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KCP Insights: Cautious Fed, Shifting CRE, and Retail Fallout

Welcome to the February 2026 issue of KCP Insights. Our newsletter covers the latest in KCP's industry-leading research, analysis, and CMBS news.

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Markets Wrap

The 2026 interest rate outlook continues to reflect the tension that has defined recent years. While many investors remain hopeful for further easing, persistently elevated inflation has kept the Federal Reserve cautious about providing additional stimulus. Minutes from the January Federal Open Market Committee's (FOMC) meeting suggest policymakers are prepared to resume tightening if inflation fails to move sustainably toward target.

Even so, markets broadly expect the federal funds rate to end 2026 at a lower level, with two rate cuts viewed as the most likely outcome (22.1% probability). At present, the market assigns no probability to rate increases this year.

In securitized markets, private label commercial mortgage-backed securities (CMBS) issuance reached \$21.9 billion year-to-date (YTD) through February 20, down from \$25.5 billion over the same period in 2025. By contrast, commercial real estate (CRE) collateralized loan obligation (CLO) issuance has started the year on stronger footing, reaching \$10 billion YTD, compared to \$6.3 billion over the same period last year.

KBRA Loan of Concern (K-LOC) Index

K-LOC Index 27.05% ↓ | **K-LOC Count 3,208 ↓** | **K-LOC Balance \$83.40 Billion ↑**

The [KBRA Loan of Concern \(K-LOC\) Index](#), KCP's primary metric to measure stress in the CMBS conduit market, decreased slightly to 27.05% in December 2025 from 27.32% in November 2025. We identified 91 new loans as K-LOCs with an unpaid principal balance (UPB) of \$1.8 billion.

The K-LOC designation identifies loans that are in default or at heightened risk of default, based on KCP's proprietary research and analysis.



Investors Bet on San Francisco's Lodging Recovery

The recent sale of the [Hilton San Francisco Hotel Portfolio \(HILT 2016-SFP\)](#) and the loan's subsequent modification mark the first meaningful positive development for the 2,943-key portfolio following an extended marketing process. The portfolio was acquired for a reported consideration of \$407.9 million (\$138,000/key), including an assumption of the existing debt. The transaction underscores the depth of value impairment in San Francisco's lodging sector, as the hotels were appraised at \$1.56 billion (\$530,400/key) at securitization in 2016. The loan defaulted at maturity in October 2023, and a receiver was appointed to oversee the hotels' operations and market the assets for sale. Under a subsequent modification, the \$725 million loan was bifurcated into a \$407.9 million A-note and a \$317.1 million subordinate B-note. The loan's maturity was extended to December 2028, with additional extension options available, providing the new ownership group with runway to execute its turnaround strategy.

The modification is supported by substantial equity contributions and operator-guaranteed capital commitments, which are critical to the proposed turnaround. However, the modification largely crystallizes expected losses, with any recovery to the B-note contingent on meaningful upside relative to current exit assumptions.

The acquisition comes amid early signs of stabilization in San Francisco's lodging market, nearly six years after the pandemic's onset. Total visitor volume is expected to trend modestly higher, with the San Francisco Travel Association forecasting approximately 23.5 million visitors in 2025 and 24 million visitors in 2026, compared with an estimated 23.3 million in 2024. Beyond broader travel trends, recent leasing momentum in the San Francisco office market may provide an additional, longer-term tailwind for lodging demand. CBRE notes that Q4 2025 marked the fifth consecutive quarter of declining office vacancy, ending the year at 32.8% for combined direct and sublease availability.

In the case of the Hilton San Francisco Hotel Portfolio, it remains to be seen whether thoughtful debt restructuring concurrent with new equity commitments can overcome years of poor operating performance and value degradation. KCP has determined a collateral value hovering around \$125,000/key, representing a significant discount from the issuance appraisal, but seemingly aligned with recent value estimates used to configure the debt bifurcation.

Francesca's Files for Chapter 11

Francesca's Acquisition LLC filed for Chapter 11 bankruptcy protection in the U.S. Bankruptcy Court for the District of New Jersey on February 5. The filing marks the second bankruptcy in approximately six years involving an entity operating the Francesca's retail brand. The filing coincides with the company's announcement that it would close all stores and liquidate inventory following a formal declaration of default by its primary lenders in early January.

KCP identified 114 properties—\$21.9 billion by allocated loan amount (ALA)—collateralizing 106 loans in 212 CMBS transactions with exposure to Francesca's. KCP subscribers can access that list [here](#).

Saks Global Announces Q1 2026 Closures

Shortly after filing for Chapter 11 bankruptcy protection, Saks Global Holdings LLC announced plans to close 57 of its 69 Saks OFF 5TH locations as well as its five remaining Neiman Marcus Last Call stores, shifting focus to its core luxury, full-price brands, including Saks Fifth Avenue, Neiman Marcus, and Bergdorf Goodman.

KCP identified 14 properties—\$3.8 billion by ALA—collateralizing 14 loans in 32 CMBS transactions with exposure to Saks OFF 5TH and Neiman Marcus Last Call locations. KCP subscribers can access that list [here](#).

Eddie Bauer Enters Chapter 11

Eddie Bauer LLC, a subsidiary of Catalyst Brands, commenced voluntary Chapter 11 proceedings in the U.S. Bankruptcy Court for the District of New Jersey on February 9 after entering into a restructuring support agreement with its secured lenders. The filing is limited to Eddie Bauer's store operating licensee in the U.S. and Canada and is not expected to affect Catalyst Brands' other legacy retail banners which continue to operate in the ordinary



course of business. As part of the restructuring, Eddie Bauer allowed 49 leases to expire at the end of January 2026 and is proceeding with the liquidation of its remaining 177 U.S. store locations.

KCP identified 66 properties—\$11.6 billion by ALA—collateralizing 66 loans in 132 CMBS transactions with exposure to Eddie Bauer. KCP subscribers can access that list [here](#).

GameStop Announces January 2026 Store Closures

GameStop Corp. (GameStop) announced plans to shutter over 470 U.S. stores by January 31, 2026, the end of its 2025 fiscal year, as part of ongoing portfolio optimization efforts. Based on the latest disclosures, GameStop operated 3,203 stores globally as of February 2025, including 2,325 domestic locations, primarily in small format stores in neighborhood and community shopping centers. The reduction in store count reinforces the company's long-term strategy to align its physical retail presence with evolving demand patterns.

KCP identified 44 properties—\$4.6 billion by ALA—collateralizing 44 loans in 87 CMBS transactions that include GameStop locations on the January 2026 store closure list. KCP subscribers can access that list [here](#).

Recent Credit Alerts

Mardi Gras Special: New Orleans Office Trades at UPB

The 595,600-sf [400 Poydras \(JPMBB 2015-C29\)](#) office tower in New Orleans sold in January 2026, according to KCP research. Although a specific value was not revealed, the sale price was alleged to be an amount equal to the UPB of \$44.2 million as of January 2026. The loan was transferred to the special servicer in April 2025 when it failed to pay off at maturity. Investor reporting for February 2026 indicates the loan was resolved with a full principal recovery.

Aloha to an Icon: Hyatt Regency Waikiki Reportedly Heads for Sale

Mirae Asset Financial Group is reportedly in advanced negotiations to sell the [Hyatt Regency Waikiki Beach Resort & Spa \(HONO 2021-LULU\)](#), a 1,230-key, full-service luxury resort located along Waikiki Beach in Honolulu. The asset is reportedly being marketed for approximately \$680 million (\$553,000/key).

Updates on Citadel's Proposed Fortress at 350 Park Avenue

Citadel CEO Ken Griffin exercised an option in December 2025 to acquire a 60% controlling interest in the joint venture redeveloping [350 Park Avenue \(VNDO 2016-350P\)](#), forgoing the option to purchase the site outright for \$1.4 billion. The joint venture, a partnership with Vornado Realty Trust and Rudin Management, plans to commence demolition of the 570,784 sf, 30-story Manhattan office building in April 2026 and develop a new 2 million sf tower.



Previous Newsletters

- [KCP Insights: Retail Closures and Chapter 11 Bankruptcies](#)
- [KCP Insights: Market Enters Final Stretch of 2025](#)
- [KCP Insights: U.S. Job Growth Tops Forecasts](#)
- [KCP Insights: CPI Reading Reinforces Rate Cut Expectations](#)
- [KCP Insights: Mixed Signals as Fed Easing Begins](#)

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