CMBS Report

2015

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The CMBS Market

- The CMBS delinquency rate fell to 5.8% in November, its lowest level in five years.
- The CMBS market is heading in the right direction issuing $90 billion in 2014.
- The percent of CMBS loans secured by properties outside the top 25 MSAs is increasing to nearly 50%.
- The CMBS loan in the fourth quarter of 2014 represented 113% of the value of properties that secured it.
- As for the large number of maturing CMBS loans that come due in 2015, 2016 and 2017, the capital is certainly out there to refinance these loans.
- Increased volume, falling delinquency levels, a drop in Treasury yield and lower energy cots have produced a scenario in which " the wind is fully at the market's back."

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U.S. CMBS Issuance (2000-2014)

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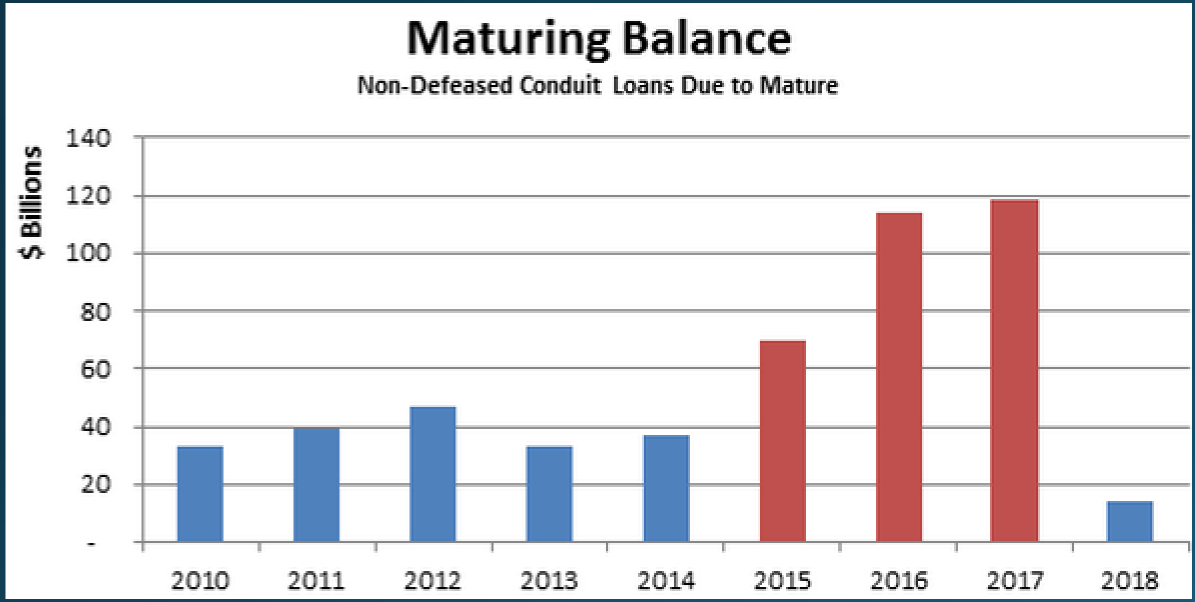
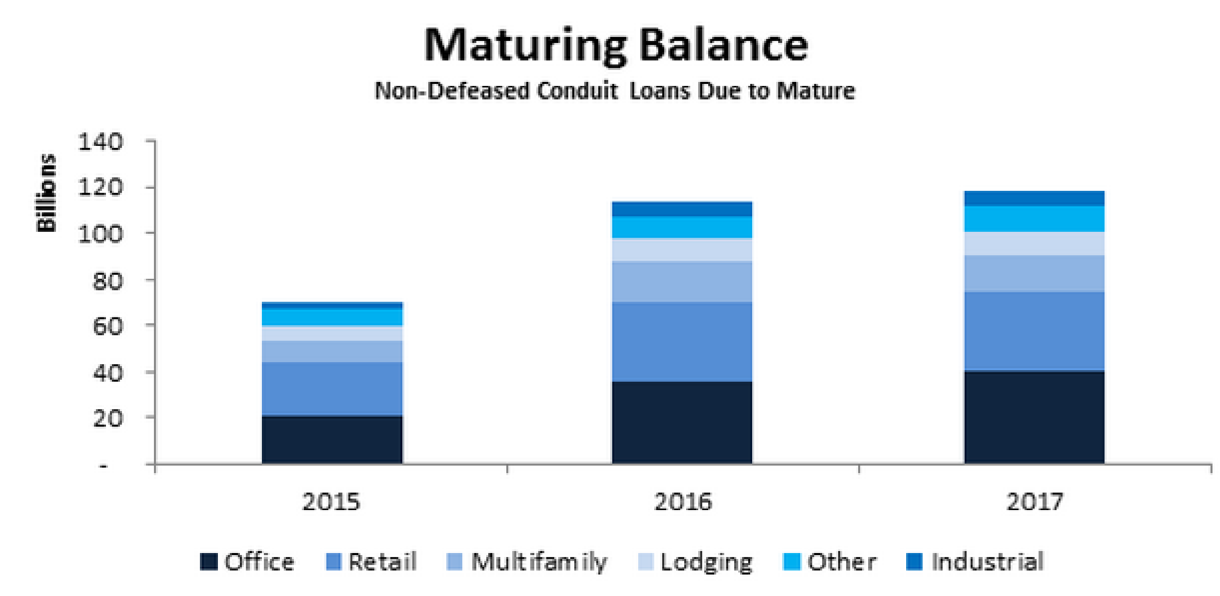
The Maturing Wall





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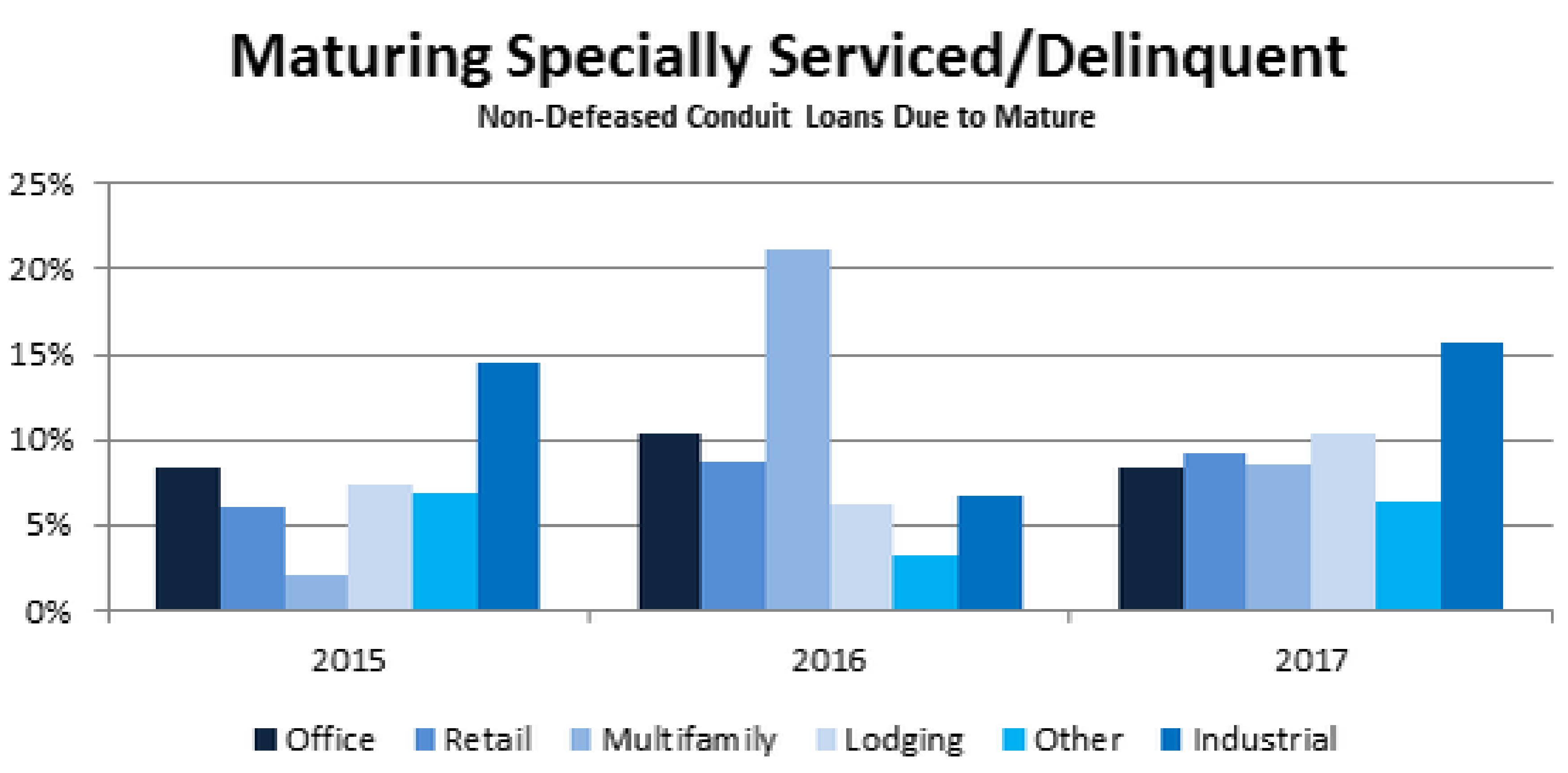
Maturing Special Serviced/Delinquent



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Comparison of All Conduit Loans

	New Origination	Maturing		
	2014 YTD	2015	2016	2017
Cap Rate	6.68%	7.17%	6.75%	6.53%
Debt Yield	11.30%	11.99%	10.89%	9.99%
LTV	59.09%	59.76%	62.01%	65.36%
DSCR	1.82x	1.50x	1.39x	1.37x

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Comparison of All Conduit Loans

Cap Rates				
	New Origination	Maturing		
	2014 YTD	2015	2016	2017
Office	6.62%	6.80%	6.37%	5.98%
Retail	6.62%	7.10%	6.91%	6.59%
Multifamily	6.69%	7.37%	6.60%	6.45%
Lodging	8.15%	8.78%	8.45%	8.52%
Other	5.77%	6.65%	5.95%	6.26%
Industrial	7.15%	7.46%	7.04%	7.28%
Total	6.68%	7.17%	6.75%	6.53%

Comparison of All Conduit Loans

	Debt Yield			
	New Origination	Maturing		
	2014 YTD	2015	2016	2017
Office	11.20%	11.67%	10.61%	9.48%
Retail	10.96%	11.22%	10.38%	9.64%
Multifamily	9.85%	11.70%	9.96%	9.54%
Lodging	13.54%	15.36%	14.60%	12.78%
Other	11.46%	12.76%	11.38%	10.10%
Industrial	11.29%	11.81%	10.94%	11.35%
Total	**11.30%**	**11.99%**	**10.89%**	**9.99%**

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Comparison of All Conduit Loans

LTV

	New Origination	Maturing		
	2014YTD	2015	2016	2017
Office	59.09%	58.23%	60.07%	63.03%
Retail	60.42%	63.26%	66.52%	68.37%
Multifamily	67.87%	62.97%	66.29%	67.57%
Lodging	60.19%	57.16%	57.92%	66.67%
Other	50.37%	52.11%	52.31%	61.93%
Industrial	63.27%	63.16%	64.38%	64.16%
Total	59.09%	59.76%	62.01%	65.36%

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Comparison of All Conduit Loans

DSCR				
	New Origination	Maturing		
	2014YTD	2015	2016	2017
Office	1.61x	1.37x	1.30x	1.34x
Retail	1.59x	1.43x	1.32x	1.33x
Multifamily	1.52x	1.55x	1.45x	1.37x
Lodging	1.79x	1.80x	1.59x	1.48x
Other	2.58x	1.70x	1.54x	1.47x
Industrial	1.51x	1.44x	1.37x	1.39x
Total	**1.82x**	**1.50x**	**1.39x**	**1.37x**

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Refinancability

Assuming lenders require at least a 1.5 DSCR on new loans, 82% of loans maturing between 2015 and 2017 would be eligible for refinance at current debt and income levels. Loans maturing in 2015 have the highest percentage of loans at or above the threshold while 2017 maturities are the lowest.

	Maturing "New Loan" DSCR >= 1.50x			
	2015	2016	2017	All
Office	77.30%	74.97%	73.12%	74.92%
Retail	87.93%	83.20%	78.96%	83.11%
Multifamily	88.22%	86.67%	78.60%	84.36%
Lodging	89.94%	85.63%	80.67%	84.69%
Other	89.98%	87.77%	83.17%	86.85%
Industrial	84.09%	82.46%	82.52%	82.88%

	Maturing			
New Loan DSCR	2015	2016	2017	All
1.50x+	86.33%	83.13%	78.77%	82.48%
<1.50x	13.67%	16.87%	21.23%	17.52%

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Maturing Loans by Region(Northeast)

Almost 30% of all CMBS loans outstanding are on properties located in the Northeast. Just over 12% of that universe is maturing in the next year, totaling $18.2 billion outstanding balance that will be looking to pay off or refinance. About 84% of the maturing loans are relatively healthy with DSCR greater than 1.2, which is the highest “healthy” proportion among all U.S. regions. On the other end of the spectrum, approximately 15% of the maturing loans are delinquent.

- Of the Northeast’s 11 states, New York has by far the greatest dollar amount of outstanding and maturing loans, with a slightly below-average proportion of delinquent outstanding loans.
- New Hampshire has moved into the relatively high delinquency territory, with 40% of loans due in the next year marked as delinquent.

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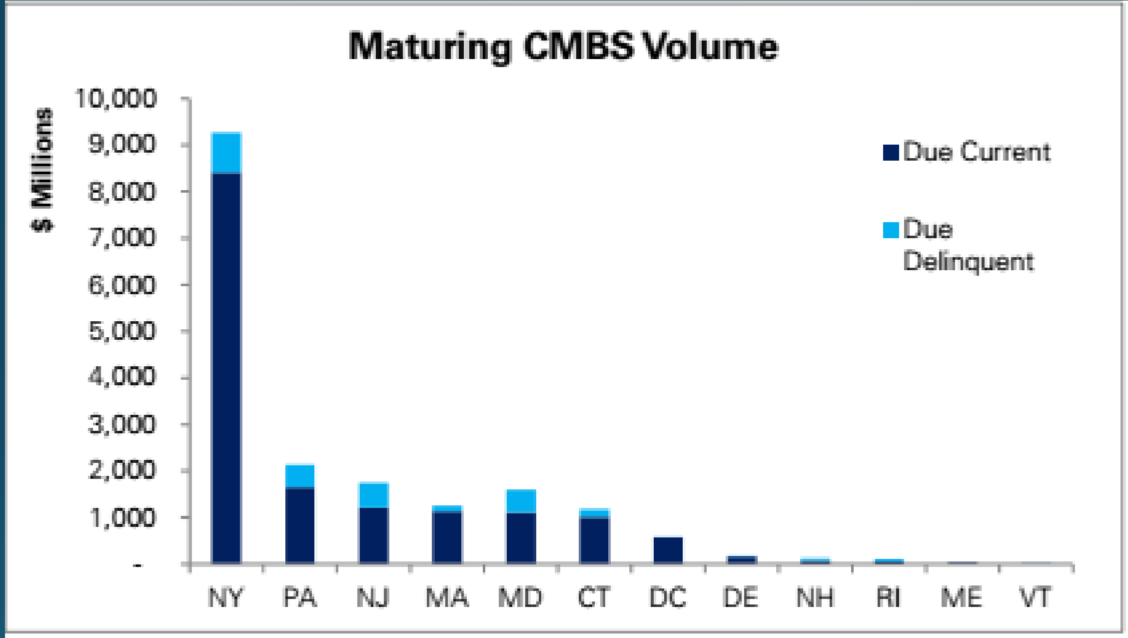
Maturing Loans by Region(Northeast)

Loans Maturing

Market	Count	Balance
Northeast	1,190	18,215,043,910
NY	446	9,266,146,485
PA	203	2,138,693,032
NJ	153	1,745,443,549
MA	69	1,252,033,098
MD	135	1,595,068,105
CT	111	1,178,301,204
DC	20	579,827,106
DE	20	175,034,481
NH	16	127,016,177
RI	8	110,641,288
ME	6	37,468,048
VT	3	9,371,337
National	6,006	69,206,832,683



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Maturing Loans by Region(Northeast)

Delinquent Loans Maturing

Market	Count	Balance
Northeast	144	2,749,905,281
NY	34	848,309,596
PA	30	486,536,761
NJ	27	531,816,944
MA	10	117,621,258
MD	17	478,931,043
CT	15	163,146,279
DC	1	3,706,648
DE	4	12,523,249
NH	3	51,756,300
RI	2	53,554,982
ME	-	-
VT	1	2,002,222
National	809	10,922,226,203

Healthy Loans Maturing

Market	Count	Balance
Northeast	980	15,232,015,449
NY	365	8,126,866,479
PA	181	1,728,941,057
NJ	120	1,316,281,691
MA	53	1,068,720,447
MD	111	1,262,962,707
CT	87	913,993,667
DC	18	453,388,247
DE	17	137,240,015
NH	13	78,197,671
RI	7	100,586,306
ME	6	37,468,048
VT	2	7,369,114
National	4,772	56,449,625,419

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Maturing Loans by Region(Southeast)

The Southeast region is dominated by Florida, Virginia, Georgia, and North Carolina making it the second largest region in terms of outstanding CMBS loan balance. Of the $95.6 billion in the outstanding CMBS in the Southeast region, just over 13% of that balance will mature during the next twelve months. Of the $12.8 billion due to mature this year, 80% carry a DSCR above 1.2x. More than 200 loans totaling $2.1 billion are due to mature within a year and currently delinquent.

• Alabama and Tennessee have the least amount of healthy loans of their region, with around 68% of CMBS loans due to mature sitting above 1.2 DSCR for both states. They are well below the region's average on healthy DSCR and above the average on delinquencies in loans maturing in the next 12 months.

(Alabama: 35.6%, Tennessee: 21.5%.)

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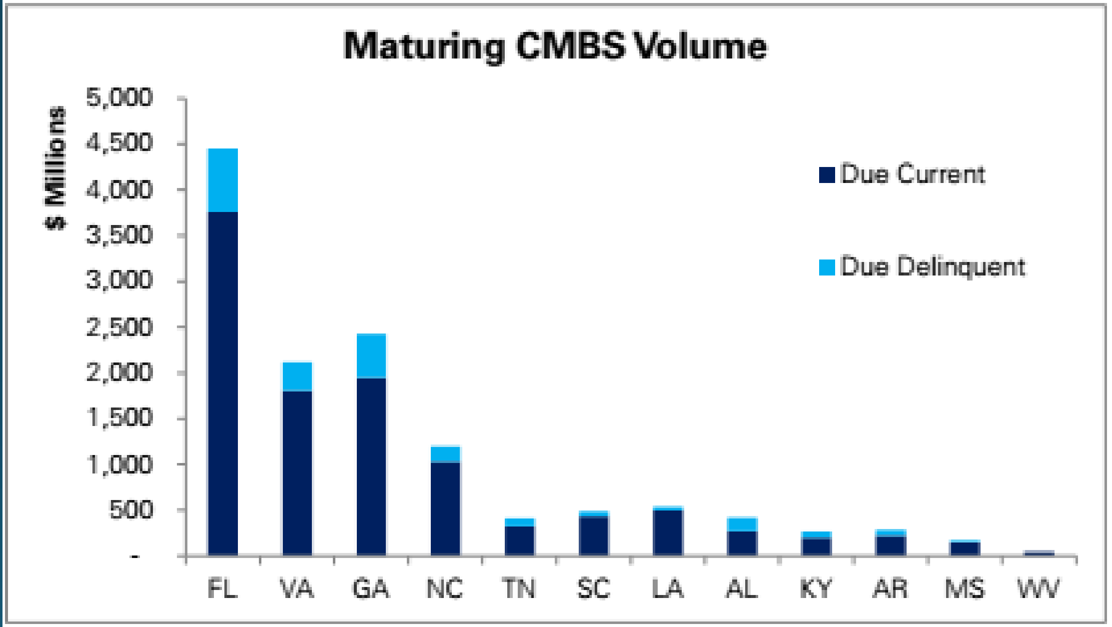
Maturing Loans by Region(Southeast)

Loans Maturing

Market	Count	Balance
Southeast	1,471	12,824,477,443
FL	458	4,453,826,830
VA	196	2,116,809,816
GA	233	2,425,513,895
NC	183	1,198,711,530
TN	78	415,446,284
SC	82	486,884,134
LA	66	541,332,246
AL	67	420,453,284
KY	52	266,045,643
AR	18	284,431,273
MS	31	169,724,157
WV	7	45,298,351
National	6,006	69,206,832,683

Maturing CMBS Loans



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Maturing Loans by Region(Southeast)

Delinquent Loans Maturing

Market	Count	Balance
Southeast	224	2,128,358,223
FL	72	694,534,415
VA	25	311,444,891
GA	41	476,021,710
NC	29	164,544,788
TN	9	89,408,227
SC	13	52,911,345
LA	4	43,791,349
AL	17	149,753,301
KY	4	65,705,153
AR	5	61,178,398
MS	5	19,064,646
WV	-	-
National	809	10,922,226,203

Healthy Loans Maturing

Market	Count	Balance
Southeast	1,154	10,329,696,486
FL	356	3,521,791,131
VA	166	1,826,641,121
GA	163	1,829,048,292
NC	146	982,498,178
TN	57	283,374,654
SC	67	415,122,954
LA	60	512,274,213
AL	46	289,030,987
KY	49	258,689,726
AR	14	232,346,546
MS	23	133,580,333
WV	7	45,298,351
National	4,772	56,449,625,419

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Maturing Loans by Region(Midwest)

The Midwest region ranks fourth in total outstanding CMBS loan volume with $63.4 billion across almost 6,000 loans. The region has the smallest proportion of loans expiring, at just under 12%, during the next twelve months. While more than three-fourths of the $7.4 billion maturing loans are healthy, another $1.9 billion are delinquent.

- Iowa currently has $141 million of maturing loans coming due in the next 12 months, and just over 44% of them are currently delinquent. With only 43% of Iowa CMBS loans at over 1.2 DSCR, this may cause for concern.
- Of the 149 Michigan loans totaling $1.1 billion that will mature in the next year, 42% are delinquent.
- North Dakota has a small balance of outstanding loans and of the $68 million scheduled to mature in the next twelve months only one loan totaling $4.1 million is delinquent.

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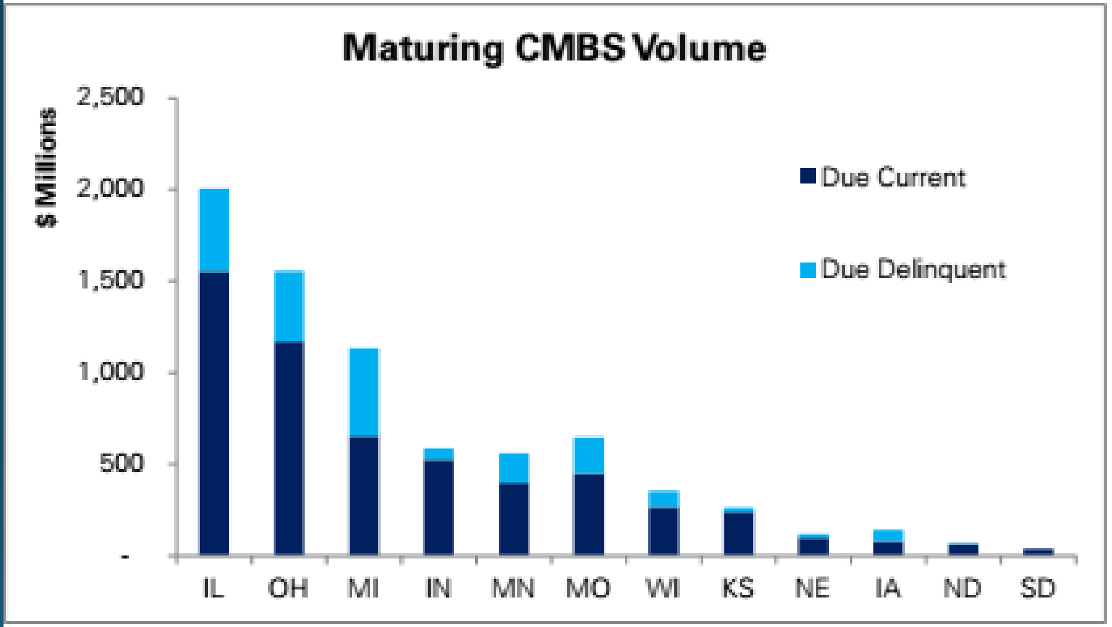
Maturing Loans by Region(Midwest)

Loans Maturing

Market	Count	Balance
Midwest	918	7,472,669,367
IL	181	2,005,505,768
OH	222	1,554,157,220
MI	149	1,132,720,794
IN	89	588,643,512
MN	62	560,217,474
MO	61	647,622,202
WI	62	353,294,193
KS	38	263,320,318
NE	18	117,650,471
IA	17	141,565,292
ND	12	68,297,573
SD	7	39,674,549
National	6,006	69,206,832,683

Maturing CMBS Loans



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Maturing Loans by Region(Midwest)

Delinquent Loans Maturing

Market	Count	Balance
Midwest	200	1,931,815,097
IL	42	450,920,066
OH	49	382,831,027
MI	45	478,364,844
IN	13	63,042,755
MN	13	161,434,643
MO	15	197,361,914
WI	11	87,739,041
KS	3	23,638,524
NE	3	19,483,960
IA	5	62,856,736
ND	1	4,141,586
SD	-	-
National	809	10,922,226,203

Healthy Loans Maturing

Market	Count	Balance
Midwest	686	5,574,079,542
IL	133	1,607,306,997
OH	172	1,148,542,617
MI	111	812,764,972
IN	59	413,855,483
MN	43	427,480,647
MO	41	375,685,025
WI	49	275,483,583
KS	31	236,241,674
NE	18	117,650,471
IA	13	61,091,469
ND	9	58,302,053
SD	7	39,674,549
National	4,772	56,449,625,419

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Maturing Loans by Region(Pacific)

California accounts for 81% of the Pacific region's $85.3 billion outstanding CMBS balance. The Pacific region has the largest proportion of performing loans maturing in the next year compared to other areas of the country. In the five Pacific states, 14.5% of the CMBS universe is maturing during the next year. Of the maturing loans, about 80% carry DSCRs above 1.20x while just over 7% are delinquent.

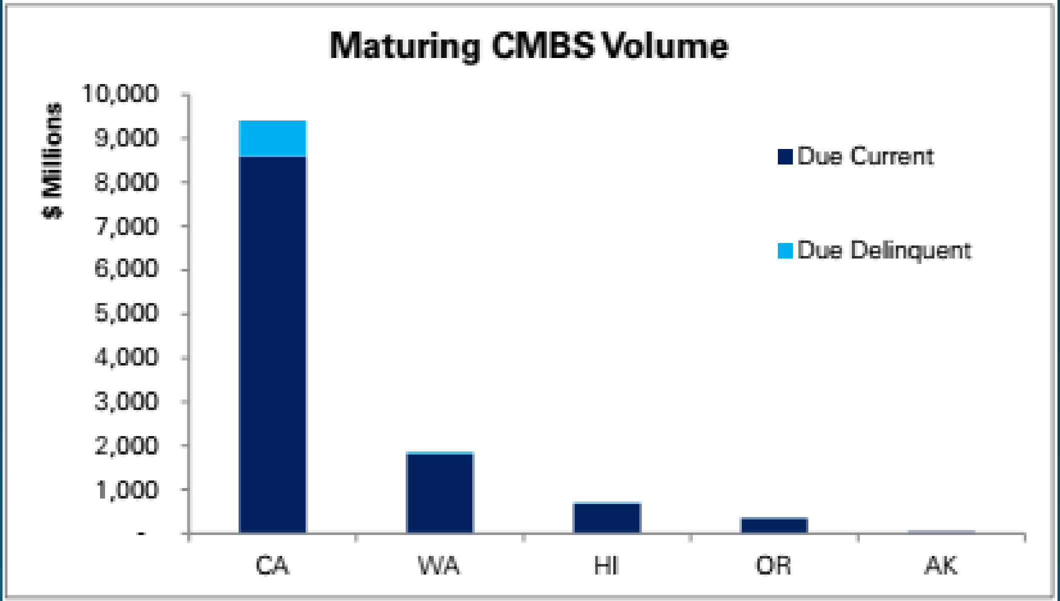
- California represents 80% of outstanding loans in the Pacific region. Of the $9.4 billion in loans maturing over the next twelve months, about 8.75% are delinquent.
- Washington, Oregon, and Hawaii each have an outstanding loan volume of $3 to $9 billion, with few maturing loans in the delinquent category.
- In the small Alaskan CMBS market none of the maturing loans are delinquent.

Maturing Loans by Region(Pacific)

Loans Maturing

Market	Count	Balance
Pacific	1,132	12,388,941,848
CA	884	9,418,317,095
WA	162	1,854,188,184
HI	24	709,639,552
OR	52	361,513,678
AK	10	45,283,338
National	6,006	69,206,832,683

Maturing CMBS Loans



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Maturing Loans by Region(Pacific)

Delinquent Loans Maturing

Market	Count	Balance
Pacific	70	890,598,406
CA	59	822,618,065
WA	6	35,680,110
HI	3	23,514,927
OR	2	8,785,305
AK	-	-
National	809	10,922,226,203

Healthy Loans Maturing

Market	Count	Balance
Pacific	926	9,890,585,898
CA	706	7,613,984,367
WA	147	1,394,011,478
HI	21	564,183,631
OR	43	273,524,822
AK	9	44,881,599
National	4,772	56,449,625,419

Maturing Loans by Region(Mountain)

The Mountain region carries $20.9 billion in outstanding CMBS loan balance, accounting for almost 4% of the national total. About 16% of the Mountain region's outstanding CMBS is due to mature during the next twelve months, which is the largest proportion among the various regions. A little less than one fifth of those maturing loans are delinquent while three quarters are "healthy" with a DSCR of 1.20x or higher.

• Nevada has the greatest outstanding loan balance. Of the $1.5 billion maturing in the next year, 31 loans.

representing nearly one-third of the dollar balance are delinquent.

• Colorado has 16 loans with a $151 million balance listed as delinquent; these loans represent 12% of the maturing loan balance.

• Idaho, Montana, Utah and Wyoming have 3 or fewer delinquent loans each

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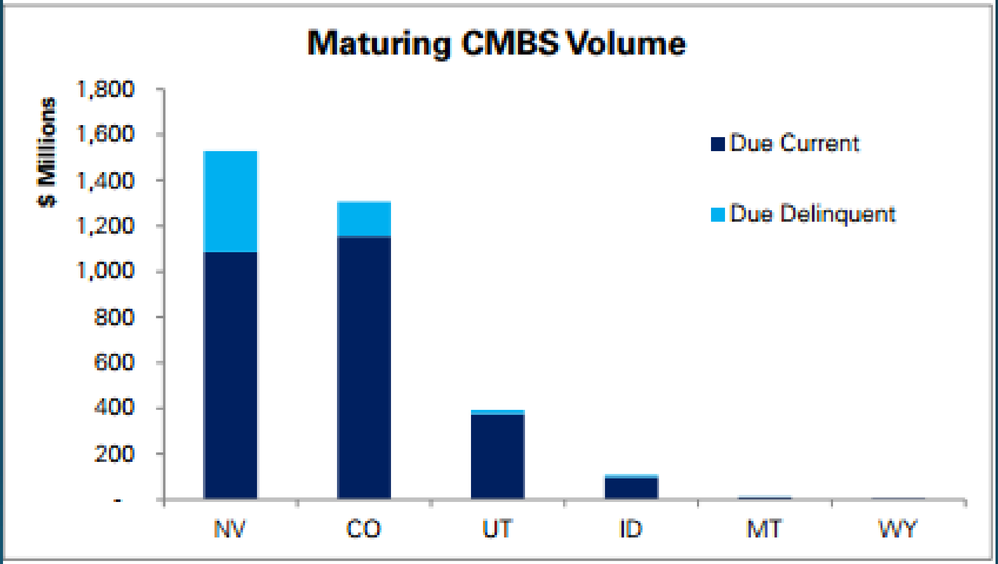
Maturing Loans by Region(Mountain)

Loans Maturing

Market	Count	Balance
Mountain	345	3,353,380,991
NV	127	1,528,946,901
CO	135	1,305,838,174
UT	53	392,240,530
ID	23	108,150,795
MT	5	13,473,716
WY	2	4,730,875
National	6,006	69,206,832,683

Maturing CMBS Loans



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Maturing Loans by Region(Mountain)

Healthy Loans Maturing

Market	Count	Balance
Mountain	256	2,524,883,692
NV	73	968,471,667
CO	113	1,141,679,387
UT	45	304,276,980
ID	20	100,952,929
MT	4	8,235,225
WY	1	1,267,504
National	4,772	56,449,625,419

Delinquent Loans Maturing

Market	Count	Balance
Mountain	53	622,783,017
NV	31	444,054,618
CO	16	151,107,707
UT	2	16,035,169
ID	3	9,401,434
MT	1	2,184,089
WY	-	-
National	809	10,922,226,203

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5 TRIA Facts You Need to Know

The US Senate's failure to pass legislation extending the Terrorism Risk Insurance Act may result in a potential gap in insurance coverage, which is an important component of the CMBS market and has become common in many transactions. In this edition of the Insights, we review 5 facts that the CMBS market should understand:

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5 TRIA Facts You Need to Know

#1- What Is the Terrorism Risk Insurance Act (TRIA)?

TRIA is a US federal law, which expires on December 31, 2014, that requires US insurers to make insurance available for losses resulting from acts of terrorism, and provides a federal government backstop for insurers' resulting financial exposure.

5 TRIA Facts You Need to Know

#2- Why Is TRIA Necessary?

The private market does not have the capacity to provide reinsurance for terrorism risk to the extent currently provided by TRIA. In the absence of TRIA, terrorism insurance likely would be less available, and available coverage would likely be more costly and/or limited in scope.

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5 TRIA Facts You Need to Know

#3- Why Was TRIA Not Reauthorized?

Reauthorization of TRIA enjoyed overwhelmingly bipartisan votes in the House and the Senate. The House decided to add to its TRIA reauthorization two unrelated amendments and, following passage, adjourned for the rest of the year. Two senators put a “hold” on the bill requiring cloture to be filed, but instead the Senate was adjourned for the year without action on TRIA.

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5 TRIA Facts You Need to Know

#4- Retroactive Reauthorization Is Important for CMBS.

CREFC is cautiously optimistic that TRIA will be authorized next year, but it is important that the Act be retroactively reauthorized. We randomly sampled three SASB deals issued in 2014 secured by different property types and found similar language with regard to insurance requirements if TRIA is not in effect.

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5 TRIA Facts You Need to Know

#5- What Are the Rating Agencies Saying?

The three major rating agencies have stated that there is potential for ratings downgrades if TRIA is not passed given the higher cost of forced coverage or inadequate terrorism insurance coverage.

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Ready or Not Here Issuance Comes

$26B of CMBS transactions are scheduled to come to market in January and February. This would start the year off at a blistering pace, more than doubling the $11.3B billion issued in the first two months of last year and projecting annualized issuance well in excess of our $125B forecast. This should result in a meaningful increase in CMBS market share from the 25% that was observed in the first half of 2014.

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CMBS 2.0 Spreads – Wider or Tighter

Investor were divided regarding the direction of new issue spreads. Investors believe that CMBS would continue to outperform, as it's insulated against Oil & Gas concerns that are influencing other markets while strong CRE fundamentals mitigate global macro weakness. As the Federal Reserve increased short-term interest rates, it would be a signal to investors that the US economy was on strong economic footing thereby driving global demand for US Treasuries.

Lower Rates Pushing Insurance to CMBS

Some insurance investors expressed a view that they may ramp-up buying of CMBS 2.0 in 2015 despite weaker credit quality. The decline in Treasury rates is making it more challenging for them to lend at target yields with CMBS 2.0 AA and A bonds the next best alternative, especially given the liquidity.

NAIC marks for CMBS suggest that insurance companies continue to be a buyer of risk further down the capital structure. These bonds are one of the few remaining scalable CMBS opportunities where market participant can consistently find higher returns over the next couple of years with limited risk of near term principal loss.

Rising Floating Rate Demand

Floating rate CMBS issuance increased significantly last year, at $19B compared to $8B the prior year. Investors suggested that floating rate bonds were compelling, given the material back-up in spreads at the end of last year and were an effective way to mitigate duration risk. They believe that the underwriting of these is superior to CMBS 2.0 conduit deals.

U.S. risk retention requires retention of 5% of the market value of the deal (which is a one-time assessment at issuance).

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Conclusion

As illustrated by the volume of new issuance and the drop in delinquency, the CMBS market continues its recovery from its collapse six years ago. Growing confidence in U.S. economy, and more specifically the commercial real estate and CMBS markets, as well as heightened competition among originators, has led to the re-emergence of more complex deals coming to market, which will require more sophistication and diligence among CMBS buyers as they look ahead to a new year, a year where observers expect the Federal Reserve to begin raising interest rates and a year marking the start of a CMBS maturity wave, the likes of which have never been seen.

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