

CMBS Alert

How Many More Lives? GameStop Closures Put \$41.8 Million in CMBS at Risk; \$383.4 Million in Total Exposure

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Morningstar Perspective

Morningstar Credit Ratings, LLC (DBRS Morningstar) believes that GameStop Corp.'s impending store closures could adversely affect already underperforming retail properties even though the risk to commercial mortgage-backed securities with exposure to the retailer is minimal. While GameStop has not identified which stores it will be closing, DBRS Morningstar identified 20 loans, with a combined allocated property balance of \$41.8 million, that are most at risk because they already have low debt service coverage ratios, are backed by properties with low occupancy, or have GameStop as a major tenant that is within five miles of another GameStop store.

DBRS Morningstar has identified 112 properties securing commercial mortgages with an allocated balance of \$383.4 million where GameStop is among the five largest tenants. Of the CMBS loans with exposure to GameStop, 49 with a combined allocated balance of \$147.2 million are backed by collateral that is within five miles of another GameStop store. In most instances, the risk is offset by the retailer's relatively small space with only four stores comprising more than 20% of the gross leasable area in properties backing CMBS loans.

GameStop chief financial officer Jim Bell announced during the company's second-quarter earnings call last month that the video game retailer will close up to 200 stores by the end of 2019 and hinted at a further reduction in its brick-and-mortar presence over the next 12 to 24 months. The company, which operates more than 3,700 stores in the United States, has closed 195 stores since the second quarter of 2018 and said it expects 2019 same-store sales to fall in the low teens, compared with previous expectations of a decrease between 5% and 10%.

Table 1 – GameStop Loans at Elevated Risk


Deal ID	Property Name	Location	Allocated Property Balance (\$)	Debt Service Coverage Ratio (x)	% of Gross Leasable Area	Occupancy (%)	Lease Expiration	Number GameStops Within Five Miles
COMM 2007-C9	Western Plaza	Jacksonville, NC	6,967,758	0.96	4.1	63.0	8/31/2019	3
GSMS 2012-GCJ7	165 East 116th Street	New York, NY	3,695,693	0.77	16.4	80.0	8/30/2021	5
JPMBB 2016-C1	Lubbock Southwest Shopping Center	Lubbock, TX	3,571,116	1.13	5.3	89.0	8/31/2021	0
CD 2006-CD2	Hillside Terrace Shopping Center	Delafield, WI	3,509,462	1.20	10.1	100.0	1/31/2020	0
WFRBS 2014-C21	Shoppes of Fort Wright	Fort Wright, KY	3,001,848	0.96	8.0	89.0	1/31/2024	0
MSC 2007-T25	Pleasant Grove Marketplace	Roseville, CA	2,359,850	0.79	12.8	100.0	5/31/2020	3
MSC 2016-UB12	Woodland Crossing Shopping Center	Tulsa, OK	2,305,227	1.21	16.8	100.0	9/30/2020	2
BACM 2017-BNK3	The Devonshire Shops	Salem, OR	2,257,121	0.99	21.4	75.0	4/30/2021	3
MSBAM 2014-C18	Louisiana Retail Portfolio - Pineville Crossing	Pineville, LA	1,892,027	1.04	0.4	86.0	5/31/2022	0
MLCFC 2007-8	Sigmon Commons Retail	Wilmington, NC	1,815,499	1.06	18.8	100.0	1/31/2020	3
MLCFC 2007-8	Kimmel Shoppes	Vincennes, IN	1,798,255	1.02	12.5	81.0	7/31/2021	0
CSMC 2006-C1	Homewood Retail	Homewood, IL	1,675,073	1.00	20.7	100.0	3/31/2020	0
WFRBS 2014-LC14	Walcent Kendallville IN	Kendallville, IN	1,511,816	1.16	0.6	74.0	1/31/2020	0
MSC 2004-T15	Centre Court	Pikesville, MD	1,319,491	0.78	7.4	60.0	1/31/2020	1
WFRBS 2014-LC14	Fayette Square	Washington Court House, OH	1,211,630	0.99	5.1	71.0	8/31/2020	0
BSCMS 2005-PW10	140 NW California Boulevard	Port Saint Lucie, FL	846,857	0.97	15.8	100.0	7/31/2023	2
JPMCC 2006-CB15	Plano Shopping Center	Plano, TX	817,692	0.48	4.0	92.0	3/31/2019	3
WFRBS 2014-LC14	Walcent Plainwell MI	Plainwell, MI	704,307	1.16	0.5	74.0	1/31/2021	0
MSC 2004-IQ8	Tooele Landing	Tooele, UT	493,067	1.05	13.7	100.0	1/31/2021	0
BSCMS 2005-T18	Tuttle Center	Columbus, OH	77,142	1.16	26.3	100.0	1/31/2029	1

Source: DBRS Morningstar

Largest Loans of Concern

Most of the highest-risk loans, none of which have a balance greater than \$7 million, are backed by stores where GameStop has a lease expiring over the next two years. Western Plaza, which backs a \$7.0 million specially serviced loan comprising 17.0% of COMM 2007-C9, has suffered significant rollover after the largest tenant, Office Max, vacated at its 2014 lease expiration. Another major tenant, Rugged Warehouse, which occupied 18.1% of the leasable space at the Jacksonville, North Carolina, property vacated, but the borrower back-filled the space with a Dollar Tree store. If GameStop, which had a lease that expired in August and is still open, according to the company’s web site, closes its store, occupancy at property would fall to 58.1% from 63.0% and further distress the property’s cash flow. The store is one of three within a five-mile radius. The loan, which is current, reported a 1.03x debt service coverage ratio for 2018.

The \$3.7 million 165 East 116th Street loan, 0.4% of GSMS 2012-GCJ7, is backed by an East Harlem mixed-use property where GameStop, with a lease expiring in August 2021, is the only retail tenant after the departure of Radio Shack earlier this year. If GameStop departs, occupancy would fall to 63.6% from 80.0%. There are four stores within five miles of the collateral, and while the loan is current, it reported a 0.77x DSCR for the first six months of 2019.

Loan-level details for all CMBS loans with GameStop as one of the 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.

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