may have already come due over the past several quarters. This low maturing volume, coupled with the District's high weighted-average DSCR, suggests that the local delinquency rate may begin to fall again in 2018. On the other hand, Virginia and Maryland still have a considerable amount of maturing debt coming due, which could push their delinquency rates up before the end of the year.

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

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