

Free Informative Webinar:

# Retail Apocalypse

Presented by 1st Service Solutions,  
with special guest speakers from  
Morningstar Credit Ratings.



## Retail Apocalypse

One thing is for certain: retail is changing the commercial real estate landscape for good. Depending on who you listen to, “bricks and sticks” retail is either shrinking or, in some cases, expanding. What are the potential impacts, in EITHER situation.



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Meet Today's  
**Speakers**

# Today's Agenda

- **Retail CMBS Statistics**
  - Delinquencies
  - Losses
- **What retail owners MUST know**
- **What it takes to RETURN your retail property to the Lender**
- **What it takes to KEEP your retail property**

# Retail CMBS Statistics

**Edward Dittmer**, CFA, Senior Vice President

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*Morningstar Credit Ratings, Credit Risk Services*



# Retail Delinquencies

	# Loans	<u>Dlq</u> Balance (\$ Bil)	% of CMBS
<b>Including Malls</b>			
March 2018	523	7.02	0.88
March 2017	625	8.00	1.04
March 2012	1,246	15.24	2.13
<b>Excluding Malls</b>			
March 2018	483	4.98	0.62
March 2017	575	5.59	0.73
March 2012	1,183	11.34	1.58

Source: Intex

# Retail Loss Severities (2015 – March 2018)

<u>Pre-crisis</u>	Number	UPB (\$ Bil)	Loss (\$ Bil)	Loss Severity (%)
Including Malls	994	11.96	5.36	44.8
Excluding Malls	919	8.16	2.95	36.1
<u>Post-crisis</u>	Number	UPB (\$ Mil)	Loss (\$ Mil)	Loss Severity (%)
Including Malls	8	123.4	48.7	39.5
Excluding Malls	7	74.4	6.6	8.8

Source: [Intex](#)

# Forecast Losses – Specially Serviced Retail Loans

	Balance (\$ Bil)	Projected Loss (\$ Bil)	Loss Severity (%)
<b>As of March 2018</b>			
With Malls	7.34	2.89	39.4
Without Malls	4.94	1.57	31.8
All SS Mall Loans	2.40	1.32	55.0
<b>As of March 2012</b>			
With Malls	17.31	8.48	49.0
Without Malls	12.75	6.29	49.3
All SS Mall Loans	4.56	2.19	48.0

Source: [Intex](#)

# Mall Defaults

- **Pittsburgh Mills**

- \$133.0 million interest-only loan in precrisis MSC 2007-HQ11
- REO Asset: 887,017 square feet of a 1.1 million-square-foot regional northeast of Pittsburgh
- \$6.5 million value as of March 2018, down from \$190.0 million at underwriting
- We project a \$128.8 million loss

- **Hudson Valley Mall**

- \$52.4 million liquidated loan in postcrisis CFCRE 2011-C1
- Liquidation resulted in a \$42.1 million loss
- The Kingston, New York, mall lost two anchor tenants
- The January 2017 sale of the 765,465-square-foot super-regional mall netted \$9.4 million in proceeds, representing an 89.2% discount to the original appraised value and resulting in an 86.1% loss severity



# Postcrisis **Non-Mall** Defaults

- **36 Loans totaling \$880.6 million**
- **Average Size: \$24.5 million**
- **Most defaulted because of declining occupancy relative to large tenants vacating**
  - Gander Mountain
  - LA Fitness
  - Pathmark
  - REI
  - Sears
  - Target

# What Retail Owners **Must Know**

- **What Factors into the Special Servicer's Decision to Modify or Foreclose?**
  - Current value of the property – LTV
  - Remaining term of the loan
  - Will value recover to appropriate LTV by maturity date
  - NPV of the foreclosure alternative
    - Length of time to foreclose
    - Cash flow versus advances
    - Other considerations and costs

# What Retail Owners **Must Know** (Continued)

- **Special Servicer's drivers**

What Matters to an Owner	What Matters to the Special Servicer
Property Repositioning	REMIC Rules
Remain in Control	Liability to the Senior Bond Holders
Return of Investment	The Status of their Bond Investment
Minimal Investment to Return to Performing	NPV of all Options Available to them
	FMVPO

# What it Takes to **Return** your Retail Property to the Lender

- **Considerations**
  - Benefits to receiver
  - Carve-out guarantees
- **Patience**
- **Friendly foreclosure versus deed in lieu**
- **State law**
- **WIFM**

# What it Takes to **Keep** your Retail Property

- **Pre-Negotiation Agreement**
- **Know who the decision maker is and their “menu”**
- **Cash**
- **Deal that is good for you may not be good for the trust**
- **Clear cut exit strategy**
- **Cash**

# Contact Information

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Contact  
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