

CMBS Research

As Losses Mount, What's in Store for CBL's Malls?

December 2019

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DBRS Morningstar Perspective

It's no secret that regional malls face intense competition as the rise in online shopping, discount retailers, big-box stores, and warehouse clubs strain occupancy and cash flow. Mall real estate investment trust CBL & Associates has been hit hard by this trend, as most of its malls are in secondary locations anchored by struggling department store tenants, while increasing vacancy rates, falling rental income, and a large debt load have hammered profits over the past few years. During CBL's last earnings report the company reported rising vacancy rates and retailer bankruptcies managed to reduce overall rents per square foot by 7.0% for all leases signed during the first nine months of 2019. That caused a big \$63.6 million year-over-year decline in the amount cash CBL can pull in from its tenants and a \$175.7 million net loss. This follows a net loss of more than \$140 million for 2018.

Complicating the beleaguered REIT's plan for a return to growth in 2020, it recently announced that it is suspending all future dividends on its common and preferred stock to preserve free cash flow as it anticipates "a decline in net operating income in 2020 as a result of heightened retailer bankruptcies, restructurings and store closings in 2019," according to its Dec. 2 press release. This follows the company's recent legal troubles when in March 2019 it was forced to suspend its dividend for two quarters to make sure it could cover costs associated with a class-action suit it settled related to alleged electricity overbilling.

CMBS Exposure to CBL

CBL-owned malls secure \$1.61 billion across 30 loans backing securitized commercial mortgages, with about \$574.6 million of that in commercial mortgage-backed securities deals that DBRS Morningstar Credit Ratings (DBRS Morningstar) rates. We found that not all CMBS loans backed by these properties are at risk, with just two DBRS Morningstar-rated loans underperforming. The collateral properties for both are lower-quality assets in secondary and tertiary markets that are losing tenants and cash flow.

Table 1 – DBRS Morningstar-Rated Deals Exposed to CBL

Deal ID	Property Name	Location	Allocated Property Balance (\$)	2018 Sales/sf (\$)	CBL Tier	Net Cash Flow Change From Underwriting (%)	2018 Debt Service Coverage Ratio (x)	2018 Debt Yield	Specially Serviced	Maturity Date
GSMS 2011-GC5	Parkdale Mall & Crossing	Beaumont, TX	76,058,311	360	2	14.2	1.67	15.9	No	3/6/2021
DBGS 2018-C1, BMARK 2018-B7	Outlet Shoppes at El Paso	Canutillo, TX	73,820,841	434	1	6.9	1.62	10.7	No	10/6/2028
GSMS 2010-C1	Burnsville Center	Burnsville, MN	65,076,841	292	3	-30.6	1.23	12.1	No	7/6/2020
JPMCC 2011-C5	Asheville Mall	Asheville, NC	64,132,057	371	2	10.4	1.52	14.1	No	9/1/2021
BANK 2018-BNK14, WFCM 2018-C45, BANK 2018-BNK13	CoolSprings Galleria	Franklin, TN	63,501,108	612	1	4.9	2.00	13.0	No	5/11/2028
JPMCC 2012-CBX	Jefferson Mall	Louisville, KY	62,069,097	382	1	1.7	1.48	10.7	No	6/1/2022
JPMCC 2012-CBX	Southpark Mall	Colonial Heights, VA	58,548,218	387	1	6.8	1.68	12.2	No	6/1/2022
JPMBB 2014-C26	The Outlet Shoppes of the Bluegrass	Simpsonville, KY	40,809,332	427	1	-3.9	1.75	11.2	No	12/1/2024
JPMBB 2015-C32	The Outlet Shoppes at Gettysburg	Gettysburg, PA	37,193,203	252	3	-25.2	1.19	7.8	No	10/6/2025
GSMS 2010-C1	Parkway Place	Huntsville, AL	33,392,218	366	2	16.5	2.31	23.5	No	7/6/2020

Source: DBRS Morningstar

Burnsville Center, where 523,692 square feet of a 1.1-million-square-foot regional mall about 20 miles south of Minneapolis-St. Paul, secures a \$65.1 million loan in GSMS 2010-C1 that matures in July 2020. The loan's metrics at issuance were favorable, with a 13.7% debt yield and a 60.3% loan-to-value ratio, but have deteriorated over time. Net cash flow tumbled 37.0% to \$7.9 million in 2018 from \$12.5 million in 2015, while the debt service coverage ratio slid to 0.87x for the first six months of 2019 from 1.95x at year-end 2015. Burnsville Center, which CBL downgraded from a Tier 2 to a Tier 3 property in its 2018 10-K filing, experienced a decline in sales per square foot. From 2015 through 2018, in-line sales slumped to \$292 from \$340 per square foot. The declining sales suggest that as leases turn over, tenants may seek lower rents to maintain healthy occupancy cost ratios. Further, occupancy declined to 81% in June 2019 from 97% at year-end 2015. In addition to the loss of inline tenants, collateral tenant Gordmans, occupying 4.6% of the gross leasable area, closed in June 2017 following its parent company's bankruptcy filing. However, it later reopened in mid-2019 after Stage Stores, Inc. purchased half of the chain's stores. Three months after Gordmans' closing, noncollateral Sears closed its store in

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September 2017, and it remains vacant. The property's location near newer competition hasn't helped. The mall is across the street from the Burnsville Marketplace, which is 14 years newer but has two big-box vacancies including an empty Toys 'R' store. There is a risk that as cash flow declines, CBL may be reluctant to invest resources to cover debt-service shortfalls or pay the loan off at maturity.

The property backing the \$37.2 million Outlet Shoppes at Gettysburg loan in JPMBB 2015-C32, has the disadvantage of being in a tertiary market about two miles from Gettysburg National Military Park and Museum, which has seen the volume of visitors post a steep decline to about 1 million in 2018 from more than 2 million in 2014. Occupancy slid to 86% in June 2019 from 97% at underwriting, pushing 2018 net cash flow down 25.2% from underwriting. Through the first half of 2019, net cash flow fell dangerously close to breakeven, with the June 2019 DSCR hitting 1.03x. In a bit of positive news, Polo Ralph Lauren recently opened an outlet store, and these are usually fairly large stores in centers like this. Similar to the Burnsville Center, the Outlet Shoppes at Gettysburg falls into CBL's Tier 3 category with 2018 sales of \$252 per square foot. Given the declining tourism figures, we believe it's unlikely the property will recover to historical occupancy and net cash flow levels.

Table 2 – Nonrated CMBS Loans Exposed to CBL

DBRS Morningstar Rated	Deal ID	Property Name	Location	Balance (\$)	2018 Sales/sf (\$)	CBL Tier	Net Cash Flow Change From Underwriting (%)	2018 Debt Service Coverage Ratio (x)	2018 Debt Yield	Specialty Serviced	Maturity Date
No	JPMCC 2012-LC9, JPMCC 2013-C10	West County Center	Des Peres, MO	175,113,807	536	1	(12.1)	1.86	10.8	No	12/1/2022
No	GSMS 2014-GC24	Coastal Grand Mall	Myrtle Beach, SC	113,462,446	376	1	3.6	2.19	14.1	No	8/6/2024
No	JPMCC 2012-C6	Arbor Place Mall	Douglasville, GA	107,058,594	359	2	10.8	1.68	12.5	No	5/1/2022
No	GSMS 2016-GS3, GSMS 2016-GS4	Hamilton Place	Chattanooga, TN	100,623,989	406	1	(9.5)	1.89	12.0	No	6/6/2026
No	BANK 2018-BNK12	CoolSprings Galleria	Franklin, TN	87,924,610	612	1	4.9	2.00	13.0	No	5/11/2028
No	WFRBS 2011-C3	Park Plaza	Little Rock, AR	78,590,377	319	2	(25.0)	1.03	9.4	Yes	4/1/2021
No	CGCMT 2013-GC17	The Outlet Shoppes at Atlanta	Woodstock, GA	71,823,580	436	1	(1.8)	1.66	11.7	No	11/6/2023
No	LBUBS 2006-C6	Greenbrier Mall	Chesapeake, VA	64,801,076	342	2	(25.8)	1.18	11.0	Yes	12/1/2019 ⁽¹⁾
No	JPMCC 2012-C6	Northwoods Mall	North Charleston, SC	63,896,553	402	1	24.5	1.87	13.9	No	4/1/2022
No	COMM 2012-LC4	Alamance Crossing	Burlington, NC	44,620,136	264	3	1.4	1.37	11.0	No	7/1/2021
No	UBSBB 2012-C2	Westgate Mall	Spartanburg, SC	32,869,700	339	2	(10.5)	1.53	13.1	No	7/1/2022
No	JPMBB 2015-C27	The Outlet Shoppes of the Bluegrass	Simpsonville, KY	29,473,407	427	1		1.76	11.2	No	12/1/2024
No	BSCMS 2006-PW11	Hickory Point Mall	Forsyth, IL	27,446,366	Not available	Repositioning	(36.5)	0.86	7.4	Yes	12/1/2019 ⁽¹⁾
No	WFRBS 2011-C4	Eastgate Mall	Union Township, OH	25,152,626	330	2	(13.4)	1.74	19.5	No	4/1/2021
No	WFRBS 2011-C4	Hamilton Crossing & Expansion	Chattanooga, TN	8,547,588	Not available	Not available	20.5	1.87	17.9	No	4/1/2021

(1) Extended from December 2016.

Source: DBRS Morningstar

Among nonrated deals, the largest loan of concern is the already struggling \$78.6 million Park Plaza loan in WFRBS 2011-C3, which was transferred to special servicing in June 2019 because of declining net cash flow. Sales at the collateral, a 283,326-square-foot portion of a 562,150-square-foot mall in Little Rock, Arkansas, have fallen steadily since 2012, with 2018 net cash flow tumbling 25.0%

below underwriting, while the loan posted a 1.14x DSCR for the first six months of 2019. Although June 2019 occupancy improved to 97% from 81% in mid-2017, the new tenants' rents are below the rents that were paid at issuance, hampering the borrower's ability to increase cash flow. While the mall doesn't have exposure to struggling anchors—Dillard's is its only department store—it does have a Forever 21, which accounts for 8.8% of the leasable space, that is not slated to close. Sales in 2018 were \$319 per square foot, down sharply from \$419 per square foot in 2011, which could hamper the borrower's efforts to pay off the loan before it matures in April 2021.

Various factors contribute to mall-backed loans ending up with special servicers. A mall's loss of customers to nearby competitors and the poor perception from the departure of an anchor store can trigger a downward spiral in performance, which is the case with two additional nonrated specially serviced loans, the \$64.8 million Greenbrier Mall loan in LBUBS 2006-C6 and \$27.8 million Hickory Point Mall loan in BSCMS 2006-PW11. Both are in special servicing, had their maturity dates extended, and are in nonprime locations in smaller markets, making it difficult to attract the most desirable tenants.

Location, Location, Location

CBL is primarily a regional mall owner and operator, with more than 90% of 2018 revenues coming from malls. It focuses on smaller markets in the Southeast and Midwest, such as Chattanooga, Tennessee, Huntsville, Alabama, and Greensboro, North Carolina. Its malls' tenants, however, tend to be less productive than those of other mall operators. In 2018, CBL's tenants averaged sales of \$377 per square foot, compared to sales of more than \$700 per square foot on average for retailers at Macerich, Simon Property Group, Inc., and Taubman Centers, Inc. Because its retailers are less productive, the rent CBL can effectively charge is generally lower relative to its peers.

That's not to say that all of CBL's assets are weak. Nearly half by balance posted 2018 sales of more than \$400 per square foot, usually the hurdle most malls need to reach to qualify for CMBS financing. And it continues to invest in its better-performing assets. It has made its best-performing asset, CoolSprings Galleria outside Nashville with 2018 inline sales of more than \$600 per square foot, even more productive by dividing up a closed Sears store and bringing in higher-grossing tenants such as The Cheesecake Factory and H&M.

Yet many of its assets are feeling the pinch because of declining sales, exposure to underperforming national retailers, and secondary locations. As online shopping, the diminishing importance of department stores, and store closures all take a toll, DBRS Morningstar expects that CBL could have trouble finding value in these assets.

Readers can find a list of CBL loans in CMBS on the free to access DBRS Viewpoint website [here](#).

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