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CRE Research

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Despite Declining Retail Distress, Market Remains Cautious in 2022

Key Takeaways:

- **The volume of retail loans in CMBS deals was hampered by the coronavirus pandemic.**
- **A total of 40% of the total outstanding balance of all retail loans were backed by properties in just five states.**
- **A total of $10.02 billion of retail loans, or 8% of the securitized retail-loan universe, was classified as being more than 30-days delinquent as of the end of January 2022.**

The retail market has been overwhelmed with massive disruption to the global supply chain caused by COVID-19. These disruption resulted in shortages of key components of manufacturing, ordering backlogs, and delays, all of which materialized in a spike in transportation costs and consumer prices.

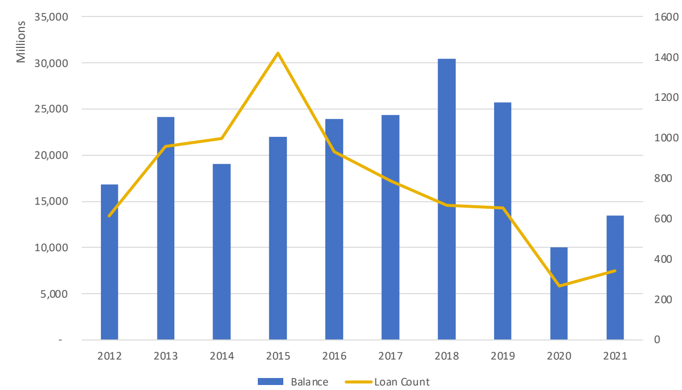
CNBC Retail Real Estate Reporter, Lauren Thomas gave her insight on the state of the retail real estate market on episode 120 of The Treppwire Podcast. During the episode, Thomas pointed out a trend that has emerged among larger retailers and has potentially aided them in their end-of-the-year earnings for the past two quarters. As a result of disruptions in supply and demand, large retailers were forced to break the cycle of holding onto extra inventory, removing the need for price slashing and huge markdowns as a means of purging excess supply, which is a practice that ultimately weighs on profits. However, the question remains—'how long can these retailers maintain this strategy?'

Trepp researchers noted the rapid rise in e-commerce throughout the pandemic, and the resulting impact on brick-and-mortar stores. Though the market has seen large retailers succumb to both the physical storefront and online e-commerce presence, this overlap has also resulted in store closures. The TreppWire Podcast team also highlighted a slight shift from large in-person stores with a vast selection of merchandise to smaller-format stores, with more curated selections of merchandise, in certain locations.

Current Market Snapshot

Retail properties have significant exposure in the private-label CMBS universe accounting for 21% of the total CMBS outstanding balance. Over 7,000 CMBS loans totaling almost $130.14 billion are backed by retail properties across the US.

FIGURE 1: CMBS ISSUANCE – RETAIL LOANS



Source: Trepp

Trepp data reveals that the retail CMBS issuance market has seen a significant drop. The CMBS issuance market took an abrupt hiatus due to COVID-19, recording only $10.05 billion in total retail issuance in 2020. Issuance remained low in 2021, ringing in at $13.45 billion for the year.

The inclusion of retail loans in CMBS deals, however, has tailed off sharply from the norm. For instance, in 2021, $13.45 billion of retail loans were securitized. That is 7.8% of the $172.5 billion of total issuance in the CMBS universe in 2021. In 2020, only $10.05 billion of retail loans, or 8.9% of total issuance for the year, were securitized. That volume was hampered by the coronavirus pandemic, which immediately resulted in a near shutdown of retail lending.

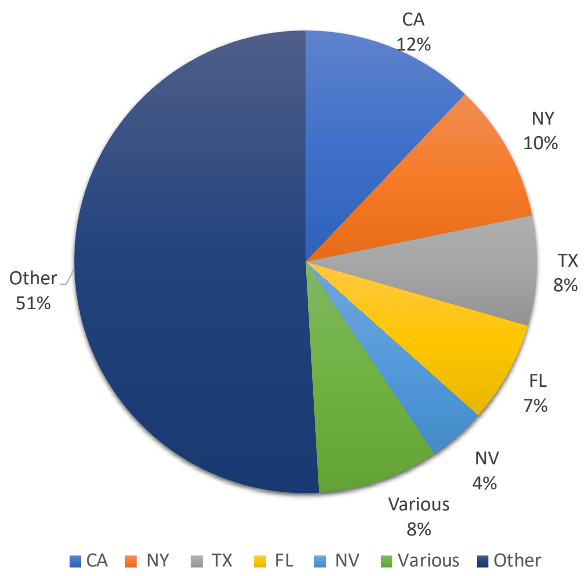
To put these numbers into context, in 2019, $25.72 billion, or 13.1% of the total issuance volume, was backed by retail properties. And in 2018, $30.44 billion of retail loans were securitized. That was 18.9% of the total issuance for the year.

Geographics

Trepp also looked at the geographical concentration of retail loans. A total of 40% of all retail loans were backed by properties in just five states. California topped the list, with $15.76 billion of loans, followed closely by New York at $12.63 billion. Texas, Florida, and Nevada account for 8%, 7%, and 4%, respectively, of the total.

However, when analyzing geographic area by metropolitan statistical areas (MSAs), the New York-Newark-Jersey City area has the largest volume of securitized retail loans, followed by the Los Angeles-Long Beach-Anaheim, California, area.

FIGURE 2: OUTSTANDING BALANCE BY STATE



Various refers to loans that are backed by multiple properties in multiple states.
Other refers to loans that are backed by properties in other states.
Source: Trepp

FIGURE 3: FIVE LARGEST MSAS BY OUTSTANDING BALANCE, RETAIL CMBS

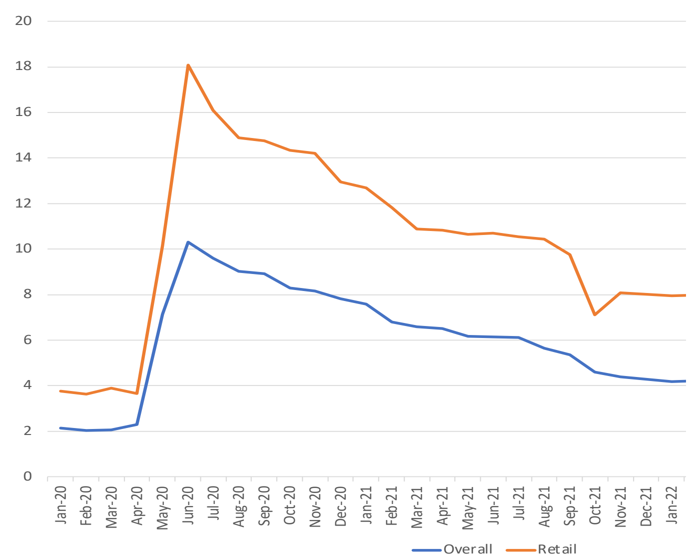
MSA	OUTSTANDING BALANCE
New York-Newark-Jersey City, NY-NJ-PA	$13,647,833,676
Los Angeles-Long Beach-Anaheim, CA	$6,880,745,348
Miami-Fort Lauderdale-West Palm Beach, FL	$5,077,325,783
Las Vegas-Henderson-Paradise, NV	$4,968,492,982
Houston-The Woodlands-Sugar Land, TX	$3,980,518,409

Source: Trepp

Sector Performance

Historically, retail loans have had a higher-than-average delinquency rate, when compared with loans securitized against other property types. A total of $10.02 billion of retail loans, or 8% of the securitized retail-loan universe, was classified as being more than 30-days delinquent as of the end of January 2022. Most retail delinquencies involve loans against properties in the New York-Newark-Jersey City MSA, which is home to properties backing $1.53 billion delinquent retail loans.

FIGURE 4: RETAIL VS OVERALL CMBS DELINQUENCY RATES



Source: Trepp

One of the largest delinquent retail loans in the New York-MSA is the $231.01 million loan backed by the Woodbridge Center. The collateral is an enclosed mall in northern New Jersey that is owned by Brookfield Property Partners. The loan is split into two pieces, with $120.13 million in WFRBS Commercial Mortgage Trust, 2014-C20, and $110.89 million in Wells Fargo Commercial Mortgage Trust, 2014-LC16. The loan has been in special servicing since June 2020. A foreclosure complaint was filed in October 2021 and moves to place a receiver at the property were recently initiated. The 1.67 million-square-foot property, of which 1.11 million square feet serves as collateral for the CMBS financing, was appraised recently at a mere $90 million—a quarter of the $366 million value pegged to it in 2014.

Looking Forward

Retail was among the most heavily hit sectors of the commercial real estate and CMBS markets by the coronavirus pandemic, along with hotels. Retail properties were already struggling as a result of growing e-commerce, when things came to a standstill during the early weeks of the pandemic, accelerating the demise of many retailers.

The sector enjoyed some positive news last year—loan delinquency rates were declining—and it appeared to be recovering. However, the significant drop in lending volumes, at least in the CMBS sector, shows that lenders remain cool on the sector and cautious heading into 2022.

For more information about Trepp's commercial real estate data, contact info@trepp.com.
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