



Hilton San Francisco Provides a Peek into PPA Expense Items

The situation at Hilton San Francisco Hotel Portfolio (\$725 million, HILT 2016-SFP) spotlights the significance of so-called “other” servicer advances for bondholder cashflows in distressed situations. The matured, non-performing loan, backed by Hilton Parc 55 and Hilton San Francisco Union Square, has accumulated \$16.8 million “other servicer advances” (Figure 1). Such advances, sometimes referred to as property protection advances (PPA), are separate from the more common principal and interest (P&I) and taxes and insurance (T&I) advances. P&I advances are also rapidly increasing on Hilton San Francisco, reaching \$36.6 million as of the last remittance, even as ASER is accumulating as well. ASERs generally curtail servicer [advances](#).¹

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

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

Figure 1. Hilton San Francisco Hotel Portfolio Loan and Property Parameters



Source: Morningstar Credit and Academy Securities

Reimbursement of all outstanding advances takes priority over bondholder repayments at liquidation. Investors can reasonably project P&I advances, potentially modeling their range based on deal parameters. In contrast, other/property protection advances are quite opaque. Servicers or receivers look to “protect” properties from value deterioration during workouts. The required expenses, and the attendant advances, could swell. This is especially the case as workouts drag on, and the borrower is not interested in the property, as in Hilton San Francisco. The loan’s REIT

¹ “Triple-A Shortfalls: Destiny Spotlights Delayed ASERs Impact,” CMBS Credit Focus, Academy Securities, September 20, 2022

Property Protection Advances: Track Opaque Expenses in Drawn Out Workouts

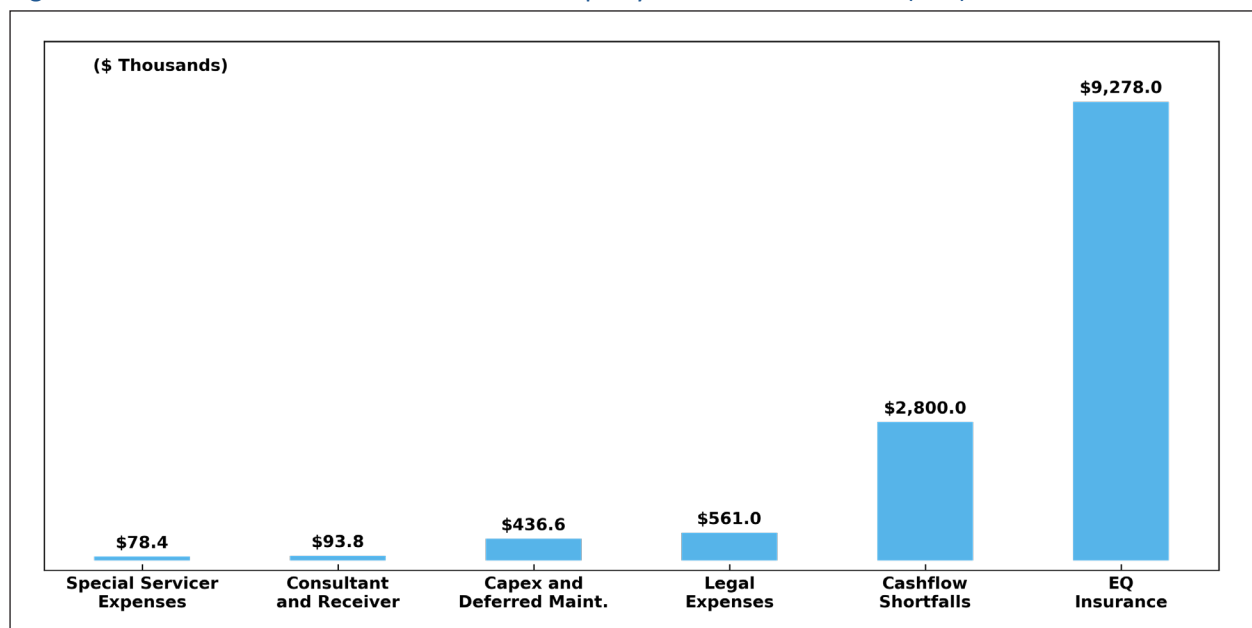
sponsor publicly announced it is exiting the San Francisco market. A receiver, appointed back in October 2023, is marketing the two-property portfolio in a process that was recently extended through at least March 2025, based on deal commentary. If a sale doesn't happen by then, the trust will be required to go through a nonjudicial foreclosure by July 2025, further stretching the workout timeline.

Sleuthing for PPA Expenses

Deal documents and reporting packages provide limited guidance on what “other” or property protection advances should include. The Investor Reporting Package (IRP) fields that capture such advances, L39 and A128, allude to “miscellaneous” advances, that should not include P&I and T&I advance items. Combing through IRP forms, we see PPAs may include hodgepodge of expenses such as environmental, travel, legal, and so on. Deal remittance reports also do not break down PPAs by expense categories. As such, tracking the precise expenses servicers/receivers advance remains anecdotal.

Interestingly, a document disclosed in HILT 2016-SFP provides a breakdown of the loan’s property protection advances through September 2024, when PPAs stood at \$13.2 million. The top expense is “EQ Insurance” (\$9.3 million), followed by “Cashflow Shortfalls” (\$2.8 million) (Figure 2). The obscure “EQ” may stand for “earthquake”, or a reference to a specific Walnut Creek, CA-based insurance services firm, but we do not know that for sure. At any rate, the inclusion of what appears to be insurance expenses in SFP’s protection advances is curious, as IRP guidance notes insurance expenses should be included in T&I advances. To be sure, the SFP deal has not accumulated any T&I advances so far. As such, the inclusion of insurance expenses in the deal’s PPA may be just clerical. Still, the apparent overlap of T&I and property protection expense categories muddies bondholder surveillance of servicer advances.

Figure 2. Hilton San Francisco Hotel Portfolio Property Protection Advances (PPA) Breakdown



Source: Deal Documents and Academy Securities

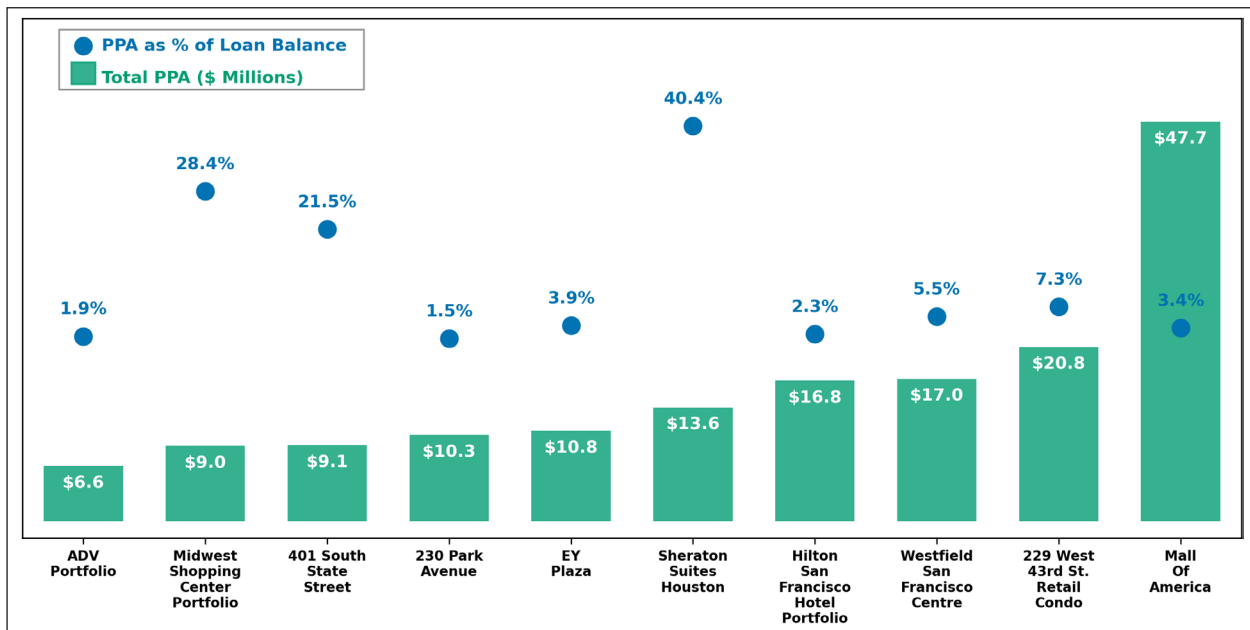
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1740 Broadway Showed PPA Liquidation Impact; Others May Follow

The big impact outstanding “other servicing advances” have on liquidation proceeds became apparent in liquidations this year, especially at 1740 Broadway (\$308 million pre-liquidation balance, BWAY 2015-1740). The \$179.5 million gross liquidation proceeds were allocated first to \$48.5 million outstanding advances and interest. The “other” advances category comprised nearly \$26.8 million of that amount, exceeding the outstanding combines P&I and T&I advances. Other liquidation expenses, such as holdbacks and nonrecoverable-driven interest shortfalls, led to only \$117.2 million of proceeds available for principal distribution. This resulted in \$190.8 million realized loss to the trust, reaching the originally-rated triple-A [class](#).²

Quite a few outstanding loans have accumulated large “other” advances, aside from Hilton San Francisco. Examples include Sheraton Suites Houston (\$33.6 million, GSMS 2014-GC20, \$13.6 million PPA) and Westfield San Francisco Centre (\$306.9 million, DBJPM 2016-SFC, \$9.2 million PPA) (Figure 3). The experience of 1740 Broadway shows such “other” advances are a critical component to consider in cashflow and loss projections.

Figure 3. CMBS Loans with Large Outstanding Property Protection Advances



Source: Morningstar Credit and Academy Securities

² “Recovering Shortfalls: Credit IO Value in Distressed Office,” Securitized Products Special Topics, Academy Securities, May 21, 2024

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