LBX Weekly Update #11: Enhancing Liquidity With Mortgage Forbearance

LBX investments

MARKET COMMENTARY JUNE 1, 2020

We Have Negotiated 90-Day Mortgage Forbearance On Four Assets In Order To Boost Liquidity

Assets In Our Portfolio Are Performing But Maintaining Healthy Cash Balances Is Imperative

Dear Investor,

We hope this message finds everyone healthy and safe. This week, we will provide a collections update for April and May and update investors on our progress with mortgage forbearance across the portfolio. Next Monday, we will introduce June collection statistics. Please see below:

Collections Update

- Rent Collection: April Rises To 73.0%, May At 60.2%

Through today, we have received $1,005,987 of $1,671,374 in May billings (60.2% of total), up 3.2% week-over-week. For April, we have collected $1,207,981 of $1,654,734 in April billings (73.0% of total), up 2.6% week-over-week. A handful of tenants carrying large delinquencies (Five Below, Casa Fiesta, Hibbett Sports, and Clothes Mentor) brought themselves current or paid off sizable balances last week. Heading into June, we are carrying a $1,120,326 shortfall tied to COVID-19, with $454,964 in April delinquencies and $665,362 in May delinquencies.

May Collections Through June 1st, With April Shortfall – LBX Portfolio

	Base Rent	CAM	Insurance	Sales Tax	Property Tax	Utility, Water & Other Reimb	Total	%
Billed	$1,356,789	$132,354	$17,993	$9,412	$140,602	$14,199	$1,671,348	
Received	$838,837	$76,013	$9,227	$6,822	$72,468	$2,620	$1,005,987	60.2%
Shortfall	**($517,952)**	**($56,342)**	**($8,766)**	**($2,589)**	**($68,134)**	**($11,578)**	**($665,362)**	
Prev Short	($328,293)	($42,763)	($8,005)	($2,213)	($62,679)	($11,011)	($454,964)	
Total Due*	($846,245)	($99,105)	($16,771)	($4,803)	($130,813)	($22,590)	($1,120,326)	

Source: LBX Investments. * Shortfall since April 1 and does not reflect pre-COVID 19 balances.

The focus of today's Weekly will be on mortgage forbearance. If you would like an update on collections performance for specific investment(s), please email heath@lbxinvestments.com.

Mortgage Forbearance Update

- We Have Negotiated Forbearance For Four Of Our Loans

With many of our retailers experiencing some degree of financial distress due to the pandemic, collections have been a mixed bag since April 1st. While our total collections stand at 73.0% for April, for example, we have received 47.2% of billings at our worst-performing center and 96.0% at our best performing one. For May, collections have been somewhat lower and out of an abundance of caution, we have chosen to negotiate short-term loan forbearance at four of our properties (out of nine properties total): **Fultondale, Harbison, North Rivers, and Oakwood**. Our cash positioning at our centers is generally strong and we paid the mortgage for all of our assets in April, but in these cases <u>we felt that forbearance would provide us with maximum financial flexibility needed in order to navigate through a period of uncertainty and reduced revenues. To be clear: we consider none of these assets to be troubled or at risk of foreclosure.</u>

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The general structure we have negotiated with our lenders is a 90-day forbearance period (May through July) on principal and interest (or just interest if the loan is interest-only). There are slight variations in structure depending on the lender, loan characteristics and investment profile. For example, banks and credit unions tend to have somewhat more flexibility than insurance companies due to financial regulations. Their modifications have been quicker to materialize and they have agreed to slightly more favorable terms with us. Regardless, discussions have generally gone smoothly with all of our lenders. They are mostly relationship and balance sheet lenders (i.e., they don't securitize or otherwise sell their loans) and therefore have a far higher degree of flexibility than CMBS lenders and debt funds when negotiating forbearance agreements because they keep the loans on their balance sheet. We believe this flexibility is extremely important in a recessionary environment, and are very comfortable managing through the pandemic with them as our lenders.

During the forbearance period we will not be distributing to equity on all four properties, and will be using excess cash flow (where appropriate and available) to pay back the deferral as quickly as possible, while leaving sufficient cash at the property to protect the investment. On three of the four properties we are required to pay back the deferral some time over the next 12 months, while on one of the properties we don't have to pay back the deferral until the loan maturity.

- CMBS Will Likely Present Buying Opportunities

In late April, Fitch Ratings announced that "borrowers representing 17% of the $583.8 billion CMBS universe contacted their loan servicer to explore potential relief … Loans secured by hotel, retail, and multifamily assets continue to represent approximately 75% of relief inquiries." Per the chart on the left below, retail loans that missed their April mortgage payment and have a loan status of "A or B" spiked in April, from 1.7% of the total balance of retail CMBS loans to 10.6%. "A or B" denotes that a loan has entered a grace period and historically serves as an early indicator of future delinquencies. Per Chart 2, the Retail and Hotel sectors continued to account for the vast majority of conduit loan delinquencies in May with a total dollar amount of impacted loans exceeding $10.6 billion across those two sectors alone. We believe that many of these loans – which were originated for assets with core or core-plus investment profiles – will become distressed buying opportunities as borrowers struggle to refinance.

(L) Number of Retail Loans In/Beyond Grace Period | (R) New Conduit Loan Delinquencies In May, By Property Type

Timeframe	# of New Loans With A/B Status
April, 2020	600
1 Month Earlier	88
3 Months Earlier	126
6 Months Earlier	86
April, 2019	78

	60+ Days Delinquent			30+ Days Delinquent		
Category	$ (Mil)	# of Loans	% of Total	$ (Mil)	# of Loans	% of Total
Retail	$401	17	43.4%	$4,600	239	33.7%
Hotel	$220	18	23.8%	$6,000	345	44.0%
Office	$180	5	19.5%	$646	31	4.7%
Mixed Use	$69	3	7.5%	$1,500	57	11.0%
Industrial	$24	2	2.6%	$66	9	0.5%
Multi-family	$8	2	0.9%	$785	46	5.8%
Other	$22	2	2.4%	$50	6	0.4%
Total	**$924**	**49**	**100.0%**	**$13,647**	**733**	**100.0%**

Source: (L) Trepp: *COVID-19 Initiates Surge in Late Payments in the Retail Market* (April, 2020); (R) Fitch Ratings: *Spike in U.S. CMBS Delinquencies and Special Servicing in May Due to Coronavirus* (May 20, 2020)

The key for us will be to find the high-quality real estate assets in the best markets that are in financial distress due to aggressive overpayment at purchase and the use of high, inflexible leverage through the CMBS market that will create distressed scenarios. In addition, we believe the public REITs will also be distressed sellers, as many of their balance sheets are more highly levered with inflexible CMBS and/or corporate debt, providing additional buying opportunities.

Coming Up

Next week, we will provide portfolio updates for June.

Sincerely,
Rob Levy, Phil Block and Heath Binder