

**FREE WEBINAR**



Hosted by:



*Thanks for joining us...*



We will spotlight issues facing office and retail owners in today's uncertain market and focus on how to Survive. **Don't play 'Survivor,' We'll carry your torch**

# Office or Retail Issues



In this webinar you will hear about the CMBS industry as a whole and specifically about the challenges that tenants and owners are facing when they have an upcoming maturity and a major lease that is expiring shortly before the maturity.

# Market Overview

*Speaking:*



## **Ann Hambly**

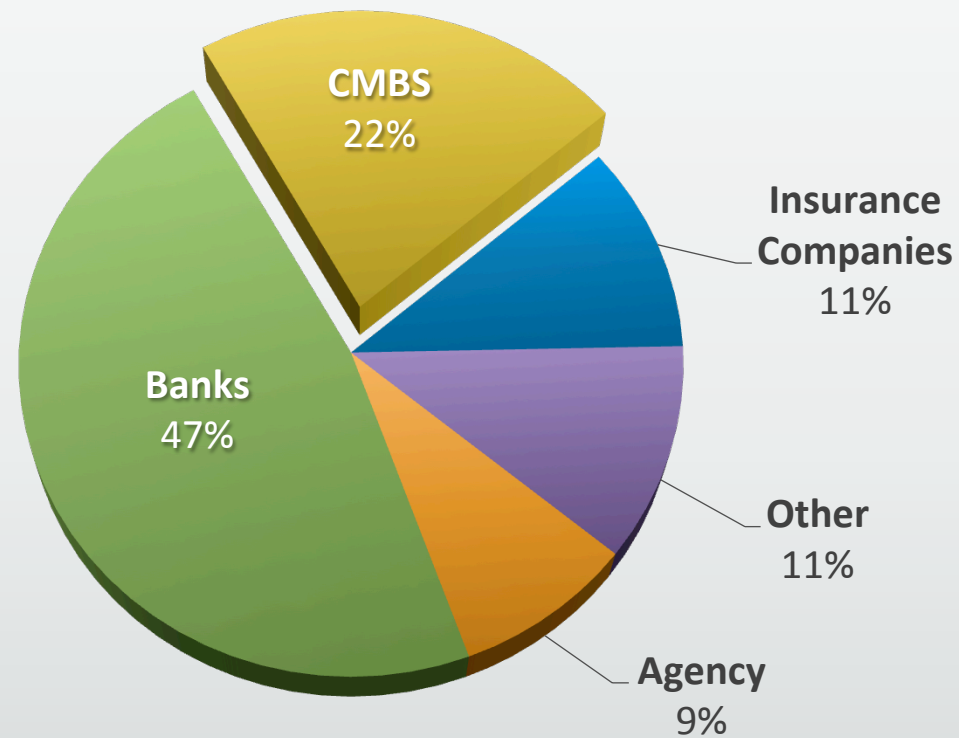
*Founder & CEO of 1st Service Solutions*

Ann Hambly created 1st Service Solutions in 2005 recognizing the need for a borrower advocate in commercial real estate. Hambly has over 30 years of commercial real estate servicing experience and has served as the CEO of servicing for Prudential, Bank of New York, Nomura, and Bank of America. In 2011 she was recognized as one of the most influential woman in commercial real estate by National Real Estate Investor. She has also been recognized as one of the top 25 CEOs across all industries in a book called True Leaders. She has been at the forefront of setting industry standards for commercial real estate and has led many initiatives for industry groups that included attorneys, rating agencies, master and special servicers, trustees, and bondholders.

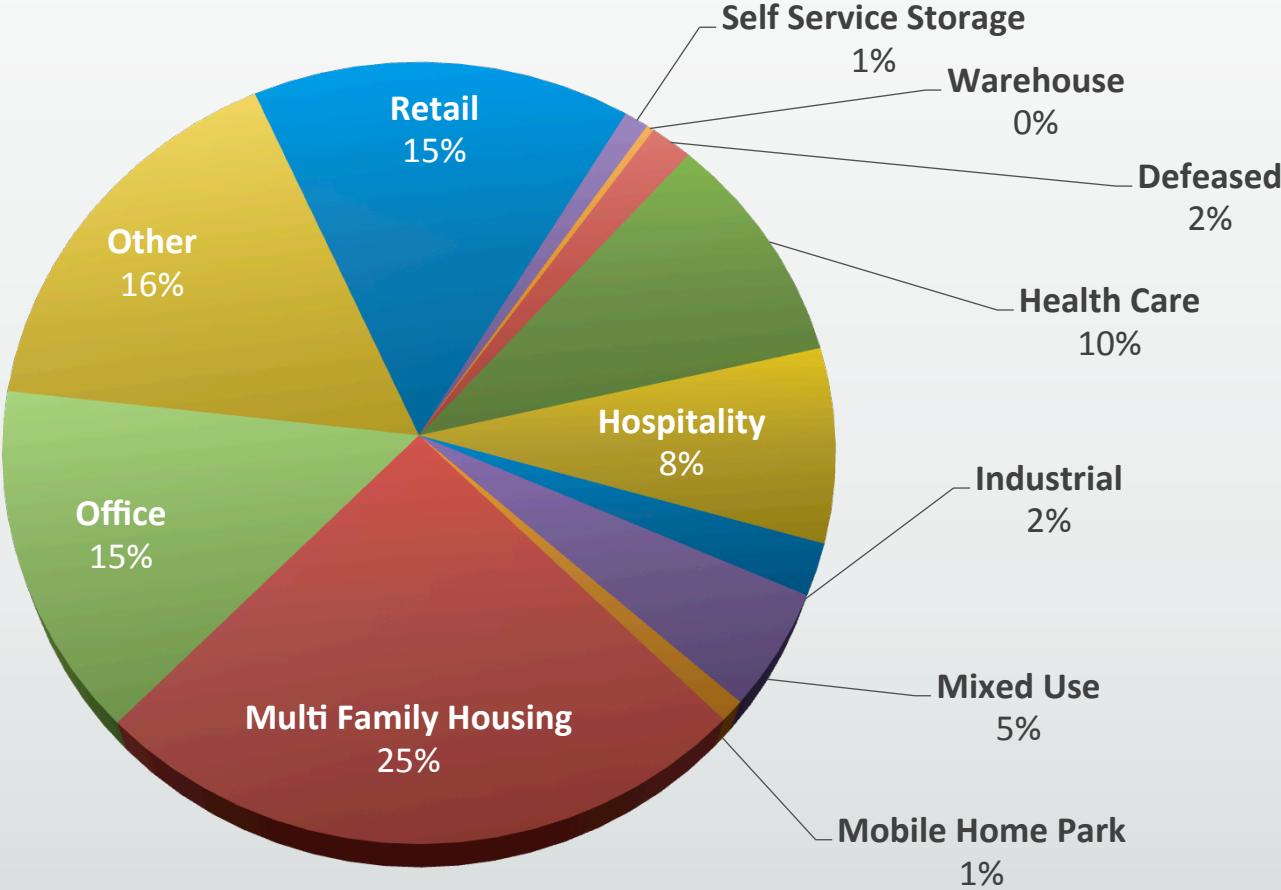


# Market Overview

- Outstanding Real Estate Loans = **\$3,062.8 billion** (as of year end 2012)

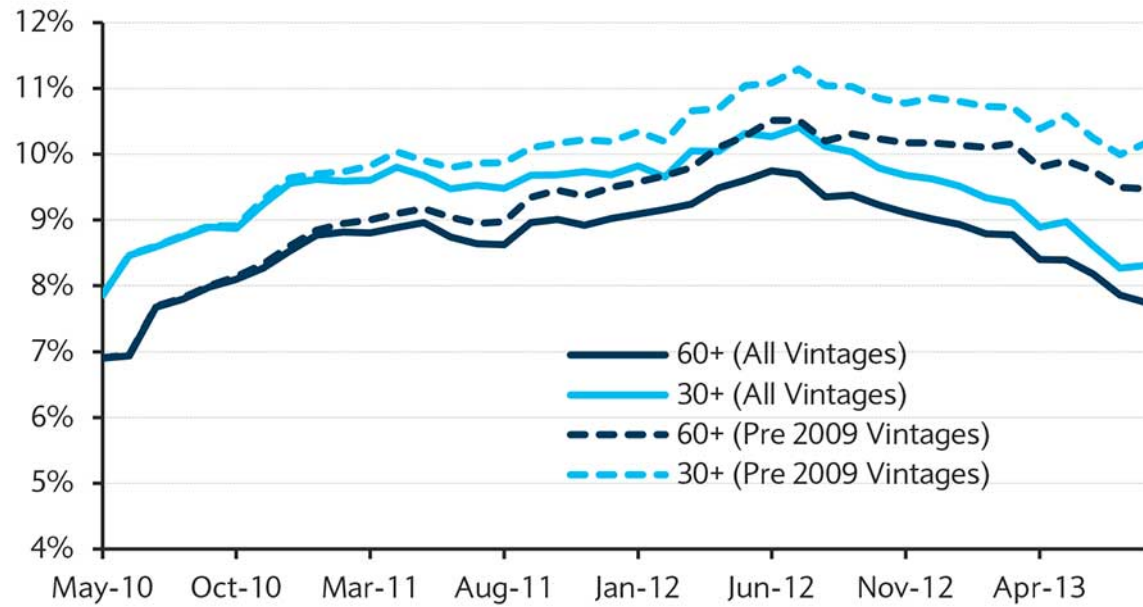


# CMBS Loan and Property Composition



# Delinquency

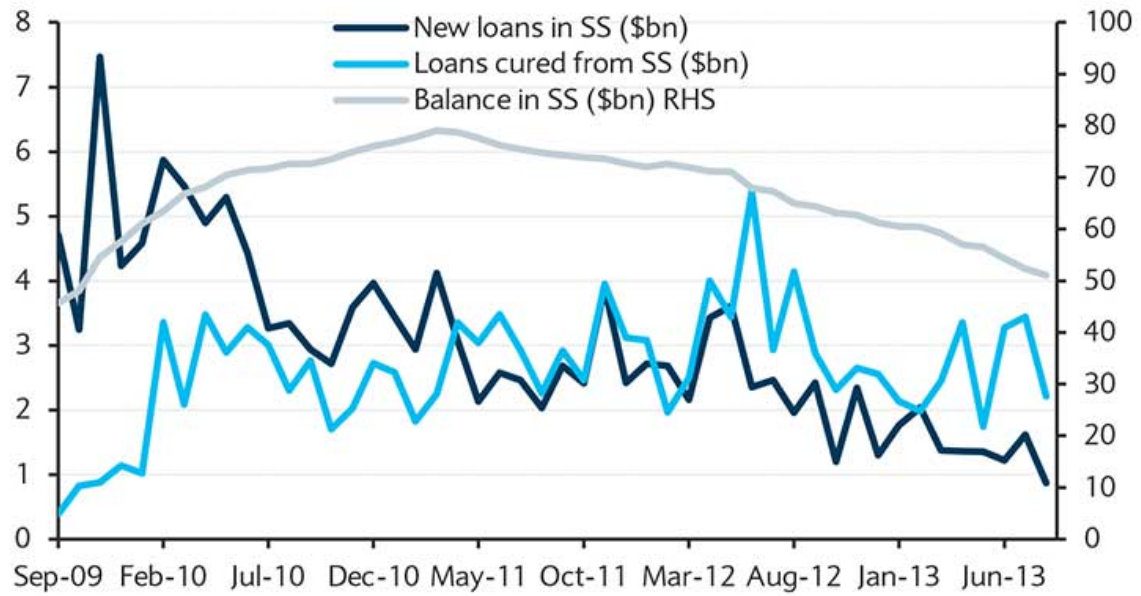
Delinquency (% of current balance)



Source: Trepp, Barclays Research

# Special Servicing

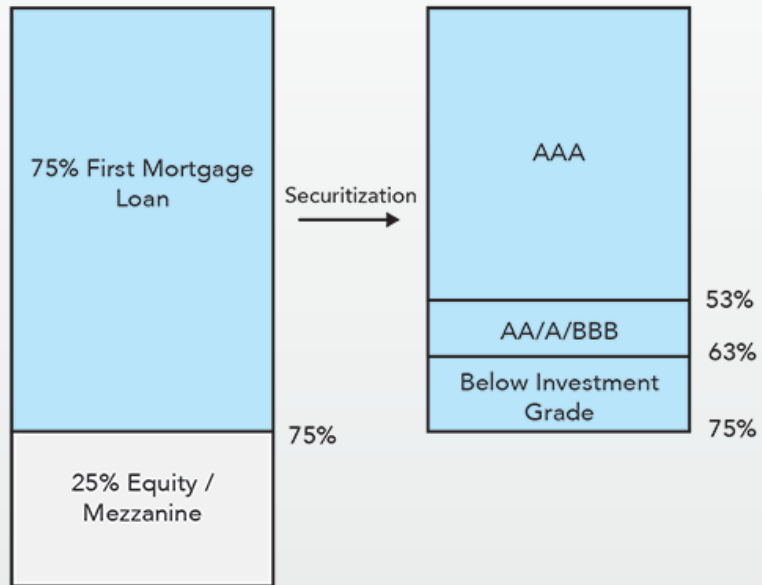
Special servicing



Source: Trepp, Barclays Research

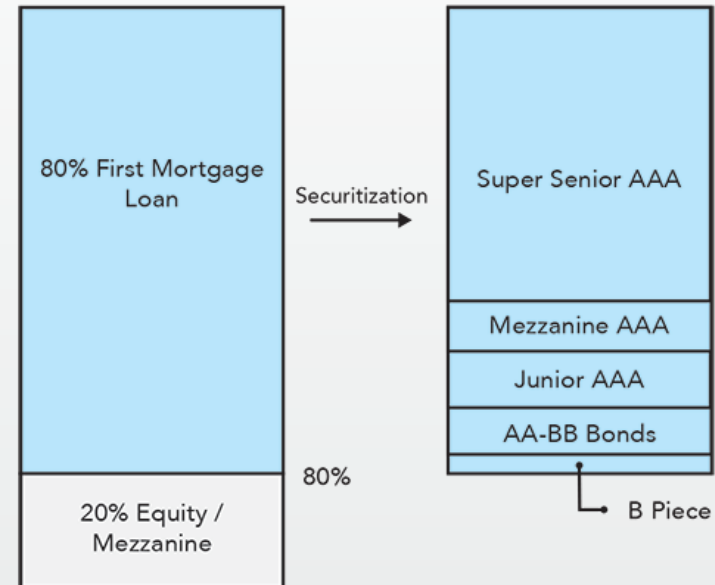
# CMBS Model

**Original Model**



- AAA represents 70% of the first mortgage
- No I/O loans
- Reserves, lock-box, lender protection
- 1995 CMBS issuance \$14 billion

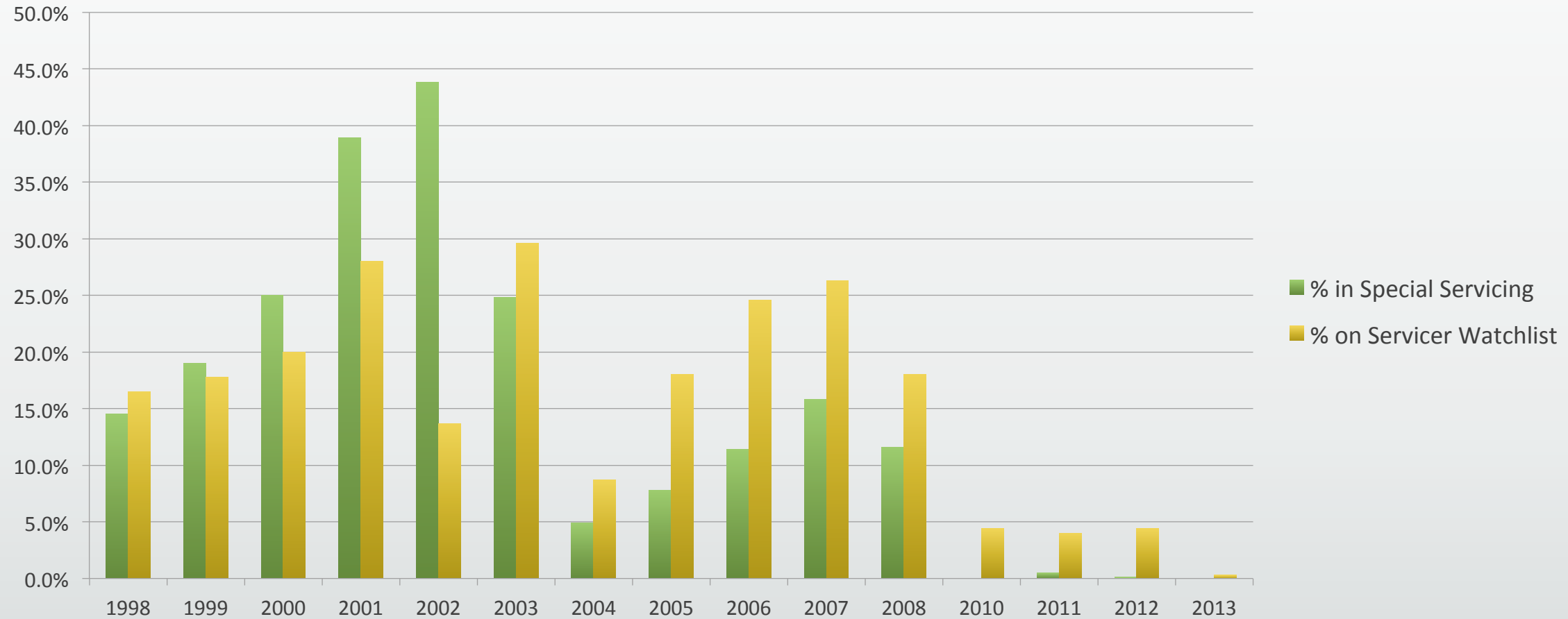
**2005 - 2007 - 88% of CMBS Market**



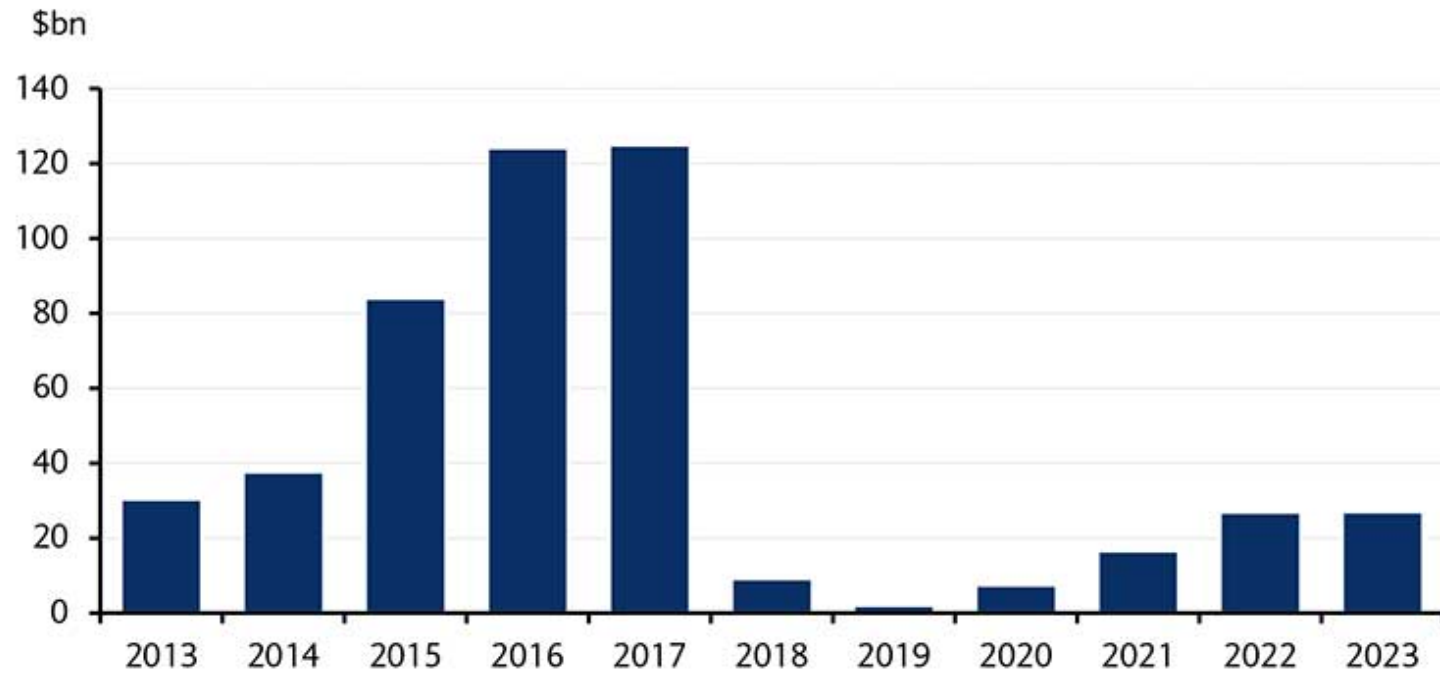
- AAA represents 90% of the first mortgage
- Mostly I/O loans
- No Reserves, lock-box, lender protection
- 2005 CMBS issuance over \$200 billion



# % Delinquency by Vintage



# Maturity Schedule



Source: Trepp, Barclays Research

# View from the Tenant



*Speaking:*



## **David Clark**

*Senior Vice President*

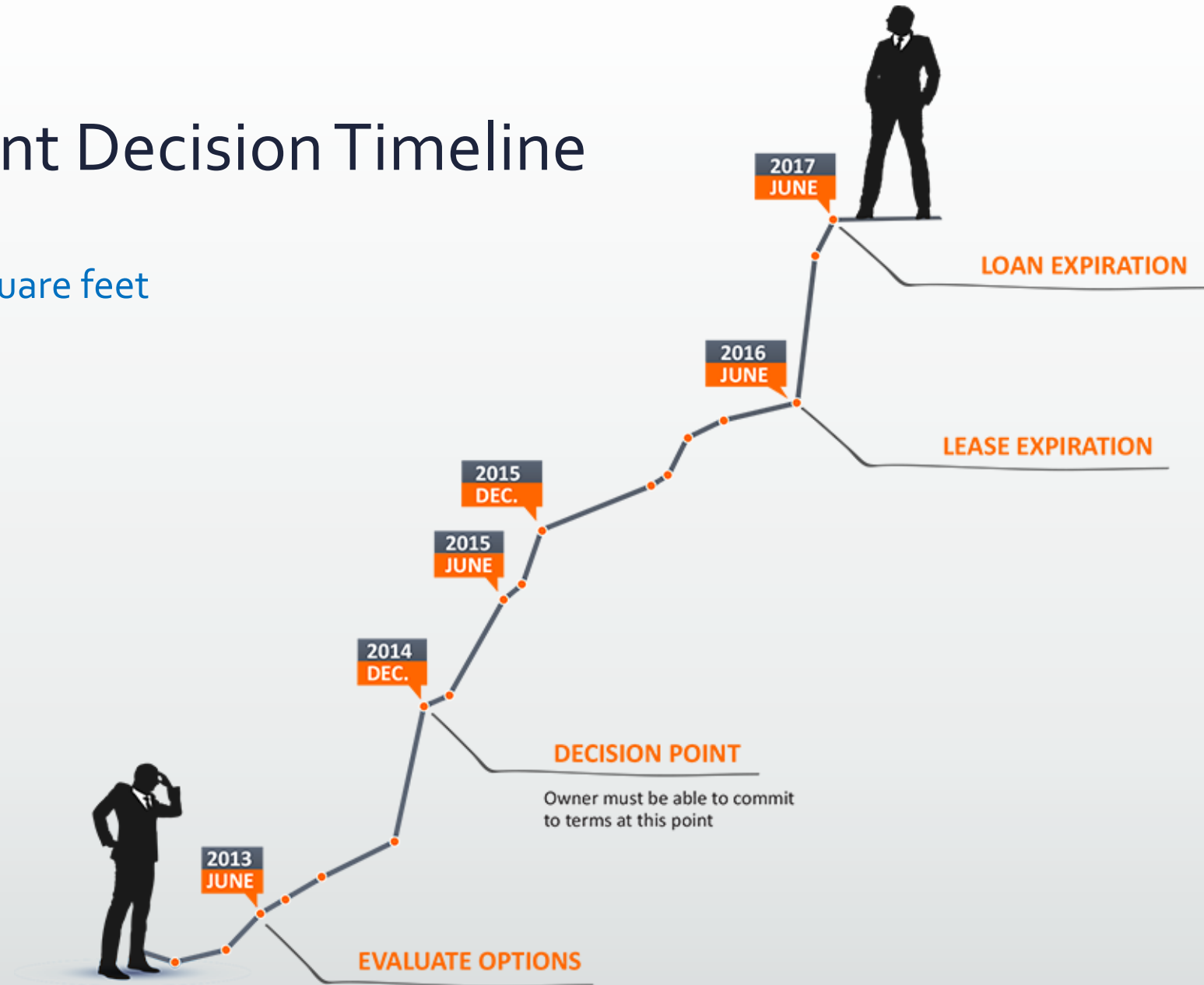
*US Head of Capital Markets Services*

*DTZ*

David Clark serves as the head of the US Capital Markets Services group (CMS) for DTZ. He has in excess of \$3 billion of international and domestic Real Estate Finance and Corporate Finance experience. Throughout his career, he has successfully managed divisions up to \$300 million in 30 U.S. cities and 11 foreign countries, including developing strategies and project teams for acquisitions, developments, restructurings and dispositions. He has also delivered “best practices” from over a dozen industrial SIC codes to corporate operations.

# Major Tenant Decision Timeline

- Over 100,000 square feet



# Tenant Renewals

- Length of time for corporate move is largely driven off of corporate decision and technology needs for today's tenants
- Office space utilization has been driven down over the past 10 years:
  - 300 square feet per person in 2000
  - 250 square feet per person currently
  - Estimated to be 200 square feet per person by 2018
- Tenant renewals will likely require less space for the same number of people

# Tenant Renewals (cont...)

- Results in many viable options for tenants at renewal
- At decision point in process, tenant will expect:
  - Equivalent Competitive terms in today's market – not a renewal or increase of existing terms
  - Average owner capital expenditure cost at major tenant renewal = \$45 square foot

# Mindset of a Tenant Broker

- Tenant brokers pay particular attention to buildings secured by CMBS debt
- Concerns:
  - Commitments for TI and commission are difficult
  - Concern over actual payment of commission
  - Building services may be curtailed while owner is negotiating with special servicer
  - SNDA's take longer to approve (if you can get approved at all)
- Broker may decide that a building with a CMBS loan may not be worth the hassle

# View from the Owners



*Speaking:*



**David Clark**  
*Senior Vice President*  
*US Head of Capital Markets Services*  
*DTZ*



# Live Set of Facts

- Names have been eliminated to protect the innocent
  - CMBS loan of \$35MM on office property in Southern California
  - Loan matures late 2017
  - Current value of the property is approximately \$35MM
  - Property is 100% occupied
  - Current vacancy 12%
  - Largest two tenants (80%) – A rated - have lease expirations in 2015
  - To retain tenants, owner will have to spend almost \$10MM
  - Tenants decision point = mid 2014
  - Tenants are currently in evaluation period

# Owner's Choices

- Commit to spend \$10MM of new capital to retain the tenant
  - Risk
    - Value of the property does not exceed \$45MM by maturity date
    - Owner cannot pay off loan at that time
    - Lender will not offer extension
    - Owner loses property to foreclosure
- Do not commit to spend \$10MM and lose tenant
  - Risk
    - Have to find replacement tenant
    - Same issues as above apply
    - Co tenancy issues arise
- Have Lender grant extension or relief prior to committing to tenant



Simple Enough

*-unless-*

**You Have a CMBS Loan**

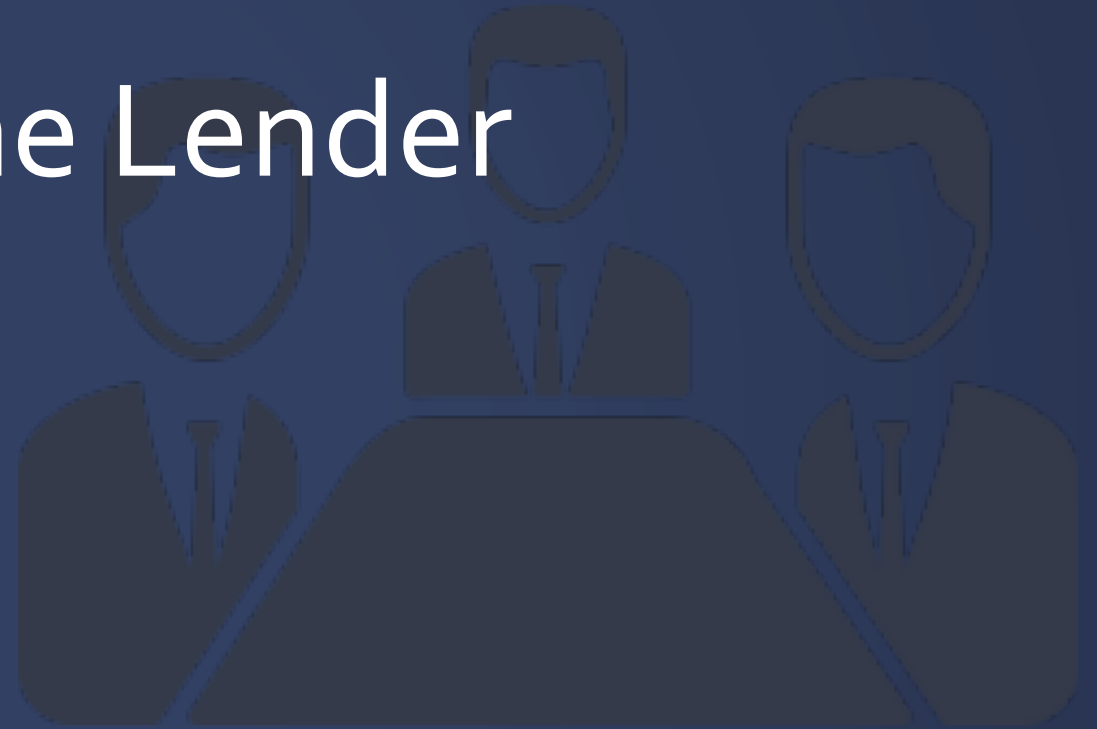


# View from the Lender

*Speaking:*



**Ann Hambly**  
*Founder & CEO*  
*1st Service Solutions*



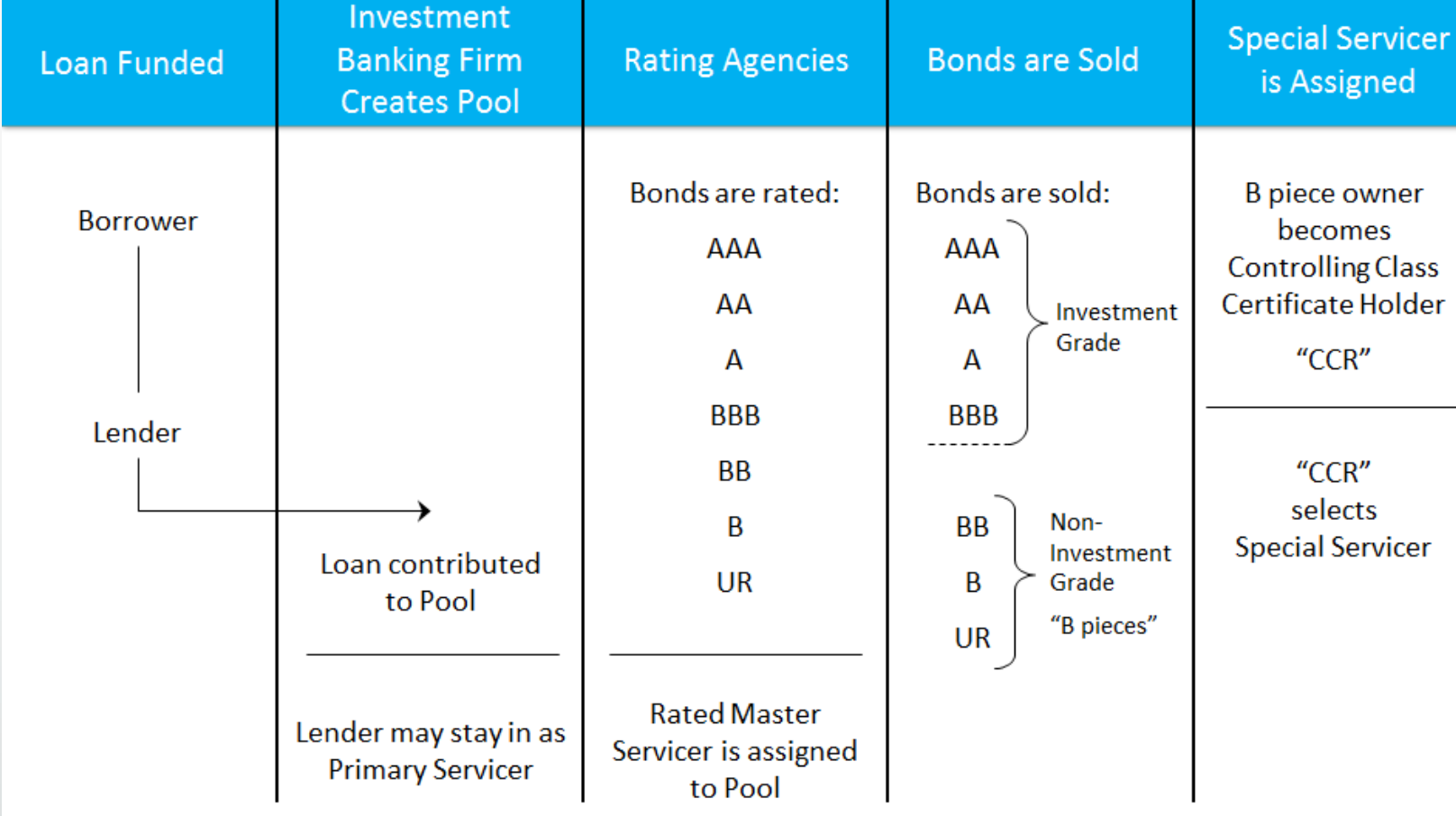
# Who is the Lender?



# Lender Original Assumptions

- Highest likelihood = Tenant would renew
- Property values would only go up
- Loans would have no trouble refinancing at maturity

# Parties in CMBS

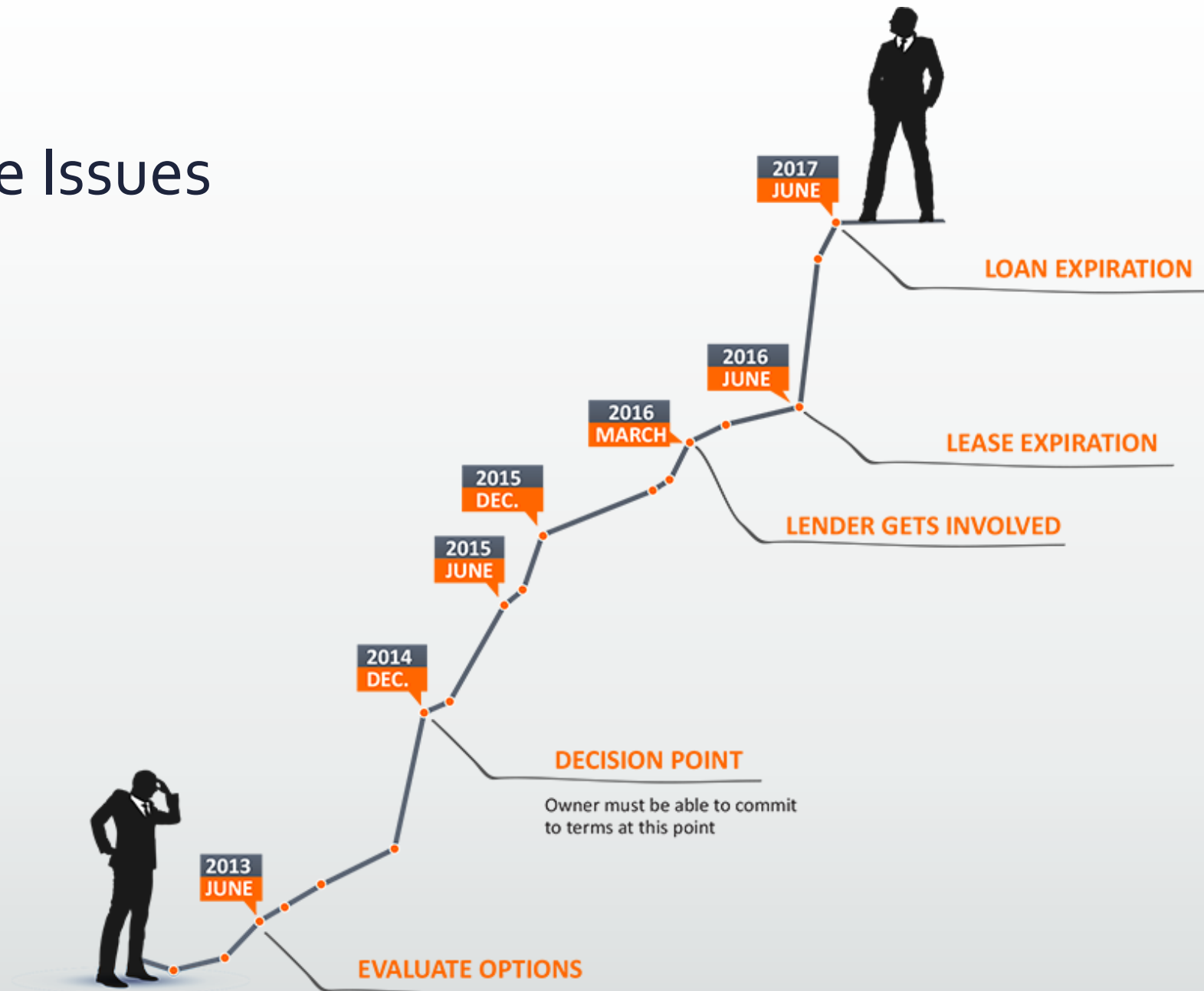


# Only Party that can Grant an Extension

- The Special Servicer is the only party that can grant an extension
- Only 2 ways to get to the Special Servicer:
  1. **Actual default**
    - Huge risk and fees
  2. **Foreseeable default in the NEAR future**
    - Definition of near



# Timeline Issues



# Solution

- Get loan transferred to Special Servicer 18 – 24 months ahead of major tenant lease expiration
- Tricky
- Industry Awareness