



Valuations & Stressed Assets September 2023

Matt Anderson
Managing Director

Scott Barrie
Managing Director



AGENDA

1. Introductions
2. Distress Overview
3. Office Sector
4. Multifamily Sector
5. Modifications & Losses
6. Summary (the good, mixed bag & ugly)

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Introductions & Overview

About Us



Scott Barrie
Managing Director –
Head of Strategic Partnerships



Matt Anderson
Managing Director –
Applied Data & Research

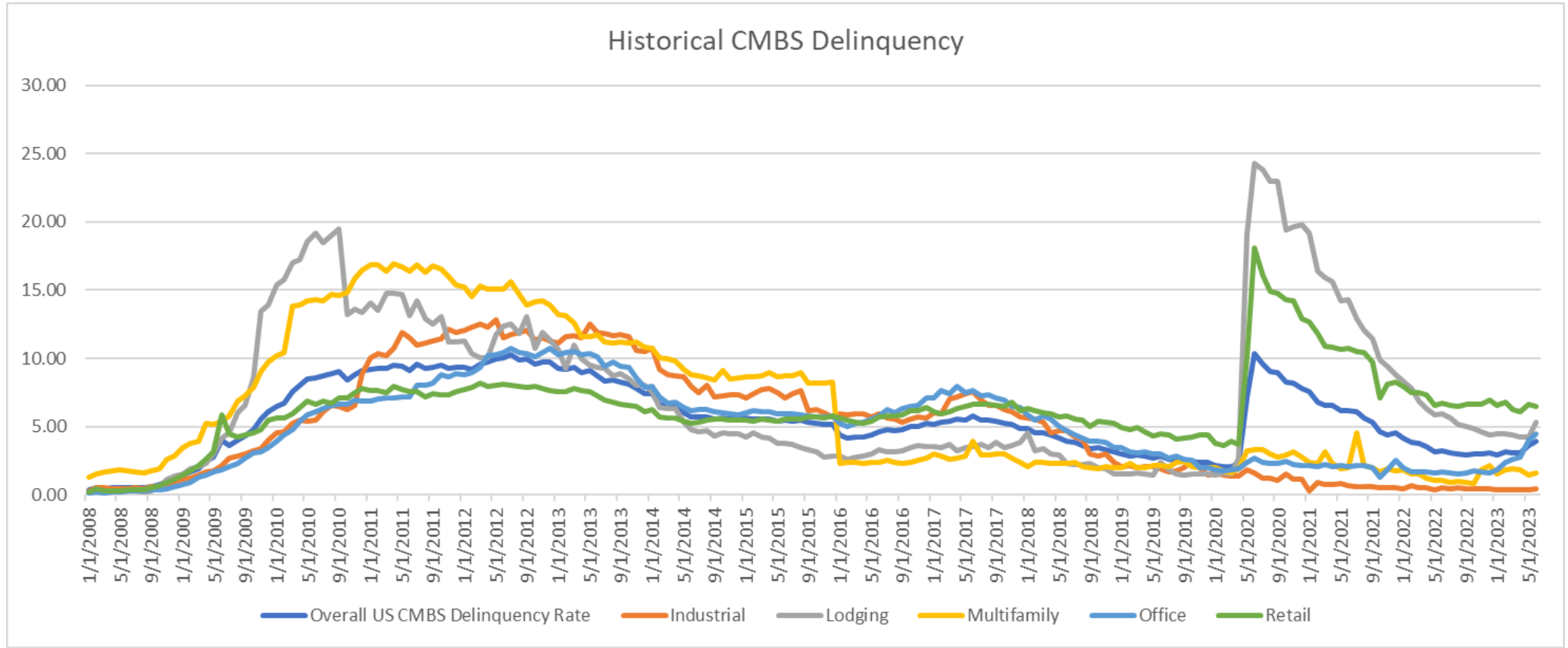
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Distress Overview

Historical CMBS Delinquency Perspective

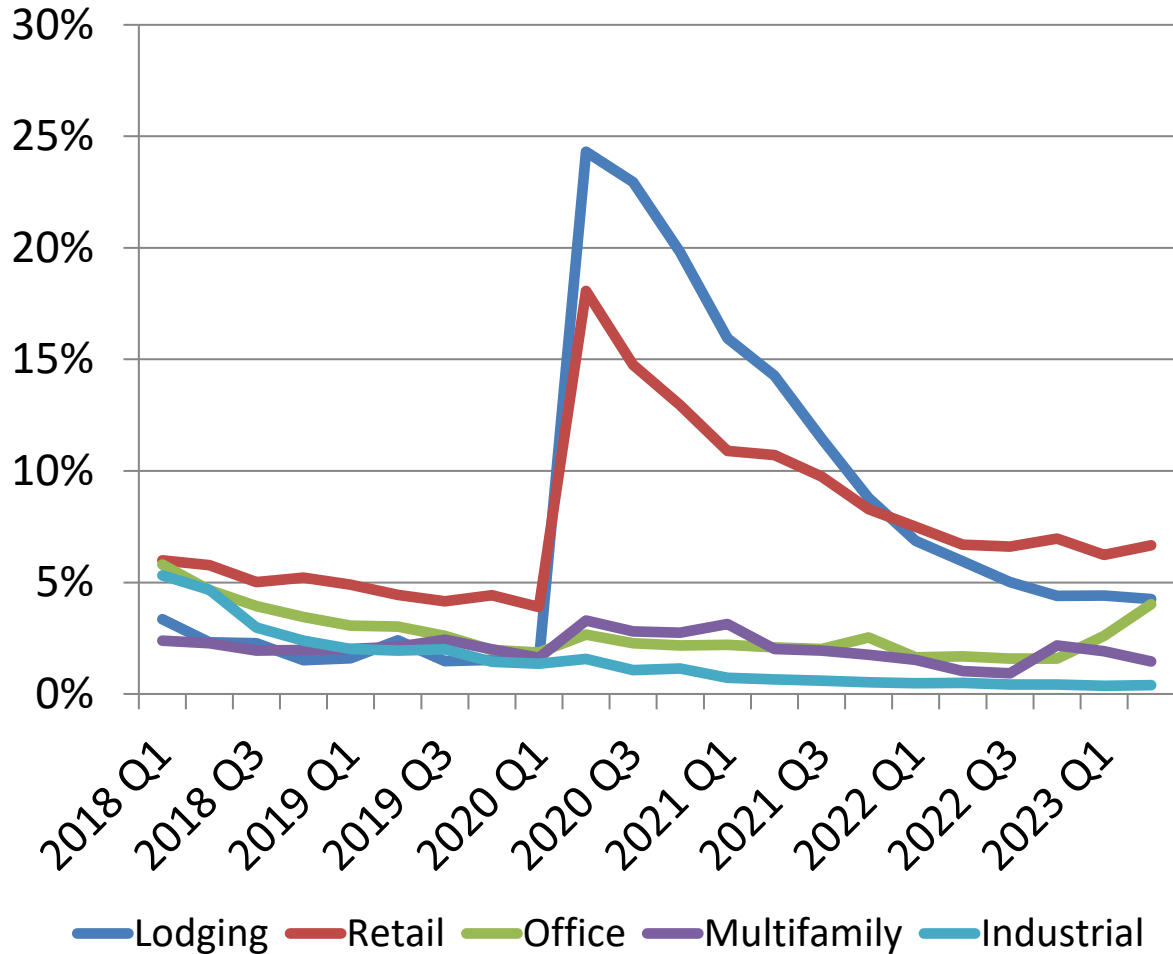


Delinquency Rate by Property Type

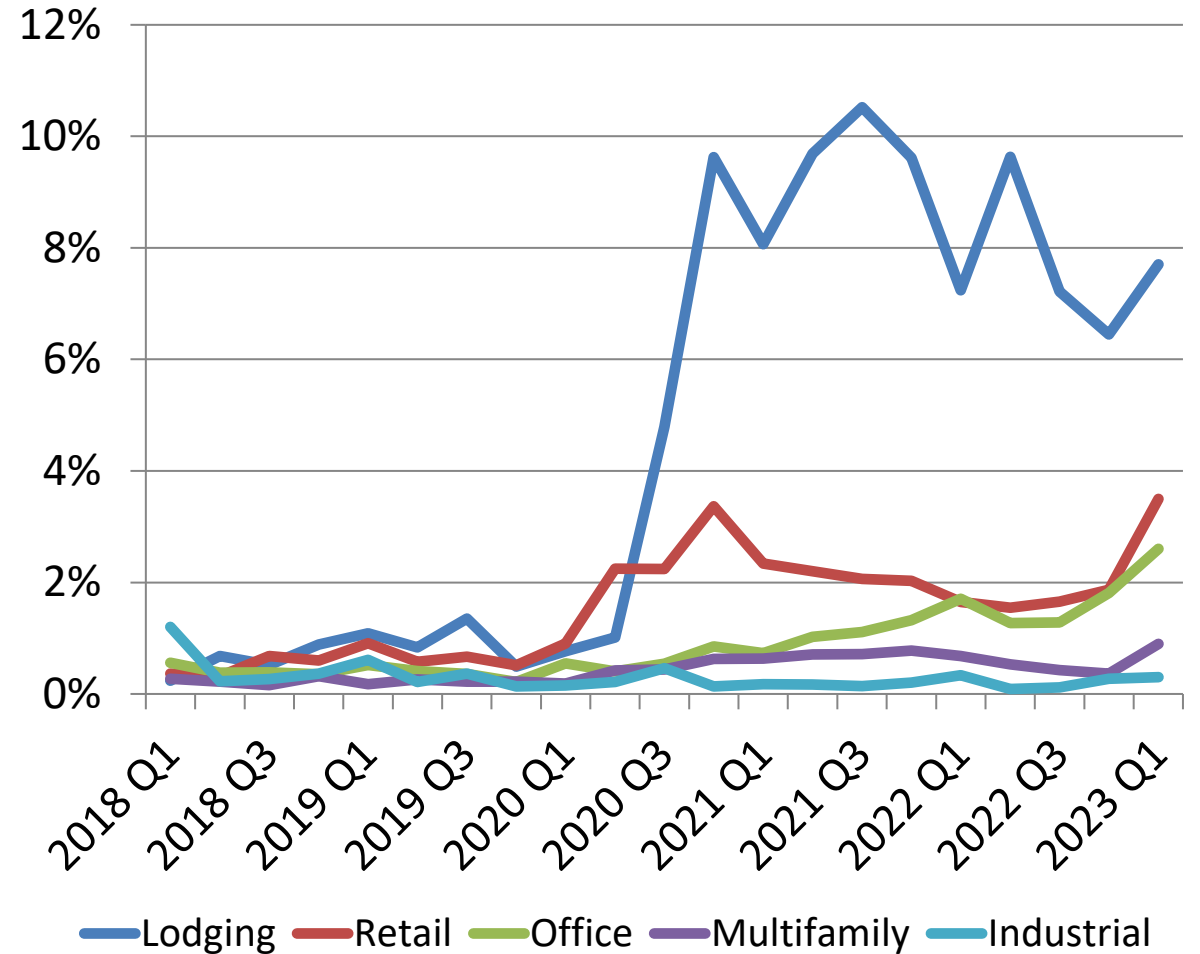
Continued Stress in Hotels, Improvement in Retail and Office



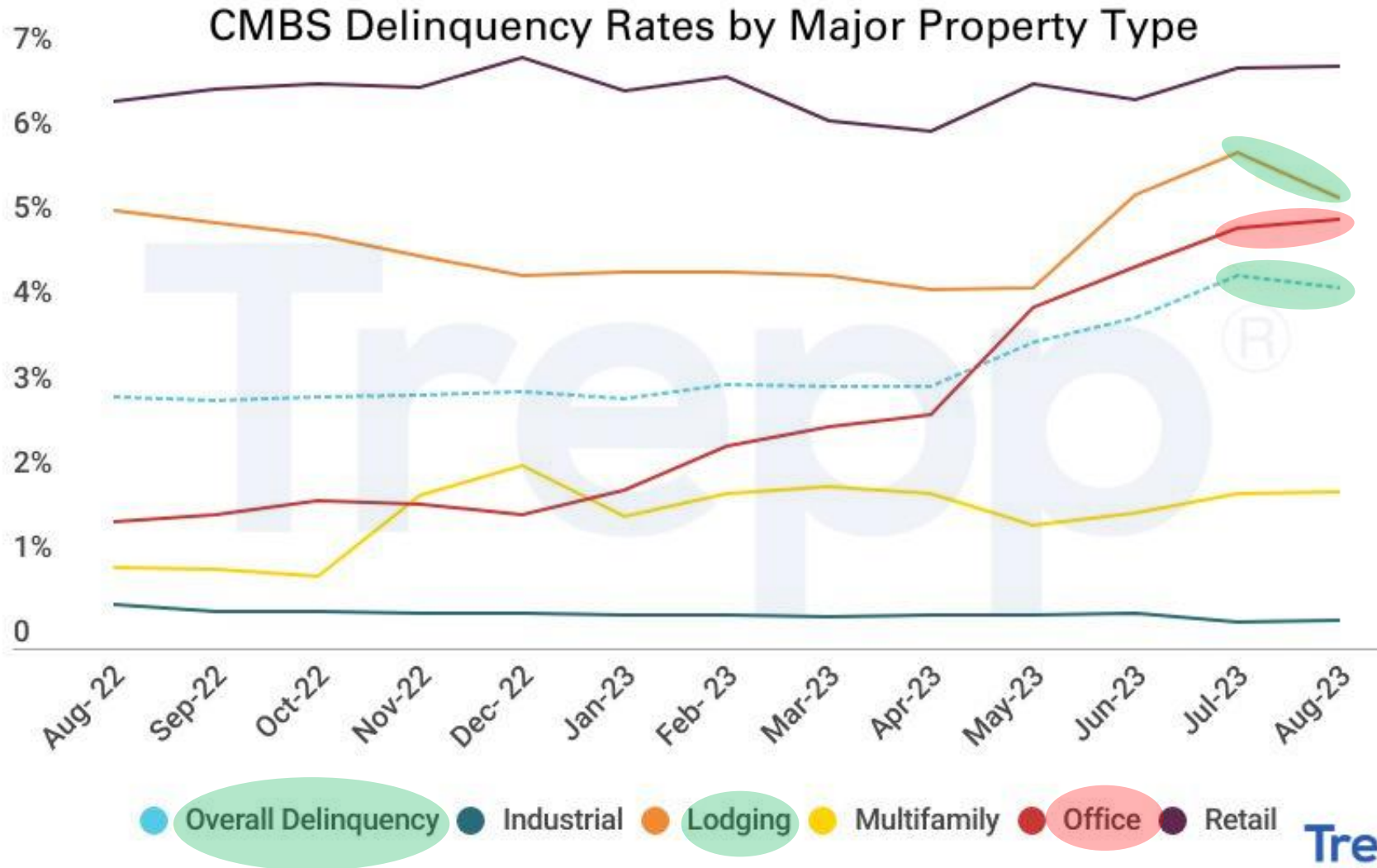
CMBS Delinquencies



Bank Delinquencies



August Delinquency Trends

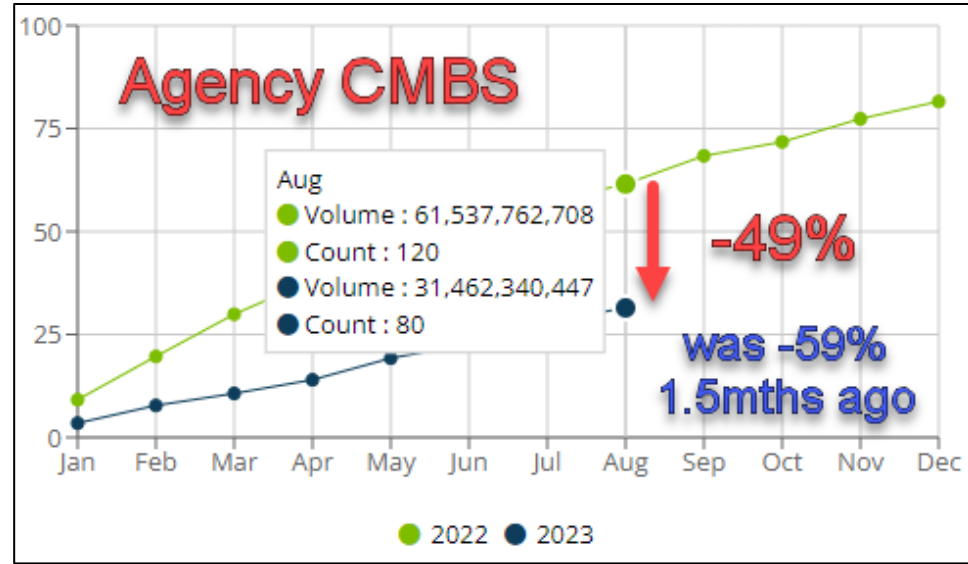
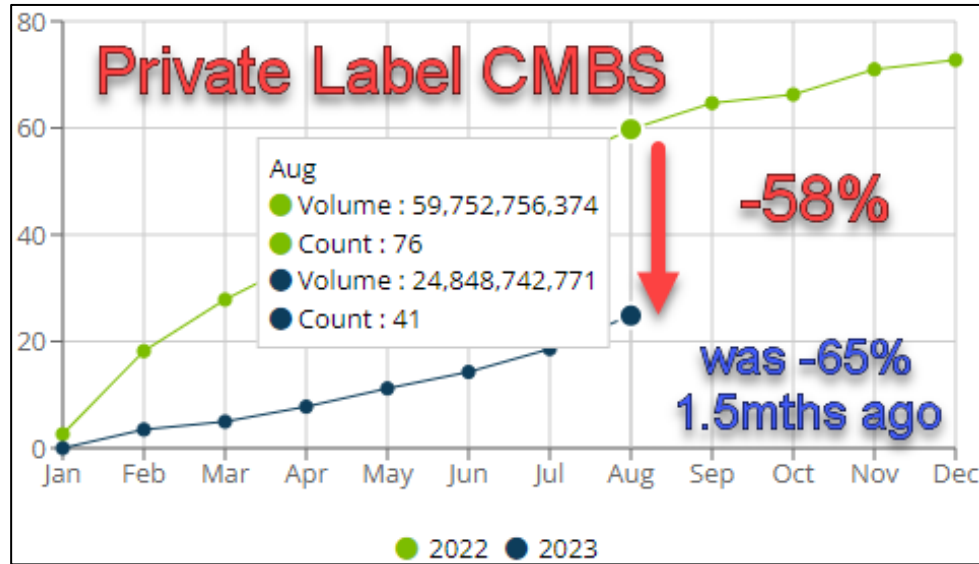


	AUG-23	JUL-23	JUN-23
Overall	4.25	4.41	3.90
Industrial	0.33	0.31	0.42
Lodging	5.31	5.85	5.35
Multifamily	1.84	1.83	1.59
Office	5.07	4.96	4.50
Retail	6.87	6.86	6.48

Source: Trepp



Issuance and Delinquency 2022-2023 YTD



August Recap

The Overall Numbers

- The overall US CMBS delinquency rate fell to 4.25%, a decrease of 51 basis points for the month. (The all-time high on this basis was 10.34% registered in July 2012. The COVID-19 high was 10.32% in June 2020.)
- Year over year, the overall US CMBS delinquency rate is up 127 basis points.
- Year to date, the rate is up 121 basis points.
- The percentage of loans that are seriously delinquent (60+ days delinquent, in foreclosure, REO, or non-performing balloons) is now 4.01%, up nine basis points for the month.
- If defeased loans were taken out of the equation, the overall headline delinquency rate would be 4.45%, down 19 basis points from July.
- One year ago, the US CMBS delinquency rate was 2.98%.
- Six months ago, the US CMBS delinquency rate was 3.12%.

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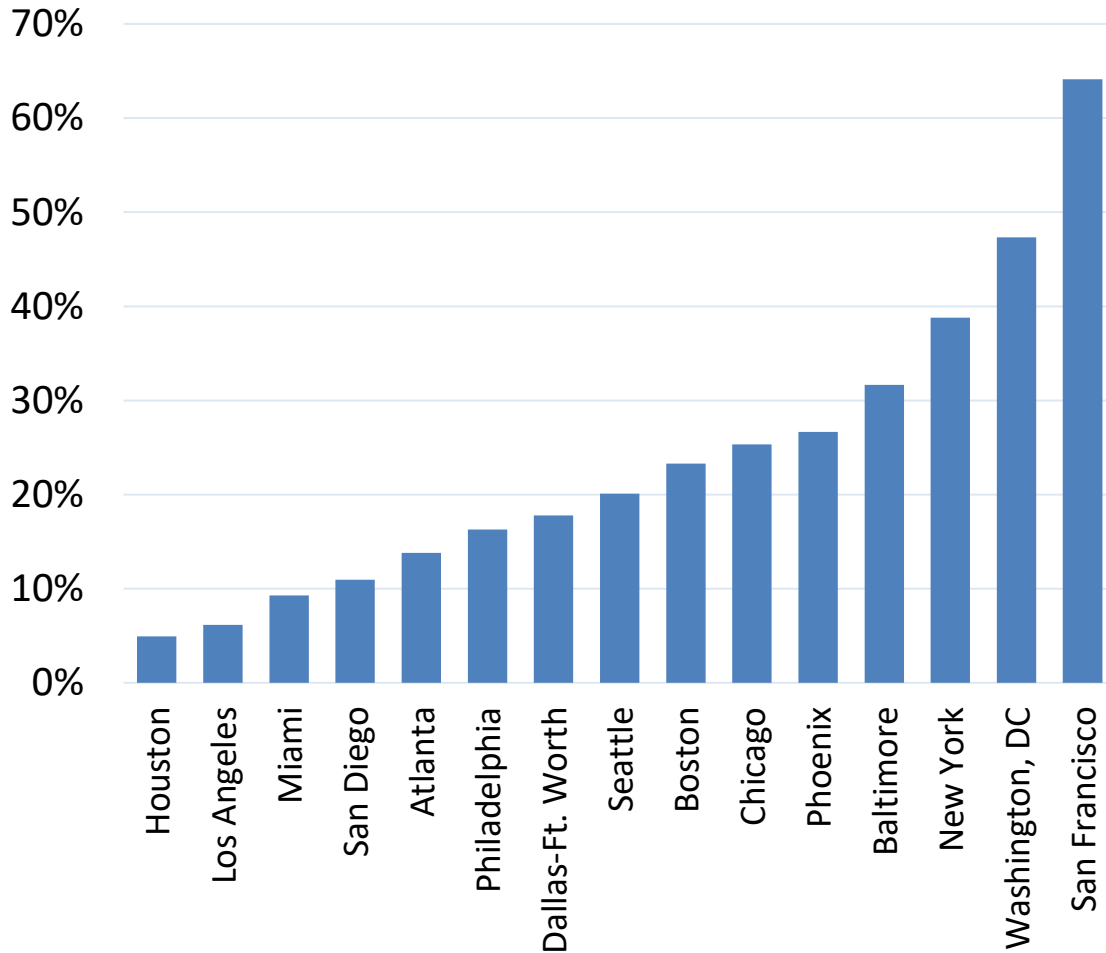
Office Sector Focus:

Office Risk Ratings

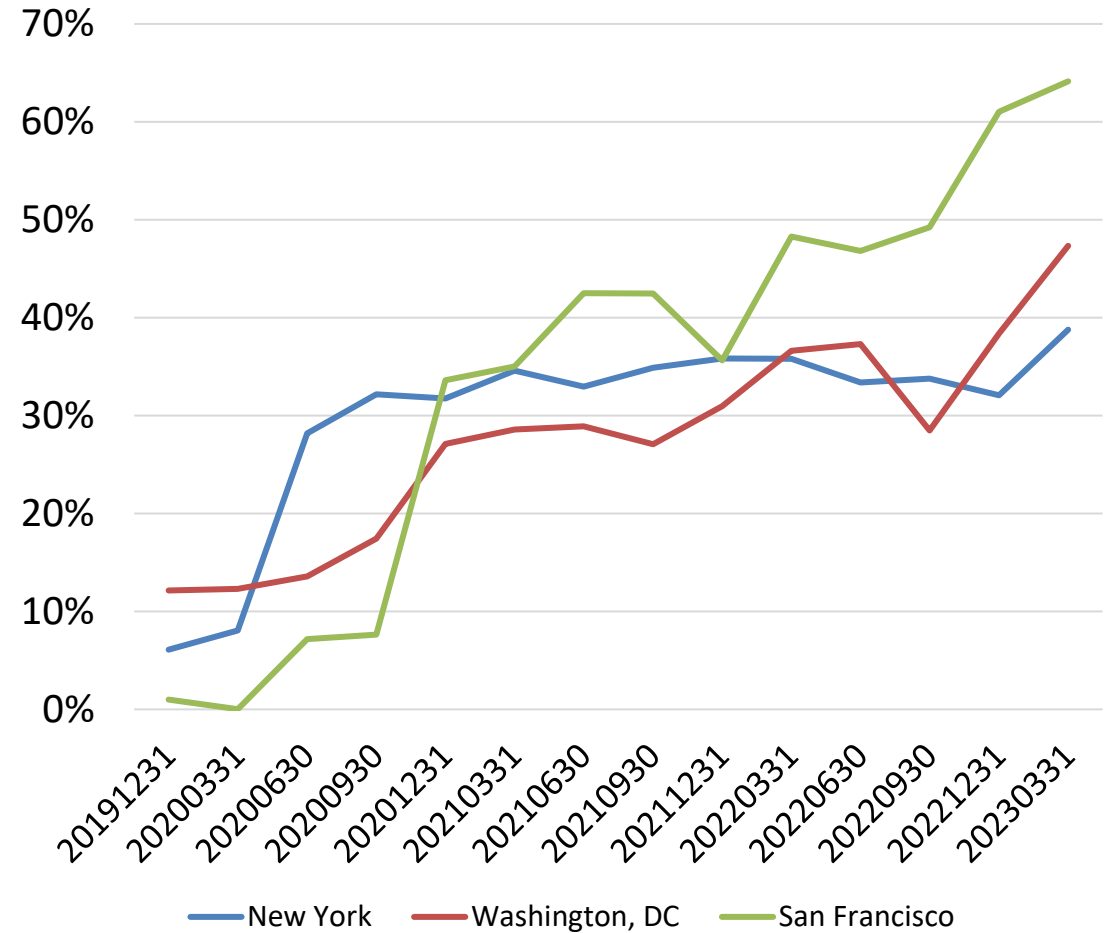
Criticized Loans – Share of Office Total



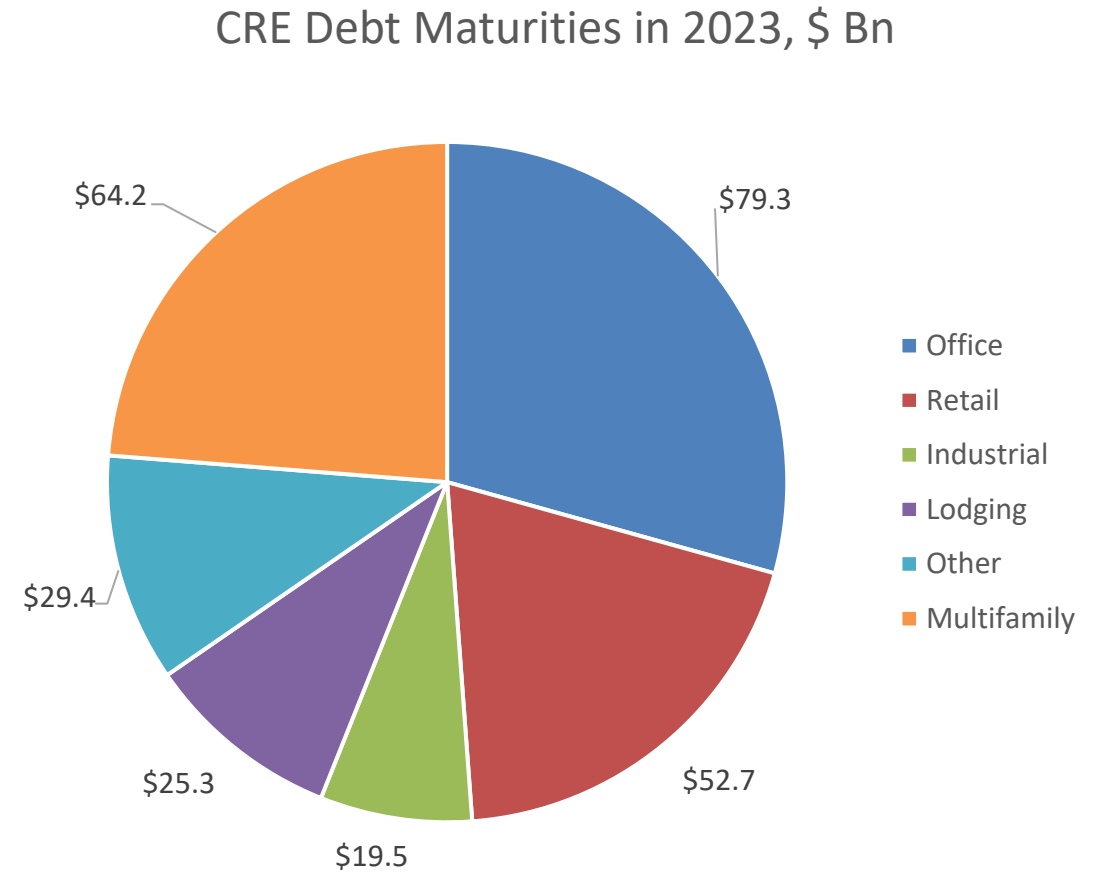
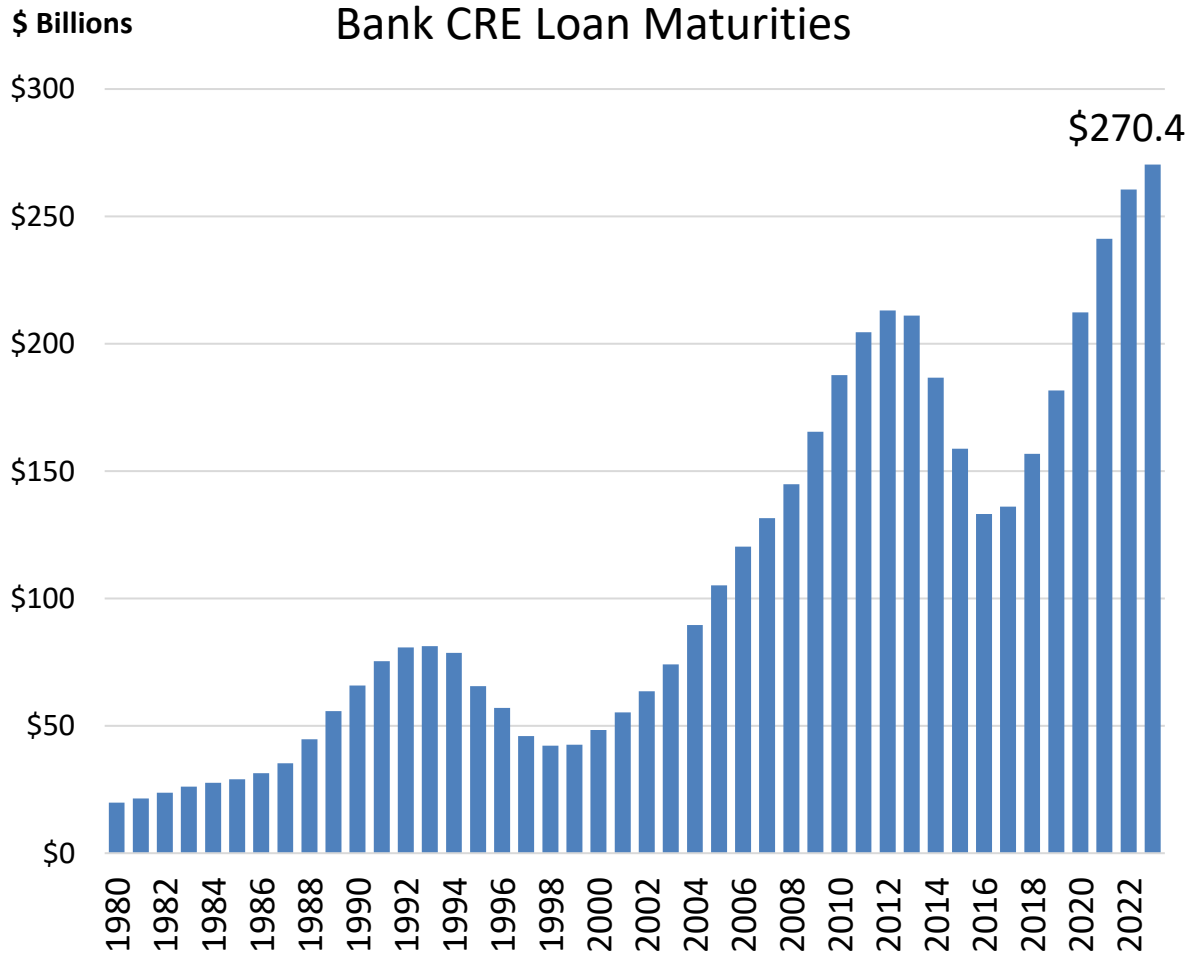
Criticized Share, Q1 2023



Criticized Share – 3 Metros



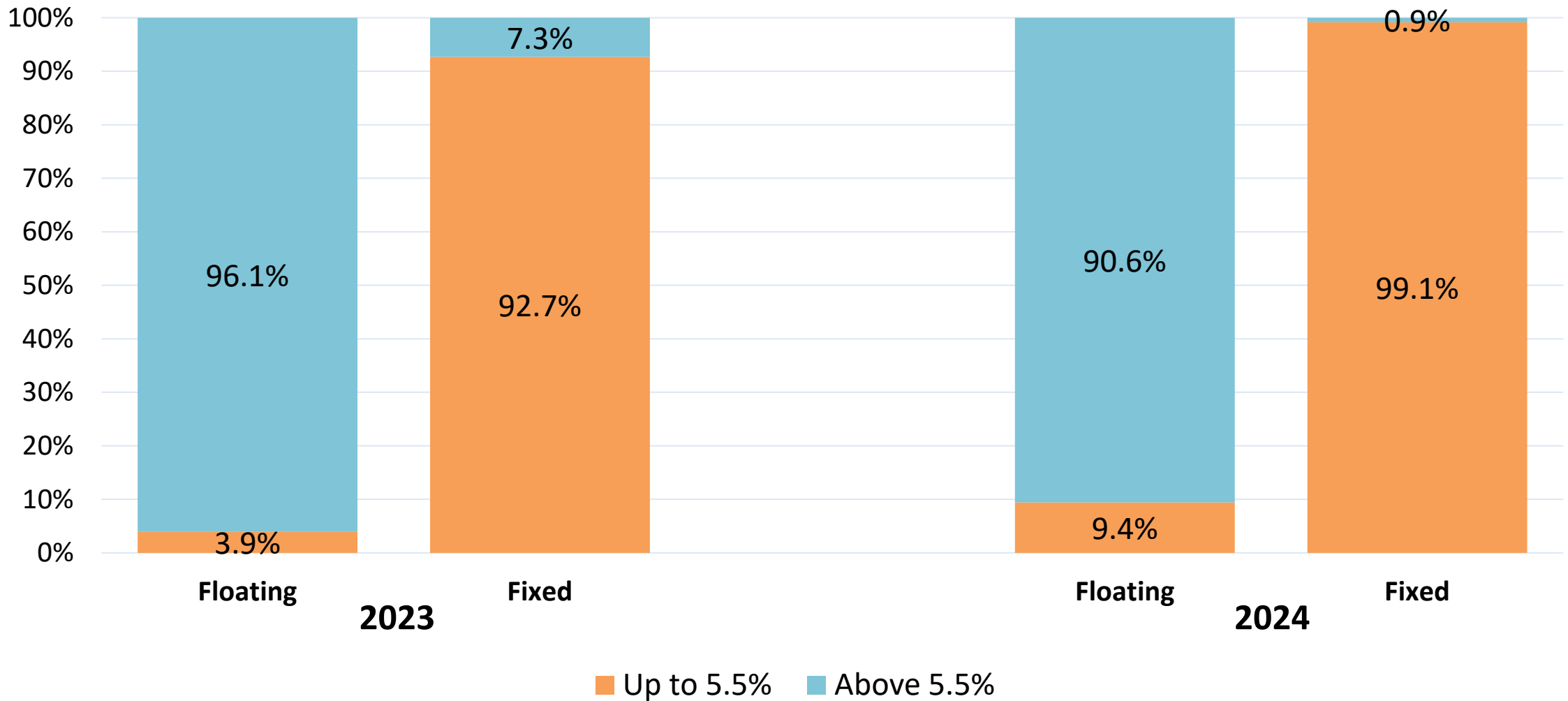
Bank CRE Maturities



Office Maturities in 2023 and 2024 By Current Interest Rate Range (T-ALLR)



Share of Total



Office (Glass) Half-Full or Half-Empty?



Google is offering an on-campus hotel ‘special’ to help lure workers back to the office

Meta will require employees to return to the office three days a week starting in September

Amazon’s return to office means relocating some remote workers who moved away, sources say

Taking a hard line
 Earlier this month, *The Guardian* reported that Amazon ([AMZN](#)) workers in the U.S. were being tracked and penalized for not spending sufficient time in company offices. Now, CEO [Andy Jassy](#) appears to be fed up. "It's past the time to disagree and commit," he said in a recording obtained by *Insider*. "And if you can't disagree and commit, I also understand that, but it's probably not going to work out for you at Amazon." The e-commerce behemoth's three-day-a-week policy went into effect in May, which prompted protests outside the firm's Seattle headquarters. ([213 comments](#))

SAN FRANCISCO AUG 25, 2023

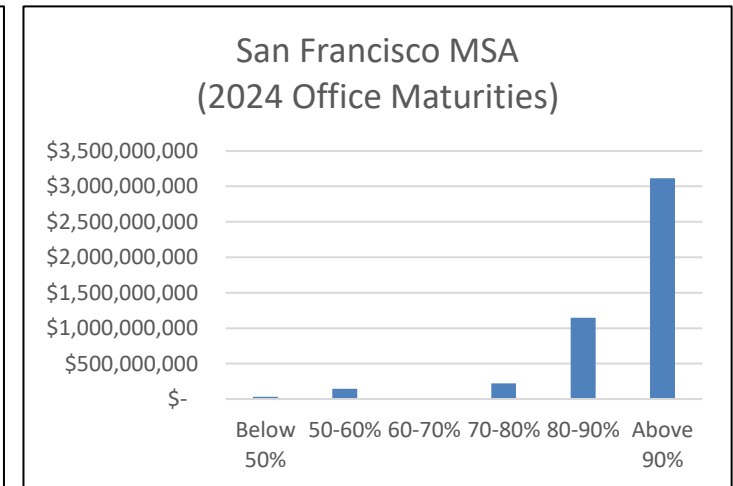
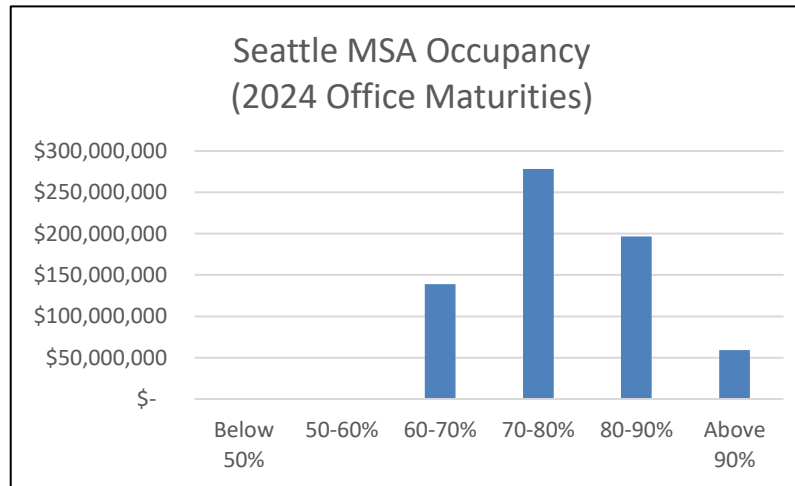
OpenAI may sublease part of Uber headquarters in SF’s Mission Bay
 Maker of ChatGPT in talks to take 287K sf building for expanding workforce

Open AI Shopping for Larger Space as Workforce Doubles
 JACK ROGERS | AUGUST 28, 2023
 ChatGPT pioneer is looking for up to 500K SF as it expands.

Amazon and Google CMBS Exposure

Tenant	Properties	Loans	Outstanding Loan Balance	Tenant Exposure*	WA DSCR	Loans Maturing by 12/31/2024
Amazon	233	148	\$7.81bn	\$5.51bn	2.30	\$1.17bn
Google	71	55	\$4.71bn	\$3.24bn	2.11	\$1.53bn

* Percent of building leased by tenant, weighted by outstanding loan balance



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Multifamily Sector Focus:

Multifamily Expense Deep Dive

Largest YoY Increase in Real Estate Taxes (2021-2022)

Rank	MSA	Avg YoY Real Estate Taxes Per Unit Change
1	Richmond, VA	15.3%
2	Orlando-Kissimmee-Sanford, FL	12.2%
3	Salt Lake City, UT	11.9%
4	Virginia Beach-Norfolk-Newport News, VA-NC	10.9%
5	Chicago-Naperville-Elgin, IL-IN-WI	9.9%
6	Denver-Aurora-Lakewood, CO	9.3%
7	Tampa-St. Petersburg-Clearwater, FL	8.7%
8	Jacksonville, FL	8.6%
9	Miami-Fort Lauderdale-West Palm Beach, FL	8.4%
10	Hartford-West Hartford-East Hartford, CT	7.8%
11	Atlanta-Sandy Springs-Roswell, GA	7.3%
12	Birmingham-Hoover, AL	7.2%
13	Las Vegas-Henderson-Paradise, NV	6.7%
14	Dallas-Fort Worth-Arlington, TX	6.3%
15	New York-Newark-Jersey City, NY-NJ-PA	6.1%

Largest YoY Increase in Insurance Expenses (2021-2022)

Rank	MSA	Avg YoY Real Estate Taxes Per Unit Change
1	Miami-Fort Lauderdale-West Palm Beach, FL	28.0%
2	New Orleans-Metairie, LA	27.9%
3	Jacksonville, FL	27.4%
4	Salt Lake City, UT	21.3%
5	Houston-The Woodlands-Sugar Land, TX	21.1%
6	Tampa-St. Petersburg-Clearwater, FL	19.3%
7	San Antonio-New Braunfels, TX	19.2%
8	Raleigh, NC	17.9%
9	Dallas-Fort Worth-Arlington, TX	16.9%
10	Riverside-San Bernardino-Ontario, CA	16.7%
11	Denver-Aurora-Lakewood, CO	16.1%
12	Atlanta-Sandy Springs-Roswell, GA	15.8%
13	Louisville/Jefferson County, KY-IN	15.5%
14	Cleveland-Elyria, OH	15.4%
15	Charlotte-Concord-Gastonia, NC-SC	15.1%

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Modifications & Losses

Loan Modifications in 2023 (Extensions)



All CMBS Modifications in 2023 (Extensions)

Loan Modification (Extension)	Loan Balance	%
Term Increased by 1-12 Months	\$ 2.10B	37%
Term Increased by 13-24 Months	\$ 1.84B	32%
Term Increased by 25-36 Months	\$ 0.49B	9%
Term Increased by 37+ Months	\$ 1.23B	22%
Total Extensions	\$ 5.65B	100%

Loans that Matured in 2023 and were Modified in 2023

Term Increased by:	2023 Maturity Quarter			
	Q1	Q2	Q3	YTD Total
1-12 Months	\$ 397M	\$ 957M	\$ 485M	\$ 1,838M
13-24 Months	\$ 226M	\$ -	\$ 1,019M	\$ 1,245M
25-36 Months	\$ 110M	\$ 51M	\$ -	\$ 161M
Total	\$ 733M	\$ 1,008M	\$ 1,504M	\$ 3,244M

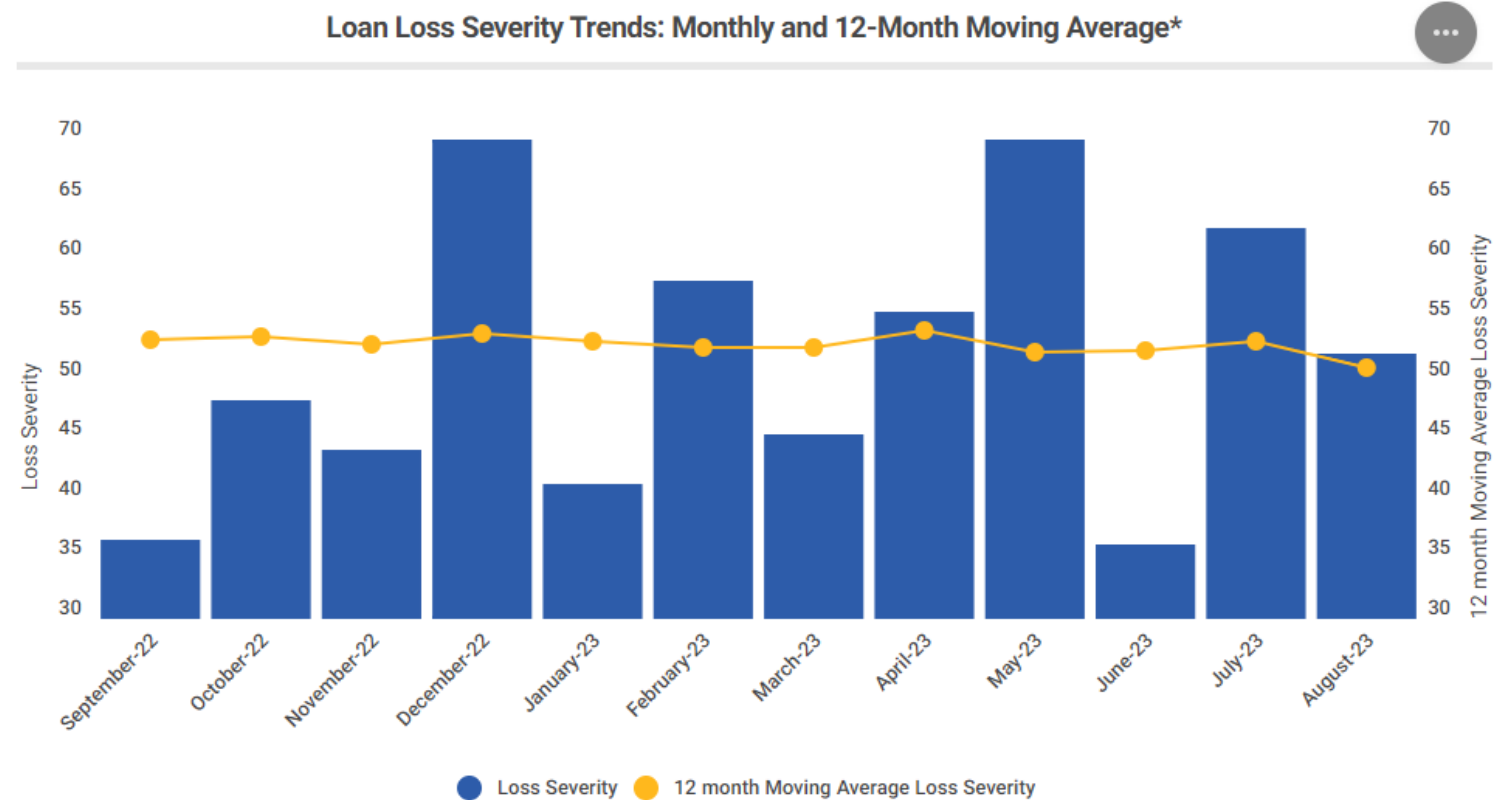
Matured in 2023 and were Modified in 2023

Property Type	Loan Balance	%
Office	\$ 2,366M	73%
Retail	\$ 558M	17%
Mixed Use	\$ 252M	8%
Lodging	\$ 42M	1%
Industrial	\$ 26M	1%
Total Extensions	\$ 3,244M	100%

August 2023 Loan Losses

Historical Trends in Loss Severity and Disposed Loan Amount

The average loss severity for loans resolved in August with losses greater than 2% decreased to 52.10%, down from 62.60% in July. The running average loss severity for losses greater than 2% for the last 12 months was 50.95% in August, down from the 12-month moving average in July of 53.15%.



*Only loans with loss severities greater than 2% are included.

August 2023 Loan Losses

5 Largest Loan Losses in August 2023



Loan Name	Property Type	City	State	Disposed Balance	Realized Loss	Loss Severity
Crossgates Mall (across all loan pieces)	Retail	Albany	NY	\$242.0M	\$97.7M	40.37%
Crystal Mall	Retail	Waterford	CT	\$81.1M	\$79.3M	97.89%
Anchorage Business Park	Office	Anchorage	AK	\$21.3M	\$10.2M	47.90%
States Addition Apartments	Multifamily	Dickinson	ND	\$20.8M	\$9.1M	43.70%
Capitol Shopping Center	Retail	Augusta	ME	\$19.6M	\$1.5M	7.69%

CRE Loan Accommodations and Workouts

June 2023 Guidance

- Interagency Policy Statement on Prudent Commercial Real Estate Loan Accommodations and Workouts
- NCUA, Fed, FDIC, OCC and state bank and credit union regulators
- Review of 2009 Guidance
 - Short-term Accommodations
 - Workouts, including Long-term Workouts
- Examples (Appendix I):
 - Key Metrics: DSCR and LTV – Ability to Pay
 - Key Expectations: updated financial information and valuations
 - Examiner Opinion – loan classification, accrual treatment
- Property Type Concerns:
 - Office, Retail, Hotel, ADC – Residential, Construction Loan – Residential, Land Acquisition/Condo Conversion, Owner Occupied CRE, Land Loan, Multifamily

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Summary (the good, the mixed bag & the ugly)

The Good...

- **Industrial** – Delinquencies remain near historic lows
 - New leases getting signed every week (Prologis buying Blackstone portfolio)
 - At some point, we will see a slowdown and demand will slow, but that day has not come yet.

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- **Student housing in most markets**

The Mixed Bags...

– Multifamily

- The Good – legacy buy and hold operators that locked in low fixed rate debt in 2020-2020
- The “Meh” – newcomers that paid high prices for stabilized properties in 2021 BUT used fixed rate debt – lots of “buyers remorse” but not a lot of distress.
- The potential Ugly – syndicators and newcomers that bought value-add properties with floating rate debt using wildly optimistic rent-growth assumptions. Potentially lots of defaults coming
- Beware – Surging expenses, insurance costs, and taxes are hammering this sector.

The Mixed Bags...

- Malls (on a very steep curve)
 - Shocked that this isn't in the dumpster?
 - Sales for malls in Westfield Mission Valley (CA) and Walpole, MA
 - Loans with enormous amounts of negative equity getting assumed in New Jersey and Baltimore
 - Borrowers negotiating extensions for loans with sizable negative equity (Poughkeepsie, NY)

The Bad...

– Office

- Capital is extremely hard to find
- B/C office expected to underperform new, heavy amenitized Class A
- Sublease availability at record highs in most areas include some previous high fliers like Austin.
- The big “takers” of space from 2010-2020...Amazon, Microsoft, Facebook, Google...have become “returners” of space in 2023. (Facebook/Meta: \$2 billion in lease termination fees; Google/Alphabet (\$650 million in termination fees).
- Much more downsizing than upsizing
- Some big players have turned over assets to lenders (Brookfield, Blackstone, Pimco)
- Values down considerably

The Bad...

- Office – The Green Shoots....
 - Some markets have started to clear....San Francisco, Baltimore...albeit at deeply discounted prices (down 60%).
 - This is usually the start of markets beginning to find a bottom.
 - Not all markets alike: High quality-of-life cities and those that did not see enormous new inventory over the last 10 years.
 - New Class A still able to attract premium prices

The Bad...

– Office – Bottom Line

- Distress is far from over
- Negative headlines will continue to weigh on sentiment
- Tenants have all the leverage...long free rent periods, lots of TI
- The default rate likely to hit double digits
- Most cities will have 2-3 defaults on big offices including previous high fliers like Charlotte
- Beware B/C
- Beware recent entrants (for tax reasons)
- Beware – law firms, accounting firms, insurance cos, health care operators, banks – lots of downsizing

Property Type Update

Multifamily

- 70% decline in investment From H1 2022 to H1 2023, lowest since 2014
- 50% of Class A rents have increased by more than 20% since 2019, vacancy also dropped in most markets. [Source](#)
- Housing market is tight and continues to drive rent inflation.

Industrial

- E-commerce growth is back to its long-term trend
- Positive absorption but significant slowdown compared to 2021, vacancy rising from historic lows. Rents stable.
- Slower construction due to rising borrowing costs will limit future supply. [Source](#)

Lodging

- Occupancy at 63.8% close to pre-pandemic occupancy of 65.9%. [Source](#)
- Supply and Labor constraints now put ADRs above pre-pandemic levels
- Short-term rental market is growing rapidly, expected to grow at 10.3% CAGR between now and 2030

Retail

- Rebound of brick and mortar as e-commerce returns to normalcy
- Vacancies at historic lows
- New construction constrained

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Trepp®

www.trepp.com

New York

600 Fifth Avenue
New York, NY 10020

+1 212 754 1010

London

Northcliffe House, 2 Derry Street
Kensington, London, W8 5TT

+44 (0) 203 637 2791