

The Property Line Podcast - CMBS/CRE CLO Loan Maturities and Current Market Stress

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Welcome to *The Property Line*, a commercial real estate podcast brought to you by Seyfarth Shaw's Real Estate department. *The Property Line* is a brief discussion of current market trends, bringing you insights from our acclaimed national team of real estate attorneys. Each episode focuses on a key takeaway for the busy real estate professional. Now, on to this week's discussion.

Dan Evans

Hello and welcome back to *The Property Line*. My name is Dan Evans. I'm a partner in Seyfarth Shaw's Real Estate group. We're joined today by Michael Cohen, managing partner at Brighton Capital Advisors, someone who's been on the borrower side, someone who's been on the debt side, someone who I've worked with for going on 20 years now at least, and one of my all-time favorite people in the world. Michael, thanks so much for joining us today.

Michael Cohen

Hi, Dan. Yeah, it's great. It's funny that we're like now talking on different sides, but about the same topic. And, you know, I think you and I learned a lot of lessons through closing all these loans in different parts of the country at different times of the CRE cycles. And I think that really puts us both in a kind of a unique position to kind of read the tea leaves of what's going to happen next.

Dan Evans

Amen to that. Before we dive in, can you give us a quick snapshot of your perspective regarding today's maturity environment? What types of situations you're seeing, what you're advising on?

Michael Cohen

Sure. So let me, I just want to back up and talk about who I am for a minute, because I want everybody to understand what my perspective is. I've been in CMBS since the early 90s, was at DLJ and started their conduit, *The Confinancial*. Eventually, a couple of years later, moved down to Charlotte, North Carolina, where I still reside today. After 28 years, and to start the conduit program, the CMBS conduit program at First Union, which is now Wachovia. From there, went to Deutsche Bank to start their program. And at that point, my roles had moved from program manager, and at first it was, you know, putting the prospectus together to heading up the southeast to mid-Atlantic for Deutsche Bank. And then from there, took over the role, the same role, doing it at UBS and then finally Citi. So really fascinating career over a number of cycles in CMBS. And then in 2020, I started this business to help borrowers go through and navigate CMBS servicing and special servicing. It came very clear to me that we had a change in a seismic shift in the way that commercial real estate works. And once we get into this a little bit more, I'll explain how CMBS loans are based on the very recent past and are very inflexible to make those changes. I could talk about today's environment in a number of ways. I think kind of working backwards from today, I think we're in a very precarious situation with a lot of loans. The current situation of the conflicts that are occurring in the world are creating instability in the capital markets. You can just tell that by the VIX number that has been kind of bouncing pretty high since the beginning of this conflict, which causes uncertainty of investors to flight to quality, and then it raises coupons. But overall, the biggest problem is that many of these loans that are coming to maturity today have a coupon that is much lower than what's being offered. So, for

example, in the fourth quarter of last year, 80% of all loans maturing had a coupon of 5% or less. So if it's just quick math, you're going to realize that they're mostly cash and REFs. In addition, the amount of availability of current financing is more limited and select. So there's a number of loans of which, either because of qualitative issues or quantitative issues, aren't going to be able to get refinanced. For example, if you have a lease term that's a one year left or two years left, or they vacated, it's going to be impossible. So I think it's a year that the borrowers really need to be prepared and they really need to be offensively speaking to their lender to make sure that they can get something done and extend and defensively to make sure that the CMBS lender doesn't take the loan back.

Dan Evans

Incredibly interesting, especially seeing how the rate environment has shifted and is continuing to show some levels of questioning and volatility and the like. Like what property types are you seeing experiencing the most stress right now? Are there regional regulatory market specific policies shaping these timelines or borrower outcomes, or is it asset class based? What are you seeing along those lines?

Michael Cohen

For the last probably two years or three years, I've been saying that multifamily is hiding in the shadows of office, and now we're seeing the multifamily market starting to really have issues. And we also advise on CLO loans, which are probably going to have the biggest issues. So in order of magnitude, I'm going to put office second and multifamily first. I think we identified offices as an obsolete product that needs to be converted or needs to be reset in values in order to kind of attain and retain tenants. But really multifamily is going to be the biggest problem we're going to face, and it should be the headline news, but it's not. Multifamily by itself is fundamentally sound, but the problem is that it's over levered. Between 2018 and 2023, we saw a very large number of loans that didn't go to Fannie or Freddie got securitized in CMBS. Those loans are over levered. In fact, I was on the Deutsche Bank Research podcast, I don't know, probably four weeks ago, and they gave me the stat, which was of all multifamily loans originated in CMBS in the year 2023. In February of 2026, 26% of those loans are 60 days plus delinquent. We're starting to see the CLOs having issues where the borrowers are frankly out of money and there's no market to sell into. So we know, for example, Class C multifamilies, especially where there's ICE in the area, they're not financeable and they're not sellable. And we're seeing that the owners are not having enough capital to put in maintenance into these properties. So there's going to be an issue of reckoning and it's coming. So in terms of office, I think if the borrowers are ready to come in with money in a good plan, we are able to get them extensions and modifications. The hardest thing for anybody in this marketplace is to deal with CMBS servicers. I'm not saying that they're bad people, they're good people. They have their rules and regulations of which most people don't understand how it operates, and the communication gap is wide. The last one I want to talk about is hotel. I think hotel is really kind of on the precipice of either going, of staying the same or getting worse. The high volume of expenses, or the increase in expenses, the increase in financing, Those are all putting pressure on having higher ADRs for guests. And I think if there's a slowdown, and I heard there might be a slowdown in airline travel right now, which could be a slowdown in business travel, which will put pressure on the loans that are coming to maturity to get refinanced.

Dan Evans

Those are incredible numbers, frankly, with the 60 days in particular, and then just.

Michael Cohen

Another one is 4 out of 10 CMBS office loans are not getting refinanced today, don't qualify.

16% of all specialty service loans right now, loans are in special transfer to special servicing are performing. What does that mean? They actually have cash flow coming in. They're stuck. And when you're in CMBS special servicing, you do not want to rush to get there. The fees are incredibly big.

Dan Evans

So how have you seen special servicers perhaps change their approach or how are they addressing kind of this influx of distress, but cash flowing distress, which is crazy.

Michael Cohen

Since the fourth quarter of last year, the lenders are definitely getting more aggressive because as we talked about, the coupons are not going down. Therefore, cap rates are not going to go down and we're finding pricing and the borrowers of the market's finding pricing. I was speaking on a panel with an economist from one of the major banks, and their analysis was that Class A is on its rebound, Class B, and this is all across the board, assets are stabilizing, and distress always follows that stabilization. And if you look back at the Great Recession, it's kind of the same thing. It's 2010, but it was really 2012-2014 until we really kind of got footing. What that's doing is there's trades in the market, so it's giving the lenders more confidence to go into foreclose and take action because they know they have a market to sell into. So we are seeing an aggressive, very aggressive approach by all servicers. They're looking at every loan. They're looking at all the loan covenants. They're looking at things that they might have missed, and they're going for any fees that they can get. So when I say you have to fix it in 26 or lose it, I'm not kidding. There's no more pretending here, and there is a willing market out there to take your property and a lender who will do it. CMBS servicing is particularly not aligned with the borrower because all the fees that would go to the special servicer if the loan is foreclosed are taken off the top of the liquidation proceeds and given to the special services. So there's no incentive to really work with you unless you come in with a solid plan and you have good lawyers that are behind you to tell you where your exposure is on your guarantees and your tax consequences from your CPA.

Dan Evans

So the end of extend and pretend or delay and pray or whatever phrase you want to use brings us to a place where we tend to see A, properties turning over and B, additional requirements for either refinancings or acquisition financing. What do you think happens to originations volumes in 2026, 2027 as a result of that?

Michael Cohen

I think volumes will continue to rise. They have to, because we're in a situation right now where the biggest maturity wall on CMBS is 2027, because that's the 2017 record-breaking year. Plus we have loans that are coming in that were modified, that are extended. So that's increasing the flow of this. The bank balance sheets, if they don't get rid of a lot of their product, they're going to have some problems and the insurance companies as well. So everybody's going to be selective. So you really have to, in this game of musical chairs, get to your seat or get extended. You cannot go to the special servicer and say, I don't like the current marketplace of what my proceeds are, what my rate is, and I want an extension. But you can get one if you say, look, this is my property is either caught up in a bad market or it's caught up in a particular situation of lifecycle where we are the best shepherd to take this through to the next, to get this refinanced or sold, but we need some time.

Dan Evans

Well, Mike, we are at the end of our time, it appears like, so we'll wrap it up here. Thank you so

very much for joining us today and for sharing your insights. A special thanks to our listeners for tuning in. Please keep an eye out for future episodes. Again, Michael Cohen, managing partner, Brighton Capital Advisors, industry vet, and a gentleman with very interesting perspectives on the market. Thank you, sir. We appreciate your time.

Michael Cohen

Thanks.

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