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CMBS Credit Changes: Retail & Office Sectors Hit with Large Delinquencies in September 2024

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In September 2024, Trepp's overall **commercial mortgage-backed securities (CMBS) delinquency rate** jumped 26 basis points to 5.70%. Driving the change in the headline delinquency rate were several significant credit changes regarding newly delinquent, cured, and modified loans, across most major property-type sectors.

Let's dive into the real stories that made the numbers move...

This month, unlike many recent months, most of the major property types contributed to the rise in the overall rate. Leading the way was the retail sector, which contributed to about 50% of the net change in the total delinquent loan amount. The retail delinquency rate **rose 86 basis points to 7.07%** in September, from 6.21% in August. The last time the retail delinquency rate was above 7.0% was in April 2022. We consider this a material development in retail CRE distress and will continue to pay extra attention to retail properties, retailers, and the health of the U.S. consumer in the coming months.

The office sector accounted for 37% of the $2 billion net increase in the dollar amount of delinquent loan balance in September, leading the office delinquency rate to increase 39 basis points to 8.36% in September from 7.97% in August. The office delinquency rate continues to lead all property types and we expect this trend to continue for the foreseeable future. The lodging sector also underwent a sizable increase of 32 basis points to raise the delinquency rate from 5.91% in August to 6.23% in September.

Highlighting the monthly shifts in delinquency rates, as well as the specific drivers of those shifts provides clarity and valuable insights for investors and lenders to identify pockets and patterns of both risk and opportunity in a dynamic and volatile market. When a large CMBS loan misses a payment or resumes making payments following a period of delinquency, overall delinquency rates may be disproportionately impacted because these rates track delinquent loan balances, versus the number of loans that are delinquent.

In this piece, Trepp Research analyzed the largest CMBS loans to miss loan payments or turn delinquent in September, the largest loans to cure (move from delinquent status to current), and loans that received modifications.

Let's dive into the details...

Newly Delinquent Loans

Retail

Several large retail loans turned delinquent in September with several regional malls and shopping centers in smaller cities continuing distressing trends among those property subtypes and several superregional malls joining the fray. The loans below drove the headline retail delinquency rate up the most:

- The largest loan that drove the retail delinquency rate higher was the single-asset single-borrower (SASB) **JPMCC 2014-DSTY** deal which is backed by two loans: the $300 million **Destiny USA Phase I** note and the $130 million **Destiny USA Phase II** loan. The two loans represent two different components of the Destiny USA super-regional mall in Syracuse, NY. The mall is ranked as one of the largest shopping centers in the US with roughly 2.4 million square feet of retail space. Phase I of Destiny USA is backed by the original 1.2 million-square-foot component of the shopping center while Phase II is secured by an 872,000-square-foot expansion parcel of the asset. Both loans had been scheduled to mature in June. The $430 million in debt was extended in 2022 when the maturity was extended to June 2024. The loans were also previously modified, as they had an underwritten maturity date of June 2019. This SASB was previously current on payments but now shows a delinquency status of nonperforming matured balloon.
- The $254.9 million **Providence Place Mall** loan, which transferred to the special servicer in April for imminent maturity default, had its delinquency status switch to **performing matured balloon in August** from nonperforming matured balloon. However, in September it switched back to nonperforming again. The collateral contains 980,711 square feet of retail space in a Providence, RI mall. The property was built in 1999 and renovated in 2009.
- The delinquency status on the $210 million **Eastview Mall and Commons** loan changed to nonperforming matured balloon in September from current. Servicing commentary indicates that the loan has transferred to the special servicer due to maturity default, and that the borrower has requested a maturity extension. The loan was previously modified to extend the maturity by two years to September 2024, including one additional extension option to September 2025. Prior to the modification, the loan had been transferred to special servicing in June 2022 due to anticipated issues with the impending payoff in September 2022, but It was sent back to the

master servicer in July 2023. The collateral is an 811,671 square foot superregional mall in Victor, NY.

- In January, the $162.7 million **Holyoke Mall** transferred to the special servicer, with servicing notes indicating the mezzanine lender issued a notice of default, and warning that the borrower would not be able to pay off the senior loan at maturity. The collateral is a 1.36 million square feet portion of a 1.56 million-square-foot superregional mall property in Holyoke, MA. The original maturity date was in February 2021, but the loan was transferred to the special servicer in May 2020 during Covid lockdowns. The loan was modified, and the maturity was pushed out to February 2024. The delinquency status had been performing matured balloon ever since the loan failed to pay off at its February 2024 maturity date, but in September, the status flipped to nonperforming matured balloon. September servicing commentary indicates that the borrower and lender have agreed on modification terms, **so stay tuned via TreppWire** on the status of the loan in the next few months.
- The $140 million **Sunvalley Shopping Center** loan has turned delinquent for the first time in its term, with the delinquency status flipping to nonperforming matured balloon from current. The loan previously had its maturity date pushed to September 2024 from September 2022. The collateral is a 1.4 million-square-foot mall in Concord, CA. The debt service coverage ratio (DSCR) based on net cash flow (NCF) on the loan from the first six months of 2024 was 1.18x with occupancy at 95%. The property is one of two mall loans backing the **MSBAM 2012-CKSV** deal. The $191.4 million **Clackamas Town Center** loan was also extended but to October 2024. **Stay tuned via TreppWire** as details emerge on both of these loans in the coming months.

Office

- The $400 million **Bank of America Plaza** loan, collateralized by a 1.4 million-square-foot office in Los Angeles, transferred to the special servicer in July for imminent maturity default, and failed to pay off at its September maturity date. The delinquency status on the loan has flipped to nonperforming balloon from current; this is the first time the loan has turned delinquent during its term. Servicing commentary indicates that the special servicer is engaged in modification discussions with the borrower. In a December 2023 edition of TreppWire, we reported that the third-largest tenant, law firm Sheppard Mullin, was vacating the property, even though its lease on 12.7% of the space was set to end in late 2024. Earlier in April 2023 we also highlighted the loan when the borrower – Brookfield DTLA Fund Office Trust Investor Inc. – indicated there was "substantial doubt about the company's ability to continue as a going concern." At that time, we wrote that if the fund was still under duress when the maturity date approached, a cash-in refinancing would be out of the question.

- One piece of the $151.5 million **65 Broadway** loan changed from nonperforming matured balloon to performing matured balloon in June; that same loan piece changed back to nonperforming matured balloon in September. The other piece has maintained nonperforming status in recent months. The appraised value on the asset was halved to $104.3 million from a previous value of $215 million, according to September servicer data. The loan failed to pay off at its scheduled maturity in April. According to servicing commentary, the borrower provided a proposal for a workout and extension under which new equity would be contributed, but a portion of the existing $96 million B-note would be subordinated.
- The $247.0 million **Stamford Plaza Portfolio** loan failed to pay off at its August maturity date, and two of the three loan pieces changed from current to nonperforming matured balloon **in August**. The third loan piece was within its grace period as of August, but September data shows this third loan piece (with an outstanding balance of $128.1 million) flipping to nonperforming matured balloon.
- After the $243 million **25 Broadway** loan was transferred to special servicing in March in accordance with its maturity default in April. The borrower and lender negotiated a forbearance that was executed at the end of July, according to servicing commentary. Servicer notes indicate that as long as the borrower performs under the terms of the agreement, the lender will provide the borrower 24 to 30 months to work on leasing and refinancing the property, and that the loan will remain current. However, according to September data, the status on just the $126.4 million portion of the loan has flipped back to nonperforming matured balloon.

Lodging

- The $191.8 million **Crossland Portfolio III** loan flipped to nonperforming matured balloon again in September. The loan was sent to special servicing in April for defaulting on the balloon payment at maturity and the delinquency status changed to nonperforming matured balloon. **In August**, the delinquency status on the loan flipped to performing matured balloon, making it no longer delinquent for the time being, but alas it flipped back in September. The debt is backed by a portfolio of extended-stay hospitality properties. Servicer notes indicate that the borrower is requesting a modification and extension of the maturity.

Multifamily

The delinquency status on the $130 million The Centre loan has turned back to nonperforming in September. The loan had turned nonperforming for the **first time in July**, which is when the loan was scheduled to mature. **The trustee received its August payment**, but has yet to receive its September payment. The borrower had been in a forbearance period from the July maturity date through September to secure refinancing. However, the loan is now with the special servicer as of September, as it seems that a refinance has not been successful. The collateral property is a 315-unit mid/high-rise multifamily property in Cliffside Park, New Jersey.

Newly Cured/Resolved Loans

Amid crabgrass, there are always green shoots. Even though a large volume of loans became newly delinquent, there was also a substantial amount of loans that cured. Beware that, as noted in the above new delinquencies, some of these cures will eventually become delinquent once again as the borrowers and lenders posture and negotiate. Below are the largest loans that cured in September.

Multifamily

- **In August**, the $506.3 million **JPMCC 2021-NYAH** Portfolio loan made up 70% of the newly delinquent multifamily loan balance, with August servicer data reflecting a new nonperforming matured balloon delinquency status on the loan. However, in September, the delinquency status changed to performing matured balloon, removing it from the outstanding multifamily delinquent loan balance once again. The loan is backed by 53 multifamily properties in 31 property groups with a total of 3,531 units across Manhattan, Brooklyn, Queens, and the Bronx. The loan is past its scheduled maturity date in June. The fully extended maturity date on the loan is June 2026.

Office

- The $243 million **Lafayette Centre** loan, which transferred to the special servicer in May for imminent monetary default, became current on payments again in September. The collateral is a nearly 800,000-square-foot office in Washington, D.C. at 1120 20th Street Northwest and 1133 & 1155 21st Street Northwest. The Commodity Futures Trading Commission (CFTC) is the top tenant with 36.5% of the space; however, the CFTC's lease ends in September 2025 and the Commission announced it will be vacating

- Several securitized pieces of the $275 million **805 Third Avenue** loan turned less-than-one-month delinquent in September from a more severe previous delinquency status. One of the pieces already cured in August. The collateral is a nearly 600,000-square-foot office near 50th Street and Third Avenue in Manhattan. The top tenant is publisher Meredith Corporation with more than 35% of the space. Servicer notes indicate that, as of March 2024, the occupancy has dropped to 57%.

Retail

- The status on the $300 million **Santa Monica Place** loan has changed back to current according to September servicer data. We reported in a June edition of the **TreppWire newsletter** that Macerich Co. was turning over Santa Monica Place, the 523,139 square foot shopping mall in Santa Monica, CA, to the CMBS trust. The loan transferred to special servicing in April due to imminent maturity default, and became 30 days delinquent in May, but the delinquency status changed back to the grace period in July and thus taking it out of delinquency. In August, the status flipped back to 30 days delinquent. In the first quarter of 2024, the DSCR (NCF) on the loan fell to 0.54x along with occupancy also dropping to 69%. Recent servicing commentary notes a balance of outstanding tenant improvements remains for two tenants, and it is projected to be completed by June 2025.
- In September, the delinquency status on the $190.5 million Tucson Mall loan changed to performing matured balloon. The status on the loan had been nonperforming matured balloon since June. The loan originally matured in June 2020, after which Brookfield negotiated a one-year extension and two additional one-year extension options, which were both exercised. In June, the loan defaulted at its final maturity. The property owner asked that the mortgage be extended once more, this time by three years. However, servicing commentary stated that the lender does not anticipate granting a three-year extension and that the borrower and special servicer are discussing a potential short-term forbearance to allow several new tenants, including one new anchor, to take up occupancy, before listing the property for sale.

Newly Modified Loans

Trepp also tracks CMBS loan modifications monthly, identifying loans with new modifications to loan terms and excluding loans exercising extension options.

- An assumption and modification on the $121.1 million **RiverTown Crossings Mall** loan were both closed at the end of August, converting the loan to interest-only and extending the maturity date to June 2028 from a previous maturity of June 2021. Servicer notes specify that the assumption and modification provide that another national retail owner will continue to invest additional equity towards closing expenses and reserves to stabilize cash flow, and manage and lease the property. The loan is backed by 635,769 square feet of retail space in a Grandville, MI regional mall. The property was built in 2000.

To Conclude

In September 2024, the CMBS market saw significant credit changes in newly delinquent loans, cured loans, and modified loans, with the retail and office sectors taking the brunt of the delinquencies. Trepp research tracks these and other trends monthly, and their impact for market participants. For more in-depth analysis and to stay updated on daily CRE credit news, **subscribe to our client-only newsletter, TreppWire**.

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