Upping Appraisals: Recovering Valuations Reverse Shortfalls

Starwood Mall Portfolio Spotlights Value Increase Impact

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The new higher appraisal on the $681.6 million Starwood Mall Portfolio (SRPT 2014-STAR) spotlights the still-rare, but potentially increasing instances of rising valuations on troubled loans. The STAR deal just reported an appraisal of $279.3 million on the four-property mall portfolio, up 35% from the previous valuation of $207.0 million, as of December 2021. To be sure, the new valuation is still significantly depressed compared to the at-issuance appraisal of $1.1 billion. The Starwood portfolio transferred to special servicing back in November 2019, and is going through a lengthy and complex workout process (Figure 1). But the new valuation did lower the loan's appraisal reduction amount (ARA), and should decrease ongoing ASER amounts and interest shortfalls. Stated broadly, higher valuations, even still-depressed ones, could have immediate positive impact on shortfalling bonds.

Figure 1. Starwood Mall Portfolio Loan and Property Parameters

Asset	Starwood Mall Portfolio			
Deal	SRPT 2014-STAR			
Balance	$681,600,000			
Maturity	November 2019 (Final Extension)			
Coupon	1ML + 205 bps	Appraisal History	Advancing & ASERs	
Loan Status	Matured Non-Performing	$279.3 MM (Dec-2022)	Total P&I Advanced:	$0.0 MM
Receiver	Spinoso	$207.0 MM (Dec-2021)	Total Other Advanced:	$0.0 MM
Property Type	Retail	$210.6 MM (Dec-2020)	Cumulative ASER:	$46.7 MM
Location	Wellington, FL; Norfolk, VA;	$366.7 MM (Dec-2019)		
	Charlotte, NC; Clinton, MI	$1,074.0 MM (Sep-2014)		

Source: MCIA and Academy Securities

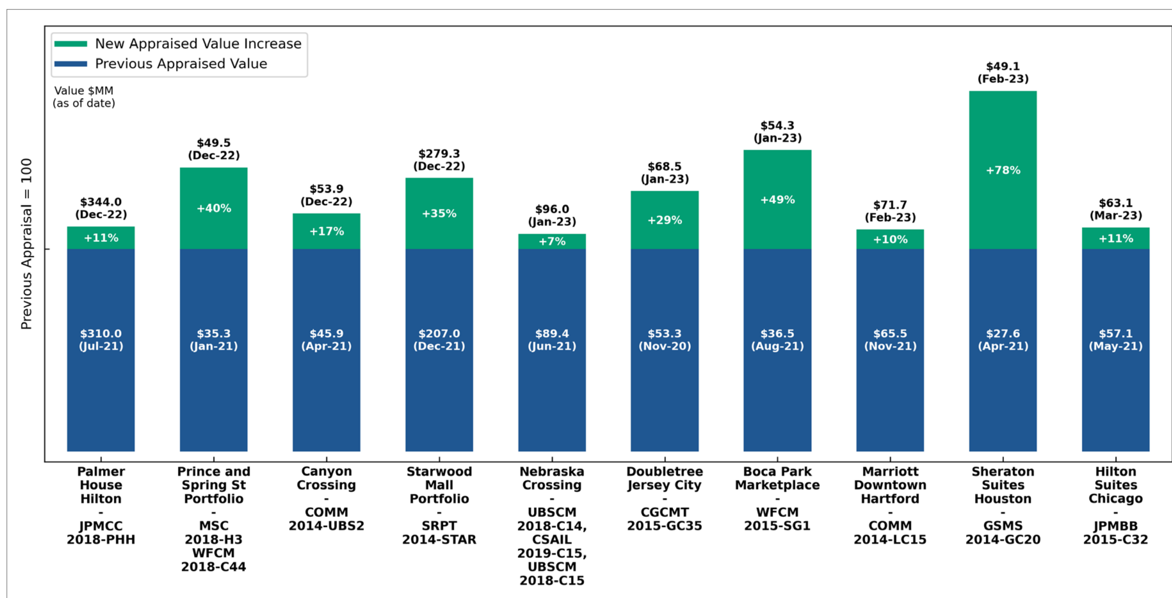
We will not be surprised to see more upward appraisal revisions, even drastic ones, popping up in the coming months. This may seem counter-intuitive amid the much-publicized stress across commercial real estate markets. But some troubled properties, especially retail and hotel, have seen notable performance improvements compared to the height of the pandemic. We are increasingly coming across situations where cashflows swung from near-zero a couple years ago, to much healthier recent levels. Shidler / NSSP - Hospitality Portfolio ($204.0 million, HMH 2017-NSS) and Hilton Minneapolis ($180 million, JPMCC 2018-MINN) are two notable examples we recently discussed.[1] All told, appraisers may now re-assess highly distressed valuations from 2021 or 2020. Special servicers need to obtain new appraisals every year on serviced loans.

1 Excess Cash Allocations: Probing Advances on Positive Cashflowing Loans, CMBS Credit Focus, Academy Securities, May 2, 2023

New Appraisals Could Sharply Reduce ASER Relative Scope

A handful of valuation increases in recent months show the potential impact on exposed bonds. For example, the $60 million Doubletree Jersey City (CGCMT 2015-GC35) saw its appraisal rising to $64.2 million in 2022, up from $53.3 million in 2020 (the valuation later increased again, Figure 2). The loan's ARA significantly dropped in the October 2022 remittance to $4.5 million from $18.2 million the previous month. The monthly ASER amount plummeted nearly 76%, to $18.8K. This contributed to the H class receiving nearly twice as much interest distribution following the implementation of the new appraisal.

Figure 2. Loans In Special Servicing with Higher New Appraisals



Source: MCIA and Academy Securities

Delays Possible in ASER Reversal Implementation

Projecting the timing of ASER reversals may remain a challenge. In a few recent valuation dial ups we observed apparent delays in the implementation of the new appraisals and their impact on bond cashflows. For example, the Starwood Mall Portfolio new appraisal is dated as of December 2022. Yet the loan's new lower ARA was implemented only in the May remittance. We also saw lagged implementation in the GC35 deal, where a January 2022 dated valuation kicked in the lower ASERs only in September of that year.

To be sure, these instances may simply reflect a gap between the time the servicer receives a new appraisal and its ultimate reflection in the deal waterfall. But situations of significant delays in triggering ARAs or ASERs following new valuations do pop up, as we discussed in a previous report.[2] The sudden interest shortfalls in JPMCC 2014-DSTY, reaching all the way up to the originally rated triple-A class, underscored the point. The deal's ASERs emerged nearly two years after DSTY two loans reported sharp appraisal reductions. Delays in reversing ASERs would be the mirror image of situations such as DSTY.

2 "Triple-A Shortfalls: Destiny Spotlights Delayed ASERs Impact," CMBS Credit Focus, Academy Securities, September 20, 2022

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