Expect a Wild Ride for Used Car Dealers from Hertz Bankruptcy

Wolf Richter of WOLF STREET is reporting a wild ride is expected in the used car market after Hertz filed bankruptcy. The Chapter 11 bankruptcy filing of Hertz Corporation and its US and Canadian subsidiaries Hertz, Dollar, Thrifty, Firefly, Hertz Car Sales, and Donlen – but not its subsidiaries in Europe, Australia, and New Zealand – on Friday May 22 threatens to make a royal mess of used-vehicle wholesale prices, as creditors may take possession of their collateral and dump hundreds of thousands of vehicles on the wholesale market starting in late July, pushing down wholesale prices further and creating further valuation pressures and bigger losses for Hertz creditors, the entire rental car industry, and leasing companies that also have to dispose of their vehicles.

This is the scenario the industry has been dreading for the past 10 weeks or so, when the distant likelihood of a Hertz bankruptcy suddenly became front and center. Hertz has already laid off about 20,000 people, or about half of its global workforce, it said in its bankruptcy press release.

On April 29, Hertz disclosed that it had missed a lease payment on part of its fleet. And this is where it gets interesting, in terms of financial engineering and corporate complexity.

Hertz, which runs the second-largest rental fleet in the US behind Enterprise, owns its fleet in two types of setups: as “program vehicles” and “non-program” (or at-risk) vehicles.

Program vehicles are purchased from automakers under repurchase or guaranteed depreciation programs, where automakers agree to repurchase the vehicles at a set price; or they guarantee the depreciation rate until the vehicle is repurchased or sold at auction. These program cars are more expensive for Hertz. But they have two benefits for Hertz that would now be sorely needed: They shift the risk of the vehicle’s value to automakers; and they allow Hertz to get out of units at preset prices, giving Hertz flexibility in cutting its fleet when it needs to without taking losses.

If Hertz decides to shed some of those vehicles, they’ll show up at the auctions, adding to the supply of used vehicles. But it’s the automakers that will have to take the losses.

However, only 29% of its fleet in the US, or about 164,000 vehicles, were program vehicles as of Dec 31, according to its **10-K filing**.

The remaining 71%, or 400,000 vehicles, were non-program at-risk vehicles. They’re owned outright by the company, and it carries all the risks.

But wait… here come the “bankruptcy-remote special-purpose subsidiaries” and $14.5 billion in rental-vehicle-backed securities.

Hertz leased these 400,000 vehicles from entities it created and owns – such as Hertz Vehicle Financing II LP, a “bankruptcy remote” wholly-owned special-purpose subsidiary of Hertz. These special-purpose subsidiaries are not part of the bankruptcy filing. But they have securitized these leases of the at-risk fleet into $14.5 billion of asset-backed securities (ABS) **as of March 31**.

These $14.5 billion in ABS, which are also not part of the bankruptcy filing, are held everywhere, from pension funds to hedge funds and bond mutual funds. The 400,000 vehicles are the collateral.

On April 29, Hertz announced that it missed making the payment on its vehicle operating lease to its special-purpose subsidiary. Thus, the cash flow to the special-purpose subsidiary collapsed, which then cannot pay the holders of the ABS. Hertz was able to negotiate “short-term relief” with the holders of the ABS at the time, it said, but was “unable to secure longer-term agreements” to reduce the payments.

The ABS holders now have a right to foreclose on the vehicles and sell them at auction. But they have to wait for 60 days. So this scenario would commence toward the end of July.

Hertz will likely try to work out a deal to where only part of the fleet is liquidated that would downsize the fleet to a large extent, but leave enough vehicles in the fleet to meet the collapsed travel demand.

But working out a deal with these disparate holders of those ABS is going to be complicated – if it can be done at all. If no deal can be worked out, the ABS holders can liquidate all 400,000 vehicles. If a deal can be worked out, they might liquidate only part of that.

Vehicles lose value constantly, even when they’re parked, and dragging this out means even bigger losses for the ABS holders. And they know that too. When those vehicles are suddenly being run through the auctions starting in late July, they will put downward pressure on wholesale prices, further increasing the losses.

And there’s more debt.

Hertz also owed $4.3 billion in non-vehicle, deep-junk-rated corporate bonds and leveraged loans. According to Trepp, the

$700 million term loan has been packaged into Collateralized Loan Obligations (CLO).

And this eight-year 6% unsecured note, issued in November 2019 at around 100 cents on the dollar, and that traded at 104.5 cents on the dollar on February 21, closed at 12 cents on the dollar on Friday, before the bankruptcy announcement (chart via **Finra-Morningstar**):

The **bankruptcy petition** listed $24.4 billion in total debts, including trade accounts payables, and $25.8 billion in assets as of March 31. Much of the asset book values are based on vehicle values. But wholesale vehicle prices dropped 12% in April, according to Manheim, the largest auto auction house in the US. There has been somewhat of a partial recovery of prices in early May, but those Hertz vehicles are hanging dreadfully over the **market that is just now starting to unfreeze**.

Hertz listed numerous unsecured creditors in its bankruptcy petition, such as lenders, vendors and suppliers. These are the largest five:

- Wells Fargo, unsecured notes totaling $2.7 billion
- Goldman Sachs, lender, administrative agent for Alternative Letter of Credit: $200 million.
- US Bank, unsecured notes, $28 million
- IBM, trade accounts payable, $23 million
- Lyft, trade accounts payable, $19 million.

The pandemic was what knocked Hertz over the cliff. But it had been teetering near the cliff for years, burdened by its enormous debts and lousy operations.

It lost money in three of the last four years, totaling $447 million. But that profitable year, 2017, was only profitable due to a $902 million income tax benefit, while it had an operating loss that year of $575 million.

FOR FULL STORY GO **HERE**.

Ridgewood Gardens sells for $11.3 M in Tucson Arizona

Ridgewood Gardens, 3302 S. Pantano Rd., Tucson, AZ

TUCSON, Arizona – There is no stopping SVN Desert Commercial Advisor multifamily advisor, **Danny Lee.** He has been a staple in the multifamily market for over a decade and continues to close transactions all over the valley. He represented the buyer in the $11.3 million ($66, 100 per unit) sale of Ridgewood Gardens in Tucson, AZ.

The multifamily property is located at 3302 S. Pantano Rd. The 171-unit complex is only ten minutes away from The University of Arizona and surrounded by a great trade area just north of the property along E Broadway and E Speedway Boulevards. The buyer Lilly Tucson Investments, LLC was a 1031 exchange buyer that was seeking a better return of his investments in the Tucson market. “The seller and buyer were extremely diligent during the entire transaction,” said Lee.

The 148,494-square-foot property will be working on some upgrades by installing separate water meters to individual units to reduce water usage. This will help in the efforts of boosting the operating income as well. This sale concludes the final property sale in Arizona by seller, Ridgewood USA, LLC. The transaction was closed less than 90 days and sold with a Cap Rate of 5.25% on current operation.

Marcus & Millichap Arranges the Sale of Sladek Manor, a 24-Unit Apartment Community in Glendale, AZ

GLENDALE, Ariz. – [Marcus & Millichap (NYSE: MMI)](), a leading commercial real estate brokerage firm specializing in investment sales, financing, research and advisory services, announced today the sale of Sladek Manor, a 24-unit apartment community located in Glendale, Arizona. According to Ryan Sarbinoff, regional manager of the firm's Phoenix office, the asset sold for $2,000,000 ($83,333 per unit).

Paul Bay, an investment specialist in Marcus & Millichap's Phoenix office, had the exclusive listing to market the property on behalf of the seller, a developer. "Given its desirable unit mix and low-density, Sladek Manor is a prime candidate for a programmatic interior renovation," Bay explained. “Future ownership has the opportunity to provide home-style amenities for residents such as in-suite laundry and private patios which are typically associated with higher renovation premiums.” The buyer, a developer, was also procured by Bay.

Sladek Manor is located at 6740 West Montebello Avenue in a residential neighborhood in Glendale, Arizona. Built in 1974 on 0.35 acres, this 15,456-square-foot property consists of 24 two-bedroom floorplans, four of which have been renovated. The property is four miles east of the Westgate Entertainment District, the West Valley’s restaurant and nightlife destination and home of the Arizona Cardinals.