



Defeasance Activity Reaches New Post-Recession High

by Orest Mandzy

Defeasance activity continued to blossom last year, as conditions remained favorable—property values continued to increase, interest rates remained at historically low levels and lenders generally were generous with loan proceeds.

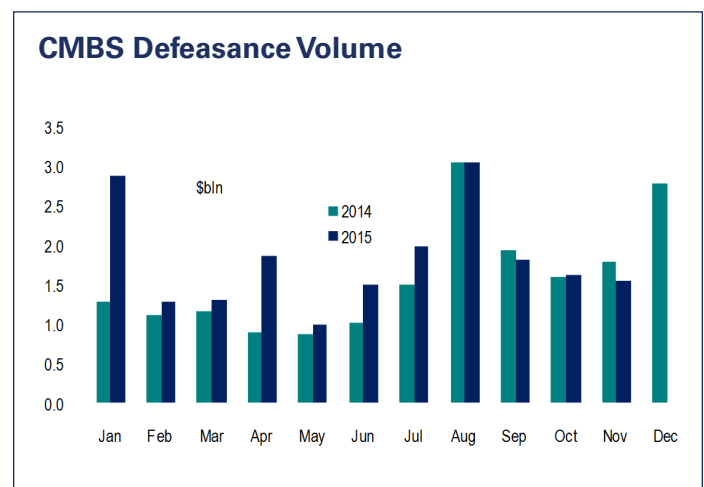
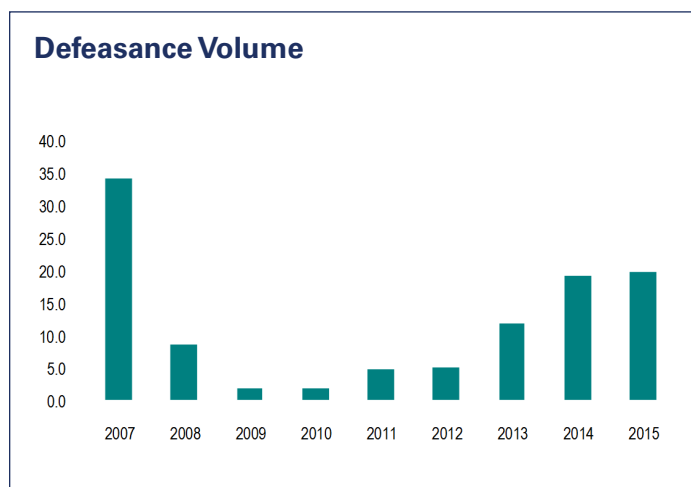
A total of 1,332 loans with a balance of \$19.8 billion were defeased, or replaced by government securities, through November. That sum will increase as remittance data for December is tallied. The balance through November compares with \$19 billion for all of 2014 and is a clear indication that borrowers made efforts to lock in new mortgages with relatively low coupons well ahead of the maturity of their existing loans.

Borrowers who want to pay off a mortgage before it's due would face what could be onerous costs in the form of yield-maintenance or prepayment penalties, or they can replace its collateral with government securities that

generate the same income stream as the loan. To be sure, the latter option—defeasance—comes with its own set of headaches and costs.

In fact, Boston Properties Inc. incurred \$23.5 million of costs when it defeased a \$640.5 million CMBS loan late last year that had another 10 months before it became open to prepayment. The REIT had to buy \$667.4 million of government securities in order to mimic the cash flow generated by the loan it wanted to retire. That loan, backed by 100 and 200 Clarendon St. in Boston, had a coupon of 5.599 percent and required only interest payments.

In a defeasance transaction, a borrower has to identify and buy the appropriate securities and negotiate with a number of third parties, from the loan's servicer to the rating agencies. As a result, a number of advisory firms have become active in the sector, which include AST Defeasance of Los Angeles; Chatham Financial of



Kennett Square, Pa.; Commercial Defeasance and Waterstone Capital Advisors, both of Charlotte, N.C.; Trimont Real Estate Advisors of Atlanta; Bank of America and Wells Fargo Bank.

Borrowers typically factor in the amount that would be saved, as well as additional equity that could be taken out of a property, and compare that to the costs of defeasance in determining whether to proceed with such a transaction. While Boston Properties, in the earlier example, executed its transaction as a de-leveraging move, other property owners might turn to defeasance in order to access what could be viewed as trapped equity. That is, the equity hidden in a property because its value has increased.

For instance, JEMB Realty Corp. defeased the \$60 million CMBS loan against 150 Broadway, a 266,427-square-foot office building in lower Manhattan with proceeds of a \$110 million mortgage provided by AIG Investments. That decision allowed it to access the equity that was created because the collateral building's value had skyrocketed since the CMBS loan was written, to nearly \$200 million from \$103.3 million.

The largest loan to get defeased last year was the \$806 million mortgage, securitized through Credit Suisse Commercial Mortgage Trust, 2006-C4, against 11 Madison Ave. in Manhattan's Flatiron district that SL Green Realty Corp. had acquired for \$2.29 billion. The New York REIT defeased that loan, which doesn't come due until next September, with proceeds of a \$1.4 billion financing package that was provided by Deutsche Bank, Morgan Stanley and Wells Fargo Bank.

The 2.3 million-sf office property was valued at \$1.1 billion in 2006. It most recently was appraised at a value of \$2.35 billion. The defeasance transaction allowed SL Green to bring the property's leverage level up to roughly 60 percent of current value. ■

Top Defeased Loans – 2015

MO. OF DEFEASANCE	BLOOMBERG NAME	VINTAGE	PROPERTY NAME	CITY	ST	PROPERTY TYPE	BAL \$MLN	DSCR	NOI \$MLN	MATURITY
September	CSFB 2006-C4	2006	11 Madison Avenue	New York	NY	OF	806.00	0.93	43.62	Sept. 11, 2016
August	LBUBS 2006-C6	2006	1211 Avenue of the Americas	New York	NY	OF	400.00	1.76	77.28	Sept. 11, 2016
November	GCCFC 2007-GG9	2007	590 Madison Avenue	New York	NY	OF	350.00	3.30	63.79	June 2, 2017
January	JPMCC 2005-LDP5	2005	Brookdale Office Portfolio	Various	VR	OF	313.44	1.45	30.95	Sept. 11, 2015
August	LBUBS 2006-C7	2006	1211 Avenue of the Americas	New York	NY	OF	275.00	1.76	77.28	Sept. 11, 2015
April	JPMCC 2005-LDP5	2005	Selig Office Portfolio	Seattle	WA	OF	242.00	2.00	28.34	Jan. 1, 2016
October	JPMCC 2006-LDP9	2006	Galleria Towers	Dallas	TX	OF	232.00	1.22	16.54	Dec. 1, 2016
January	DBUBS 2011-C1	2011	353 North Clark Street	Chicago	IL	OF	213.93	1.82	26.06	Jan. 6, 2016
January	GSMS 2006-GG8	2006	222 South Riverside Plaza	Chicago	IL	OF	193.46	1.26	18.75	Jun. 6, 2016
March	CSFB 2006-C3	2006	535 and 545 Fifth Avenue	New York	NY	OF	177.00	1.09	11.32	May 11, 2016
November	MSC 2007-HQ11	2007	525 Seventh Avenue	New York	NY	OF	172.00	1.35	12.95	Feb. 8, 2017
January	MSC 2011-C1	2011	Michigan Plaza	Chicago	IL	OF	170.29	2.01	22.35	Nov. 5, 2015
October	MLCFC 2007-5	2007	Tower 45	New York	NY	OF	170.00	1.17	12.33	Feb. 8, 2017
May	GSMS 2007-GG10	2007	Harbor Point Apartments	Boston	MA	MF	156.64	1.51	17.13	July 6, 2017
August	CD 2007-CD4	2007	Bank of America Plaza	Charlotte	NC	OF	150.00	1.55	12.82	Nov. 6, 2016
August	CWCI 2007-C3	2007	Charles River Plaza North (1)	Boston	MA	OF	145.00	1.32	21.81	July 6, 2017
February	MLMT 2005-CK11	2005	Ashford Hotel Portfolio	Various	VR	LO	144.97	2.00	23.10	July 1, 2015
Septemer	WBCMT 2006-C27	2006	One Illinois Center	Chicago	IL	OF	141.20	0.50	5.51	July 11, 2016
April	GSMS 2007-GG10	2007	9200 Sunset Boulevard	Los Angeles	CA	OF	135.00	1.87	14.85	July 6, 2017
July	LBUBS 2006-C6	2006	The Terrace Office Complex	Austin	TX	OF	124.74	0.99	9.55	July 11, 2016
March	DBUBS 2011-C1	2011	300 South Riverside Plaza	Chicago	IL	OF	112.95	1.89	15.36	Jan. 6, 2016
January	MSC 2006-HQ8	2006	COPT Office Portfolio – Roll-up	Various	MD	OF	108.54	1.57	9.60	Jan. 1, 2016
July	CGCMT 2006-C5	2006	Tower 67	New York	NY	MF	100.00	2.25	13.24	July 11, 2016
August	BSCMS 2007-PW15	2007	1325 G Street	Washington	DC	OF	100.00	0.76	4.25	Nov. 1, 2016