Research

CMBS Mall Delinquencies Approach $10 Billion, as the Pandemic Heightens Risk for Upcoming Maturities

DBRS Morningstar
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Alex Sgorlon
Senior Analyst
+1 416 597-7468
alex.sgorlon@dbrsmonrnigstar.com

Jason de Souza
Senior Analyst
+1 416 597-7401
jason.desouza@dbrsmorningstar.com

Sneha Ananthakrishnanm
Senior Analyst
+91 022 6121 7100
Sneha.Ananthakrishnan
@dbrsmorningstar.com

Alric D'Souza
Analyst
+91 022 6121 7100
alric.d'souza@dbrsmorningstar.com

The Coronavirus Disease (COVID-19) pandemic has been particularly difficult for retail and hospitality properties, many of which back commercial mortgage backed securities (CMBS) loans. In April, we explored the CMBS sector's exposure to near-term maturing mall loans, highlighting the unique risks of an environment that would not be conducive to sponsors' ability to secure takeout financing for that property type in particular. With regional mall delinquency rates increasing rapidly due to declining sales and occupancy, key factors to the restructuring process—including market position, stability of the asset, and borrower strength—will determine the likelihood of ultimate success.

As the pandemic has continued, the issues we raised in that piece have borne out to a certain extent, with many CMBS loans backed by malls and other large retail properties going delinquent or failing to repay at the scheduled 2020 maturity dates. DBRS Morningstar analyzed the delinquent universe and using DBRS Morningstar's CMBS Viewpoint platform identified a data set of regional malls and large anchored retail assets. According to the filtered results, the delinquent universe comprises 93 non-defeased loans totaling approximately $9.65 billion of debt. The broader universe that also includes non-delinquent loans comprises 339 non-defeased loans totaling approximately $51.62 billion of debt.

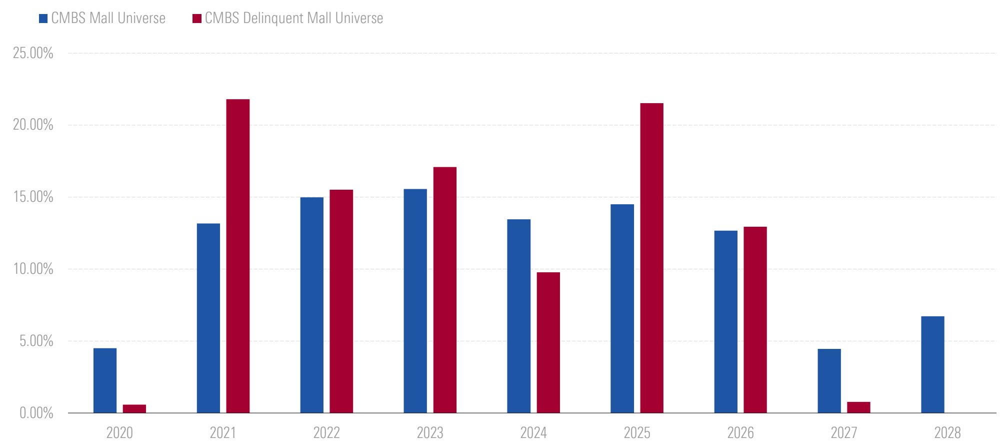
Delinquent Balance by Vintage

Vintage		No. of Loans	Outstanding Transactions	Delinquent Loans	Transactions with Delinquent Loan Pieces	Total Outstanding Balance	Total Delinquent Balance	Delinquency Rate %
CMBS 1.0	2004-10	25	22	5	5	$ 1,971,189,425	$ 340,381,500	17.3%
CMBS 2.0	2011	36	17	15	10	$ 3,260,894,119	$ 1,069,328,555	32.8%
	2012	57	29	14	12	$ 6,931,127,556	$ 1,361,223,563	19.6%
	2013	71	49	21	18	$ 10,007,397,698	$ 1,579,944,132	15.8%
	2014	54	41	18	20	$ 7,347,007,964	$ 2,724,095,257	37.1%
	2015	39	33	8	11	$ 4,483,115,883	$ 529,240,058	11.8%
	2016	36	50	6	13	$ 6,097,487,560	$ 1,269,971,047	20.8%
	2017	23	37	3	4	$ 2,607,603,346	$ 74,006,615	2.8%
	2018	20	38	2	4	$ 4,913,120,868	$ 680,652,099	13.9%
	2019	13	19	1	1	$ 3,182,443,725	$ 23,500,000	0.7%
	2020	3	10	0	0	$ 823,945,946	$ -	0.0%
	Total	**377**	**345**	**93**	**98**	**$ 51,625,334,090**	**$ 9,652,342,825**	**18.7%**

Based on the $9.65 billion balance, the overall delinquency rate for this cohort of loans is 18.7%. Analyzing the data set by vintage revealed that a significant portion of the universe's delinquency is within the 2011 to 2014 vintage cohort—representing approximately 69.8% of the balance. This cohort includes the Mall of America (CSMC 2014-USA), which represents the largest delinquent loan reported across all CMBS property types and contributes around 14.4% to the total delinquent balance. Even excluding the Mall of America loan, the cohort's delinquency rate is still significantly elevated, at 16.4%.

The analyzed regional mall delinquency rate of 18.7% is higher than the Viewpoint retail delinquency rate of 14.5% for October 2020 and almost four times that of the 4.7% general U.S. CMBS delinquency rate for all property types.

Delinquent Loans and Loan Maturity by Vintage



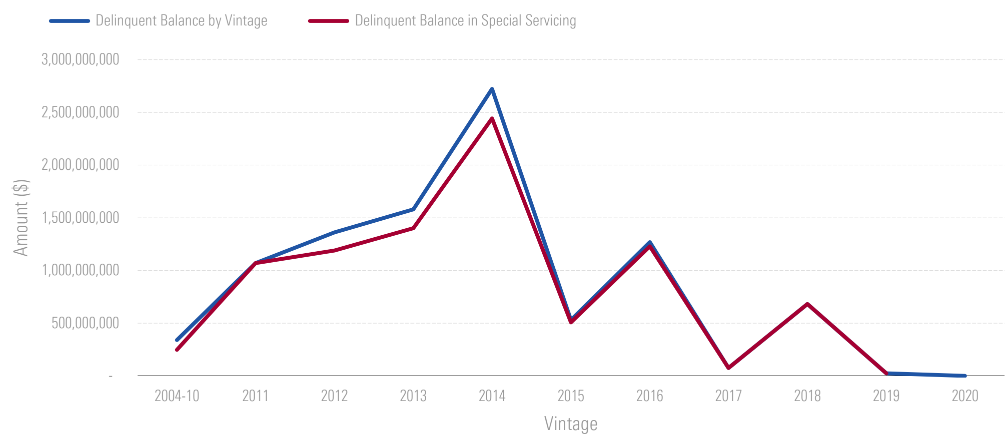
Source: DBRS Morningstar.

Mall Cashflows Are Stressed

An increase in delinquencies this year is, of course, primarily attributable to the effects of the coronavirus pandemic, which severely hampered the performance of the retail industry. Malls in particular were hit hard due to various lockdowns and restrictions on shopping, dine-in, and entertainment facilities. Tenant bankruptcies further stressed mall cashflows, meaning sponsors were sometimes forced to come out of pocket to fund debt service and reserve requirements, a situation that was particularly challenging for lower capitalized sponsors. While these risks posed significant issues to landlords and bond investors alike, maturity risk in the short term was a relatively minor concern for the sector given the smaller balance of loan maturities in 2020 (4.5% of the total mall universe).

However, starting in 2021, the regional mall universe faces a maturity wall with a new wave of loans from the 2011–15 early CMBS 2.0 cohort set to mature between 2021 and 2025, and these include 85.7% of loans currently designated as delinquent. Major mall loans that are currently delinquent and are scheduled for maturity in 2021 include Holyoke Mall (current balance of $180.4 million), Whitemarsh Mall (current balance of $190.0 million), Fox River Mall (current balance of $137.5 million), and Poughkeepsie Galleria (current balance of $138.6 million), which combine for 7.5% of the delinquent mall universe.

Regional Mall Delinquent Balances

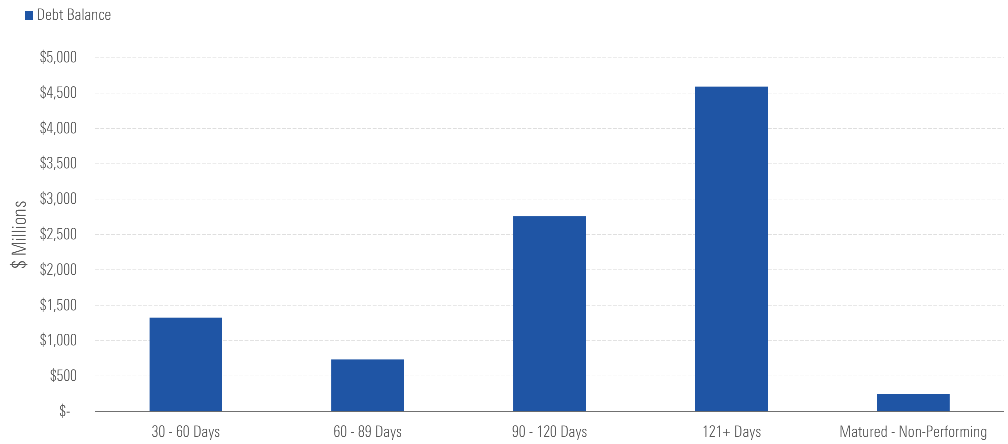


Approximately 91.8% of the delinquent universe of regional malls is currently in special servicing (SS). The 2011–14 cohort is exposed to a particularly high composition of specially serviced loans, accounting for around $6.1 billion of the total balance of loans in SS. The pandemic has contributed dramatically to property performance declines that have driven the increase in transfers to special servicing, with 58.1% of SS transfers from this cohort attributed to imminent monetary default due to coronavirus related stresses. Although $2.06 billion worth of specially serviced loans are due to mature in 2021 alone, the bulk of those loans come due early in the year, with loans totaling $1.68 billion (81.6% of the total and 18.9% of the delinquent SS balance) expected to mature as early as the second quarter of 2021.

Because many regional malls are experiencing pandemic induced declining sales and occupancy, we expect a flurry of servicer and sponsor activity over the coming months. This includes granting maturity extensions and other loan modifications, refinancing that will likely be limited to the strongest assets, and marketing properties for sale as mall operators work to reduce their exposure to underperforming properties. Such sales are likely to be limited because of the disruption in investor appetite for retail properties in the current environment, and we expect those factors will result in a significant uptick in deed-in-lieu and foreclosure activity as loans default. Decreases in appraisal values have already wiped out $2.63 billion in property value for regional malls backing CMBS debt issued in the last ten years and we expect this trend to continue in the near term. Twenty six specially serviced loans from the 2011–14 cohort have already had appraisal reductions averaging 21.5%.

Delinquencies Are on the Rise

Delinquency Status

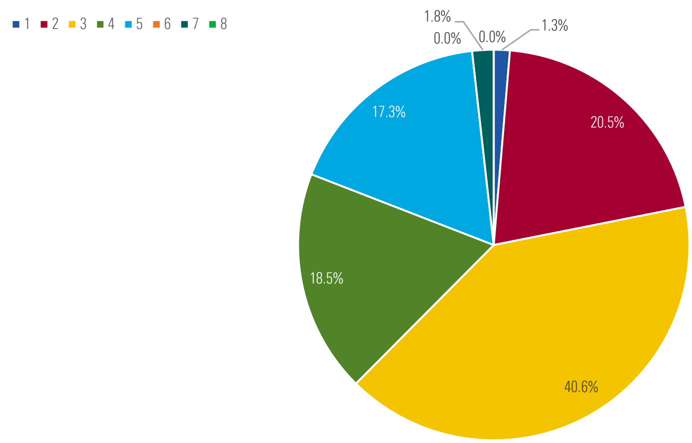


Approximately 47.6% of the delinquent universe is more than 120 days past due, with much of the delinquent activity occurring in the past four months as $4.81 billion (49.9% of the universe) has been reported delinquent during this period. We believe these trends are likely attributable to malls and anchored retail properties largely being closed from the end of March until the end of May — right before the start of the four-month period ended October 2020. Approximately $246.8 million of the universe's debt has passed its maturity date, and DBRS Morningstar expects this amount to increase as a greater portion of conduit loans that have maturities in 2021 and 2022 come due. Approximately 36.0% of the delinquent universe matures in 2021 and 2022, while 29.6% of the overall delinquent universe matures in both years and has a DBRS Morningstar Market Rank of 3 or less (see below). Additionally, of the $3.47 billion of delinquent debt that matures in 2021 and 2022, 95.1% of the debt is in special servicing — suggesting that prolonged workout strategies could extend beyond loan maturity dates.

Regional malls in the CMBS sector were showing signs of stress prior to the onset of the pandemic, with these trends contributing to a sharp decline in the issuance of loans backed by mall properties in the 2019 and 2020 vintages. Tysons Galleria Mall, secured in the DBRS Morningstar rated BBCMS 2013-TYSN single-asset single-borrower transaction, recently didn't pay off at the scheduled initial maturity date of September 2020 because it lacked refinance options amid the current environment. The seven-year loan amortizes on a 30-year schedule, with the October 2020 loan balance at $280.9 million. The collateral mall is considered a top tier asset, situated in Virginia's largest office market and close to the I-495 Capital Beltway encircling Washington, D.C. Credit metrics and sales trends have been strong, as has the property's occupancy rate, and based on the issuance valuation, the loan-to-value ratio (LTV) is quite healthy at 45.6%. The lack of replacement loan options for an asset of this tier is noteworthy but not particularly surprising given the general unknowns for the mall sector and the preference for lenders to be conservative until things become more stabilized and property values are more ascertainable. The servicer has granted a one-year maturity extension through September 2021.

Market Rank

DBRS Morningstar's Market Rank is a measure of the market where the collateral is located. The scale ranges from 1 to 8, with a DBRS Morningstar Market Rank of 1 indicating the least dense, most rural markets and a DBRS Morningstar Market Rank of 8 designating the densest, most liquid markets. The graph below outlines the distribution of DBRS Morningstar Market Ranks for the delinquent regional mall universe.

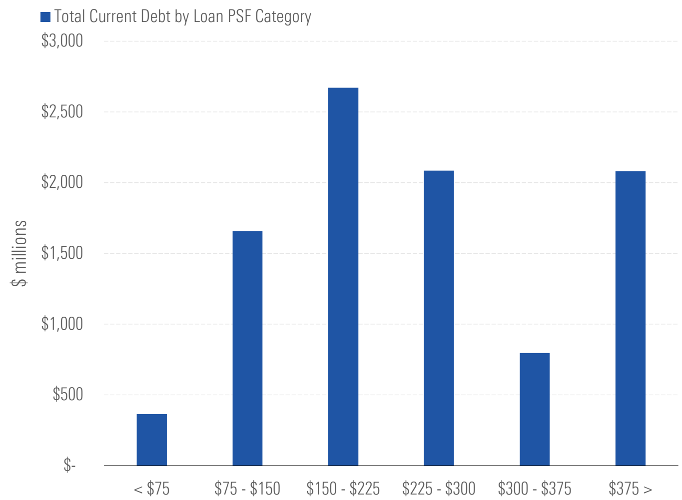


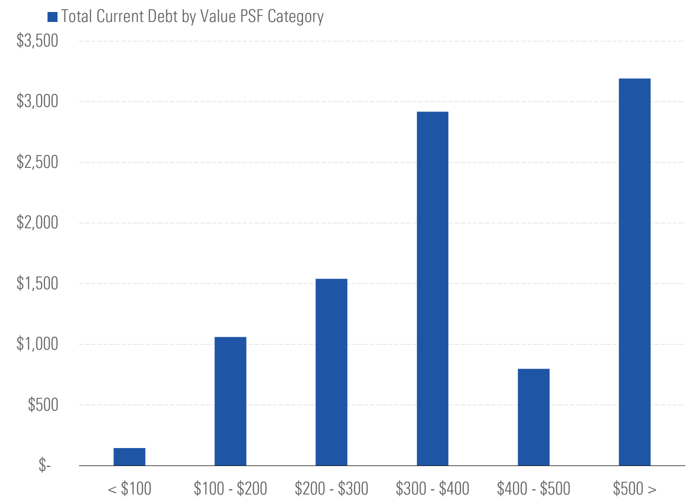
Note: Market Ranks 6 or 8 had no significant delinquency percentages.

Regional mall assets located in secondary and tertiary markets face the brunt of the pandemic's effects. Assets in smaller markets generally feature exposure to lower quality tenants, less desirable locations with fewer potential visitors, and a higher likelihood of being on store closure lists for ailing retailers given generally lower sales and generally less importance to the brand's national presence. These assets were already experiencing the effects of declining foot traffic, low capital investment, and oversize spaces that remained vacant for long periods as department store closures have been more heavily concentrated in those markets. Sponsors dealing with those issues with relatively limited capital are now faced with even less cash flow from their portfolios and a much more limited set of options for financing the investments needed to repurpose space and reinvent properties facing higher vacancies.

Given these circumstances, it is not surprising that 62.4% of the delinquent regional mall universe is secured by collateral that has a DBRS Morningstar Market Rank of 3 or less while another 18.5% of the universe has a DBRS Morningstar Market Rank of 4. Furthermore, collateral secured in higher density suburban and urban markets have not seen the same levels of delinquency relative to secondary markets. Just four loans, representing 19.1% of the delinquent universe, are in markets with a DBRS Morningstar Market Rank of 5 or greater, and the bulk of that delinquency is found in DBRS Morningstar Market Rank 5, which is a higher density suburban market type but still below the level of consumer demand of the higher tiers on the scale.

Value and Leverage

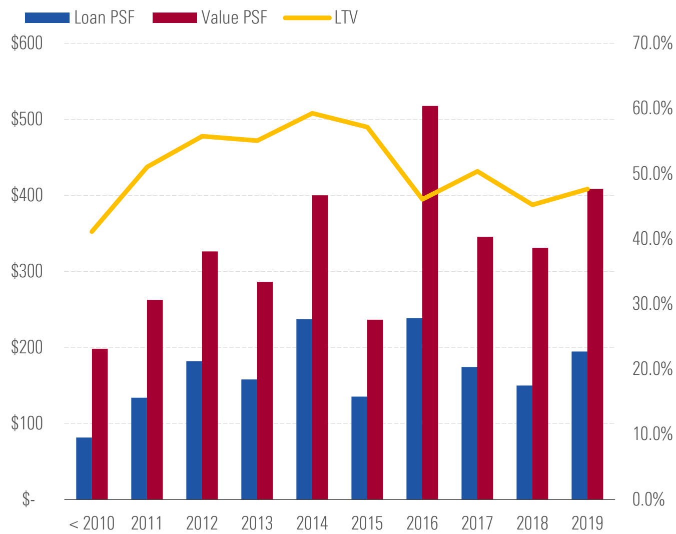


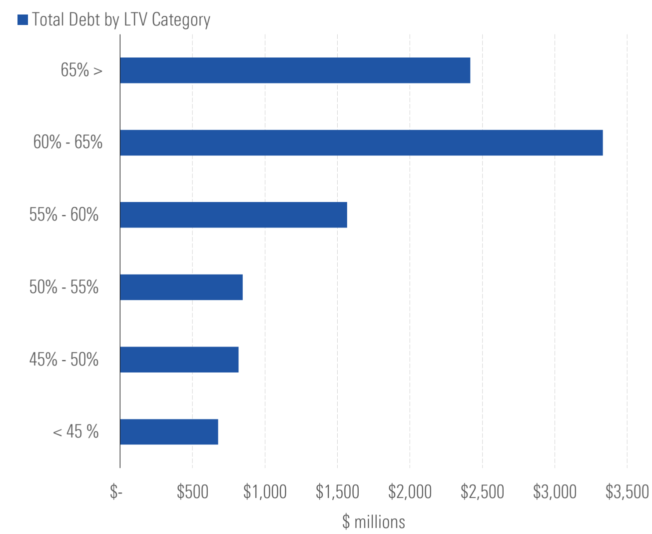


Source: DBRS Morningstar Viewpoint.

DBRS Morningstar analyzed the delinquent universe by issuance leverage and value metrics to gain insight into the relationship between higher valued collateral and delinquency. Approximately 20.9% of the current delinquent universe was originated at a loan amount of less than $150 per square foot (psf), while 12.5% consists of loans originated at appraisal levels of less than $200 psf. About $4.76 billion, representing 49.3% of the delinquent universe, was originated with a loan ranging from $150 psf to less than $300 psf, while 21.6% of the universe was originated at leverage of greater than $375 psf. For the loans in the overall delinquent universe, 71.6% of the universe by balance has leverage at $300 psf or greater based on the issuance appraisals.

Delinquent Mall Loan-to-Value Ratios at Issuance





Source: DBRS Morningstar Viewpoint.

Further, 59.6% of the delinquent universe was issued with an LTV of 60% or greater—representing a total current balance of $5.75 billion. An additional $1.57 billion of outstanding debt, representing a relatively low 16.2% of the delinquent universe, was issued with an LTV ratio between 55% and 60%. The remaining 24.2% of the universe was underwritten with an LTV of less than 55%.

Further analyzing the $5.75 billion of outstanding delinquent debt that had an issuance LTV of 60% or greater shows that approximately 16.9% of the collateral behind these debts has seen a reduction in appraisal value since issuance. In comparison, only one loan, Oakdale Mall (secured in WFRBS 2011-C3), which was issued with an LTV of 58.8%, experienced an appraisal reduction that had an issuance LTV of less than 60%. In the instances of value reductions, the drop-offs are steep, with an average haircut of 62.1% from issuance values. In comparison, of the $3.90 billion of outstanding delinquent debt that had an issuance LTV of less than 60%, only one loan, representing 1.2% of the specified universe, saw its appraisal value reduced. For those loans with higher LTVs and no updated valuation available, either due to a length of outstanding delinquency below the threshold requiring a new appraisal or the special servicer ordering an appraisal that has not been received and/or finalized, we believe the bulk will also show significant value declines compared with the issuance figures given the state of the demand for these property types and the performance declines many have experienced in recent years.

As previously noted, the 2011–2014 cohort represented the largest portion of delinquency within the stated universe. It is evident that, while loan amounts psf and values psf are generally lower for that cohort compared with other vintages, the loan amounts were generally high compared with the property valuations, resulting in higher LTVs for that cohort and likely, higher delinquency rates.

How Sponsors Are Coping

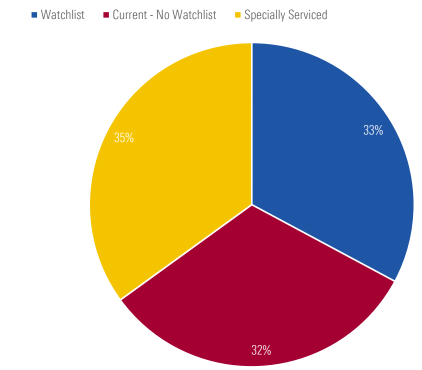
In addition to factors such as market rank, leverage, tenancy, and cash flow, the ultimate resolution of delinquent malls will heavily depend on the ingenuity and financial position of their operators. Cash-constrained operators have seen their already precarious positions pushed to the brink because of the pandemic. PREIT, a public mall real estate investment trust (REIT) regionally focused on the east coast, faced claims from creditors that it defaulted on a restructuring support agreement after it failed to seek bankruptcy protection from creditors by October 28 and subsequently filed Chapter 11 bankruptcy. The bankruptcy filing, in tandem with a restructuring plan involving $150 million in new borrowing, will provide the REIT with much needed additional liquidity to carry debt service, backfill vacant space, or fund redevelopment. CBL Properties, another prominent mall operator in the CMBS space, also filed for Chapter 11 bankruptcy. We believe other cash-constrained operators could soon follow.

CMBS Operators Are Feeling Stressed

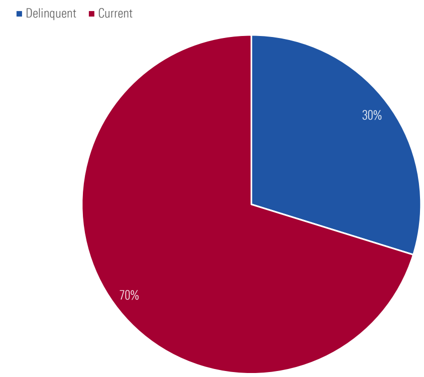
	Current (No Watchlist)	Watchlist	Specially Serviced	Delinquent	Total Outstanding Debt
PREIT	42.8%	41.6%	15.6%	5.0%	$540,523,926
CBL	32.6%	14.4%	53.1%	51.0%	$1,424,607,032
WPG	32.2%	32.8%	35.0%	29.8%	$1,322,088,839
Simon	72.1%	9.6%	18.3%	17.0%	$11,578,559,614
Pyramid	25.3%	0.0%	74.7%	38.6%	$1,838,259,559
Brookfield	55.6%	25.3%	19.2%	20.0%	$12,362,951,249

Washington Prime Group (WPG)

WPG - Loan Status



WPG - Delinquency Status



WPG Specially Serviced Loans

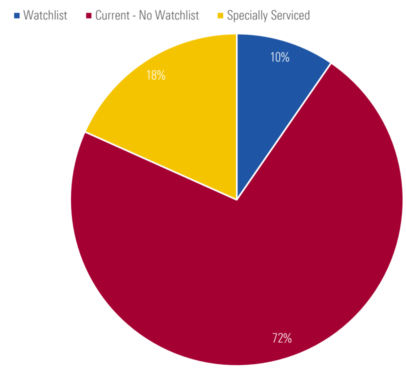
Loan	Conduit Securitizations	DBRS Morningstar Rated (Y/N)	Current Balance	City	State	Dark Anchor (Y/N)	Most Recent Occupancy	DBRS Morningstar Market Rank	YE2019 DSCR	NCF Change Since Issuance	WPG Tier
Cottonwood Mall	COMM 2014-CCRE17	No	$ 93,797,136	Albuquerque	NM	Y	83.0%	3	1.50	-20.5%	1
Brunswick Square	Multiple	Yes	$ 68,686,790	East Brunswick	NJ	N	94.0%	3	1.21	-21.3%	1
Mall at Johnson City	GSMS 2010-C1	Yes	$ 47,349,597	Johnson City	TN	Y	99.0%	2	1.52	-1.2%	1
Lincolnwood Town Center	JPMCC 2014-C20	Yes	$ 46,798,794	Lincolnwood	IL	N	92.0%	5	0.93	-39.2%	1
Charlottesville Fashion Square	Multiple	Yes	$ 44,409,268	Charlottesville	VA	Y	93.0%	2	1.46	-16.9%	Noncore
Grand Central Mall	GSMS 2010-C1	Yes	$ 38,084,407	Vienna	WV	Y	95.0%	2	1.63	-16.3%	1
Oak Court Mall	Multiple	Yes	$ 35,688,936	Memphis	TN	N	96.0%	3	1.04	-42.4%	2
Port Charlotte Town Center	WFRBS 2011-C2	No	$ 33,350,623	Port Charlotte	FL	Y	85.0%	2	1.63	-4.4%	1
Muncie Mall	JPMBB 2014-C19	No	$ 32,621,201	Muncie	IN	Y	53.0%	2	-	-	Noncore
Anderson Mall	MSBAM 2013-C8	No	$ 16,853,268	Anderson	SC	Y	93.0%	2	0.62	-67.0%	2
Canyon View Marketplace	CGCMT 2013-GC17	No	$ 5,046,015	Grand Junction	CO	N	100.0%	2	1.62	2.0%	-

Washington Prime Group (WPG), a former Simon spin-off and public mall REIT, has been struggling for several years, consistently reporting year-over-year declines in its operating metrics, a factor of the company's concentration of properties in secondary markets and its concentration of exposure to closing anchors and large inline retailers over the last several years. The coronavirus pandemic has exacerbated these issues for the REIT. Comparable net operating income (NOI) across WPG's whole portfolio, inclusive of Tier 2 and noncore assets, was $444 million in 2019, a decline of 5.2% from YE2018 and 13.1% from YE2017. While comparable NOI has continued to decline, total debt, on the other hand, has remained around $4.2 billion since 2017. In 2017, WPG showed its willingness to dispose of assets in order to reduce debt and improve its leverage profile as it sold a stake in six mall properties for $340 million. DBRS Morningstar believes a similar effort could be launched if investor demand resumes in an improving economy, but the REIT has also recently indicated plans to give underperforming properties back to the respective lenders. Ten loans totaling $462.7 million backed by malls owned by WPG are in special servicing, including two loans, Charlottesville Fashion Square and Muncie Mall, that have already been turned over to the respective trusts.

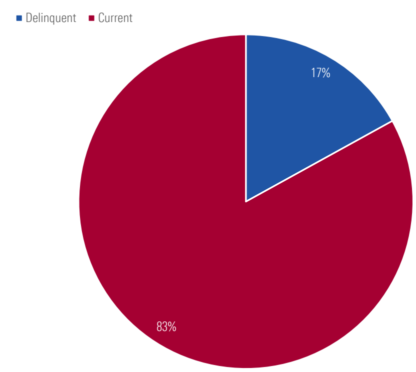
WPG may look at several of its Tier 2 assets, such as Oak Court Mall in Memphis, Tennessee, for additional opportunities to shed underperforming assets and reduce liabilities via a strategic default. The property backs a CMBS loan split across two DBRS Morningstar-rated transactions in WFRBS 2014-LC16 and WFRBS 2014-C21. The loan is more than 121 days delinquent as of the October 2020 reporting period and transferred to special servicing in May 2020. Even with stable occupancy of more than 94% throughout the last four years, the subject property has reported declining cash flow and a DSCR of only 1.04x in 2019, the most recently reported period, a figure that will surely drop further in 2020. The collateral's largest tenant, Dillard's Men's, Kids and Home, will reportedly close soon, which will further stress the loan's thin operating margins and contribute to the overall decline for the underling property. A new appraisal dated July 2020 valued the property at $15.0 million, a 75% decline from the issuance appraised value of $61.0 million in 2014, and well below the current outstanding whole loan balance of $35.7 million, suggesting a significant loss for the loan is likely at disposition.

Simon Property Group

Simon - Loan Status



Simon - Delinquency Status



Simon Specially Serviced Loans (Balance > $100MM)

Loan	Conduit Securitizations	DBRS Morningstar Rated (Y/N)	Current Balance	City	State	Dark Anchor (Y/N)	Most Recent Occupancy	DBRS Morningstar Market Rank	YE2019 DSCR	NCF Change Since Issuance
Franklin Mills	Multiple	No	$ 269,474,125	Philadelphia	PA	Y	84.0%	4	1.01	-19.9%
Gurnee Mills	Multiple	Yes	$ 255,507,980	Gurnee	IL	Y	79.0%	3	1.32	-14.8%
Town Center at Cobb	Multiple	No	$ 178,789,352	Kennesaw	GA	Y	84.0%	3	1.27	-17.4%
Newport Centre	JPMCC 2011-C4	Yes	$ 170,744,622	Jersey City	NJ	N	96.0%	7	2.08	23.0%
Wolfchase Galleria	Multiple	Yes	$ 153,868,186	Memphis	TN	Y	81.0%	4	1.17	-32.0%
The Mall of New Hampshire	Multiple	Yes	$ 150,000,000	Manchester	NH	N	87.0%	4	1.98	-21.6%
Arizona Mills	JPMCC 2010-C2	No	$ 146,804,500	Tempe	AZ	N	82.0%	4	2.19	20.7%
The Mall at Tuttle Crossing	Multiple	Yes	$ 114,386,386	Dublin	OH	Y	91.0%	3	1.70	-27.0%
Southridge Mall	Multiple	No	$ 112,525,628	Greendale	WI	N	70.0%	3	1.40	-8.4%
Montgomery Mall	Multiple	Yes	$ 100,000,000	North Wales	PA	N	88.0%	3	1.98	-35.2%

Simon Property Group (Simon) sponsors the second-largest concentration of loans identified in this report, with more than $11.5 billion of outstanding CMBS debt. It boasts a healthy balance sheet with more than $6.5 billion of liquidity and $1.1 billion of cash as of Q3 2020, and the percentage of specially serviced and delinquent loans is relatively small. This, along with an investment grade credit rating, has allowed Simon to weather the effects of the pandemic relatively well, especially compared with its smaller competitors and private companies. Going into 2020, Simon outlined its desire to continuously invest in its portfolio, noting more than 30 projects to be completed at an estimated cost of $1.8 billion. A deal to acquire mall owner and REIT Taubman Centers, was terminated in June 2020 because of complications related to the pandemic and $1.0 billion of redevelopment plans for its current portfolio that were halted.

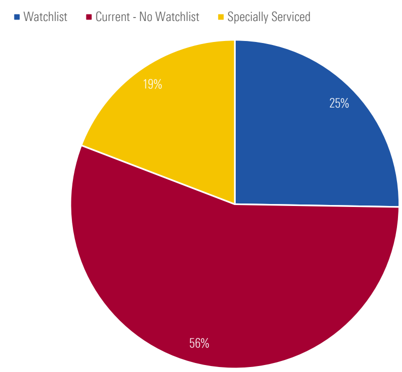
Although redevelopment progress has slowed, Simon has been proactive in finding other ways to deploy its capital. Partnering with Brookfield Property Partners and brand manager Authentic Brands, Simon has been involved in several retailer acquisitions including Aeropostale, Forever 21, Brooks Brothers, Lucky Brand, and most recently, JCPenney. These strategic acquisitions will allow Simon to have more control over which stores stay open and which stores it can target for redevelopment.

Despite Simon's clear position of strength, the REIT has shown willingness to give back assets that no longer fit its portfolio, most notably with the Independence Mall loan that was held in a CMBS 1.0 transaction, and which took a staggering $150 million loss in 2019. With more than $2 billion of debt in special servicing, Simon may see this as an opportunity to rid itself of its less desirable assets while continuing to support its stronger Class A malls in urban markets with numerous demand drivers.

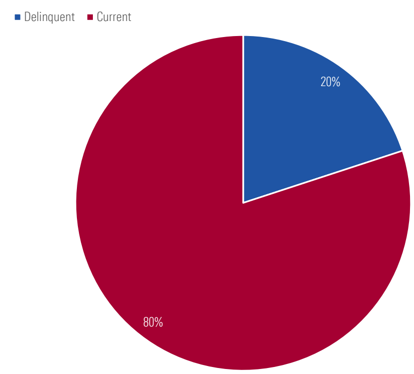
In the case of one of its specially serviced assets, the $100.0 million Montgomery Mall (with pari passu pieces in two DBRS Morningstar-rated transactions: WFCM 2014-LC16 and WFRBS 2014-C21), Simon has publicly announced that it's unwilling to inject additional funds to keep the loan current or invest in the property to address outstanding issues driving recent performance declines. The mall lost its Sears anchor in February 2020 and has exposure to struggling retailers Macy's and JCPenney, neither of which have announced store closures at the property. Cash flow has fallen precipitously the last three years, tumbling about 35% at YE2019 from the issuer's underwritten figure. The mall has not reported updated sales since YE2016 when in-line sales were approximately $292 psf. With the loan over 121 days delinquent, and a pending appraisal that will undoubtedly show a sharp decline in value from issuance, we believe Simon will likely walk away from the property.

Brookfield Properties

Brookfield - Loan Status



Brookfield - Delinquency Status



Brookfield Specially Serviced Loans (Top 10)

Loan	Conduit Securitizations	DBRS Morningstar Rated (Y/N)	Current Balance	City	State	Dark Anchor (Y/N)	Most Recent Occupancy	DBRS Morningstar Market Rank	YE2019 DSCR	NCF Change Since Issuance
Tysons Galleria Mall	BBCMS 2013-TYSN	Yes	$ 280,893,244	McLean	VA	Y	96.0%	5	1.68	20.7%
Woodbridge Center	Multiple	Yes	$ 236,436,914	Woodbridge	NJ	Y	97.0%	5	2.19	-20.2%
White Marsh Mall	Multiple	No	$ 190,000,000	Baltimore	MD	Y	96.0%	4	2.44	-8.2%
Mall St. Matthews	Multiple	Yes	$ 168,470,107	Louisville	KY	N	94.0%	4	1.96	-0.3%
Park Place Mall	GSMS 2011-GC5	Yes	$ 168,012,787	Tucson	AZ	N	97.0%	4	1.26	-9.5%
Glenbrook Square	Multiple	No	$ 154,025,783	Fort Wayne	IN	N	84.0%	4	1.21	-21.8%
Fox River Mall	WFRBS 2011-C4	No	$ 137,483,919	Appleton	WI	Y	93.0%	2	1.70	-4.3%
Meadows Mall	Multiple	No	$ 132,890,275	Las Vegas	NV	N	89.0%	4	1.21	-21.2%
Florence Mall	WFRBS 2012-C7	No	$ 90,000,000	Florance	KY	Y	83.0%	3	2.16	-27.1%
Crossroads Center	GSMS 2013-GC13	No	$ 89,710,720	Saint Cloud	MN	Y	89.0%	2	1.88	-0.7%

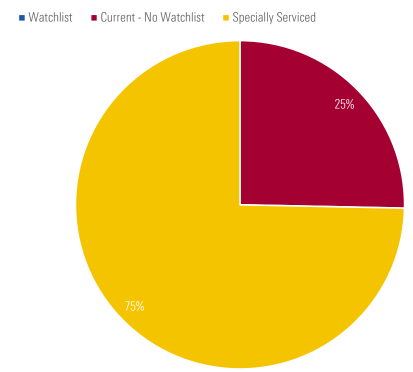
Brookfield Properties (Brookfield), much like Simon, is in a class of its own compared with smaller operators. Its core retail portfolio consists of 122 malls and urban retail properties totaling 120 million sf and averaging 95% occupancy as of Q2 2020. The REIT has taken a unique approach to dealing with the pandemic, budgeting $5 billion to help struggling retailers by taking noncontrolling stakes to assist them with liquidity needs. Brookfield has reportedly targeted companies that had pre-pandemic revenues greater than $250 million. Brookfield, like Simon, is utilizing its access to cheaper financing and significant stockpiles of cash with the hopes of avoiding a mass exodus of major mall retailers that would leave anchor boxes across the country empty, a contributing factor for the previously-discussed acquisition of JCPenney.

Brookfield has remained cautiously optimistic on business picking up again. Reported sales across its retail portfolio were approaching normalized levels in Q3 2020 as pandemic restrictions had been lifted. However, even with this gradual return to normalized levels over the summer, the effects of the more restrictive times of the pandemic are still being felt, and the REIT reported a net loss of $135 million in the quarter, reporting that approximately 75% of rents were collected from its tenants. Brookfield CEO Brian Kingston expects rent collections to largely recover by the end of the year but also cautioned that there will be instances of properties turned over to lenders if the performance no longer fits the REIT's portfolio profile.

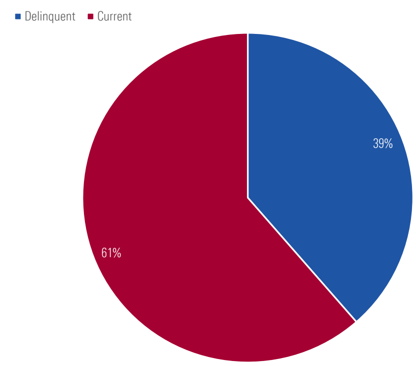
The REIT will likely evaluate malls whose loans have passed or are approaching maturity, as it may be reluctant to invest resources in properties with negative metrics. Even previously strong performing loans could be at risk if Brookfield feels a near-term refinancing is unlikely. The $168.5 million Mall St. Matthews loan, secured by a regional mall in Louisville, Kentucky, with pari passu pieces in GSMS 2014-GCJ14 (rated by DBRS Morningstar), and GSMS 2014-GC13 (not rated by DBRS Morningstar), defaulted at its June 2020 maturity and has remained specially serviced since. The loan has largely performed as expected since issuance, but with exposure to tenants such as JCPenney, Dave & Buster's, and Cinemark, and another nearby Brookfield-owned mall less than two miles away, the mall could become a casualty of the post-pandemic retail universe. The situation remains fluid, but the special servicer has stated that it is discussing a potential workout or deed-in-lieu.

Pyramid Companies

Pyramid - Loan Status



Pyramid - Delinquency Status



Pyramid Specially Serviced Loans

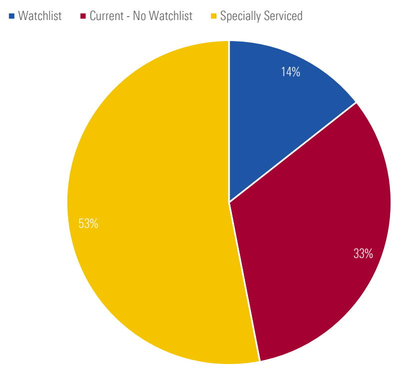
Loan	Conduit Securitizations	DBRS Morningstar Rated (Y/N)	Current Balance	City	State	Dark Anchor (Y/N)	Most Recent Occupancy	DBRS Morningstar Market Rank	YE2019 DSCR	NCF Change Since Issuance
Palisades Center	Multiple	No	$ 418,500,000	West Nyack	NY	N	82.0%	4	2.07	-17.7%
Crossgates Mall	Multiple	No	$ 260,251,944	Albany	NY	Y	90.0%	3	1.38	2.5%
Walden Galleria	JPMCC 2012-WLDN	Yes	$ 244,888,891	Cheektowaga	NY	Y	82.0%	3	1.30	-13.7%
Holyoke Mall	JPMCC 2011-C3	Yes	$ 180,861,809	Holyoke	MA	N	75.0%	2	1.12	-30.6%
Poughkeepsie Galleria	Multiple	Yes	$ 138,803,737	Poughkeepsie	NY	Y	85.0%	3	0.88	-31.4%
Sangertown Square	JPMCC 2011-C3	Yes	$ 53,076,877	New Hartford	NY	Y	95.0%	3	1.09	-23.9%
Champlain Centre	GSMS 2011-GC5	Yes	$ 29,870,958	Plattsburgh	NY	Y	83.0%	2	1.47	-24.5%
Hampshire Mall	WFRBS 2011-C3	No	$ 19,724,231	Hadley	MA	N	85.0%	2	1.44	10.4%
Aviation Mall	WFRBS 2011-C2	No	$ 19,523,670	Queensbury	NY	Y	52.0%	2	0.98	-47.5%
Poughkeepsie Galleria II	WFRBS 2011-C5	No	$ 7,207,091	Poughkeepsie	NY	Y	100.0%	3	2.22	18.9%

The Pyramid Companies (Pyramid), which owns and operates 16 malls totaling 17.8 million sf in the northeast United States, has been struggling since the start of the pandemic. Pyramid, the largest privately-owned U.S. mall developer, has 12 properties backing 20 CMBS loan pieces with a total balance of more than $1.9 billion. In April 2020, news reports speculated that Pyramid was considering filing for Chapter 7 bankruptcy protection after seven loans from its portfolio transferred to the special servicer, including its largest CMBS loan, the $418.5 million the Palisades Center loan. While a bankruptcy filing may be on hold for now, Pyramid must still grapple with declining performance among its assets.

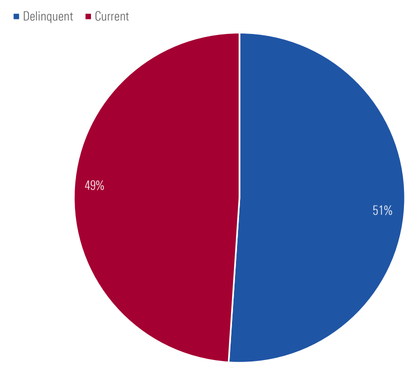
As of October 2020, Pyramid has 10 loans totaling $1.4 billion that are in special servicing, including the Poughkeepsie Galleria loan, split between the DBRS Morningstar-rated UBS 2011-C1 transaction and the UBS 2012-C1 transaction (not rated by DBRS Morningstar). The loan was 121+ days delinquent as of October 2020 and has been in special servicing since April 2020. The Poughkeepsie Galleria Mall in the Hudson Valley community of Poughkeepsie, New York, has been reporting declining occupancy and slumping cash flow for several years. The mall's Sears anchor (ground under the box serves as collateral for this loan) closed earlier this year and JCPenney closed its collateral anchor store in October 2020 as part of the retailer's bankruptcy filing. The property's tertiary location will exacerbate the effects of two closed anchors and will further stress the exposure to remaining anchors Macy's, which has announced plans to close 125 locations over the next few years, and Regal Cinemas, which like all movie theater operators across the country, has been hit especially hard by the effects of the pandemic. Given the sharp performance decline and the general lack of investor demand for regional malls in tertiary locations, the collateral's appraised value at issuance of $237.0 million has likely declined by a large margin, a factor that we believe is highly suggestive Pyramid could turn keys over to the lender. The firm's cash flow difficulties and the significant uphill climb necessary to stabilize the mall increase the likelihood that Pyramid might walk away from the property.

CBL Properties

CBL - Loan Status



CBL - Delinquency Status



CBL Specially Serviced Loans

Loan	Conduit Securitizations	DBRS Morningstar Rated (Y/N)	Current Balance	City	State	Dark Anchor (Y/N)	Most Recent Occupancy	DBRS Morningstar Market Rank	YE2019 DSCR	NCF Change Since Issuance	CBL Tier
West County Center	Multiple	No	$ 171,687,373	Des Peres	MO	N	98.0%	3	1.75	-17.0%	1
Arbor Place Mall	JPMCC 2012-C6	No	$ 105,020,543	Douglasville	GA	N	97.0%	3	1.56	2.4%	2
Hamilton Place	Multiple	No	$ 98,919,625	Chattanooga	TN	N	96.0%	3	1.76	-15.9%	1
Park Plaza	WFRBS 2011-C3	No	$ 76,023,520	Little Rock	AR	N	100.0%	4	1.03	-25.0%	2
Burnsville Center	GSMS 2010-C1	Yes	$ 62,935,236	Burnsville	MN	Y	91.0%	3	1.05	-41.0%	3
Asheville Mall	JPMCC 2011-C5	Yes	$ 62,312,580	Asheville	NC	Y	96.0%	2	1.30	-6.0%	2
Jefferson Mall	JPMCC 2012-CIBX	Yes	$ 60,830,860	Louisville	KY	Y	96.0%	3	1.41	-3.8%	1
Southpark Mall	JPMCC 2012-CIBX	Yes	$ 57,396,669	Colonial Heights	VA	Y	96.0%	3	1.42	-9.5%	1
The Outlet Shoppes at Gettysburg	JPMBB 2015-C32	Yes	$ 36,654,265	Gettysburg	PA	N	91.0%	2	1.04	-34.9%	3
Eastgate Mall	WFRBS 2011-C4	No	$ 24,021,986	Union Township	OH	Y	94.5%	3	1.15	-61.7%	2

CBL Properties (CBL), a REIT that invests in shopping centers primarily in the southeastern and midwestern United States, in November 2020 filed for Chapter 11 bankruptcy protection following its June report of substantial doubt about its ability to continue as a going concern. The company has been under pressure as a significant portion of its portfolio of mid-tier malls in secondary markets has struggled. The company owns or manages 108 mall and open-air properties with 68.2 million square feet and carries $4.5 billion of debt, with $1.7 billion of that funded through the CMBS market. As of October 2020, 10 CBL loans totaling $755.8 million are in special servicing.

The REIT’s shopping centers largely were shuttered because of the pandemic, squeezing its cash flow. All but one of its 108 properties since have been reopened, but customer traffic is lower than it had been a year earlier. Rental revenue during the second quarter was $120.2 million, down 35% compared with last year. The REIT is trying to modify the terms of two mortgages totaling $325.7 million, backed by the Asheville Mall, securitized in the DBRS Morningstar-rated JPMCC 2011-C5 transaction, and a former CMBS loan in Oak Park Mall, maturing in September 2021 and August 2025, respectively. Further, the firm announced it will be turning over the keys to the Burnsville Center, which backs $62.7 million in CMBS debt, which was slated to mature in July but was not paid off. Recent news articles report that the note was auctioned for a final bid value of below $20 million, well below the appraised value of $137.4 million at issuance. The loan transferred to the special servicer in January 2020 for imminent maturity default and has been monitored for several years for performance declines for the collateral property.

DBRS Morningstar's Outlook

The coronavirus pandemic has brought an unprecedented storm of problems for regional malls, particularly for those properties in secondary markets, where pre-pandemic trends, including consumers spending more money online and favoring entertainment options over enclosed mall shopping for their hard-earned dollars, were driving performance declines. Most owners have or will have difficulty obtaining financing for the weaker malls in their portfolios with declining sales and occupancy. However, loans backed by malls that are dominant in their market and those that enjoy stable occupancy have a higher likelihood of being modified and waiting until conditions improve.

While we expect incremental performance improvements as the pandemic slows once a vaccine is approved and widely distributed, a significant amount of time will pass before that scenario is realized. During that time, some retailers will continue to struggle, and we believe more bankruptcy filings and store closures will be announced in early 2021 as firms that did not meet holiday sales targets are forced to make difficult decisions. Questions such as what direction retail rents will go and how mall operators will fill vacancies remain. When the dust settles, the better positioned operators and properties will be left standing, but there will be a lasting effect on the overall retail landscape and the exposure of the CMBS sector to loans backed by struggling regional malls.

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Together as DBRS Morningstar, we are the world's fourth-largest credit ratings agency and a market leader in Canada, the U.S., and Europe in multiple asset classes. We rate more than 2,600 issuers and 54,000 securities worldwide and are driven to bring more clarity, diversity, and responsiveness to the ratings process. Our approach and size provide the agility to respond to customers' needs, while being large enough to provide the necessary expertise and resources.

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