Commentary

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Steve Jellinek
Vice President – Head of Research, North American CMBS
+ 1 312 244-7908
steven.jellinek@dbrsmorningstar.com

Stephen Bernard
Vice President – Corporate Communications
+ 1 312 806-3240
stephen.bernard@dbrsmorningstar.com

DBRS, Inc. (DBRS Morningstar) is pleased to deliver the next issue of the CMBS Weekly Chronicle, which highlights important credit events as well as insights from the DBRS Morningstar CMBS team. Clicking on the blue hyperlinks will take readers to our loan-level research on our Viewpoint platform. For complimentary access to this content, please register for the DBRS Viewpoint platform at www.viewpoint.dbrsmorningstar.com. The platform includes issuer and servicer data for most outstanding CMBS transactions (including non-DBRS Morningstar rated), as well as loan-level and transaction-level commentary for most DBRS Morningstar-rated and -monitored transactions.

Will the Effects of the Coronavirus Disease (COVID-19) Pandemic Seal the Fate of Struggling Mall Loans in CMBS?

In early August, CBL Properties (CBL) announced its Q2 2020 financials. Those documents reveal that the financially unstable mall operator is preparing to turn over to lenders three properties with secure CMBS loans—those in Burnsville Center (GSMS 2010-C1, DBRS Morningstar rated), Eastgate Mall (WRBS 2011-C4, not DBRS Morningstar rated), and Hickory Point Mall (BSCMS 2006-PW11 not DBRS Morningstar rated). Given the historical performance trends for those three malls, these developments aren't particularly surprising. We have been monitoring the Burnsville Center loan on the DBRS Morningstar Hotlist for several years because of increased risks resulting from sharp cash flow and occupancy declines for the mall.

However, these developments do highlight a trend DBRS Morningstar has been speaking about since the beginning of the pandemic in both commentary releases and webinars. The effects of the pandemic have exacerbated the existing stresses for underperforming regional mall properties, further diminishing the prospects for a turnaround for weaker performers in CMBS. As such, the likelihood of default and losses to the respective trusts are generally higher, particularly for less well-capitalized owner/operators such as CBL, The Pyramid Companies (Pyramid), and Washington Prime Group (WPG). However, better-positioned operators have historically shown a willingness to give back properties deemed unsalvageable, with some of the biggest losses in CMBS history coming from loans sponsored by Simon Property Group (Simon) and General Growth Properties (GGP), which was acquired by Brookfield Property Partners (Brookfield) in 2018.

According to the DBRS Viewpoint platform, approximately 70 loans and loan pieces backed by approximately 50 regional malls have transferred to special servicing since the beginning of the pandemic. While some of those transfers appear to be performing loans in need of temporary relief, many are loans that showed significant performance declines before the onset of the pandemic. Three of those loans within the DBRS Morningstar rated portfolio that we believe are at an elevated risk of the respective borrowers turning over keys are highlighted below.

A Simon-Operated Pennsylvania Mall Is Showing Weak Performance

The Montgomery Mall loan is represented by a $54.0 million note in WFCMT 2014-LC16 and a $46.0 million pari passu note in WFRBS 2014-C21 (both rated by DBRS Morningstar). The collateral is a 1.1 million sf two-story enclosed regional mall in North Wales, about 20 miles north of Philadelphia. The property is situated near two major regional arterials, but area competition for mall shoppers is stiff, with five other super-regional malls within 20 miles of the subject.

The loan transferred to special servicing with the July 2020 remittance, when it showed 30-59 days delinquent. The special servicer's commentary cited imminent default as a result of COVID-19 as the reason for the loan's transfer. The reported YE2019 financials showed the property's net cash flow was 35.2% below the issuance levels, and occupancy was at 86.8% as of March 2020, down from 92.4% at YE2018. The property lost a Sears anchor in early 2020, with remaining anchors in Macy's, JCPenney (JCP), Wegmans Food Market, and Dick's Sporting Goods (Dick's). JCP and Dick's are the only collateral anchors. DBRS Morningstar has not received sales for the property since the T-12 ended 2016, but those figures showed relatively low inline sales of $297 psf, with JCP reporting sales of $105 psf for the period.

Cash flows have been down over the last few years, but the debt service coverage ratio (DSCR) has held at a relatively healthy level, hovering near 2.0x, before falling slightly to 1.90x for the annualized Q1 2020 reporting. The JCP lease runs through March 2022, and although the retailer hasn't announced a closure for the subject location to date as part of its bankruptcy proceedings, the future of the company remains heavily in doubt. Should JCP vacate, the collateral occupancy would be further reduced by 15.3% and the loss of a second anchor would likely trigger co-tenancy provisions for many inline tenants. Simon had already injected significant capital into upgrades for the mall at the time of issuance and, given the property's occupancy and cash flow declines since issuance, we believe the sponsor could be significantly less inclined to continue to invest in the property, particularly in light of the effects of the pandemic.

A CBL-Operated Virginia Mall Is at Risk of Losing a Second Anchor

The $57.6 million Southpark Mall loan, accounting for 7.2% of JPMCC 2012-CIBX, is secured by the inline portion of the mall and two of four boxes of a regional mall located in Colonial Heights, Virginia, approximately 20 miles south of the Richmond central business district (CBD). The property's occupancy decreased to 64.1% after the loss of collateral tenant Sears in 2018. Remaining anchors include non-collateral stores JCP and Macy's, as well as the collateral Regal Cinemas. The loan was transferred to special servicing in March 2020, with the special servicer noting a pandemic related relief request had been submitted; however, that request was ultimately withdrawn, and the loan is pending a return to the master servicer. As of the July 2020 remittance, the loan was 30+ days delinquent. It is sponsored by CBL, which has been in the news since mid-July for a potential bankruptcy filing, and as previously noted, recently confirmed three properties in its mall portfolio would be transitioned to the respective CMBS trusts.

The property benefits from being the dominant regional mall south of the Richmond CBD, although its tertiary market location may deter some prospective tenants given challenging retail conditions. The most recent sales for the mall provided to DBRS Morningstar are from YE2018, showing in-line sales of $347 psf, with JCP and Macy's each reporting sales of approximately $100 psf for the period. Although the in-line sales figures were relatively healthy for a mall in this location, the possibility of a second anchor loss seems particularly high given JCP's sales were 50% higher at issuance and the company's recent bankruptcy filing is expected to bring mass store closings for the chain.

On a positive note, H&M leased 5.7% of the gross leasable space in October 2019, improving occupancy to 69.8%. Still, a considerable amount of upcoming lease rollover is in 2020 and 2021. This, combined with the empty Sears box and the potential for another anchor loss in JCP, suggests a refinance in 2022 could be difficult, particularly if the sponsor does not have the liquidity to provide additional equity.

A Washington Prime Group-Operated Mall Approaches Maturity with Weak Fundamentals

The $35.8 million, Oak Court Mall loan, with pari passu pieces in WFRBS 2014-C21 and WFCMT 2014-LC16 (both rated by DBRS Morningstar), is collateralized by 240,197 sf of a 723,014 sf regional mall in Memphis, Tennessee. Oak Court Mall is a relatively small property, with just two anchors, Dillard's and Macy's. The dominant mall in the area is the Wolfchase Galleria mall, owned and operated by Simon and collateralizing CMBS debt held in four CMBS transactions, three of which DBRS Morningstar rates. The Wolfchase Galleria loan is current but in special servicing for imminent default related to the pandemic.

The Oak Court Mall loan is scheduled to mature in April 2021. Given the weaker financial position of the loan sponsor, WPG, and the performance declines from issuance, we believe it will be significant difficult to obtain a replacement loan. WPG classifies the property as a "Tier 2/Noncore" asset within its portfolio, which the Q2 2020 filings for the company recently confirmed. The loan transferred to special servicing in May 2020 and was 90+ days delinquent as of the July 2020 remittance.

The YE2019 financials suggest that the net cash flow has decreased by 42.4% since issuance, with the DSCR just above breakeven at 1.03x. The Q1 2020 financials showed improvement to a DSCR of 1.21x, but those gains may have been wiped out amid the pandemic. Occupancy at YE2019 and Q1 2020 was reported at 96.0%. Near-term rollover includes 15 tenants with lease expirations in 2020 and an additional 19 tenants with lease expirations in 2021. The most notable 2020 lease expiry is for the Dillard's collateral anchor, whose lease for 20.8% of the collateral net rentable area runs through August.

How Stein Mart's Latest Retail Bankruptcy Might Affect CMBS Loans

Last week, off-price retailer Stein Mart announced that it had filed for bankruptcy, with news outlets reporting the company planned to close most or all of its nearly 300 stores nationwide. According to the DBRS Viewpoint platform, this news affects 34 single property loans backed by properties with Stein Mart as a top five tenant, with a combined balance of those loans of $798.7 million. When accounting for portfolio loans, where the Stein Mart footprint is generally very small as a percentage of the total square footage of the portfolio, the exposure is 45 loans with a combined balance of $2.5 billion. Investors can identify exposure within their portfolios with this link.

About DBRS Morningstar

DBRS Morningstar is a global credit ratings business with approximately 700 employees in eight offices globally.

On July 2, 2019, Morningstar, Inc. completed its acquisition of DBRS. Combining DBRS' strong market presence in Canada, the U.S., and Europe with Morningstar Credit Ratings' U.S. footprint has expanded global asset class coverage and provided investors with an enhanced platform featuring thought leadership, analysis, and research. DBRS and Morningstar Credit Ratings are committed to empowering investor success, serving the market through leading-edge technology and raising the bar for the industry.

Together as DBRS Morningstar, we are the world's fourth-largest credit ratings agency and a market leader in Canada, the U.S., and Europe in multiple asset classes. We rate more than 2,600 issuers and 54,000 securities worldwide and are driven to bring more clarity, diversity, and responsiveness to the ratings process. Our approach and size provide the agility to respond to customers' needs, while being large enough to provide the necessary expertise and resources.