American Bankruptcy Institute

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webinar series

Post-Pandemic Real Estate Restructuring from Wall Street to Main Street

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HOULIHAN LOKEY

COVID-19's Wide Ranging & Varied Impact

- COVID-19 has impacted all sectors, but the degree of pain has varied greatly by asset type and location
- Real estate tenanted by users and operators who generate revenue from the use of space (e.g. hotels, restaurants, malls, etc.) have been the most significantly hurt by the outbreak
- Re-opening of the economy has slowly begun and it is too early to tell if consumers will return to pre-COVID norms and/or if pent up demand will materialize
- Long-term impacts are uncertain, but it appears that pre-COVID-19 trends in certain sectors are accelerating (e.g. issues for retail malls, criticality of last mile logistics space)

Hotel	Retail	Office	Multifamily	Industrial
Near shutdown of the sector with limited service faring better than full service and transient faring better than group Unknown recovery time, but survivors may emerge in a better position due to lesser supply	Non-essential brick-and-mortar was nearly shut down, impacting even grocery-anchored shopping centers Acceleration of pre-COVID-19 disruptions is pushing many retailers into bankruptcy	Stable near-term with looming long-term questions Is this the catalyst to institutionalize the portable desk and/or the reversal of the densification trend? What's the future of co-working and the value of controlling your complete work space?	Down modestly as unemployment is causing some increases in rent delinquencies Government aid and functional debt markets should help moderate value declines	Limited impact due to the high need for logistics and warehouse space Long-term outlook continues to be bright

← Intensity of COVID-19 Impact

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Today's Panelists:

David Levy, Moderator
NRC Realty & Capital Advisors, LLC
(Chicago)

Saul Burian
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(New York)

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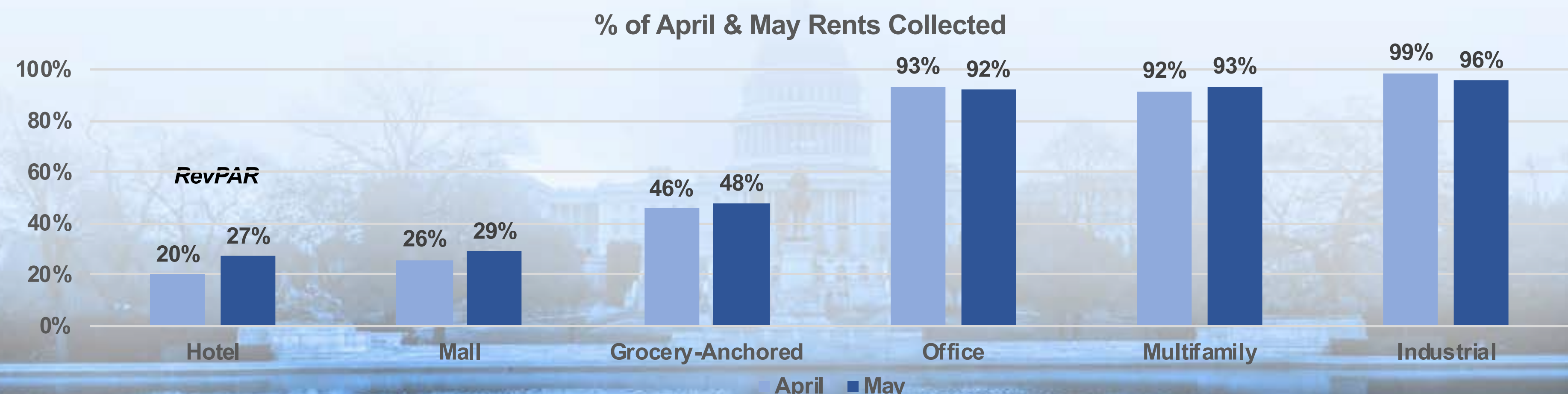
Immediate Downward Effect on Rents

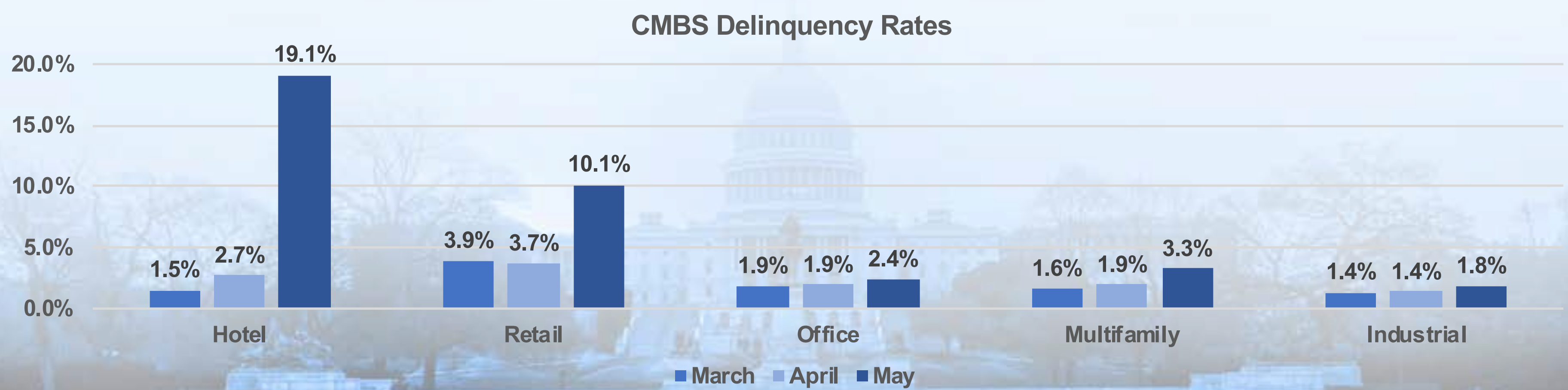
- Rent collections were down across all sectors in April and May and certain sectors like multifamily may have been propped up through government assistance via stimulus checks
- Landlords have been flexible and understanding with tenants in rent deferral discussions; it is too soon to tell if these rent deferrals will turn into rent abatements
- The flexibility offered by landlords reflects both the specifics of the tenant and related property, and the landlord’s own underlying mortgage and lender related issues
- Most rent deferral structures require the tenant to repay deferred rent over time



Source: NAREIT, National Multifamily Housing Council, STR

Forbearance & Delinquency on the Rise

- An unprecedented amount of requests for loan forbearance occurred in the wake of COVID-19, with borrowers generally requesting multiple months of forbearance
- CMBS delinquency rates rose from 2.04% in February to 7.15% in May (there is a 30-day grace period between a missed payment and delinquency) and are likely to surpass the high of the last financial crisis in short order
- Loan forbearance has primarily been short-term with the borrower required to catch-up over a number of months or an increase in the final repayment at maturity



Source: Trepp

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Few Real Estate Bankruptcies & Restructurings So Far But . . .

- To date, there have been no significant bankruptcies or restructurings of a real estate owner due to COVID-19; however, bankruptcies from tenants have stressed several REITs in the retail sector
- Most real estate debt is mortgage debt at the property-level, which is typically non-recourse allowing the borrower to hand back the keys to the lender without directly affecting the borrower's company
- Lender flexibility on corporate debt, through covenant waivers, has provided landlords with runway to manage through the immediate term and provided time to seek liquidity solutions
- Many of the most stressed assets and companies are in operationally intensive sectors (e.g. hotels and malls) where lenders will likely not want to take control
- Balance sheet lenders (e.g. banks and insurance companies) are likely to move more quickly and adaptively to borrower needs vs. CMBS which is run by a special servicer and rigid structures

"[CBL Properties] is exploring ways to recapitalize, including an exchange offer, in which senior holders of unsecured debt swap their investments for secured debt. [CBL Properties] may also discuss a Chapter 11 bankruptcy filing as a last resort."

- Bloomberg

"we believe there is substantial doubt about [Pennsylvania REIT's] ability to continue as a going concern within one year after the date that the financial statements are issued."

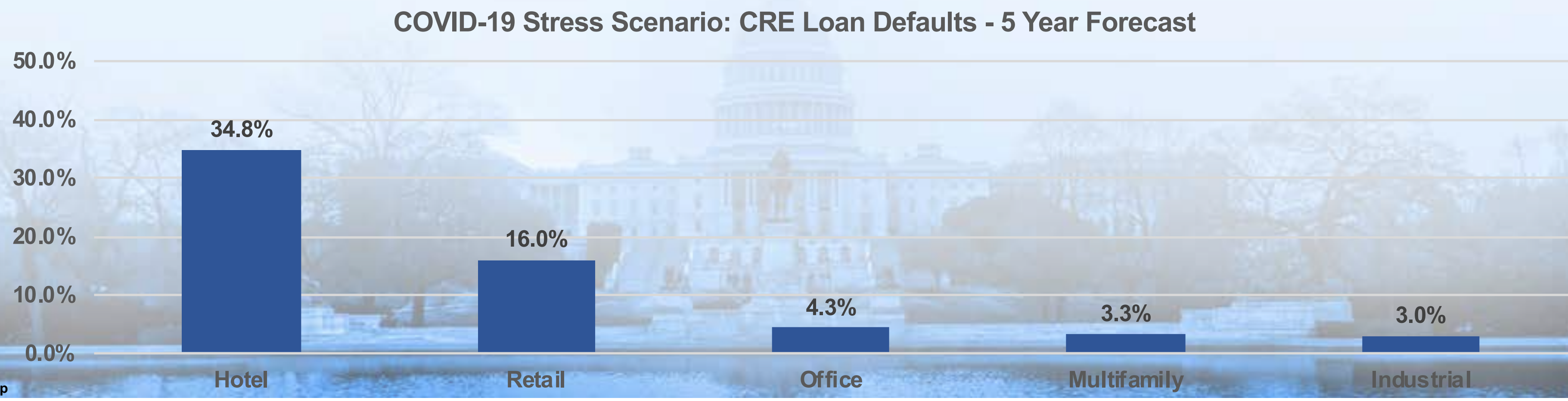
- Pennsylvania REIT Q1 2020 10-Q

"[Washington Prime Group] indicated … it believes that it will be able to remain compliant with its covenants through … waivers, modifications or other amendments to the related [loan] agreements. However, it also warned that if it is unable to reach such agreements, this could create substantial doubt about its ability to continue as a going concern through May 7, 2021."

- Moody's

. . . Special Situations Skills Will Likely Be Needed Down the Road

- While it is unknown when a return to normalcy will occur, even as stay-at-home orders are lifted, and what the “new normal” will look like, it is more likely that the issues in real estate will worsen before they improve
- General sentiment is that the recovery more likely to be a slow ‘swoosh’ vs. a rapid ‘V’, with potential concern for a double-dip as other countries that have re-opened and have had to reinstate stay-at-home orders to a degree
- As lenders lose patience and/or come under pressure, the flexibility they have shown so far may dissipate
- Defaults are projected to peak in late 2021 / early 2022, with lodging and malls leading the way with CoStar projecting $148 billion of CMBS defaults across all sectors over the next 2 years



Source: Trepp

Benefits to Filing…or Waiting

- Filing Early
  - Leading edge of new legal rulings (Pier One)
  - Capital hunting capital
  - Conserve cash
  - Reject executory contracts → becomes unsecured prepetition debt
  - Manage aggressive creditors

- Filing Later
  - Stockpile cash
  - Use PPP funds
  - Proactive vs reactive
  - Line up 363 sale, DIP lending, exit strategy
  - One of many…creditors

Real Estate Bankruptcies

- SARE “Single Asset Real Estate"
  - “Single property or project, other than residential real property with fewer than four residential units, which generates substantially all of the gross income of a debtor who is not a family farmer and on which no substantial business is being conducted by a debtor other than the business of operating the real property and activities incidental." 11 U.S.C. § 101(51B).
- Quick bankruptcy
  - 90 days to file plan or make interest payments
  - *Till* rate
- Unique Shopping Center Considerations

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Underwood Murray

What Is A Real Estate Bankruptcy

Commercial Mortgage-Backed Securities

- Trust
- Bonds
- Rating Agencies
- Trustee
- Master Servicer
- Special Servicer
- Directing Certificate Holder

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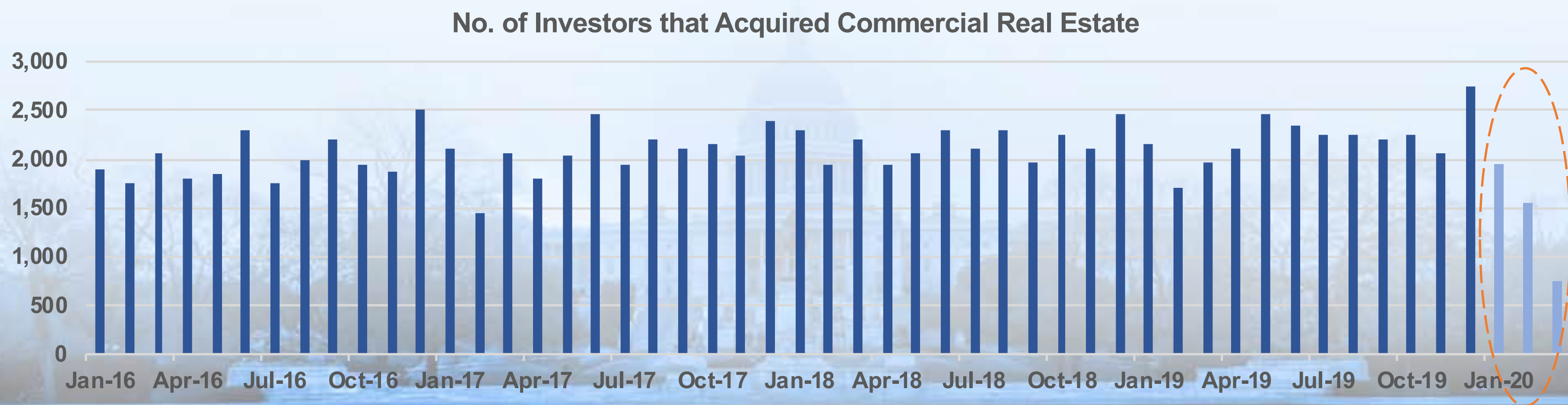
WINTHROP & WEINSTINE

Criteria for Success in Real Estate-Based Bankruptcies

- Financial Projections
- Valuation
- Positioning
- Execution

Property Valuation During COVID-19

- There has yet to be true price discovery in the COVID-19 environment as private market sales have come to a standstill and public market valuations suggest a decline in asset values of +30% depending on sector
- Wide bid / ask spreads due to economic uncertainty as well the limited availability of debt financing and the difficulty of completing in-person due diligence are the primary causes for the lack of transactions
- A reduction in values is certain for most sectors due to decreases in net operating income and likely cap rate expansion given investor risk assessments



Source: Real Capital Analytics

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NRC REALTY & CAPITAL ADVISORS

Impact of NOI Decreases and CapRate Increases

WHAT WOULD IT TAKE TO SEE ASSET PRICES FALL?

The combination of cap rate and income changes that would drive a 22% price drop.

Average US apartment cap rate in Feb'20

Range of Apartment Cap Rates

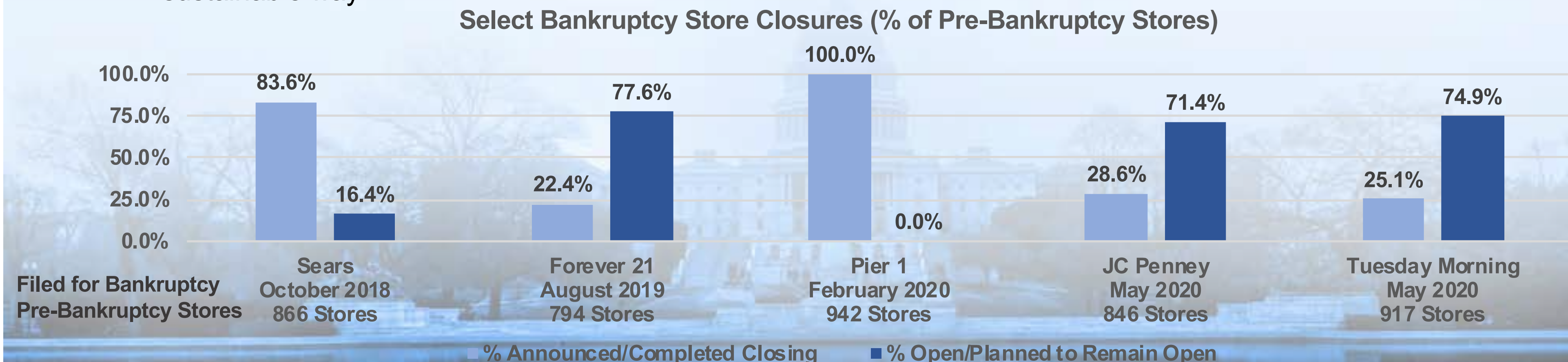
Percent Change in NOI	5.5	5.7	5.9	6.1	6.3	6.5	6.7	6.9	7.1
0%	0%	-4%	-7%	-10%	-13%	-16%	-18%	-21%	-23%
-2%	-2%	-6%	-9%	-12%	-15%	-17%	-20%	-22%	-24%
-4%	-4%	-8%	-11%	-14%	-16%	-19%	-21%	-24%	-26%
-6%	-6%	-10%	-13%	-16%	-18%	-21%	-23%	-25%	-27%
-8%	-8%	-12%	-15%	-17%	-20%	-22%	-25%	-27%	-29%
-10%	-10%	-13%	-16%	-19%	-22%	-24%	-26%	-29%	-31%
-12%	-12%	-15%	-18%	-21%	-23%	-26%	-28%	-30%	-32%
-14%	-14%	-17%	-20%	-23%	-25%	-27%	-30%	-32%	-34%
-16%	-16%	-19%	-22%	-25%	-27%	-29%	-31%	-33%	-35%
-18%	-18%	-21%	-24%	-26%	-29%	-31%	-33%	-35%	-37%
-20%	-20%	-23%	-26%	-28%	-30%	-33%	-35%	-36%	-38%
-22%	-22%	-25%	-28%	-30%	-32%	-34%	-36%	-38%	-40%

Areas in orange are those combinations needed to drive a 22% decline in asset values.
What would these changes look like historically?

(1) KC Conway, Chief Economist CCIM Institute/ACRE

Large Bankruptcies & Restructurings

- COVID-19's varied impact by market (e.g. urban vs. suburban, coast gateway vs. secondary cities) and state governments' varied responses will likely lead to a wide range of outcomes for similar property types
- Tenants and real estate owners going through bankruptcies/restructurings or meaningful strategic changes may need to make decisions on stronger vs. weaker properties and where to invest capital to remain viable
- Historically, in many large bankruptcies/restructurings or strategic shifts it has not been uncommon for many properties to go dark (i.e. existing tenant vacates) and require investment for re-tenanting
- Tenant properties that remain in occupied post-bankruptcy/restructuring may have rents re-sized in a sustainable way



Source: Public documents

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Abundance of Dry Powder

- One of the key factors that make the COVID-19 market environment different from the 2008/2009 financial crisis is the considerable amount of dry powder available for investment, both at the property-level and corporate level
- Opportunistic and distressed real estate funds had $142 billion in dry powder at the end of last year and $10 billion more has been raised in the wake of COVID-19.[1] (e.g. Kayne Anderson raised $1.3 billion in 2 weeks)
- Many investors expect a greater distressed buying opportunity as a result of COVID-19 than was seen in the last financial crisis when real estate valuations fell by 35% between August 2008 and June 2010[2]

Property-Level Opportunities	Corporate-Level Opportunities
▪ Today, asset-level bid / ask spreads are still too wide as sellers have not come to terms with pricing declines ▪ As lenders force issues with borrowers, the property investment market should open more broadly ▪ Investors will have leverage over distressed sellers in need of liquidity, but strong competition for assets should help narrow the bid / ask spreads	▪ Investors often like to deploy significant amounts of capital in a single transaction ▪ Public and private companies in distress will need rescue capital ▪ Public and private companies with strong intrinsic values and relatively healthy balance sheets may want 'sleep at night' capital ▪ Investment structures such as PIPEs and off-balance sheet arrangement should be attractive

(1) Preqin
(2) Real Capital Analytics

Potential Repositioning Strategies Post-COVID-19

- While it is still too early to gauge the full impacts of the pandemic, a few repositioning strategies that may take hold include:

Big Box Retail Conversion to Industrial	▪ The trend of converting big box locations into industrial was just beginning in the pre-COVID marketplace, due to struggling retailers and the importance of last mile logistics and warehousing ▪ COVID-19 could accelerate this process as e-commerce has become even more important and options like curbside pick-up becoming more commonplace
Hotel Conversion to Affordable Housing	▪ The confluence of lesser hotels likely going out of business with the expected need for more affordable housing given unemployment rates and the general condition of the overall economy suggests an opportunity ▪ Likely to be more concentrated in urban centers given the supply / demand dynamics ▪ May be dependent upon government assistance as the rehab costs per door can be prohibitive
Retail Re-tenanting	▪ Pre-COVID-19 there was a move towards tenants with experiential retail (i.e. restaurants, entertainment) ▪ These types of retailers have been and will likely continue to be the most affected as re-opening will occur more slowly, social distancing continues and greater uncertainty around consumer behavior towards these venues ▪ Potential for a shift towards necessity-based, value-priced retailers tenants and/or tenants less impacted by e-commerce such as lawn and garden

Small Business Reorganization Act

CRAMDOWN	▪ The "fair and equitable" requirement in subchapter V does not include the absolute priority rule. ▪ To be fair and equitable, (1) the plan must provide for all disposable income for a three to five year period (or its value) be applied to make payments under the plan, new § 1191(c)(2); and (2) there must be a reasonable likelihood that the debtor will be able to make all payments under the plan, and the plan must provide appropriate remedies to protect creditors if payments are not made, new § 1191(c)(3).
REAL ESTATE DEBTOR	▪ Prior to SBRA, a debtor whose "principal activity" was real estate could not be a small debtor. ▪ SAREs are excluded from filing Subchapter V case
ADMINISTRATIVE RENT	▪ Delayed payment of Administrative Expense Claims ▪ Does not have to be paid on day small business debtor emerges from bankruptcy ▪ May stretch payments over term of plan ▪ 365(d)(3) – critical
PREFERNCES	▪ The debtor is now required to exercise reasonable due diligence under the circumstances "taking into account a party's known or reasonably knowable affirmative defenses" before filing a preference lawsuit.

REIT Filings

- Tax Issues
- Valuation Issues

CARES Act and Paycheck Protection Program

- PPP
- Employee Retention Credit
- Tax Relief
- Forbearance on Foreclosures

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Questions?

Faculty

Saul Burian is a managing director with Houlihan Lokey and head of its Real Estate Strategic Advisory Group in New York, where he specializes in advising public and private companies and creditor groups in complex restructurings, financings and other transactions. He also specializes in raising capital for troubled businesses and often represents debtor and creditor constituencies in pre-packaged, pre-negotiated and other bankruptcy proceedings. Mr. Burian has been involved as an advisor in a wide range of restructuring transactions, including Lehman Brothers, CEVA Logistics, Payless Shoes, RCS Capital, Answers.com, J.Crew, HealthSouth, Mark IV Automotive, Winn-Dixie Stores, Barneys New York, Pinnacle Agriculture, Extended Stay America, MSR Hotels & Resorts Inc. and Kaisa Group Holdings. He has experience in restructuring CDO- and CMBS-structured products, repurchase agreements and other complex real estate financing vehicles. In addition, he has advised investors in acquiring distressed assets and is a frequent speaker on restructuring, M&A and real estate topics. Before joining Houlihan Lokey, Mr. Burian was a partner in the New York law firm of Kramer Levin Naftalis & Frankel, where he specialized in creditors' rights and bankruptcy. During his 12 years at Kramer Levin, he represented a broad spectrum of clients who were often the primary at-risk constituencies in in- and out-of-court restructurings and bankruptcies, including bank lenders, debtors, creditors' committees and secondary purchasers of distressed indebtedness. Mr. Burian received his B.A. in economics with honors from Yeshiva University and his J.D. from Columbia Law School, where he was a Harlan Fiske Stone Scholar.

David Levy, CAI is vice president of Business Development at NRC Realty & Capital Advisors, LLC in Chicago. He first joined the company in 2008 as its auction manager. During his tenure, Mr. Levy has sold a wide array of properties for a diverse group of clients, including bank officers, attorneys, management consultants, government officials, corporations, and commercial and residential investors. He is now responsible for business development and generating sealed-bid and live-auction business from banks and corporations with distressed and excess commercial real estate, as well as bankruptcy situations. Prior to joining NRC, Mr. Levy had a career in consumer-product marketing and was vice president of LPS Auctions Solutions, a related company of NRC that focused on assisting bank and loan-servicing clients with divestiture residential REO assets nationwide. Working in close concert with NRC's in-house marketing team, he identifies the right kinds of buyers and likely brokers for each property being sold, then executes campaigns to reach them. Mr. Levy is a member of the National Auctioneers Association, Turnaround Management Association and ABI. A graduate of the Missouri Auction School and a licensed Illinois real estate managing broker and auctioneer, he frequently assists with charity auctions throughout the Chicagoland area. Mr. Levy received his M.B.A. from Miami University in Oxford, Ohio.

Megan W. Murray is a founding shareholder of Underwood Murray PA in Tampa, Fla., and has nearly 20 years of reorganization and workout experience advising business owners, debtors, trustees, creditors' committees, secured and unsecured creditors, and asset-purchasers and sellers. She also has worked on both the legal side and business side in a global financial institution. Ms.

Murray counsels businesses and owners in a wide variety of industries, including, but not limited to, real estate, hospitality, pharmaceutical, medical services, construction, insurance, transportation and financial services, in making critical business decisions while prosecuting and defending complex business disputes. She has been involved in director and officer liability litigation, bondholder disputes, shareholder and partnership disputes, court-appointed receiverships, assignment proceedings, and the recovery of large and small business assets. Ms. Murray is an ABI "40 Under 40" honoree and has been named in *Chambers & Partners USA*, *Florida Super Lawyers* and *Florida Trend*'s Legal Elite multiple years running. She is rated AV-Preeminent by Martindale-Hubbell and is a contributing author to *Creditors' and Debtors' Practice in Florida*, a frequent speaker on bankruptcy and insolvency topics, and co-chair of ABI's Real Estate Committee. She also is active in local and national bankruptcy bar associations. Ms. Murray received her B.B.A. from the University of Iowa Tippie College of Business in 2002 and her J.D. with honors from the University of Iowa College of Law in 2011, where she was a contributing editor to the *Iowa Law Review* and an ABI Medal of Excellence recipient.

Michael A. Rosow is a shareholder with Winthrop & Weinstine, P.A. in Minneapolis and chairs the firm's Creditors' Remedies, Bankruptcy & Work-Out Practice. He focuses on representing banks and other financial lending institutions, and he is a frequent resource for litigation matters dealing with a strong or complex financial components in the areas of bankruptcy, real estate, contracts, banking and other commercial matters. Mr. Rosow co-chairs ABI's Real Estate Committee and is a member of the Minnesota and New York Bar Associations. He is admitted to practice before the U.S. District Courts for the Districts of Minnesota, North Dakota and Colorado and the Western District of Wisconsin, and before the Eighth Circuit Court of Appeals. Mr. Rosow received his B.A. *magna cum laude* in government and mathematics from the University of Redlands in 1998 and his J.D. *magna cum laude* in 2001 from the University of Minnesota Law School, where he was a member of the Order of the Coif.