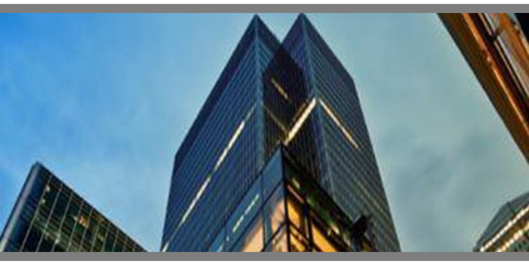

Valuation Sleuthing at Hilton San Francisco Portfolio

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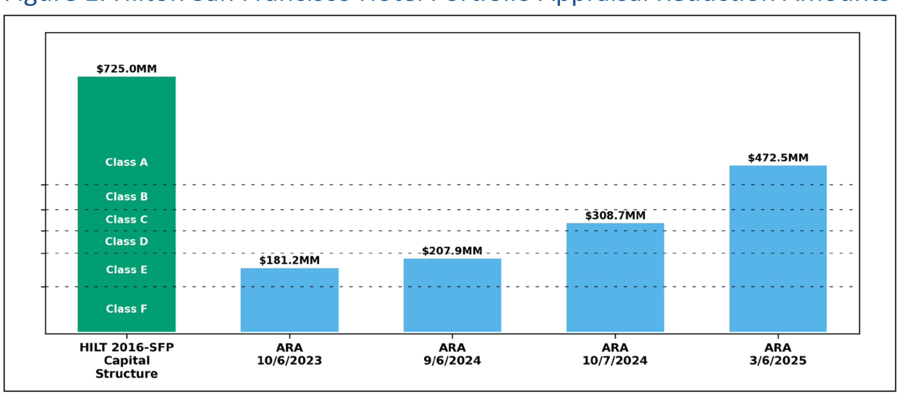
The surprise jump this month of the appraisal reduction amount (ARA) on Hilton San Francisco Hotel Portfolio ($725 million, HILT 2016-SFP) spotlights the haphazard trajectories of distressed property valuations, especially when servicers consider new appraisals "privileged information", and do not disclose them. The ARA in the SFP deal increased to $472.4 million from $328.1 million. The deal did not report a new appraisal, puzzling some investors amid the elevated ARA.[1] ARAs typically change following new appraisals. Servicers can also curtail their advances following new ARAs via the ASER mechanism, as we explained in a previous report.[2] In HILT 2016-SFP, deal commentary eventually noted that the servicer did receive a new appraisal in February.

We do not expect the servicer to disclose the new HILT 2016-SFP appraisal, based on the deal's previous disclosure pattern. Deal reporting still only shows the at-issuance $1.56 billion valuation of the two hotel properties in San Francisco, CA. HILT 2016-SFP reported previous ARA jumps, in October and September 2024, and in October 2023 after the loan initially transferred to special servicing (Figure 1). In all cases the servicer noted that they consider new appraisals privileged information, and do not plan to disclose valuations in deal reporting. The servicer even added interesting color to its rationale. It argued that whenever the special servicer publishes information "it doesn't take long for that information to end up in the public forum" such as in cashflow systems, agency reports or in the press.

Figure 1. Hilton San Francisco Hotel Portfolio Appraisal Reduction Amounts



Source: Morningstar Credit and Academy Securities

1 Further confounding investor confusion, the delinquent loan status report did not report the new ARA, inconsistent with the remittance. This inconsistency may simply be a reporting oversight.

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

Appraisal Reduction Amount Drivers

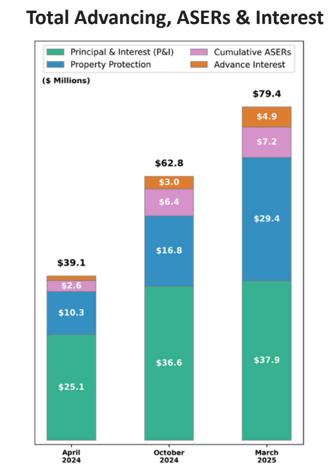
Investors can generally back into new appraisals from newly disclosed ARA and ASER. Deal issuance documents include standard formulas that tie new appraisals, ARA, and ASER calculations. Still, some nuances in these formulas mean that figuring out a new appraisal based on a new ARA may not be precise. Further, when a new ARA pops up, investors cannot be sure that a servicer indeed obtained a new appraisal, as the initial confusion at HILT 2016-SFP this month showed. Investors may also attribute out-of-the-blue new ARAs to reporting errors or automatic appraisal reductions in some cases. Servicers can calculate such automatic reductions when they do not receive a new appraisal. All told, the practice of withholding new appraisals clearly warrants investor attention.

The implications of ARA jumps for bond cashflows can change over time. As long as the master servicer deems advances recoverable, ARAs lead to interest shortfalls because the servicer curtails advancing. When the servicer makes a non-recoverability determination, it completely stops advancing.[3] At that point ARAs no longer cause interest shortfalls. The non-recoverability determination is now driving any further shortfalls, rather than the ARA/ASER mechanism. The change in shortfalls driver, to NRA from ARA, can also impact how the deal allocates liquidation proceeds across classes.[4] While the servicer immediately shuts off interest payments to all bonds following a non-recoverability determination, subordinate bonds may be able to recover those shortfalls at liquidation at the expense of principal payment to senior bonds. This is not the case if ARAs are causing the shortfalls. At liquidation, ARA/ASER recoveries typically will be subordinate to principal paydowns.

Hilton San Francisco Portfolio had non-recoverability determination in November 2024. As such, the deal's ARA increase this month does not appear to have a meaningful implication. But the fact the servicer received a new appraisal is certainly consequential. It could telegraph ultimate liquidation proceeds, and influence loss projections. The servicer has been soliciting and reviewing purchase offers on the two hotels, according to deal's commentary. It has selected a buyer, and the parties are negotiating a sale agreement.

Figure 2. Hilton San Francisco Hotel Portfolio Loan and Property Parameters

Asset	Hilton San Francisco Hotel Portfolio
Deal	HILT 2016-SFP
Loan Balance ($ per unit)	$725,000,000 ($246k per room)
Maturity	November 2023
Coupon	4.11% fixed
Amortization	Interest-only
Loan Status	Matured Non-Performing
Property Size / Occupancy	2,943 rooms / 41% occupancy (December 2024)
Property Type / Location	Hotel / San Francisco
Appraisal History	$1,561.0 MM (August 2016)
Total Advancing, ASERs & Interest	$79.4MM (March 2025)



Source: Morningstar Credit and Academy Securities

3 "Non-Recoverable Advances: Unveiling a Rationale for a Key Servicing Decision," CMBS Credit Focus, Academy Securities, May 18, 2023
4 "Recovering Shortfalls: Credit IO Value in Distressed Office," CMBS Credit Focus, Academy Securities, May 21, 2024

A Few Other Large ARA Loans Without Appraisals

Currently it appears there is only a limited number of loans with large ARAs, but no updated appraisals, such as Hilton San Francisco Hotel Portfolio. Another example is River North Point ($309.8 million, GSMS 2018-RIVR). In RIVR deal commentary indicated that only "privileged persons" can receive updated appraisals. The trust and servicing agreement includes definitions for such persons. The commentary also notes that "investors are usually not privileged persons unless some confidentiality agreement has been arranged". Separately, in CXP 2022-CXP1 the servicer also indicated it considers the appraisals privileged information. Still, the deal did report aggregate updated valuations of the seven-property portfolio.[5]

5 "Non-Trust Debt: Check the Seniority of Your CMBS Collateral," CMBS Credit Focus, Academy Securities, June 3, 2024

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