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CMBS loan defaults spike in 4th quarter

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Defaults of South Florida properties covered by commercial mortgage-backed securities (CMBS) accelerated in the fourth quarter as aggressive loans made during the boom years went sour.

The CMBS defaults have triggered foreclosure lawsuits on prominent properties, such as the CocoWalk entertainment complex and Biscayne Landing. It's also threatening glitzy hotels such as the Shore Club.

According to data provided by New York-based Trepp LLC, South Florida had $1.38 billion in delinquent CMBS loans, representing 8.67 percent of all South Florida CMBS loans, on Dec. 31. That's up from $872 million in delinquent CMBS loans, or 5.44 percent, on Sept. 30.

The national CMBS loan delinquency rate was 6.07 percent at year-end.

Trepp flagged $3.84 billion in South Florida CMBS loans on its Watch List, meaning that weakness in the borrower or property could lead to a loss in value on the loan.

CB Richard Ellis Vice Chairman Christian Lee said some of delinquencies are the result of a business decision on the part of the property owner, sometimes

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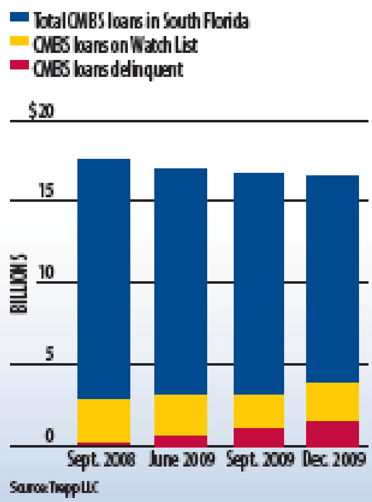
SOUTH FLORIDA CMBS TRENDS



MARK FREEDKS

The Village Shoppes on 441 in Wellington is tied to a CMBS loan in delinquency.

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CMBS: Troubled loans should continue to mature through 2013

THE DETAILS

The 10 largest delinquent CMBS loans in South Florida

BISCAYNE LANDING
- **Location:** Undeveloped site at Biscayne Blvd. and Northeast 151st St., North Miami
- **Outstanding balance:** $160.3 million
- **Status:** Nonperforming and matured, junior loan in foreclosure

THE SHORE CLUB (PHILIPS SOUTH BEACH)
- **Location:** 1901 Collins Ave., Miami Beach
- **Outstanding balance:** $111.5 million
- **Status:** 90 days past due

GALLERY AT COCOWALK (PMAT COCOWALK)
- **Location:** 3015 Grand Ave., Miami
- **Outstanding balance:** $79.4 million
- **Status:** foreclosure lawsuit pending

ROYAL PALM RESORT
- **Location:** 1545 Collins Ave., Miami Beach
- **Outstanding balance:** $74 million
- **Status:** Foreclosure lawsuit pending

RIVERGATE PLAZA
- **Location:** 444 Brickell Ave., Miami
- **Outstanding balance:** $58.5 million
- **Status:** Foreclosure lawsuit pending

PALM BEACH MALL
- **Location:** 1801 Palm Beach Lakes Blvd., West Palm Beach
- **Outstanding balance:** $50.2 million
- **Status:** Foreclosure lawsuit pending

PALM BEACH GARDENS MARRIOTT (IPROCPALMBEACH)
- **Location:** 4000 RCA Blvd., Palm Beach Gardens
- **Outstanding balance:** $50 million
- **Status:** 90 days past due

SOUTHERN POINTE/WATERS EDGE AT WELLEBY (BROWARD MULTIFAMILY VENTURES)
- **Location:** 8080 N.W. 10th Court, Plantation/11085 N.W. 40th St., Sunrise
- **Outstanding balance:** $43 million
- **Status:** 60 days past due

VILLAGE SHOPPES ON 441 (CENTRE ON 441)
- **Location:** 10101 Southern Blvd., Wellington
- **Outstanding balance:** $37.5 million
- **Status:** 60 days past due

GREENERY MALL (KENDALL 77)
- **Location:** 7700 N. Kendall Drive, Miami
- **Outstanding balance:** $34 million
- **Status:** In default

Source: Trepp LLC., using reports from CMBS servicers

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as a result of losing a key tenant.

"Let's say I bought a property for $50 million," he explained. "I borrowed $40 million, and it's worth $30 million or $25 million because the market changed or there was an event at property. It doesn't make economical sense to throw good money after bad."

Working similarly to the mortgage-backed securities (MBS) market that contributed to the housing bubble and financial meltdown, CMBS loans were originated by financial firms and then packaged with other loans for sale to investors as securities. Investors could buy different tranches of CMBS loans – putting them in position to take the first, the middle or the last hit on their investment if the loan loses value. These loans typically matured in four or five years. CMBS loans signed during the height of the boom at peak values have started coming due and should continue maturing through 2013.

If a CMBS loan goes into default, it is referred to a special servicer, who must decide how to deal with the loan on behalf of investors.

Devlin Marinoff, the managing director of Miami-based commercial real estate brokerage Whitehall Realty Advisors, attributed the climbing delinquency rate to greed and a lack of accountability on the part of originators because they often don't keep the loan.

The officers who approved CMBS loans were more concerned with generating fees than writing solid loans, Marinoff said. He worked in New York during much of the real estate bubble and saw CMBS loans being done on Florida properties that were based on speculative increases in value and rent.

"Everything was about generating fees. It didn't matter that these people didn't have credit or income," Marinoff said. "The CMBS market worked well for a number of years, but in the last two years before the market crapped out, it got too aggressive, especially down here. All you had to do is create a good story and create enough fees that everything can get financed."

As an example of an aggressive deal, he pointed to CocoWalk, which received an $80 million CMBS loan after being sold for $87 million. He also highlighted Biscayne Landing, which pledged a leasehold interest in a former landfill for a $196 million CMBS loan plus a $35 million mezzanine loan. Deals like that don't make sense on paper based on traditional loan-to-value formulas, Marinoff said.

Stephen Nostrand, Colliers International executive VP in Miami, said he got five or six calls a week during the real estate boom from CMBS originators looking to meet their quotas of loans. They made the approval process too easy, he said. "They leveraged the amounts of deals because of pure greed."

Gavin Campbell, a managing partner of Miami-based commercial investor Steelbridge Capital, said land deals like Biscayne Landing are the likeliest to fail because they don't have income. Other commercial investments that will come under pressure are hotel deals and single-tenant office buildings.

Now that CMBS loans are turning up in default, special servicers are hesitant to sell delinquent notes to investors or modify loans with borrowers, Marinoff said. A client of his intentionally missed payments on a Miami shopping center so he could negotiate for modification with a special servicer. However, the special servicer refused to negotiate and filed for foreclosure.

Marinoff said special servicers are afraid to modify or sell loans because shareholders could seek to hold them liable for making a bad deal. It's safer for them to foreclose, even if the CMBS fund ultimately takes a bigger loss on the loan.

"If all these delinquencies end up in foreclosure at the same time and are put on the market, there will be a huge glut," Marinoff said.

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