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CMBS NOTEBOOK

Fewer Properties Tied to Troubled Loans, College Closing Hits New York Building, Hotels and Suburban Offices Lead Cash Flow Growth

A Weekly Look at the Commercial Mortgage-Backed Securities Business

The loan on Aon Center in Chicago was the largest CMBS loan transferred to special servicing in July. (Justin Schmidt/CoStar)

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CoStar News

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Fewer Properties Tied to Troubled Loans: The number of properties backing commercial mortgage-backed securities loans in special servicing fell 4.3% in July following two months of increases, according to CoStar data. The total number of properties affected stood at 2,129 as of Aug. 7.

Loans are sent to special servicing when a borrower defaults on payment and an effort is made to resolve the matter.

The industrial property count fell the most, down 5.8%, with the number of hospitality properties in special servicing declining by 2.5%.

The number of office properties in special servicing moved up 2%. Among the notable office properties placed into special servicing in the past month was the 2.75-million-square-foot Aon Center in downtown Chicago, CoStar data shows. Building owner 601W Cos. failed to pay off a $536 million loan when it matured last month.

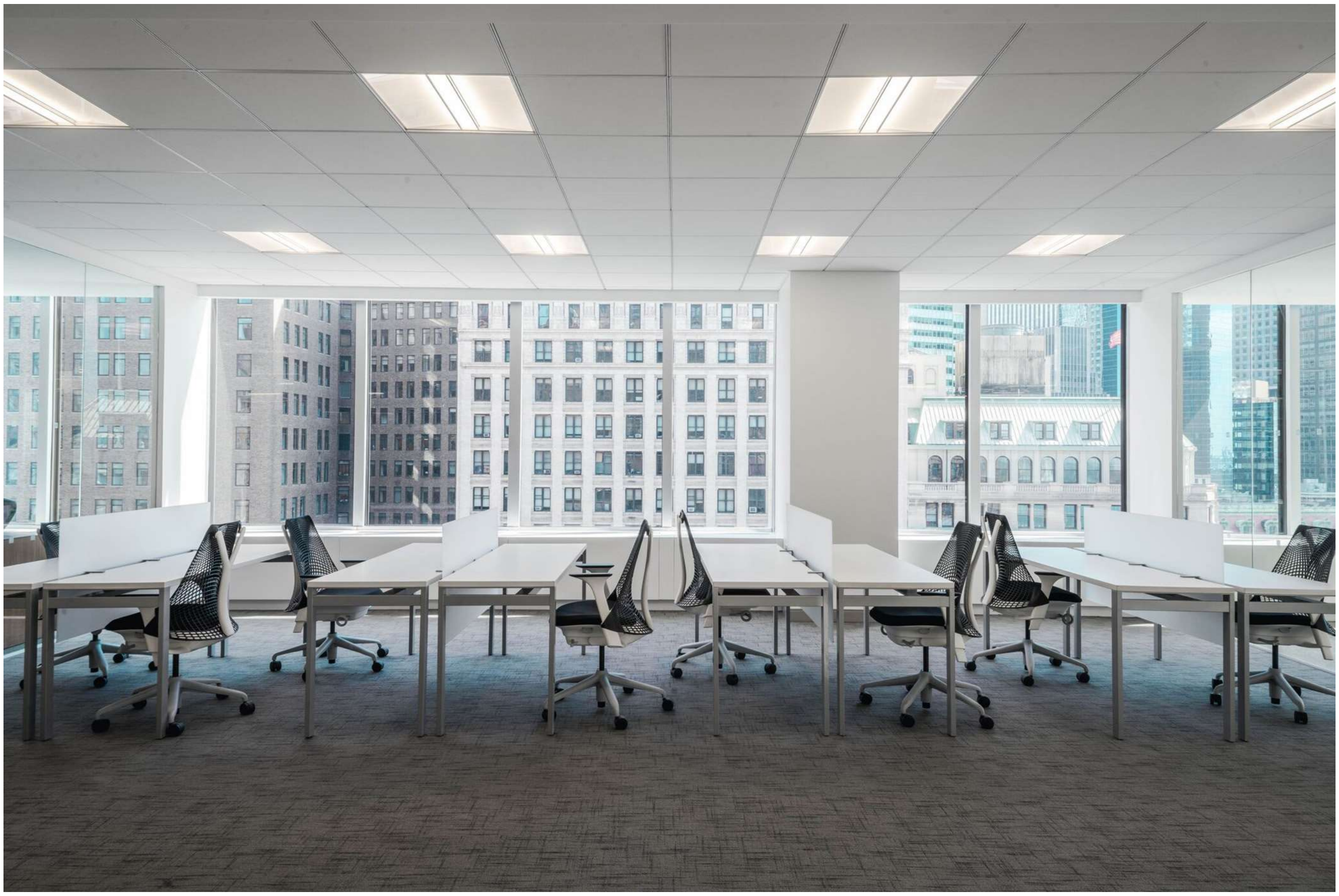
The property may not be in special servicing for long. The loan's special servicer has approved a three-year extension of the maturity date and negotiated an extension of global professional services firm Aon's lease, according to a recent monthly CMBS bondholder report. Terms of the lease extension were not disclosed. Aon leases 640,000 square feet in the building, according to CoStar data.

Neither 601W nor Aon responded to requests for additional information from CoStar News.

Retail made up the largest percentage of properties with CMBS loans in special servicing at 30.4%. Offices accounted for 26.9%, while multifamily made up 19.1%, hospitality came to 16.5% and industrial and flex properties was 6.8%.

By dollar amount, the CMBS delinquency rate increased by just 0.01% as the rise in office delinquencies was offset by the resolution of troubled hotel deals, according to Fitch Ratings.

About 3.2% of the Fitch-rated U.S. CMBS universe ($17.6 billion) was in special servicing as of the July remittance. Office and mixed-use had higher delinquency rates, while hotel and industrial reported lower rates. Retail was marginally higher, and multifamily was slightly lower than the prior month.



Classrooms at 2 Washington St. in New York will be empty this fall with the closing of Alliance University. (CoStar)

College Closing Hits New York Building: New York-based Alliance University plans to cancel fall classes and shut down operations this month after losing its accreditation status.

The private Christian university, formerly known as Nyack College, occupies a 131,314-square-foot office condominium at 2 Washington St. in Manhattan.

Alliance's space on the upper floors of 2 Washington is subject to a $50.6 million loan securitized in CMBS deal Citigroup 2016-P3. Other portions of the building are subject to another $100 million of securitized loans, according to CMBS filings.

Originally developed as an office building, a portion of 2 Washington was converted to multifamily use when affiliates of The Moinian Group purchased it in 2004. The property now includes 345 apartments.

Morningstar Credit has been monitoring the loan on the Alliance floors since June. The servicer listed the loan repayment due in June as being less than 30 days late, as of mid-July.

Alliance and Moinian did not respond to requests for comment.

Hotels, Suburban Offices Lead Cash Flow Growth: For multiborrower CMBS loans that reported both 2021 and 2022 full-year financial data, net cash flow on the properties backing the loans increased 46% on average from one year to the next, according to analysis by Bank of America Securities. The analysis covered $312 billion in CMBS loans.

A sizable portion of this growth was driven by the rebound in hotel performance following significant deterioration after the onset of COVID-19 in 2020, according to the bank.

Year-over-year hotel net cash flow growth was a significant 9.3%. Suburban office properties showed exceptionally robust growth at 89.5%.

“Although the figure may seem somewhat large, the improvement itself was not altogether surprising to us given a comparatively quick return to office in those markets and fewer major headwinds compared to those facing urban and [central business district] markets,” Bank of America said.

Although overall year-over-year net cash flow growth was positive on average, pockets of regional malls and downtown offices saw declines. Regional mall net cash flow was down 2.9%, and downtown office was down less than 1%. It was the fourth time in six years that net cash flow declined for downtown office properties, the bank said.