From the Tampa Bay Business Journal:
https://www.bizjournals.com/tampabay/news/2022/11/21/retail-real-estatedebt-coming-due-2023.html

# Debt maturities loom large for retail properties in 2023, as economy grows more uncertain

Nov 21, 2022, 10:05am EST

MEDIAPHOTOS | GETTY IMAGES

One segment of the commercial real estate market to watch closely in 2023: loans set to mature next year in a tougher capital markets environment and a more uncertain economy.

One segment of the retail real estate market to watch closely in 2023: Commercial loans set to mature next year in a tougher capital markets environment and a more uncertain economy.

Commercial mortgage-backed securities loans for 2,583 retail properties — encompassing 127 million square feet — are maturing in 2023, according to a CoStar Group Inc. (Nasdaq: CSGP) analysis completed last week. Of that total, about 8% by property count and 10.5% by square footage are secured by properties less than 90% occupied. That's CoStar's threshold of when a property is likely to have a tougher time refinancing.

A *Business Journals* analysis of CMBS data corroborated those findings, with 209 identified loans on retail properties facing some level of distress, as of data procured on Nov. 15 from Bloomberg.

Distress, as evaluated by *The Business Journals*, includes properties flagged by loan servicers either at least 30 days delinquent on loan payments or in some stage of foreclosure.

The data analyzed by *The Business Journals* includes 78 retail properties with about $1.8 billion in mortgages maturing through 2024, with an average occupancy rate of 70%.

CoStar's 207 retail properties identified as more challenged are a combined 71% occupied. Brandon Svec, national director of retail analytics at CoStar, in an email said it's reasonable to assume borrowers on those loans will face significant issues securing financing on a stabilized basis.

Of these 207 properties, borrowers on 192 — representing 11.6 million square feet of retail — remain current on their loans. Foreclosure proceedings have been initiated for the rest of the properties, according to CoStar's analysis.

"A lot of landlords ... had the foresight to refinance out (their) debt and push maturities out to the future, but for those who didn’t, we’re staring down a significant bucket of properties with large vacancies and challenges on the financing," Svec said in a phone interview.

Owners with strong occupancy and tenant base will likely be able to refinance out of their debt in a way that doesn’t require a big capital infusion, Svec said.

During the height of the pandemic, it wasn't unusual for borrowers and lenders — especially on properties like retail, which were hit most acutely — to extend payment terms or make other arrangements as businesses were forced to shut down. But as the pandemic's effects have waned, borrowers facing the most difficulties with debt coming due will need to make decisions in a higher interest-rate environment and more uncertain economy about what comes next.

Mark Hunter, Americas managing director of retail asset services at CBRE Group Inc. (NYSE: CBRE), said he thinks more distress could occur in retail in the near term, especially for those in the CMBS world that no longer want to own that property or can't get the necessary terms to refinance. In particular, Class B and C malls could be disproportionately affected, he added, something *The Business Journals* analyzed in a 2021 report.

A borrower may, in some instances, decide to hand back the keys if they can't work out an appropriate restructuring of that loan or get terms that are favorable to them, Hunter added.

In retail and other property sectors, the relatively recent change in the capital markets has many owners pausing to reassess major financial decisions, including selling and redeveloping a property.

Hunter said if owners don't have to sell or raise equity or debt to do a redevelopment, they're likely going to hold off unless there's a compelling, competitive reason to undergo a redevelopment.

"I think there will be a period where those well-capitalized retail owners that had financed internally without having to go into the debt markets, and pay cash for tenant improvements to attract the right retailers ... are at an advantage if their balance sheet can support it and make capital improvements to properties," Hunter said.

Others may try to take some development risk off the table by, for example, selling land or air rights to a residential developer to leverage their balance sheets.

Meghann Martindale, head of retail research at Washington, D.C.-based Madison Marquette Property Investments LLC, said this year, retail sales volume has fallen drastically in the second half of the year, not unlike other property types.

Investors actually started coming back into retail earlier this year, before the slowdown, after trying to reallocate out of retail during its 2010s struggles and the pandemic in 2020. Properties were trading higher than whisper prices in early 2022, Martindale said.

"I think for the people proactively looking to buy, it's going to become a matter of pricing," she said, adding retail is the most complex asset to price in commercial real estate. "Until we see where the pricing shakes out, that's when we'll see volume pick back up in mid-2023," barring a major recession or geopolitical event, she added.

Brandon Isner, Americas head of retail research at CBRE, said retail landlords are looking at ways to repurpose underused or vacant retail space, including into non-retail uses. It's not uncommon today to see malls or other centers rezoned for apartments or a hotel, creating the mixed-use environment tenants and investors tend to prefer nowadays.

Construction and labor challenges, paired with a now-difficult lending environment, are making it tough for those deals to cross the finish line, though, he added.

"For big developers and owners, the important thing is to put the chess pieces in place to be ready to jump when market conditions get better," Isner said.

*What's coming for commercial real estate in 2023? Stay on top of the biggest headlines, trends and analysis by signing up here for The National Observer: Real Estate Edition.*

**Ashley Fahey**
Editor, The National Observer: Real Estate Edition