

CMBS Alert

Earthquake-Related Damage Could Hit Some \$3.19 Billion in Southern California Securitized Mortgages

July 10, 2019

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Morningstar Perspective

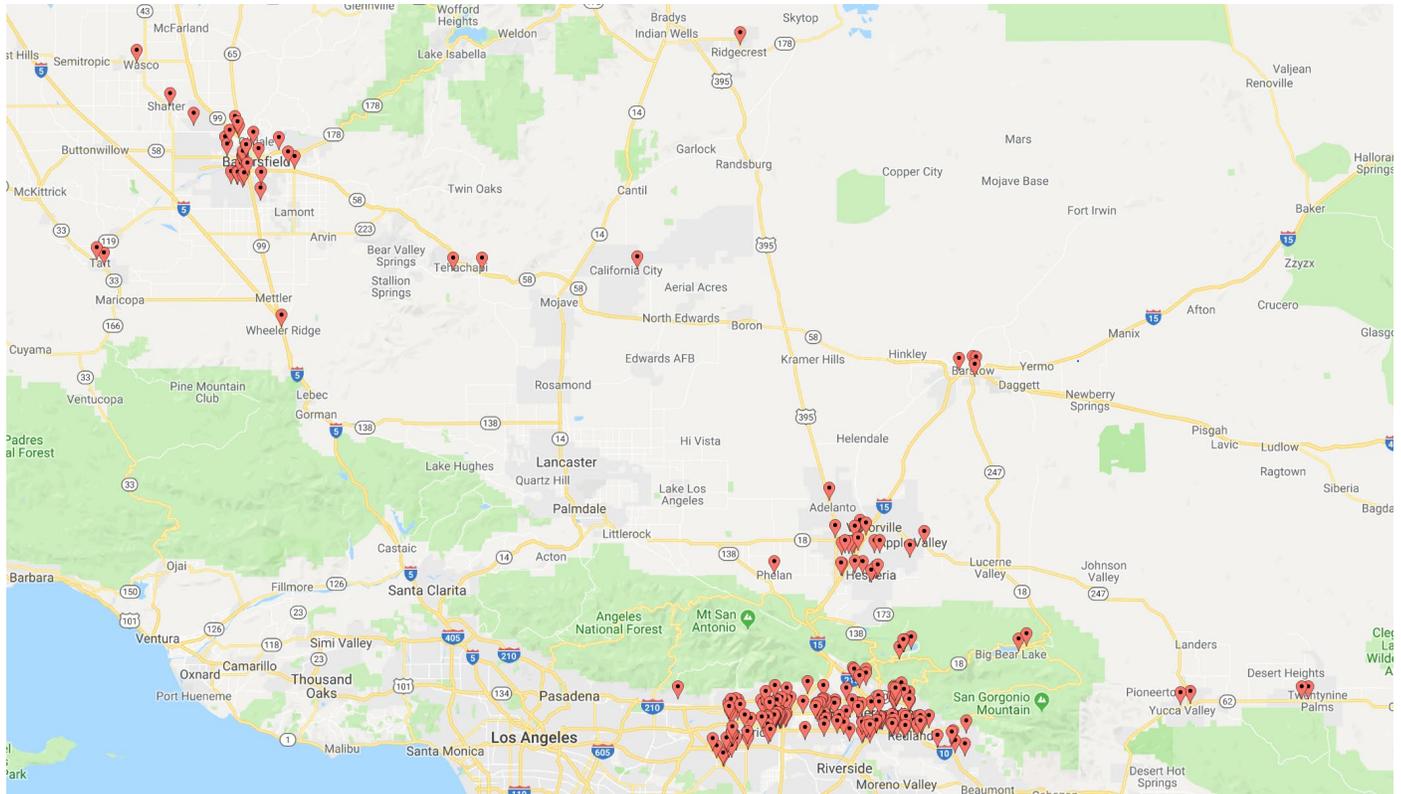
Morningstar Credit Ratings, LLC has identified some \$3.19 billion in securitized commercial mortgages potentially at elevated risk because of the potential for damage in the wake of recent destructive earthquakes around Ridgecrest, California. California Governor Gavin Newsom has declared a state of emergency for Kern and San Bernardino Counties. While the extent of damage still is being assessed and the federal government has not issued a disaster declaration as of the date of this alert (although we expect one to be issued shortly because President Donald Trump on July 8 approved a request to declare an emergency in California), we found 298 properties backing 288 securitized loans in Kern and San Bernardino Counties that could have seen significant damage from back-to-back earthquakes that struck the area July 4 and 5.

Morningstar does not expect waves of loan defaults resulting from these earthquakes because business-interruption insurance should cover the gap in service, if necessary, for most properties. Still, property damage could prevent refinancing some existing loans and jeopardize the payoff of roughly \$259.5 million in securitized loans that mature over the next 12 months. Ultimately, if a property is operating, meeting its debt obligations, and has no lasting earthquake-related fallout, financing should proceed, and the loan should pay off.

Thursday's magnitude 6.4 quake in the Mojave Desert and Friday's magnitude 7.1 quake in the same location, were centered 11 miles from Ridgecrest, with Kern County and San Bernardino County seeing substantial damage to buildings and infrastructure, including the loss of water and power, but it didn't affect the properties securing the two largest loans. The \$121.5 million Colton - Agua Mansa note (part of the \$2.35 billion Lineage Cold Storage Portfolio loan in CSMC 2019-ICE4), accounts for the largest exposure. The nearly 425,000-square-foot cold storage facility is about 125 miles south of Ridgecrest. The Mall of Victor Valley, where 477,384 square feet of a 574,723-square-foot regional mall about 90 miles south of Ridgecrest back a \$115.0 million loan in JPMBB 2014-C24, was also not affected. The loan is a strong performer with year-end 2018 net cash flow up nearly 10% from

underwriting, although collateral anchors include JCPenney and Sears, both of which continue to downsize. Further, Sears' lease expires in October. The only loan with collateral in Ridgecrest is the \$5.9 million Stater Bros.-Ridgecrest loan, backed by a single-tenant Stater Bros. grocery store. A call placed to the store confirmed it is open and was not damaged.

CMBS Exposure to California Earthquakes



Source: Morningstar Credit Ratings, LLC

Table 1 - Top 10 Loans in Kern and San Bernardino County

Deal ID	Property Name	Status	Property Type	City	Allocated Property Balance (\$)	Maturity Date
CSMC 2019-ICE4	Colton - Agua Mansa	Current	Industrial	Colton	121,490,065	5/9/2021
JPMBB 2014-C24	The Mall of Victor Valley	Current	Retail	Victorville	115,000,000	9/1/2024
FREMF 2019-K88	Parkview Terrace	Current	Multifamily	Redlands	81,440,000	11/1/2028
GSMS 2017-GS7	Loma Linda	Current	Office	Loma Linda	80,000,000	7/6/2027
FREMF 2018-K77	The Paseos Apartment Homes	Current	Multifamily	Montclair	72,420,000	4/1/2028
CGCMT 2007-C6	Crossroads Marketplace	Real Estate Owned	Retail	Chino Hills	62,000,000	4/6/2017
FREMF 2014-K717	Village Crossing	Current	Multifamily	Chino Hills	57,575,000	8/1/2021
FREMF 2015-KF09	Redlands	Current	Multifamily	Redlands	55,059,119	1/1/2022
FREMF 2017-K728	The Angelica	Current	Multifamily	Rancho Cucamonga	52,996,000	8/1/2024
FREMF 2015-K49	Homecoming At Terra Vista	Current	Multifamily	Rancho Cucamonga	52,690,425	1/1/2022

Source: Morningstar Credit Ratings, LLC

As damage assessments across hard-hit areas are ascertained, undamaged multifamily properties and hotels could see more demand because families will be forced to find temporary housing.

Loan-level details for all CMBS loans backed by properties in areas hard hit by the earthquakes 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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