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CMBS Credit Focus

BOLT: Liquidation Confirms Priority of Shortfalls Recovery Over Principal

Identifying Shortfall Driver is Critical for Bond Valuation

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The distressed liquidation of the $232.5 million Aspiria Office Campus (JPMCC 2021-BOLT) confirmed that recovery of coupon reduction-driven shortfalls prioritizes principal payments. This underscores the value of credit IO positions in distressed situations. Subordinate bondholders can expect recoveries on interest shortfalls that accumulate after coupon reduction modifications, similar to non-recoverability shortfalls. The market has had very limited experience with liquidation of modified loans with coupon reductions. Aspiria provides a notable data point.

The Aspiria realized loss report shows payment of ~$17.0 million of “other unpaid interest” (Figure 1). This comprised the lion’s share of the $19.7 million Aspiria liquidation expenses. The expenses waterfall left $163.8 million for principal payments on the $183.5 million note sale proceeds. Interestingly, the sale price was higher than the most recent $176 million reported property valuation. The Aspiria principal payments were sufficient to pay in full the three most senior classes in the four-class BOLT capital structure. But senior bondholders should take note of the potential diversion of principal payments to shortfall recoveries for subordinate bondholders. It is critical to figure out the varied drivers of accumulated shortfalls in outstanding deals.

Figure 1. Aspiria Office Campus (JPMCC 2021-BOLT) Liquidation

	Net Liquidation Proceeds ($ Millions)	
Original Note Balance	$232.50	
Note Balance At Liquidation	**$232.50**	
Liquidation Proceeds	**$183.50**	
Fees To Servicers	$0.92	**(Liquidation Fee)**
Advances (Incl Adv. Interest)	$0.00	**(P&I, T&I, Other)**
Holdbacks	$1.25	**(Unpaid expenses)**
Interest - Current Period	$1.65	
Interest - Prior Shortfalls	$15.84	
Total Fees/Expenses	**$19.67**	
Net Liquidation Proceeds	$163.81	
Realized Loss to Trust	**$68.69**	
Loss Severity	29.5%	

Net Liquidation Proceeds Allocation ($ Millions)

Class	Principal Balance	Paid	Accrued Interest	Paid
A	$68.6	**$68.6**	$0.3	**$0.3**
B	$45.9	**$45.9**	$2.4	**$2.4**
C	$41.1	**$41.1**	$5.0	**$5.0**
D	$65.3	**$0.0**	$13.7	**$8.9**
VRR	$11.6	**$8.2**	$1.1	**$0.9**
X			$0*	**$0***
Total	**$232.5**	**$163.8**	**$22.5**	**$17.5**

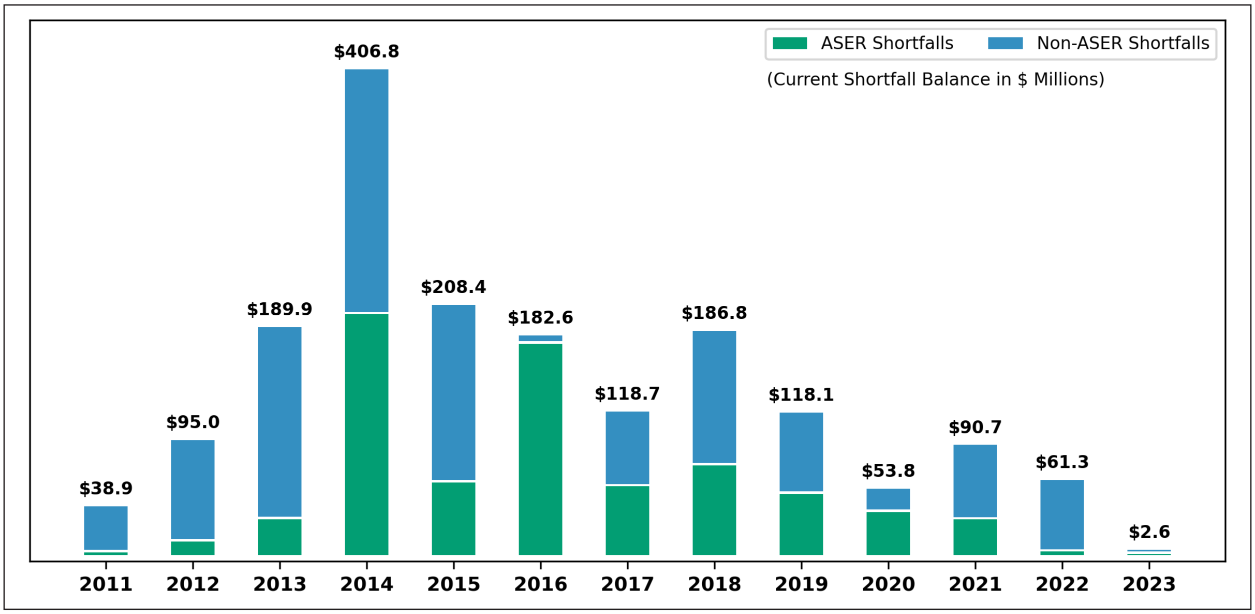
* Class X was entitled to (and paid) $83K in interest

Source: Deal documents and Academy Securities

Distinguish Between ASER and non-ASER Shortfalls

The distinction between ASER and non-ASER shortfalls can go a long way in anticipating waterfall priorities. The liquidation of 1740 Broadway last year showed the priority of non-recoverable shortfalls.[1] Aspiria now confirmed the priority of coupon-reduction shortfalls, a second major shortfalls category. This mostly leaves only ASER shortfalls as subordinate to principal paydowns at liquidation.[2] As such, investors may find value in subordinate classes of deals that have non-ASER shortfalls (Figure 2).

Figure 2. Interest Shortfalls Drivers



Note: ASER - Appraisal Subordination Entitlement Reduction
Source: Morningstar Credit and Academy Securities

To figure out ASER versus non-ASER breakdowns, investors can just compare deals' "cumulative interest shortfalls" to "cumulative ASER". Both fields are relatively easy to track in remittance reports. In contrast, surveilling coupon reduction shortfalls can be quite challenging, as we discussed in a previous report.[3] Deal documents can report the deferred interest that drives interest shortfalls in various Investor Reporting Package (IRP) fields, such as "other interest adjustments" (L102) and "deferred interest – cumulative" (L125). Several of the relevant fields are not readily available on some cashflow systems.

Holdbacks, ARA vs. ASER, and Partial Shortfalls Recovery

Although Aspiria clarified non-ASER shortfalls priority at liquidation, it still left a few curiosities open. For example, Aspiria pre-liquidation cumulative shortfalls stood at $20.9 million. The loan did not have any accumulated ASER. The loan liquidation did recover $15.8 million shortfalls,

1 "1740 Broadway Liquidation Shows Path for Subordinate Bond Payments," Securitized Products Special Topics, Academy Securities, May 21, 2024
2 We do not rule out some deal PSA/TSAs also de-prioritize non-ASER shortfalls.
3 "BOLT and 1440 Broadway Show the Impact of Coupon-Reduction Mods," CMBS Credit Focus, Academy Securities, December 18, 2024

but left $5.1 million shortfalls outstanding. Separately, the liquidation template also reported $1.25 million holdbacks. The Aspiria holdbacks amount is relatively small compared to previous liquidations, such as Veritas Multifamily Portfolio (GSMS 2021-RENT and RNT2) that saw staggering holdback amounts.[4] But without immediate explanation of what led to the holdbacks, investors are still left guessing if or when the trust will release the holdbacks.

Aspiria is also another example of a loan that reported appraisal reduction amount (ARA) but did not accumulate any ASERs.[5] The post-issuance $176 million valuation of the underlying suburban office complex in Overland Park, KS, led to $73.8 million ARA on the loan. The servicer likely did not need an ASER calculation because it was not advancing bondholder payments. ASERs are designed to curtail ongoing advances when the collateral valuation drops. Indeed, the liquidation template does not show any recovery of principal and interest (P&I) or tax and insurance (T&I) advances.

P.S.

We also find it quite interesting that an affiliate of the Kansas City Royals purchased the Aspiria loan, based on a statement the team released. The baseball team has been looking for a location for a new stadium. The team has been in discussions with Missouri and Kansas officials, according to CoStar. MLB data shows the Royals play in the fifth-oldest stadium in the country. The Royals did not confirm that the 141-acre Aspiria campus would be the location of the new stadium. But in their public statement the Royals did tie the mortgage purchase (via “an arms-length bidding process”) to its ongoing efforts to secure a new stadium location, as CoStar reported. The Aspiria site has generated “local buzz”, especially among nearby residents and Royals fans, according to local news reports.

The Royals/Aspiria development echoes the broader national trend of stadium construction and renovation. There are currently plans underway to renovate or newly build at least 39 major sports venues. This is fueling the growing interest in stadium financing and sports securitization, as we discussed in a recent report.[6] We noted in the report that sports facilities securitization should pique the interest of CRE/CMBS investors,. CRE investors may be able to leverage existing views on geographics and markets to assess facility prospects. If the Royals end up choosing Aspiria for their new ballpark site, we could see an interesting case study of stadium financing, former CMBS situation, and local market fundamentals, all tied together.

4 “Holdbacks: RENT in the Limelight, as Other Cases are Brewing,” CMBS Credit Focus, Academy Securities, January 25, 2024

5 “Triple-A Shortfalls: Destiny Spotlights Delayed ASERs Impact,” CMBS Credit Focus, Academy Securities, September 20, 2022

6 “Sports Securitization: Gear Up to Vet League Revenues and Stadium Cashflows,” Securitized Products Special Topics, Academy Securities, February 18, 2025

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