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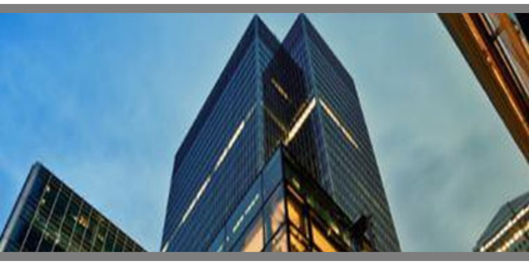
CMBS Credit Focus

Redevelopments: Joining San Francisco's Renaissance



San Francisco Centre Shows the Hurdles to Upside Opportunities

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The situation at San Francisco Centre ($558 million, DBJPM 2016-SFC and five 2016-vintage conduits) underscores the limitations of CMBS trusts in dealing with massive redevelopments. CMBS bondholders can face massive losses just as distressed properties potentially are on the verge of a brighter future post-development. The 1.5 million sf fully vacant, shuttered mall/ office complex in downtown San Francisco has gone through a foreclosure and sharp valuation drops (Figure 1). New prospective buyer bids are due on September 9th, based on statements from last week. A previous joint venture buyer walked away last month from a transaction in motion. The exposed CMBS deals could face losses that exceed the outstanding loan amount, based on special servicer projections.

Yet the area around San Francisco Centre clearly is experiencing a renaissance, as both fundamental data and our own impression from a visit to the neighborhood last week suggest. San Francisco Centre's sale process is pitching the REO property mostly as a ground-up mixed-use redevelopment opportunity, according to press reports. It is not clear if, or how, CMBS bondholders can benefit from a post-development, stabilized value of a re-imagined property. Price guidance for the now-failed transaction earlier this year was $100 million. The most recent as-is valuation for San Francisco Centre is $195 million. A note sale that could involve a redevelopment component no longer appears to be on the table.[1]

Figure 1. San Francisco Centre Loan and Property Parameters

San Francisco Centre

Balance	$558,000,000	
Deal Names	DBJPM 2016-SFC, DBJPM 2016-C3, CD 2016-CD1, JPMCC 2016-JP3, COMM 2016-COR1, JPMDB 2016-C4	
Loan Type	Fixed-rate, interest only	
Maturity	August 2026	
Coupon	3.3940%	
Loan Status	REO (foreclosure started November 2023 and became REO November 2025)	
Property Type / Size	Retail: 553,366 square feet and Office: 241,155 square feet	
Year Built / Renovated	1908, 1988 / 2006	
Location	San Francisco, CA	
Financials	T-12 as of March 2026	Securitization (UW)
Net Cash Flow	($21,216,026)	$54,817,690
DSCR	-4.42 x	2.85 x
Occupancy	7.0%	95.6%
Debt Yield	-3.8%	9.8%

Other Information	
Appraisal History	
July 2025	$195.0 MM
December 2023	$290.0 MM
April 2016	$1,220.0 MM
Loan Level Cash Reserves	
Tenant Reserves	$0.0 MM
Other Reserves	$0.0 MM
Servicer Advancing & ASERs	
Principal & Interest	$6.9 MM
Taxes & Insurance	$8.6 MM
Other Advances	$17.5 MM
Advance Interest	$4.1 MM
Cumulative ASERs	$12.3 MM

Source: Bloomberg, deal documents, and Academy Securities

1 "Loan Assumptions: Watch Waterfalls as New Borrowers Redevelop," CMBS Credit Focus, Academy Securities, March 7, 2024

Properties Can Become Functionally Obsolete During the CMBS Term

CMBS investors typically will face obstacles in realizing upside opportunities in distressed situations. Conceptually, bondholders may not even be interested in being part of equity-like redevelopment situations. Conduit and SASB collateral essentially is focused on stabilized, cashflow generating properties (CRE CLO facilitate more of transitional situations). REMIC rules generally also limit radical property re-positionings, especially those that change the property use.

CMBS redevelopment limitations come to the fore as quite a few properties have experienced functional obsolescence in recent years. The traditional ten-year tenor of CMBS transactions allows ample time for properties to go through unexpected downward spirals. Office properties that looked perfectly viable ten years ago may no longer be able to compete for office tenants in today's post-pandemic environment. 1740 Broadway comes to mind.[2] In a similar vein, urban retail properties in thriving downtown areas ten years ago may end up as prime victims of a multi-year market malaise that falls smack within the CMBS deal term. San Francisco Centre fits this category.

Noticeably Vibrant Neighborhood Around San Francsico Centre

The current contrast between San Francisco Centre and its surrounding neighborhood is striking. Shuttered storefronts and plenty of "FOR LEASE" signs still characterize the immediate vicinity of San Francisco Centre in the busy Market Street thoroughfare (Figure 2). But the nearby Union Square area appears to be thriving. Foot traffic was exceptionally strong on a weekday afternoon last week. We noticed relatively limited instances of homelessness or so-called quality of life issues. To be sure, many luxury stores did have armed security officers visibly present. But the area generally felt vibrant, safe, and inviting.

Figure 2. San Francisco Centre, as of August 5, 2026

Source: Academy Securities

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

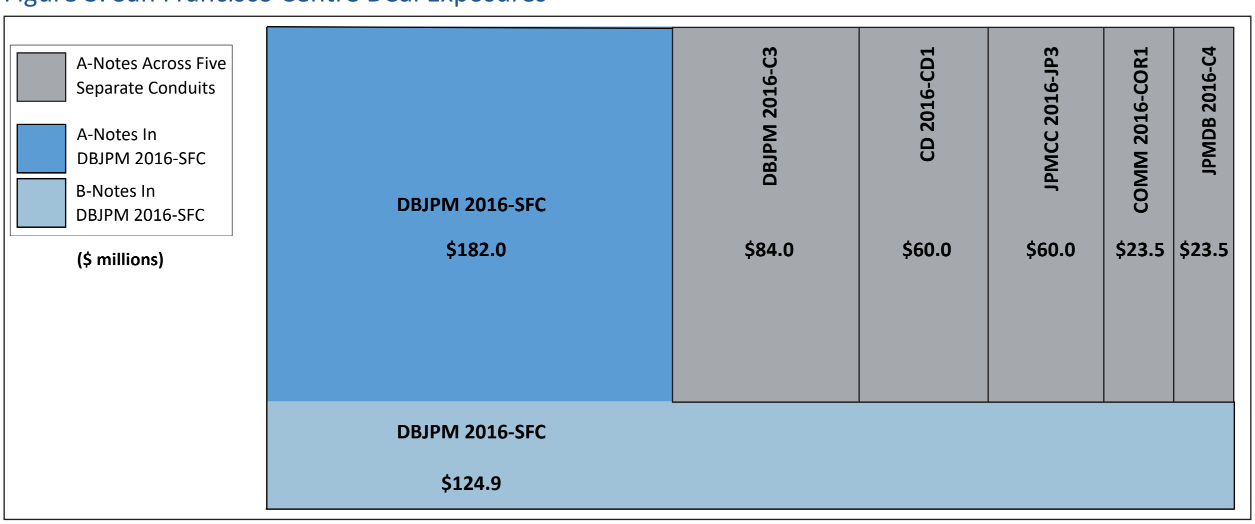
In contrast, in late 2023, local press in San Francisco labeled the 7th Street & Market Street intersection, two blocks from San Francisco Centre, as "perhaps the most troubled corner in San Francisco". Open-air drug trade and "black market merchandise" characterized the area. Fatal drug overdoses in the city set a record in 2023. About 20% of the reported drug crimes happened within one block of the intersection. At San Francsico Centre, Nordstrom gave notice in May 2023 that they would not be renewing their lease. The mall's nine-screen Century Theatre closed in June 2023. That same month the loan's sponsor announced they would stop making payments on the loan and intend to transfer the property to receivership.

Ground Lease, Complex Capital Structure Stymie a Workout

The complexity of San Francisco Centre capital structure, and especially the presence of a ground lease, most likely delayed a resolution, and further decreased the value CMBS bondholders can salvage from the situation.

- **Ground lease.** About ~186K sf portion of the overall ~794K San Francisco Centre collateral is subject to a ground lease with the San Francisco Unified School District. The ground lease had an expiration in June 2043 at issuance. Protracted negotiations since 2024 with the ground lessor over the ground rent, lease extension, and default claims have been a major stumbling block in working out the loan, based on deal documents. Interestingly, the last $195 million collateral valuation attributed $190 million value to the fee interest, and only $5 million to the leasehold interest. A recent extension of the leasehold through 2082 has paved the way for renewed sale process.
- **Guaranty**. The San Francisco Centre loan has a $75 million guaranty, tied to "demonstrated losses" on the A-notes of the leasehold portion. The potential to recover that guaranty played a role in the special servicer decision to pursue REO sale over alternative workouts, especially a note sale. With plenty of moving parts, including a complex pari passu exposure structure, it is not clear what would be the best way for the CMBS trust to realize any of the redevelopment potential (Figure 3). Despite REMIC limitations, some loan assumptions/mods we have come across did include meaningful redevelopments. Still, in other cases, properties first had to leave the CMBS trusts to undergo massive repositioning. Westside Pavilion is a notable example.

Figure 3. San Francisco Centre Deal Exposures



Source: Deal documents and Academy Securities

Academy Securitized Products Research Reports

Securitized Products Special Topics - Esoteric ABS:

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RV ABS: Niche Segment Finds a Place Between Prime and Subprime Auto

Crypto Collateral: Expect Robust Par Value Tests

Utility Rates: Rising Bills Can Bolster RRB Deals

Energy Transition: Expect Broader Definitions in Securitization Laws

Power Costs: Data Centers and Recovery Bonds Poised for More Predicatability

Sports Securitization: Vet League Revenues and Stadium Cashflows

Timeshare ABS: Program-specific Attributes to Drive Performance

Music ABS: Pool Variations Emerge Amid Constructive Sector View

Tower ABS: Tenant Preferences Bode Well for Leasing Demand

Aircraft ABS: Momentum Builds for Insurance Booster

Data Centers: Tenant Rosters Poised to Change

Container ABS: Geopolitical Tailwinds as Issuance Picks Up

Gas Securitization: Shorter WAL Alternative to Electric Charge Deals

Net Leases: Scarcity Value as Issuance Poised to Pick Up

Recovery Bonds: Deal Reporting Shows True-Up Adjustments Potency

Data Centers: Performance Wrinkles to Test Operators' Role

Recovery Bonds: Diversifying Exposure Moves Beyond Disasters

Device Payment ABS: Expect Stable Performance as Collateral Evolves

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

Equipment ABS: Pick Your Spots Amid Diverging Collateral Trends

Commercial Solar ABS: Emergent Segment to Alleviate Headline Risks

Cell Towers: Lender-Friendly Features Dovetail with Secular Tailwinds

Timeshare ABS: Exposure to Favorable Hospitality Segments

Recovery Bonds: No Need to Closely Watch the Fed or the Economy Here

Data Centers: A Strong Segment Juggles ABS and CMBS

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Euro Stadiums: Check Blueprints for Upcoming US Transactions
Data Centers Capex: Mixed Estimates on a Key Cashflow Driver
ARDs: Missing Anticipated Repayment Not Unusual, May Warrant Workout
BBnB: Check Your Booked-But-not-Billed Data Center Exposure
Stadium Finance: Shift to Private Funding Sets Stage for Securitization
Early Terminations: Tenant-friendly Provisions to Move Up Data Center Rollovers
Life Sciences: Surveil Your Exposure as Distress Percolates
CRE CLO Liquidations: Losses Accumulate, but No Immediate Writedowns
Office Contractions: New Term Rollover Risk, and Swelling Reserves
Multifamily Expenses: Broad Increases Mask the Fluctuations
Small Balance Commercial: Periphery Locations and "Weak" Sponsors May Prove Supportive
Investor Non-QM: Pockets of Value as Underwriting Tightens
Multifamily Prepays: Becoming Less Common, as Property Sales Drop
CRE CLO Mods: Rising Volume Not Immediately Telegraphing Distress
Agency Floaters: Adjusting Interest Rate Cap Escrows
Multifamily CRT: Limited Credit Risk on Synthetic Exposures
OC Triggers: Subtle Thresholds Come to the Fore As Collateral Stress Builds Up
Self Storage: Aspects to Watch as Performance Decelerates
Transitional Multifamily: Collateral Migration Away from CRE CLO Offers Different Deal Profile
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Senior Housing: Focus on Segment Selection Amid Pandemic Impact
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Distressed Office: 522 Fifth Avenue Trade Illustrates Office Upside

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PILOT: Check Another Wrinkle of Ground Leases

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Releasing Holdbacks: RENT is Writing Up Bonds

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Special Servicer Replacements: 1740 Broadway Crystalizes Implications

Crossgates Liquidation: Holdbacks Complicate Severity Projections

WODRA: Bond Cashflows Under Stress in Post-Mod Advance Recovery

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