Credit Warming: First New CMBS Sale in Over Two Years Ready to Close

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Is the Great Commercial Credit Freeze that started in 2007 thawing out? A $400 million, single promissory note, essentially single borrower, new CMBS issue sold this week, the first one in almost two years, signals that the answer is "YES." Remarkably, the issuance involves 28 retail properties, retail being one of the hardest hit sectors of commercial real estate. Unlike the majority of the billions of dollars of CMBS already on the books that are conduit loans involving scores of different borrowers and loans, the new DDR Depositor LLC Trust 2009 Commercial Mortgage Pass Through Certificates, Series 2009-DDR1, was structured as a single loan secured by 28 first lien mortgages on 28 retail centers with cross-collateralization and cross-defaulting. Goldman Sachs originated the $400 million loan to be securitized. Affiliates of Developers Diversified Realty Corp own each of the co-borrowers. Many more deals are in the pipeline and this MAY provide a platform to help end the scarcity of CMBS credit that has plagued the real estate industry for several years.

The catalyst to making the deal work was the availability of inexpensive funds from the Federal Reserve's TALF (Term Asset-Backed Securities Loan Facility). TALF was intended to "jump-start" the securitization market and help new and legacy CMBS and other types of securities by supporting the issuance of asset-backed securities collateralized by commercial mortgage loans, auto loans, credit card loans, as well as other types of collateral. In this transaction, the certificate buyers are obtaining Fed funds to buy the certificates issued by the Trust for a five-year fixed period at a rate of 3.5427%, i.e. TALF is largely the source of the funds for investors to buy the securities with leverage. These TALF funds can only be used for the purchase of AAA-rated class of securities. Of the $400 million total in the deal, Fitch Ratings rated $323.5 million as AAA ($41.5 million was rated AA and $35 million A). The CMBS side of the DDR deal is expected to close before the end of November, 2009.

Some of key characteristics of the transaction include:

- **Interest Rate:** All in, including all fees and expenses, under 6%.
- **Loan-to-Value Ratio (62.4%):** This was derived from a Fitch "stressed value" of $641 million, which is based on a weighted average cap rate of 8.7%.
- **Debt Service Coverage (1.44x):** The ratings agency adjusted cash flow for the 28 properties is $55.6 million, approximately 16% less than Developers Diversified Realty's figure for the trailing 12 months net operating income.
- **Strong Tenancy and Mix:** According to CoStar Group, a majority of the portfolio is anchored by national or large regional tenants, with Wal-Mart representing the largest tenant exposure at 10.3% of the total square footage and 5.4% of base rent. The top five tenant concentrations, which represent 23.2% of total square footage (and 15.2% of base rent), have financial strength that is investment-grade. Other top tenant concentrations include TJX Cos., Lowes, Home Depot, and Bed Bath & Beyond.

Only time will tell whether this welcomed new transaction marks a return to more normal levels of availability of credit for commercial real estate. The timing could not be better with billions of dollars of CMBS maturing next year and beyond. Luce Forward's Real Estate Finance and Distressed Asset Teams can immediately help you evaluate this new CMBS product and how it might affect your pending or future real estate loans and financings.

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