



CMBS Alert

Oakland Office Property Potentially Losing Its Largest Tenant

Sept. 6, 2019

Morningstar Perspective

Morningstar Credit Ratings, LLC added Kaiser Center, a 28-story, 811,005-square-foot office building in downtown Oakland, California, to the Morningstar Watchlist this month. The property's largest tenant, Bay Area Rapid Transit, or BART, which accounts for 42.3% of the underwritten rent, is actively seeking to relocate its headquarters according to Mercurynews.com. The tenant's lease expires in July 2021 and we are not aware of any lease termination options. The \$140.0 million loan has two pari passu pieces, including a \$90.0 million note in CGCMT 2015-P1 and a \$50.0 million note in GSMS 2015-GC32.

This comes on the heels of earlier news that tenant Kaiser Permanente, which accounts for 17.7% of the underwritten rent, plans to break ground on a new Oakland headquarters in 2020 and consolidate operations to the new location, which is scheduled to open in 2023. Kaiser is currently the fourth-largest tenant at Kaiser Center on a lease that expires in February 2024.

Despite our concerns, the property's prime location and adequate time for re-leasing suggest that such efforts will be successful. Morningstar's bear value assumes that both BART and Kaiser vacate at their respective lease expirations and that the space is leased up within one year. As such, our bearish loan-to-value ratio is high at 96.6%, but Morningstar does not project a loss. As of September 2019, 615,889 square feet, or about 76% of the gross leasable area, was listed as available by CoStar Group, Inc., up from 536,736 square feet in July 2019.

Subscribers to Morningstar Credit Ratings' CMBS Credit Risk Monitoring and Analytics may view this report at www.morningstarcreditratings.com.

Morningstar Credit Ratings, LLC

CMBS Surveillance Analytics

Steve Jellinek

Vice President – CMBS Credit Risk Services

+1 312 244-7908

Ricky Cipko

Vice President – CMBS Credit Risk Services

+1 312 244-7910

Beth Forbes

Senior Vice President – CMBS Credit Risk Services

+1312 244-7912

DISCLAIMER

Copyright © 2019 by Morningstar Credit Ratings, LLC (“Morningstar”). Reproduction or transmission in whole or in part is prohibited except by permission. All rights reserved. The opinions expressed herein are solely those of the authors as of the date hereof and do not necessarily represent the opinions of Morningstar or its affiliates. The content and analysis contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. THE CONTENT AND ANALYSIS IS PROVIDED “AS IS” AND NOT SUBJECT TO ANY GUARANTEES OR ANY WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR U.S.E. Any information described in this report that is provided by third parties (collectively, “Third-Party Information”) and used by Morningstar to determine and/or provide any analysis, is: (i) the sole responsibility of the third-party provider of such information (ii) not endorsed or recommended by Morningstar, (iii) not verified by Morningstar, and (iv) provided “AS IS” without any representation, warranty or guaranty of any kind. Morningstar has no responsibility, liability or control over Third-Party Information and provides no warranty, guaranty, representation for or with respect to such Third-Party Information or any results derived from it. In addition, Third-Party Information may be outdated, unreliable or inaccurate and Morningstar has no obligation to update, correct or verify any Third-Party Information. Because of the possibility of human or mechanical error by Morningstar, its affiliates or its third-party licensors, Morningstar and/or its affiliates do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. To reprint, translate, or use the data or information other than as provided herein, contact Vanessa Sussman (+1 646 560-4541) or by email to: vanessa.sussman@morningstar.com.