CMBS Credit Focus

Office Re-defaults: Foreclosures to the Fore as Modified Maturities Approach

285 Madison Avenue Telegraphs Re-default Dynamics

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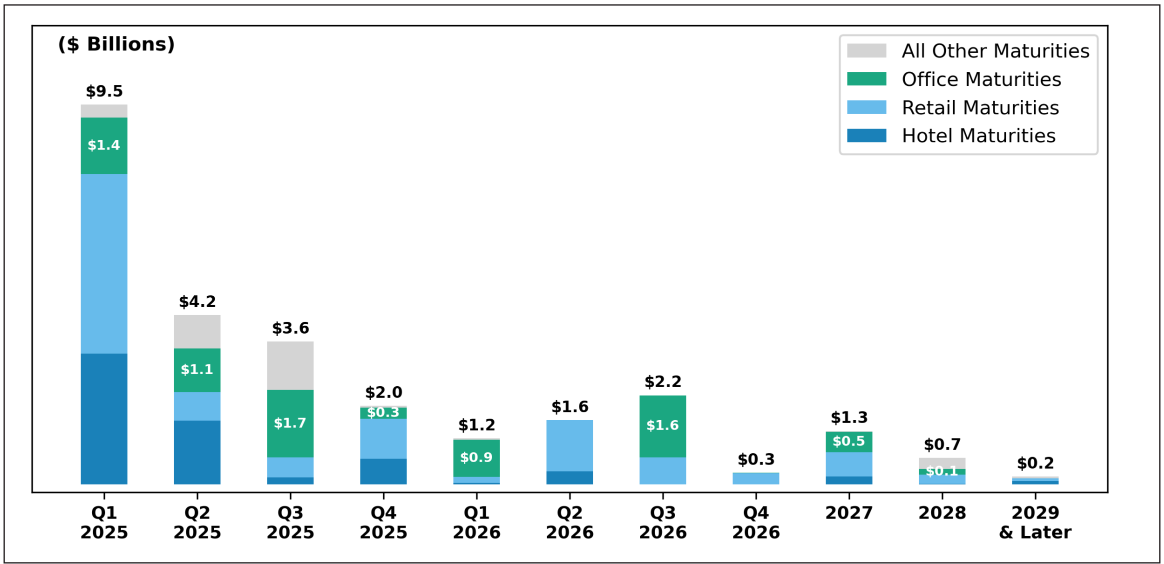
Re-defaults should pick up as office loans approach their modified maturities. Post-pandemic office modifications typically executed with the goal of providing borrowers time to secure refinancing amid the distress in the office sector, elevated rate environment, and tight lending conditions. The alternative of foreclosing and liquidating loans appeared less appealing. But while office is stabilizing, credit spreads are tightening, and lending is healthier, some borrowers may still struggle to pay off as their mods now expire (Figure 1).

Figure 1. Modified Maturities Schedule



Source: Morningstar Credit and Academy Securities

Re-default workout dynamics will look different from the way situations played out when loans first defaulted two or three years ago. We expect servicers to be much more inclined to appoint receivers and foreclose on properties, rather than ink another modification. Such approach could accelerate resolutions, especially if the trust can pursue uncontested receivership and foreclosure. But kicking borrowers out of the picture will also re-introduce advance accumulation, non-recoverability determinations, holdbacks, and other servicer decisions that may have been on hold during the modification.

Servicer Quickly Forecloses on 285 Madison Following Re-default

The situation at 285 Madison Avenue ($219.1 million, NCMS 2018-285M) spotlights some key aspects investors should track in re-defaults. 285 Madison was one of the first large post-pandemic office mods.[1] The borrower received an 18-month extension back in November 2022 (Figure 2). A second modification extended the maturity by another six months through November 2024. The loan defaulted again at the modified maturity and transferred to special servicing. The servicer filed last week for foreclosure and receivership, six weeks after 285 Madison re-defaulted.

Figure 2. 285 Madison Avenue Loan and Property Parameters

Asset	285 Madison Avenue
Deal	NCMS 2018-285M
Loan Balance ($ per sq. ft.)	$235.0MM ($460 psf) A-Note & $35.0MM ($528 psf) B-Note
Maturity	November 2024
Coupon	3.85%
Amortization	Interest-only
Loan Status	Maturity Default
Property Size / Occupancy	511,208 sq. ft. / 96% occupancy (July 2024)
Property Type / Location	Office / New York, NY
Appraisal History	$610 million (August 2017), $411 million (Oct 2022), $300 million (July 2024)
Total Cash Reserves	$5,787,834 (December 2024)

Lease Expiration Schedule

Tenant	Sq. Ft.	Expiration
P48V Corp	219,850	Oct-2033
General Electric	42,989	Aug-2032
Finastra Tech	34,767	Jun-2028
Ziff Capital	26,211	May-2026
NetApp Inc	18,242	Mar-2027
Total	**342,059**	

Modification Terms: Maturity extension from May 2024 to November 2024.

Source: Morningstar Credit and Academy Securities

Track Mod Provisions, Advancing, and Mezz Actions

We suggest investors track the following aspects as modified loans approach their extended maturity:

- **Re-default / cooperation provisions.** Timelines for foreclosure and liquidations following re-defaults will critically depend on any re-default provisions (sometimes called "cooperation" or "drop dead" provisions) that the mod agreements included. Servicers may have negotiated such cooperation covenants to ensure a smoother foreclosure if the borrower re-defaults. Servicers typically mention the risk of serious delays in contested foreclosures when they opt to modify loans rather than foreclose. Without cooperation provisions, investors may expect a lengthy foreclosure process, especially in New York.[2] In 285 Madison we do not see reference to such cooperation provision in the mod template, though we cannot rule out its existence in the full modification agreement. In turn, in Federal Center Plaza ($130 million, COMM 2013-CR6), another modified loan that recently re-defaulted, we clearly see a cooperation covenant. The covenant notes that the borrower will not seek to delay, oppose, or disrupt the lender's right to foreclose on the property or appoint a receiver. In fact, the Federal Center agreement notes that such cooperation clause was a "material inducement" for the servicer to pursue the loan's modification.

1 "Office Modifications: 285 Madison Could Offer a Blueprint for More to Come," CMBS Credit Focus, Academy Securities, October 27, 2022
2 "Equity Pledges: Hotel Bossert Spotlights Dual Collateralized Loans," CMBS Credit Focus, Academy Securities, February 23, 2023

- **Advances and shortfalls accumulation.** The expiration of modification/extension periods could resume the accumulation of advances or shortfalls. Modifications typically avoid advancing as borrowers perform based on the mod terms. Bondholders also may not see shortfalls, except in coupon-reduction mods.[3] Quite a few of the large outstanding modified loans currently do not have outstanding advances (Figure 3). This could change as servicers shift to foreclosures and borrowers stop performing. Re-defaults may also motivate master servicers to make non-recoverability determinations.[4]

Figure 3. Large Modified Office Loans

Asset	280 Park Avenue	One Market Plaza	375 Park Avenue	300 Park Avenue	CXP Office Portfolio
Deal	PRK 2017-280P	OMPT 2017-1MKT	CGCMT 2013-375P	COMM 2013-300P	CXP 2022-CXP1
Location	New York	San Francisco	New York	New York	Various
Loan Balance	$1,075,000,000	$ 850,000,000	$ 551,453,349	$485,000,000	$484,742,628
Advances	$0	$0	$0	$0	$72,309,512
Total Exposure	$1,075,000,000	$ 850,000,000	$ 551,453,349	$485,000,000	$557,052,140
Loan Status	Performing	Performing	Performing	Performing	Performing
Modified Maturity	September 2026	February 2026	May 2025	August 2025	July 2025
Original Maturity	September 2019	February 2024	May 2023	August 2023	December 2023
Current LTV	104%	68%	51%	49%	100%
Appraisal Date	February 2024	February 2024	April 2023	July 2013	April 2024

Source: Morningstar Credit and Academy Securities

- **Mezzanine lender actions**. As servicers shift to foreclosures following re-defaults, mezz lender actions can impact the workout. Servicers typically included any mezz lenders in the modification agreements of CMBS mortgages. The goal was to secure the mezz lenders cooperation and avoid disruptions such as bankruptcy filings. For example, the 285 Madison mod explicitly mentions that with a significant amount of equity above the secured debt, the mezz lenders will be incentivized to work with the CMBS borrower to pay off the secured debt. AON Center ($536 million, JPMCC 2018-AON and BMARK 2018-B4, B5, and B7) is another example of a large mod that sought the cooperation of mezz lenders.[5] Mortgage foreclosures may change that. Interestingly, a court decision in October ordered the 285 Madison borrower to pay $18 million to the mezz lender following the mezz loan's default. The decision seemingly upended the seniority structure on 285 Madison. The mortgage loan's mod noted the mezz lender should not receive any distributions during the extension period. A closer look at the situation revealed the mezz lenders pursued the personal guarantees the borrowers provided on the mezz loans. Still, the mezz lenders successful legal move highlighted another aspect mortgage lenders should track as mods expire.

3 "Interest Adjustments: Track Shortfalls Repayment and Priority," CMBS Credit Focus, Academy Securities, December 18, 2024
4 "Blanket NRAs: Shutting Down Advances Upends Credit IO Trades," CMBS Credit Focus, Academy Securities, January 3, 2024
5 "Credit 2024: Workout Nuances Come to the Fore," CMBS Credit Focus, Academy Securities, December 11, 2023

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