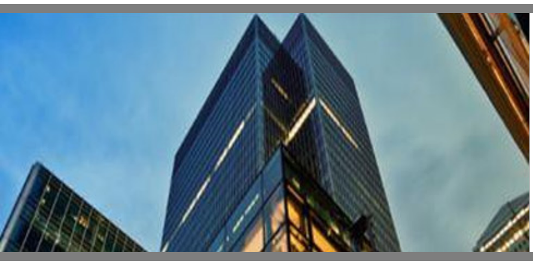
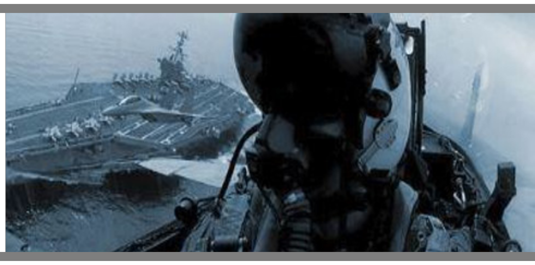
CMBS Credit Focus

Triple-A Shortfalls: Destiny Spotlights Delayed ASERs Impact





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ASER Unpredictable Timing Can Catapult Interest Shortfalls

The sudden recent interest shortfalls in JPMCC 2014-DSTY, reaching all the way up to the originally rated triple-A class, underscore the significant impact ASER timing has on bond cashflows. The $430 million DSTY, backed by the Destiny USA mall in Syracuse, NY, had zero shortfalls in the July remittance. The following month shortfalls catapulted to $1.04 million, as the servicer curtailed advances by triggering ASER. The just-released September remittance shows shortfalls fast accumulating, with the deal's class A now reporting $594K shortfalls (Figure 1).

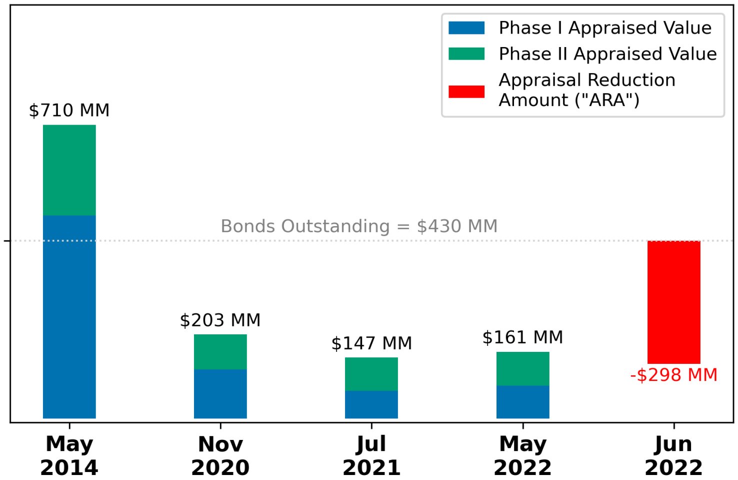
Figure 1. Interest Shortfalls Now Reach Class A in JPMCC 2014-DSTY

				Interest Shortfalls	
Class	Balance ($)	C/E (%)	Coupon	Current ($)	Cumulative ($)
A	215,000,000	50.00%	3.43%	297,306	594,613
B	47,800,000	38.88%	3.77%	150,215	300,431
C	35,800,000	30.56%	3.93%	117,287	234,575
D	96,600,000	8.09%	3.93%	316,479	632,959
E	34,800,000	0.00%	3.93%	114,011	228,023
Total	430,000,000		3.66%	995,300	1,990,600

Source: MCIA and Academy Securities

The new ASERs emerged nearly two years after DSTY two loans reported sharp appraisal reductions. The $300 million Destiny USA Phase I loan saw its $490 million at-issuance collateral valuation dropping to $118 million in November 2020 (Figure 2). Two successive valuations pegged the mall's Phase I value at $67 million in July 2021 and $79.1 million in May 2022. In turn, in the $130 million Destiny USA Phase II loan the $220 million appraisal from 2014 dropped to $85 million in November 2020. Two subsequent valuations hovered around $80 million. Despite the lower collateral valuations in place, the deal showed formal Appraisal Reduction Amounts (ARA) of $298.2 million in the remittance report only in June 2022. The ASERs followed two months later.

Figure 2. Destiny USA Phase I and II Valuations



Source: MCIA and Academy Securities

New Appraisals but No ARA; New ARAs but no ASERs

Cases of significant delays in triggering ARAs or ASERs following new sharply lower valuations do pop up on occasion. A few troubled loans currently do not report ARAs even though they carry much lower appraisals compared to the collateral valuation at issuance. Examples include the $100 million 135 South LaSalle (CGCMT 2015-GC31) and the $80 million Chicago Ridge Mall (COMM 2012-CR2). In turn, some loans that triggered ARAs still do not have ASERs (Figure 3). For example, Ingram Park Mall ($116.8 million, MSC 2011-C2) carries $20.7 million ARA, but does not accumulate ASERs. In Parkdale Mall & Crossing ($64.3 million, GSMS 2011-GC5) there's a $29.8 million ARA, but no ASER.

Figure 3. Loans With New Appraisals or ARAs, No ASER

Loan	Deal	Balance ($MM)	Maturity	Location	At Issuance Appraisal ($MM)	Most Recent Appraisal ($MM)	Most Recent Appraisal Date	Appraisal Reduction Amount ($MM)
135 South LaSalle	CGCMT 2015-GC31	100,000,000	5/6/2025	Chicago, IL	330,000,000	130,000,000	1/1/2022	0
Chicago Ridge Mall	COMM 2012-CR2	80,000,000	7/6/2022	Chicago Ridge, IL	129,700,000	65,700,000	4/22/2022	0
Ingram Park Mall	MSC 2011-C2	116,611,017	6/1/2021	San Antonio, TX	215,400,000	108,000,000	10/18/2021	20,722,512
Parkdale Mall & Crossing	GSMS 2011-GC5	64,337,700	3/1/2021	Beaumont, TX	149,000,000	42,100,000	2/12/2022	29,781,456
Susquehanna Valley Mall	COMM 2012-LC4	22,638,778	1/6/2022	Selinsgrove, PA	43,000,000	7,800,000	3/28/2022	15,462,015

Source: MCIA and Academy Securities

Destiny ASERs Likely Related to the Loan's Recent Second Modification

Destiny's ARAs appeared around the time the loans transferred to special servicing for the third time, ahead of their previously extended maturity. Destiny was originally slated to mature in June 2019 (Figure 4). The borrower negotiated extension options through June 2022. After the recent transfer in April 2022, the borrower negotiated another five-year extension in June, according to a formal press release.

Figure 4. Destiny USA Phase I and II Loan and Property Parameters

Deal	JPMCC 2014-DSTY
Current Balance	$430 million
Original Maturity	June 2019
Coupon	3.81%
Property Type	Retail - Anchored
Total Square Feet	2,114,792
Location	Syracuse, NY
Sponsor	Pyramid Management Group

	Destiny USA Phase I	Destiny USA Phase II
Current Balance	$300,000,000	$130,000,000
Appraisal Reduction Amount	$234,800,000	$52,500,000
Cumulative ASER	$1,400,000	$300,000
Net Operating Income	$10,700,000	$8,900,000
Current DSCR	0.82x	1.60x
Current Occupancy	70%	85%
Square Feet	1,240,592	874,200
Year Built / Renovated	1990/2000	2012

Source: MCIA and Academy Securities

The most recent servicer commentary details some provisions of Destiny's fresh modification agreement, though does not explicitly mention the long extension. Rather, the servicer notes the lender agreed on forbearance of its remedies through June 2023, with extension options under various conditions. Notably, Destiny's borrower will be making reduced monthly payments, with deferred interest accruing. This could have triggered the new ASERs. A full modification template the servicer may release could shed more details on the advancing decisions.

The Destiny modification follows a couple of other developments in the CMBS portfolio of the mall's sponsor, Pyramid Management Group. The $233.9 million Walden Galleria (JPMCC 2012-WLDN) received a three-year extension in June. In turn, Crossgates Commons (BANK 2017-BNK5 and CGCMT 2017-B1) refinanced its $29.8 million balance that month (the property now backs $21.9 million loan in BBCMS 2022-C17). We discussed Pyramid's mall portfolio in a previous report, highlighting the sponsor potential's interests across various properties based on the special servicing workout trajectories.[1]

1 "Mall Foreclosures: What to Track as Servicers May Shift Away from Modifications," CMBS Credit Focus, Academy Securities, March 1, 2022

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

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