CBRE Loan Services Limited

Servicer Report

Ratings

Commercial Primary Servicer	
UK	CPS2+

Commercial Special Servicer	
UK	CSS2

Related Research

Fitch Affirms CBRE Loan Services UK Commercial Servicer Rating (October 2018)

Sources Of Information

The report is based on information provided to Fitch Ratings as of end-December 2017, unless stated otherwise.

Analysts

James Bauer
+1 212 908 0343
james.bauer@fitchratings.com

Jessica Buntin
+44 20 3530 1555
jessica.buntin@fitchratings.com

Servicer Summary

Rating Actions: Fitch Ratings has affirmed CBRE Loan Services Limited (CBRE)'s UK Commercial Primary and Special Servicer Ratings at 'CPS2+' and 'CSS2', respectively.

Key Rating Drivers

Proficient Primary Servicing: Fitch's primary servicer rating reflects efficient loan boarding processes, robust cash management capabilities, as well as the timeliness of and control over primary servicing activities, such as loan administration, investor reporting, and asset administration. CBRE efficiently boarded several new loans onto its platform over the review period and the reported average time to board remains shorter than seen across rated peers.

Effective Special Servicing: CBRE has demonstrated the effective use of a variety of work out methods with good results, but the number of specially serviced UK loans under management remains small and the servicer's experience is more limited than that of some UK rated peers. Fitch takes into consideration the support provided by CBRE Group's (CBG or the group) real estate teams and the high levels of special servicing experience within CBRE.

Effective Technology: CBRE's servicing systems provide for a strong level of automation and system-driven control around servicing processes, which is in line with peers in the '2' rating category. CBRE is part of, and is subject to, the group's business continuity planning, which is tested annually. Fitch considers the servicer's information security policies and procedures in this regard to be robust.

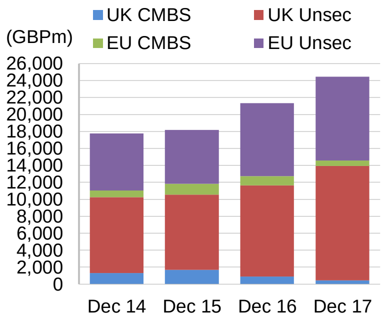
Strategic Stability: The senior management team has high average industry experience and good company tenure compared with UK peers. The management team remains stable according to Fitch's prior review with no management turnover providing the servicer with management stability as the company continues to achieve strategic goals.

Financial Condition: Fitch does not publicly maintain an Issuer Default Rating for CBG. However, Fitch's real estate investment trust group performed a review of CBG and determined that its short-term financial viability is adequate to support the servicing platform.

Appropriate Risk Management: CBRE operates a three lines of defence risk management model. First-line reviews are carried out by CBRE and the group compliance function provides an objective second-line review. CBRE recently implemented a new internal audit programme, which forms the third line of defence. The company is also subject to external audits as part of the group's ISO9001 and ISO27001 certifications and client driven requirements; however, the frequency of these audits is limited as there were no client audits in 2017.

Strong Training, High Turnover: While the trend of high turnover continues, CBRE added eight new employees during Fitch's review period and promoted three employees demonstrating the depth of the overall servicing group. Fitch considers CBRE's training and development frameworks to be well structured and the agency takes into consideration the extensive group resources which support them. Average training hours delivered to new and existing staff, at operational and management level, are good when compared with peers.

Primary Servicing Portfolio Growth (By Value)



Source: CBRE

Company History and Management Experience

CBRE was founded in June 2005 and is part of CBG, a global real estate services company based in the US. CBG has 350 offices worldwide employing about 80,000 people, with a considerable presence in Europe, the Middle East and Africa (EMEA). The servicer has access to, and has demonstrated the support of group IT, HR and training, and risk management resources.

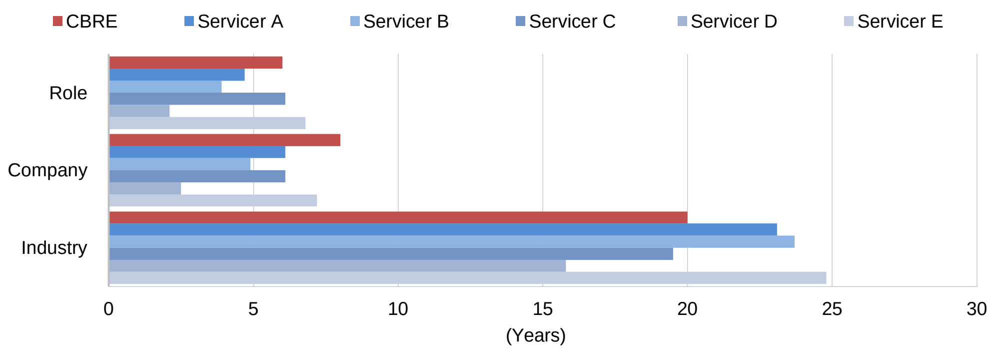
CBRE is a third-party servicer and does not perform servicing for affiliates. The company's clients are mainly financial institutions including large banks and life companies, as well as private equity funds and debt funds. CBRE performs full (including cash management, surveillance, reporting, and consent preparation and review) or shadow (excluding cash collection and processing) primary servicing for lenders along with loan sale advisory and special servicing. CBRE also performs CMBS servicing, having been named primary and special servicer on the two CMBS transactions issued in the UK during 2017.

The company continues to diversify its client base with 27 new clients added in 2017, as well as increasing its servicing portfolio with most growth still coming from primary servicing. The primary servicing portfolio has grown 14% by loan count to 275 loans totalling GBP13.9 billion as of December 31, 2017 from 241 loans totalling GBP10.5 billion as of year-end 2015. During the same period, the named special servicing portfolio grew to nine loans totalling GBP1.2 billion from three loans totalling GBP902.8 million. In 2017, CBRE won a special servicing mandate from one client on a portfolio of eight loans totalling GBP837 million for which the lender retains the option to securitise.

While Fitch's primary and special servicer ratings consider only UK commercial mortgage loans, Fitch recognises that CBRE carries out servicing activities in other jurisdictions within the EU and considers this diversification to be good for the servicer's long-term sustainability. As of December 31, 2017, CBRE maintained an EU primary servicing portfolio of 102 loans totalling EUR10.5 billion and a named special servicing portfolio of six loans totalling EUR702.4 million.

The senior management team of CBRE consists of the COO, the head of business development and three servicing heads. Compared with peers the team has a high average industry experience of 20 years and good company tenure of eight years. It remains stable in line with Fitch's prior review with no management turnover. There has been only one departure at this level over the past four years and that was filled through an internal promotion providing the servicer with management stability, which is key to achieving strategic goals.

Senior Management Experience



Source: CBRE and Fitch Ratings

Financial Condition

Fitch does not publicly maintain an IDR for CBG. However, Fitch's real estate investment trust group performed a financial assessment of CBG and determined that the company's short-term financial viability is adequate to support the servicing platform.

Related Criteria

Criteria for Rating Loan Servicers (February 2017)

Fitch's analysis highlighted the diversified business lines of commercial property and corporate facilities management; tenant and property and agency leasing; capital markets solutions (property sales, commercial mortgage origination and servicing, and debt and structured finance), real estate investment management; valuation; and development services and proprietary research, from which the company generates revenues from management fees on a contractual and per-project basis, and from commissions on transactions.

Property and facilities management, mortgage loan servicing and investment management, provide CBG with stable contractual revenues, which make it less sensitive to an economic downturn than other companies. Additionally, CBG's appraisal and valuation and leasing services also have contractual aspects – work for clients in these service lines is often recurring in nature.

CBG's revenues from contractual services has levelled off in the mid-40% range, with more than half of fee revenues remaining exposed to volatility in the real estate transaction market and overall economic environment despite recent progress. The company has significantly expanded its business segments and market reach during the current upcycle, which should provide stronger downside protection. Fitch also noted CBG's improving balance sheet, lack of short-term debt maturities and access to substantial liquidity as strong positives for the credit.

Staffing and Training

CBRE has a team of 32 people focused on servicing, up from 30 at the last review, and maintains three groups: loan servicing, loan recovery, and loan advisory. The loan recovery team provides real estate advisory services on performing loans such as asset surveillance and reviews, site inspections, and restructuring proposals. The loan advisory team provides special servicing functions in addition to advice on the sale, acquisition, valuation and workout of both performing and non-performing loans.

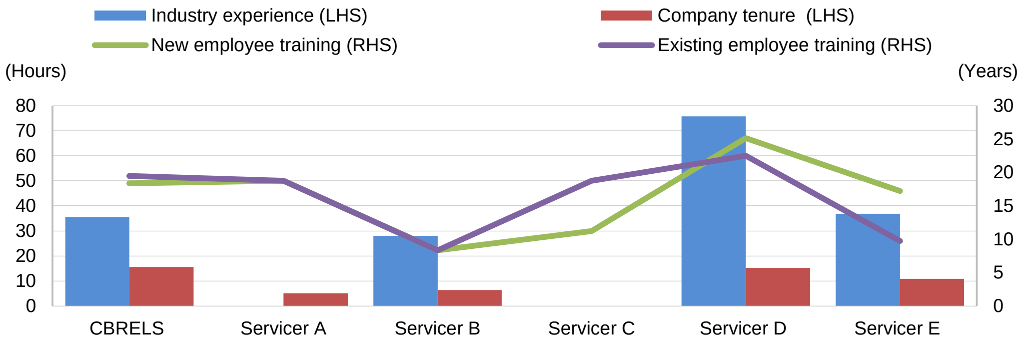
CBRE maintains a flat organisational structure given the size of the company and senior managers hold department head responsibilities. At the operational level there are 25 employees with strong average industry experience of 13 years and six years with the company. The loan servicing group is staffed with 11 asset managers and four loan administrators, while the loan recovery and loan advisory teams have five employees each. The loan recovery group comprises CBG employees dedicated to the servicer. The resource arrangement between CBRE and CBG has been in place since 2009.

During 2017, CBRE had six employee departures for a turnover ratio of 19%, which is up slightly from 14% the previous year. Turnover consisted of senior and middle managers as well as staff-level employees and was attributed to performance issues and voluntary departures. While the trend of elevated turnover continues, CBRE added eight new employees during the same period and promoted three employees, demonstrating the depth of the overall servicing group.

CBRE continues to maintain dedicated training resources to help with staff retention. Currently, nine people (including one training manager) are focused on developing and enhancing the learning and development framework of CBG. Training staff are a shared resource with CBG. CBRE's training programme is well structured, includes a variety of training methods, and covers a wide range of competencies and soft skills. The majority of training is provided by CBRE or using the significant group resources to which they have access, which Fitch considers appropriate given the variety of resources available.

The average training hours recorded per new employee was 49 hours in 2017, up from 46 previously. For existing employees the average training hours recorded was 52 hours, up from 48. Management averaged 46 hours of training per employee. Training figures compare well with rated UK peers.

Average Experience vs. Average Training Hours Across Operational Employees



Source: CBRE and Fitch Ratings

CBRE has an annual appraisal process which is managed through a performance management system, providing a good level of control and automation. The appraisal process includes a structured competency assessment and is in line with that seen at highly rated servicers. This is supported by quality assurance activity, which provides performance feedback on a continued basis.

CBRE also offers a competitive remuneration package with incentives based on individual performance and company results to help mitigate staff turnover. Through CBG, CBRE offers employees a range of development options such as overseas secondments, mentoring programmes, and sponsorship of professional qualifications.

Policies and Procedures

The policy and procedure documents seen by Fitch are deemed to be clear and concise, with evidence of at least an annual review of the documents. CBRE demonstrates a robust change management process.

CBRE operates a three lines of defence risk management model, which is standard across Fitch rated servicers. The first line of defence is represented by the segregation of duties at the operational level and significant management oversight. All key tasks are reviewed by at least two people and CBRE's K2 compliance diary system provides for a strong level of oversight through automated timeline management and exception reporting of due dates. Quality assurance activity is through six monthly reviews, of 10% of loan files, by an administrator.

The second line of defence consists of compliance monitoring of the servicer's activities and 100% oversight of the reviews carried out at the operational level. CBG's compliance director has extensive experience and is responsible for the co-ordination of the external audit and internal review programmes to ensure the group retains its accreditation under the ISO 9001/2008 standard. The compliance director is supported by two compliance associates who are dedicated to oversight of CBRE.

The third line consists of a new monthly internal audit programme, which is performed by the head of business development who selects a servicing process to review through sampling and testing. Fitch reviewed the summaries of the audits performed in 2017 from May (when the process began) to December and noted the scope of the reviews as well as issues identified which were followed up on and re-tested. While the new internal audit programme is not fully independent of the servicing operation, the monthly audit summaries are sent to CBRE's compliance group, which also formally reviews the scope, process and findings of the internal audits twice a year.

While the internal audit programme is new and there is not a demonstrated track record of performing multiple internal audits over an extended timeframe, extensive external audits provide regular independent assessments of the controls in place. The servicer is subject to extensive annual or two-yearly audits, carried out by third parties on behalf of clients. Typically, Fitch does not take into consideration client-driven audits, as generally the scope of the review is narrow and limited feedback is provided to the servicer.

While there were no client audits in 2017, CBRE has previously evidenced an audit process which is thorough, covers a variety of operational risk areas, and includes a formal feedback process to resolve any findings or recommendations. For both internal and external audit reviews, exceptions and findings require management responses and are monitored, with changes to procedures issued and accessible via the intranet. Additionally, annual external audits are performed as part of the group's ISO9001:2015 (performed in March 2018, expiring in June 2019) and ISO27001 (IT security management, performed in November 2017 and expiring in November 2020) certifications.

Servicing Methodology – Loan Administration

New Loan Set-Up

In 2017, CBRE boarded 189 loans, up from 137 during 2016, with 3,913 related properties. CBRE's loan boarding activity and experience from a variety of third-party servicers and newly originated loans remains strong when compared with the activity of rated peers over the same period.

The portfolio boarding process has two key steps: data transfer which is automated, with data quality and consistency controls; and original document transfer. All originals received as part of a loan boarding are reviewed, scanned into the servicing system, and stored in an appropriately controlled third-party managed facility off site. CBRE's reported average portfolio boarding time of around two weeks is short when compared with rated peers and demonstrates the efficiency of the portfolio boarding process.

Loan Accounting and Cash Management

CBRE carries out investor cash reporting on a quarterly basis. CBRE reports 100% of payments due were received by bank transfer and allocated automatically, without issues, over the past year. The servicer carries out a funds check prior to payment due dates; to notify the relevant parties and address any expected issues before payment failure occurs. In Fitch's view this is best practice. CBRE's servicing system provides for efficiency and control over updating interest rates, which is conducted automatically and requires no manual intervention.

Investor Reporting and Remitting

CBRE reported to six investors in 2017, down from eight in 2016, and delivered 24 reports in 2017 (down from 32 in 2016). No reports were delivered late or with material errors. CBRE's average time to prepare the reports compares favourably to peers; the average time is three days, which is consistent with prior reviews. The growing portfolio provides the servicer with increased experience of reporting, both by volume and variety of loans and assets.

The reporting process is driven by the loan administrator who provides reminders to the asset manager and portfolio manager to ensure actions are carried out according to requirements. The asset manager and loan administrator are responsible for the quality of loan-level data, and the portfolio manager is responsible for the quality checking, final sign-off and distribution of all investor reports.

CBRE adheres to the Commercial Real Estate Finance Council (CREFC) European Investor Reporting Package as best practice, as well as providing investors with supplemental reports. For portfolios of balance-sheet loans, CBRE works with the lender to produce suitable reporting packs to meet their individual requirements.

Reports are delivered through a variety of methods, including secure email. CBRE offers a dedicated secure online portal, which provides a central repository for clients to access portfolio data and reports, as well as CBG market data. This is in line with highly rated peers.

In Fitch's opinion CBRE continues to deliver high standards of investor and client reporting, providing good levels of commentary and statistical information, often above and beyond rated peers in the market.

Asset Administration

Each loan has an asset manager assigned who will be the single point of contact for the borrower and managing agent, which is in line with rated peers. In Fitch's view, this provides clear communication channels and continuity of approach during management of the asset.

A full initial review of the loan takes place within 18 months of the loan closing. Ongoing reviews are then carried out at least annually, more frequently where specified within the documentation. The asset manager is responsible for monitoring loan and financial covenant compliance and ensuring that all required borrower documentation is received and reviewed.

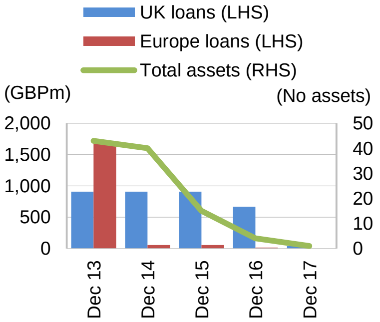
The requirement and frequency to undertake property inspections are stated in the Transaction Documents or Servicing Agreement. CBRE was required to inspect 12 properties out of the 3,913 under management in 2017. All required inspections were completed to schedule. All inspections were carried out by the asset manager, which Fitch considers to be appropriate. The agency also recognises the wider support available through CBG, should requirements increase.

CBRE collected all required borrower financial statements in 2017. The reported average collection time of seven days is in line with highly rated peers.

Fitch considers CBRE's processes and controls for the testing and monitoring of watchlist criteria to be robust, and in line with that seen across rated peers. CMBS watchlist criteria are in place for all portfolios and are monitored on at least a quarterly basis. There is no formal watchlist committee, as can be seen at some rated peers, and suggested amendments are signed off by the relevant asset manager and the portfolio manager.

At the time of review, none of the loans under management were on watchlist, consistent with prior reviews. This reflects a trend seen across the UK market, with most of the higher risk legacy CMBS portfolios now resolved or transferred to special servicing.

Active Special Servicing Portfolio



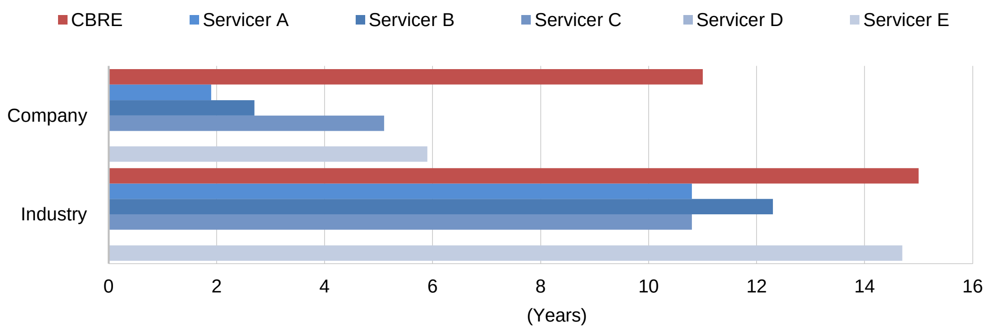
Source: CBRE

Servicing Methodology – Defaulted Loan Management

The UK special servicing portfolio consists of two loans, down from four loans in 2016. The number of specially serviced UK loans under management remains small and the servicer has less experience than some UK rated peers.

CBRE continues to evidence both its capacity and capability in working out distressed commercial real estate loans, through a variety of strategies. The team has high industry experience and company tenure when compared with rated peers, and Fitch takes into consideration the support provided by CBG's real estate teams.

Special Servicing Staff Experience



Source: CBRE and Fitch Ratings. Servicer D special servicing data not available

Where the decision is made to transfer the loan into special servicing a documented handover process is in place, with at least two senior team members allocated to each loan, mitigating key person risk. An asset manager will be assigned to the loan, responsible for carrying out the required activities, with oversight provided by the director.

The asset manager will put together a proposed business plan with a projected budget and refer this to the special servicing committee for approval. The committee has documented terms of reference, and consists of the head of loan advisory and special servicing directors, along with relevant personnel from within the CBG where appropriate. All action plans are reviewed every six months, with any variations requiring special servicing committee approval. This is in line with industry standards.

In order to limit potential conflicts of interest, CBRE actively engages outside resources – such as legal and tax consultants and valuation services – where appropriate, even though such expertise resides within CBG. CBRE has a panel of preferred providers, but these are not used exclusively. Fitch has no concerns regarding the management of third-party activity at CBRE; however, there is less evidence of structured performance monitoring and benchmarking than is seen at highly rated servicers.

Technology

CBRE uses Finance Active as its system of record for loan servicing, which was implemented in 2016 and was jointly developed with a third party. First-line system support is provided by a large in-house technology function at CBG and secondary support for the application is provided by the vendor. Finance Active shows loan and borrower details, as well as key loan agreement information. Payment schedules with locked calculation formulas are exported directly to Excel to create payment advice and the system also provides for automation of interest rate data updates which are fed directly into the system. The company also uses SharePoint to exchange client reports, which are done in excel.

The K2 compliance diary system provides CBRE with effective workflow and timeline management capabilities through management reporting and monitoring as well as automated alerts for upcoming and past due events. The K2 system also has a calendar with upcoming tasks as well as a task list showing due dates by loan. Servicing managers and the COO receive a weekly list of overdue tasks.

CBRE is subject to CBG's security policies and business continuity planning, which is tested annually. In Fitch's view, both the security policies and business continuity planning are robust. The reported data backup frequency and expected recovery time compare well to peers. The most recent fully documented test was completed in November 2017, with no significant findings.

The ratings above were solicited and assigned or maintained at the request of the rated entity or a related third party. Any exceptions follow below.