

## CMBS Market Still Resilient Despite Office Headwinds



Extended uncertainty about the anticipated return to the workplace will have ramifications in the securities markets, but commercial mortgage-backed securities (CMBS) are holding strong... for now.

### *CMBS 101:*

*Commercial mortgage-backed securities (CMBS) are a financial product, a type of bond issued in securities markets, and built on the cash flow from pooled mortgages on commercial properties. They are often grouped by region or type of property, such as office CMBS or multifamily CMBS.*

### **Vacancy Rate Effect**

Naturally, the health of the underlying category influences the CMBS itself, although, unlike direct investment, these have a degree of diversification built into the asset which represents a bundle of loans.

In the US, the office sector currently accounts for almost a third of the underlying value within CMBS, and this has institutional investors wary, despite the 38.6% improvement in office occupancy in late 2021, investment specialist Jen Ripper told Commercial Observer.

This means “upcoming lease rolls and loans” would be “under heavy investor scrutiny”, she added.

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### Trends Over Time

CMBSes have, however, been resilient throughout the Covid-19 pandemic. CRED iQ – a data company – told the publication that CMBS office debt has remained relatively unscathed, with only 2.89% in “either delinquency or special servicing”. In December 2021, the delinquency rate decline made for a 17-month streak of improvement.

“By property type”, they added, “individual delinquency rates for lodging and retail exhibited modest month-over-month improvements but still remain the two most distressed sectors.

This is largely in line with the results from data provider Trepp, who found the delinquency rate across categories dropped 20 basis points from October to 4.41% in November 2021. Within Trepp’s report, though, lodging and retail “saw the biggest improvements”.

### Uncovering Opportunities

Beyond its relevance for investors, keeping an eye on the strength of CMBS loans can help commercial real estate (CRE) professionals in spotting opportunities and even leads – as they form part of property debt research.

