CMBS Credit Focus

Forward Forbearances: One Market Plaza Introduces a Twist to Complex Mods

Servicers Pre-Negotiate Forbearances Amid SASB Loan Extension Limits

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

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

The recent modification of the $975 million One Market Plaza loan (OMPT 2017-1MKT) introduces a twist to mod extension periods in the form of pre-negotiated forbearance period. The servicer extended the maturity of the San Francisco office-backed loan through February 2026 (Figure 1). The borrower also received a one-year extension option, that could push maturity to February 2027. But if the borrower is unable to pay the loan in full at that time, it can exercise another option that will kick off a one-year "forbearance period". During this period the servicer will refrain from exercising its rights around borrower's default. The exercise of these borrower options is contingent upon meeting various conditions. But including a forbearance period that could potentially follow a long extension period, and negotiating it many years in advance, is an approach that we believe has not been prevalent in loan modifications we observed in recent months.

Figure 1. One Market Plaza Loan and Property Parameters

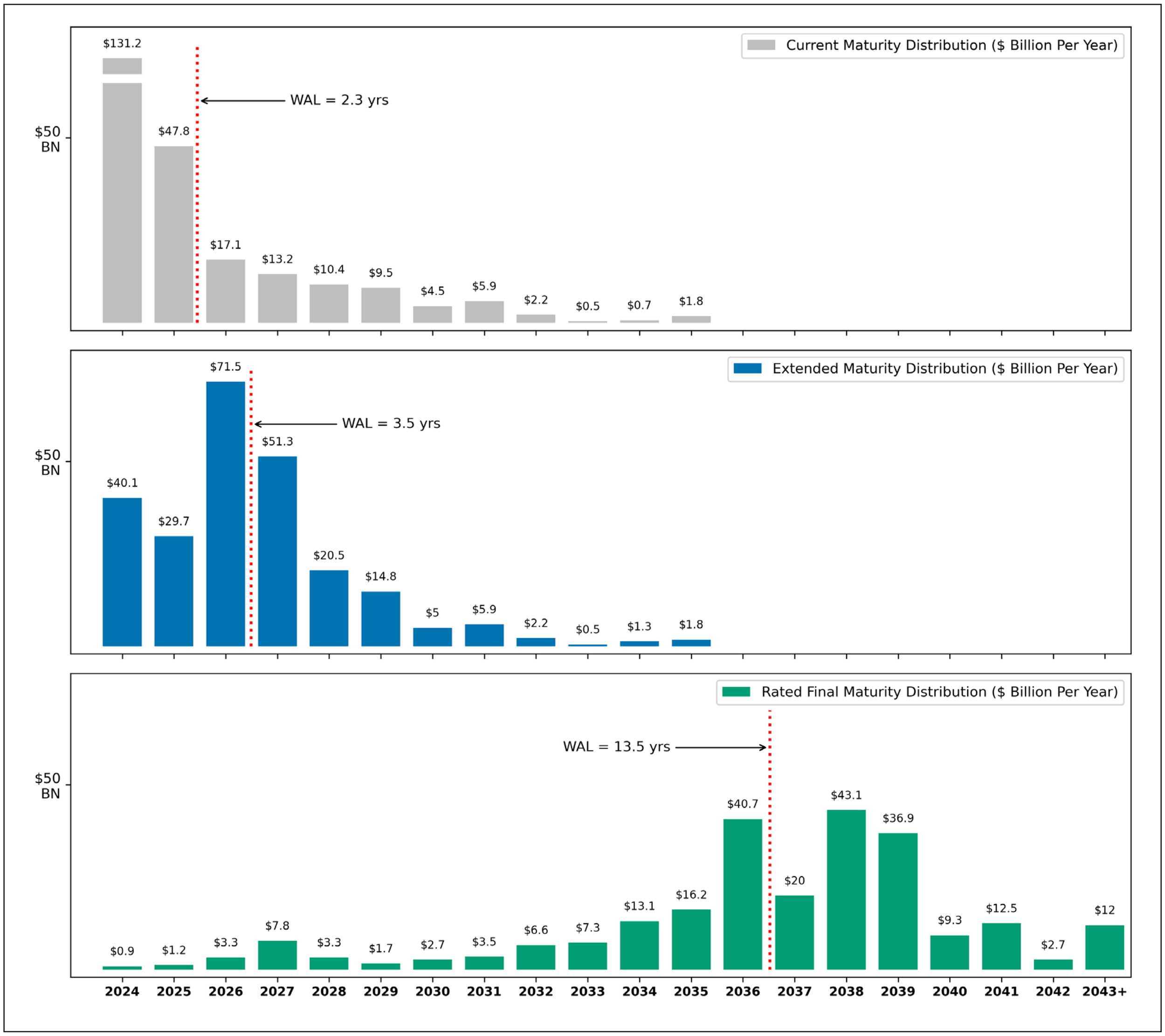
Asset	**One Market Plaza**	
Deal	OMPT 2017-1MKT	
Property Type / Size	Mixed Use (Office & Retail) 1,583,739 sq. ft (54k sq. ft. retail)	
Location	San Francisco, CA	
	Pre-Modification	**Post-Modification (February 2024)**
Loan Status	Matured	Current (Specailly Serviced)
Loan Balance ($psf)	$975,000,000 ($616 psf)	$850,000,000 ($537 psf)
Coupon / Amortization	4.031% fixed / Interest-only	4.031% fixed / Interest-only
Maturity	February 2024	February 2026
Extension Options		i) one 1-year extension option (February 2027), plus ii) one 1-year forbearance period (February 2028)
Extension Terms		Second Option: 30 days notice, no EOD, TI/LC reserve minimum of $150/SF, borrower pays all fees/costs Forbearance Option: 30 days notice, no EOD, Debt Yield>8.5%, TI/LC reserve minimum of $150/SF, borrower pays all fees/costs
Other Terms		Conditions Precedent to Initital Modification / Extension: * $125mm Equity Contribution to be applied to the loan principal balance; * $50mm Closing Deposit to be used to pay all the Lender closing costs and expenses; and the balance will be deposited into the TI/L Reserve; * $6mm deposited into the Basic Carry reserves for property tax and insurance accruals; * $3.4mm to pay the DS due on 2/6/2024 based on the UPB before the pay down.

Source: Deal Documents, Morningstar Credit, and Academy Securities

SASB Typically Limit Troubled Loans' Extension Periods

A pre-negotiated forbearance may be designed to address, among other considerations, a limitation that SASB deals typically have on the number of years servicers can extend troubled loans. To be sure, deal documents state that servicers have broad discretion (subject to "accepted servicing practices" and the rights of the controlling class representative), to modify loan terms. But deal provisions may also note that servicers cannot extend the loan's maturity date beyond a specified number of years prior to the deals "rated final distribution date". SASB rated final dates typically fall only a few years after the expected (or "assumed") distribution dates (Figure 2). In contrast, conduit deals final dates can stretch decades into the future.

Figure 2. SASB Fully-extended and Rated Final Maturity Schedule



Source: Morningstar Credit and Academy Securities

In OMPT 2017-1MKT, the deal's Trust and Servicing Agreement (TSA) sets the loan extension threshold at five years before the bonds' final date, which is February 2032. As such, the servicer can extend One Market Plaza's maturity only through February 2027, up to three years following the loan's original scheduled maturity. All told, if the forbearance period, that could potentially run through February 2028, is not formally considered maturity extension, the modification may still be consistent with the TSA provisions. For context, in JPMCC 2018-AON the servicer negotiated last year a three-year extension on the Chicago office-backed $536 million loan (also pari-passu in BMARK 2018-B4, B5, and B7).[1] AON's modified maturity date is July 1, 2026. This date falls precisely five years prior to the SASB bonds' rated final maturity. This is the extension limit in AON's TSA, similar to One Market Plaza's limit. The AON mod does not include a forbearance period.

Blurring the Distinction of Forbearance and Modification Agreements

The nuance in OMPT 2017-1MKT around the extension/forbearance periods, re-focuses attention on the distinction between forbearance and modification agreements. The distinction matters for reporting purposes, as well as for a precise understanding by investors of the workout approach a servicer takes, and the terms it negotiated with the borrower.

A key aspect that differentiates modification and forbearance agreements is that forbearance should not change any of the loan terms, monetary and non-monetary. Forbearance is a reservation of the noteholder's rights and is not indicative of permanent changes to the terms of a loan, as in a modification, according to CREFC IRP's best practices template. The IRP also notes that if the amount and/or timing of the loan payment or other money term has been permanently altered for a specified time period (outside of the forbearance period), the servicer should report the loan as a modification.

In OMPT 2017-1MKT the servicer is clearly reporting the whole agreement on the loan as modification. But the inclusion of a forbearance period in the loan's complex modification terms may blur the distinction between the two workout approaches. This may be especially the case if the forbearance follows the modification/extension period. So far, servicers typically executed mods after forbearance periods. Servicers negotiated forbearance agreements to help borrowers address temporary performance issues, especially during COVID. The OMPT 2017-1MKT mod may herald a reversal of the forbearance/mod order.

1 See "Credit 2024: Workout Nuances Come to the Fore," CMBS Credit Focus, Academy Securities, December 11, 2023

Academy Securitized Products Research Recent Reports

Securitized Products Special Topics:

Recovery Bonds: Deal Reporting Shows True-Up Adjustments Potency

Data Centers: Performance Wrinkles to Test Operators' Role

Recovery Bonds: Diversifying Exposure Moves Beyond Disasters

Investor Non-QM: Pockets of Value as Underwriting Tightens

Multifamily Prepays: Becoming Less Common, as Property Sales Drop

Device Payment ABS: Expect Stable Performance as Collateral Evolves

CRE CLO Mods: Rising Volume Not Immediately Telegraphing Distress

Aircraft ABS: Waterfalls Playing Catch-Up as Fundamentals Recover

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:

Loan Assumptions: Watch Waterfalls as New Borrowers Redevelop

Holdbacks: RENT in the Limelight, as Other Cases Brewing

Blanket NRAs: Shutting Down Advances Upends Credit IO Trades

Credit 2024: Workout Nuances Come to the Fore

Recovering the Non-Recoverable: Liquidation Nuance Bolsters Paydowns

Special Servicer Replacements: 1740 Broadway Crystalizes Implications

Crossgates Liquidation: Holdbacks Complicate Severity Projections

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.