# The Good, The Bad and The Ugly of 2015

by Joe McBride

Going into 2015, investors were prognosticating what the effects of a Federal Reserve rate hike would be and CMBS pros were saddling up for the first year of the wall of maturities. Just when we thought we might be copying and pasting 2014's introduction to the annual "Good, Bad and Ugly" compilation, the Fed finally pulled the trigger on a 25-basis-point increase in the target Federal Funds rate. Almost immediately, some were asking whether the hike came too soon, but most were happy just to get it done and move on with their lives.

As far as commercial real estate goes, the hike is not expected to affect values or performance significantly. Property capitalization rates generally move in relation to the 10-year Treasury bond, which shouldn't move drastically due to the hike, at least not in the near term.

Meanwhile, volatility in fixed-income markets has taken its toll on CMBS bond prices. However, that has more to do with the energy industry and regulatory constraints on market liquidity than with the rate hike's timing.

So far, the market has handled the 2015 wave of mortgage maturities much better than it handled the swell of maturing five-year loans in 2012. Back then, the delinquency rate hit its highest level ever, largely because many of those five-year loans didn't pay off at their maturity.

This year, thanks to continued low rates and three more years of healthy commercial real estate value growth, the 2015 maturities proved to be no problem for the market to digest and refinance. High defeasance volume this year showed that it was still worthwhile for borrowers to lock in low-coupon loans today, despite the costs of defeasance, rather than risk a drop in values or uptick in interest rates a year or two from now.

**Good Headlines from 2015**

JANUARY

Overheard at 2015 Miami Conference:

"The swag bag has gotten so much better than last year, it must be telling us we've reached a new bubble."

MARCH

NYC's Belnord apartments sold for $575 million; the loan, written on a pro forma basis, pays off at nearly par, after once having an appraisal reduction of $134 million against it.

MAY

100 Wall St. sells for $275 million—a record $528/sf for lower Manhattan office.

JULY

Previously modified Renaissance Mayflower Hotel loan gets refinanced.

DECEMBER

Blackstone Group-led venture buys StuyTown/Peter Cooper Village for $5.3 billion.

Drop in gas prices brings some relief to consumers; Almost $3Bln in CMBS defeased.

In the spirit of consistency, let's begin with last year's lowlights—the bad and the ugly—with the caveat that even ugly stories often have silver linings. Take the $170 million loan against the Parkoff Portfolio in MSC 2007-HQ12, for example. It had defaulted, but ultimately paid off at par.

Another ugly corner of the CMBS market in 2015 was the Connecticut office market. As big banks announced office consolidations, property values were slashed.

**Bad and Ugly Headlines from 2015**

JANUARY

JPMCC 2007-LD11 sees 10 loans liquidated with a total loss of $177.9 million.

FEBRUARY

Frederick's of Hollywood announces it will be closing one-third of its stores.

APRIL

$50.1 million loan backed by the Hudson Valley Mall sent to special servicing; largest CMBS 2.0 loan to go to special so far.

JUNE

Samson Resources looks to restructure—tenant in big 2014 loan.

AUGUST

$410 million One & Two Prudential Plaza loan paid off—loss to hope note leaves investors bitter.

OCTOBER

$127.44 million Two North LaSalle loan heads to special servicing after borrower submits hardship letter.

DECEMBER

Loan that started CMBS panic in 2008 resolved seven years later; Bush Terminal saga ends with nearly 100 percent loss to B-note.

Meanwhile, the normally staid grocery portion of retail caused some concern, as A&P and Haggen declared bankruptcy and Fresh & Easy announced plans to liquidate and shut down operations.

Although persistently low oil prices haven't affected the commercial real estate sector in a significant way yet, we would be remiss to leave it out. Oil is now less than $40 a barrel and down nearly 50 percent for the year. Exposure to new construction in the fracking regions of the country, as well as large energy company footprints in office buildings are of concern going forward.

Things also got ugly in the primary CMBS market as spreads blew out late in the summer and into the end of the year, with the final deals having their benchmark AAA bonds price at spreads in the neighborhood of 140 basis points more than swaps, nearly double the levels seen earlier in the year.

New issue volume reached $95.1 billion last year, excluding collateralized debt obligations and agency transactions. Although the initial upper range of expectations was about $130 billion, the volume still sets a post-recession high and investors are cautiously optimistic going into 2016.

Probably the biggest good news story of the year was the $5.3 billion sale of Manhattan's Stuyvesant Town and Peter Cooper Village apartment complex, which resulted in the resolution of the largest loan in CMBS conduit history. All else being equal, the resolution should bring the CMBS delinquency rate below 5 percent.

The loans against One & Two Prudential Plaza, the Schron Industrial Portfolio, the Belnord apartment property and Bush Terminal are some other notables that rolled off the troubled loan lists last year. Delinquency rates moved slightly downward during the year. ■