

Wednesday, June 8, 2016

## Killeen Mall in Texas Might Be Worth Only \$67.1Mln

The 558,000-square-foot Killeen Mall near Fort Hood, Texas, is likely worth only \$67.1 million, according to analysis by Morningstar Credit Ratings.

That could pose a problem next year, when the property's \$82 million mortgage, which was securitized through Credit Suisse Commercial Mortgage Trust, 2008-C1, comes due.

The loan hasn't missed a scheduled payment yet, although it's paid within its grace period a number of times. But Morningstar placed the loan on its watchlist because it was concerned with the collateral property's net cash flow, which declined to \$5.7 million last year from \$6.2 million in 2008. Occupancy as of the end of March was 82 percent. What's more, the property is reliant on Fort Hood, one of the army's largest installations, which is expected to downsize by some 10 percent in the coming years. The loss of such a sizable portion of its market could have a profound impact on the property's ability to get refinanced.

The Horsham, Pa., rating agency, which has been closely reviewing every loan originated in 2006 and 2007 and is coming due by next year, has been finding loans that might prove challenging to refinance. It so far has done a thorough analysis of 98 percent of the loans that are coming due this year and previously had estimated that roughly 66.5 percent would get

refinanced.

It's found a number of loans that, on their face, appear to be performing as expected, but carry risks that could impact their long-term value.

"They're fine now," explained Steve Jellinek, vice president of Morningstar. "But they were underwritten at the peak of the market, with low debt yields and no amortization." Those loans, he said, "are the ones we can't forget about."

The Killeen Mall loan is a poster child of 2006 mortgage underwriting. It was underwritten with what now would be considered an aggressive 7.25 percent debt yield and a loan-to-value ratio of 80 percent. In addition, it doesn't amortize.

Jellinek explained that if the loan had amortized, its balance now would be about \$66 million, not \$82 million. Assuming lenders today would be willing to provide loans with debt yields of 9.3 percent, the property would be able to support perhaps \$66 million of fresh financing.

The property was constructed 35 years ago and is anchored by Sears and Burlington Coat Factory. It had been owned by an affiliate of Babcock & Brown, a now-defunct Australian investment manager, which in 2007 sold a stake in a portfolio of properties, including the Killeen Mall, to Oxford Properties Group of Toronto.

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