



# DBRS Canadian CMBS Update

*Leading or following?*



*insight beyond the rating.*

PRESENTED BY

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# DBRS Outlook - Canadian CMBS

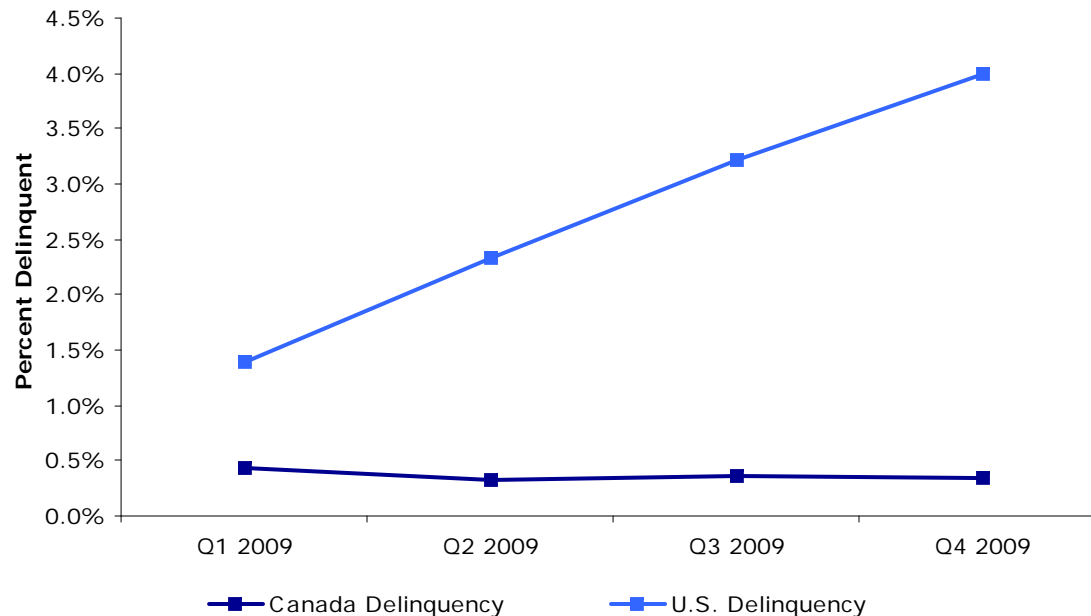


- A Look Back at 2009.
  - Market performance.
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- Maturities.
  - What's happened with maturing loans?
  - 2010 and 2011 - More of the same?
- Canadian Market Statistics.
  - Property type review.
- 2010 Outlook.
  - DBRS forecast.
  - Possible return of new issuance.
- DBRS CMBS Methodology Revisions.
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# 2009 Quarter over Quarter CMBS Delinquency



Canadian versus U.S. Delinquency



Includes 60-day, more than 90-days, foreclosure and REO  
Source: Trepp, LLC and DBRS, Inc.

- The U.S. CMBS delinquency rate continues to distance itself from that of the Canadian market with no indications of a lag effect on the horizon.
- Delinquencies within Canada remain one off instances, often associated with borrower related issues.

# The Difference is the C.U.R.E.



- **C**ap Rates
  - Leverage
- **U**nderwriting
  - Pro-forma (lack thereof)
- **R**ecourse
  - Borrower accountability
- **E**xit Strategy
  - Amortization structure

# The Impact of Amortization



**Table 1: Stressed Appraised Values: 2005-2007 Vintages**

	Whole-Loan Current LTV	Whole-Loan Maturity LTV
50th Percentile	91.0%	77.0%
75th Percentile	99.0%	86.0%
90th Percentile	104.0%	93.0%
95th Percentile	108.0%	96.0%

Note: 30% stress to appraised value from issuance.  
Source: DBRS Annex A Advisor

- Amortization protects against cap rate expansion and fluctuations in property cash flows.
- The U.S. value decline, from peak, is anticipated to be anywhere from 30% to 50%, attributed to both cap rate expansion and phantom net operating income (NOI).

# DBRS Canadian CMBS Rating Actions



**Table 2: Canadian CMBS Ratings Actions: 2005-2009**

	2005	2006	2007	2008	2009
Upgrade	35	54	60	68	10
Downgrade	0	0	0	3	0
Discontinued- Repaid	16	11	0	13	14

Source: DBRS, Inc.

- The limited downgrades to date are reflective of the performance of the underlying assets.
- Fewer upgrades in 2009 are a result of less defeasance and uncertainty surrounding market forces.

# Canadian Specially Serviced Loans



**Table 3: Canadian Specially Serviced Loans**

Loan Name	Transaction	Current Trust Balance	City	Province	Property Type	Maturity Date	Default Status
TransGlobe Pooled Senior Loan	MLFA 2005-CAN17	\$70,096,600	Various	Various	Multifamily	9/1/2015	Current
TransGlobe Pooled Senior Loan	MLFAFA 2006-CAN18	\$57,351,763	Various	Various	Multifamily	9/1/2015	Current
Marriott Pooled Senior Loan	MLFA 2006-CAN20	\$25,893,004	Various	ON	Full Service Hotel	2/1/2011	Current
Marriott Pooled Senior Loan	MLFA 2006-CAN19	\$25,893,004	Various	ON	Full Service Hotel	2/1/2011	Current
Castleridge Plaza	MLFA 2007-CAN21	\$9,924,036	Calgary	AB	Unanchored Retail	1/1/2012	Current
Summit Properties	MLFA 2006-CAN20	\$8,063,545	Leduc	AB	Multifamily	8/1/2016	Current
Skeena Mall	MLFA 2001-CAN5	\$6,633,531	Terrace	BC	Anchored Retail	2/1/2011	90+ Days
Holiday Inn Brampton Select	MLFA 2002-CAN7	\$5,845,459	Brampton	ON	Full Service Hotel	6/1/2011	<1 Month
Ramada Coral Inn	MLFA 2001-CAN5	\$4,873,218	Niagara Falls	ON	Full Service Hotel	2/1/2011	90+ Days
8655 Foucher Street/600-670 Cremazie Blvd	REAL-T 2004-1	\$4,592,044	Montreal	QC	Multifamily	6/1/2014	60 Days
Ramada All-Suite	MLFA 2001-CAN5	\$3,914,551	Niagara Falls	ON	Full Service Hotel	2/1/2011	90+ Days
Queen Mary Multifamily	MLFA 2007-CAN22	\$2,980,268	Montreal	QC	Multifamily	5/1/2012	<1 Month
Sinclair Avenue Industrial	REAL-T 2004-1	\$2,836,266	Georgetown	ON	Industrial	10/1/2009	Performing Matured
3007 57th Avenue	REAL-T 2007-2	\$2,719,739	Calgary	AB	Industrial	1/1/2012	90+ Days
8120 Lawson Road	REAL-T 2004-1	\$2,662,374	Milton	ON	Industrial	10/1/2009	Performing Matured
Sussex Mall	MLFA 2002-CAN7	\$2,446,077	Sussex	NB	Anchored Retail	5/1/2009	Non-Performing Matured
Chelmsford Plaza	MLML 1998-CAN1	\$2,441,244	Chelmsford	ON	Anchored Retail	1/1/2009	Performing Matured
Deer Valley Station	REAL-T 2004-1	\$2,294,563	Calgary	AB	Unanchored Retail	7/1/2014	<1 Month
The Pointe Inn	MLML 1998-CAN1	\$2,185,798	Calgary	AB	Full Service Hotel	5/1/2020	Current
Millrise Plaza	REAL-T 2005-2	\$2,032,218	Calgary	AB	Unanchored Retail	7/1/2015	<1 Month
Grand Boulevard Multifamily	MLFA 2005-CAN17	\$1,804,855	Montreal	QC	Multifamily	9/1/2015	90+ Days
Snowdon Professional Building	MLFA 2005-CAN15	\$1,564,795	Montreal	QC	Office	10/1/2009	Non-Performing Matured
Bonsor Commercial	Schooner 2007-8	\$899,393	Burnaby	BC	Unanchored Retail	4/1/2012	90+ Days
8355 Labarre Street	REAL-T 2006-2	\$863,614	Montreal	QC	Industrial	6/1/2016	90+ Days
Total - 24 Loans	\$250,811,959						
Cumulative CMBS Specially Serviced Rate	1.53%						

Source: DBRS Annex A Advisor

## 2009 Headline Defaults: TransGlobe & Marriott Loans



- Two pari-passu loans securitized in four CMBS transactions (combined A-notes of \$181.8 million):
  - TransGlobe Pooled Senior Loan
    - MLFA 2005-Canada 17 and MLFA 2006-Canada 18.
  - Marriott Pooled Senior Loan
    - MLFA 2006-Canada 19 and MLFA 2006-Canada 20.
- Portfolio performance not the primary issue.
- Different resolution strategies, similar results:
  - The respective trusts are protected from principal recovery perspective.
  - The B-notes are still largely in the money.
  - Compared to the U.S. market, borrowers still have skin in the game.

# Realized Losses and Loss Severities



- Canadian CMBS realized loan losses to date:
  - Seven loans with loss severities ranging from 0.1% to 41.3%.
- Largest loss (liquidated Dec. 09), Bullock Drive Industrial
  - Securitized in MLFA 2007-Canada 22.
  - The appraised value at issuance was \$8.5 million (\$71.56 psf).
  - The 2009 appraised value ranges from \$4.35-4.82 million (\$36.11 psf to \$40.02 psf).
  - The liquidated sale price was \$4.05 million (\$33.62 psf).
  - The total loss to the trust was \$2,513,204.
- Other large loans on the radar:
  - Skeena Mall, Ramada Coral Inn and Ramada All-Suite
    - All collateral in MLFA 2001-Canada 5.
    - The combined exposure is \$18.0 million.

# 2009 Loan Maturities



**Table 4: 256 Non-Defeased Loans - \$1.1 Billion (Issuance)**

	Prepaid - Liquidated	Paid as Scheduled	Late Pay		Extended	
			Paid	Unpaid	Paid	Unpaid
Number of Loans	19	192	23	7	10	5
% of Maturing Loans	6.5%	69.5%	10.8%	1.9%	4.7%	6.6%
Average Loan Size	\$3,802,191	\$4,021,856	\$5,239,696	\$3,108,497	\$5,211,267	\$14,812,886
Average Coupon	7.1%	6.7%	6.7%	6.5%	5.9%	5.6%

Source: DBRS Annex A Advisor

- 91.4% of 2009 maturities have paid out, of which 76.0% either prepaid or made balloon payments on time.
- In 2009, 15 loans were formally extended and five of those loans remain outstanding (new maturity dates range between January and July 2010).

# Extended Loan Breakdown - 2009



- **Larger Loans** – Loan extensions are biased towards larger loans with low coupons.
- **Market Driven** – Larger loans have needed extra time to obtain new financing but, based on their most recent full-year financials, they have exhibited stable performance with healthy debt yields.

**Table 5: Extension Detail**

	<b>Paid</b>	<b>Unpaid</b>	<b>Total</b>
Number of Loans	10	5	15
Top Ten Loans	2	3	5
Average Extension Term (Months)	2.8	4.7	3.5
Loans with Multiple Extensions	1	1	2
Loans with Curtailments	1	3	4
Average Curtailment % (Outstanding Balance)	45.2%	8.6%	17.7%
Full Recourse Loans	7	3	10
Average DSCR (Most Recent Full Year)	1.58x	1.70x	1.62x
Average Debt Yield (Most Recent Full Year)	17.5%	16.4%	17.1%

Source: DBRS Annex A Advisor

# Breakdown: 2010 Maturities



- In total, 287 non-defeased loans (\$1.46 billion) are scheduled to mature in 2010.
- These maturities are weighted in Q3 and Q4. The 2009 financials will provide additional insight to individual refinance profiles.
- On an average basis, maturing loans have reasonable leverage.

**Table 6: Debt Yields of Maturing Loans by Quarter**

	Q1 2010	Q2 2010	Q3 2010	Q4 2010
50th Percentile	17.0%	17.5%	19.0%	15.5%
25th Percentile	12.0%	14.0%	13.8%	13.0%
10th Percentile	10.4%	11.0%	9.0%	9.7%
5th Percentile	10.0%	9.3%	4.6%	9.0%
% Reporting	80.3%	95.2%	67.7%	57.0%
Total Loans	36	63	73	115

Note: 199 of 287 loans maturing in 2010 are reporting 2008 or 2009 financials

Source: DBRS Annex A Advisor

**Table 7: 2010 Maturities - Average Leverage**

Property Type	Avg. Loan Per Unit
Anchored Retail	\$84
Full Service Hotel	\$26,426
Healthcare/Retirement	\$69,330
Industrial	\$33
MHC	\$10,112
Mixed Use	\$52
Multifamily	\$39,497
Office	\$70
Self Storage	\$60
Unanchored Retail	\$103

Source: DBRS Annex A Advisor

# Breakdown: 2011 Maturities



**Table 8: 2011 Maturities - Average Leverage**

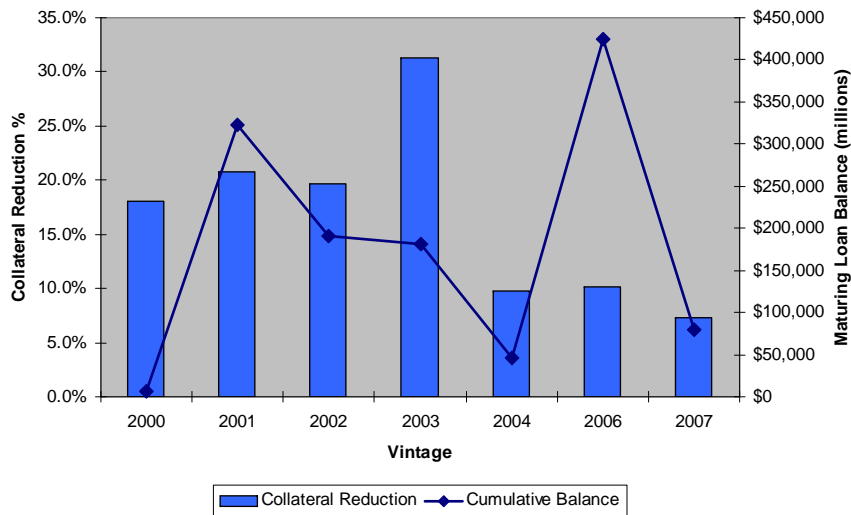
Property Type	Avg. Loan Per Unit
Anchored Retail	\$85
Full Service Hotel	\$47,065
Healthcare/Retirement	\$46,140
Industrial	\$32
MHC	\$12,997
Mixed Use	\$130
Multifamily	\$43,834
Office	\$82
Self Storage*	\$1,423
Unanchored Retail	\$114

\* Two of the ten loans sampled do not provide the square footage of the properties.

Source: DBRS, Inc.

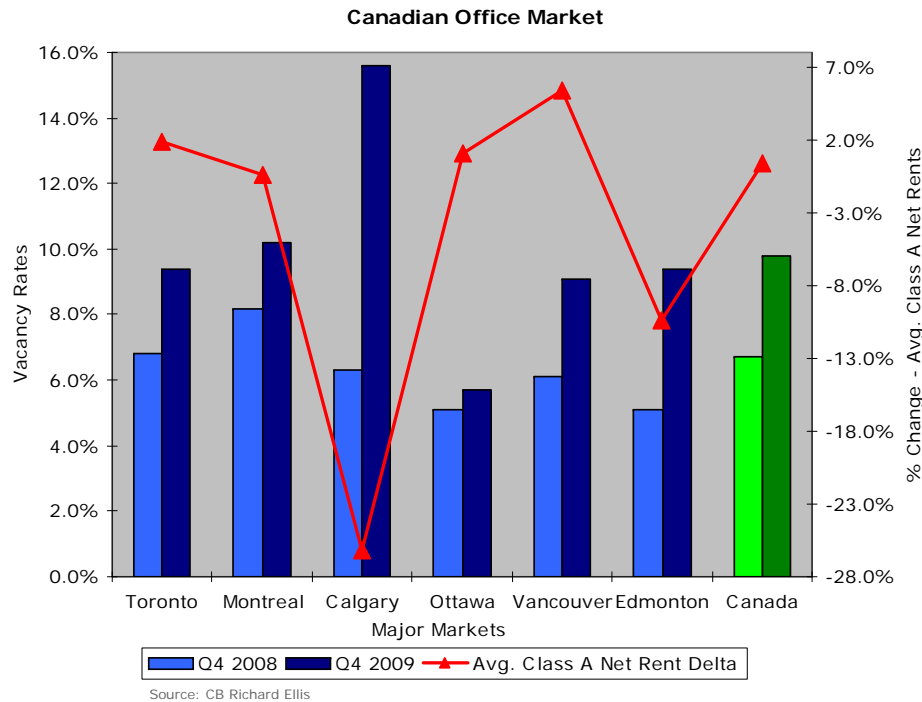
- In total, 231 non-defeased loans (\$1.25 billion) are scheduled to mature in 2011.
- Once again, 2009 financials will help provide additional insight to individual refinance profiles.
- Scheduled maturities weighted to five-year and ten year loans from 2006 and 2001 vintages, respectively.

**2011 Maturities - Collateral Reduction & Vintage Volume**



Source: DBRS, Inc.

# Canadian Office Market



- Supply and demand forces continues to drive individual market dynamics.
- Calgary led office construction volume in 2008 and 2009. Subsequently, the market also experienced the largest increases in vacancy and drops in rent.
- Meanwhile, smaller office markets such as Ottawa and Vancouver, which had less added inventory, saw average Class A net rents increase.

**Table 9: Canadian Office Construction Market**

	2008		2009	
	Under Construction as % of NRA	% of National Construction	Under Construction as % of NRA	% of National Construction
Toronto	4.3%	32.8%	1.7%	25.5%
Montreal	0.8%	2.8%	0.7%	4.6%
Calgary	15.4%	42.6%	6.5%	37.2%
Ottawa	0.7%	2.0%	1.2%	5.5%
Vancouver	2.9%	6.2%	2.8%	11.8%
Edmonton	7.8%	9.1%	4.4%	10.1%
Canada	4.5%	n/a	2.3%	n/a

Source: CB Richard Ellis

# Canadian Retail Market



**Table 10: Cap Rate Range Progression - Canadian Retail Market**

	Regional Mall	Power Center	Community Mall	Food Anchored Strip Plaza	Small Box (Stand Alone)
Toronto	+1.25%-0.75%	+1.25%-1.75%	+0.75%-1.25%	+1.5%-1.75%	+1.25%-1.5%
Montreal	+0.75%-1.0%	+1.25%-1.75%	+0.75%-1.0%	0.0%-0.0%	+0.5%-0.75%
Calgary	+1.0%-1.5%	+1.25%-1.75%	+1.0%-1.5%	+1.5%-1.75%	+1.0%-1.0%
Winnipeg	+0.0%-0.25%	0.0%-0.0%	+0.0%-0.25%	+0.0%-0.25%	0.0%-0.0%
Vancouver	+0.75%-0.75%	+1.0%-1.25%	+1.25%-1.25%	+1.0%-1.0%	+1.0%-1.25%
Edmonton	+0.25%-0.75%	+0.75%-1.0%	+0.75%-1.0%	+0.75%-1.0%	+0.5%-0.75%

Source: Colliers International Capitalization Rate Report - Q2 2008 and Q4 2009

**Table 11: Canadian Retail Sales**

	2009 (Year over Year)	
	Nov.	Aug.
Ontario	1.3%	-4.5%
Quebec	2.1%	-2.0%
Alberta	-6.9%	-10.1%
British Columbia	2.0%	-7.0%
Saskatchewan	-1.9%	-3.0%

Source: Statistics Canada

- The Canadian retail market has experienced less overall impact from large liquidating retailers.
- National retail sales showed signs of improvement in 2009.
- The predominance of large retail CMBS assets in Canada are operated by experienced and sophisticated operators.

# Canadian Industrial Market

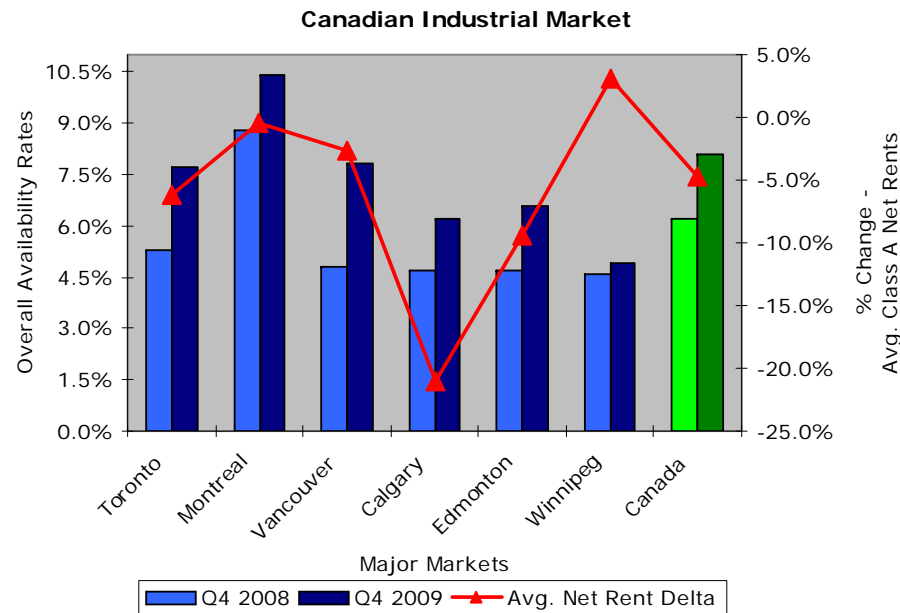


- Industrial rents decreased in 2009 (4.8%) but the rise in overall availability rates was less severe at 1.9%.
- In 2008, Vancouver led the nation in construction but was surpassed by Calgary in 2009.
- Overall, there has been limited new industrial construction in the Canadian markets.

**Table 12: Canadian Industrial Construction Market**

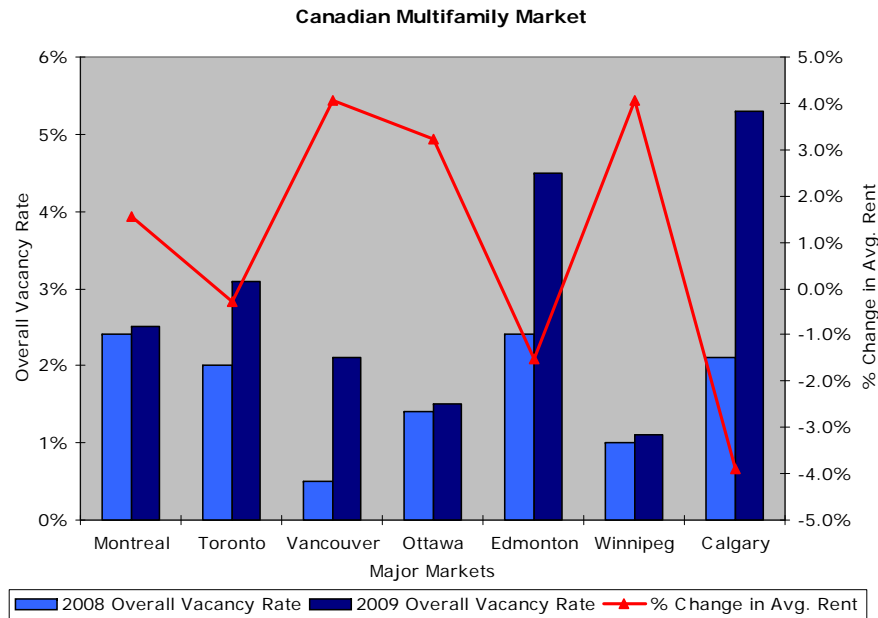
	2008		2009	
	Under Construction as % of NRA	% of National Construction	Under Construction as % of NRA	% of National Construction
Toronto	0.5%	23.3%	0.1%	18.5%
Montreal	0.2%	5.3%	0.2%	15.3%
Vancouver	3.6%	37.5%	1.2%	36.5%
Calgary	1.6%	11.4%	2.1%	45.0%
Edmonton	1.7%	10.6%	0.1%	1.9%
Winnipeg	0.4%	2.0%	0.0%	0.0%
Canada	0.9%	n/a	4.4%	n/a

Source: DBRS Annex A Advisor



Source: CB Richard Ellis

# Canadian Multifamily Market



Source: Canada Mortgage & Housing Corporation

- The multifamily sector has shown the least vacancy fluctuation, with the overall rate dropping 0.6% year-over-year, as of October 2009.
- Vacancy rates rose across all provinces except Nova Scotia and Newfoundland.
- The Canada Mortgage & Housing Corp. (CMHC) attributes lower demand to slower growth in youth employment and improved affordability of homeownership options.
- Between October 2008 and September 2009, the construction of rental apartments and condos were up 9% and 13%, respectively (CMHC).

# Canadian Hotel Market



- Hotel demand in 2009 is down in every Canadian province outside of three regions, Price Edward Island, Yukon and Northwest Territories.
- Nationally, RevPar and ADR have declined 10.8% and 3.4%, respectively.
- Supply has held relatively steady, increasing 1.4% since 2008 (Alberta had the largest increase at 2.6%).

# 2010 CMBS Market Outlook



- Expect the majority of loans maturing in 2010 to refinance.
  - May see some extensions later in the year as balance sheets become full.
- Property cash flows in specific markets will come under pressure.
  - Calgary
  - Tertiary markets
  - Hotels will remain down and/or flat.
- Delinquencies are likely to increase.
- Likely to see more use of Trends from DBRS.
  - Alert of some negative movement.
- Expect more positive ratings migration.
  - Upgrades will be tempered to improved credit enhancement and subject to additional cash flow stress tests.

# Will the new issue CMBS market return?



- Canadian CMBS has outperformed other CMBS markets.
  - Can it separate itself from legacy CMBS issues in the U.S.?
  - Can it overcome the headline risk?
- Return will depend on supply/demand dynamics.
  - Investor appetite.
  - Product availability.
- What might need to change?
  - Class sizes.
  - Transparency.
  - Accuracy/frequency of reporting.

# DBRS Methodology Changes



- An updated CMBS methodology was published January 10, 2010.
- Basic premise remains unchanged.
  - Cash flow driven (property level).
  - *Probability of Default x Loss Severity*
- Primary Changes:
  - Cost of capital stresses.
  - Concentration penalties.
  - Debt Yield serves as the driver of loss severity versus loan-to-value.
- Impact on Canadian CMBS.
  - The impact will be neutral on existing transactions.
  - The concentration penalty is expected to increase credit enhancement on a go-forward basis.

# DBRS Canadian CMBS Update



- Questions?

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