CoStar™

CMBS NOTEBOOK

Brookfield Loses Part of Tucson Mall, Office Lending Shrivels, Bank of America Projects Defaults

A Weekly Look at the Commercial Mortgage-Backed Securities Business

Park Place Mall in Tucson, Arizona, sold in a foreclosure auction last month for $87 million. (CoStar)

By Mark Heschmeyer
CoStar News

October 5, 2023 | 10:02 AM

Brookfield Loses Part of Tucson Mall: A Brookfield Corp.-owned portion of the 1.1 million-square-foot Park Place Mall in Tucson, Arizona, has been sold in a foreclosure auction for $87 million, according to Pima County court records.

The 455,383-square-foot property is subject to a commercial mortgage-back securities loan with an outstanding balance of $154.4 million, CoStar data shows.

Not included in the sale or loan collateral were three anchor retail sites owned by department store chains, according to CoStar data. The sale price matched the most recent appraisal value of the property from June.

Brookfield didn’t respond to a request for comment from CoStar News.

LNR Partners, the special servicer of CMBS deal GSMS 2011-GC5, appointed Pacific Retail Capital Partners of Los Angeles to manage and lease the property.

Park Place, located at 5870 E. Broadway Blvd., is on the east side of Tucson and serves as the dominant retail center in the market. The property has six anchors including Century Theaters, Dillard's, Round 1, Total Wine & More, Ulta Beauty and Old Navy.

Office Lending Shrivels: The volume of lending this year on office properties, or lack thereof, is evident in the data for single-property, single-borrower CMBS deals. There has been only $781 million in three deals this year through September, according to CoStar data. Last year, over the same time period, there were 13 such deals totaling $8.1 billion.

The numbers are only a little better for multiborrower securities. So far this year, such offerings have contained $3 billion in office loans, CoStar data shows. That is down by more than half for the same period last year when it totaled $7 billion.

Last year at this time, office loans made up 36% of the pooled-together conduit CMBS deals. This year they make up just 22%.

"Most office loan deals don't pencil out right now," Holly MacDonald-Korth, CEO and president of KDM Financial, told CoStar News in an interview.

KDM Financial is a middle-market commercial mortgage lender offering financing from $5 million to $100 million on commercial real estate including multifamily, mixed-use, office, light industrial, self-storage and warehouse property types.

KDM is currently putting together a CMBS deal and trying to keep the office balance down to about 15%-20% of the pool, MacDonald-Korth said. Office loans used to make up 40%-50% of the firm's typical CMBS deals.

"I think everything's hard just now. It's squeezing our margins to make deals work," MacDonald-Korth said. Borrowers "are having to bring cash in to make things cash flow and lower their overall leverage."

Higher borrowing costs are the reason. The Federal Reserve "going from near zero percent interest rates to 5% is crazy," she added.

Bank of America Projects Defaults: Bank of America Securities recently ran a hypothetical refinancing analysis looking at so-called conduit commercial real estate loans — those that can be pooled together to sell to investors — that would mature in October to the end of 2024. The bank found that 59% of the loans were unable to refinance. Office loans comprised the largest share, followed by multifamily.

For its analysis, the bank assumed that each loan was refinancing to an average 7.5% rate and that lenders were underwriting with a debt-service coverage ratio of 1.25 over 30 years.

The reason loans would be unable to be refinanced was due in part to weaker annual net operating income growth amid surging inflation, according to Bank of America Securities.

"In reality, however, we found that although top line revenues increased, in many cases expense growth simply increased at a faster pace," the bank said.

Notable too was that on a normalized basis, the bank found that the total equity infusion required from the borrower for a loan to get refinanced was equal on average to 24% of outstanding proceeds at the time of maturity. Roughly one in four borrowers unable to refinance would have to contribute 50% or more of the value of the total remaining loan proceeds.

Just because 59% of maturing loans were projected to be unfinanceable doesn't mean they would necessarily default.

"Where feasible, we foresee some borrowers stepping in with new equity and others receiving some form of short-term loan extension. Where extensions are granted, they could help borrowers await lower funding rates and give some runway for NOI to improve," Bank of America Securities said. "Still, extensions are not a silver bullet in a higher-for-longer rate environment and may merely only defer an eventual default."

Follow us on Social Media

Have feedback or questions? Email us at news@costar.com

RELATED RESULTS

Central Banks Remain Desperate to Unwind Massive Pandemic Stimulus

Hotels Update Food, Drink Menus To Reflect Autumn Flavors

Air Travel Inefficiencies Drive Travelers to Shun Flying, Leading to Potential Billions in Losses

Overall Leasing Demand Turns Negative

Suburban Apartment Rents Continue To Rise With Population Surge

What If WeWork's Lease Talks Fail? Here's What Happened to Other Coworking Firms.

Job Growth Exceeds Forecasts in September, Real Estate CFOs To Cut 2024 Spending, Mortgage Rates Hit 23-Year High

Developers Team Up To Bring Waldorf Astoria's First Standalone Residential Concept to Miami Area

Goldman Sachs To Break Ground on Its Second-Largest US Hub

The Shine Is off New Jersey's Gold Coast