

Joint Seminar
Risk Management Institute
And
Institute of Real Estate Studies

Details of Seminar

Date: 1 December 2008, Monday

Time: 2:30pm – 4:00pm

Venue: [IRES Seminar Room, SDE1 #04-24](#)

Speaker

Prof. Nancy Wallace

University of California, Berkeley

Title

Volatility, Mortgage Default, and CMBS Subordination

Abstract

This paper calculates loan-by-loan estimates of commercial real estate implied volatility using all commercial mortgages in 206 public CMBS deals from 1996 through 2005 — a total of over 14,000 loans. The implied volatilities average about 20–24% per annum, with some differences across property types. Using these implied volatilities, we compute the distribution of default rates for representative CMBS pools under realistic assumptions, and find that the subordination levels for recent vintages of CMBS imply a high likelihood of default for what are supposed to be investment-grade tranches.