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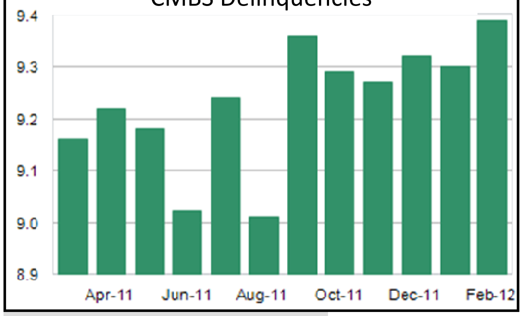
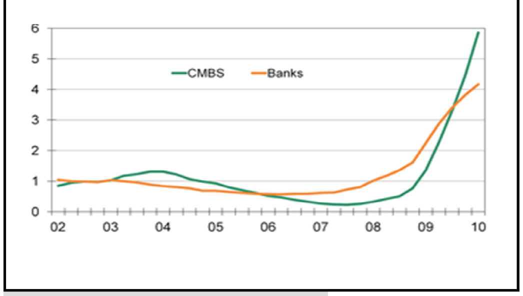
# CMBS Delinquencies

April 25, 2012 By William L. Pittenger, MAI, SRA

Commercial mortgage backed securities are the product of commercial real estate loans which are bundled into securities and sold to investors. Like residential mortgage backed securities, they have proven to be a double edged sword. While they made the commercial mortgage market more liquid, like their residential siblings, many were packaged, sold in whole or in tranches – some with questionable ratings and due diligence. Unlike most of their residential siblings, however, most loans originated for sale were done so on a non-recourse basis meaning that in the event of default one could only look to the property for repayment and not the borrowing entity. Given that characteristic, commercial mortgage backed securities have typically experienced a higher default rate than loans secured by comparable properties that were intended to be held by banks and not sliced, diced and sold far and wide in the form of securities.


CMBS Delinquencies



Bank Loan v. CMBS Delinquencies Thru 2010


SOURCE:
Moodys Investor Services
FDIC Call Reports

Delinquencies have historically been very low hovering around one-percent or less since this financing vehicle became popular in the 1990s. Indeed, delinquencies were exceedingly low most of last decade before beginning to surge with the collapse of the commercial real estate market coincident with The Great Recession in mid 2008. Note that CRE prices peaked in December 2007.

At the end of February 2012 (most recent data available, the 60 day plus delinquency rate for CMBS loans was 9.39% according to Moody's Investor Services. That rate is up fractionally from 9.3% in January. As of February, the 60 day plus delinquency rate has been above 9% for 14 consecutive months and has hovered in the same approximate range since mid 2011. Outstanding delinquent loans increased about $0.2 Billion to $53.8 Billion. Newly delinquent loans increased $2.9 Billion over the month, exceeding the $2.7 Billion that were resolved. Total outstandings in the CMBS category were $576 Billion; down from $572 Billion a month earlier. Outstandings have been declining for eight consecutive months. In terms of vintage (year of origination), delinquencies for CMBS issued in 2003, 2005 and 2008 fell with 2008 falling some 10 basis points. All other vintage years experienced higher delinquencies led by 2002 with more than a 100 basis point increase. Until recently. "late cycle" loans originated in 2007 as the market was already crashing led the way.

Here is a look at CMBS delinquencies by security property type:

| Property Type | Delinquency Feb 2012 | Delinquency Jan 2012 | Delinquency July 2011 |
|---|---|---|---|
| Industrial | 12.0% | 11.9% | 10.77% |
| Office | 9.01 | 8.53% | 7.59% |
| Retail | 7.69% | 7.58% | 7.37% |
| Multifamily | 13.99 | 13.77 | 15.13 |
| Hotel | 11.61% | 12.95% | 15.00% |

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