The Great Debate: Real Estate Valuation in the Face of a Global Pandemic

CBL PROPERTIES *vs.* WASHINGTON PRIME GROUP

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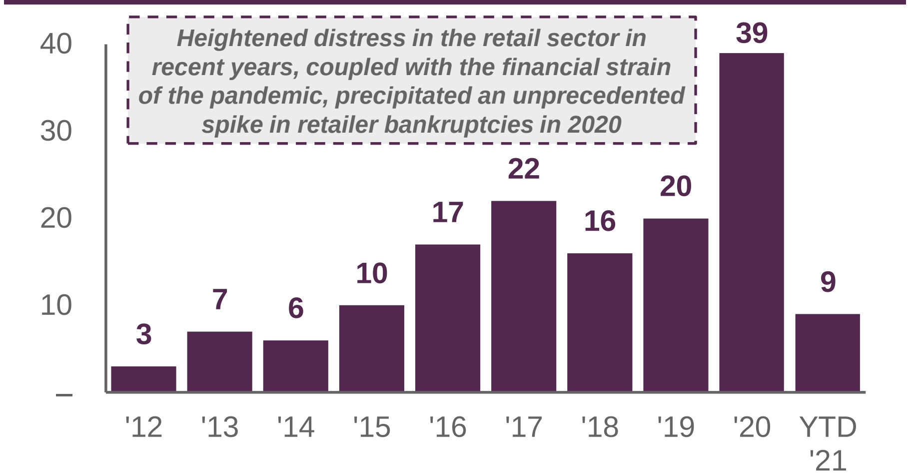
Backdrop of Retail Customer Base

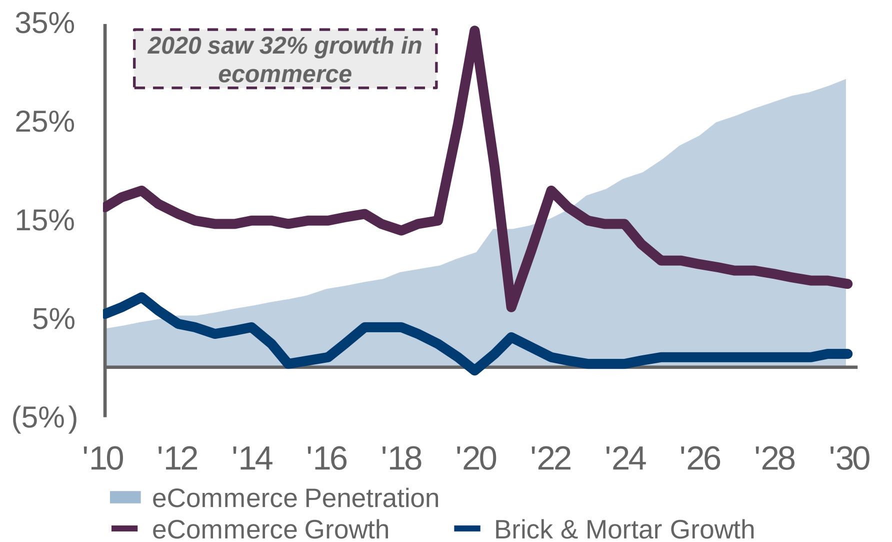
Even prior to COVID-related lockdowns, brick and mortar retailers (CBL and WPG's primary tenants), were experiencing financial stress

- The adoption of eCommerce and shifting consumer behavior led to a spike in retail sector bankruptcies in recent years
- This led to higher vacancies, greater tenant risk / weaker health ratios, and challenging single-asset sale & financing markets within the B and C mall space (i.e., those with in-line tenant sales less than ~$500 per square foot)
- Accordingly, capitalization rates ("cap rates") for malls and mall REITs have been increasing consistently over the past 5+ years leading up to CBL and WPG's restructurings

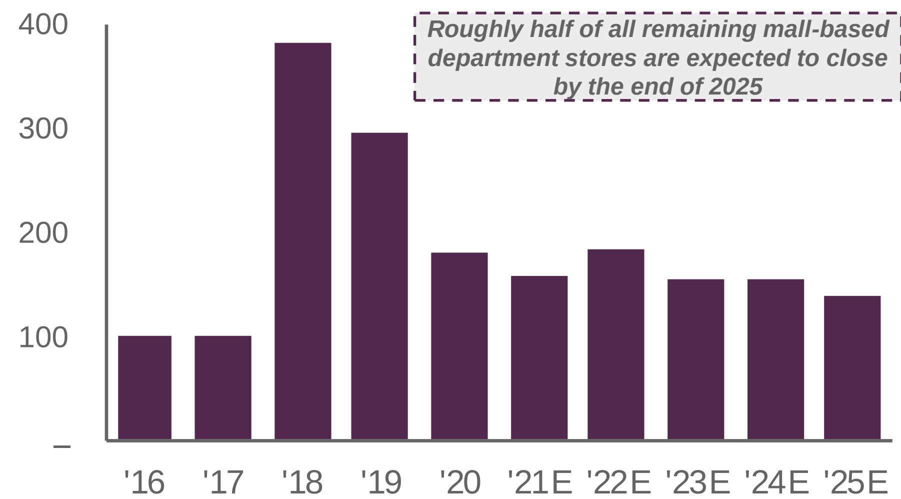
Retail Sector Bankruptcies



eCommerce Adoption (% of all Retail Sales)



Estimated Mall-Based Dept. Store Closures



Source: Reorg Research, Green Street Research.

CBL vs. WPG: Key Similarities & Differences

Key Similarities

- CBL and WPG were retail real estate businesses that:
  - Had exposure to a secularly declining industry (brick & mortar retail), causing both companies to be overlevered by late 2019 / early 2020
  - Experienced COVID-accelerated declines, requiring holistic balance sheet solutions
  - Had capital structures consisting of non-recourse / mortgage debt, secured corporate credit facilities, unsecured bonds, preferred stock, and public common equity
  - Were structured as real estate investment trusts ("REITs") for tax purposes

Key Differences

	CBL	WPG
Asset Portfolio	▪ More heavily weighted toward enclosed malls • Upside potential in mall outparcels and JV assets	▪ Large portfolio of open air / strip centers (~1/2 of net operating income)
Case Financing	▪ Funded case using cash collateral ▪ No new-money exit financing needed	▪ Raised debtor-in-possession ("DIP") loan collateralized by unencumbered assets ▪ Required new-money exit financing, necessitating rights offering
Timing	▪ Filed with RSA with crossholders (funds holding both bank debt and unsecured bonds) and bond holders after actions taken by bank lenders	▪ Filed with RSA from banks and bondholders
Negotiating Dynamics	▪ Company aligned with bondholders early in process ▪ Crossholders held relatively small portion of bank debt ▪ Bank lenders did not have blanket priority over all assets but did have an unsecured parent guarantee • Significant leverage with banks (threat of equitization / unsecured claim treatment) allowed for advantageous terms on takeback paper	▪ Largest bondholder also held ~1/3 of the company's bank debt

Source: Bankruptcy filings.

CBL vs. WPG: Plan Overview

The tables below outline the treatment key classes of stakeholders received under each Plan of Reorganization

CBL

	Treatment			
Class	Cash	New TL	New Notes	Equity(1)
Secured Bank Debt	$100MM	~$884MM	NA	NA
Consenting Crossholders	$15MM	NA	$81MM	~10.6% (~$31.8)
Unsecured Claims	$80MM	NA	$474MM	~78.4% (~$235.2)
Preferred Equity	NA	NA	NA	5.5% (~$16.5)
Common Equity	NA	NA	NA	5.5% (~$16.5)

WPG

	Treatment		
Class	Cash	New TL	Equity(2)
Secured Bank Debt	$150MM	$1,262MM(3)	NA
Unsecured Claims	NA	NA	~27.8% (~$222.4)
Preferred Equity	$37MM	*Equity holders received the option to elect either cash OR reorganized equity*	~4.4% (~$35.2)
Common Equity	$20MM		~2.2% (~$17.6)
Equity Rights Offering(4)	NA	NA	~65.6% (~$524.8)

Source: Bankruptcy filings.

(1) Pro forma equity splits are shown prior to any dilution from (i) Management Incentive Plan for up to 10.00% of the reorganized equity and (ii) the New Convertible Notes. Dollar-value recoveries based on Plan Equity Value midpoint of $300 million.

(2) Pro forma equity splits are shown assuming final $325 million equity rights offering amount and prior to any dilution from Management Incentive Plan for 8.00% of the reorganized equity. Dollar-value recoveries based on Set-Up Equity Value of $800 million.

(3) Includes ~$9.8 million on account of accrued default interest.

(4) Includes ~5.4% on account of backstop fee.

CBL vs. WPG: Sale Process Considerations

WPG ran a sale process in parallel with its reorganization Plan whereas CBL did not

	CBL	WPG	Observations
Constituent Alignment	▪ Bonds and equity settled pro forma equity splits early in case and remained committed to these splits throughout negotiations ▪ Ability to slide collateral to the banks gave CBL significant leverage with bonds	▪ Did not settle with equityholders until later in process, after appointment of an official equity committee	▪ Greater burden on WPG to prove whether a buyer existed at a higher valuation than implied by the reorganization ▪ Early settlement between CBL and bondholders meant little pressure to run sale process; focus was on reaching agreement with bank lenders
Cost of Capital	▪ Significant leverage with banks allowed for advantageous terms on takeback paper ▪ Leverage with banks included potentially equitizing claims and treating any deficiency claim pari with unsecured claims	▪ Terms of takeback credit facility were not as favorable as CBL's facility, and had ratcheting rate and call protection creating incentives to refinance	▪ WPG had a lower cost of capital "hurdle" that potential bidders needed to achieve
Market Backdrop	▪ Majority of RSA negotiations / meditation occurred before market recovery from COVID was clear	▪ Restructuring negotiations / bankruptcy case took place as the recovery from COVID had begun to take hold	▪ Strong recovery of A Mall peers called the question of whether the B and C mall market was reopening
Price Discovery	▪ Heavily weighted towards enclosed malls, many of which were still recovering to pre-COVID levels (limited pricing visibility)	▪ Relatively weighted toward open-air centers, which were more resistant to COVID-related challenges	▪ Greater price discovery with open air centers created less relative uncertainty around overall WPG value
Qualitative Factors	▪ Directors and officers included members of the founding family as well as an activist shareholder ▪ Gave equity a seat at the table early on, facilitating early settlement with bonds	▪ As a spin-off from Simon, management team consisted of professional hires	▪ More limited appetite for CBL to run a sale process as the company was able to achieve an attractive recovery to equity early on by utilizing leverage with bonds

Source: Bankruptcy filings.

Example Valuation Methodologies and Considerations

	Description	Considerations for WPG & CBL
Public Comparable Companies	▪ Analysis of market-implied capitalization metrics of publicly traded peer companies, which are then applied to relevant company or asset metric (e.g., Funds From Operations ("FFO") multiples, cap rates, etc.)	▪ Many publicly traded peers were weighted toward different mall "grades" and thus less applicable to CBL and WPG ▪ The more applicable comparables (e.g., PREIT and CBL/WPG themselves) were experiencing financial distress
Precedent Transactions	▪ Analysis of precedent sales (enterprises or single assets) with capitalization metrics applied to the relevant company or asset metric (e.g., FFO multiples, cap rates, etc.)	▪ Recent public company transactions were typically of higher quality assets or affiliate transactions ▪ Single asset sales in the B and C mall space were limited, with many consisting of distressed sales ▪ Material discrepancies existed between appraisals and broker opinions of value
Discounted Cash Flow Analysis	▪ Intrinsic valuation of an enterprise or assets based on levered or unlevered cash flows & terminal value discounted at an applicable cost of capital	▪ DCF analysis may more accurately capture the capital expenditures required to maintain and grow NOI than a cap rate-based approach • Nonetheless, the terminal value is highly sensitive to multiples / cap rates / perpetuity growth assumptions ▪ Cost of capital analysis was impacted by: • COVID-19 volatility on historical betas of publicly traded peers, and • The lack of a robust comparable enterprise or asset-level financing market in the space

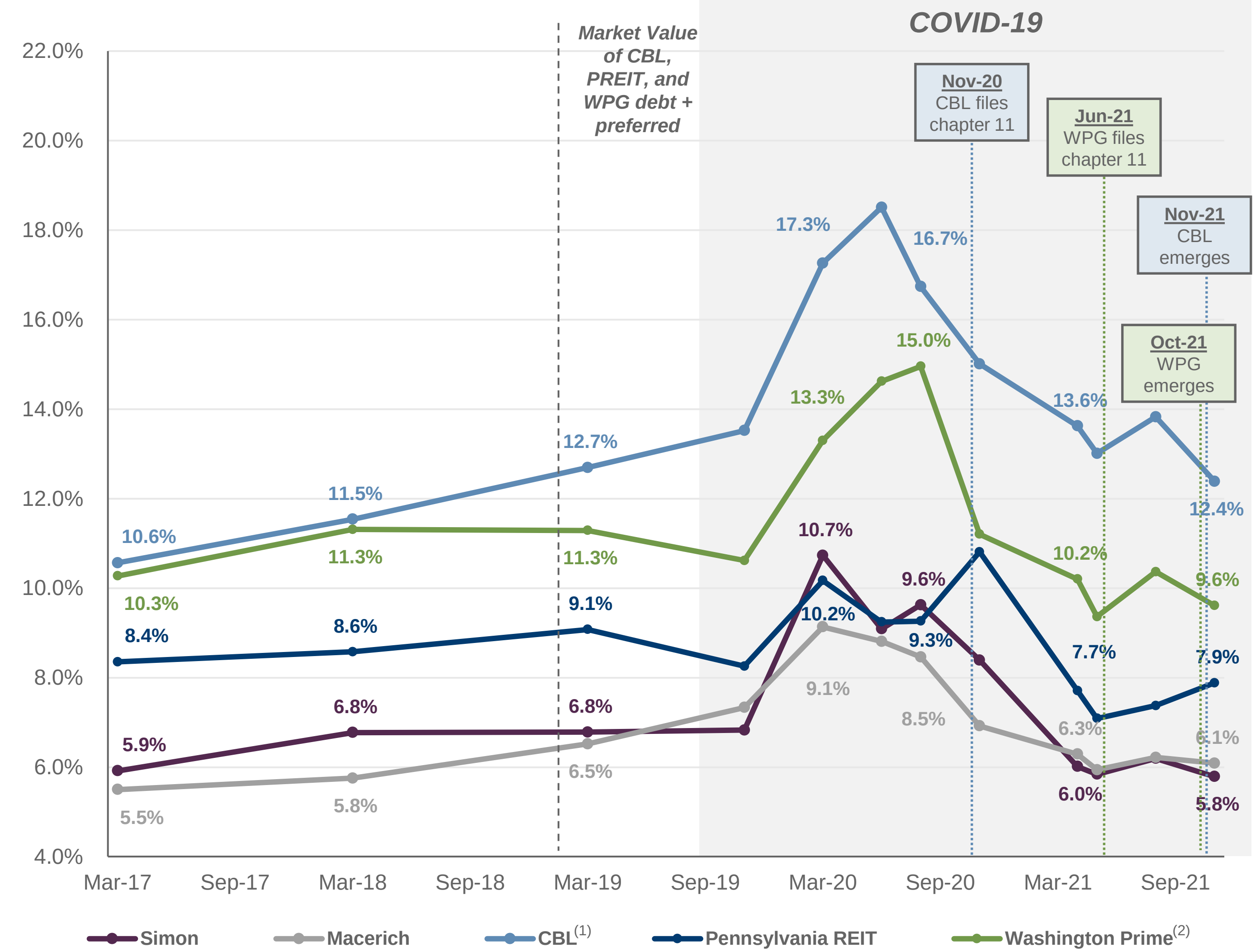
Source: Example valuation methodologies are described more fulsomely in "Valuation: Measuring and Managing the Value of Companies" – McKinsey & Company, 7th Edition.

Recent Implied Capitalization Rates

Commentary

- Implied trading cap rates of publicly traded mall REITs experienced significant volatility in the periods leading up to and during the CBL/WPG restructuring processes
  - Increasing cap rates from retail headwinds spiked during the COVID-19 outbreak
  - As the states began reopening, implied valuations began improving rapidly
- This volatility in market implied valuations contributed to the uncertainty around value for companies and assets in the space

Market Implied Capitalization Rates



Source: Company filings, FactSet, Bloomberg, IHS Markit, and Green Street Research as of November 15, 2021.
Note: Based on LTM Net Operating Income per Company filings. After March 2019, CBL, Pennsylvania REIT, and Washington Prime enterprise value components of capitalization rates calculated as market value of outstanding debt, preferred equity, and common equity unless otherwise noted.
(1) CBL 2021 capitalization rates based on assumed share of reorganized equity implied by unsecured notes' market value per disclosure statements filed in December 2020 and March 2021 as applicable. November 2021 capitalization rate based on market capitalization of reorganized equity and net debt pro forma for redemption of new 10% secured notes.
(2) Washington Prime November 2021 capitalization rate based on equity value implied by Strategic Value Partners $25.75 tender offer announced November 9, 2021 (including Early Tender Premium).