ACADEMY SECURITIES

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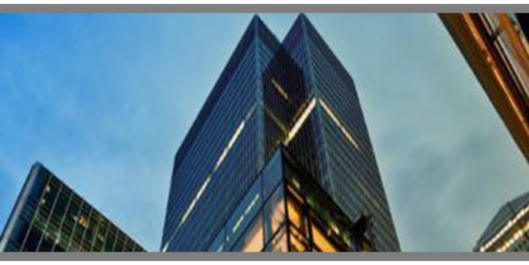
# CMBS Credit Focus

## American Dream: Surprise PILOT Relief as Valuation Drops



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### Distressed Property Reassessments May Lower PILOT Burden

**Payment in lieu of taxes or PILOT structures increasingly pop up as an issue to watch in property workout situations.** The recent first-time partial missed payment on American Dream's PILOT-backed revenue bonds provides an informative anecdote on the varied formats PILOTs can take. The $800 million outstanding American Dream bonds paid holders only $14.1 million interest in June, rather than the scheduled payment of $26.7 million. The key driver of the reduced payments was a lower assessed valuation of the mega-mall in Meadowlands, New Jersey. The American Dream PILOT payments are tied to the assessed value of the property leasehold.

The three million square feet American Dream is the second largest mall in the US, after the Mall of America ($1.4 billion, CSMC 2014-USA). Triple Five owns both American Dream and the Mall of America. American Dream sits very close to MetLife Stadium, aka "NY/NJ Stadium" during the 2026 FIFA World Cup games. The stadium will host the tournament's Final game on July 19.

**The American Dream situation suggests that PILOT expenses can decrease if property distress leads to lower assessed values.** Still, it is not clear how prevalent assessment-driven PILOT structures are, like the one in American Dream. Moreover, even on American Dream-like PILOTs, property reassessments may not quickly adjust downward following property struggles. Any reassessments may also face resistance. The American Dream PILOT bondholders are contesting in court the lower valuations that resulted in reduced PILOT obligations.

**The potential tailwind of lower PILOT payments in distress contrasts with the traditional view of PILOTs as workout obstacles.** Notable recent case studies are the $515 million NYT 2019-NYT and the $300 million JPMCC 2014-DSTY. The prospects for some form of PILOT relief echoes expectations for lower property taxes on distressed properties. This angle came up in situations such as Crossgates Mall, in Albany, NY ($173 million, now in WFCM 2025-5C7 and BMO 2026-5C15; previously in COMM 2012-CR1, CR2, and CR3, and CMBX.6).[1]

1 "Crossgates Liquidation: Holdbacks Complicate Severity Projections," CMBS Credit Focus, Academy Securities, September 11, 2023

## Track PILOT Seniority and Termination

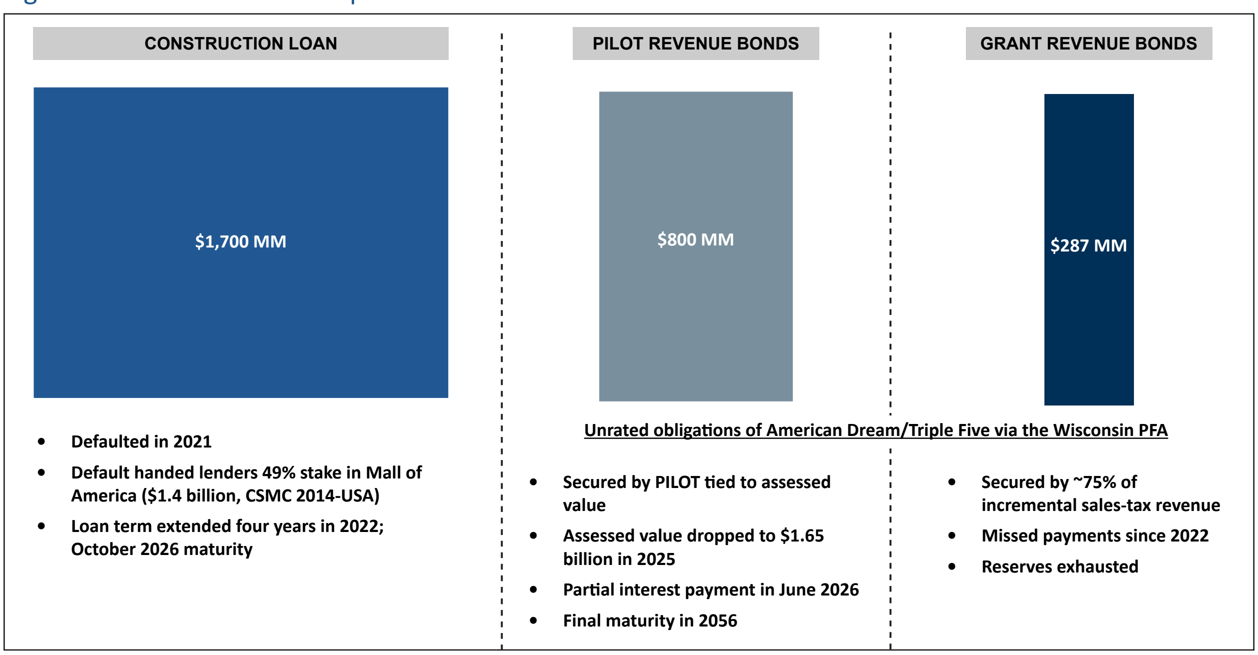
**The presence of PILOT can affect property capital structures and financials in a variety of ways.** PILOT benefits can represent significant savings on property expenses. But the termination of a PILOT program during the CMBS term, or even after loan maturity, can dramatically pressure financials, as well as the loan's refinancing scenarios.[2] In NYT 2019-NYT, backed by the New York Times Building in Manhattan, the PILOT program is set to expire in 2032. We estimated the tax savings on the New York Times Building to be 52.3% compared to non-exempt tax payments. After 2032 the borrower would pay full property taxes. The loan transferred to special servicing in November 2025. Maturity default later followed. The servicer is now evaluating workout alternatives. We expect the upcoming PILOT expiration to be a consideration for any potential property refinance or sale.[3]

**Separately, PILOT revenue bond obligations can be senior to the CMBS debt payments.** This is the case in JPMCC 2014-DSTY, as a few data platforms recently flagged. The super-regional Destiny USA in Syracuse, NY, which is backing JPMCC 2014-DSTY, has PILOT revenue bonds attached to it, similar to American Dream. Those bonds are senior to the CMBS loan. The special servicer is now marketing the mall for sale. Any potential buyer stands to assume the PILOT obligations as well.

## American Dream Construction and Muni Capital Structure

**American Dream overall capital structure shows a combination of a private construction loan and municipal debt.** While American Dream does not have a CMBS component, it shows how PILOT arrangements can be carried over as properties switch to stabilized-type funding, including CMBS (Figure 1).

Figure 1. American Dream Capital Structure




Source: Deal documents, press reports and Academy Securities

2 "PILOT: Check Another Wrinkle of Ground Leases," CMBS Credit Focus, Academy Securities, July 1, 2024

3 The PILOT arrangement on the New York Times Building is quite nuanced, and takes the form of a ground rent. For a full discussion of the situation, see the previous research report we cited above.

## Thousands of PILOT Properties, but No Easy Way to Tie to CMBS Loans

**American Dream suggests that it could be instructive to track other reassessment-driven PILOT structures.** The American Dream PILOT payments are 90% of the property taxes that would have imposed on the mall, according to the PILOT revenue bonds prospectus. The prospectus stresses that the PILOT payments are not a fixed schedule of payments. Rather, the payments are calculated using then-current property tax assessment and tax rate.

**Despite the critical impact PILOT programs can have on property financials, consistently identifying CMBS loans with a PILOT component remains a challenge.** We do not see a specific IRP field identifying PILOT properties, as we discussed in a pervious report. Cashflow systems also do not offer clear identification. Compiling all PILOT properties from third-party sources and mapping them to CMBS loans looks far from straightforward. Anecdotally, New Jersey had 2,678 PILOT agreements outstanding against properties with a collective $29.9 billion of assessed value in 2023, as Trepp recently reported citing an accounting firm analysis.

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