



A10 Capital funds purchase of defaulted CMBS multi-family loan for 55% discount as sector outlook stabilizes

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Story

A10 Capital financed USD 4.6m of a USD 10m purchase by opportunity fund for a defaulted multi-family loan from a CMBS pool, according CEO Jerry Dunn. The loan has an unpaid balance of around USD 22m, making the purchase a 55% discount to face value.

“This was a classic example of an aggressively underwritten CMBS pro forma loan,” Dunn said. Despite some short term operational challenges that have since been corrected, the property could not cash flow even at its high occupancy rate of 85%.

Multi-family had been the most rapidly deteriorating commercial real estate sector for several months until May, when the asset class saw its first sign of improvement, according to Barclays’ 29 May Securitized Products CMBS update. Thirty-day delinquencies for multi-family loans across all vintages increased the most compared to other CRE types in March and April, increasing 32bp and 124bp, to 3.92% and 5.15%, respectively. Delinquencies in multi-family remained relatively flat in May, increasing to 5.22%, overall, across all vintages. The 2007+ vintage currently has the highest rate of delinquency of 7.19%, but saw a 42bp drop from 7.61% in April.

The overall increase in delinquencies for multi-family in May was narrower than any other CRE asset; office, retail, industrial, hotel and other CRE increased 25bp, 41bp, 23bp, 108bp, and 39bp, respectively. Weakness in assets other than multi-family, specifically hotels, will be the key theme in the second half, according to the Barclay’s report.

According to Matthew Anderson, partner at Foresight Analytics, a California-based real estate market research firm, which tracks FDIC-insured institutions, the multi-family delinquency rate is currently 3.8% and expected to be about 5.8% by the fourth quarter. Foresight’s research covers about 50% to 60% of the commercial mortgage market but does not include CMBS assets, which have higher delinquency rates.

Several sources agree that the GSEs will play a substantive role in attempts to stabilize both single-family and multi-family mortgages. Active commitment of the GSEs as well as FHFA will help keep “multi-family delinquencies” manageable, according to Steven Marks, managing director of REITS at Fitch, in Fitch’s Annual Real Estate Summit conference earlier this week.

The displacement of a great deal of families due to multi-family foreclosures “just doesn’t play with the press,” according to a partner at a real estate advisory firm. The government is going to step in to limit those types of foreclosures, he said. No one is displaced when retail and offices foreclose, he added.

Multi-family construction delinquency rates rose to 6.8% in 1Q09 from 4.8% in 4Q08, although the amount of multi-family loans outstanding shrunk by 11%, as a result of further declines in condos and a sharp decline in apartment construction lending, according to Foresight Analytic’s 1Q09 Construction Lending Activity report released yesterday.

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