Hudson Valley loan hits bond deal with huge loss - IFR News

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By Joy Wiltermuth

NEW YORK, Jan 19 (IFR) - A struggling Hudson Valley Mall about 100 miles from New York City suffered a roughly 86% loss on its debt this week and inflicted the biggest hit yet on a commercial mortgage bond created since the financial crisis.

This week, threeclasses of the CMBS 2.0 bond from Cantor Commercial Real Estate were fully written down, and a US$7.2m hit was taken on the E class, which was originally Triple B-minus rated, according to a Wells Fargo report.

Just one other US CMBS deal created since the crash has had losses reach into notes originally rated Triple B minus, according to bond analytics firm Trepp LLC.

CMBS came with a 2.0 tag after the financial crisis to signal their rebirth as more pristine products compared to those sold before the 2008-2009 mortgage melt-down.

Losses suffered in the Hudson Valley deal are thus surprising though many in the market expect more such results.

"This welcomes in the first substantial loss in CMBS 2.0 and we anticipate more losses in 2.0 loans as they reach their five to seven year anniversaries," said Edward Shugrue, CEO at Talmage, a New York based CMBS investor and special servicer.

The Hudson Valley loan was bundled with other mortgages into a US$634.5m commercial mortgage bond securitization called CFCRE 2011-C1.

The near 90% loss comes six years after Cantor lent US$52.5m on the mall, which was then valued at US$86.9m.

But in January, Georgia-based Hull Property Group purchased the mall for just US$8.1m, the company told IFR.

That sale price was far lower than what loan servicer LNR Partners had telegraphed as likely before the loan was liquidated.

LNR had reduced the mall's value by just US$12.2m in its servicing reports, according to Trepp.

An LNR affiliate was also the original buyer of the bond deal's B-piece securities, according to deal documents viewed by IFR.

The B-piece securities were fully written down this week.

It is unclear how much of those notes LNR still owned when the losses rolled in. A spokesperson for the company declined to comment.

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The fate of the Hudson Valley loan could be a harbinger of more pain for bonds backed by retail properties, said analysts.

Of the US$203.3bn total of CMBS issued post-crisis, some US$56.4bn is backed by anchored retail properties, according to Trepp.

JC Penny shuttered its store at the Hudson Valley Mall about two years ago and Macy's followed suit in 2016.

That left the property with large dark swaths of retail and 33% vacant overall as of December, according to a Kroll Bond Rating Agency report.

"When these malls fail, they go down hard," Kroll analyst Steve Kuritz told IFR.

Kroll, which did not rate the deal but conducts ongoing surveillance of bonds in the sector, last April flagged the property for a possible 82% loss.

Their analysis noted not only the store closures, but also low, recent distressed sale prices of nearby malls.

The three rating agencies on the trade have already downgraded portions of the deal, with its Triple B minus class rated below junk.

"CMBS is underwritten on a spot basis, not the future," Shugrue said. "This is the job of bondbuyers. As always, caveat emptor."

(Reporting by Joy Wiltermuth; Editing by Shankar Ramakrishnan)

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