CMBS Credit Focus

Crossgates Liquidation: Holdbacks Complicate Severity Projections

Nearly 50% of Crossgates Liquidation Expenses Chalked Up to Holdbacks

Stav Gaon
+1 (646) 768-9173
sgaon@academysecurities.com

Headquarters Address:
Academy Securities, Inc.
622 Third Avenue, 12th Fl
New York, NY 10017

The fresh liquidation of the $242 million Crossgates Mall loan (COMM 2012-CR1, CR2, and CR3) illustrates how the somewhat obscure "held back" amounts can jack up liquidation expenses and reduce bond paydowns. The loan's resolution, via a note sale, resulted in $172.6 million proceeds (Figure 1). Liquidation expenses accumulated to $28.5 million, leading to $97.9 million realized loss, or 40.4% severity. Within the liquidation expenses, $14.5 million (49%) chalked up to amounts held back to future payments.

The fact such a significant component of Crossgates' liquidation expenses is the hard-to-project held back amounts complicates severity projections on troubled loans. Investors can reasonably model many of the expense items they should expect upon liquidation. For example, tracking outstanding servicer advances or other components of the loan's total exposure provides a sense of the amounts that will be senior to bond payments upon liquidation.[1] Investors may also reasonably project liquidation fees that reduce net proceeds.

Figure 1. Crossgates Mall Loan Liquidation ($ millions)

Deal Name	COMM 2012-CR1	COMM 2012-CR2	COMM 2012-CR3	TOTAL LOAN
Original Note Balance	$120.0	$72.0	$108.0	$300.0
Note Balance At Liquidation	**$96.8**	**$58.1**	**$87.1**	**$242.0**
Note Sale Proceeds	$64.2	$38.5	$57.8	$160.6
Escrows & Reserves	$3.0	$1.8	$2.7	$6.1
Other Proceeds	$2.3	$1.4	$2.1	$5.9
Liquidation Proceeds	**$69.6**	**$41.7**	**$62.6**	**$172.6**
Fees To Servicers	$1.0	$0.6	$1.0	$2.6
Advances (Incl Interest)	$5.0	$3.0	$4.5	$11.4
Holdback - Unpaid Selling Fees	$1.8	$1.1	$1.6	$4.5
Holdback - Unknown	$4.0	$2.4	$3.6	$10.0
Total Fees/Expenses	**$11.9**	**$7.1**	**$10.7**	**$28.5**
Net Liquidation Proceeds	$57.7	$34.6	$51.9	$144.1
Realized Loss to Trust	**$39.1**	**$23.5**	**$35.2**	**$97.9**
Loss Severity	40.4%	40.4%	40.4%	40.4%

Source: Deal Documents and Academy Securities

1 "Credit 2023: Advancing and Workout Approaches to Play a Central Role," CMBS Credit Focus, Academy Securities, December 15, 2022

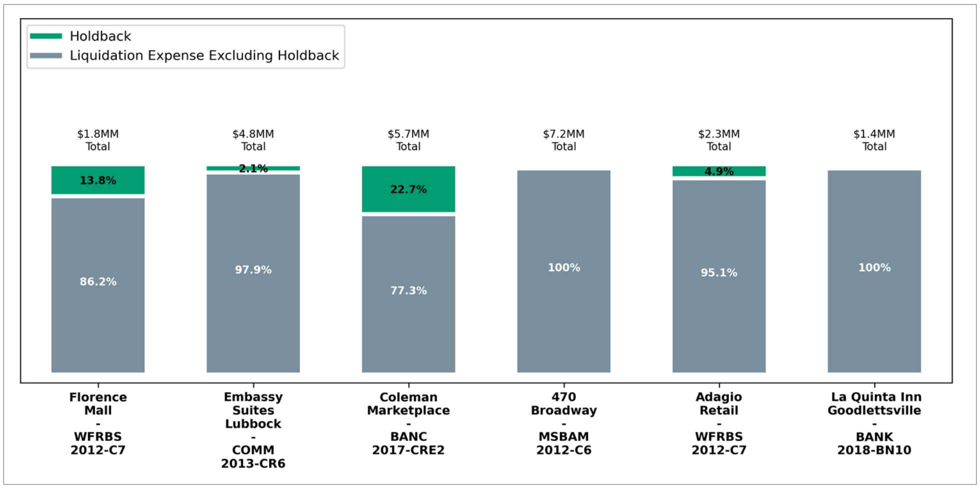
But held back amounts could come as a surprise. To be sure, deal commentary may allude to the rationale for holding back amounts. In Crossgates, the servicer noted that funds have been held back for "contingencies related to the resolution/liquidation of recently resolved and remaining assets, including trailing expenses and litigation risk." But telegraphing such expenses, or figuring out when, or if, the holdbacks will be released, remains a challenge.

Holdbacks Impact Vary Across Liquidations

Realized loss templates show two generic expense items that comprise holdback amounts: (1) other unpaid fees and expenses, and (2) other amounts. The total holdback amounts are captured in a dedicated IRP field (L116, D75). As such, investors should be able to systematically track the impact of holdbacks on liquidation proceeds. In practice, we find that could be difficult. L116 is not readily available on some cashflow systems, including data feeds. In turn, the availability of realized loss templates remains sporadic. Many recent liquidations apparently have not reported a full breakdown of the liquidation expenses.

Holdbacks' impact can vary quite a bit across loans, based on some sleuthing we did on available data. Some recent liquidations did not report any holdbacks (or minimal amounts). Examples include 470 Broadway (MSBAM 2012-C6, $7.2 million liquidation expenses) and La Quinta Inn – Goodlettsville (BANK 2018-BN10, $1.4 million expenses). In other cases, holdbacks comprised a meaningful chunk of the liquidation expenses. Examples include Coleman Marketplace (BANC 2017-CRE2, $5.7 million liquidation expense, holdbacks 22.7%) and Florence Mall (WFRBS 2012-C7, $1.8 million expenses, holdbacks 13.8%).

Figure 2. Holdbacks on Recent Liquidations



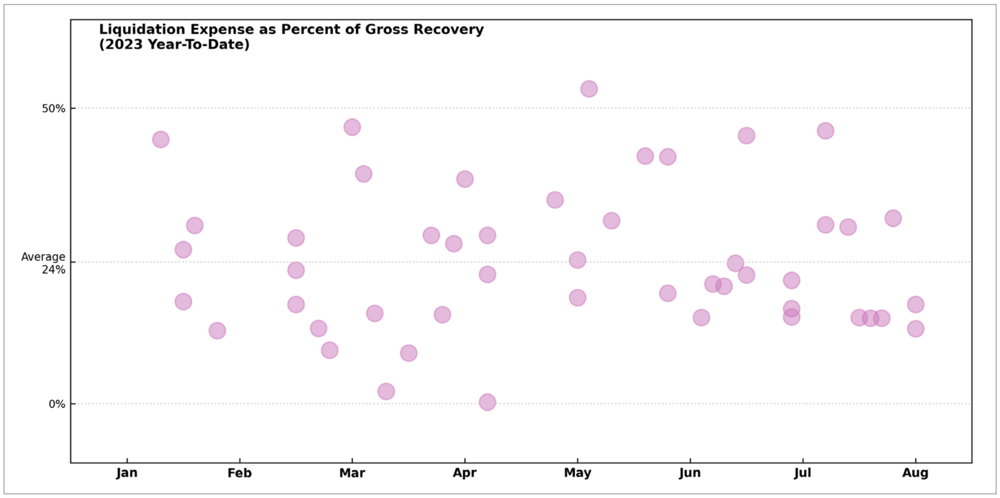
Source: MCIA and Academy Securities

Across the several liquidations where we could identify the precise holdbacks levels, Crossgates large holdback amount does stand out. To be sure, extreme loss severities, or liquidations that involve very large percentage of expenses, may no longer surprise investors. The market has seen cases of near-100% (and sometimes >100%) loss severities, in situations such as 545 Madison

Avenue (JPMBB 2014-C18), Creekside Mixed Use Development (COMM 2014-UBS2), or Fashion Outlets of Las Vegas (COMM 2012-CR4). Some of those extreme losses happened because the entire liquidation proceeds were allocated to expenses, leaving no funds for principal paydowns.

Recent liquidations also saw elevated loss severities, reaching 75.3% across the overall liquidated balance in July 2023, according to DBRS Morningstar. The YTD loss severity stands at 51.4%. Liquidation expenses ranged from 0.3% to 53.3% of the overall liquidations proceeds, based on data we compiled (Figure 3).

Figure 3. Liquidation Expenses on Recent Loan Resolutions



Source: MCIA and Academy Securities

Note Sale Accelerated Resolution Timeline

Crossgates' outsize liquidation holdbacks join a couple other notable aspects on the resolution of the 1.3 million sf Albany, NY, regional mall. The servicer's choice to pursue a note sale rather than a foreclosure clearly accelerated the resolution's timeline. The servicer noted that real property foreclosures in New York State may take years, echoing previous research where we discussed potential delays in mortgage foreclosures.[2] Yet the apparent speedy marketing period of the note may have raised some eyebrows across investors. The note was marketed over 2-3 weeks in late June, based on public information. All told, investors may have been surprised by the relatively quick resolution of Crossgates, yet it is hard to conclude an alternative approach would have been preferable.

Still, deal reporting noted that the special servicer obtained a new appraisal of the property ahead of the resolution. The appraisal apparently was not released because it was deemed an "attorney-client privileged document". Interestingly, fresh commentary on the COMM 2012-CR2 deal notes that a March 2023 appraisal pegged Crossgates value at $167 million. An appraisal review from May 2023 has a $148 million valuation. A BOV from April 2023 reports a valuation range of $146.7-$157.2 million. These compare with an appraised value of $281 million back in 2020.

2 "Equity Pledges: Hotel Bossert Spotlights Dual Collateralized Loans," CMBS Credit Focus, Academy Securities, February 23, 2023

Academy Securitized Products Research Recent Reports

Securitized Products Special Topics:

Data Centers: Teakeaways from 2023-Vintage Deals

Litigation ABS: Tailwinds in Place for an Uncorrelated Segment

Agency Floaters: Adjusting Interest Rate Cap Escrows

Equipment ABS: Pick Your Spots Amid Diverging Collateral Trends

Commercial Solar ABS: Emergent Segment to Alleviate Headline Risks

Multifamily CRT: Limited Credit Risk on Synthetic Exposures

OC Triggers: Subtle Thresholds Come to the Fore As Collateral Stress Builds Up

Cell Towers: Lender-Friendly Features Dovetail with Secular Tailwinds

Timeshare ABS: Exposure to Favorable Hospitality Segments

Self Storage: Aspects to Watch as Performance Decelerates

Transitional Multifamily: Collateral Migration Away from CRE CLO Offers Different Deal Profile

Recovery Bonds: No Need to Closely Watch the Fed or the Economy Here

Affordable Mortgages: Fee Elimination Spotlights Convexity Profile

Investor Non-QM: Rental Exposure with Some Structural Twists

Data Centers: A Strong Segment Juggles ABS and CMBS

Small Balance Multifamily: Value Ahead of Slow Prepays

Future Funding: Potential Key Performance Driver as CRE CLO Pipeline Builds Up

Multifamily Prepays: Property Sales Trigger Paydowns

Manufactured Housing: Resilient Segment Amid Potential Multifamily Softness

Tender Offers: Expect More to Come, Though Not on a Predictable Schedule

NYC Multifamily: Rent Increases to Support Cashflows Amid Regulatory Restrictions

Housing at a Crossroads: Single-family and Multifamily Exposures

Senior Housing: Focus on Segment Selection Amid Pandemic Impact

Disaster Performance: Pandemic Forbearance Resolutions Bode Well for Future Stresses

Russian Sanctions Impact: Lease Terminations and Forced Property Sales

CMBS Credit Focus:

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

Securitized Mezz: Workout Dynamics in Public Display

Dark Triggers: Nuances in Focus as Tenant Departures and Subleasing Pick Up

Upping Appraisals: Recovering Valuations Reverse Shortfalls

Non-Recoverable Advances: Unveiling a Rationale for a Key Decision

Excess Cash Allocations: Probing Advances on Positive Cashflowing Loans

Release Prices: Cherry Picking Across Office Portfolios, Sometimes at a Discount

Mezz Loan Sales: A Potential Headache for CMBS Workouts

Equity Pledges: Hotel Bossert Spotlights Dual Collateralized Loans

The Road to Conversion: Consider Office Ground Leases and ARD Loans

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

Hotel Receiverships: Palmer House Hilton Spotlights Stabilization Efforts

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

Government Tenants: Short Termination Notices and Specialized Properties

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

Disclaimer

Although certain information has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness. We have relied upon and assumed without independent verification, the accuracy and completeness of all information available from public sources.

Views and opinions expressed are for informational purposes only and do not constitute a recommendation by Academy Securities for any purpose including buying, selling, or holding any security. Views and opinions are current as of the date of this presentation and may be subject to change, they should not be construed as investment advice.

This information discusses general market activity, industry or sector trends, or other broad-based business, economic, market or political conditions and should not be construed as operational, research or investment advice. This material has been prepared by Academy Securities and is not financial research nor a product of Academy Securities. It was not prepared in compliance with applicable provisions of law designed to promote the independence of financial analysis and is not subject to a prohibition on trading following the distribution of financial research. The views and opinions expressed may differ from those of Academy Securities. Investors are urged to consult with their financial advisors before buying or selling any securities. This information may not be current and Academy Securities has no obligation to provide any updates or changes.

Economic and market forecasts presented herein reflect a series of assumptions and judgments as of the date of this presentation and are subject to change without notice. These forecasts do not take into account the specific investment objectives, restrictions, tax and financial situation or other needs of any specific client. Actual data will vary and may not be reflected here. These forecasts are subject to high levels of uncertainty that may affect actual performance. Accordingly, these forecasts should be viewed as merely representative of a broad range of possible outcomes. These forecasts are estimated, based on assumptions, and are subject to significant revision and may change materially as economic and market conditions change. Academy Securities has no obligation to provide updates or changes to these forecasts. Case studies and examples are for illustrative purposes only.

Index Benchmarks

Indices are unmanaged. The figures for the index reflect the reinvestment of all income or dividends, as applicable, but do not reflect the deduction of any fees or expenses which would reduce returns. Investors cannot invest directly in indices.

The indices referenced herein have been selected because they are well known, easily recognized by investors, and reflect those indices that the Investment Manager believes, in part based on industry practice, provide a suitable benchmark against which to evaluate the investment or broader market described herein. The exclusion of “failed” or closed hedge funds may mean that each index overstates the performance of hedge funds generally.

THIS MATERIAL DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY JURISDICTION WHERE OR TO ANY PERSON TO WHOM IT WOULD BE UNAUTHORIZED OR UNLAWFUL TO DO SO.