

CMBS Alert

Overly Ambitious: Forever 21's Bankruptcy Filing Could Affect \$1.26 Billion in CMBS

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Morningstar Perspective

Morningstar Credit Ratings, LLC sees elevated risk in \$1.26 billion in loans on properties backing securitized commercial mortgages, after Forever 21 filed for Chapter 11 bankruptcy protection on Sept. 29 and disclosed that it plans to close up to 178 stores in the United States. These properties could experience a material decline in net cash flow should the apparel retailer decide to reject leases amid market and operational challenges.

Although the retailer didn't specify which stores are slated for closure, we identified the 18 riskiest loans, backed by 12 stores, as those already in distress or those whose debt service coverage ratios we project will fall below 1.25x should Forever 21 vacate. Overall, Forever 21 is a tenant at 100 collateral properties with a combined allocated property balance of \$24.75 billion.

Forever 21 has a small footprint at most properties, occupying over 10% of the gross leasable area at just 10 properties and more than 20% at only two. In total, the occupancy at 14 properties, backing CMBS loans with a combined balance of \$2.09 billion, would fall below 80% if Forever 21 were to vacate. In addition, even loans in which Forever 21 occupies a smaller part of the GLA could face refinancing issues, as the space left vacant by Forever 21 could indicate problems to lenders. We identified 36 loans with a property balance of \$4.34 billion that are set to mature over the next 24 months.

Table 1 – Forever 21 Loans at Elevated Risk

Deal ID	Property Name	Location	Allocated Property Balance (\$)	Debt Service Coverage Ratio (x)	% of Gross Leasable Area	Occupancy (%)	Maturity Date
BBCMS 2015-VFM	Vintage Faire Mall	Modesto, CA	254,936,496	1.76	22.3	99.1	3/6/2026
WFCM 2013-LC12, WFRBS 2013-C15	Carolina Place	Pineville, NC	164,568,530	1.72	2.9	74.0	6/1/2023
CSMC 2016-NXSR, MSBAM 2016-C32, MSC 2016-UB12, BBCMS 2017-C1	Wolfchase Galleria	Memphis, TN	156,932,770	1.24	3.3	84.0	11/1/2026
JPMBB 2014-C22, JPMBB 2014-C23	Las Catalinas Mall	Caguas, PR	129,842,759	1.76	3.9	50.0	8/6/2024
CGCC 2014-FL1	Yorktown Center	Lombard, IL	121,317,603	1.98	4.2	77.0	3/9/2020
COMM 2013-CR6	The Avenues	Jacksonville, FL	110,000,000	3.48	19.4	82.0	2/6/2023
WFRBS 2011-C3	Park Plaza	Little Rock, AR	79,090,375	1.04	8.8	95.0	4/1/2021
WFRBS 2014-C20, WFRBS 2014-C19	Brunswick Square	East Brunswick, NJ	70,100,346	1.21	4.3	90.0	3/1/2024
MSBAM 2014-C16	Outlets of Mississippi	Pearl, MS	61,772,032	0.99	5.0	91.0	6/1/2024
WFRBS 2011-C3	Oakdale Mall	Johnson City, NY	49,329,310	0.62	1.6	51.0	2/1/2021
UBSBB 2012-C2	Pierre Bossier Mall	Bossier City, LA	42,562,384	0.80	12.6	66.0	5/6/2022
GSMS 2011-GC3	701 Lincoln Road	Miami, FL	18,021,811	2.13	92.7	100.0	1/6/2021

Source: Morningstar Crediting Ratings, LLC

Loans of Interest


The potential loss of Forever 21 would be another blow for the already struggling Oakdale Mall, which secures a \$51.4 million specially serviced loan in WFRBS 2011-C3. The property, an 851,498-square-foot enclosed regional mall near Binghamton, New York, of which 708,695 square feet is collateral, is down three anchors after losing Sears and Macy's in 2017, followed by Bon-Ton in 2018. Declining occupancy and loss of revenue from co-tenancy agreements pushed 2018 net cash flow down more than 60% from underwriting as the debt service coverage ratio fell to 0.75x from 1.94x at underwriting. Based on our discounted cash flow valuation, we forecast a \$32.5 million loss.

The loss of Forever 21 would push the DSCR further below break-even at the Pierre Bossier Mall. The retailer occupies 12.6% of the collateral, 265,347,239 square feet of a 612,239-square-foot Bossier City, Louisiana, regional mall, which backs a \$42.6 million loan in UBSBB 2012-C2. As of year-end 2018, performance continued to decline with net cash flow 12.6% below 2017 and 42.3% below underwriting. The potential loss of Forever 21 would drag occupancy down to nearly 50%. With the lack of investor appetite for regional malls and a 2022 maturity, prospects for take-out financing appear dim. Our \$32.6 million value suggests a value deficiency of more than \$10 million on the loan. We placed the loan on the Morningstar Watchlist in early 2018 because of declining net cash flow.

Separately, we see elevated risk in the 701 Lincoln Road loan because collateral occupancy would fall to less than 10% if Forever 21 were to reject its lease. Although the \$18.0 million loan in GSMS 2011-GC3 had a 2.13x DSCR for the first six months of 2019 on 100% occupancy, Forever 21's potential departure would push the DSCR well below break-even. The retailer occupies 92.7% of the 40,847-square-foot Miami Beach shopping center. The submarket's 13.1% vacancy rate, which is substantially higher than the overall Miami vacancy rate of 4.3%, according to CBRE Econometric Advisors, may make it harder to find a replacement tenant.

Overexpansion

It's a familiar story: too many stores and sagging sales. Forever 21's aggressive expansion left it little room to maneuver amid shifting buying habits of young adults. Facing competition from more nimble counterparts like Zara and H&M, privately held Forever 21 took on too much floor space in regional malls and, with more than 500 U.S. stores, paid too little attention to its online presence. In the short term, the bankruptcy filing may put pressure on other retailers as Forever 21 has slashed prices to clear inventory. Yet the chain must do more over the long term to differentiate itself if it wants to remain relevant.

Loan-level details for all CMBS loans with Forever 21 as one of the five largest collateral tenants can be found in Excel format by clicking the download icon  at the top of page one.

Please see our Morningstar DealView® Credit Risk Analyses in the coming months in which property-level analysis, performance, and value analysis will be available at the loan and deal level.

Morningstar Credit Ratings, LLC

CMBS Surveillance Analytics

Steve Jellinek

Vice President – CMBS Analytical Services

+1 312 244-7908

Beth Forbes

Senior Vice President – CMBS Credit Risk Services

+1 312 244-7912

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