Bloomberg News Story

10/07/2021 12:10:24 [BN] Bloomberg News

STRUCTURED WEEKLY: The $40 Billion Maturity Wall for Mall CMBS

- **Class B and C malls are struggling to refinance mortgages**
- **Some $13 billion of loans are due to mature next year**

By Adam Tempkin

(Bloomberg) -- More than $40 billion of shopping mall mortgages that were bundled into bonds are coming due over the next three years, and much of it will be hard to refinance.

That's the warning that panelists including John Devaney, a longtime dealer of mortgage bonds and asset-backed securities, sounded at the Structured Finance Association's industry conference in Las Vegas this week. Across financial markets, investors are betting that people will come back to hotels, offices, and even cruise ships. But in the commercial mortgage backed securities market, investors seem concerned about weaker shopping malls.

Devaney, chief executive officer of brokerage United Capital Markets, said that his firm looked through every single mortgage that finances a mall, was bundled into a bond, and that comes due by 2024. He focused on malls and shopping centers with at least one big tenant like a department store to draw in traffic. About $13 billion of these loans mature next year, and 73% can't be refinanced now, he said.

Higher-quality malls can refinance their debt, but weaker properties, known as Class B and Class C, will struggle to do so, said Leland Bunch, managing director and head of CMBS capital markets at Bank of America Corp. and a panelist at the conference.

"Retail is highly selective," Bunch said.

Malls were getting hit even before the pandemic, as consumers had been steadily buying more online. Lockdowns in 2020 only further changed consumer habits and deepened problems for the sector. Appraisals of troubled malls that were bundled into CMBS show property valuations going lower and lower. Capitalization rates, a measure of the yield of properties, are getting higher and higher, indicating rising fear on the part of buyers of malls.

On troubled anchor-retail loans, cap rates can go anywhere from 12% to as high as 20%, Devaney said. As a comparison, cap rates were only at about 6% or 7% for anchored retail back in 2012.

While spreads on most AAA CMBS tranches from so-called conduit deals -- those collateralizing dozens of loans from different real estate property sectors -- are now relatively tight, lower-rated pieces on retail-heavy transactions from 2012-2014 are still pretty wide in secondary trading, Devaney said. For example, the AA tranches of some of those transactions -- which often had as much as 45% retail or mall collateral -- are changing hands at 150 basis points in the secondary now.

"That's kind of a lot for a double A rated item," Devaney said. As a comparison, some of the conduits from 2017 to 2019, which have less retail exposure, have similar tranches trading at a spread of 40 basis points, he added.

In contrast, many hotels "have kind of come back" since the lows of the pandemic, Devaney said, as they have had decent traffic amid more people getting the vaccines. Hotels reliant on business travel may be the exception though, the panelists said.

Relative Value: CMBS

- Deutsche Bank AG analysts still like adding longer duration single–A CMBS, “but there isn’t much yield in CMBS outside BBB– bonds, after the decline in Treasury yields,” according to a Tuesday research note
- After another month of CMBS outperformance, some reversion with IG corporate credit performance is likely, the analysts said. “AAA CMBS and single A corporates rarely diverge significantly for prolonged periods”

Quotable

“I know more people that canceled last minute than signed up for this,” said BofA’s Bunch, underscoring his point at the Tuesday conference session that hotels and resorts catering to business travel are still struggling. It may take until 2023 for hotels reliant on corporate and group travel to make a full recovery, he told the audience.

What’s Next

ABS deals in the queue include Avid Acceptance (subprime auto), and SBA Tower Trust (cell tower securitization). ABS–15Gs were also filed by Elara HGV Timeshare, Progress Residential, and CCG Receivables Trust.

To contact the reporter on this story:
Adam Tempkin in New York at atempkin2@bloomberg.net

To contact the editors responsible for this story:
Nikolaj Gammeltoft at ngammeltoft@bloomberg.net
Dan Wilchins, Christopher DeReza