



All Eyes Are on the Grocery Sector

Recently, we've written quite a bit about the grocery store chain Kroger (NYSE:KR). Ahead of the firm's latest earnings, which we said would be a bellwether for the grocery store industry, we put out some stats on just how much CMBS is backed by Kroger as a tenant and how those loans are performing.

(The story about Kroger got a lot more interesting the day after our blog came out. First, Kroger's guided future earnings came in lower than expected, which sent the firm's stock down 19% on Thursday. Ouch. Then came the news last Friday that Amazon (NASDAQ:AMZN) was purchasing Whole Foods (NASDAQ:WFM). That dragged the entire grocery-related sector down, including Kroger, which lost another 10% at the end of last week. Kroger was not alone, however, as the grocery Amazacalypse also took a bite out of Walmart (NYSE:WMT), Costco (NASDAQ:COST), as well as other traditional grocers).

The grocery store narrative today feels a lot like the shopping mall story did two years ago. However, commercial real estate investors only had two worries back then: how much wallet-share would ecommerce steal from brick-and-mortar sellers, and how deeply would millennial preferences alter the shopping mall experience. Today, grocery stores have those same concerns, plus a few others. For one, foreign entrants Aldi and Lidl are ramping up their presence in the US with cheaper inventory and smaller stores. Also, Walmart has made inroads into the share of traditional grocers.

Last week's news certainly ratcheted up the focus on the industry. The grocery store segment has gone from being watched by a few nervous nellys – us included, as we first warned the market that this could be the next big concern on June 5th – to just about everyone in the commercial real estate market.

Last week's piece on Kroger, where we outlined the average debt yield, lending spreads, and exposure to the firm, certainly touched a nerve as well. We were asked (several times) to expand on the analysis to include all grocers.

Below are some basis data on the overall segment. Our methodology differed somewhat from our previous two blogs on grocery stores.

We ran a search of grocery store exposure in our database for all loans securitized since the beginning of 2014. There are almost 800 loans issued over the last 42 months with exposure to traditional grocers (so not including Walmart, Costco, etc.) We focused on 397 loans which held the following property criteria:

1. The collateral was a single property; eliminating multiproperty loans reduced the analysis by 219 properties
2. Loan collateral was not an ethnic grocery chain, which we feel will not be as susceptible in the short term to threats from Amazon, Walmart, Aldi, Lidl, etc.
3. We excluded properties where the grocer was not the top tenant in terms of general leasable area (GLA); there were 66 properties where the grocer was the second- or third-largest tenant.

Our pool of 397 loans comes with a total of \$4.5 billion in current loan balance. Almost 33% of that balance is backed by properties where the grocery anchor's lease ends between now and 2020. Over 50% of the balance features a grocery tenant on a lease that ends between now and 2022. Only two of the loans from our total show any signs of issues, as the sector has performed extremely well to date.

The two issues that have been delinquent over their history are:

- ▶ The \$13.2 million **Pathmark-Linden** was originated in 2015. That asset is now REO, and the appraised value is now down to \$6.1 million. The property owner – The Great Atlantic & Pacific Tea Co. Inc., A&P – filed for bankruptcy almost two years ago, and the collateral is currently vacant.
- ▶ The \$15.9 million **Shop City Shopping Center** loan, which is 30 days delinquent. That note is backed by a Tops Friendly Market in Syracuse, New York. It's unclear why that loan is delinquent.

To get a sense of when these loans were made, the debt yields at origination, and the spread to Treasury of the loans by origination year, we have put together several tables below.

Lending Spread for Grocery-Anchored Loans Securitized from 2014 to 2017 (Top Tenant Only)

Below you will see the balance-weighted lending spread for loans securitized since 2014 that are anchored by grocery stores. LTV and DSCR will have a lot to do with where a loan is priced (along with market conditions), but this should give you a sense of where loans were being made.

Balance-Weighted Average Loan Spread		
Year of Origination	Weighted-Average Loan Spread	Loans
2014	216	135
2015	232	171
2016	270	80
2017	235	7

Source: Trepp

Along the lines of "quality matters," below are two more tables that show balance-weighted NOI and NCF debt yield by year of origination.

Balance-Weighted Average NOI		
Year	Weighted-Average NOI Debt Yield at Origination	Loans
2014	9.67	135
2015	9.49	175
2016	10.11	80
2017	9.65	7

Source: Trepp

Balance-Weighted Average NCF		
Year	Weighted-Average NCF Debt Yield at Origination	Loans
2014	8.97	135
2015	8.80	175
2016	9.46	80
2017	9.11	7

Source: Trepp

Below is the balance-weighted DSCR (NCF) and LTV by year of origination.

Balance-Weighted Average DSCR		
Year	Weighted-Average DSCR (NCF)	Loans
2014	1.48	135
2015	1.53	175
2016	1.81	80
2017	1.53	7

Source: Trepp

Balance-Weighted Average LTV		
Year	Weighted-Average LTV at Origination	Loans
2014	70.05	135
2015	68.58	175
2016	63.60	80
2017	60.28	7

Source: Trepp

The overall pool currently looks like this in terms of year of origination and state distribution.

Balance by Origin Year		
Origination Year	Current Loan Balance	Loans
2014	1,318,171,129	135
2015	2,027,323,747	175
2016	1,038,277,643	80
2017	128,217,457	7

Source: Trepp

Balance by State	
State	Current Loan Balance
CA	924,597,493
VA	370,568,874
NY	350,079,762
FL	300,909,844
AZ	172,925,426
NC	165,234,343
MI	159,265,239
GA	155,894,994
PA	147,553,330
OH	142,953,787
IL	139,382,319
TX	139,290,284
NV	133,577,794
SC	101,787,873
CT	95,613,227

Source: Trepp

For inquiries about the data analysis conducted in this research, contact press@trepp.com or 212-754-1010. For more information about Trepp's commercial real estate data, contact info@trepp.com

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