



Developers Diversified, Goldman Sachs Put CMBS Deals Back in Action

Fed Reserve's TALF Program Backs First New Issue CMBS By Mark Heschmeyer

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The first new-issue commercial mortgage backed securities (CMBS) supported by brick-and-mortar properties in nearly two years successfully sold this week.

DDR Depositor LLC Trust 2009 Commercial Mortgage Pass Through Certificates, series 2009-DDR1 represents the beneficial interests in a trust fund established by affiliates of Developers Diversified Realty Corp. The trust fund will consist primarily of a single promissory note secured by cross-collateralized and cross-defaulted first lien mortgages on 28 of Developers Diversified Realty's properties. Goldman Sachs Commercial Mortgage Capital originated the \$400 million loan.

The deal sold at its asking price and saw strong investor demand. The word on the street was that the deal was up to five-times oversubscribed. The capital markets had been looking to this deal as a measure of investors' appetite for risk involving commercial real estate assets and, in some ways, as a sign of the potential strength of the recovery.

As sold, DDR's five-year loan would bear an interest rate of less than 6% after factoring in all fees and expenses. As a result, the strong demand for this deal could prompt other potential borrowers to pursue CMBS financing, according to Opin Partners LLC, an investment house in New York. In fact, DDR is said to have another upcoming securitization, and other REITs are also expected to come to the table including, Fortress Investment Group, which may have as much as \$650 million in commercial mortgages to package into a new-issue CMBS eligible for TALF funding.

The Federal Reserve's TALF (Term Asset-Backed Securities Loan Facility) was key to the deal. The Federal Reserve created TALF to help market participants meet the credit needs of households and businesses by supporting the issuance of asset-backed securities collateralized by commercial mortgage loans, auto loans, student loans, credit card loans, equipment loans, floorplan loans, insurance premium finance loans, loans guaranteed by the Small Business Administration, or residential mortgage servicing advances.

Eligible borrowers on the DDR deal can borrow Fed funds for the five-year fixed period at a rate of 3.5427%. TALF funds can only be used for the purchase of AAA-rated class of securities. Of the \$400 million DDR deal, Fitch Ratings rated \$323.5 million as AAA (\$41.5 million was rated AA and \$35 million A). The DDR deal is expected to close officially next week at which time, the loans will also be funded.

Some of key ratings drivers cited by Fitch Ratings included:

- Loan-to-Value Ratio (62.4%): The Fitch stressed value is \$641 million, based on a Fitch weighted average cap rate of 8.7%.
 - Debt Service Coverage (1.44x): The Fitch-adjusted cash flow for the 28 properties was \$55.6 million, approximately 16.% less than the trailing 12 months net operating income.
 - Strong Tenancy and Mix: 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) are all investment-grade rated. Other top tenant concentrations include TJX Cos., Lowes, Home Depot, and Bed Bath & Beyond.
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