



Receivership Dynamics to Impact Loan Outcomes as Borrowers Pushed Aside

The situation at Palmer House Hilton (\$328.9 million, JPMCC 2018-PHH) could illustrate the value of receivership versus other workout approaches such as modifications or foreclosures. The 1,641-room in Chicago, IL, is one of the most prominent cases of a receiver controlling a CMBS property. The loan defaulted back in April 2020 and transferred to special servicing ahead of its June 2020 maturity (Figure 1). The servicer opted for receivership in October 2020, as it evaluated resolution options. The receiver is now working with Hilton to stabilize the property's performance since the hotel re-opening in June 2021, following a pandemic-driven closure. The servicer is still negotiating with the original borrower, but is prepared to complete foreclosure within 60-day notice, according to fresh commentary released this week.

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. Palmer House Loan and Property Parameters

Palmer House Hilton			
Balance	\$328,933,823		
Deal and Exposure	JPMCC 2018-PHH		
Loan Type	Floating-rate, interest only		
Maturity	June 2020		
Coupon	1ML + 2.4172%		
Loan Status	Foreclosure (transferred to special servicing Apr-2020)		
Property Type / Size	Full Service Hotel / 1,641 rooms		
Year Built / Renovated	1925 / 2014		
Location	Chicago, IL		
Financials	<u>YE 12/31/2019</u> <small>(last reported)</small>	<u>Securitization (UW)</u>	
Net Operating Income	\$25,936,742	\$39,950,617	
DSCR	1.04 x	1.46 x	
Occupancy	76.0%	82.0%	
Debt Yield (Mortgage)	7.9%	10.5%	
Other Information	Appraisal History	Servicer Advancing	Additional Debt
	\$328.0 MM (Mar-2022)	P&I \$26.3 MM	There is a \$94.3 MM mezzanine loan outstanding, securitized in JPMCC 2018-PHMZ
	\$310.0 MM (Jun-2021)	T&I \$0.0 MM	
	\$305.5 MM (Aug-2020)	Other \$14.7 MM	
	\$560.0 MM (Apr-2018)	Adv Int \$2.3 MM	

Source: MCIA and Academy Securities

Hotel Receiverships: Palmer House Hilton Spotlights Stabilization Efforts

The market may see servicers increasingly employing receivership on troubled situations, especially with borrowers showing no interest or less commitment to their properties. Servicers clearly have been inclined to cooperate with committed borrowers during the [pandemic](#).¹ Forbearance agreements and modifications usually were the preferred workout approach. But as special servicing volume tick ups, and potentially becomes more adversely selected, servicers will likely need to deal with deeper distress cases. Keeping the borrower in control of the property in such cases, even if the borrower is interested in sticking around, may not be the ideal approach. The special servicing rate rose in October for the third-straight month, reaching 5.26% (\$31.4 billion), according to DBRS Morningstar. Office saw the largest YoY increase in SS transfers among property types, rising 174bp to 3.95%. Shifting tenant demand, early termination options, and property obsolescence would clearly put a spotlight on workout [alternatives](#).²

Receivership More Appropriate for Hotels, Non-cooperative Situations

The use of receiver may introduce a few aspects that could impact the ultimate recovery on troubled loans:

- **Stabilizing operations.** Receivership may be especially appropriate for properties that require intensive day to day operation. As such, hotels often make good receiver candidates, according to market participants. A key aspect a receiver may need to manage is the hotel's franchise agreement, as is evident in Palmer House. The receiver reports in Palmer make repeated references to the relationship with Hilton. The 10-year management agreement expires in December 2025, and has two 10-year renewal options.
- **Control of the cashflow.** One concern with using receivers for property operations in lieu of the original borrower is that the receiver may not be as familiar with the property, or lack the management expertise of the existing operator. However, receivers may be particularly appropriate when the borrower is not motivated, and there is an urgent need to get the management of the property out of their hands. If the servicer is also interested in getting control of the cashflow as soon as possible (perhaps because there is a concern over misappropriating cash), it may add to the urgency of appointing a receiver. Conversely, if a hard lockbox is in place, or if the borrower is cooperative, it may alleviate the need for a receiver.
- **Receivership sale.** Receivership may delay the actual property foreclosure and any potential loss realization. Indeed, in some situations, servicers may not be interested in taking title of the property. Taking title crystallizes losses, and exposes the servicer/lender to potential liabilities. Further, a receiver sale may facilitate seller financing, which REMIC rules do not allow in case the trust takes title of the property. As such, servicers may prefer to recapitalize existing debt through receiverships, especially amid an elevated coupon environment. Still, until the trust executes a foreclosure, junior lenders with potentially competing interests, may continue to be part of the property's capital structure. Palmer House had a \$94.3 million mezzanine position at issuance, that remained in place as of last month, according to the servicer.

¹ [Mall Foreclosures: What to Track as Servicers May Shift Away from Modifications](#), CMBS Credit Focus, Academy Securities, March 1, 2022

² [Office Modifications: 285 Madison Could Offer a Blueprint for More to Come](#), CMBS Credit Focus, Academy Securities, October 27, 2022

Hotel Receiverships: Palmer House Hilton Spotlights Stabilization Efforts

Identifying Receivership Loans Requires a Bit of Sleuthing

Consistently identifying CMBS properties in receivership unfortunately appears to be a challenge. A dedicated IRP field that indicated a loan's receivership date (field #54 in the special servicer loan file) seems to have been phased out. In turn, "appointment of receiver" is one of the formal reasons for special servicing transfer (item "E" in IRP field L127). But we have found only a handful of small loans among the active specially serviced universe where appointment of receiver was the transfer reason (Figure 2). This may not be surprising. We would typically expect loans to transfer to special servicing for reasons such as imminent term default or balloon/maturity defaults; Receiver appointment would follow the transfer, rather than instigate it.

Figure 2. Sample of CMBS Loans in Receivership

Loan	Deal	Balance		Maturity	Location	Property Type	DQ	SS	Reason for Transfer
		(\$MM)					Status	Transfer	
Clinton Crossings Medical Office	CGCMT 2017-B1	\$9.1		8/1/2027	Rochester, NY	Medical Office	Current	9/20/2021	Appointment of Receiver
1049 5th Avenue	BANK 2021-BN31	\$4.5		1/1/2031	New York, NY	Medical Office	Current	8/4/2021	Appointment of Receiver
Drexel Apartments	WFCM 2014-LC16	\$2.0		5/1/2024	Chicago, IL	Garden Multi	90+ Days	9/14/2018	Appointment of Receiver
The Shoppes at Buckland Hills	MSC 2012-C4	\$105.9		3/1/2022	Manchester, CT	Regional Mall	Perf Mat	10/29/2020	Imminent Monetary Default
Harborplace	UBSBB 2013-C5	\$60.8		12/1/2022	Baltimore, MD	Urban / Street Retail	90+ Days	2/15/2019	Payment Default

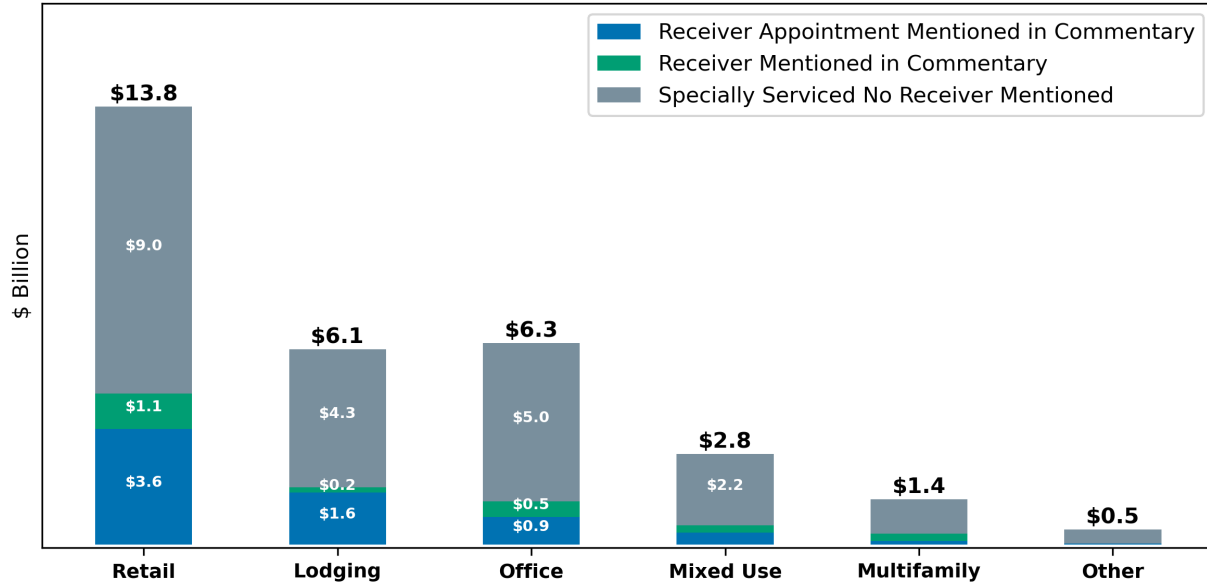
Source: MClA and Academy Securities

All told, it appears that investors are mostly left to identify receivership loans anecdotally via news feeds or servicer commentary. A couple receivership situations that popped up include The Shoppes at Buckland Hills (\$105.8 million, MSC 2012-C4) and Harborplace (\$60.6 million, UBSBB 2013-C5). In Buckland Hills the special servicer and the borrower agreed in mid-2021 to a consensual receivership on the 535K sf mall in Manchester, CT, after they couldn't reach an agreement on other workout approaches. The mall just reported its value plummeting to \$59.9 million, compared to \$189.0 million appraisal at issuance. In Harborplace the receiver has been operating the lifestyle retail center in Baltimore, MD, since May 2019. Recent servicer commentary indicates that the receiver has now found a buyer for the property that will assume the loan, which matures next month.

Beyond the anecdotal cases of receivership, we also attempted a more systematic search in servicer commentaries for indications of receiver appointment or consideration across 874 specially serviced loans. We found 268 cases where servicers likely considered receivership as a workout approach, and 204 loans where there is a strong indication the servicer ended up appointing a receiver. About 36% of these specially serviced loans are retail, followed by 30% hotels (Figure 3). A full list of the receivership loans is available upon request.

Hotel Receiverships: Palmer House Hilton Spotlights Stabilization Efforts

Figure 3. Receivership in Servicer Commentary, by Property Type



Source: MClA and Academy Securities

Hotel Receiverships: Palmer House Hilton Spotlights Stabilization Efforts

Academy Securitized Products Research Recent Reports

[Affordable Mortgages: Fee Elimination Spotlights Convexity Profile](#)

[Office Modifications: 285 Madison May Offer a Blueprint for More to Come](#)

[Investor Non-QM: Rental Exposure with Some Structural Twists](#)

[Data Centers: A Strong Segment Juggles ABS and CMBS](#)

[Triple-A Shortfalls: Destiny Spotlights Delayed ASERs Impact](#)

[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](#)

[Inflation-Resistant Leases: Rent Steps Offer Some Revenue Protection, though Not Much](#)

[Industrial Delinquencies: Don't Happen Often, but Watch Closely When They Do](#)

[Housing at a Crossroads: Single-family and Multifamily Exposures](#)

[Senior Housing: Focus on Segment Selection Amid Pandemic Impact](#)

[Hotel Reserves: Key Performance Driver after Pandemic-Driven Depletion](#)

[Disaster Performance: Pandemic Forbearance Resolutions Bode Well for Future Stresses](#)

[Government Tenants: Short Termination Notices and Specialized Properties](#)

[Russian Sanctions Impact: Lease Terminations and Forced Property Sales](#)

[Mall Foreclosures: What to Track as Servicers May Shift Away from Modifications](#)

Hotel Receiverships: Palmer House Hilton Spotlights Stabilization Efforts

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.

©Academy Securities, Inc.