New England Asset Management

Commercial Real Estate: How Real is a CRE Crisis?

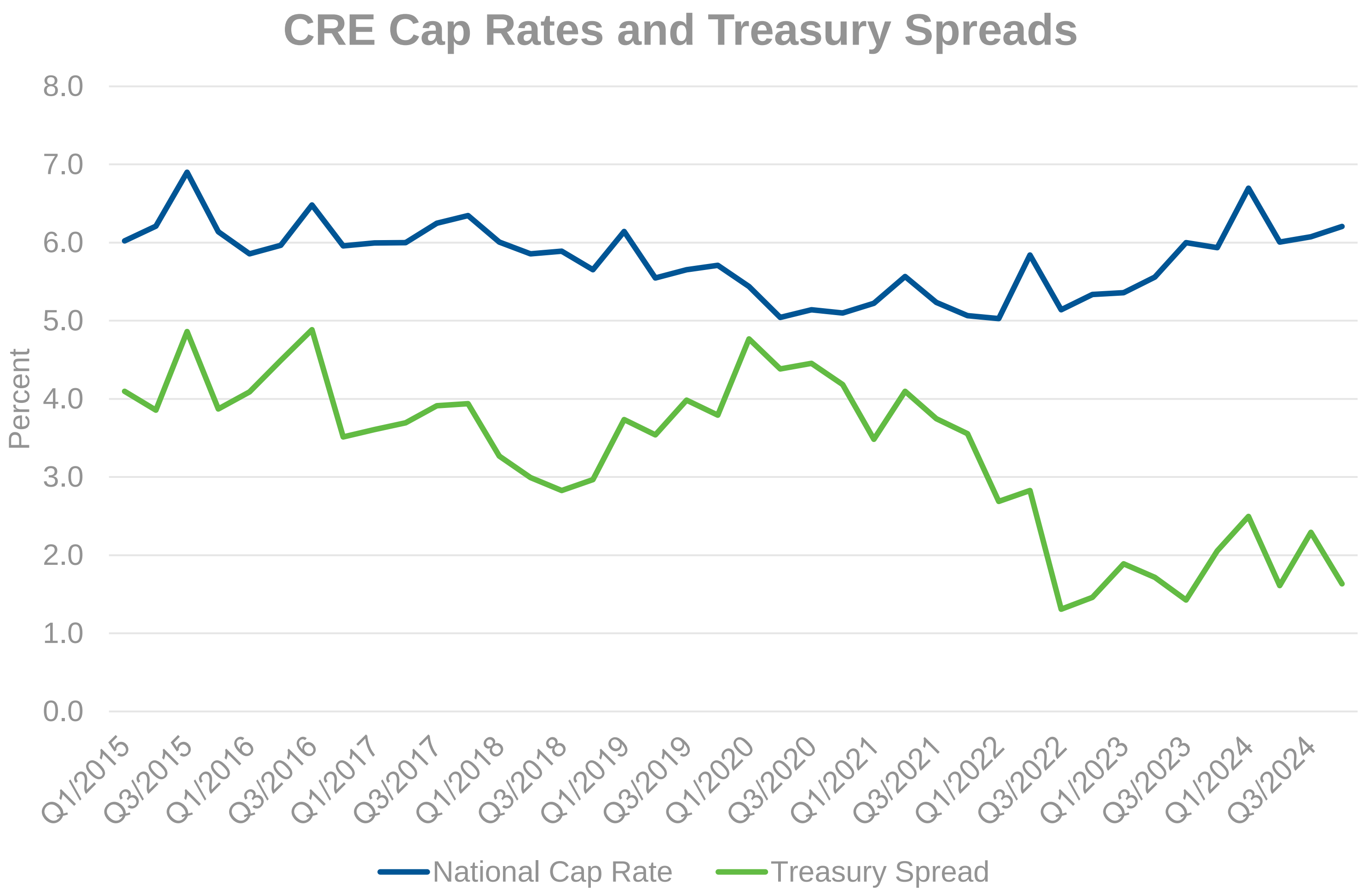
March 5, 2025

Agenda

- Current state of the CRE market
- What are the near-term challenges?
- CMBS structural protections

State of the CRE Market

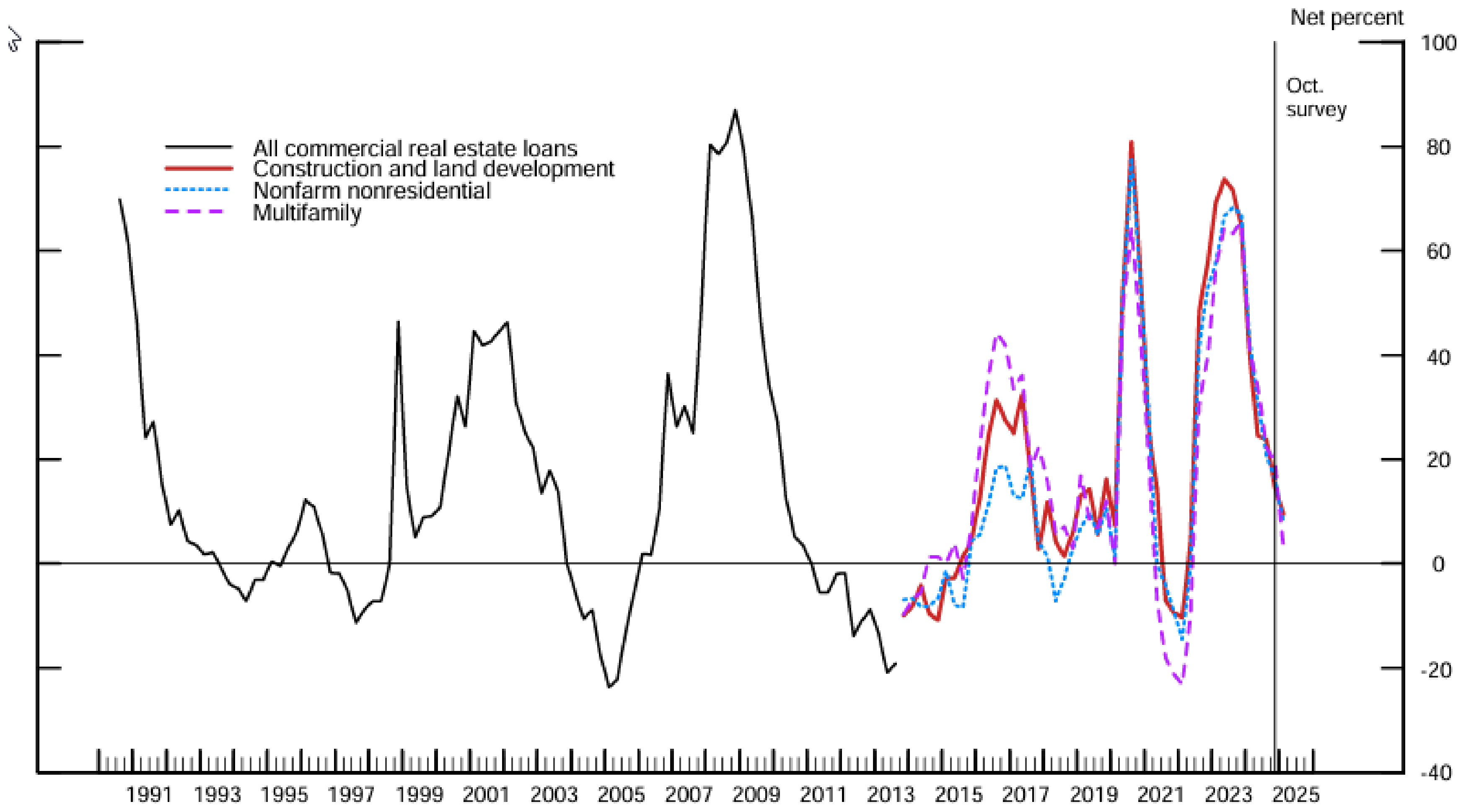
Elevated Rates Have Pressured Valuations



Source: Bloomberg, NEAM

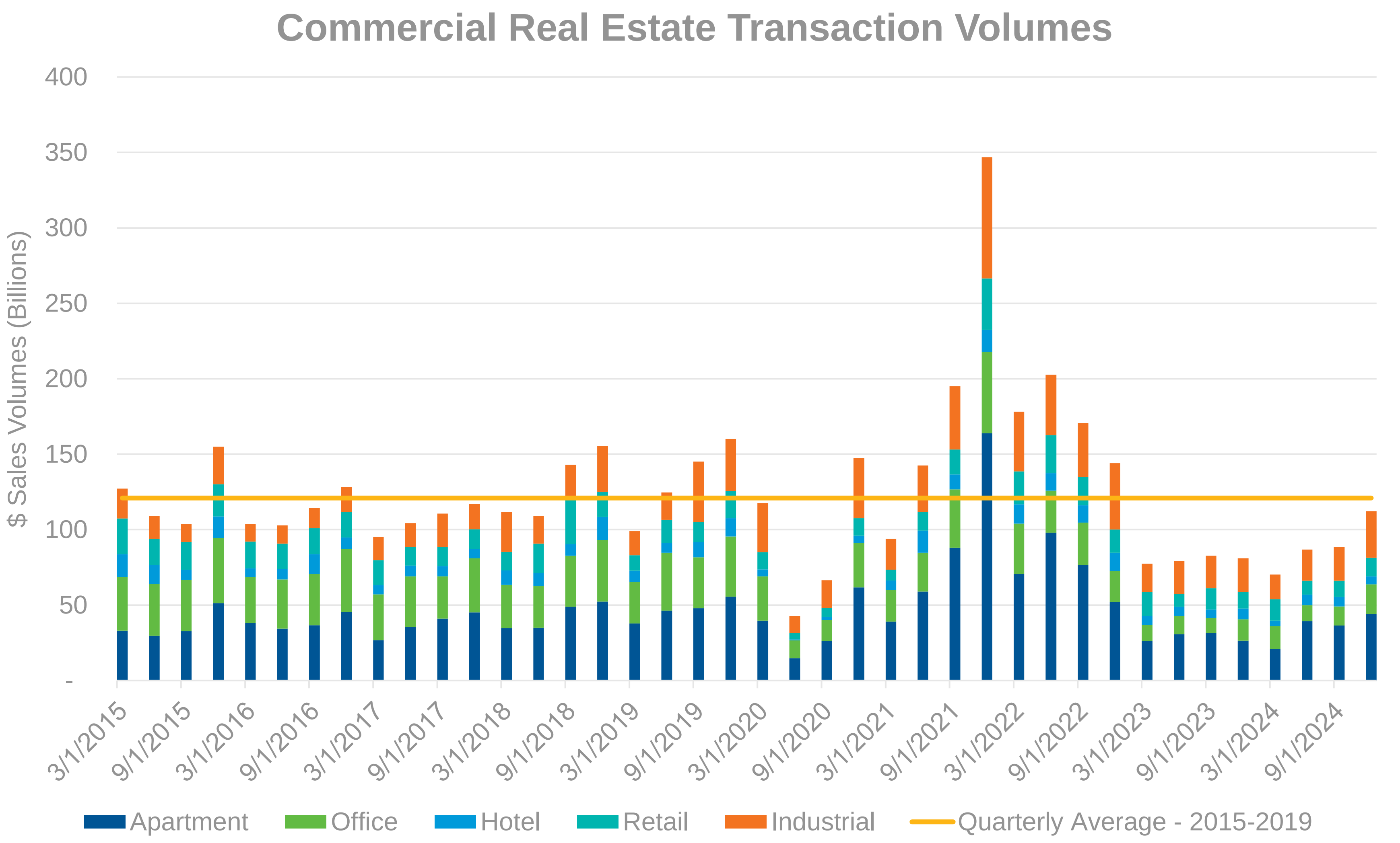
Lending Standards Restrictive, But Stabilizing

Net Percent of Domestic Respondents Tightening Standards for Commercial Real Estate Loans



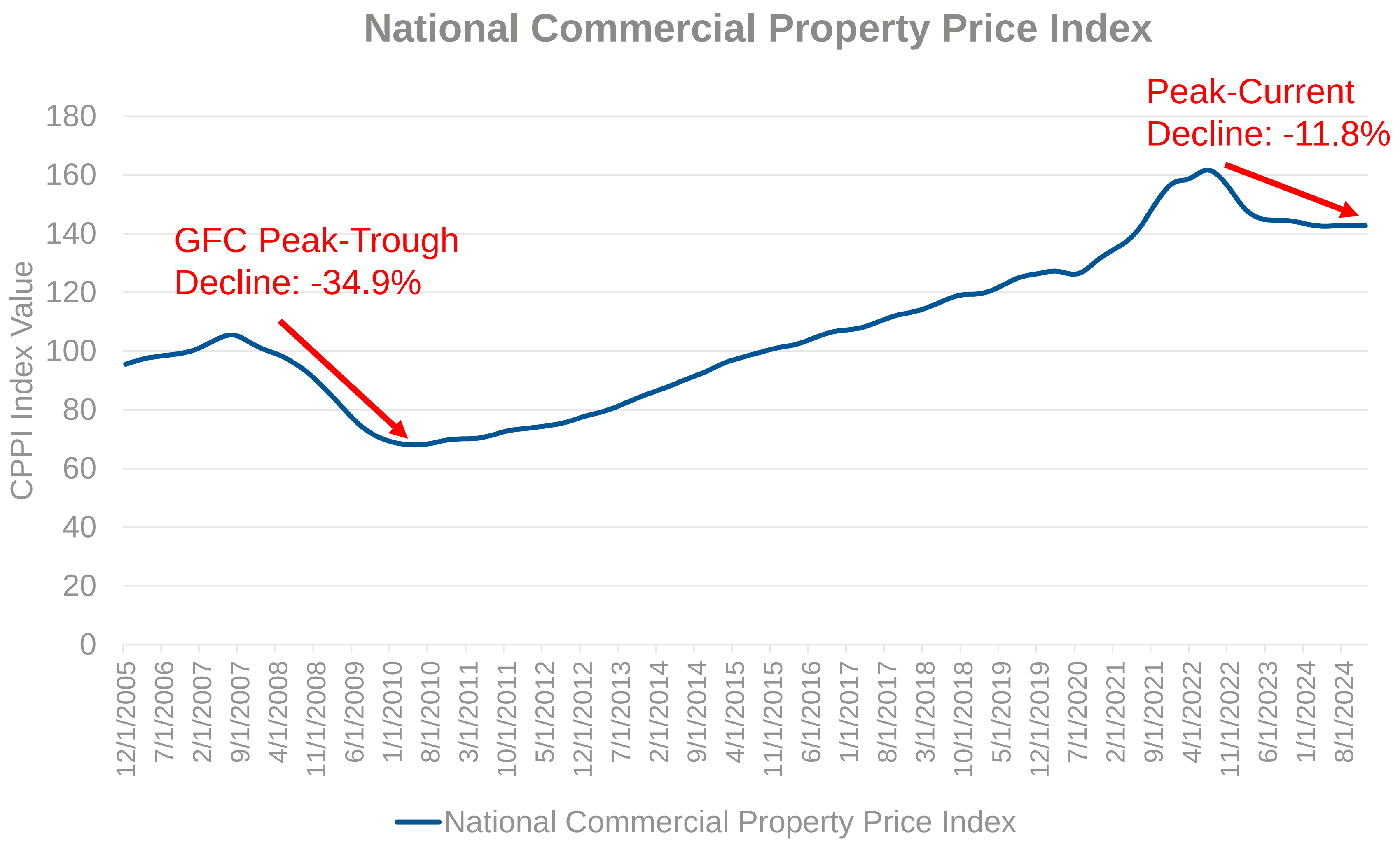
Source: Federal Reserve Board Senior Loan Officer Opinion Survey on Banking Practices. January 2025

Transaction Activity May Have Bottomed



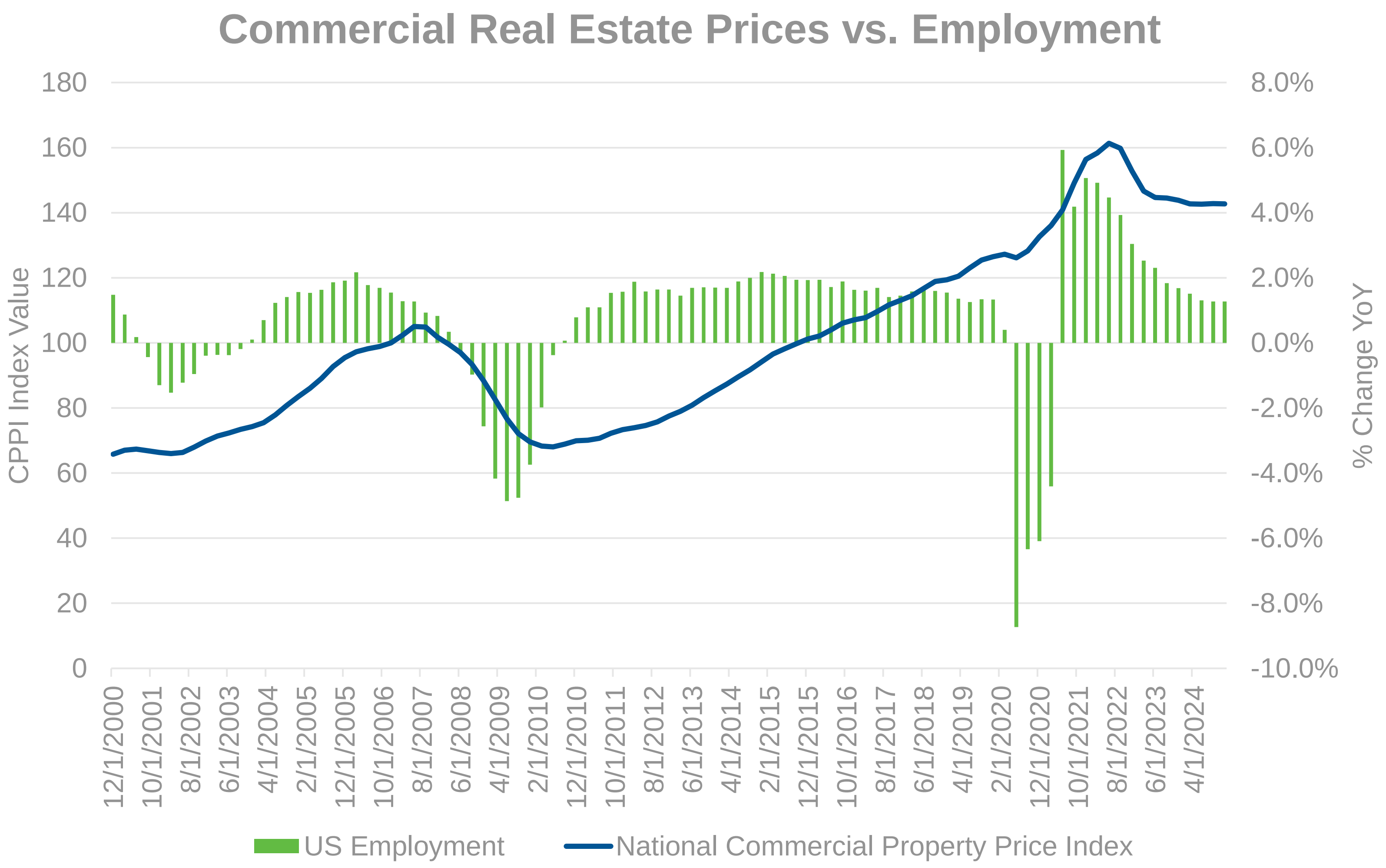
Source: Bloomberg, NEAM

Valuation Declines Have Slowed



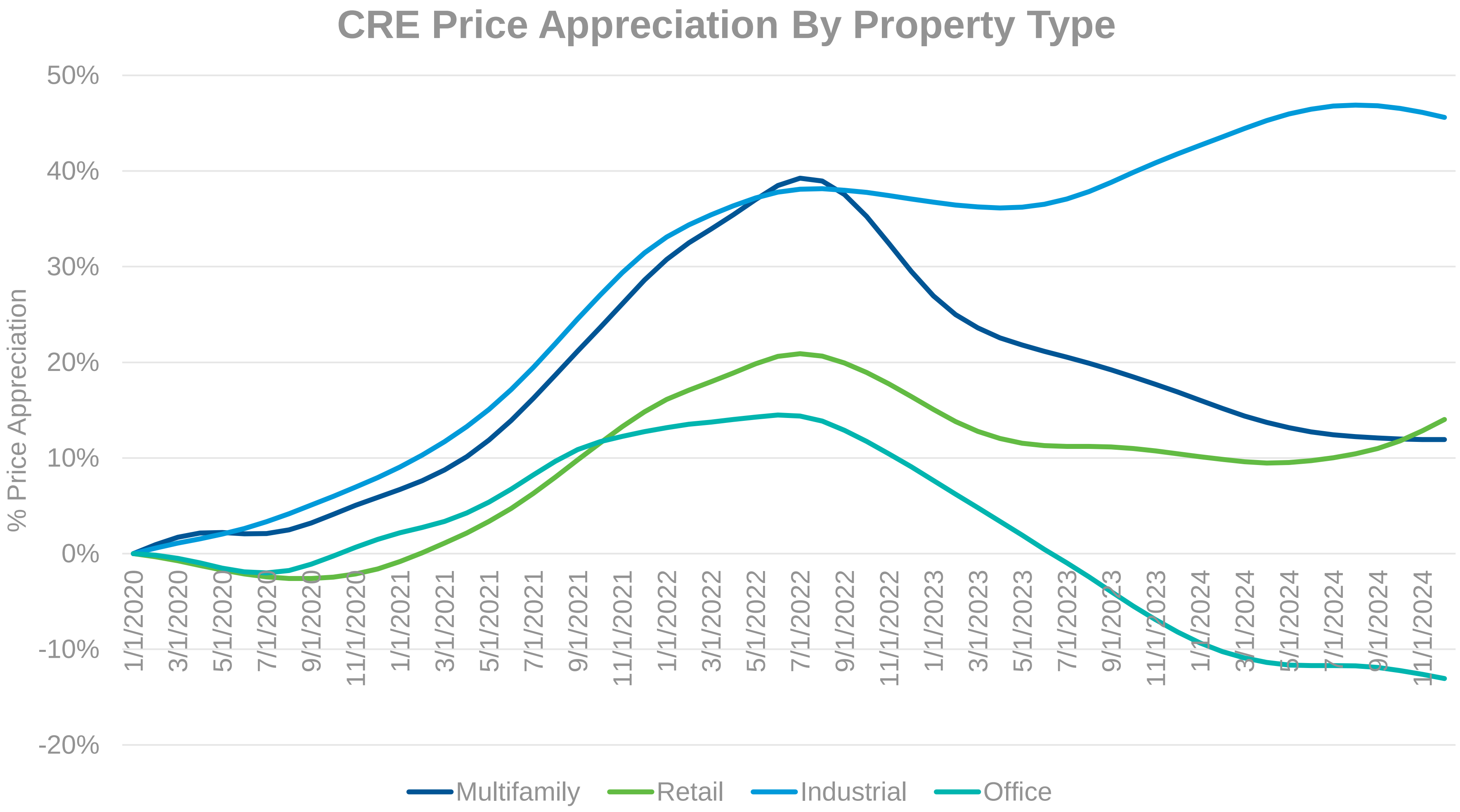
Source: Bloomberg, NEAM

CRE Prices Tend to Track Broader Economy



Source: Bloomberg, NEAM

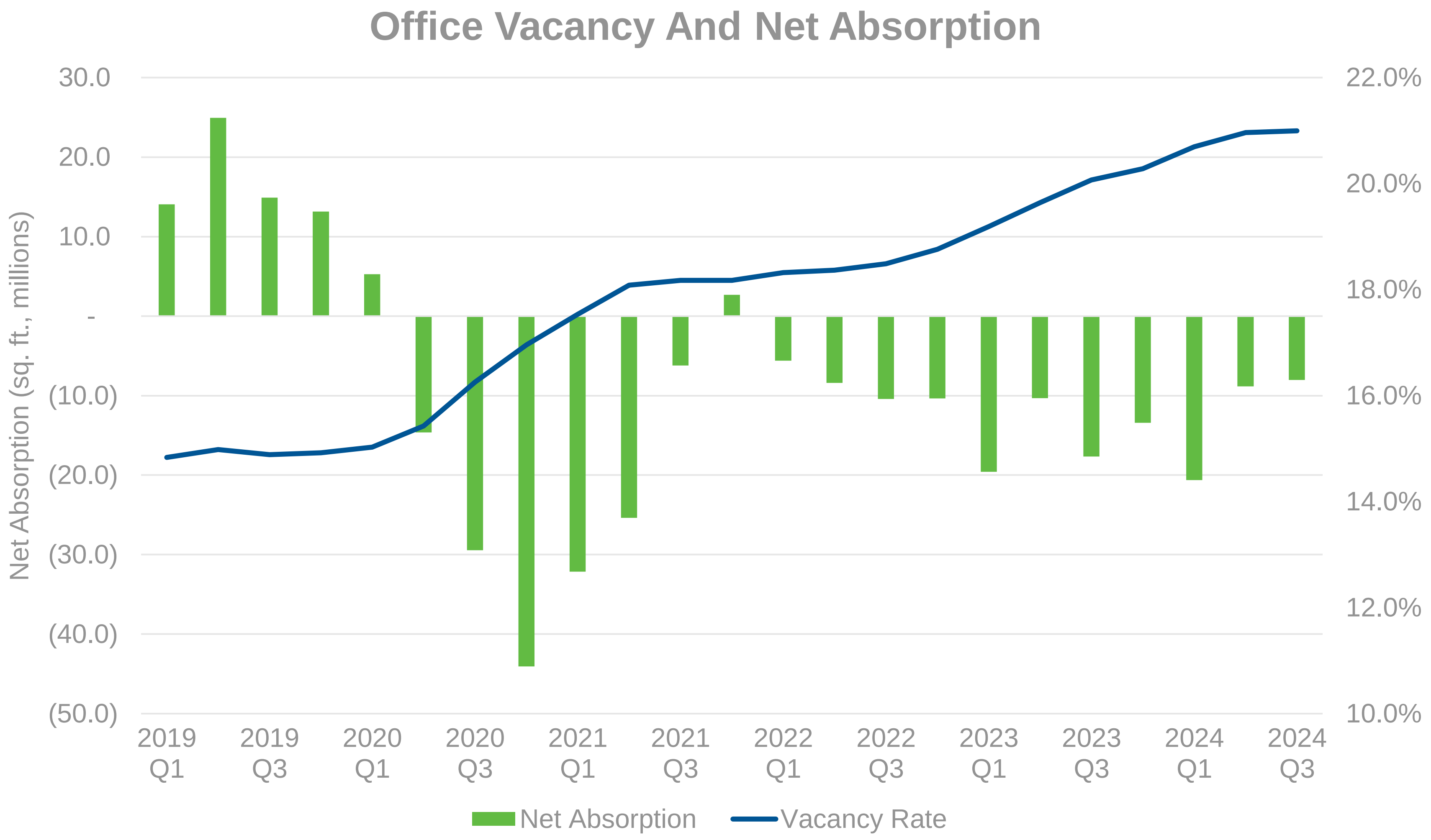
Disparate Impact From COVID



Source: Bloomberg, NEAM

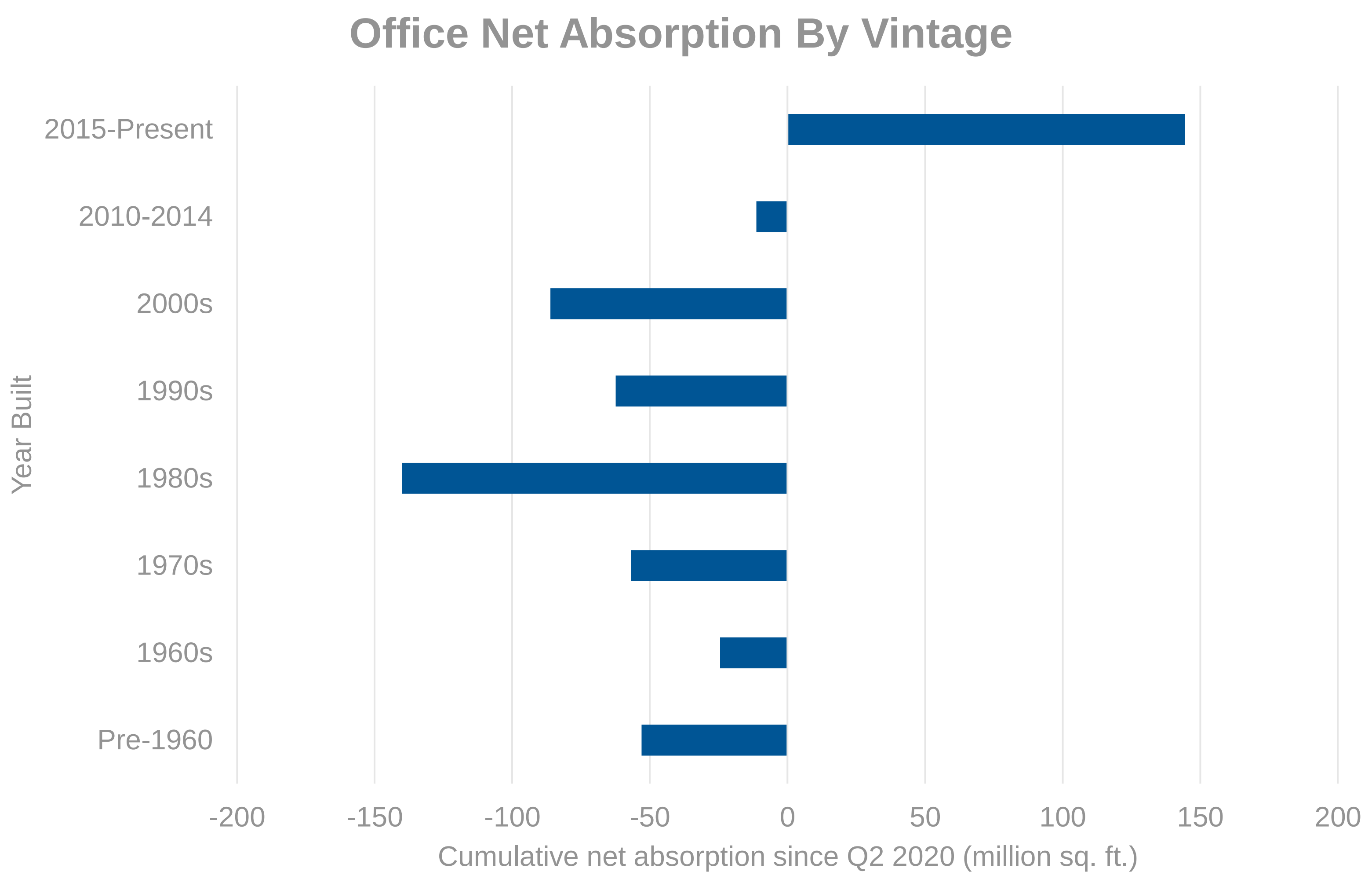
Near Term Challenges Remain

Office Sector Remains Challenged



Source: JLL, NEAM

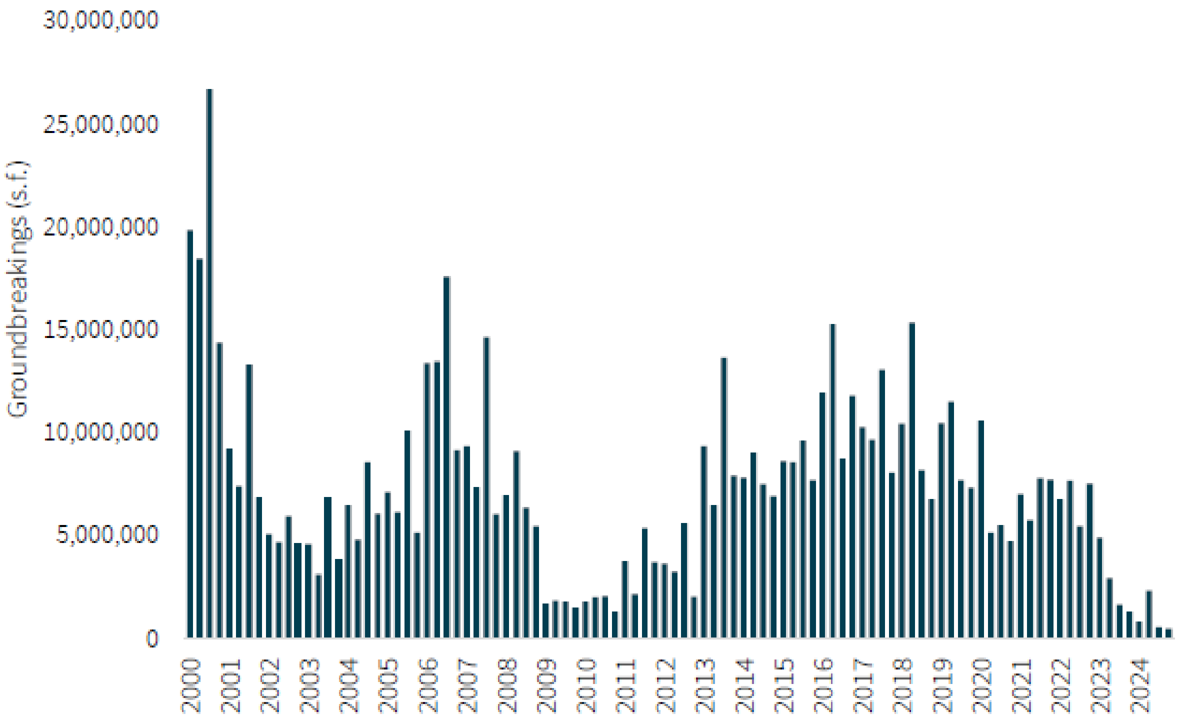
Older Office Properties Driving Underperformance



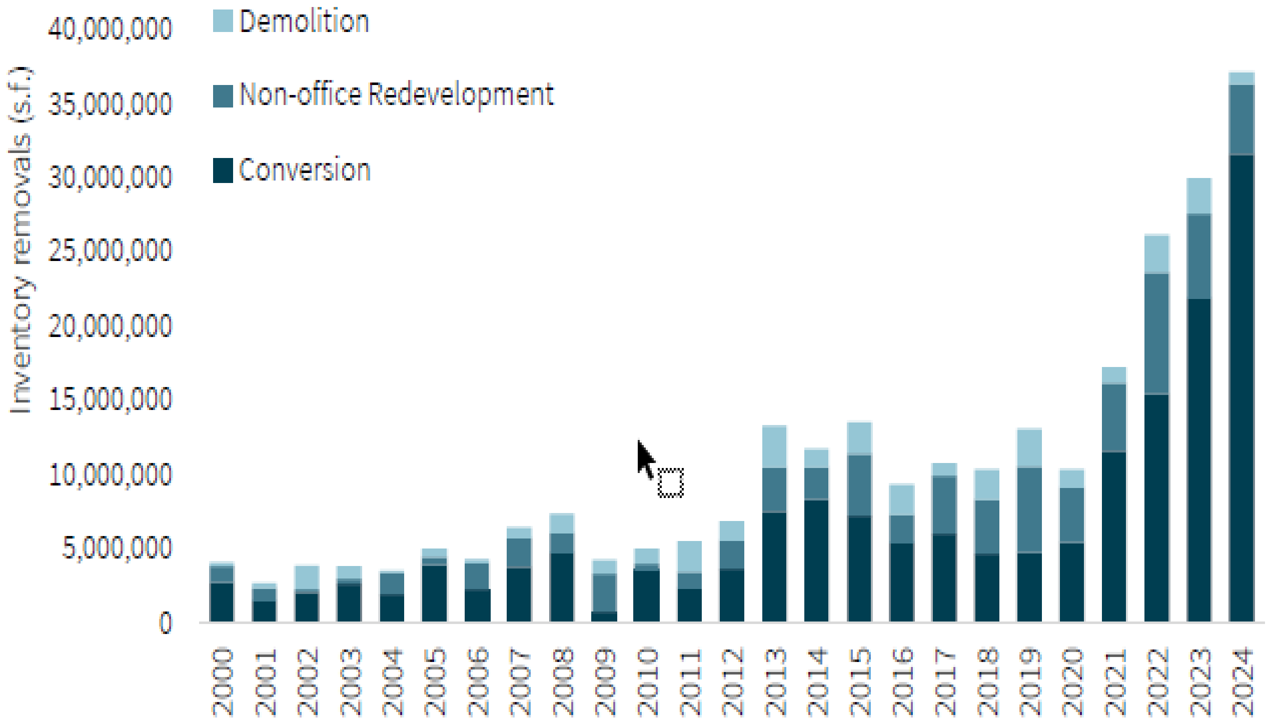
Source: JLL, NEAM. As of January 2025

Office Inventory Growth Slowing

Office Construction Activity Is At Record Low…

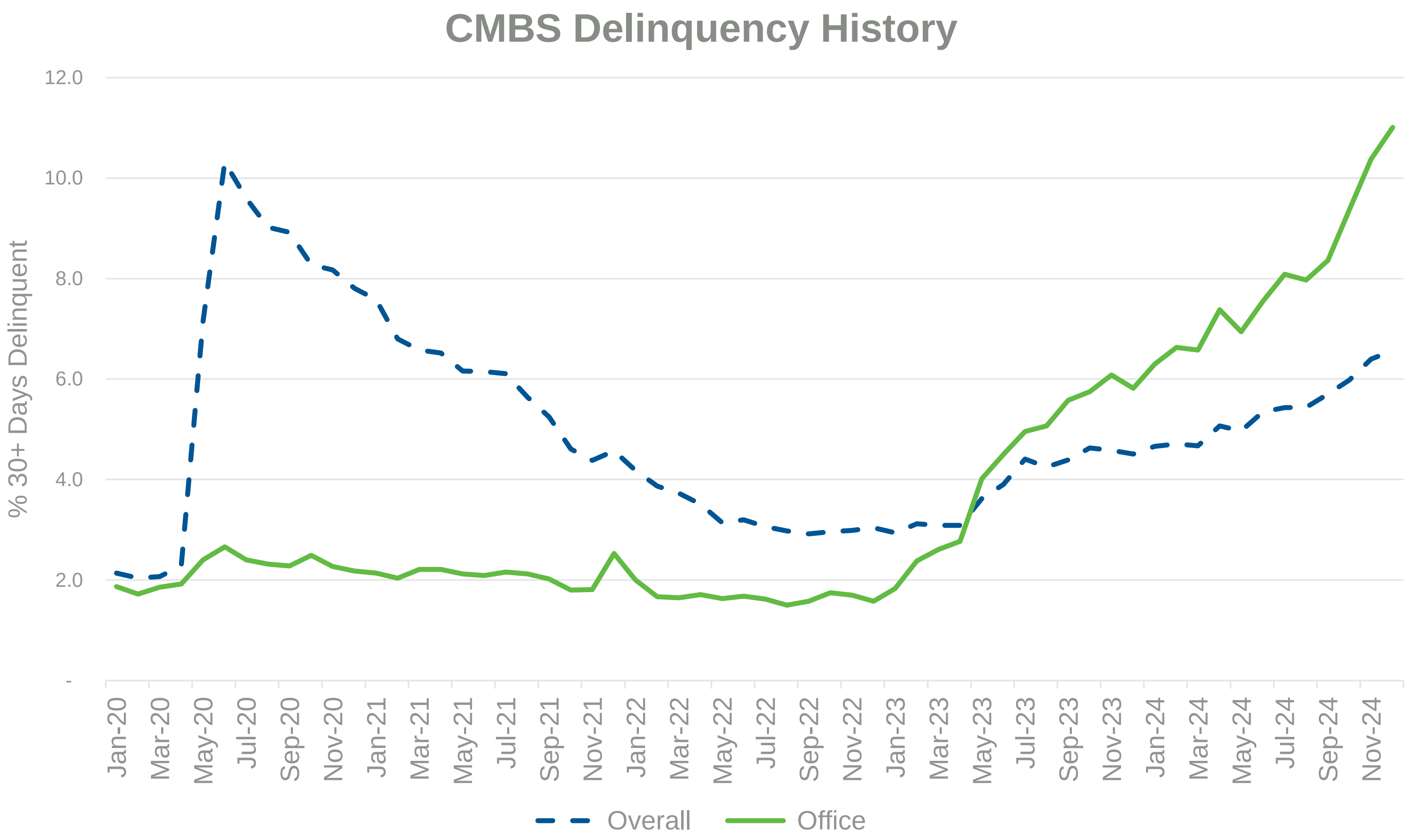


While Conversion Activity Has Picked Up



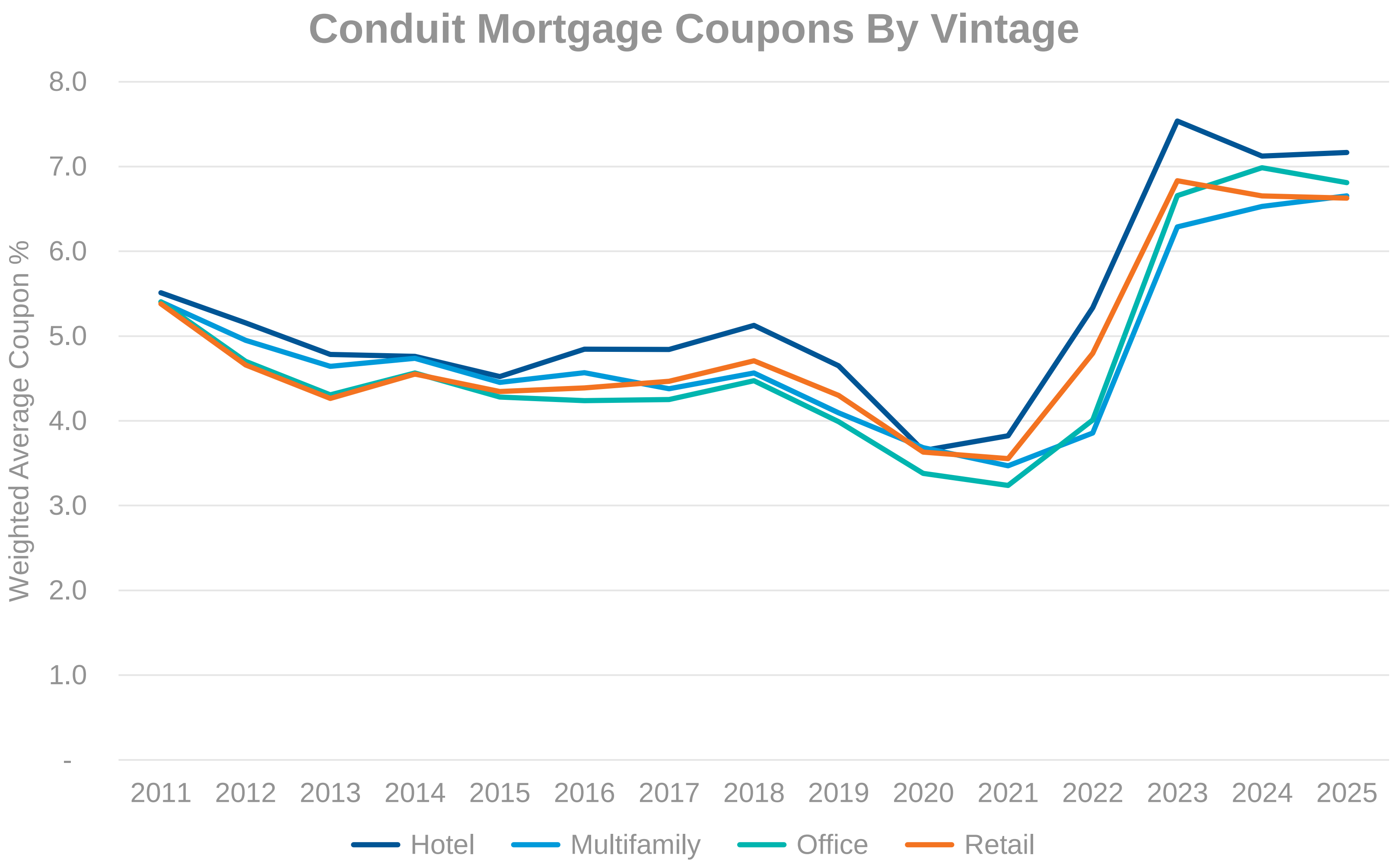
Source: JLL

CMBS Delinquencies Remain Elevated



Source: Trepp, NEAM

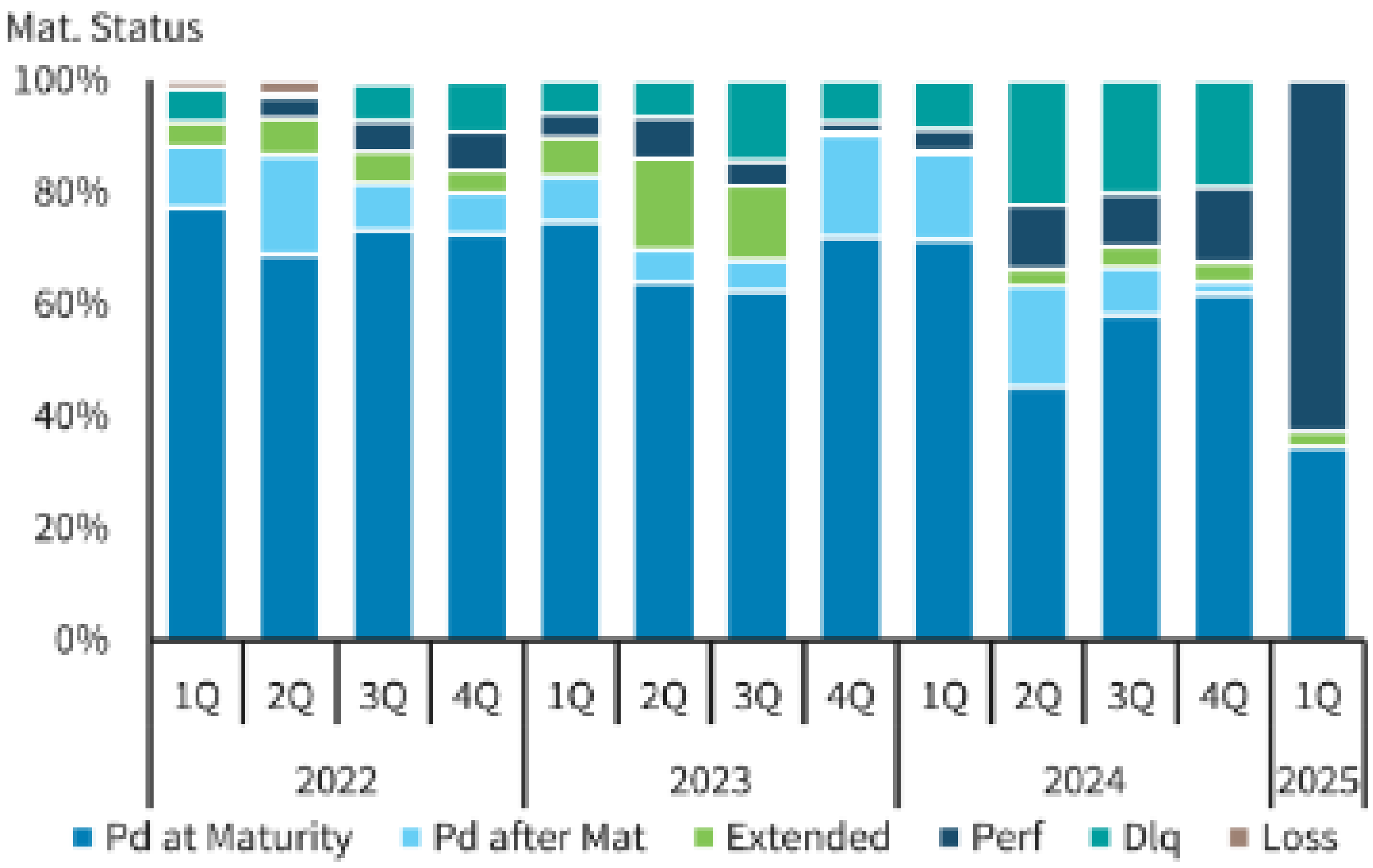
Elevated Rates Pressuring Maturities



Source: Intex, NEAM

On-Time Payoff Rate Has Declined

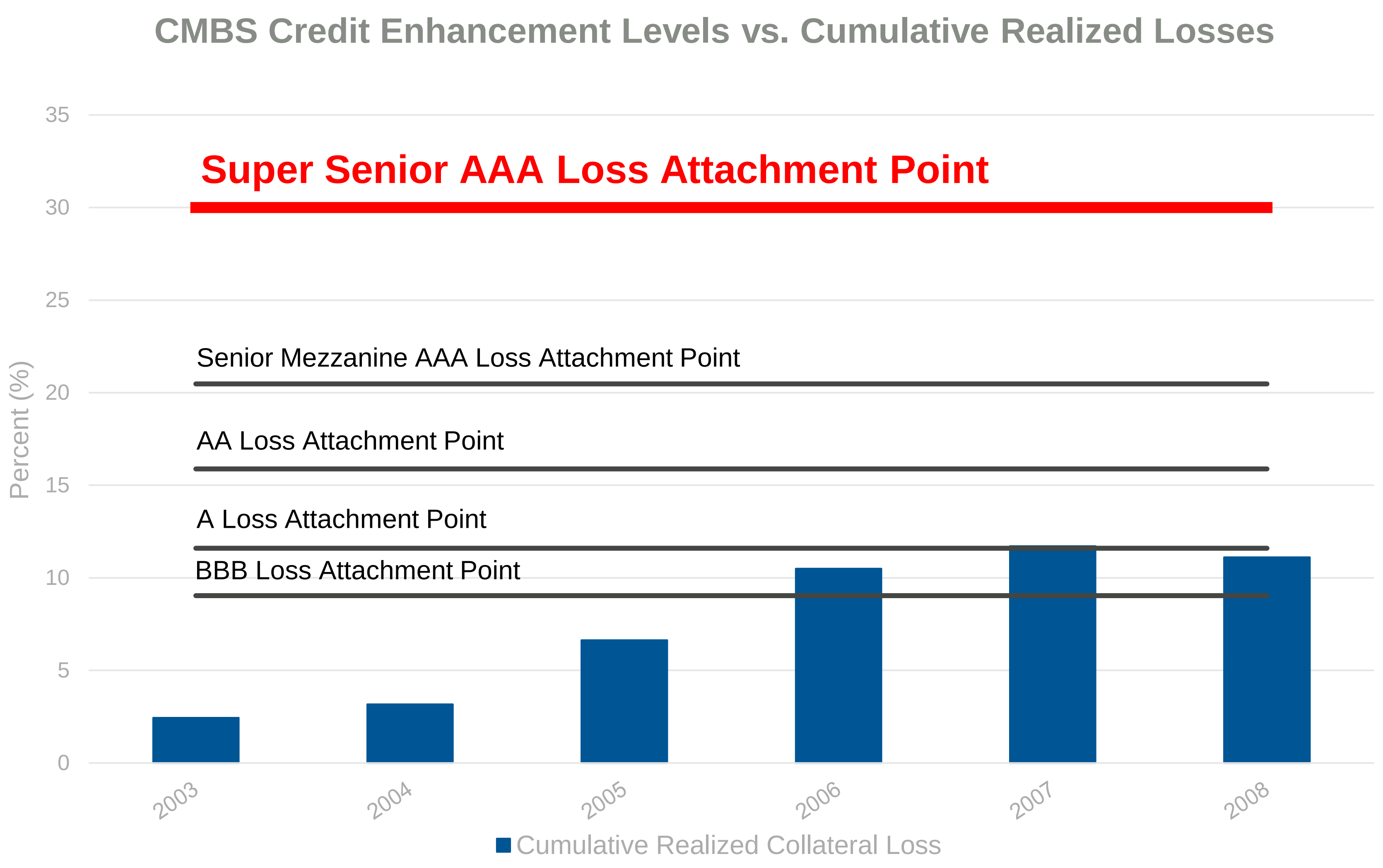
Conduit CMBS Loan Payoff Performance



Source: Barclays

CMBS Structural Protections

CMBS Structures Can Offer Significant Protection



Source: Fitch, Intex, NEAM

Conduit Office Exposures Vary By Deal

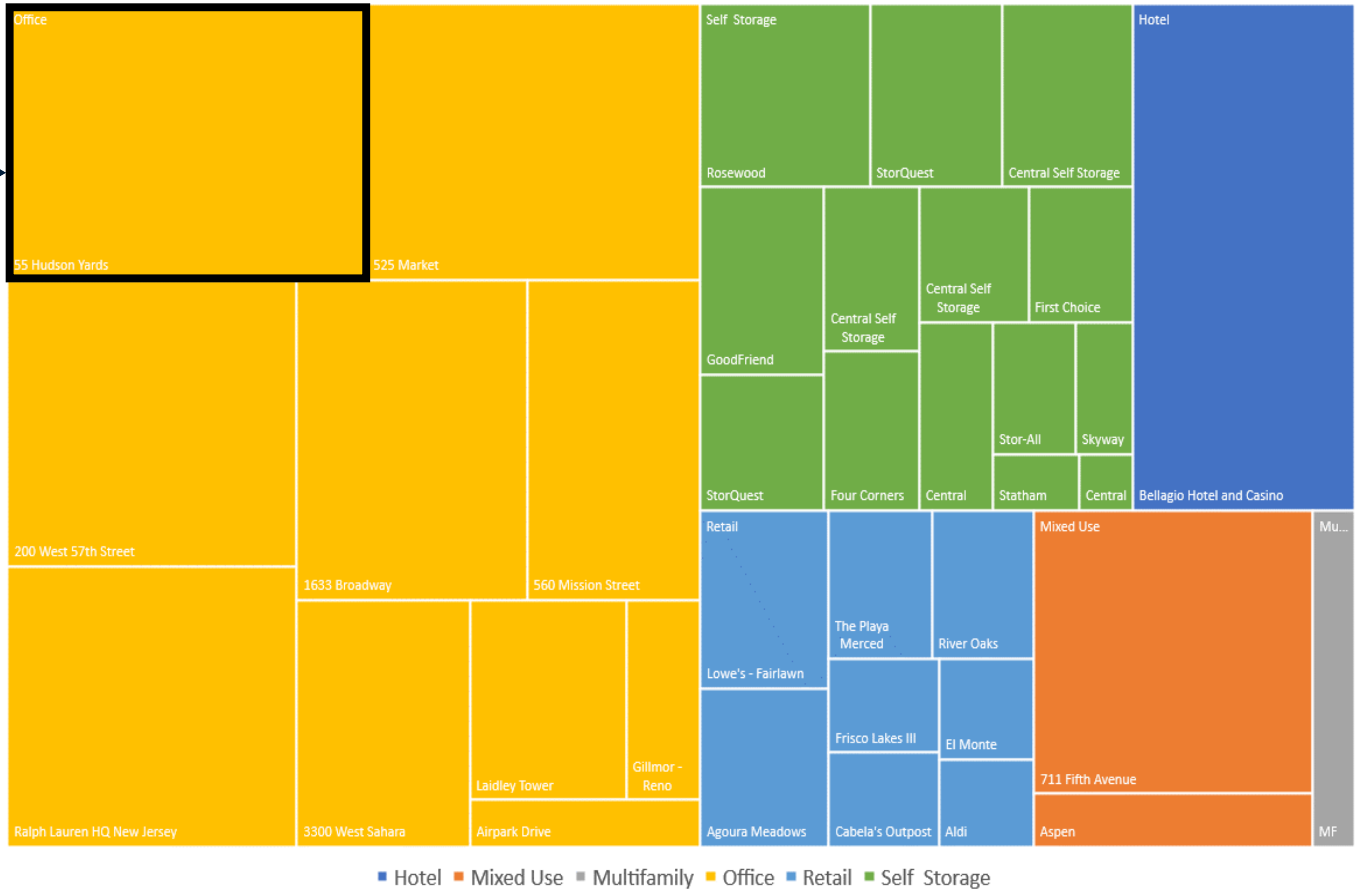
55 Hudson Yards

Asset – 2.4B

Liabilities - $1.25B

- Senior Debt $945M
- Junior Debt $300M
- Equity $1.15B

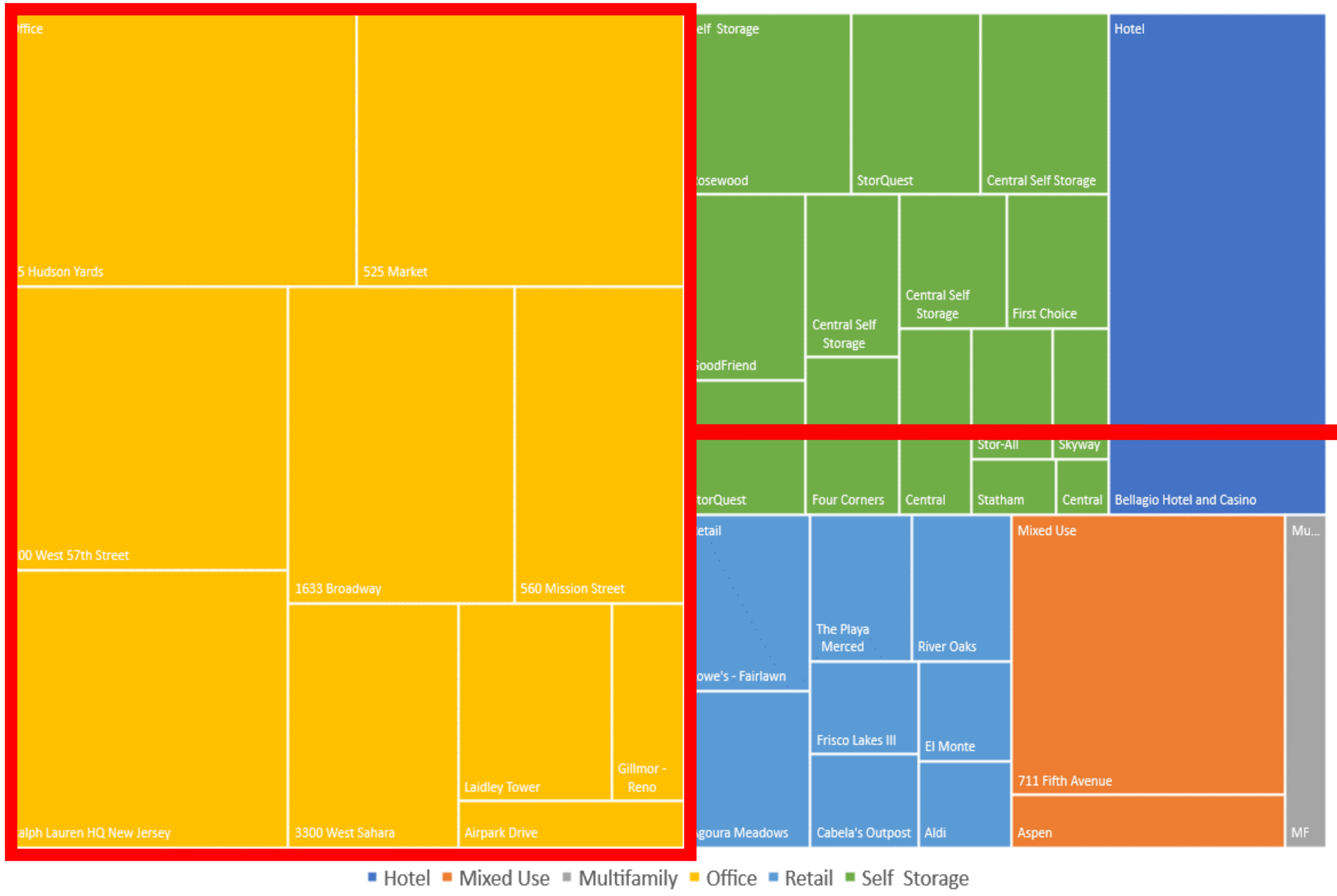
Sample Conduit Collateral Pool



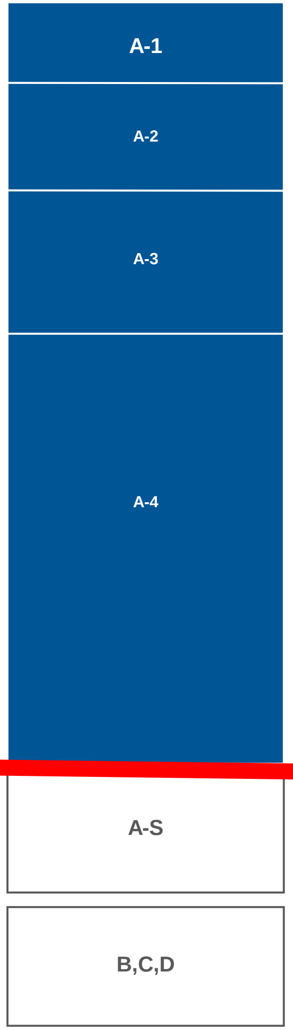
Source: Bloomberg, NEAM

Sample Breakeven Loss Analysis – 100% Office Default

Sample Conduit Collateral Pool



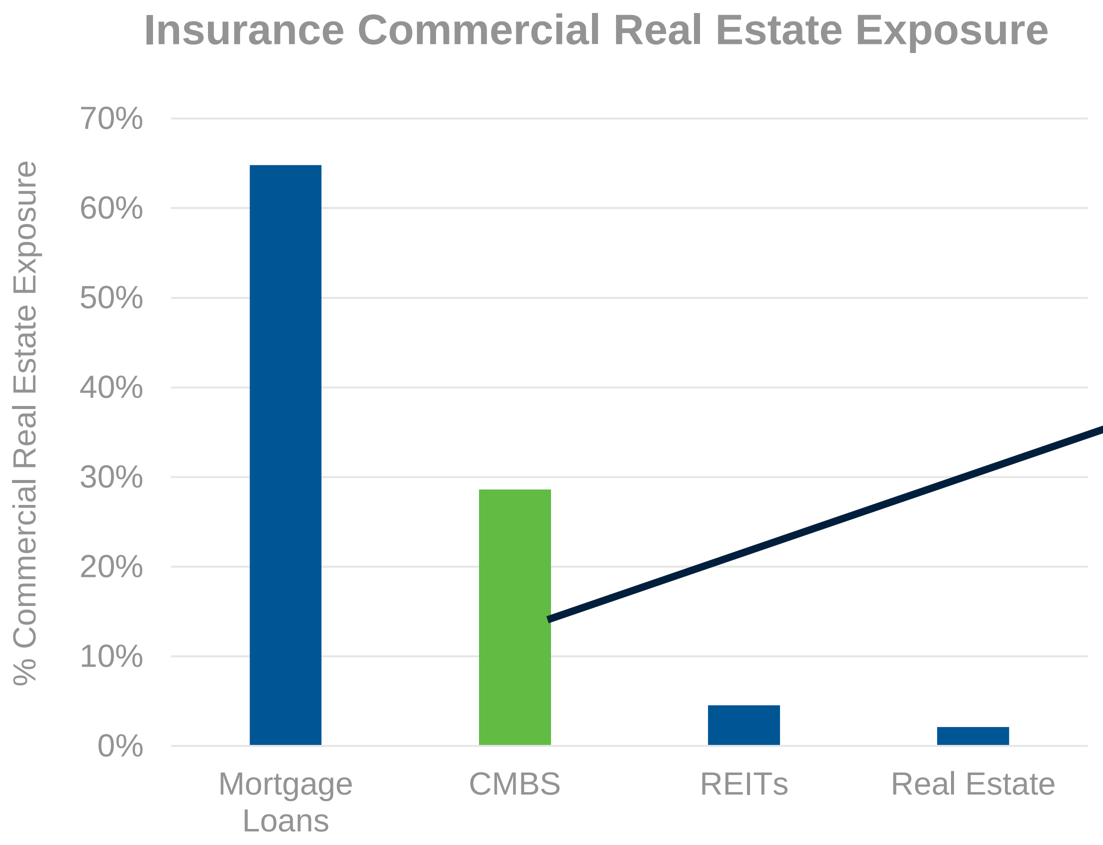
Liability Structure

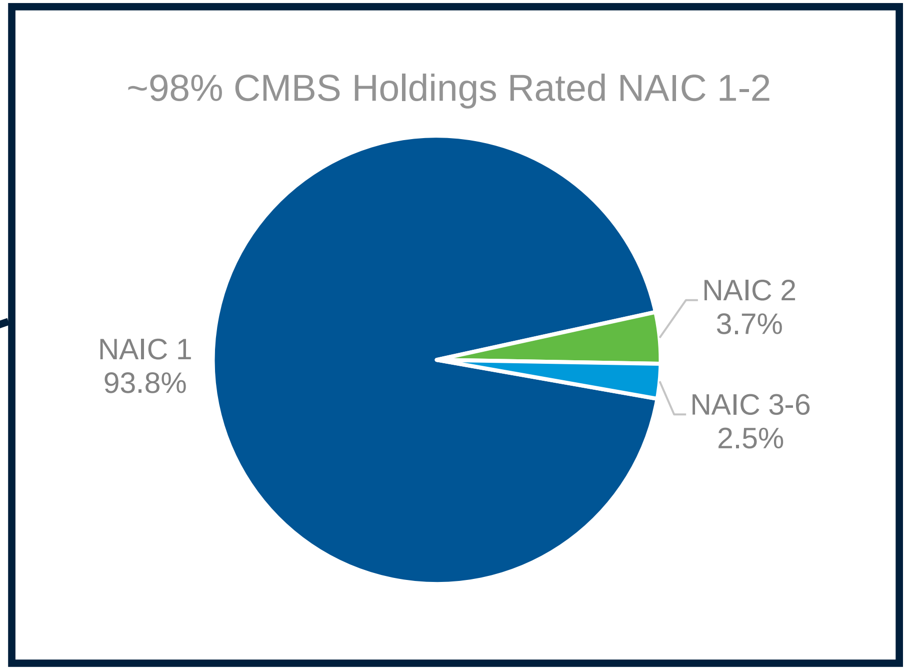


Breakeven Scenario

- 100% Office Default
  - 51% of Collateral
  - 50% Avg. LTV
- 59% Loss Severity
- 79% Implied Valuation Decline

Insurance CMBS Exposures Largely Rated NAIC 1 and 2





Source: NAIC, NEAM. Holdings and NAIC Ratings as of year end 2023 reporting