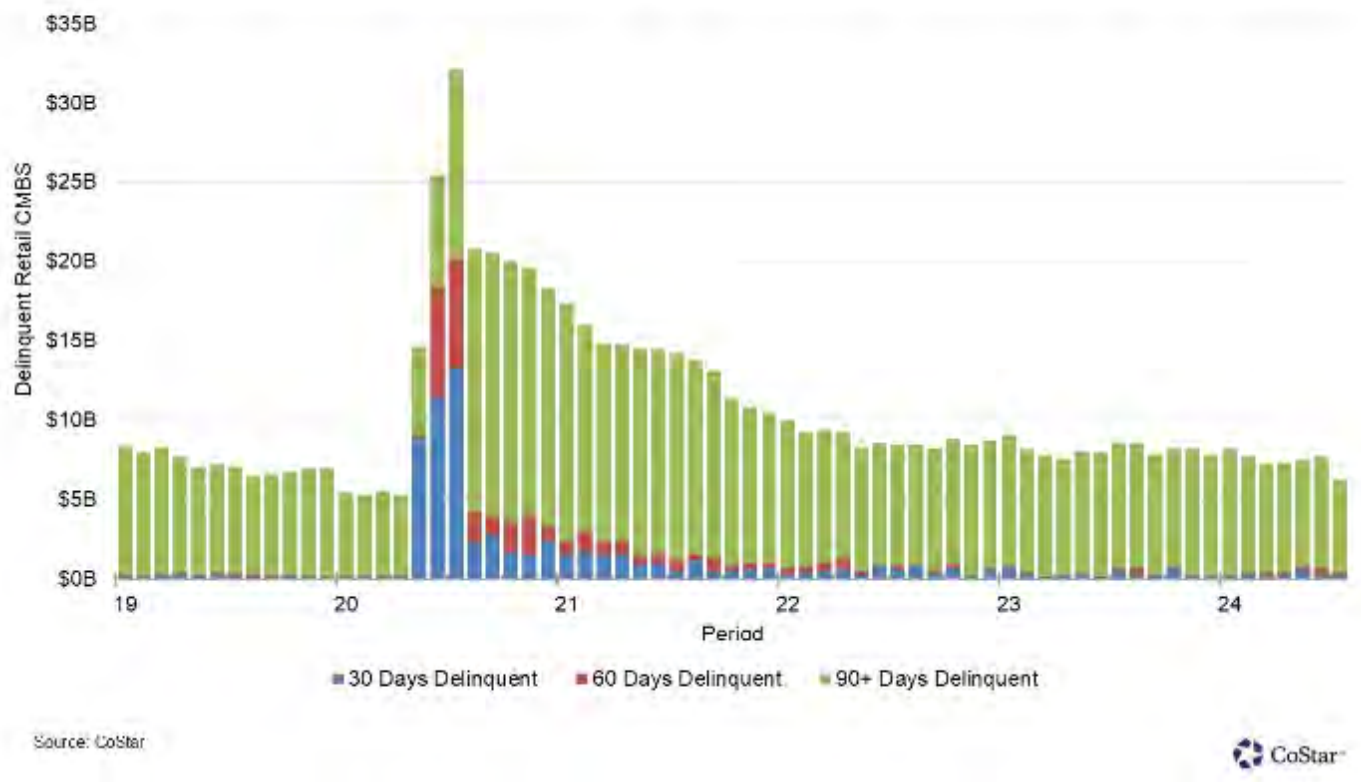


Retail CMBS loans behind on payments recede further
Low vacancy helps the sector’s progress

Delinquent retail CMBS falls to lowest level since 2020



By Brandon Svec

The amount of retail commercial mortgage-backed securities behind on payments receded again in July to the lowest point since delinquencies spiked in response to pandemic-era shutdowns.

About \$6.3 billion of retail CMBS loans were listed as delinquent as of July, equating to 5.6% of the nearly \$112 billion outstanding during the month. While still elevated from a historical perspective, the delinquency rate on retail CMBS loans has held steadily below 6% over the past year and is less than half of the pandemic era peak of 15.6%.

This decline in delinquent loans bucks the trend in the office, hospitality, and multifamily sectors. It has been driven by trends that include a limited number of loans falling behind on payments resulting from the post-pandemic surge in consumption, and low-vacancy space market conditions creating a more favorable operating environment for landlords. Just 6.5%, or \$410 million, of delinquent retail CMBS loans were less than 90 days late on payments in July.

The remaining \$5.9 billion of loans have been delinquent for over 90 days. It was this segment of

the troubled-CMBS market that saw the largest decline in July, falling by over \$1 billion month-over-month due to the resolution or refinancing of numerous large loan delinquencies.

While much progress has been made, nearly 300 retail properties were backed by loans that were delinquent by 90+ days in July. Of these, 214 were in maturity default, while 75 were seriously delinquent or had already been transferred to a receiver to handle value preservation and disposition.

The significant number of retail CMBS loans that are still in maturity default highlights the difficulty many landlords are facing in refinancing property debt in the current lending environment. In many instances, the issues have been exacerbated by the loss of key tenants or department store anchors. This is especially true for many regional and super regional malls, which account for slightly more than 70% of the retail space tied to CMBS loans in maturity default.

Falling interest rates and the current strong retail operating environment should contribute to further improvement in the number of retail CMBS loans able to refinance their debt as we move into 2025. However, it may prove to be too little too late for some borrowers, while others, especially those with large, underperforming enclosed malls, will find refinancing opportunities remain quite limited.