

Fitch Affirms CBL's IDR at 'BBB-'; Outlook Stable

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings affirms the following credit ratings for CBL & Associates Properties, Inc. (NYSE: CBL) and CBL & Associates Limited Partnership:

CBL & Associates Properties, Inc.

--Issuer Default Rating (IDR) at 'BBB-';

--Preferred stock at 'BB'.

CBL & Associates Limited Partnership

--IDR at 'BBB-';

--Senior unsecured lines of credit at 'BBB-';

--Senior unsecured term loans at 'BBB-';

--Senior unsecured notes at 'BBB-'.

The Rating Outlook is Stable.

KEY RATING DRIVERS

The ratings reflect CBL's large, well-diversified portfolio of predominantly regional mall assets, appropriate leverage and fixed-charge coverage for the rating, and adequate financial flexibility supported by a growing pool of unencumbered assets and improving access to unsecured debt capital.

These strengths are tempered by challenging growth prospects in CBL's lower-productivity malls, elevated secured leverage, and execution risk associated with the company's asset repositioning strategy over the next several years.

'ONLY GAME IN TOWN' STRATEGY

The average CBL property is located 26 miles from its nearest major competitor and 90% of mall net operating income (NOI) is derived from market-dominant or only game in town malls. This middle-market strategy creates NOI stability and provides barriers to entry given the modest populations in these regions generally do not support multiple regional malls or major retail centers. The company's ongoing redevelopment strategy also enhances asset quality and deters new competition from entering respective markets.

SOLID DIVERSITY BY GEOGRAPHY AND TENANT

St. Louis is CBL's largest market at only 8.1% of 2013 revenues, while the top five markets generated 20.7%. Limited Brands is the company's largest tenant, having generated 3.3% of annualized revenues at March 31, 2014 with the top 10 generating only 19.1%. Further, more than 70% of revenues are generated from tenants that individually contribute less than 1% of annual revenue. This granularity insulates CBL's cash flows from regional economic weakness and credit risk at the tenant level.

UNDERPERFORMANCE RELATIVE TO CLASS A PEERS

CBL's same-store NOI (SSNOI) growth underperformed its mall REIT peers by 160 basis points (bps) on average over the past 10 years (1% vs. 2.6%). Underperformance has been somewhat secular though, as broader 'Class B' operators have underperformed

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'Class A' landlords by 260 bps during this span, highlighting the lower growth prospects and recent operational challenges for lower-productivity centers. Favorably though, CBL outperformed its 'B' mall peers by 90 bps on average.

TENANT REPLACEMENT STRATEGY AUGMENTS GROWTH

Small-shop leasing spreads increased 11.8% during 2013, driven by a 31.6% improvement on new leases and 5.9% on renewals. CBL's tenant replacement strategy drove outsized growth on new leases, replacing weaker-performing retailers on short-term, percentage-heavy rents with tenants generating higher sales productivity. Fitch views this strategy favorably despite the downtime that can arise prior to new tenants occupying the space.

This dynamic partially weighed on 0.9% SSNOI growth in 2013, which was below management's 1%-2% forecast. Fitch expects 1.5% SSNOI growth in 2014, driven by the commencement of new leases signed in 2013 and contractual rent escalators.

INVESTMENT-GRADE CREDIT METRICS

CBL's leverage was 6.7x at March 31, 2014, flat from 6.7x at both Dec. 31, 2013 and 2012. Fitch expects that leverage will trend toward 6.3x by 2016, driven by low single-digit SSNOI growth and asset sales, including over-levered assets that are likely to be conveyed to lenders.

Fixed-charge coverage was 2.2x for the trailing 12 months (TTM) ended March 31, 2014 and is expected to remain around this level over the next 12-24 months. Fitch defines fixed-charge coverage as recurring operating EBITDA, less recurring capital expenditures and straight-line rent adjustments, divided by total interest incurred and preferred dividends. Projected credit metrics are appropriate for the 'BBB-' rating.

EVOLVING ACCESS TO UNSECURED DEBT CAPITAL

CBL raised \$450 million via its inaugural unsecured bond offering in November 2013 and Fitch expects the company will access the bond market annually to repay secured debt. The secured debt/total debt ratio declined to 73.3% at March 31, 2014 from 76.4% and 84.5% at Dec. 31, 2013 and Dec. 31, 2012, respectively. Fitch expects the ratio will decline to below 50% by year-end 2016 as the company continues to unencumber its real estate portfolio, improving financial flexibility.

ENHANCED UNENCUMBERED ASSET POOL

CBL will unencumber two Tier I malls during 2014 with average sales/square foot of \$479 (compared to \$306 in the unencumbered pool at Dec. 31, 2013), furthering the company's strategy to grow and improve asset quality in the unencumbered pool. Fitch expects CBL to add an additional 18 assets with gross book value of \$1.75 billion to the pool by 2016, improving granularity. Unencumbered assets (calculated using a stressed 9% cap rate on TTM unencumbered NOI) covered net unsecured debt by 1.9x at March 31, 2014 which is adequate for the rating. Fitch expects that coverage will remain stable through 2015.

SECURED MATURITIES WEIGH ON LIQUIDITY

CBL's base case liquidity ratio of 1.2x through 2015 is adequate for the rating but constrained by more than \$700 million of 2015 pro rata mortgage maturities. If the company refinances 80% of its secured debt maturities, the ratio improves to 3.1x, which is strong for the rating. Fitch notes that this scenario is less likely as the company plans to unencumber wholly-owned properties. Fitch defines liquidity coverage as sources of liquidity divided by uses of liquidity. Sources of liquidity include unrestricted cash, availability under unsecured revolving credit facilities, and projected retained cash flow from operating activities after dividends. Uses of liquidity include pro-rata debt maturities, expected recurring capital expenditures, and remaining development costs.

ELEVATED LINE OF CREDIT USAGE

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CBL's lines of credit have been 56% drawn on average since 2004 compared to 25% for the broader REIT sector, and was 29% drawn as of March 31, 2014. Fitch does not expect the elevated balance to impact credit quality in the near term given an accommodating capital markets environment. That being said, a higher tolerance for line of credit borrowings indicates somewhat aggressive financial policies and liquidity risk would be materially amplified in a less hospitable debt financing market similar to late 2008-2009.

ASSET SALES FACE SOME EXECUTION RISK

CBL's asset repositioning strategy targets 21 mature, lower-growth assets with an estimated portfolio value of \$1 billion-\$1.25 billion, representing approximately 15% of total NOI. Peers including Glimcher Realty Trust have announced similar plans to divest lower-productivity centers that will compete with the assets listed by CBL, which presents some execution risk. Despite this potential headwind, demand for 'B' malls has been steady and Fitch expects that an accommodating secured financing environment will be conducive to transaction volume in the near term.

RATING SENSITIVITIES

The following factors may have a positive impact on CBL's ratings and/or Outlook:

--Fitch's expectation of leverage sustaining below 6.0x (leverage at March 31, 2014 was 6.7x);

--Fitch's expectation of fixed-charge coverage sustaining above 2.5x (coverage for the TTM ended March 31, 2014 was 2.2x);

The following factors may have a negative impact on the company's ratings and/or Outlook:

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--Fitch's expectation of leverage sustaining above 7.0x;

--Fitch's expectation of fixed-charge coverage sustaining below 1.8x;

--Reduced financial flexibility stemming from sustained high secured leverage and/or significant utilization under lines of credit;

--Failure to maintain unencumbered asset coverage of unsecured debt (based on a stressed 9% cap rate) around 2.0x;

--Failure to execute the asset repositioning strategy as a result of weaker liquidity in lower-tier properties.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (May 28, 2014);

--'Rating U.S. Equity REITs and REOCs (Sector Credit Factors) (Feb. 26, 2014);

--'Treatment and Notching of Hybrids in Non-financial Corporate and REIT Credit Analysis' (Dec. 23, 2013);

--'Recovery Ratings and Notching Criteria for Equity REITs' (Nov. 19, 2013).

Applicable Criteria and Related Research:

Recovery Ratings and Notching Criteria for Equity REITs

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=722363

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393

Rating U.S. Equity REITs and REOCs (Sector Credit Factors)

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=737957

Treatment and Notching of Hybrids in Non-Financial Corporate and REIT Credit Analysis

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=726863

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=838940

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