Commercial RealEstate Direct

Friday, September 9, 2016

CMBS Loan Against Va. Mixed-Use Property Gets Fully Paid Off

The $125 million CMBS loan against the Central Park mixed-use property in Fredericksburg, Va., has been refinanced.

The loan had been securitized through ML-CFC Commercial Mortgage Trust, 2006-4, and was slated to mature in November. And because of the collateral property's tepid performance in recent years, there were doubts on its ability to get taken out in full. But that's exactly what happened.

The property's owner, Rappaport Cos., a McLean, Va., developer, separated the property's strong-performing retail portion, which has 411,907 square feet, from its lesser-performing, 229,611-sf office component and financed each separately.

It lined up a $90 million loan from Wells Fargo Bank against the retail space and a $36 million loan from EagleBank of Bethesda, Md., against the office space, allowing it to fully take out the CMBS loan, which became open to prepayment three weeks ago.

Had the two components remained together, they would have been unlikely to support a $125 million refinancing, given the cash flow they generated. Morningstar Credit Ratings had estimated that the undivided property might be worth less than $120 million, given the $8.4 million of net cash flow it generated last year, according to servicer data compiled by Trepp LLC.

But splitting the stable retail portion from the value-add office portion allowed for a full refinancing.

The loan against the retail space, which is 95.7 percent occupied and generated $7.3 million of net cash flow during the 12 months through June, has a 10-year term and amortizes on a 30-year schedule. It pays a coupon of 4.38 percent and is part of the collateral pool for an upcoming CMBS transaction, Wells Fargo Commercial Mortgage Trust, 2016-LC24.

Details of the EagleBank loan against the property's office component, the Central Park Corporate Center at 1320 Central Park Blvd., could not be learned. But the property is thought to be roughly 50 percent occupied and last year generated some $1.1 million of cash flow. As such, the bank's loan likely was structured to give Rappaport the flexibility to lease up the property's vacancy and stabilize it.

The two components are part of a complex with 2.5 million sf of retail and office space, making it among the largest power-retail centers in the country. It's anchored by Walmart, Lowe's, Target, Kohl's, Regal Cinemas and Best Buy, but they own the 715,000 sf they collectively occupy.

The space that serves as collateral for the Wells Fargo loan is anchored by an Office Depot and Hobby Lobby. They occupy a total of 83,346 sf under leases that mature next year and in 2021, but can be extended for at least two additional five-year terms. Other tenants include Old Navy, Mattress Discounters and Pier 1 Imports.

The retail property's occupancy rate has averaged 92.1 percent since 2008 and has seen a total of just more than 117,000 sf of new lease or renewals signed since last year. Most recently, Skyzone, an operator of trampoline parks, leased nearly 21,000 sf. It's still building its space out and is expected to take occupancy in November.