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Presale:

TRU Trust 2016-TOYS

This presale report is based on information as of Oct. 13, 2016. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.

Preliminary Ratings

Class	Preliminary rating(i)	Preliminary amount (\$)	LTV (%)	Market value decline (%) (ii)	Debt yield (%) (iii)
A	AAA (sf)	244,871,000	47.0	72.1	21.1
B	AA- (sf)	52,100,000	57.0	66.2	17.4
C	A- (sf)	39,075,000	64.5	61.8	15.4
D	BBB- (sf)	47,932,000	73.7	56.3	13.5
E	BB- (sf)	65,126,000	86.2	48.9	11.5
F	B- (sf)	62,896,000	98.3	41.7	10.1

(i)The rating on each class of securities is preliminary and subject to change at any time. The issuer will issue the certificates to qualified institutional buyers in-line with Rule 144A of the Securities Act of 1933. (ii)Reflects the approximate decline in the \$878.8 million appraised value that would be necessary to experience a principal loss at the given rating level. (iii)Based on S&P Global Ratings' NCF and the mortgage balance. LTV--Loan-to-value ratio, based on S&P Global Ratings' values. NCF--Net cash flow.

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Profile

Expected closing date	Oct. 31, 2016
Collateral	The loan is secured by 123 Toys "R" Us and Babies "R" Us stores with 5.1 million sq. ft. rentable area across 29 states.
Payment structure	On each distribution date, principal payments will be made sequentially: first to class A; and then to classes B, C, D, E, and F. The issuer will make interest payments on the certificates sequentially; first, to class A; and then to the class B, C, D, E, and F certificates. Realized losses are allocated in reverse sequential order, starting with the class F certificates.
Borrowers	Toys "R" Us Property Company II LLC, a Delaware limited liability company.
Servicer	Wells Fargo Bank, National Association.
Special servicer	Wells Fargo Bank, National Association.
Trustee	Wilmington Trust, National Association.

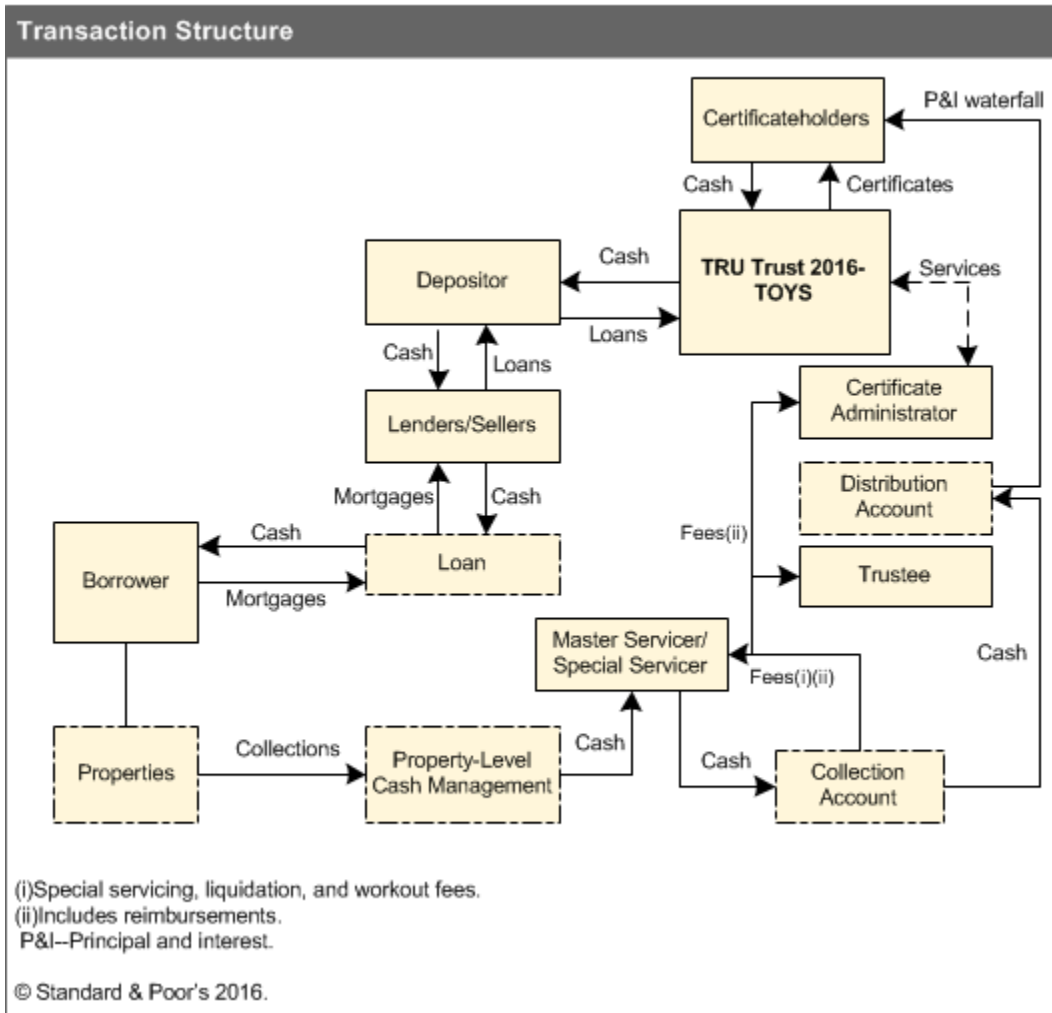
Rationale

The preliminary ratings assigned to TRU Trust 2016-TOYS' \$512 million commercial mortgage pass-through certificates reflect S&P Global Ratings' view of the collateral's historic and projected performance, the sponsor's and managers' experience, the trustee-provided liquidity, the loan's terms, and the transaction's structure. We determined that the loan has a 98.3% beginning and a 91.4% ending loan-to-value (LTV) ratio based on our estimate of the portfolio value under a "dark value" scenario, where the master lease tenant is no longer able to meet its obligations, vacates, and the properties must be re-tenanted.

Transaction Overview

An overview of the transaction's structure, cash flows, and other considerations follows (see chart 1).

Chart 1



Strengths

The transaction exhibits the following strengths:

- The business model of Toys "R" Us continues to face strong headwinds from online and other retailers. Retailers in general are wrestling with consumers that are very value focused. Although the U.S. is "over-retailed" relative to other countries, new supply remains at long-term lows, with 2010-2015 deliveries significantly below historical averages. Occupancies remain at or near record highs. Despite competition from online retailers, physical retail stores from proven concepts continue to open at a robust pace at properties with more favorable locations.
- By June 2016 trailing 12-months (TTM) earnings before interest, taxes, depreciation, amortization and rent (EBITDAR), 30.9% of the properties are located in primary markets, 41.2% are in secondary markets, and the remaining 27.9% are in tertiary markets, as defined by S&P Global Ratings. The nature of each market type affects capitalization rates and valuation dynamics, and can influence the timing and amount of liquidation proceeds if the mortgage loan is foreclosed. Generally, primary markets have higher barriers to entry than secondary and tertiary markets, are more attractive to prospective tenants, and tend to have more favorable valuation and liquidation

attributes.

- Based on the master rent, the combined portfolio EBITDAR-to-rent ratio is 2.70x. When including our estimated 30% operating expenses (but excluding ground rent payments), the stores still generate sufficient revenue to cover the master rent by 1.97x.
- The loan is structured with a hard lockbox and in-place cash management. However, excess cash flow can be partially or fully retained and not released to the borrower only when certain triggers occur.
- The transaction's structure holds the borrower responsible for expenses that would typically result in shortfalls to the certificateholders, such as special servicing, work-out, and liquidation fees, and costs and expenses for appraisals and inspections that the special servicer conducts. In addition, if the servicer deems it recoverable from the liquidation proceeds, the servicer must make administrative advances to cover interest shortfalls that might otherwise arise from these expenses if the borrower does not pay them on time (provided the collateral has sufficient value), which we believe will help avoid or mitigate shortfalls to the certificateholders.

Risk Considerations

The risks we considered for this transaction include:

- The trust loan balance has high leverage relative to other stand-alone commercial mortgage-backed securities transactions that we've rated, with a 98.3% S&P Global Ratings' LTV based on S&P Global Ratings' portfolio valuation and the \$512.0 million trust loan balance. Based on Cushman & Wakefield's "as is" valuation of the portfolio, the LTV is 58.3%. Our estimate of long-term sustainable value is 40.7% lower than Cushman's valuation.
- The trust loan balance has debt service coverage (DSC) of 1.50x, calculated using the 4.2% assumed spread plus the 2.5% LIBOR cap and S&P Global Ratings' net cash flow (NCF). However, including the \$88.0 million mezzanine loan, the DSC falls to 1.08x based on S&P Global Ratings' NCF, the 4.2% assumed spread on the trust asset, the 2.5% LIBOR cap, and the 12.5% fixed rate on the mezzanine loan. These DSC coverages would lower if the base interest rate rose above the 2.5% cap and the cap provider failed to meet its obligations. The interest rate cap agreement has not been executed yet, but based on the terms in the loan agreement, the agreement would allow the counterparty to support ratings up to 'AAA' based on our counterparty criteria.
- The transaction is concentrated by sponsor and tenancy. Under its master lease, Toys "R" Us is responsible for 100% of the rental revenues of the portfolio (although they sublease a small amount of the space, equivalent to 2.1% of the net rentable area [NRA]). S&P Global Ratings currently rates Toys "R" Us 'B-', with a stable outlook, and we most recently affirmed our rating on June 14, 2016. A company with such a rating is considered to have significant speculative characteristics. This obligor type currently has the capacity to meet its financial commitments, but adverse business, financial, or economic conditions will likely impair the its capacity or willingness to meet its financial commitments. As a result, we valued the portfolio in a "dark value" scenario, in which Toys "R" Us defaults on its master lease obligations and vacates the premises, and replacement tenants must be found at prevailing market rents and lease terms. Our analysis also includes the lost rents; carrying costs (like taxes, insurance, and other operating expenses); and re-tenanting costs associated with such a scenario.
- On an aggregate basis, both the Toys "R" Us and the Babies "R" Us stores show declining trends in sales. Since 2013, sales across the entire portfolio have declined to \$957.7 million through the end of second-quarter 2016 from \$1,015.7 million for full-year 2013, a 5.7% aggregate decline. Compared with the previous year, sales declined 3.3%, 1.7%, and 0.8% in 2014, 2015, and the TTM ending June 2016, respectively. Our analysis is based on a "dark value" scenario, where the tenant defaults and the buildings have to be sold vacant.
- A large portion of the property pool (52 out of 123) is not in or near a major retail offering, and therefore does not benefit from the foot traffic that other nearby shops create. Thirty buildings are in a strip center, 40 are outparcels to

a mall, and only one store is in a mall. We have reflected this by adjusting our cap rates for the buildings up or down.

- The loan documents allow the borrower to make major alterations of up to \$5 million without the lender consent and without posting collateral in order to secure completion of the project. We normally see this "alterations threshold" set to 5% of the allocated loan amount. This structure is typically designed to limit the risk that the borrower fails to complete a reconstruction project due to bankruptcy, which would significantly depress the recovery value of the property. In this transaction, the limit exceeds 5% of the allocated loan amount (ALA) of every property in the pool. Moreover, the limit exceeds the ALA of 84 of the 123 properties. However, it is unlikely that Toys "R" Us will redevelop a large number of its properties at the same time, and there is also a total cap of \$30 million on major alterations. Finally, our S&P Global Ratings' value assumes that Toys "R" Us will vacate all the buildings.
- The properties are currently self-managed by the borrower, an affiliate of Toys "R" Us Inc. Should Toys "R" Us default, a replacement property manager would have to be found for all of the 123 properties, which may delay necessary repairs, capital expenditures, and leasing efforts. In our analysis, we assumed that this would occur and have built in carrying costs and a re-tenanting delay into our value, which is 40.7% below the appraised value.

Loan Characteristics

Mortgage loan

The trust's principal asset is the \$512.0 million trust loan, which bears interest at an interest rate equal to one-month LIBOR plus 4.2%. The mortgage loan is scheduled to mature in November 2019. Upon satisfying certain conditions, the borrower has the option to extend the initial maturity date for two successive one-year terms. If all of the extension options are exercised, the final maturity date will occur in November 2021.

Secondary financing

Aside from the trust asset, there is also an \$88.0 million mezzanine loan with a fixed interest rate of 12.5%. The mezzanine loan is interest only and is coterminous with the mortgage loan. An intercreditor agreement governs both the mortgage and mezzanine lenders' rights.

We accounted for this additional debt in our analysis by negatively adjusting the loan's stand-alone LTV thresholds by 2.5% at each rating level.

No other debt is in place or permitted in the future.

Borrowers/sponsor

Toys "R" Us Property Company II LLC, a Delaware limited liability company, is the mortgage loan borrower. The borrower is a special-purpose entity, organized for the purpose of acquiring, developing, and owning the collateral. The borrower will not have any significant assets other than the wholly owned properties.

Trade payables

Trade payables incurred in the ordinary course of operations are permitted up to 2.0% of the mortgage loan balance. The loan agreement requires trade payables to be repaid within 60 days of the date billed.

Reserves

A summary of the reserves for the transaction follows (see table 1).

Table 1

Reserves	
Tax and insurance reserves	1/12th of the annual tax and insurance premiums, to be collected only during a partial or full trigger period.
Condominium associations charges	1/12th of the annual estimated charges, to be collected only during a partial or full trigger period.
Ground rent	One month of ground rent payments.

Cash management

The borrower has established a lockbox account in its name for the lender's benefit, into which all rents under the master lease will be paid. The borrower has also instructed all other tenants to pay rents directly into the lockbox account. All funds deposited into the lockbox account will be swept daily into the cash management account. If no partial or full trigger period is continuing, the servicer will pay all amounts remaining in the cash management account after payment of the items listed below to the borrower.

During an event of default, the lender may apply all funds in the deposit account at its sole discretion.

A partial trigger period will occur if the EBITDAR to rent ratio falls below 2.2x. A full trigger period will occur if there is an event of default under the loan or the mezzanine loan, the EBITDAR to rent ratio falls below 1.8x, or the master tenant vacates the properties.

On each monthly payment date, as long as an event of default has not occurred and is not continuing, all funds on deposit in the cash management account will be used to pay the below in the following order:

- Basic carrying costs;
- Interest and principal on the loan;
- During a trigger period, operating expenses;
- Interest and principal on the mezzanine loan; and
- During the continuance of a partial trigger period, 50% of the remaining funds to the excess cash flow reserve; during a full trigger period, 100%.

Insurance

We reviewed the transaction's insurance provisions and providers, and determined that they are consistent with our property insurance criteria and normal market standards.

The borrower must maintain comprehensive all-risk insurance, including windstorm insurance, boiler and machinery insurance, commercial general liability insurance, and terrorism insurance for the mortgaged property that at least equals the property's full replacement cost. In addition, the borrower must have business interruption insurance for at least 24 months after the property is damaged and an additional period of 12 months after the property is repaired or replaced and operations resume.

Property Characteristics

Collateral description

The loan is secured by cross-collateralized first mortgages on the borrower's fee and leasehold interests in 123 Toys "R" Us and Babies "R" Us stores across 29 states, approx. 14% of all Toys "R" Us and Babies "R" Us stores in the U.S. Of the stores, 68 are run as Toys "R" Us, 32 are Babies "R" Us, and 23 are "side by side", meaning they contain both lines (see table 2).

Table 2

Property By Subtypes			
Property descriptions	No. of locations	Building area (sq. ft.)	% of loan balance
Toys "R" Us and "side by side"	91	3,970,533	78.2
Babies "R" Us	32	1,109,096	21.8
Total	123	5,079,629	100.0

Table 3

Top 10 Properties by NRA									
Property name	City, state	Type	NRA (sq. ft.)	Year opened	% subleased	June 2016 TTM sales (\$ per sq. ft.)	June 2016 TTM EBITDAR	ALA (\$)	% of loan balance
North Attleboro #1	North Attleboro, Mass.	Toys "R" Us	69,392	1991	34.6	181	1,405,098	6,554,653	1.3
Miamisburg	Miamisburg, Ohio	Toys "R" Us	67,130	1987	32.8	178	1,663,335	3,306,458	0.6
Bloomingtondale	Bloomingtondale, Ill.	Toys "R" Us	65,581	1981	32.9	161	1,187,732	6,117,677	1.2
King of Prussia	King of Prussia, Pa.	Side-by-side	62,264	1981	0.0	217	2,453,545	12,089,695	2.4
Wyomissing	Wyomissing, Pa.	Toys "R" Us	61,229	1997	27.0	193	1,791,580	6,088,545	1.2
Toledo	Toledo, Ohio	Toys "R" Us	58,328	1981	25.9	192	1,652,112	4,763,048	0.9
Poughkeepsie	Poughkeepsie, N.Y.	Toys "R" Us	49,044	1987	4.8	173	1,279,408	3,685,172	0.7
Madison Heights	Madison Heights, Mich.	Toys "R" Us	48,077	1971	0.0	213	2,088,017	5,258,289	1.0
Southgate	Southgate, Mich.	Toys "R" Us	47,228	1970	0.0	188	1,703,044	3,554,079	0.7
Corpus Christi	Corpus Christi, Texas	Side-by-side	47,057	1986	0.0	262	2,849,789	3,422,986	0.7
Total/weighted average			575,330	N/A	17.6	197	18,073,663	54,840,602	10.7

NRA--Net rentable area. ALA--Allocated loan amount. N/A--Not applicable.

The stores are typically associated with a mall, either as an outparcel to a mall or in the immediate vicinity to a mall (see table 4). One shop, Gurnee (SBS), is located within the Gurnee Mills Mall in Gurnee, Ill., just north of Chicago.

Table 4

Store Types				
Type	No.	NRA (sq. ft.)	ALA (\$)	% of loan balance
In mall	1	45,302	2,709,257	0.5
Mall outparcel	40	1,745,257	183,967,273	35.9
Standalone	21	859,562	80,144,474	15.7
Standalone near mall	31	1,240,623	130,050,151	25.4
Strip center	30	1,188,885	115,128,845	22.5
Total	123	5,079,629	512,000,000	100.0

NRA--Net rentable area. ALA--Allocated loan amount.

Sales during the 12-month period ending June 2016 at the stores ranged from \$90 per sq. ft. at the Madison, Wisc. store to \$495 per sq. ft. at the Yonkers, N.Y. store (see table 5). On average, sales across the portfolio were \$193 per sq. ft. in that time period. Most of the stores, however, operated within a range of \$150-\$250 per sq. ft.

Table 5

Sales				
Sales range (& per sq. ft.)	No. of stores	NRA (sq. ft.)	ALA (\$)	% of loan balance
<150	19	693,251	49,159,900	9.6
150-250	88	3,754,344	373,536,587	73.0
>250	16	632,034	89,303,513	17.4

NRA--Net rentable area. ALA--Allocated loan amount.

Sales overall have trended downwards from 2013 to June 2016; they declined to \$193 during the 12-month period ending June 2016 from \$204 in 2013, more than a 5% drop (see table 6). The trend has been observed in the Toys "R" Us stores as much as in the Babies "R" Us stores and those that have both types of stores side by side.

Table 6

Sales Trend								
Year	Average Toys "R" Us sales (\$ per sq. Ft.)	% change year over year	Average Babies "R" Us sales (\$ per sq. Ft.)	% change year over year	Average side-by-side sales (\$ per sq. Ft.)	% change year over year	Average total sales (\$ per sq. Ft.)	% change year over year
2013	198	N/A	177	N/A	253	N/A	204	N/A
2014	192	(3.0)	170	(3.9)	244	(3.6)	198	(3.3)
2015	191	(0.8)	164	(3.5)	238	(2.3)	194	(1.7)
June 2016 TTM	190	(0.3)	161	(2.1)	236	(1.1)	193	(0.8)

TTM--Trailing 12 months. N/A--Not applicable.

The change in sales during the most recently reported period compared with 2013 ranges from -30.9% to +18.8%. Of the 123 stores, 103 show a decline in sales over that period, while 20 saw an increase and one store's sales are unchanged. Of the 10 stores with the highest sales per sq. ft., eight recorded decreasing sales, among which is the store with the highest decline since 2013--the Florida Mall Toys "R" Us in Orlando. All of the 10 stores with the lowest sales recorded a decline--11.5% on average.

One indicator of a store's profitability is how much of their sales it retains as EBITDAR. On average across the portfolio, EBITDAR represents 19.0% of sales with a range from 7.7% at the Ogden store in Riverdale, Utah, to 24.5% at the Babies "R" Us in Modesto, Calif.

Of the buildings, seven sublease between 5% and 35% of the space to third party tenants. The building in North Attleboro, Mass., is the largest in the portfolio with 69,392 sq. ft.; it also subleases the highest amount of its NRA, at 35%. Overall, however, subleases only account for 2.1% of the total portfolio's NRA.

Geographic diversity

The portfolio consists of 123 properties with a broad national footprint across 29 states (see table 7). Approximately 15% of the NRA is located in each Pennsylvania and Ohio. The top 10 states represent over 70% of the portfolio's NRA.

Table 7

Geographic Concentrations							
Location	No. of properties	NRA (sq. ft.)	% of NRA	June 2016 TTM EBITDAR	% of June 2016 TTM EBITDAR	ALA (\$)	% of portfolio by ALA
Pennsylvania	18	757,944	14.9	24,853,475	13.7	75,174,591	14.7
California	10	415,086	8.2	15,835,834	8.7	51,636,104	10.1
Illinois	7	300,767	5.9	10,282,909	5.6	34,899,888	6.8
Ohio	18	756,340	14.9	24,183,481	13.3	31,433,205	6.1
Massachusetts	7	284,558	5.6	9,421,133	5.2	29,845,522	5.8
Michigan	7	285,648	5.6	9,888,734	5.4	26,932,343	5.3
Florida	3	132,051	2.6	7,156,887	3.9	23,523,924	4.6
Texas	5	226,503	4.5	8,836,664	4.9	21,018,589	4.1
Wisconsin	5	222,513	4.4	7,144,480	3.9	19,576,565	3.8
New York	4	154,862	3.0	8,224,005	4.5	18,862,836	3.7
Top 10 total	84	3,536,272	69.6	125,827,602	69.1	332,903,567	65.0
Other	39	1,543,357	30.0	56,177,206	30.9	179,096,433	35.0
Grand total	123	5,079,629	100.0	182,004,808	100.0	512,000,000	100.0

NRA--Net rentable area. ALA--Allocated loan amount.

As part of our property analysis, we classify the metropolitan statistical area (MSA) where each property is located as primary, secondary, or tertiary. The nature of each market type affects capitalization rates and valuation dynamics, and can influence the timing and amount of liquidation proceeds if a mortgage loan is foreclosed. Of the pooled trust balance, 36.2% by allocated loan amount are located in primary markets, 38.8% are in secondary markets, and the remaining 25.0% are located in tertiary markets (see table 8).

Table 8

Market Types					
Market type	No. of stores	June 2016 TTM EBITDAR	Average June 2016 TTM sales (\$ per sq. ft.)	ALA (\$)	% of loan balance
Primary	35	55,527,693	201	185,263,635	36.2
Secondary	53	77,410,200	191	198,652,610	38.8

Table 8

Market Types (cont.)						
Market type	No. of stores	June 2016 TTM EBITDAR	Average June 2016 TTM sales (\$ per sq. ft.)	ALA (\$)	% of loan balance	
Tertiary	35	49,066,915	187	128,083,755	25.0	

TTM--Trailing 12 months. ALA--Allocated loan amount.

Master lease

Toys "R" Us-Delaware Inc. leases the properties from Toys "R" Us Property Company II LLC under a 15-year master lease, which expires in 2031, followed by five extension options of five years each, resulting in a final lease maturity of 2056. The beginning master lease rent is \$67.3 million, which is subject to 10% increases every five years.

The lease is triple-net, meaning that the master tenant will be responsible for all property-level expenses.

Toys "R" Us

We affirmed our 'B-' rating on Toys "R" Us Inc. on June 14, 2016, and our outlook is stable. The following is from our research update, "Toys "R" Us Inc. Ratings Affirmed On Proposed Exchange Offer; Outlook Stable," which we published on the same day.

The rating on Toys reflects ongoing intense competition from online and large big-box retailers that could result in market share losses, but also modest profit growth with some free operating cash flows over the next few years after capital expenditure (capex) requirements.

Considerable asset ownership is largely encumbered by secured debt. Operating efficiency metrics have been improving because of successful restructuring initiatives, but inventory issues still remain a risk. The company remains dependent on the holiday season for a majority of EBITDA and cash flow. We expect U.S. GDP growth of 2.3% and 2.5% in 2016 and 2017, respectively, and consumer spending of slightly higher, but still less than 3%. We assume top-line contraction at Toys will continue, with a slow low-single-digit sales contraction over the next couple of years, reflecting stiff competition. We expect adjusted EBITDA margin benefits from cost reductions and which we believe will stabilize (after expanding modestly in full-year 2015) at around 10% in 2016. We expect Toys reported EBITDA of around \$700 million in 2016, which translates into around \$1.2 billion after our adjustments. We expect adjusted debt to EBITDA to remain around 5.7x in 2016, then slowly decline, and for free cash flow to be at least \$30 million in 2016. Toys is a leader in the juvenile (and baby) toys and clothing segment with a substantial revenue base. However, it faces serious competition from online retailers, particularly Amazon.com Inc., and other large big-box retailers like Wal-Mart Stores Inc. and Target Corp. These retailers are very price competitive, an area that Toys continues to work on. Its strategy includes methods to expand globally, improve customer experience, and optimize e-commerce, as well as right-size its cost structure to seek significant cost and working capital savings. Toys depends on each holiday season and also recently on its "Fit for Growth" strategy to drive profitability. The financial risk assessment incorporates Toys' substantial debt burden, considerable interest costs, and limited free operating cash flow. We expect only modest improvement in credit ratios, which will remain weak, with leverage over the next year in the high-5x area. Most cash flow ratios as compared with debt are small. Three private equity sponsors--Bain Capital, KKR, and Vornado Realty Trust--have owned the company for more than 10 years. We believe the private equity ownership structure complicates strategic and financial policy decisions. We view Toys' liquidity as adequate given

sufficient cash on the balance sheet, good availability under its revolving credit facility, and moderate funds from operations, partly offset by the substantial need of seasonal, intra-year working capital. We expect the company's liquidity sources to exceed its uses by more than 1.2x over the next 12 months.

Leasehold interests

Of the 123 properties, 11 accounting for 7.5% of the NRA are subject to ground leases that generally afford the lender standard notice and cure rights. In all cases, except for the Babies "R" Us in North Attleboro, Mass., the ground leases have extended maturity dates that are at least 20 years beyond the loan's maturity date, when including lease renewal options for the ground lessee. The ground lease for the North Attleboro property expires in January 2040 (including renewal options), which is 22 years after the expiry of the initial loan term and 19 years after expiry of the fully extended loan term. The other ground leases expire between 2042 and 2054.

Property releases

The borrower may obtain the release of one or more of the properties subject to the payment of release premiums equivalent to the greater of:

- 110% of the allocated loan amount for total releases up to \$256 million and 115% thereafter; and
- 80% of the net sales proceeds.

If the net sales proceeds exceed the limits stated above, amounts above the minimum release premium and up to 85% of the net sales proceeds will be paid into the TILC and capital expenditure reserve. Any amounts in excess of that will be used to repay the mezzanine loan.

Management agreement

The properties are managed by the borrower, Toys "R" Us Property Company II LLC. There is no property management agreement, and the borrower shall not enter into one without the lender's consent, according to the loan agreement.

In our underwriting, we assumed a management fee of 3% of the effective gross income.

Third-Party Reviews

We reviewed appraisal, environmental, and engineering reports. In our view, none of the properties had notable issues. With regard to properties representing 12.2% of the allocated loan amount, the environmental analysis recommended completion of a phase II report and/or completion of certain file reviews. These reports have not been completed to date, but insurance is in place to cover potential costs of the remediation of environmental conditions. The environmental consultant provided a range of the estimated liabilities for each affected property. According to that source, the maximum liability for each asset ranges from \$100,000 to \$350,000, and the total liability could be up to \$2.4 million. Insurance would cover up to \$3 million for each liability and up to \$10 million in total.

Structural And Legal Issues

We reviewed the legal matters that we believed were relevant to our analysis. This review included analysis of the major transaction documents, including the offering circular, trust and servicing agreement, and other relevant documents and opinions, to understand the transaction's mechanics and its consistency with applicable criteria. We also conducted a structural review of the first-mortgage loan agreement, the cash management agreement, and the master lease agreement.

Extraordinary trust expenses

The borrowers must pay special servicing, workout, and liquidation fees, as well as costs and expenses incurred from any appraisals or inspections the special servicer may conduct. In addition, the borrowers must pay interest on all debt service advances and advances that the servicer or trustee makes from enforcing the borrowers' obligations under the loan documents. Because S&P Global Ratings' credit ratings reflect, among other factors, timely interest payments on the certificates, the borrowers' obligation to pay these trust fund expenses helps mitigate the risk of interest shortfalls caused by a monetary or nonmonetary default.

Historical Cash Flow And S&P Global Ratings' Cash Flow Notes

We reviewed the historical cash flows and the issuer- and appraiser-reported cash flows to determine its view of a sustainable cash flow for the portfolio. We summarize the historical and S&P Global Ratings' NCF for the portfolio below (see table 9).

Table 9

Cash Flow Analysis		
New Issuance	Issuer	S&P Global Ratings
Income		
Gross potential rent (\$)	67,300,000	67,300,000
Less: vacancy loss (\$)		(9,334,669)(i)
Expense reimbursement (\$)	14,758,286	26,046,687(ii)
Effective gross income (\$)	82,058,286	84,012,018
Reimbursement percentage (%)	100	91
Operating expenses		
Real estate taxes (\$)	11,791,604	-
Management fees (\$)	673,000	2,520,361(iii)
Operating expenses (\$)		22,792,199(iv)
Ground rent (\$)	2,293,682	3,254,488(v)
Total operating expense (\$)	14,758,286	28,567,048
Operation expense ratio (\$)	18.0%	34.0%
Net operating income (\$)	67,300,000	55,444,970
Leasing commissions (\$)	1,312,350	1,635,390(vi)
Tenant improvements (\$)	2,201,173	1,388,645(vii)
Capital expenditures (\$)	1,129,013	1,015,927(viii)

Table 9

Cash Flow Analysis (cont.)		
New Issuance	Issuer	S&P Global Ratings
Total capital item (\$)	4,642,536	4,039,961
Net cash flow (\$)	62,657,465	51,405,009
Add to net cash flow (\$)		380,416(ix)
Net cash flow for debt service coverage (\$)		51,785,425
Haircut to issuer net cash flow (\$)		(17.4)
S&P Global ratings cap rate (%)		7.91(x)
S&P Global Ratings' "lit" value (\$)		649,899,140
Deduction from value (\$)		(128,896,432)(xi)
S&P Global Ratings' "dark" value (\$)		521,002,708
S&P Global Ratings' "dark" value per sq. ft. (\$)		103

Cash flow notes

- (i) 10% of the master lease rent.
- (ii) Reimbursement of all expenses except the management fee under the triple net lease.
- (iii) Based on 3% of the effective gross income.
- (iv) Assuming an operating expense ratio of approx. 30% excluding ground rent payments
- (v) Ground rent payment in year 10 after the fully extended loan maturity date.
- (vi) Based on 4% for new leases and 2% for lease extensions.
- (vii) Based on \$4.50 for new leases and \$2.25 for lease extensions.
- (viii) Based on \$0.25 per sq. ft.
- (ix) Represents the average annual savings in ground rent payments compared with the underwritten ground rent expense in line item (v) above.
- (x) Weighted average cap rate based on location of each property and its most recent sales.
- (xi) Equivalent to the difference between S&P Global Ratings' "Lit" value and our "Dark" value as described further below.

In our valuation of the portfolio, we considered the financial condition of Toys "R" Us Delaware Inc., the master tenant. For more details, see the Toys "R" Us section above.

The appraiser provided market rents for single-tenant users of the Toys "R" Us space and the rental payment under the master lease structure such that it is equivalent to the combined market rents per the appraisals. As such, we have underwritten the gross potential rent of the portfolio to the master rent.

The Toys "R" Us master lease is a triple-net lease, whereby the tenant is responsible for its share of all operating expenses. We similarly assumed replacement tenants would reimburse their share of operating expenses, with the exception of a management fee, which we assumed to be 3%. We applied a 10% vacancy across the portfolio to the combined gross potential rental revenue (base rent and reimbursements). We based our expense figures on an operating expense ratio of 30% (plus ground rent payments), which we believe is in line with similar types of properties.

The ground rent payment we assessed as the maximum combined ground rent payment for the period ending 10 years after the fully extended loan term.

We determined our S&P Global Ratings' NCF based on table 8 by subtracting operating expenses and capital items from the effective gross income.

In determining our cap rates, we considered the varying nature of the collateral (some situated in or near malls, others in free standing retail sites) and elected to use base cap rates of 7.5%, 8.0%, and 8.5% for properties in primary, secondary, and tertiary markets, respectively, which corresponds to "unanchored, average-to-above-average quality" in our general approach to valuing retail properties. We made positive and negative adjustments to the base cap rate on an asset-by-asset basis, for various factors, including:

- Low sales (below \$150 per sq. ft.; +0.25%);
- High sales (above \$150 per sq. ft.; -0.25%);
- Asset type (in a mall -0.50%, outparcel or strip center -0.25%);
- Short remaining ground lease (one asset, +0.50%);

Weighted across the portfolio, these adjustments resulted in a 0.07% negative adjustment. Our average cap rate across the portfolio was 7.91%. We calculated our "lit value" by dividing our S&P Global Ratings' NCF by our cap rate.

We assessed the time and cost to re-tenant the Toys "R" Us space as 18 months of lost net operating income, which we divided by two to account for the fact that some properties may be re-tenanted quicker than others. We also deducted the tenant improvement costs (\$4.50 per sq. ft. based on a 90% occupancy) and leasing commissions (4% of the base rent assuming a 90% occupancy and a 10-year lease term).

Deducting these amounts from our "lit value" resulted in our dark value. The S&P Global Ratings' value that we use to calculate our minimum credit enhancement levels for each rating category is equivalent to the present value of our dark value. We discounted our dark value at a discount rate equivalent to our cap rate plus 0.25% over one year.

Our final value is \$521.0 million (\$103 per square foot), which is 40.7% lower than Cushman & Wakefield's in-place value.

Property Evaluation Details

During our property evaluation, we:

- Conducted site inspections of eleven (11.4% by allocated loan amount) of the subject properties;
- Analyzed and valued the properties, which included reviewing property-level operating statements, issuer-provided data, and the borrowers' budgets; and
- Reviewed management and sponsorship, which included meetings with on-site personnel and discussions with property managers; reviewed the third-party appraisals, environmental reports, and engineering reports for the properties; and reviewed the legal matters that we believe are relevant to our analysis, as outlined in our criteria. We reviewed the current drafts of the major transaction documents, including the loan agreement, intercreditor agreement, offering circular, and trust and servicing agreement to verify compliance with our criteria and to understand the mechanics of the underlying loans and the transaction.

Scenario Analysis

We performed several 'AAA' stress scenario analyses to determine how sensitive the certificates are to a downgrade over the loan term.

Effect of declining NCF

A decline in NCF may constrain cash flows available for debt service. A decline in cash flows may occur due to falling rental rates and occupancy levels, changes to operating expenses, or other factors that may decrease a property's net income. To analyze how a decline in cash flows would affect our ratings, we developed scenarios whereby the NCF from the portfolio decreases by 10%-40% from our current cash flow, which is 17.4% lower than the issuer's underwritten NCF for the trust loans. (See table 10 for the potential effect on S&P Global Ratings' 'AAA' rating under these scenarios, holding constant S&P Global Ratings' 7.9% capitalization rate for the trust loans.)

Table 10

Effect Of Declining NCF On S&P Global Ratings' Credit Ratings					
Decline in S&P Global Ratings' NCF (%)	0.00	(10.00)	(20.00)	(30.00)	(40.00)
Potential 'AAA' rating migration	AAA	AA	A-	BB+	B

NCF--Net cash flow.

Transaction-Level Credit Enhancement

To determine a transaction's credit enhancement at each rating level, we use each loan's S&P Global Ratings' DSC and LTV to calculate the stand-alone credit enhancement (SCE) and diversified credit enhancement. However, because this transaction is secured by one loan, its SCE represents the transaction's credit enhancement at each rating level.

Our analysis of a stand-alone transaction is predominantly a recovery-based approach that assumes a loan default. We use the loan's stand-alone LTV thresholds at each rating level to determine the expected principal proceeds that can be recovered at default and are applicable to a loan with a 10-year loan term, a 30-year amortization schedule, and no additional debt (a "benchmark 10/30 loan").

There is subordinate debt in the form of mezzanine debt. To account for this additional risk, we reduced the LTV thresholds by applying negative adjustment factors across all rating categories. We applied a positive LTV adjustment at each rating level to account for the geographic and brand diversity within the portfolio. Below, we provide the LTV ratio and the implied market-value decline for each class (see table 11).

Table 11

S&P Global Ratings' LTVs And Implied Market-Value Declines			
Class	Preliminary rating	LTV (%)	Implied market value decline (%) ⁽ⁱ⁾
A	AAA (sf)	47.0	72.1
B	AA- (sf)	57.0	66.2
C	A- (sf)	64.5	61.8
D	BBB- (sf)	73.7	56.3
E	BB- (sf)	86.2	48.9

Table 11

S&P Global Ratings' LTVs And Implied Market-Value Declines (cont.)			
Class	Preliminary rating	LTV (%)	Implied market value decline (%)⁽ⁱ⁾
F	B- (sf)	98.3	41.7

(i) Reflects the decline in the \$878.8 million appraised value (as of April 2016) that would be necessary for a principal loss to be experienced at each given rating level. LTV--Loan-to-value ratio.

Related Criteria And Research

Related Criteria

- U.S. Government Support In Structured Finance And Public Finance Ratings, Dec. 7, 2014
- Insurance Criteria For U.S. And Canadian CMBS Transactions, June 13, 2013
- Methodology And Assumptions: Assigning Ratings To Bonds In The U.S. Based On Escrowed Collateral, Nov. 30, 2012
- CMBS Global Property Evaluation Methodology, Sept. 5, 2012
- Rating Methodology And Assumptions For U.S. And Canadian CMBS, Sept. 5, 2012
- Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Assessing Borrower-Level Special-Purpose Entities In U.S. CMBS Pools: Methodology And Assumptions, Nov. 16, 2010
- Global Methodology For Rating Interest-Only Securities, April 15, 2010
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009
- Legal Criteria For U.S. Structured Finance Transactions: Special-Purpose Entities, Oct. 1, 2006
- U.S. Legal Criteria For "Recycled" Special-Purpose Entities, Sept. 19, 2002

Related Research

- Lay Of The Land: Positive Momentum Continues For North American REITs With Steady Economic Growth And Demand, Sept. 9, 2016
- Toys "R" Us Subsidiary TRU Taj LLC's Senior Secured Notes Rated 'B-' (Recovery Rating: 4), Aug. 29, 2016
- Toys "R" Us Inc. Ratings Affirmed On Proposed Exchange Offer; Outlook Stable, June 14, 2016
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014
- Industry Economic And Ratings Outlook: With Issuance Up And Delinquencies Down, CMBS Has Positive Momentum Going Into 2014, Dec. 9, 2013
- U.S. And Canadian CMBS Diversity Adjustment Factor Matrices, Sept. 5, 2012
- Application Of CMBS Global Property Evaluation Methodology In U.S. And Canadian Transactions, Sept. 5, 2012

In addition to the criteria specific to this type of security (listed above), the following criteria articles, which are generally applicable to all ratings, may have affected this rating action: "Post-Default Ratings Methodology: When Does Standard & Poor's Raise A Rating From 'D' Or 'SD'?", March 23, 2015; "Global Framework For Assessing Operational Risk In Structured Finance Transactions," Oct. 9, 2014; "Methodology: Timeliness of Payments: Grace Periods, Guarantees, And Use of 'D' And 'SD' Ratings," Oct. 24, 2013; "Counterparty Risk Framework Methodology And Assumptions," June 25, 2013; "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," Oct. 1, 2012; "Methodology: Credit Stability Criteria," May 3, 2010; and "Use of CreditWatch And Outlooks," Sept. 14, 2009.

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