

## CMBS Alert

# Barneys Closures Will Affect Chicago Store Backing a \$70.8 Million CMBS Loan

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### Morningstar Perspective

Falling further behind in the race for luxury retail, Barneys New York will close its store backing the \$70.8 million Barneys Chicago loan, which accounts for 5.7% of DBUBS 2011-LC2A, as part of its New York Aug. 6 Chapter 11 bankruptcy filing. The luxury clothing retailer occupies 95.1% of the six-story retail building in downtown Chicago, three blocks west of the North Michigan Avenue corridor, a premier shopping district in the region. But Morningstar Credit Ratings, LLC doesn't expect the loan to take a loss.

We value the collateral at \$70.4 million based on a 10-year discounted cash flow analysis assuming it will take two years to back-fill the vacant space. We also used market rent of \$62.00 per square foot, market vacancy rate of 5.0%, a discount rate of 9.5%, and a capitalization rate of 6.5%. While the store closing presents what we believe will be a temporary setback, a delay in filling the space could jeopardize the loan's May 2021 maturity.

While there may be multiple reasons for Barneys demise, at least one is not its fault: a liquidity crunch that occurred when the rent on its flagship store in New York City in January 2019 was hiked up to \$27.9 million from \$16.0 million. The property backs the other commercial mortgage-backed securities loan to note: the \$79.6 million 660 Madison Avenue Retail loan, which comprises 14.1% of GSMS 2010-C1 and matures next July. The more than nearly 265,000-square-foot Barneys store, which is the collateral's single tenant, is not one of the 15 stores that are slated to close.

An interesting contrast to Barneys is fellow luxury retailer Gucci, which made significant investments in technology and marketing, establishing itself as the most popular luxury brand online, according to [luxe.digital.com](http://luxe.digital.com). These efforts have given Gucci a stronger retail presence and made it one of the fastest-growing luxury brands in the world. Gucci's parent company Kering reported a 29.4% rise in comparable store sales for 2018. With Barneys overexpanding in the wake of its private-equity buyout in 2007, luxury

analysts say the company lost its cache with its fashion-forward customer by stretching itself too thin and becoming too commoditized.

Please see our DealView® CMBS Monitoring 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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