

## CMBS Alert

# We're Not in Kansas Anymore—Overland Park Office Building Backing \$11.7 Million Loan to Lose Sole Tenant

December 5, 2019

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Morningstar Credit Ratings, LLC (DBRS Morningstar) placed the \$11.7 million Waddell & Reed Office Building loan on the DBRS Morningstar Watchlist and lowered its valuation to \$16.6 million, down 27.5% from its previous estimate of collateral value, because of concerns that the loss of its sole tenant could hamper the prospects of a payoff when the loan reaches its maturity in just over a year. Waddell & Reed Financial Inc. will consolidate multiple offices into a new building in downtown Kansas City, Missouri, according to the *Kansas City Business Journal*.

Waddell & Reed occupies all of the 107,320-square-foot office property in Overland Park, Kansas, which backs an \$11.7 million securitized commercial mortgage loan in GSMS 2011-GC3. With Waddell & Reed continuing to pay its lease through the expiration date in March 2026, the risk of term default is low. However, we are concerned that the borrower may have trouble refinancing the loan when it matures in January 2021. Waddell & Reed will also vacate two adjacent properties, dumping an additional 173,000 sf of space on the market, which will likely hamper the borrower's ability to back-fill the space.

We valued the property at \$16.6 million based on a discounted cash flow analysis, which suggests a 70.5% loan-to-value ratio. We assumed Waddell & Reed will vacate the property at its lease expiration in 2026 and assumed leasing up to 100% over the following two years. We applied an 8.5% capitalization rate and an 11.5% discount rate.

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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