

Wave of Maturities

WE ARE HERE! AT THE BEGINNING OF THE TSUNAMI OF CMBS MATURITIES.

Approximately \$87 Billion of CMBS loans mature this year. Based on the property’s current net operating income (“NOI”) and a market cap rate, the current loan to value (“LTV”) ratio of these properties breaks down like this:

- \$13 Billion (15%) have LTVs greater than 100%! Unless these owners are willing to come out of pocket to pay the difference between the loan amount and the property value, there is very little likelihood these loans will pay off without some relief from the CMBS Trust. That relief may come in the form of an extension, a discounted pay off, a short sale, or other resolutions.
- \$7 Billion (8%) have LTVs between 90 - 100%; which means it will be near impossible for these owners to pay the loan off without some help!
- Almost \$10 Billion (11%) have LTV’s between 80 - 90%; which means it will be very difficult for these owners to pay the loan off without some additional cash or funding source. It may also be difficult for these borrowers to rely on an extension of the existing CMBS loan as the best solution to the problem though!
- That leaves \$57 Billion (66%) of loans which are below 80% LTV and arguably should have no trouble getting refinanced to pay their existing CMBS loan off.



Unless you fall squarely in the \$57 Billion category; you should seek the help of a professional to understand your options, the cost of each option, and arguably the most important element is the timing for starting the process to ensure you don’t get hit with a huge penalty!

New CMBS Loans

BE CAREFUL WHAT YOU SIGN!

Did you know there are ways to make your CMBS loan more flexible? The key is to get certain provisions built into your loan documents at origination.

Next time you take on a new CMBS loan, let our experts review your draft loan documents to provide you with feedback on how to make your CMBS loan more flexible. Plus we will review for any hidden bed bugs that may bite you in the future.



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OFFICE BUILDING IN VIRGINIA

Loan: \$25 million

Appraised Value: \$12 million

Maturity: 5/2015

Featured Case Study

250,000 SF office building located in Virginia, within one of the large CBDs. The largest tenant occupying 50% of the building was a law firm with a lease expiration of 1/2015. The law firm vacated the building at yearend 2014. In addition to that, the second largest tenant had previously filed bankruptcy and was already dark. After the law firm vacated, the building was 75% vacant.

SOLUTION

The borrower engaged 1st Service Solutions in mid-2014 to understand its options. We modeled a few scenarios for the borrower and after arriving at the one that resulted in the highest return for the bondholders and the one that worked for the borrower, the option was presented to the Special Servicer. Throughout the next 7 months, negotiations took place which ultimately resulted in an AB structure with a 3 year extension. This allows the borrower some time to bring in new tenants and increase the value of the property, while also providing the bondholders a higher recovery on their investment; which is what it takes to have a successful restructure in CMBS.

CHALLENGE


The challenges were significant! By January 2015, the borrower was faced with a 75% vacant building with a value of \$12MM and a loan of \$25MM maturing in a few months. Not to mention the exorbitant amount of tenant improvement and leasing commissions which would be required to re-tenant the space. On a CMBS loan, the maximum extension a borrower may acquire is typically 2 -3 years, so another important question was what the future of the property would look like. How long would it take to get the value of the property back up to anything remotely close to the loan amount?



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We will show a case study of an actual murder and explain how the parties are able to get away with the crimes.