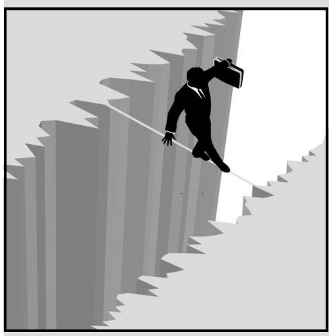
CMBS 60 Day Plus Delinquencies Rise

According to Moody's Investor Services

August 30, 2012 By William L. Pittenger, MAI, SRA

The 60 day delinquency rate for commercial mortgage backed securities moved up to 10.06% in July from 9.93% a month earlier. At the end of 2011, delinquencies stood at 9.32% overall. Delinquencies were relatively flat in 2011 but began inching up again in early 2012 with renewed weakening of the broader economy and brisk European headwinds. In July, delinquency rates increased for office, retail, multifamily and hotel but declined fractionally for industrial. The rates for each property class are shown in the table at the bottom of this page.



The total volume of CMBS loans outstanding decreased in July to $553.6 billion from $557.6 billion in June. Outstanding balances have steadily declined in both the CMBS sector and in bank portfolios as few new loans are being made, resolutions are increasing and most new construction today is still not economically feasible; meaning its value when complete is often less than the cost to create it. Over the last year, shrinking outstanding balances have been largely the result of pay downs outpacing new originations. We expect that trend to continue at least into 2013. Outstanding balances have declined for 49 of the last 54 months after peaking at $793.5 billion in December 2007. That month was also the value peak for commercial real estate loans; the starting point from which CRE as a sector lost 50% of its value. The current delinquency rate is now over 10% for the first time on record. Since early 2010 it has hovered just over 9% and has increased 0.76% since the beginning of 2012. That is more than double the full year 2011 increase.

The total outstanding balance of delinquent CMBS loans rose $300 million in July to a $55.7 billion. While $3.5 billion in loans were newly delinquent, $3.2 billion were resolved.

CMBS 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 (around 1%) before surging with the collapse of the commercial real estate market coincident with The Great Recession in 2008. CMBS loans have recently experienced higher delinquencies than bank portfolio loans probably because most CMBS issuances were non-recourse to the borrowing entity.

Here is a look at CMBS delinquencies in July 2012 by property type:

Property Type	Delinquency July 2012	Delinquency Jan 2012	Delinquency July 2011
Industrial	11.35%	11.9%	10.77%
Office	10.28%	8.53%	7.59%
Retail	7.85%	7.58%	7.37%
Multifamily	14.57%	13.77	15.13
Hotel	12.70%	12.95%	15.00%

By vintage year, 1999 delinquencies decreased by 500 basis points while 2002 rose a full 1,500 bps. All vintages except 1999, 2000, 2001 and 2006 rose with 2007 performing the worst.

The author is Senior Director, Economic and Consulting Services at Focus Valuation Advisors in Orlando, Florida. Contact Mr. Pittenger at Bill.pittenger@focusvaluation.net

Visit Focus Valuation Advisors on the web at:

www.focusvaluation.net