



CMBS MASTERMINDS

WEBINAR

April 2023

Presented by:

1st Service Solutions





Speakers



Ann Hambly

Founder and CEO.



Douglas Scott

Senior Director of
Workouts.



Stephanie Whittington

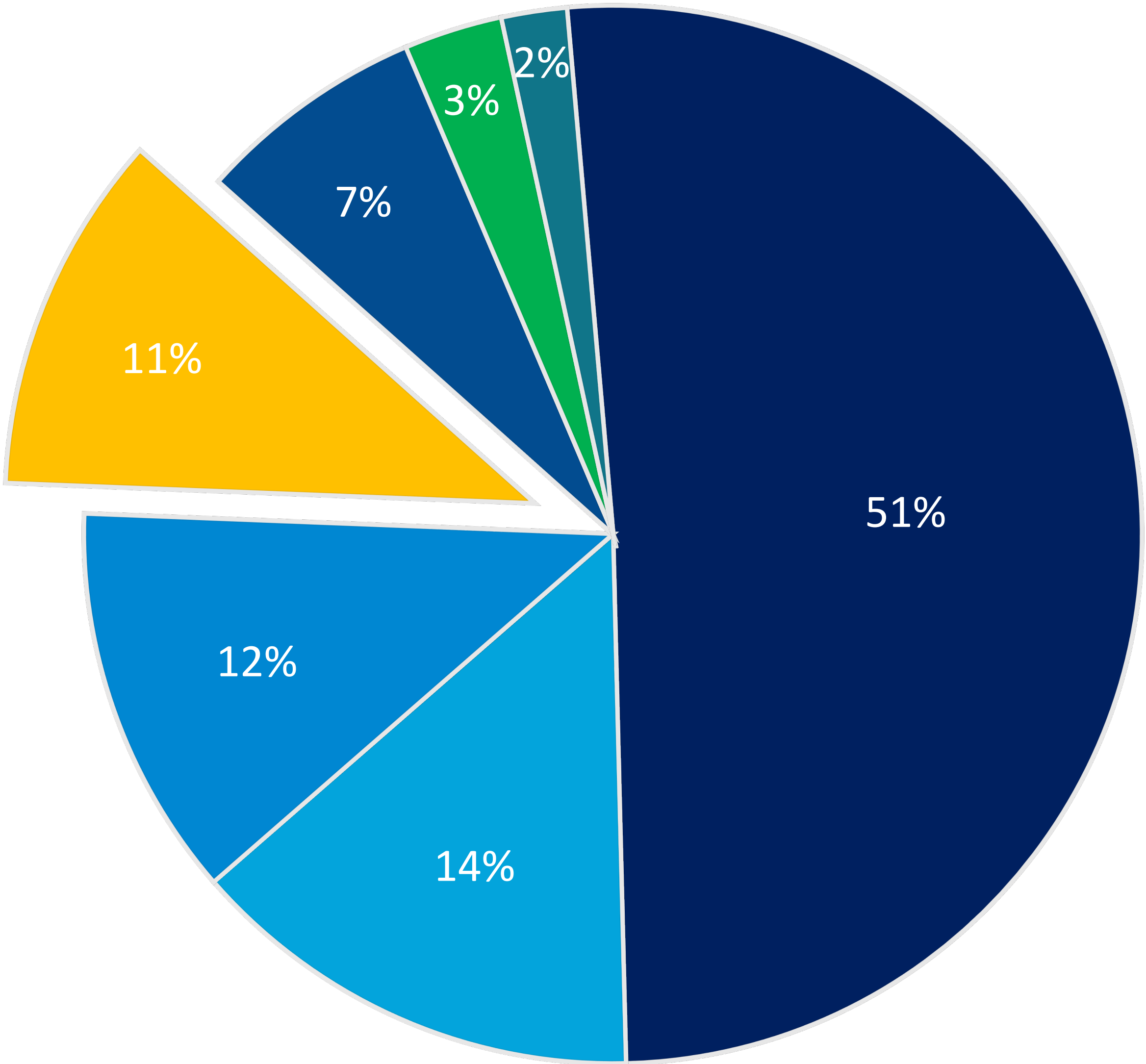
SVP of Operations

CRE Debt Outstanding

CRE Debt Outstanding: 4Q 2022 (\$ billions)		
Holder Type	Total CRE Debt	% of CRE Debt Outstanding
Banks	2,844	51%
Fannie & Freddie	809	14%
LifeCos	666	12%
CMBS	595	11%
Other	379	7%
REITs	182	3%
Ginnie Mae	144	2%
Total	5,619	100%

Reference Sources: CREF, Federal Reserve

TOTAL CRE DEBT OUTSTANDING (\$5.6T)

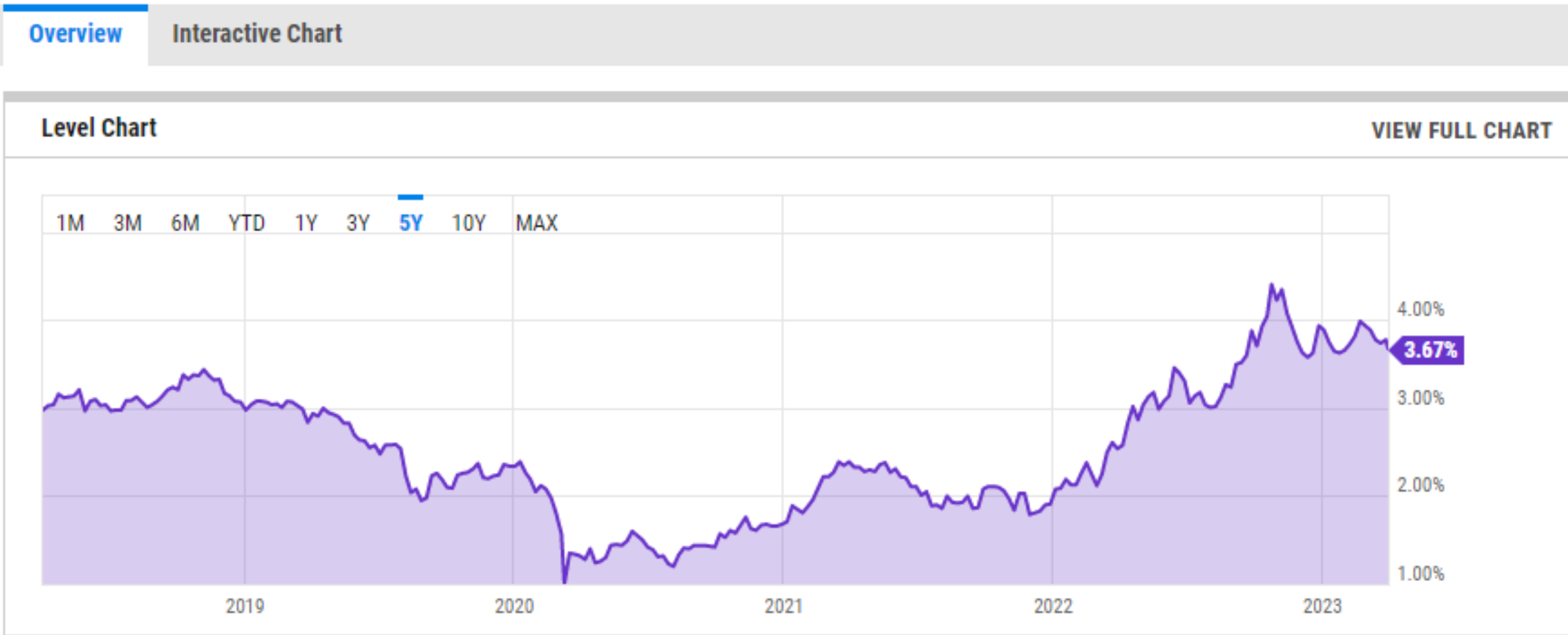


■ Banks ■ Fannie & Freddie ■ LifeCos ■ CMBS ■ Other ■ REITs ■ Ginnie Mae

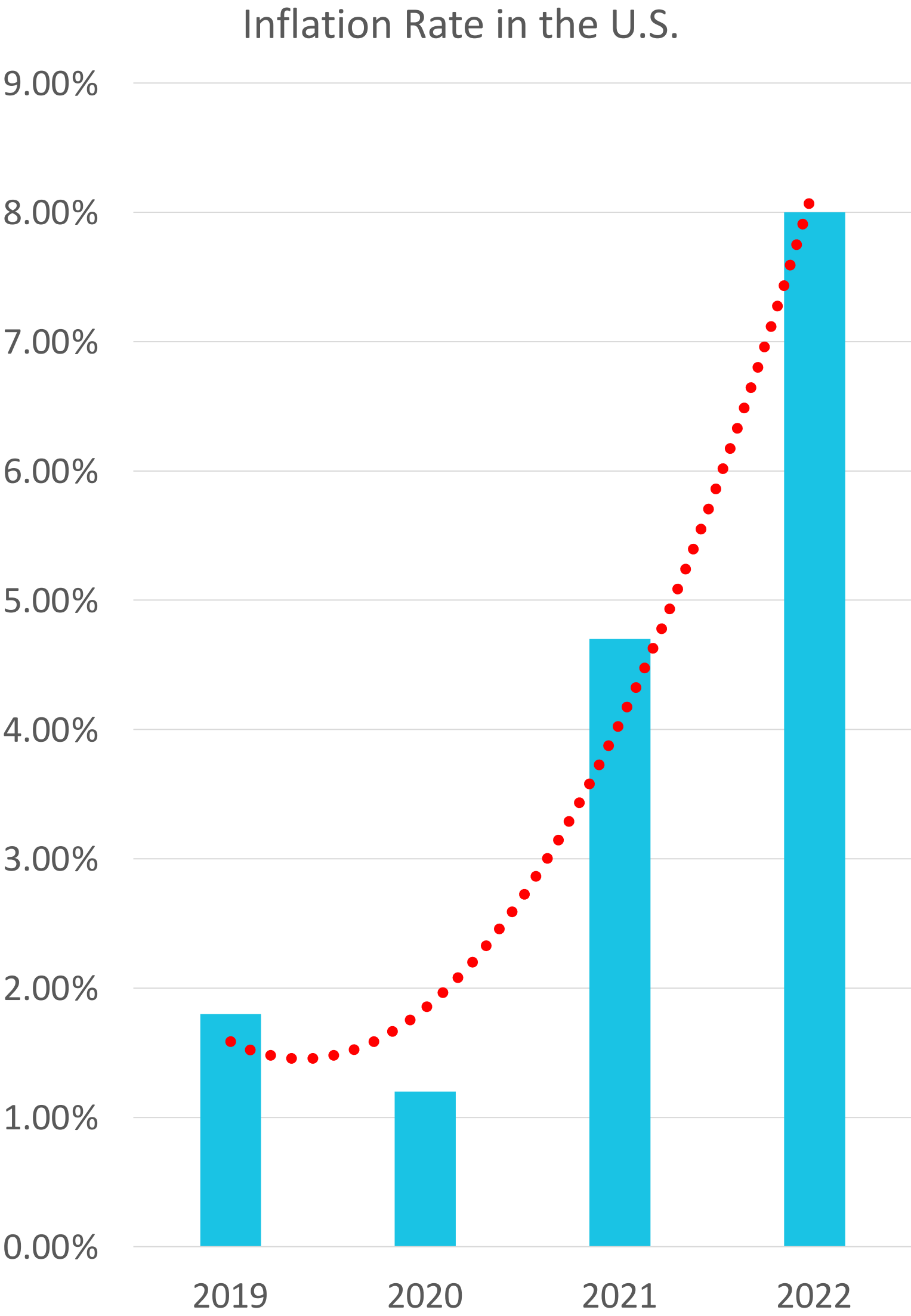
Market Climate Data Points

30 Year Treasury Rate (I:30YTCMR)

3.67% for Mar 31 2023



Source: https://ycharts.com/indicators/30_year_treasury_rate



Source: Bureau of Labor Statistics

Office CRE Debt

"I do think there is going to be a lot of pain ahead for office," says *Manus Clancy*, a senior managing director and the leader of the applied data, research, and pricing department at Trepp.

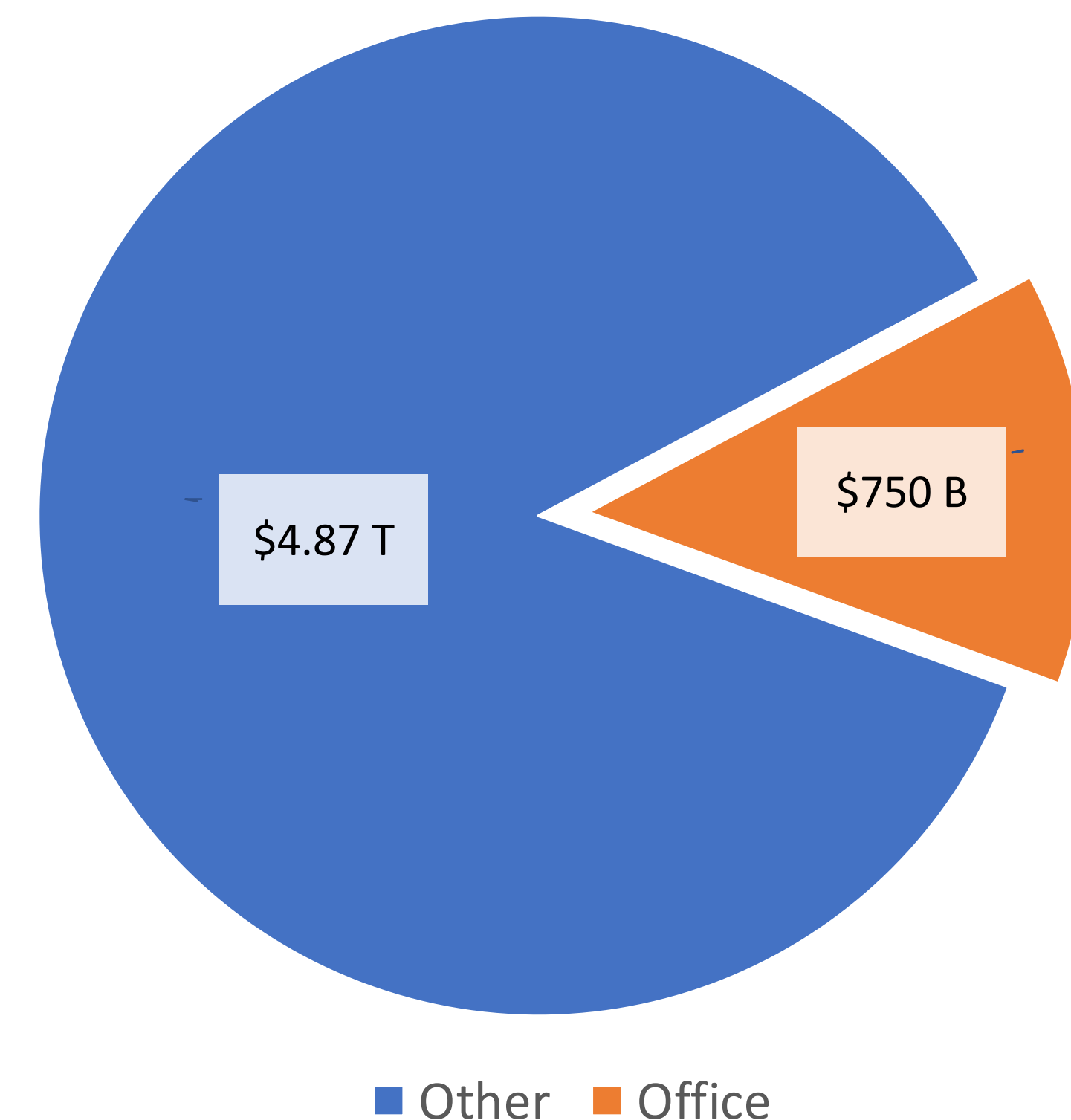
DELINQUENCY RATE BY PROPERTYTYPE (% 30 DAYS +)

	FEB-23	JAN-23	DEC-22	3 MO	6 MO	12 MO
Overall	3.12	2.94	3.04	2.99	2.98	3.87
Industrial	0.40	0.40	0.42	0.41	0.51	0.66
Lodging	4.45	4.44	4.40	4.64	5.18	7.82
Multifamily	1.83	1.56	2.17	1.81	0.95	1.51
Office	2.38	1.83	1.58	1.70	1.50	1.67
Retail	6.75	6.58	6.97	6.63	6.45	7.49

Source: Trepp

Trepp is currently watching 15 to 20 loans in 2023 that are approaching their maturity dates that face default risk, which would push up the delinquency range considerably. However, **there is a lot of speculation around what will happen and not what is happening** now, cautions Clancy.

Total CRE Debt = \$5.6T



Given the magnitude of debt and equity backed by office buildings, a lot is at stake for owners, investors, and lenders.

According to the Mortgage Bankers Association (MBA), office is the second largest category behind multifamily with roughly **\$750 billion in mortgages held by both bank and non-bank lenders.**

Source: Urbanland (3/2023)

CMBS Securitized Debt

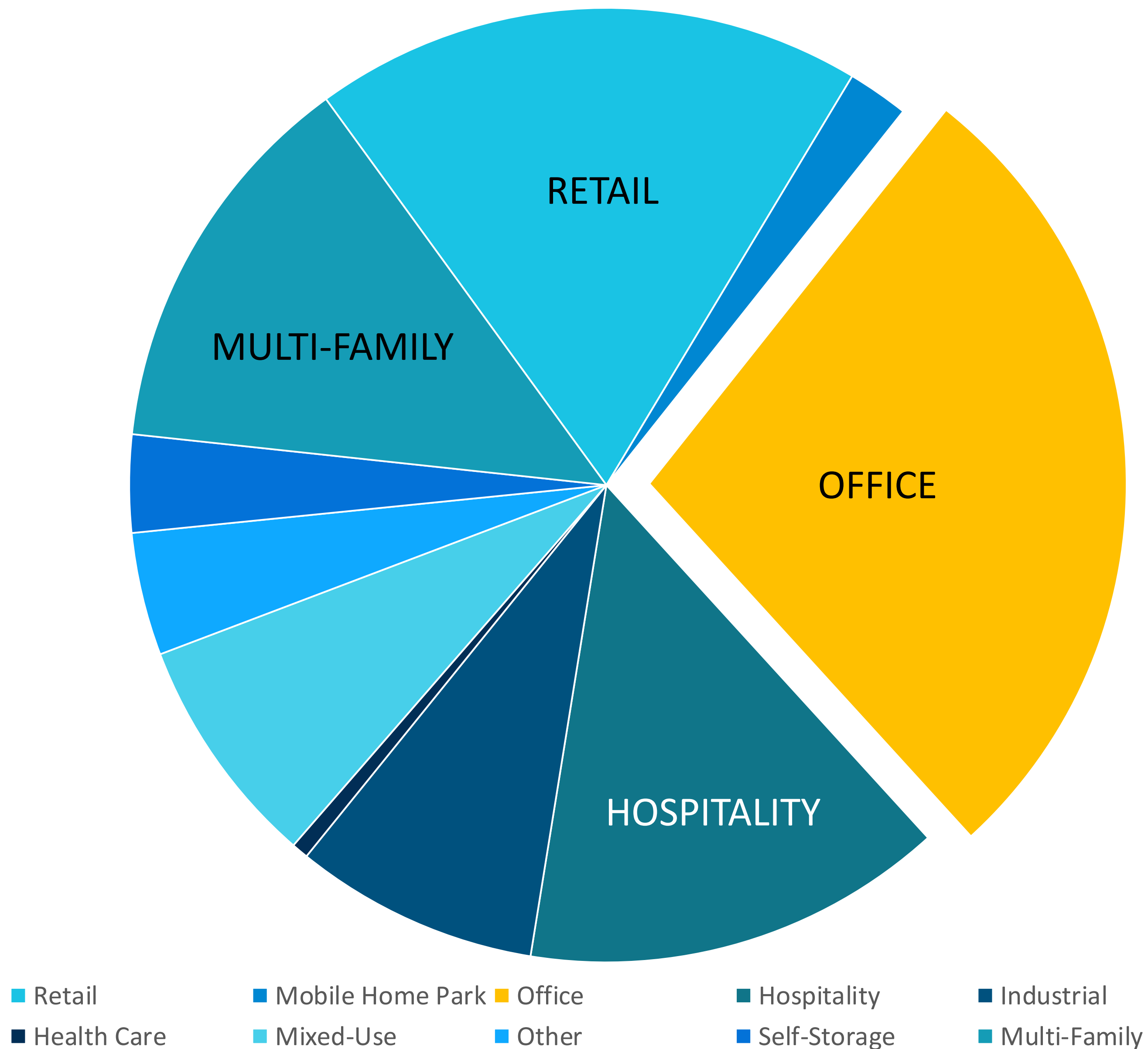
Total Office Debt:

UPB - \$175 Billion

Total Office in Special Servicing:

UPB - \$8.6 Billion
Loans - 115

\$635 Billion Total Debt



Source: Bloomberg

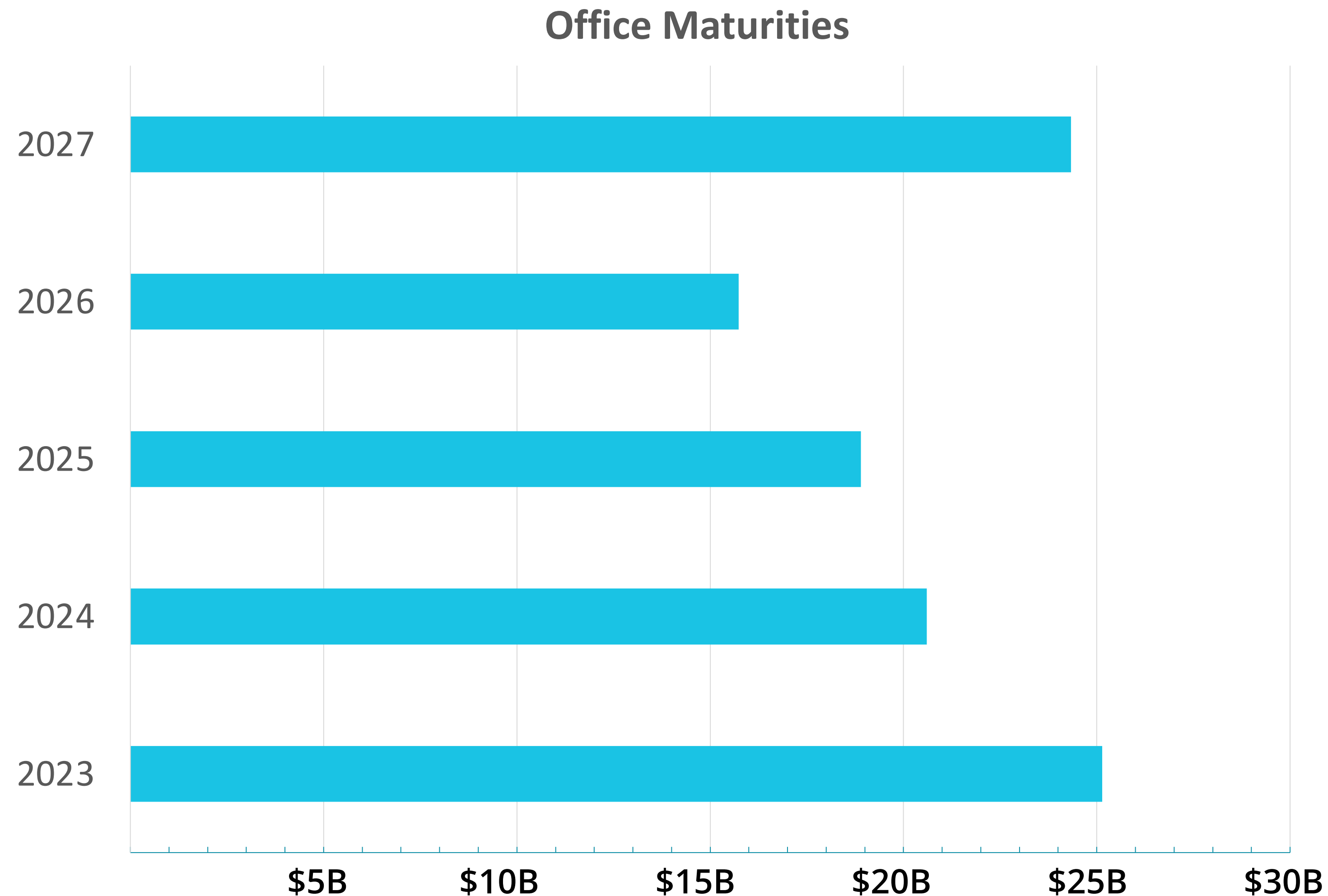
CMBS Office Maturities

Securitized Debt

No debt market for office

50% of office is underwater

60% of total office debt matures in the next 4 years



Source: Bloomberg

CASE STUDY

Example

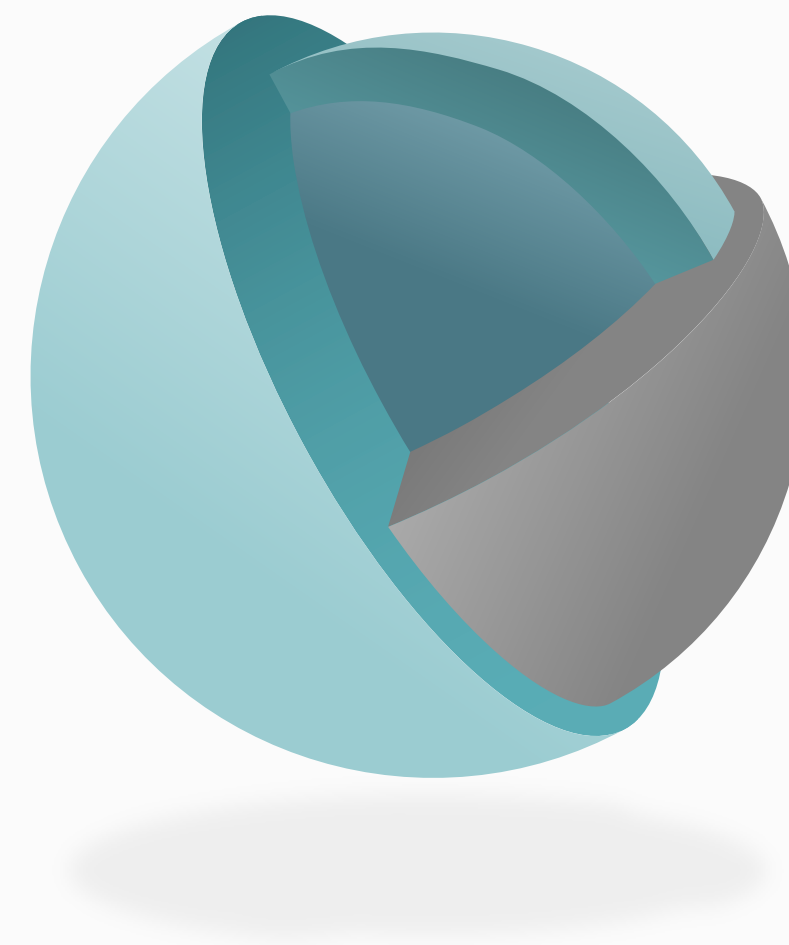


Situation

- Large office building in northern California (Debt > \$250 Million)
- Three of the largest tenants have stopped paying rent and are requesting a significant reduction in their rent
- Current property value with unstable major tenants is likely \$100MM less than the loan amount
- With a combination of the current capital markets for office properties and the specific challenges of the tenants, makes this situation particularly challenging
- It is near impossible to predict stabilization timeline and capital requirements with today's market challenges
- Loan matures in 9/2024

3 High Level Options

1. Agree to a modification of the tenant's leases and modify the loan accordingly
2. Sell – Short Sale
3. Handback the property



Modification Structure

- Split note into A and B to allow for the addition of 'sandwiched' capital
- A-note is modeled at \$132MM - \$120MM - \$108MM
- New capital = 7.5% - 10% of A-note
- New capital used to pay projected operating shortfalls and capital costs
- New capital accrues pref at 15%
- All excess cash flow is swept to a reserve to be used for capital costs
- 1- year extension of maturity date

Why 1st Service Solutions?



1st Service Solutions is a team of people who were former servicers, or even CEO's & Managers of Special Servicing Shops.

We have relationships with decision makers within servicing, know the rulebook of CMBS, have sat on credit committees and apply all of that inside knowledge to help you achieve your goals. Our CEO was a CEO of various large servicing companies.

“

“Ann Hambly knows the CMBS rules, structure and players as well as anyone I know. She has been a part of setting industry guidelines from the very beginning of CMBS. That knowledge is the key to being a successful borrower advocate.”

Pat Sargent
Partner, Alston & Bird LLP



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“Our \$1.2Billion transaction would not have closed without 1st Service Solutions.”

Joe Dykstra
Westwood Financial Corp



“

“Ann Hambly is one of a kind. She is the preeminent expert on CMBS servicing and is so much more than that.”

Ethan Penner “Godfather of CMBS”
Managing Partner, Mosaic Real Estate Credit



CONTACT INFORMATION

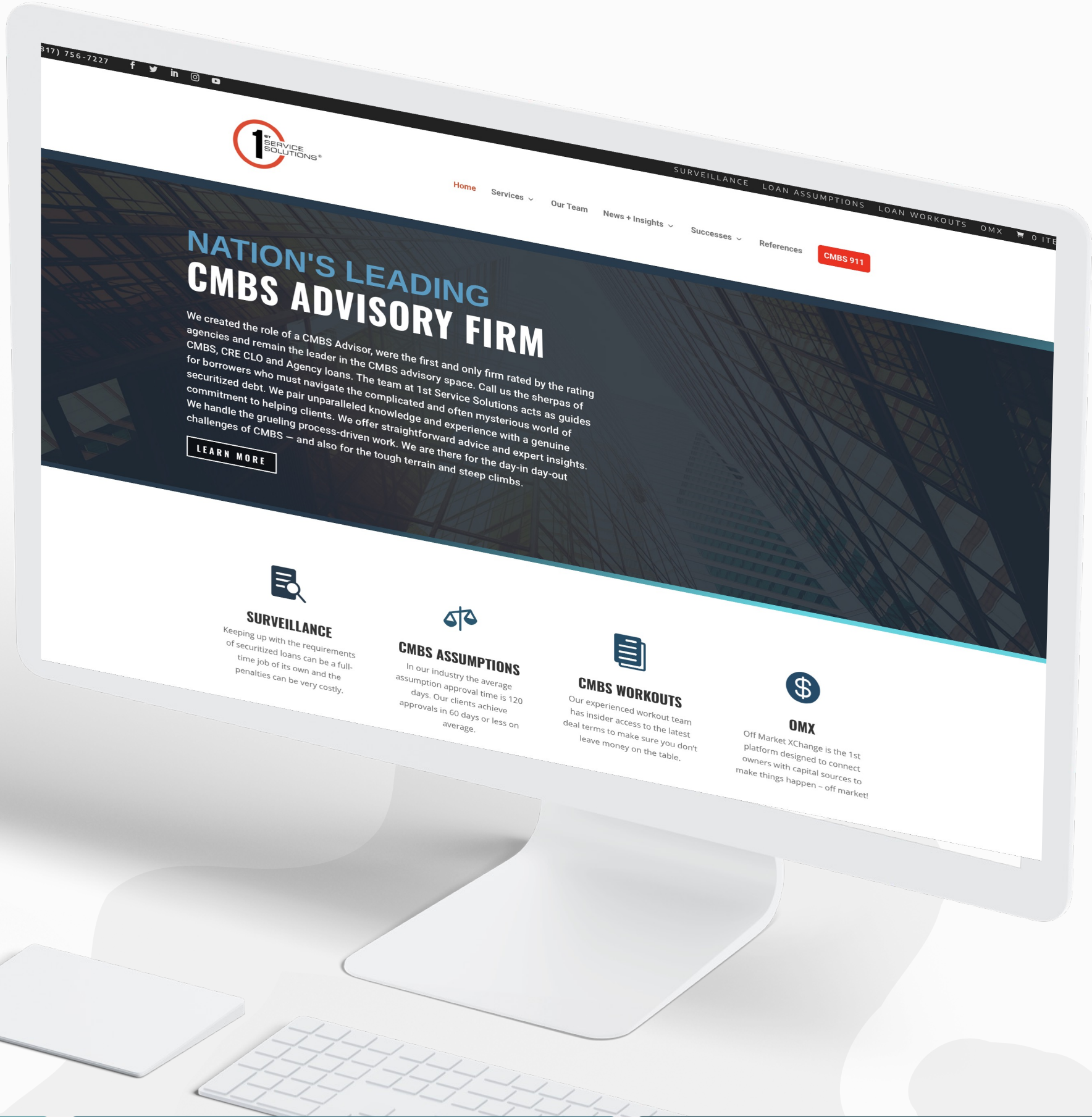
1st Service Solutions



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#1 Borrower Advocate

We created the role of a CMBS Advisor, we're the first and only firm rated by the rating agencies and remain the leader in the CMBS advisory space.



<div>\$30 Billion</div> <div>RESTRUCTURES WORKED OUT</div>	<div>3,200</div> <div>ASSUMPTIONS CLOSED</div>	<div>42 Days</div> <div>FASTEST ASSUMPTION CLOSED</div>	<div>50 States</div> <div>PROPERTIES WORKED ON</div>	<div>80%</div> <div>REPEAT BUSINESS FROM SATISFIED CUSTOMERS</div>
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