CMBS Powder Keg

By: Greg Dahms

The fuse was lit almost a decade ago…don't let the fact the powder keg of CMBS maturities hasn't blown up yet make you think it won't. Unlike those old westerns, where the hero runs ahead of the flaming line of gunpowder and kicks it away to save the day, there is no way to put this fuse out. It will blow up, no one who knows the situation disputes that.

The estimated $400 Billion in CMBS loan maturities, needing refinancing, strain available capital. To make matters worse; the high leverage allowed in CMBS in 2005-2007, a slow recovery of commercial real estate values and loss of large retail anchor tenants, has caused nearly 25% (est. $100B) of the $400B figure to be significantly overleveraged and unable to be refinanced.

The only possible solution is to remove as much of the 'powder' (working out individual distressed CMBS loans) as possible. Or at least spread it out so it does not have as much 'explosive force'.

So, if this problem is so potentially damaging to our economy, why is this topic being avoided in the media? Why are some groups downplaying the potential financial 'Kaboom' that is coming?

Perhaps they fear it would dissuade investors from investing in the largest CMBS market since the 2007 peak. With the past 3 years boasting a 20% year over year growth in new CMBS inception.

A recent comment by an industry publication editor sums up their message, he wrote, "The future's so bright, you gotta wear shades"…perhaps that is to protect you from the blinding flash of the exploding powder keg. A powder keg that lies squarely between us and that possible bright future. Don't get me wrong, it's not anti-CMBS or saying that our future can't be bright. It is just that there is still much work to be done cleaning up from the last party, before we should hope to enjoy the next one.

The fuse is still burning and there is still a lot of powder in the shed. Time is running out to reduce the potentially explosive event that is 2015-2017 CMBS maturities.