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5 Actual **Case Studies**

Presented by 1st Service Solutions.

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Meet today's **Speakers**

Case Study #1

Cash Management

3 Basic Types of

Cash Management

01

Soft

The Borrower has some control over the property cash flow.

02

Hard

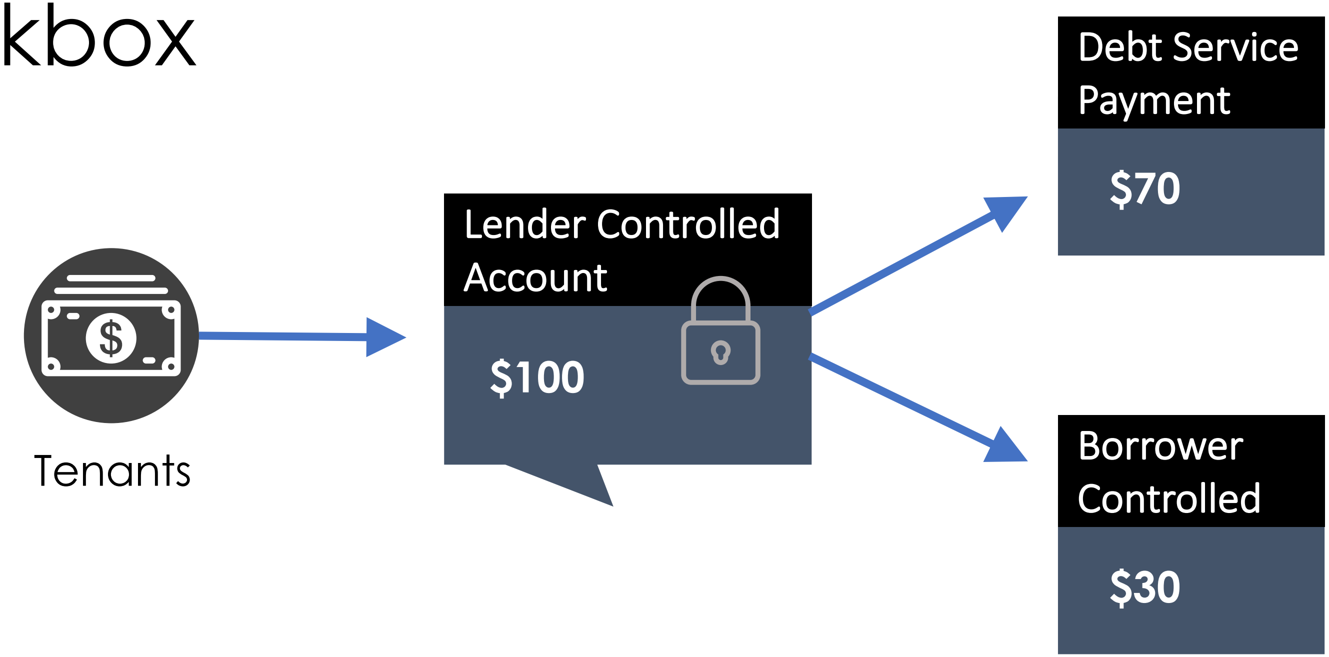
The Borrower does not have control over the cash flow.

03

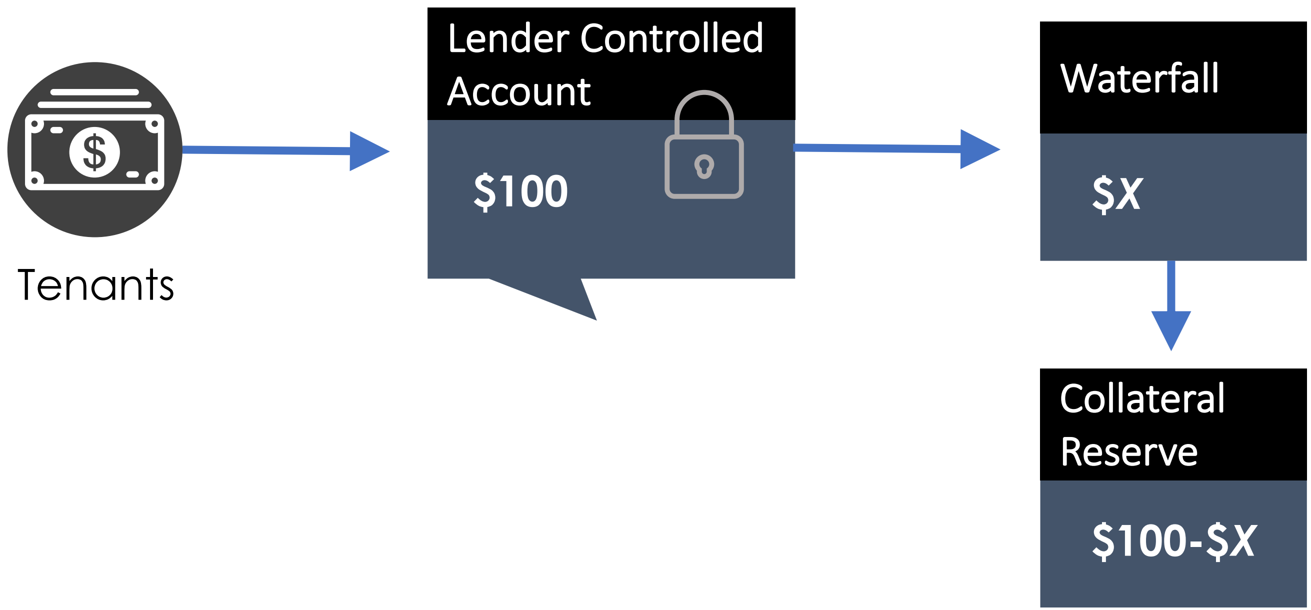
Springing

Borrower has control until a trigger event occurs.

Soft
Lockbox



Hard Lockbox



Springing
Lockbox

Borrower Has Complete Control of Cash

Becomes Hard Lock Box IF

- **DSCR < XX**
- **Tenant X Vacates**

Medical Office Complex

- Newly constructed medical office complex adjacent to the hospital
- Primary tenants are hospital affiliates and had lease expirations beyond maturity of the loan
- CMBS loan was the take-out financing of the construction loan
- At closing of the loan, the building was 97% leased and all but 2 tenants had taken physical occupancy, so physical occupancy was 85%
- Actual DSCR at closing of loan was above 1.7
- Springing cash management in place at origination

- 2nd quarterly operating statements sent to servicer somehow resulted in a DSCR of 1.08

- **Here's how:**
  - Definition of occupancy for cash management trigger purposes was the lower of (a) actual, (b) market, or (c) underwritten
  - Underwritten occupancy in this case was interpreted (by the servicer) as 85%

Case Study #2

Partial Release of Collateral

Retail Center

- Grocery anchored, retail center in upper Midwest
- Grocery tenant vacated
- No viable replacement tenant in geographic area
- New grocery chain offered to buy the grocery store, knock the building down and rebuild (and would not lease space)

- CMBS loans typically do not allow for partial release and/or demolition

- **Resolution**
  - Allow for release of the building to the new grocer
  - 100% of net sales proceeds were applied to the loan
  - Borrower paid off remainder of loan at a discount

Case Study #3

Partial Release of Collateral

Technology Park

- Multi building technology park
- 90% leased to one tenant
- CMBS loan matures 2022
- Lease expirations beginning late 2018 through 2022
- Sponsor owns adjacent parcel

- ***What could happen?***
    - Tenant interested in extending all leases today
    - Lease renewals predicated on construction of new improvements, consolidation of tenant, and construction of new parking garage
- **Resolution**
    - Release of portions of land where construction would be occurring
    - Demolition of some of existing improvements
    - Alternative was loss of the entire 90% tenant base (they were being aggressively pursued for new 'build to suit' spaces within 5 miles)

Case Study #4

Loan Assumption

Office Building

- Single tenant, fully occupied, well performing office building in California
- Single tenant lease expires after maturity date of CMBS loan
- CMBS loan = $28MM/ original appraisal at origination = $40MM

- Borrower lists property for sale and has multiple offers
- Well qualified buyer will assume CMBS loan as defeasance was too costly
- During the assumption approvals, the special servicer requests a 'collateral reserve' of $3.5MM

- ***For what?***
    - The LTV at time of origination of the loan was 70%
    - Current LTV based on purchase price of $35MM is 80%
    - Collateral reserve was a "buy down" of the LTP
    - Yet funds could not be used to pay down the loan

Case Study #5

AB Loan Modification

Retail Center

- Anchored retail center on east coast
- CMBS loan originated in 2007 for $45MM
- Due to retail tenancy issues, value of property declined severely

- **Loan was modified via an AB modification**
  - A note = $25MM
  - B note = $20MM

- At maturity of AB modification, property value had further declined to $15MM

- The A note of $25MM was further modified/bifurcated to $15MM A note and $10MM B note
- Original B note of $15MM was subordinate to new $10MM B note

- New, extended maturity date = 2020

Contact Information

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