Trepp®
CRE Research

February 2018

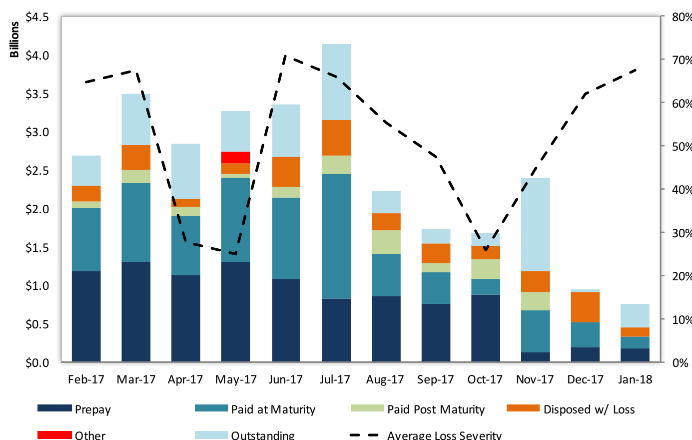
Retail Round-Up: What Lies in Store Following the Holiday Season?

In light of the large wave of bankruptcies and store closures that have hit the retail sector since 2016, Trepp will regularly publish a retail recap in an effort to monitor the current retail CMBS environment.

Not long after the 2017 holiday season ended with disappointing sales figures, several notable department store retailers announced their plans to carry out large-scale store closures through the first half of 2018. Many others, such as Bon-Ton, joined the ranks of bankrupt retailers between January and early February in an attempt to shed underperforming storefronts from their operations. While the current sales outlook for the retail industry as a whole is fairly positive, traditional retailers with outsized brick-and-mortar presences will continue to shift away from physical retail in the coming months.

Looking at the retail CMBS segment over the past few months, a large volume of underperforming retail loans paid off in conjunction with the end of the Wall of Maturities. Those long-troubled retail assets were ultimately cleared from the distressed pipeline upon resolution, allowing overall special servicing and delinquency percentages to taper down slightly from peak levels in late 2017. However, overall retail distress rates still trend above the national average for all property categories.

GRAPH 1: RETAIL CMBS PAYOFFS

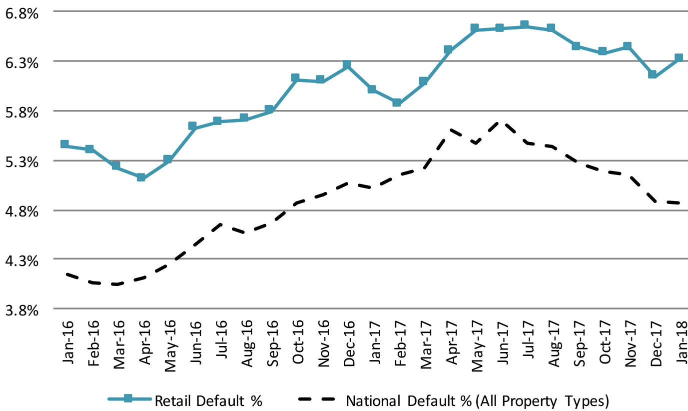


Source: Trepp

In the 12-month period between February 2017 and January 2018, roughly $23.5 billion in securitized mortgages backed by retail collateral were paid off or liquidated, 13.25% of which incurred losses at resolution. Those loans disposed with losses were written off at an average loss severity of 56.63%, resulting in a 7.50% loss on the total balance of all retail loans that paid off. In comparison, the overall CMBS loss severity for loans disposed during this time frame translated to 42.69%. Based on underwritten maturity dates for loans that were scheduled to pay off during this time frame, $6.14 billion across 350 retail loans are still outstanding. Total liquidation volume for January retail maturities dipped to $497.9 million, while average loss severity for loans resolved with a loss rose to 67.33%.

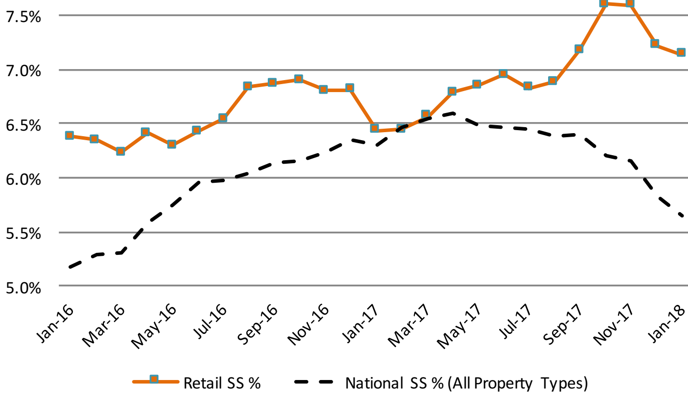
After being assumed by new ownership, a number of troubled CMBS loans secured by REO malls and shopping centers paid off with significant losses between November 2017 and January 2018. Retail loans which incurred write-offs of more than $40 million in the last three months include the $92.4 million Rockvale Square (WBCMT 2007-C32), the $99.7 million Southern Hills Mall (BACM 2006-3), the $62.4 million Vista Ridge Mall (LBUBS 2001-C3), and the $76.0 million Moreno Valley Mall note (CGCMT 2007-C6). The mortgage behind the Rockvale Square factory outlet in Lancaster, Pennsylvania took on the heaviest loss among this group with a write-off of $62.6 million for a loss severity of 67.76%. According to the special servicer, current leasing trends, perceived tenant quality, and competition from the nearby Tanger Outlets contributed to reduced traffic at the 539,661 square-foot REO retail center. Lancaster Online reported that Rockvale Square was ultimately sold to Wharton Realty Group in late 2017 for a price tag of $30 million.

GRAPH 2: CMBS SPECIAL SERVICING TRANSFER RATES



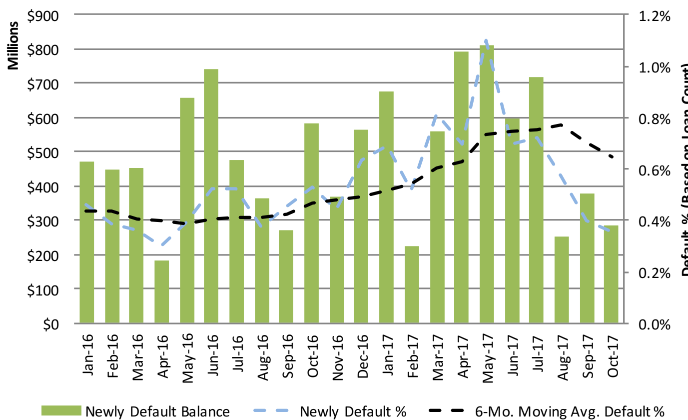
Source: Trepp

GRAPH 3: CMBS DEFAULT RATES



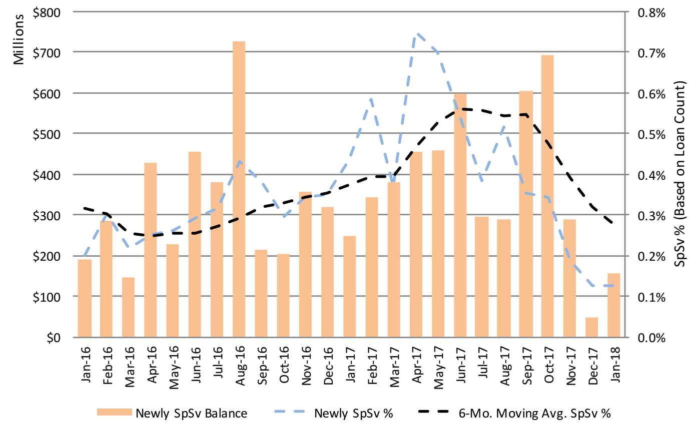
Source: Trepp

GRAPH 4: RETAIL CMBS – NEWLY DEFAULTED RATES



Source: Trepp

GRAPH 5: RETAIL CMBS – NEW SPECIAL SERVICING TRANSFER RATES



Source: Trepp

Trepp calculates CMBS default rates by taking the total number of retail loans that have entered default every month and dividing that by the total number of loans that were not categorized as being in default in the previous month. To us, default is defined as loans that are 60+ days delinquent, in foreclosure, REO, or considered to be non-performing balloons. Similarly, the percentage of loans that are newly transferred to special servicing is calculated by taking the total count of loans that were transferred to special servicing in the present month as a numerator and using the total number of loans that were not in special servicing in the month prior as the denominator. Total loan count was used rather than outstanding loan balance in this study to give equal weight to each retail transaction, regardless of asset size.

Newly Defaulted Retail Loans

- In the month of January, 17 loans with a combined balance of $481.8 million were categorized as newly in default, generating a monthly default rate of 0.26%. That is a decline of 10 basis points from October's rate of 0.36%.
- The six-month moving average rate for newly defaulted loans dipped to 0.35% in January. The rate has declined consistently from a reading of 0.77% in

August, as it fell to 0.51% and 0.43% in November and December, respectively.

- The $200 million Independence Mall note (WBCMT 2007-C33), the $140.0 million Westfield Southlake (LBUBS 2008-C1), and the $111.6 million Central Mall (MSC 2005-IQ9) are the three largest loans that have fallen into default since December. The Independence Mall note defaulted at maturity in July 2017 and is scheduled to become REO in March 2018. Built in 1974, the subject property is a 1.04 million-square-foot regional mall in Independence, Missouri owned by Simon Property Group. The underlying collateral, which consists of 389,000 square feet of retail space within the mall, is anchored by retailers such as Dick's Sporting Goods, Forever 21, Old Navy, and Victoria's Secret. The loan currently carries an appraisal reduction amount (ARA) of $80.6 million, as well as roughly $2.5 million in advanced ASER and fees.

- The overall percentage of retail loans in default, which has been noticeably higher than the rate across all property types in recent years, reached 6.33% in January. This comes in lower than November's reading of 6.44%, but higher than December's tally of 6.15%. In comparison, the national default rate fell to a 14-month low of 4.87% for the month of January, as it had been trending downward since June.

Newly Transferred to Special Servicing

- Eight loans totaling $155.2 million were transferred to special servicing in January, generating a monthly special servicing transfer rate of 0.12%. By count, only 28 retail loans were sent to special servicing between November and January 2018, making it the lowest three-month tally that we've seen over the last two years.

- The six-month moving average rate for special serving transfers was pegged at 0.28% in January, which is down 10 basis points from the same period one year ago.

- The $111.6 million Central Mall note was the largest retail loan sent to special servicing in January. Securing the loan is a retail portfolio comprised of two shopping centers in Texas and one in Oklahoma. The malls have a combined net rentable area (NRA) of 1.75 million square feet and were built between the years 1979 and 1982. Per January commentary from the special servicer, the borrower recently sent in a hardship letter stating that the loan will not be paid by its third maturity extension date in June 2018 due to significant loss of tenancy from struggling retailers. In particular, Sears stated that their locations at two of the collateral properties will close early this year. To boot, Sears is the largest tenant at both of those properties. The borrower indicated that it will be difficult to sell the property or obtain refinancing since no suitable replacement tenants have been secured. Consequently, there is a high likelihood that the borrower will cooperate with a title transfer of the portfolio upon maturity.

- The rate of all retail loans in special servicing decreased to 7.14% in January, down 46 basis points from a high of 7.60% in October. In the past three months, 83 distressed retail assets totaling $892.5 million were removed from the special servicing volume upon resolution.

January/February Retail Headlines:

- **A'GACI:** The Texas-based women's apparel retailer submitted a bankruptcy protection filing on January 9th affecting 49 of the 76 stores in its portfolio. The decision to close stores will depend on the managing team's ability to work out more favorable leasing terms during the restructuring process, as the firm expressed that roughly two-thirds of its locations are currently subject to rent costs deemed to be too high. The largest loan that may be impacted is the $62 million Palmer House Retail Shops loan, which represents 5.56% of JPMBB 2015-C32. A'GACI occupies 13.89% of the mixed-use shopping center in Chicago, Illinois as the second-largest tenant.

Overall, A'GACI is a top-five collateral tenant at nine CMBS properties across Texas, California, Illinois, and Florida.

- **Bon-Ton:** Bon-Ton declared Chapter 11 bankruptcy on February 4th. The decision came shortly after the struggling retailer announced it was preparing to close 20% of its 260-store footprint, which includes all of its brand nameplates (Elder-Beerman, Younkers, Carson's, Herberger's, and Boston Store). The department chain retailer, which recently missed a $14 million interest payment to bondholders back in December, is currently in the midst of a turnaround plan that involves growing its online presence, exploring strategic alternatives, and renegotiating current leasing conditions. Following court approval, Bon-Ton will utilize a $725 million mortgage pooled from lenders to keep its operations afloat during the bankruptcy process. The 47 known store closures contain exposure to $537.5 million in CMBS debt across 13 notes and 11 securitized deals. The top loans worth surveying in the coming months are the $146.1 million Fox River Mall (WFRBS 2011-C4), the $92 million University Mall note (LBCMT 2007-C3), and the $46.7 million Salmon Run Mall (WFCM 2010-C1). More store closings may arise later this year as the retailer actively monitors underperforming stores for "signs of further deterioration."
- **Macy's:** On January 4th, Macy's unveiled the locations of seven additional stores that will close by March 2018, as well as plans to cut around 5,000 jobs. Of the stores on the chopping block, the location at the Oaks Mall in Gainesville, Florida is the only one tied to CMBS debt. Macy's occupies 11.42% of the 906,349 square-foot retail center, which backs a $107.6 million CMBS loan that represents more than 45% of COMM 2012-LTRT. However, there is a silver lining to this story: Dillard's announced its intention to expand its current footprint at the Oaks Mall and will take over Macy's space after the retailer departs.

- **Sears:** Sears Holdings previously announced that same-store sales for Sears and Kmart locations plunged by 17% and 13%, respectively, in the third quarter. The firm shared another release in November which highlighted that it was going to liquidate 18 Sears locations and 45 Kmart stores in January. In a January 4th release, Sears disclosed that it will shutter another 39 Sears and 64 Kmart locations between March and April 2018. When large portfolio transactions sponsored by Seritage Growth Properties are excluded, there are a number of locations from the latest closure list pose potential

CHART 1: MSAs WITH THE LARGEST EXPOSURE OF RETAIL CMBS IN DEFAULT

MSA NAME	RETAIL DEFAULT BALANCE	TOTAL RETAIL EXPOSURE	WALTV*	WADSCR*	AVG. OCCUPANCY*
Chicago-Naperville-Elgin, IL-IN-WI	$431,757,977	$2,914,434,075	59.42%	2.09	97.70%
Las Vegas-Henderson-Paradise, NV	$384,497,979	$4,714,184,196	66.28%	1.79	95.45%
New York-Newark-Jersey City, NY-NJ-PA	$321,416,530	$12,615,308,501	59.34%	2.17	95.71%
Phoenix-Mesa-Scottsdale, AZ	$240,294,159	$2,151,935,248	61.27%	1.91	93.54%
Kansas City, MO-KS	$229,784,540	$592,191,539	76.24%	1.79	94.35%
Detroit-Warren-Dearborn, MI	$219,978,933	$1,634,633,728	56.23%	2.78	95.21%
St. Louis, MO-IL	$215,406,724	$984,930,644	68.99%	1.88	96.37%
Virginia Beach-Norfolk-Newport News, VA-NC	$171,258,872	$1,153,506,465	67.01%	1.57	96.72%
Pittsburgh, PA	$161,358,332	$604,991,483	59.02%	2.12	93.82%
Washington-Arlington-Alexandria, DC-VA-MD-WV	$147,059,419	$3,457,734,205	67.97%	2.03	95.59%

**WALTV, WADSCR, and average occupancy columns are based on most recently reported values for all current, fixed-rate securitized retail loans*

risk to 14 CMBS notes totaling $651.2 million. Notable loans worth monitoring include the $77.0 million Midland Park Mall note (COMM 2012-CR3), the $79.9 million Westminster Mall (JPMCC 2014-C20 & JPMCC 2014-C21), and the $94 million Rushmore Mall loan (BACM 2006-3).

- **Sam's Club:** On January 11th, several outlets reported on the sudden closure of 63 Sam's Club locations across the US by parent company Walmart. The current list of Sam's Club closings features such CMBS collateral as the $23.6 million San Fernando Value Square (WFCM 2016-C35) and the $28.7 million Elm Ridge Center (MLCFC 2006-4). Sam's Club has a particularly large footprint at the San Fernando Value Square property, as the firm occupies 90.1% of the 118,611 square-foot neighborhood center in Sylmar, California under a lease that expires in April 2026.

- **Toys "R" Us:** On January 23rd, word emerged that Toys "R" Us was going to close 20% of its brick-and-mortar space by April. The firm stated that the move is an effort to reorganize in light of "operational missteps" taken during the holiday shopping season. The toy manufacturer reported a net loss of $862 million during the first three quarters of the fiscal year and carried a debt load of $5.3 billion at the time of its bankruptcy filing in September. A sizable portion of the 180 Toys "R" Us and Babies "R" Us stores that will close are identified as one of the 123 assets behind the $402.7 million Toys "R" Us portfolio loan (TRU 2016-TOYS). Other loans featuring the retailer as a top anchor include the $123 million The Plant San Jose (WFRBS 2013-C14), the $56.2 million Akers Mill Square (COMM 2014-LC15), the $144.2 million Crossings at Corona (WFRBS 2014-C23 & WFRBS 2014-C24), and the $44.6 million Canyon Crossing (COMM 2014-UBS2).

- **Walmart:** Thanks to the lower corporate tax rate established by the recently passed tax plan, Walmart will raise its hourly minimum wage from its previous rate of $9 per hour to $11 per hour. The nation's largest private employer will also expand its maternity and paternity leave benefits program, and will also give eligible employees a one-time bonus of up to $1,000.

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

About Trepp

Trepp, LLC, founded in 1979, is the leading provider of information, analytics and technology to the CMBS, commercial real estate and banking markets. Trepp provides primary and secondary market participants with the web-based tools and insight they need to increase their operational efficiencies, information transparency and investment performance. From its offices in New York, San Francisco and London, Trepp serves its clients with products and services to support trading, research, risk management, surveillance and portfolio management. Trepp is wholly-owned by Daily Mail and General Trust (DMGT).

The information provided is based on information generally available to the public from sources believed to be reliable.