CMBS DQs at nearly 10-year low — Fitch

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The US CMBS delinquency rate fell in November to its lowest point since February 2009, according to Fitch Ratings. The decline was driven by strong new issuance activity.

Loan delinquencies fell 14bps in November to 1.52% from 1.66% a month earlier. Fitch-rated new issuance volume of USD 8bn from nine transactions in October outpaced portfolio runoff of USD 2.3bn, resulting in a higher overall index denominator. Resolutions last month of USD 722m exceeded new delinquencies of USD 258m.

The majority of the delinquencies continue to be from legacy assets; USD 4.1bn of the remaining USD 9bn 1.0 vintages (those prior to 2009) are delinquent. Isolating only the 2.0 vintages, the delinquency rate would be only 0.61%, down slightly from 0.62% the previous month.

Most property types saw a decline in delinquency rate. Current and previous delinquency rates by property type are as follows:

- Retail*: 3.97% (from 4.03% in October);
- Office: 1.67% (from 2.12%);
- Hotel: 1.42% (from 1.44%);
- Mixed Use: 0.83% (from 0.86%);
- Industrial: 0.47% (from 0.86%);
- Multifamily**: 0.46% (from 0.46%);
- Other: 0.63% (from 0.62%).

**The regional mall delinquency rate dropped to 4.37% from 4.43% the previous month, primarily due to the USD 217m in additional pari passu notes on two existing malls (Grand Canal Shoppes and Woodlands Mall) issued in October.*
***The student housing delinquency rate rose to 3.94% from 3.41% in October due to the USD 39.9m University Village loan (COMM 2014-UBS6) becoming delinquent in November.*

Loans backed by office properties accounted for both the largest resolution and largest new delinquency in November. The office delinquency rate fell by 45bps due to resolutions of USD 566m exceeding new delinquencies of USD 138.2m. The largest resolution was the Skyline Portfolio, consisting of eight office buildings in Falls Church, VA (total Fitch-rated exposure of USD 474.6m includes USD 271.2m in **BACM 2007-1** and USD 203.4m in **JPMCC 2007-LDP10**, and a USD 203.4m non-Fitch-rated piece in **GECMC 2007-C1**). The loan initially transferred to special servicing in March 2012 for imminent default, as portfolio occupancy was negatively affected by the Base Realignment and Closure Act. In 2013, the loan was modified into A/B notes and the maturity was extended to February 2022; however, the loan defaulted again and the assets became REO in December 2016. Overall portfolio occupancy was 42.4% in February 2019, with the six older Skyline buildings (Skyline One through Six) only 19% leased, while One Skyline Tower was 100% leased and Seven Skyline Place 68% leased. Somera Road recently acquired the collateral for USD 215m, resulting in an overall 79% loss on the original USD 678m total loan amount, including a write-off of the hope notes. The loss was in line with Fitch's expectation. This resolution resulted in losses to four classes in in BACM 2007-1 and five classes in JPMCC 2007-LDP10, which already carried distressed ratings.

The largest new delinquency last month was the USD 105m Koger Center loan (**CSMC 2007-C1**), secured by an 849,765-sf office complex located in Tallahassee, FL. The loan was modified in July 2017 with a maturity extension through February 2020; however, the loan transferred to special servicing again in October 2019 for payment default. As of the January 2019 rent roll, the State of Florida was the largest tenant occupying 63% of the net rentable area on a lease through October 2019. It had been previously reported that nearly six state agencies who lease space at Koger Center would be vacating upon lease expiration. The property was 93% occupied as of January 2019, but occupancy is expected to drop significantly if most of the State of Florida leases are not renewed or extended. The special servicer is currently pursuing foreclosure. At its last rating action in October 2019, Fitch modeled a loss of 71% on this loan.

The second largest delinquency in November was the USD 39.9m University Village loan mentioned above, which became 60 days delinquent in November. The loan is secured by a 1,164-bed student housing complex located in Tuscaloosa, AL, less than two miles from the University of Alabama campus, and was previously on the servicer's watchlist for occupancy issues. Although the borrower completed a number of capital improvements and removed non-paying tenants, occupancy continued to fluctuate from a high of 99% to a low of 30% at the beginning of the fall 2019 school year. The loan transferred to special servicing in July 2019 for imminent default and a receiver has been appointed. At its last rating action in February 2019, Fitch modeled a loss of 13% on this loan.

The industrial delinquency rate fell 39bps, largely due to the resolution of the USD 49.2m Shopko Industrial Portfolio loan (**COMM 2015-CCRE25**) in November. The loan, which had been transferred to special servicing in April 2019 for imminent monetary default, was secured by a portfolio of three industrial properties totaling nearly 1.4m sf located in Omaha, NE, De Pere, WI and Boise, ID. At issuance, all three properties were 100% triple-net leased to Shopko through 2035; however, the retailer filed for bankruptcy in January 2019 and subsequently made its final rent payments and vacated the properties in May 2019. The loan was repaid in full in November 2019 with no loss to the trust, ahead of its July 2025 anticipated repayment date. Fitch modeled a 14% base case loss on this loan at its last rating action in June 2019, and applied an additional sensitivity, which assumed a potential outsized loss of 50%. The loan was originated by Silverpeak Real Estate Finance LLC in 2015, and the sponsor at issuance was LCN Capital Partners.

Although the hotel delinquency rate remained relatively flat from the prior month, two loans secured by hotel properties both located in the Cleveland, OH MSA became delinquent in November. The USD 27.4m DoubleTree by Hilton - Cleveland, OH loan (**MSBAM 2016-C28**), secured by a 379-room, full-service hotel located in downtown Cleveland, was transferred to special servicing in October 2019 for imminent monetary default. Fitch modeled a loss of 32% on this loan at its last rating action in November 2019. The loan was originated by Morgan Stanley in 2016, and the sponsor at issuance was a fund sponsored by The Hotel Group and THG Capital, LLC.

The USD 25.3m DoubleTree Beachwood loan (**COMM 2014-CCRE20**) is secured by a 404-room, full service hotel in Beachwood, OH, a suburb of Cleveland. Occupancy and NOI declined after securitization following the opening of a new hotel nearby in 2015 and two others having recently completed renovations. The loan transferred to special servicing in April 2019 for imminent default, but remained current for several months while the borrower sought an alternative resolution. Fitch modeled a loss of 74% on this loan at its last rating action in September 2019. The loan was originated by Cantor Commercial Real Estate in 2014.

By transaction type, current and previous delinquency rates are as follows:

- Conduit (USD 299bn universe): 2.20% (from 2.38% in October);
- Freddie Mac (USD 96bn): 0.02% (from 0.02%);
- Large Loan Floaters (USD 3.9bn): 1.67% (from 1.58%);
- Single Family Rental (USD 1.4bn): 1.60% (from 1.36%);
- Small Balance (USD 81.9m): 1.99% (from 1.98%);
- Single Asset/Single Borrower (USD 37.5bn): no delinquencies.

Fitch's delinquency index includes 416 loans totaling USD 6.9bn that are currently at least 60 days delinquent, in foreclosure or REO, or considered non-performing matured out of Fitch's outstanding rated US CMBS universe of 23,286 loans comprising USD 439bn. The index excludes wireless tower, outdoor advertising, certain other non-traditional transactions and Canadian transactions. The universe (denominator) includes USD 30.1bn in defeased loans in November, up from USD 29.4bn in October. The index (numerator) excludes loans that are 30 to 59 days delinquent, which totaled USD 176m in November, down from USD 437m in October. Newly issued CMBS transactions are seasoned for one month before being included in the rated universe figure (i.e. the index denominator).