Trepp®
CMBS Research

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What's Left of the Wall of Maturities?

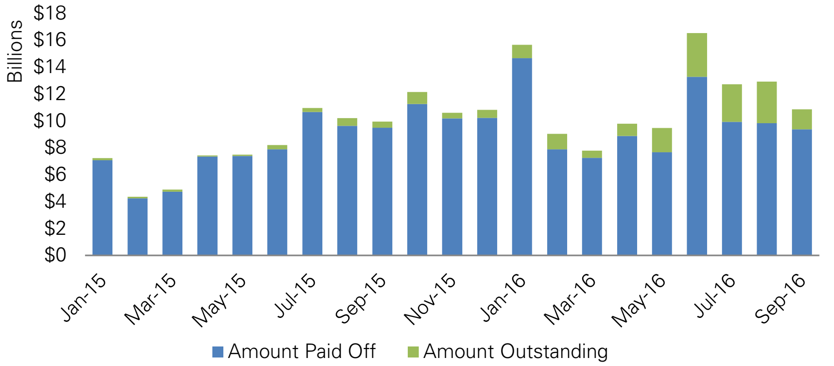
In late 2014, the CMBS market was preparing to grapple with over $300 billion in debt that was slated to mature from the start of 2015 to the end of 2018. The "wall of maturities" is predominantly comprised of 10-year loans that were issued between 2005 and 2008, when property values and CMBS issuance were expanding to unseen proportions. With the credit quality of those loans taking a hit in the wake of the financial crisis, market participants were concerned that the new standards of lending for CMBS 3.0 would not leave room for borrowers to refinance over-leveraged loans. This research examines just how much maturing debt has been refinanced, and how much further the market has to go in scaling the wall of maturities.

Payoffs and Liquidated Loan Trends

Since the start of 2015 and through the first three quarters of 2016, nearly $190 billion in private-label, securitized mortgages backed by US commercial properties have been paid off, or liquidated. During this time frame, roughly 55% of loans that paid off fell under the prepaid category, as borrowers sought to take advantage of record low interest rates and higher property values following the post-recession recovery. By balance, 29.3% of the liquidated debt was paid off at maturity (defined as loans that were resolved within two months of their scheduled maturity dates), while an additional 3.83% paid off post-maturity. Based on underwritten maturity dates, approximately 4% of the CMBS debt that was supposed to mature in 2015 is still outstanding, while 15.3% of the debt that matured in 2016 through September has not been paid off.

In the 21 months that were studied, average loss severity for loans that were written off with losses clocked in at 43.94% across all property types. Industrial loans posted the highest loss severity among major property types at 53.19%, while lodging loans followed closely behind at 52.13%. Loans secured by multifamily properties were disposed with the lowest overall loss percentages at 23.06%. (For a closer look at CMBS loss severities in the past few years broken down by MSA and property type, check out Trepp's November report titled "*Not all is Lost: Average Losses for CMBS Loans Down Markedly Since 2011.*")

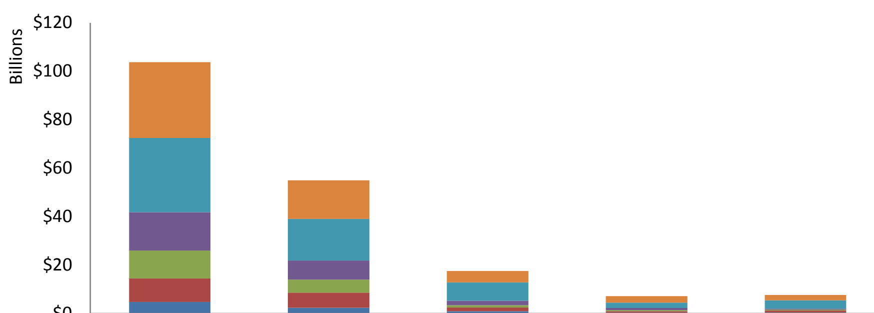
Figure 1: Payoff Status of 2015-2016 Maturities



*Monthly maturing balance based on securitized values

Source: Trepp

Figure 2: Payoff Status of Loans Liquidated Since January 2015



	Prepay	Paid at Maturity	Disposed with Loss	Paid Post Maturity	Loss Amount
RT	31,304,158,420	15,894,379,384	4,736,988,938	2,700,556,608	2,207,094,980
OF	30,589,556,713	17,203,227,750	7,562,857,059	2,185,585,122	3,464,691,581
MF	15,904,318,086	7,874,956,098	1,808,049,453	865,616,585	416,881,988
OT	11,428,283,493	5,356,299,610	1,015,758,575	506,906,796	341,525,055
LO	9,701,481,395	6,289,578,952	1,523,558,401	519,791,795	794,303,337
IN	4,852,634,283	2,380,241,881	973,476,600	414,910,881	517,811,943

Source: Trepp

Figure 3: Largest Conduit Loans Currently Past Maturity

Balance ($)	Deal Name	Property Name	Property Type	City/State	Delinquency Status	Month of Maturity
259,000,000	CD 2006-CD3, GSMS 2006-GG8	Fair Lakes Office Portfolio	OF	Fairfax, VA	REO	Aug-16
240,000,000	JPMCC 2006-LDP7	Westfield Centro Portfolio	RT	Various	REO	Jul-16
196,909,353	WBCMT 2006-C28, WBCMT 2006-C27	500-512 Seventh Avenue	OF	New York, NY	Non-Performing Beyond Maturity	Jul-16
193,276,545	GCCFC 2005-GG5	Schron Industrial Portfolio	IN	Various	REO	Oct-15
165,643,200	GSMS 2006-GG8	CA Headquarters	OF	Islandia, NY	Non-Performing Beyond Maturity	Aug-16

Source: Trepp

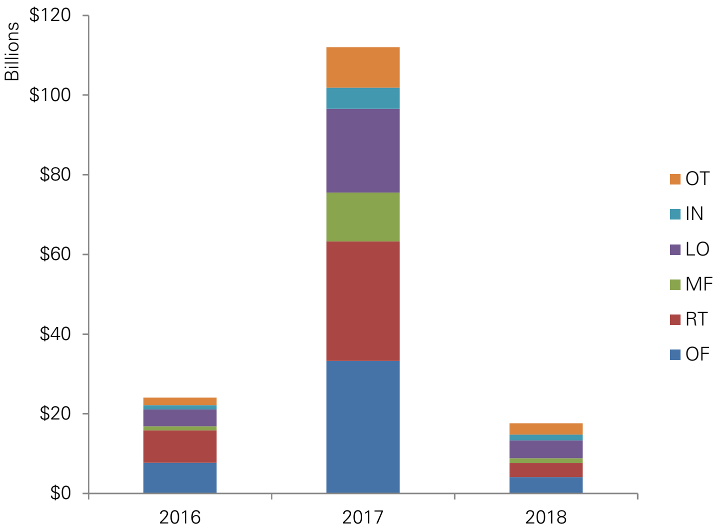
When looking at the profile of outstanding conduit loans that were originally scheduled to mature between 2015-2016 YTD but failed to pay off on time, a considerable number of mortgages from the 2005-2006 vintages struggled with declining property performance, weak local markets, and shifting CRE trends. Figure 3 shows the five largest conduit loans that have recently fallen past maturity. Of particular concern from this list is the $240 million Westfield Centro Portfolio loan, which is an REO asset of the JPMCC 2006-LDP7 deal. The loan matured in July 2016 and is backed by a portfolio of five retail properties from various states that total 2.4 million square feet. Since the loan entered payment default in 2014, Westfield Centro has accumulated roughly $21.1 million in advanced ASERs and fees, and also carries an appraisal reduction amount (ARA) of $146.6 million.

Other large conduit loans that are past due include the $259 million Fair Lakes Office Portfolio, the $196.9 million 500-512 Seventh Avenue loan, the $193.3 million Schron Industrial Portfolio, and the $165.6 million CA Headquarters note. All of the properties that collateralize these loans have received large appraisal cuts since securitization. Many also face extensive servicing fees and ARAs, which could ultimately lead to heavy losses for these notes at resolution.

Looking Ahead: 2017 & 2018 Maturities

Between now and the end of 2018, $153.7 billion in CMBS will come due, with $24.1 billion of that total up for maturity during the remainder of 2016. Another $112.0 billion will come due in 2017, while just over $17.6 billion is slated to mature in 2018. By property type, office and retail loans comprise the bulk of this balance with $86.8 billion in CMBS slated to mature by 2018.

Figure 4: Wall of Maturities - Loans Maturing by 2018



Source: Trepp

Thanks to defeasances, the maturing load will be somewhat lightened in the next few years. Of the outstanding 2016 and 2017 maturities, 2.18% and 11.25% have already been defeased (or replaced by government securities), respectively. For loans that mature in 2018, the defeasance rate currently stands at 10.72%.

Conduit loans constitue the vast majority of scheduled CMBS maturities and origination activity. For a better picture of the refinancing outlook of maturing loans, Figures 5 and 6 provide an overview of the current performance of conduit loans with underwritten maturity dates in the next two years. To account for

Figure 5: Overview of Conduit Loans Maturing in 2017

Property Type	Maturing Balance ($)	WALTV	WACR	WADY	WA DSCR
OF	31,136,518,592	82.1%	6.22%	13.62%	1.26
RT	26,602,513,119	83.1%	6.72%	10.47%	1.32
MF	12,157,900,118	80.1%	12.20%	9.35%	1.34
LO	8,382,323,967	78.1%	9.64%	14.69%	1.75
OT	8,324,838,777	77.6%	7.52%	11.78%	1.24
IN	5,111,838,259	77.1%	7.48%	12.31%	1.36

**WALTV column is based on most recently reported appraised values as well as current outstanding loan balances

Source: Trepp

Figure 6: Overview of Conduit Loans Maturing in 2018

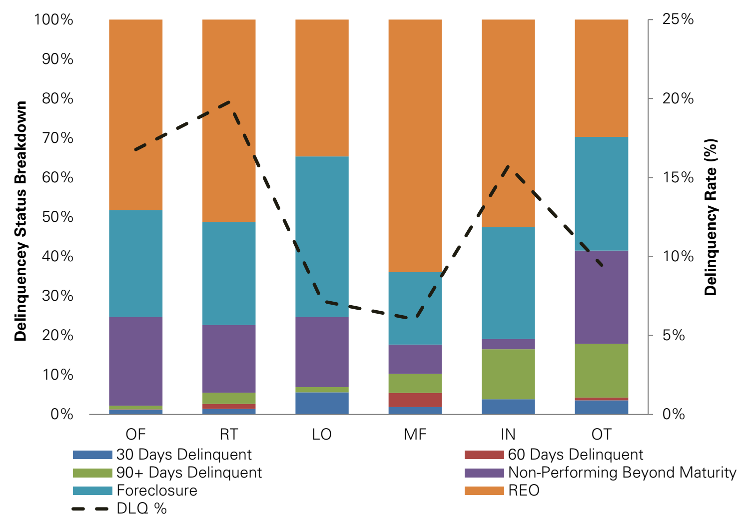
Property Type	Maturing Balance ($)	WALTV	WACR	WADY	WA DSCR
OF	2,7001892,661	67.07%	7.49%	15.06%	1.86
RT	2,498,162,198	64.95%	7.41%	14.02%	1.95
LO	2,476,081,167	76.37%	10.59%	18.14%	2.12
OT	1,341,284,147	65.80%	7.15%	13.22%	1.70
MF	1,049,652,346	73.38%	7.73%	11.15%	1.62
IN	382,942,063	72.66%	8.18%	14.94%	1.91

Source: Trepp

potential outliers in our analysis, WALTV calculations in Figure 5 were adjusted to exclude loans with leverage ratios above 500%. Overall, conduit loans maturing in 2017 have elevated leverage ratios and lower weighted average cap rates, debt yields, and DSCR ratios than those maturing in 2018, presumably since they are closer to maturity. Retail and lodging post the highest leverage ratios for loans maturing in 2017 and 2018, respectively.

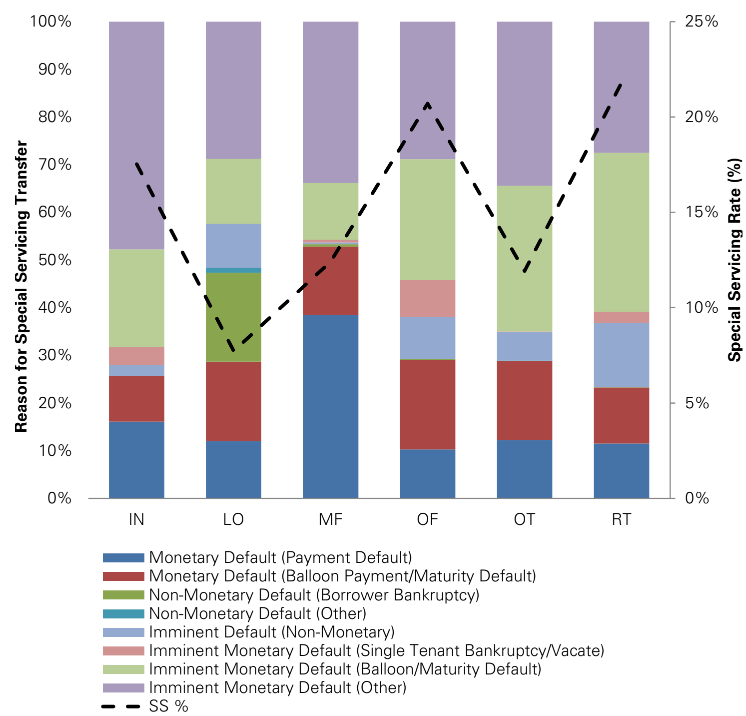
Faced with major tenant departures or cash flow issues, many CMBS loans become troubled as they near the end of their term. Plenty of troubled loans can fall delinquent on payment or be transferred to special servicers that work to reduce additional losses on the note. Other loans in or at risk of default may also be sent to special servicing for non-monetary reasons related to the borrower. Figures 7 and 8 illustrate the rate in which loans that mature by 2018 have fallen into delinquency and special servicing. Figure 7 shows the current status of loans that are delinquent (defined as securitized assets that are 30 or more days past payment, non-performing past maturity, under the foreclosure, or REO), while Figure 8 presents the

Figure 7: Loan Status Breakdown of Delinquent Loans



Source: Trepp

Figure 8: Reason for Special Servicing Transfer of Maturing Loans



Source: Trepp

reason cited for special servicing transfers of troubled loans. At the moment, retail loans have the highest delinquency rate and the largest percentage of loans in special servicing by balance at 19.77% and 21.70%, respectively.

Several noteworthy, yet troubled loans will mature between December 2016 and the end of 2017. Figure 9 lists the five largest conduit loans that are currently delinquent with maturities during this time frame. All of these loans are categorized as "seriously delinquent" (more than 90 days past payment) and could eventually pay off with considerable losses.

Figure 9: Largest Delinquent Conduit Loans with Upcoming Maturities

Balance ($)	Deal Name	Property Name	Prop. Type	City/State	Delinquency Status	Month of Maturity
203,250,000	JPMCC 2007-LDPX	Lafayette Property Trust	OF	Alexandria, VA	Foreclosure	Mar -17
132,357,800	GCCFC 2007-GG9	COPT Office Portfolio	OF	Various	REO	Dec -16
92,000,000	LBCMT 2007-C3	University Mall	RT	South Burlington, VT	Foreclosure	Apr -17
84,005,272	WBCMT 2007-C37	Central/Eastern Industrial Pool	IN	Various	90+ Days Delinquent	Jul -17
81,000,000	MSC 2007-IQ14	City View Center	RT	Garfield Heights, OH	90+ Days Delinquent	Jan -17

Source: Trepp

Outlook

Aided by strong market fundamentals and rising property income levels in recent years, borrowers have taken advantage of available capital and historically low interest rates by defeasing or refinancing loans prior to maturity. Although the CMBS sector has recovered significantly from the blowout in spreads that took place earlier this year, recent rate increases along with pending risk retention requirements that take effect at year's end pose formidable challenges in the scalability of the wall of maturities. Overall commercial property values, which stabilized to pre-recession levels a few years ago, have also shown early signs of flattening. Coupled with higher post-election Treasury rates and talks of another Fed rate hike in the near future, many borrowers could find it increasingly more difficult to obtain refinancing in the next few years.

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 products, contact info@trepp.com.