

SASB Spotlight: April 2022

City Highlighted:	Atlanta
Number of Single-Asset/Single-Borrower Loans:	3
Balance:	\$571.5 million
Number of Loans Discussed in this Piece	3

MCIA

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Contents

- 1 Tower Place: Loan matures in July 2022; sponsor can extend to July 2023: LTV is 104%.
- 2 Peachtree Center: Maturity default risk. The largest tenant vacated in 2021 and most of the space remains vacant. Occupancy is 61%.
- 2 Hyatt Regency Atlanta: Negative cash flow for the 12 months ended Sept. 2021. The LTV is 72%.

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Morningstar Credit Information & Analytics is pleased to deliver the SASB Spotlight, which highlights some of the trophy properties in key markets throughout the United States and provides insights from the MCIA DealView team. The platform contains loan-level and transaction-level commentary for all U.S. commercial-backed mortgage securities transactions. Our analysts provide unbiased opinions and independent property valuations that help empower investor success.

Tower Place

3340 Peachtree Road Northeast, Atlanta, Georgia

The \$212.5 million loan that is backed by the Tower Place building matures in July 2022. There is a single one-year extension option available, and we anticipated the sponsor will opt for extending the loan until July 2023. Based on our valuation, which is based on year-end 2021 net cash flow, the loan/value ratio is 104% and presents a maturity default risk. Refinancing the building, whether it happens this summer or next, will most likely see the need for borrower-contributed equity. Occupancy was 72% as of December 2021, below the submarket average of 77%.

A tenant-related concern that we have is exposure to WeWork and the uncertainty that surrounds the post-pandemic future of co-working space. The tenant occupies 10.7% of the gross leasable area through 2032. Although WeWork has already disrupted the cash flows for properties where it prematurely departed as part of a repositioning plan that commenced in 2020, properties that retained WeWork may be in a stronger position than they were two years ago.

In October 2021, WeWork went public by completing a \$9 billion merger with the special purpose acquisition company BowX Acquisition Corp. The company also received a \$1.3 billion cash injection, with proceeds from prominent investors such as Starwood Capital Group (loan sponsor), and BlackRock.

Constructed in 1974 and located in Atlanta's Buckhead submarket, Tower Place is a 29-story 615,000-square-foot Class-A office tower. The building serves as collateral for a loan held in GSMS 2018-TWR. The sponsor has owned the property since 2015.

Peachtree Center

225, 229, 231, 233, 235 Peachtree St. Northeast; 245 & 285 Peachtree Center Ave. Northeast, Atlanta, Georgia

Truist Bank (formerly SunTrust) did not renew its lease in April 2021 and, according to the property's website, most of the space remains vacant. Truist Bank occupied a total of 13% of the GLA split between the Marquis I and Marquis II office towers and contributed roughly 21% of the underwritten rent. Since the merger between BB&T Corp. and SunTrust banks to form Truist Financial Corp. was announced in 2019, we expressed concern that the consolidation could result in Truist Bank vacating at lease expiration. Excess cash flow is being swept by the servicer due to the vacancy.

As of the September 2021 rent roll, occupancy was 61%, well below the submarket average of 79% for similar properties. Using a discounted cash flow model, our valuation of the collateral suggests a total debt LTV (including the \$38.7 million mezzanine loan) of 110%. As it stands, the loan matures in April 2022. However, one, 1-year loan extension option remains. We anticipated the sponsor, Banyan Street Capital, will opt for extending the loan.

According to CBRE Economic Advisors, the short-term forecast for the greater Atlanta market calls for overall growth in office workers through year-end 2023 accompanied by a drop in the vacancy rate to 17.3%. This near-term improvement could bode well for an overleveraged property. In either event, a payoff this month or in April 2023 will most likely require the borrower to contribute equity as part of the refinancing.

Located in downtown Atlanta, six Class B office buildings and an underground retail center serve as collateral for a \$115.3 million loan held in the JPMCC 2018-PTC securitization. The office buildings sit above the Peachtree Center MARTA Station and are connected by skywalks that also connect the office towers to the Hyatt Regency Atlanta, the Marriott Marquis, and the Hilton Downtown.

Hyatt Regency Atlanta

265 Peachtree Street Northeast, Atlanta, Georgia

Hotel properties were among the hardest hit by the COVID-19 pandemic and the Hyatt Regency Atlanta was no exception. The property's dependence on leisure travel made it more vulnerable to the adverse effects of the global health crisis, especially when considering its proximity to venues such as Mercedes-Benz Stadium, State Farm Arena, the Georgia Aquarium, and the College Football Hall of Fame, which were solid revenue sources for this hotel.

The Hyatt Regency Atlanta finished 2020 in the red and for the 12 months ended September 2021, the net cash flow was still negative. The average occupancy for the same time was 40%, which is less than half of the underwritten level but still in line with the submarket. The borrower was granted pandemic-related relief in September 2020 that included a deferral of FF&E deposits and the use of escrowed FF&E funds to pay operating expenses through year-end 2020.

According to CBRE Economic Advisors, Atlanta hotels finished the year 2021 with a RevPAR gain of 47.6% but the increase was below the national average of 62.0%. Atlanta RevPAR is expected to grow 19.4% in 2022 driven by a forecasted occupancy increase of 5.1%. CBRE Economic Advisors expects revenue to continue to climb in 2023.

The initial leverage was reasonable with an LTV of 64%, based on the issuance appraisal. Morningstar's likely and bearish valuations suggest an LTV of 72% and 86%, respectively. Given the anticipated improvement in Atlanta's hospitality sector, strong brand recognition coupled with institutional sponsorship, we expect to see an improvement in performance. Maturing in October 2022, the loan is in its first of three optional 12-month extension periods. The fully extended maturity is in October 2024.

Located in the heart of Atlanta's central business district, the 1,260-room full-service hotel serves as collateral for a \$243.7 million loan held in the BX 2019-ATL securitization. The loan sponsor is BREIT Operating Partnership, an affiliate of the Blackstone Group. **■**

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