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CMBS Credit Focus

Distressed Office: 522 Fifth Trade Illustrates Office Upside

Distress Buy and Fast Resolution Drive a Remarkable Gain

The ~$90 million profit in well under a year's time on a $130 million investment in 522 Fifth Avenue loan (CSMC 2020-522F) illustrates potential eye-popping upside in distressed office. SL Green reportedly bought the $224 million mortgage on the Manhattan office building at 40% discount around September 2024. The borrower paid off the mortgage in May 2025 to the tune of $200 million, as the REIT just disclosed in Q2 2025 Earnings. The 522 Fifth CMBS loan, which was in maturity default before its payoff, transferred to special servicing back in April 2024. The lender moved to foreclose a couple months later, and later executed a note sale (Figure 1).

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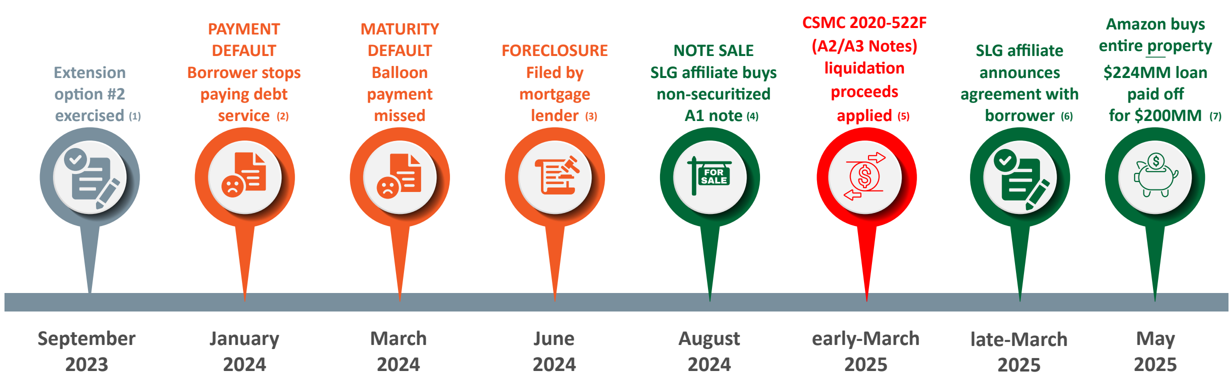
Figure 1. 522 Fifth Avenue (CSMC 2020-522F) Timeline

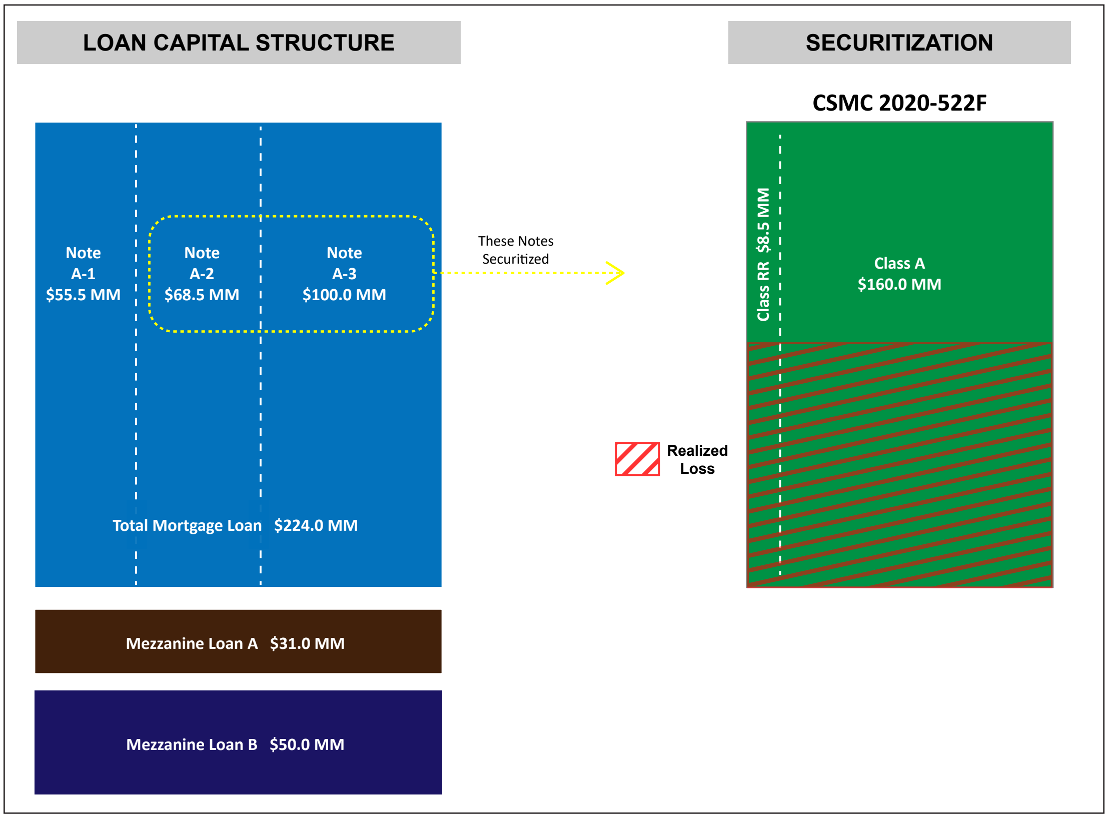


1. The borrower exercised a second extension option for six months to March 2024. The loan documents provided only six months (instead of 12) if the sole tenant (Morgan Stanley) gave notice of early lease termination
2. The borrower failed to make the January 2024 debt service payment, and never made another debt payment through the March 2025 liquidation of CSMC 2020-522F
3. The lenders (for notes A1, A2, and A3 of mortgage), represented by Column Financial as the administrative agent for the overall mortgage loan, filed a foreclosure action
4. On 8/20/2024 an SL Green ("SLG") affiliate purchased the $55.0 million non-securitized A-1 note from UBS (Column Financial assigned the A-1 Note to UBS a few months earlier as part of the Credit Suisse merger). After the A-1 Note purchase, SLG affiliate Green Loan Services took over as the mortgage administrative agent from Column Financial. Green Loan Services subsequently took over as plaintiff in the foreclosure action
5. On 3/17/2025 the servicer reported liquidation distribution for CSMC 2020-522F, resulting in an $88.4 million realized loss (52% loss severity)
6. On 3/28/2025 Green Loan Services sent a letter to the court stating they (as administrative agent and plaintiff) reached an agreement with borrower. The letter stated that if the borrower complied with certain payment requirements by June 25, 2025, the plaintiff would drop the foreclosure action
7. In early May 2025 Amazon purchased the entire property (both the office and retail condo components) for $350 million. The $224 million mortgage loan paid off for $200 million. Notably, only the office component served as collateral for the $224 million mortgage. To sell both the office and retail components to Amazon, a borrower affiliate purchased the retail condo for $85 million. As such, the allocated sales price for the office component was arguably $265 million

Source: Deal Documents and Academy Securities

The striking gain SL Green realized on the 522 Fifth transaction contrasts with the 52% realized loss on the CMBS bonds in CSMC 2020-522F. The 522F deal, backed by $168.5 million exposure to the $224 million mortgage, liquidated in the March 2025 remittance with $97.7 million proceeds. This roughly reflects the 60 cents on the dollar price SLG paid in the note sale. A $55 million vertical slice of the mortgage was held outside the trust (Figure 2).

Figure 2. 522 Fifth Avenue Capital Structure and Liquidation



Source: Deal Documents and Academy Securities

Distressed $60 Price Looked Reasonable a Year Ago

A distressed purchase price and relatively fast resolution via the mortgage payoff drove the note buyer's successful outcome in 522 Fifth, based on public information. SLG noted it had projected a range of outcomes when it bought the mortgage, from "DPO to restructuring to sort of ultimate enforcement remedies." In its earnings call, SLG stated the mortgage payoff was "a little faster-than-expected" but within the range of expectation.

In turn, around the time of the note sale, 60 cents on the dollar price likely reflected a reasonable market price on a non-performing mortgage backed by a vacant Manhattan office building. The sole tenant of the 23-story, 536k sf property exercised an early termination option. The borrower failed to pay off the floating-rate mortgage at maturity. The lender's foreclosure motion also cited a long list of other breaches, including failure to replenish reserve accounts and make interest rate cap payments. All told, the CMBS bondholders appeared to have been facing a non-cooperative borrower, and a lengthy resolution process. We believe CSMC 2020-522F bondholders marked the deal's single class at $59 in December 2023, down from $66 in September 2023, and $68 in June 2023.

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Securitized Products Special Topics:

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Russian Sanctions Impact: Lease Terminations and Forced Property Sales

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Reserves vs Advances: Servicers Tap Reserves to Lower Advances

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Special Servicer Replacements: 1740 Broadway Crystalizes Implications

Crossgates Liquidation: Holdbacks Complicate Severity Projections

WODRA: Bond Cashflows Under Stress in Post-Mod Advance Recovery

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Credit 2023: Advancing and Workout Approaches to Play a Central Role

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Office Modifications: 285 Madison May Offer a Blueprint for More to Come

Triple-A Shortfalls: Destiny Spotlights Delayed ASERs Impact

Inflation-Resistant Leases: Rent Steps Offer Some Revenue Protection, though Not Much

Industrial Delinquencies: Don’t Happen Often, but Watch Closely When They Do

Hotel Reserves: Key Performance Driver after Pandemic-Driven Depletion

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Mall Foreclosures: What to Track as Servicers May Shift Away from Modifications

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