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# CMBS 60 Day Plus Delinquencies Decline

## *First Decline Since January According to Moody's Investor Services*

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The 60 day plus delinquency rate for commercial mortgage backed securities decreased to 9.7% in August from 10.06% a month earlier. Delinquency rates decreased for retail, hotel and multifamily but rose for industrial and office. August showed the first decline in the overall delinquency rate since January 2012 when the rate was 9.30%. Delinquencies were relatively flat throughout 2011 but began inching up again in early 2012 with renewed weakening of the broader economy and brisk European headwinds. Delinquency rates for each major property class are shown in the table at the bottom of this page.

The total volume of CMBS loans outstanding decreased in July to $548.1 billion from $553.6 billion in July. 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 50 of the last 55 months after peaking at $793.5 billion in December 2007. That month was also the value peak for commercial real estate; the starting point from which CRE as a sector lost 50% of its value. Outstanding CMBS balances are down 31% since that time.

The total outstanding balance of delinquent CMBS loans fell by $2.5 billion in August to $53.2 billion. While $2.6 billion in loans were newly delinquent, $5.2 billion were resolved. Resolutions were unusually large in August. That level of decline is not likely to continue and we anticipate that overall delinquencies will resume their upward movement perhaps as early as September.

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 August 2012 | Delinquency July 2012 | Delinquency July 2011 |
|---|---|---|---|
| Industrial | 11.49% | 11.35% | 10.77% |
| Office | 10.38% | 10.28% | 7.59% |
| Retail | 7.81% | 7.85% | 7.37% |
| Multifamily | 13.17% | 14.57% | 15.13 |
| Hotel | 11.37% | 12.70% | 15.00% |

By vintage year, 2000 delinquencies decreased by 400 basis points while 2002 rose 400 bps after rising a full 1,500 bps a month earlier. Vintage 2007 continues to perform the worst. New CMBS activity is weak.

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