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U.S. CMBS Delinquency Report - April '12 May 1, 2012

April CMBS Delinquency Rate Reaches Second Highest Level Ever

Rate Increases for Second Consecutive Month

% 30+ Days	
Apr-12	9.80
Mar-12	9.68
Feb-12	9.37
3 mo.	9.52
6 mo.	9.77
1 yr.	9.65

Note: Trepp reports its monthly delinquency rates on, or close to, the first of every month. Many other outlets release monthly delinquency rates two to three weeks into the month. It is important, therefore, when comparing delinquency rates to ensure you are comparing the correct months.

Just two months after matching its lowest reading in a year, the Trepp CMBS Delinquency Rate reversed course and is now within shouting distance of the highest reading of all time. (The highest rate on record came in July 2011 when the rate topped out at 9.88%.) The rate jumped another 12 basis points in April after increasing 31 basis points in March.

The delinquency rate for U.S. commercial real estate loans in CMBS jumped 12 basis points in April to 9.80%.

Following two months of relatively modest loan loss resolutions ($1 billion or less), the special servicers picked up steam in April. Over $1.4 billion in loss resolutions were seen this month. The removal of these loans from the delinquent loan category attributed about 24 basis points of downward pressure on the delinquency rate.

Loans that were newly delinquent—about $3.8 billion in total—put upward pressure on the rate of about 64 basis points, while loans that were cured put downward pressure on the rate of 33 basis points.

Delinquency Status	%
Current	89.03
30 Days Delinquent	0.39
60 Days Delinquent	0.34
90 Days Delinquent	1.73
Performing Matured Balloon	1.16[1]
Non-Performing Matured Balloon	1.19
Foreclosure	3.27
REO	2.88

[1] - Loans that are past their maturity date but still current on interest are considered current.

Added together, the impact of the loan resolutions, the effect of loans curing and the effect of newly delinquent loans created a net increase of seven basis points in the rate. The remaining five basis points are a result of additions and subtractions to the denominator due to new CMBS issuance being added, loans paying off, and other factors.

One category to keep an eye on is loans that are past their balloon date but current in their interest rate ("performing balloons"). This category now accounts for 1.16% of loans in the database. That is down slightly from 117 basis points last month. If we were to consider these loans late, the delinquency rate would have been 10.97%. As we have previously noted, this category only accounted for 0.31% of the market in January 2011.

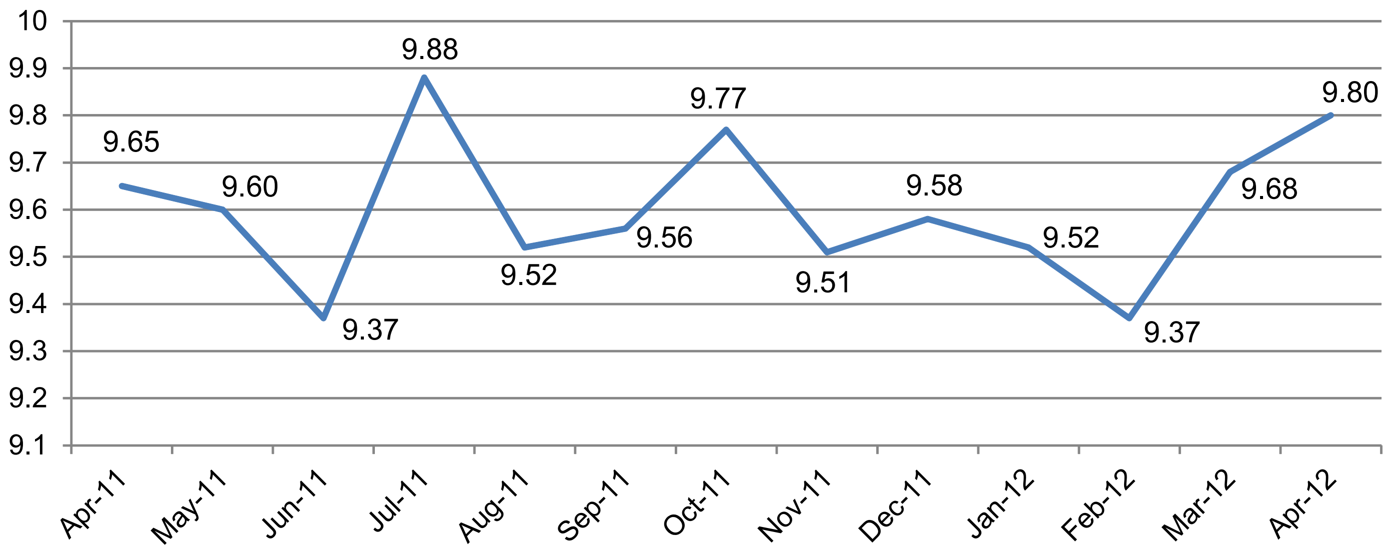
Month	Increase in Delinquency Rate
April ‘12	0.12
March ‘12	0.31
February ‘12	(0.15)
January ‘12	(0.06)
December ‘11	0.08
November ‘11	(0.26)
October ‘11	0.21

The Numbers:

- The overall U.S. CMBS delinquency rate jumps to 9.80%—up 12 basis points in April.
- The percentage of loans 30+ days delinquent or in foreclosure:

  Apr ‘12: 9.80%   Mar ‘12: 9.68%   Feb ‘12: 9.37%
- If defeased loans were taken out of the equation, the overall delinquency rate would be 10.26%—up 14 basis points.
- Percentage of loans seriously delinquent (60+ days delinquent, in foreclosure, REO, or non-performing balloons) is at 9.41%—up 31 basis points.

% 30+ Days Delinquent



Historical Perspective

- One year ago, the delinquency rate was 9.65%.
- Six months ago, the delinquency rate was 9.77%.
- One year ago, the rate of loans seriously delinquent was 8.90%.
- Six months ago, the rate of loans seriously delinquent was 9.21%.

Four of the Five Major Property Types See Delinquency Rate Fall

The increase in the delinquency rate was driven by a big increase in office loans. In fact, all other major property types improved.

- Office delinquency rate up 82 basis points to a new all-time high of 10.23%—the first time the office rate has ever hit double digits.
- Multifamily delinquency rate falls 21 basis points but remains the worst major property type with a rate of 15.18%.
- Retail delinquency rate drops 26 basis points to 7.98% and is still the best performing major property type.
- Industrial delinquency rate is down 18 basis points, and remains the second worst category.
- Hotel delinquency rate dips eight basis points, closing in on office for second best property type.

Property Type - % 30+ Days Delinquent

	Apr-12	Mar-12	Feb-12	3 Mo.	6 Mo.	1 Yr.
Industrial	12.36	12.54	12.37	12.14	11.59	10.76
Lodging	10.55	10.63	11.05	12.09	14.12	15.45
Multifamily	15.18	15.39	14.65	15.39	16.73	16.77
Office	10.23	9.41	9.04	8.90	8.95	7.20
Retail	7.98	8.24	8.00	7.88	7.61	8.15

A Mixed Bag for CMBS – Super Seniors Finish the Month a Shade Tighter; AMs and AJs Move Wider in April

Uncertainty of Maiden Lane Sale Dampens Enthusiasm for AJs for Most of the Month

The CMBS rally that began in the fall of 2011 finally took a timeout in April. The weakness follows a streak of four consecutive "winning" months from December to March.

The bright spot in the market was the super senior segment. Legacy super seniors were generally flat month over month. Stronger names and older vintages did a little better—perhaps five basis points tighter at best. For less desirable vintages, the super seniors were out a few basis points.

In the AM and AJ markets, the performance was even more lackluster. Spreads on legacy AMs were off by 35 to 40 basis points during the month. AJs were off by about 100 basis points, and even more for weaker 2007 names.

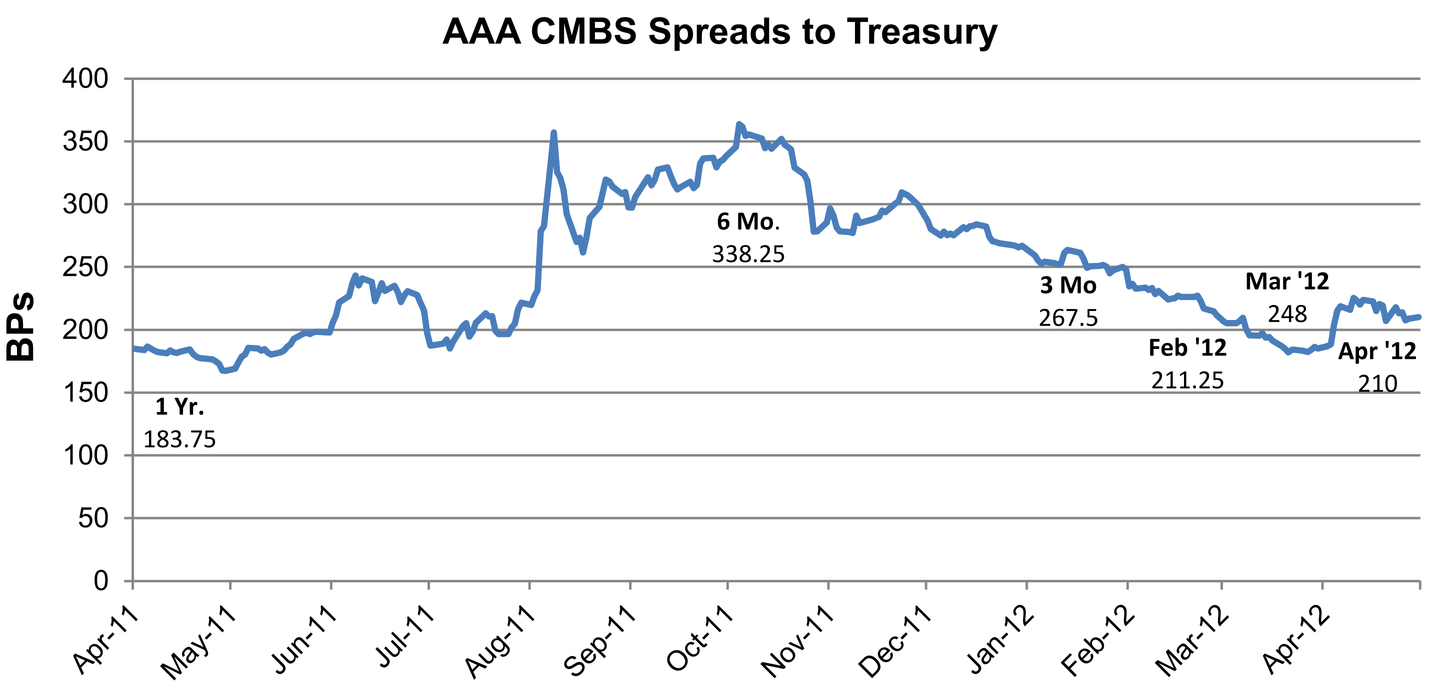
The CMBS 2.0/3.0 market was not immune from April's weak performance. New issue CMBS 3.0 was noticeably wider than March's impressive levels.

Part of the undoing of the AM and AJ markets was the pending sale of the MAX 2008-1 CDO by the Federal Reserve's Maiden Lane Portfolio. The portfolio represented assets the Fed inherited in 2008 during the financial crises. The CMBS market feared that the buyer of the position would look to unwind the CDO, potentially flooding the market with AJ paper. (About half of the $7.5 billion MAX 2008-1 CDO portfolio was backed by AJs from 2006 and 2007.) This sent spreads in the AJ market steadily upward in April.

The CDO sale was completed near the end of April. Early indications from some CMBS research shops suggested that the winning bidder—Barclays and Deutsche Bank—would unravel the CDO over many months. That would appear to make sense. Dumping all of the paper on the market in short order would likely minimize the value of their winning bid. As market participants become more comfortable with the notion that the $7.5 billion will leak out over an extended period of time, this element of uncertainly should recede over the next few weeks.

The March Numbers:

- Legacy 10-year super senior spreads finished mostly flat—older vintages were marginally tighter; 2006/2007 vintages were modestly wider.
- Average 2007 super senior is now about 200 basis points over swaps.
- Six months ago the average 2007 super senior was 270 basis points over swaps.
- One year ago the average 2007 super senior was 160 basis points over swaps.
- 18 months ago the average 2007 super senior was 251 basis points over swaps.



About Trepp

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