



**Industrial Delinquencies Reveal Nuances in a Robust CRE Segment**

**Industrial delinquencies should remain a rare event, even as loans age and become prone to credit issues.** The sector is benefitting from strong long-term tailwinds that the pandemic accelerated, such as rising e-commerce sales, as well as some new ones including a shift to “just in case” inventories and re-shoring of manufacturing. Industrial landlords are also better positioned to weather inflationary pressures on cost structures. Industrial rents grew 7% in Q1 over the last quarter, according to JLL, underscoring landlords’ pricing power. CMBS industrial loan delinquencies have been minimal throughout the pandemic, registering 0.33% as of April remittance, according to MCIA.

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**Still, troubled industrial situations do pop up and can reveal aspects to watch as investors may be increasing their exposure to the sector.** The sector’s red-hot fundamentals may also be decelerating on some corners. Notably, Amazon is looking to sublease at least 10 million square feet of warehouse space, according to press reports. The giant industrial tenant may also look to end or renegotiate leases – a move with potentially direct implications to property cashflows. Net absorption in the industrial sector softened in Q1, dropping 10.4% YOY to a total of 93.8 million sf, according to CBRE.

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We suggest tracking the following on industrial loans:

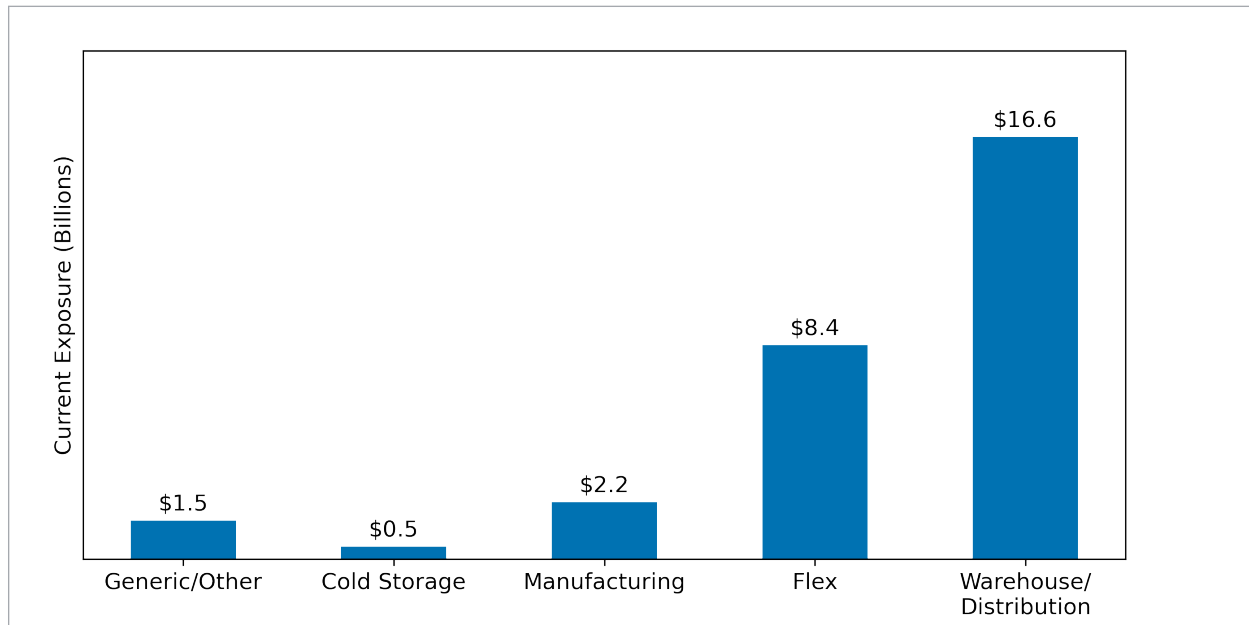
- **Watch for “Flex” subtype.** Several weak outstanding industrial loans signal “flex” properties can face performance issues. Of the 12 industrial loans that are in various stages of delinquency (\$152.6 million balance), nine loans (84.6% of the delinquent balance) are flex properties. Flex industrial properties combine an office and a warehouse component, essentially comprising exposure to the more precarious office sector. For example, the 90+ day delinquent Southport Plaza (\$25 million, JPMBB 2014-C25) is backed by a 192K sf industrial property in Staten Island, NY. But an office component comprises ~66.4% of the property, which saw its borrower default during the pandemic. Overall, 29% of the outstanding industrial CMBS exposure is flex properties (Figure 1)

Stav Gaon  
+1 (646) 768-9173  
sgaon@academysecurities.com

Headquarters Address:  
Academy Securities, Inc.  
622 Third Avenue, 12th Fl  
New York, NY 10017

**Industrial Delinquencies: Don't Happen Often, but Watch Closely When They Do**

Figure 1. Industrial CMBS Outstanding Exposure by Property Subtype

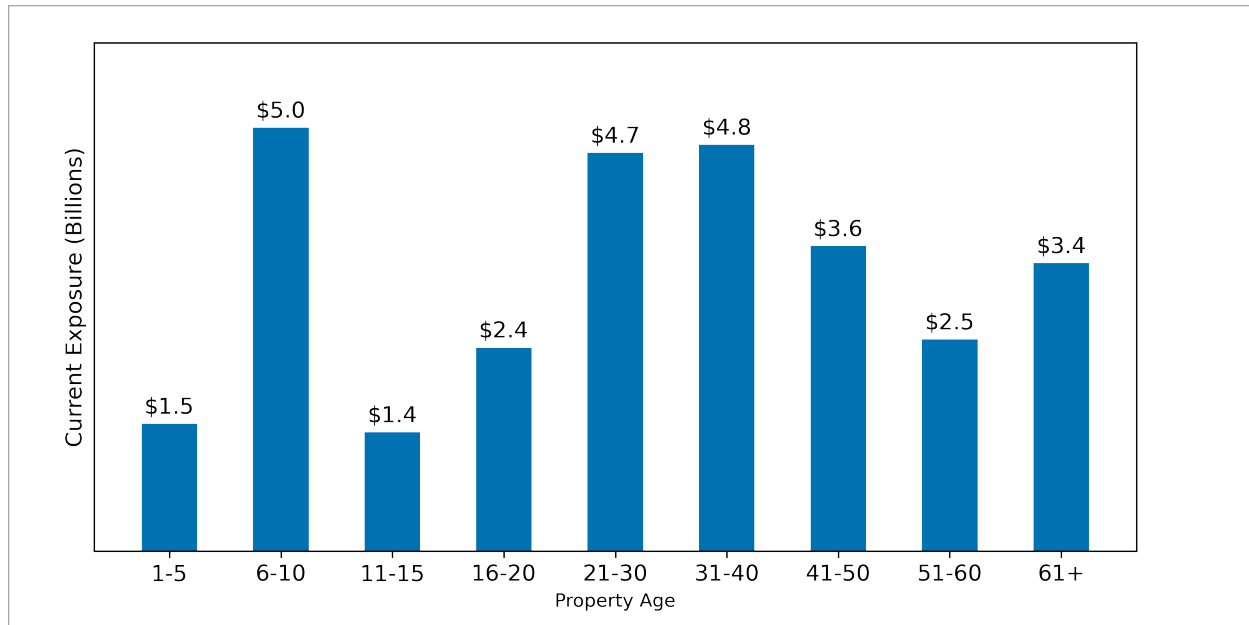


Source: MClA and Academy Securities

- Older properties warrant attention.** Industrial properties are especially sensitive to obsolescence, according to market participants and landlord presentations. For example, one large industrial REIT emphasized its properties nine-year average age versus the 17-37-year age range of its competitors. Property age joins characteristics such as clear height or coastal vs. non-coastal locations as performance drivers that landlords highlight. Older properties do show up across potentially weaker CMBS industrial loans. For example, the Goodyear Portfolio (\$60.4 million, WFCM 2019-C50 and BBCMS 2019-C3) is backed by four industrial properties in Akron, OH. Three of the properties were built in the 1940s and 1950s. The fourth - Innovation Tech Center - was built in 1917. To be sure, the entire 2.05 million sf portfolio was last renovated in 2018 and features long term leases, according to deal documents. But with a single-tenant portfolio in a non-coastal location, the portfolio may illustrate industrial properties that could struggle to attract replacement tenants. The servicer added the Goodyear Portfolio in late 2020 to the deal's watchlist because of decreasing DSCR. About \$18.9 billion (64.7%) of the overall outstanding CMBS industrial exposure is backed by properties over 20 years old (Figure 2).

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Figure 2. Industrial CMBS Outstanding Exposure by Property Age



Source: MClA and Academy Securities

- Port vs. Non-Port Locations.** The industrial performance in port markets is noticeably better than in non-port markets. For example, rent growth in port markets was 23% YOY in Q1, compared to 16% growth in non-port markets, according to JLL. Industrial landlords clearly highlight coastal locations as providing competitive advantage. Market participants cite the lack of available land for development and other barriers to new supply as supportive for industrial fundamentals in port markets. Several of the weak industrial CMBS loans we identified are in non-coastal locations including Gateway Net Lease Portfolio (\$523.0 million, BANK 2017-BNK5, BANK 2017-BNK6, BMARK 2018-B1, JPMCC 2017-JP7, JPMDB 2017-C7) and Harvey Building Products (\$160.0 million, BMARK 2019-B14, BMARK 2019-B15, CGCMT 2019-C7, GSMS 2020-GC45).

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**Limited Immediate Industrial Concerns, More Perhaps Down the Road**

CMBS 2.0 has \$2.49 billion balance (163 loans) that we define as relatively weak industrial loans. This includes loans across the delinquency spectrum, as well as watchlisted loans. The largest loans in this dataset include Gateway Net Lease Portfolio (\$523.0 million, BANK 2017-BNK5, BANK 2017-BNK6, BMARK 2018-B1, JPMCC 2017-JP7, JPMDB 2017-C7) and Harvey Building Products (\$160.0 million, BMARK 2019-B14, BMARK 2019-B15, CGCMT 2019-C7, GSMS 2020-GC45) (Figure 3).

Figure 3. Weak Industrial CMBS Loans

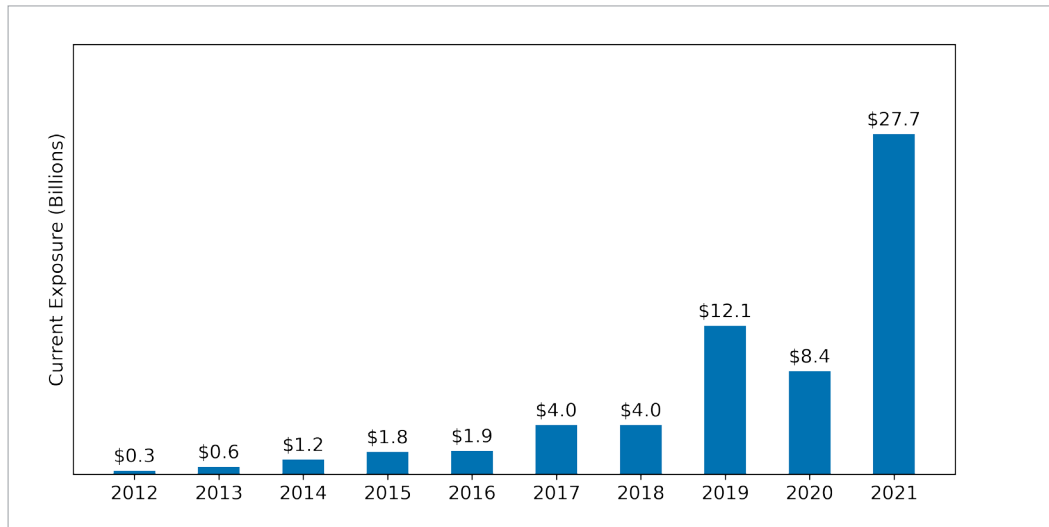
Loan	Deal	Loan Balance (\$MM)	Status	Property Type	Location	Property Age (Yrs)	Maturity
Gateway Net Lease Portfolio	BANK 2017-BNK5, BANK 2017-BNK6, BMARK 2018-B1, JPMCC 2017-JP7, JPMDB 2017-C7	523.0	WL	Warehouse/ Distribution & Flex	Various	6-62	June 2024
Harvey Building Products	BMARK 2019-B14, BMARK 2019-B15, CGCMT 2019-C7, GSMS 2020-GC45	160.0	WL	Warehouse/ Distribution	Various	14-72	November 2029
Diamondback Industrial Portfolio 2	GSMS 2019-GC40	139.0	WL	Warehouse/ Distribution	Various	11-28	June 2024
GNL Industrial Portfolio	BBCMS 2019-C3, CSAIL 2019-C16	97.5	WL	Various	Various	4-69	May 2029
U.S. Industrial Portfolio	GSMS 2016-GS3, GSMS 2016-GS4, GSMS 2017-GS5, GSMS 2017-GS6	82.7	WL	Various	Various	22-95	September 2026
IRG Portfolio	CD 2017-CD6, JPMDB 2017-C7	72.5	WL	Various	Various	36-82	Aug 2027
Lasko Portfolio	GSMS 2017-GS5	65.7	WL	Warehouse/ Distribution	Various	59	March 2027
Nordic Cold Storage Portfolio	WFRBS 2014-C19	51.5	WL	Warehouse/ Distribution	Various	27-40	March 2024
Supor Industrial Portfolio	WFCM 2020-C56	51.3	WL	Warehouse/ Distribution	Harrison, NJ	92	February 2030
Phoenix Industrial Portfolio IV	WFCM 2020-C57	46.0	WL	Various	Various	41-134	March 2030

Source: MCIA and Academy Securities

The relatively small size of the outstanding troubled industrial loans presents limited risk across the CMBS universe, especially in comparison to the much larger delinquent retail and hotel pools. But with recent issuance featuring increasing exposure to industrial properties, we cannot rule out more concerning situations popping up (Figure 4). Some recent loans featuring older, flex and/or non-coastal loans include 30 Dunnigan (\$109.8 million, BANK 2021-BN35) and McClellan Park (\$75.0 million, BANK 2020-BN30) (Figure 5).

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Figure 4. Industrial Exposure across CMBS Vintages



Source: MCIA and Academy Securities

Figure 5. Large Industrial Loans in Recently Issued Deals

Loan	Deal	Loan Balance (\$MM)	Property Type	Location	Property Age (Yrs)	Maturity
30 Dunningan	BANK 2021-BN35	109.8	Warehouse/ Distribution	Suffern, NY	46	July 2031
Phoenix Industrial Portfolio V	GSMS 2020-GSA2, WFCM 2021-C59	92.5	Warehouse/ Distribution	Various	44-74	December 2030
U.S. Industrial Portfolio VI	BMARK 2021-B24, BMARK 2021-B25	81.0	Warehouse/ Distribution	Various	23-85	March 2031
McClellan Park	BANK 2020-BN30	75.0	Warehouse/ Distribution	McClellan, CA	84	December 2030
ParkWorks Industry Center	BANK 2022-BNK39	64.8	Flex	Wilsonville, OR	47	December 2031
Leonardo DRS Industrial	BMARK 2021-B23	63.7	Flex	Menomonee Falls, WI	22	January 2031
iPark 84 Innovation Center	BMARK 2021-B26	60.0	Flex	Hopewell Junction, NY	56	May 2031
215 Coles Street	MSC 2021-L5	60.0	Flex	Jersey City, NJ	95	April 2026
50 Horseblock	3650R 2021-PF1	59.0	Flex	Brookhaven, NY	36	June 2031
Saddleback Business Park	BBCMS 2021-C9	58.5	Flex	Laguna Hills, CA	34	June 2031

Source: MCIA and Academy Securities

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