



**Apple’s Office Footprint in San Diego Spotlights New Tenant Lease Provisions**

Undisclosed provisions on new leases that executed post-issuance may surprise investors as loans approach maturity. For example, an early termination option that a replacement tenant received after taking over a vacant space may hobble loan refinance, that otherwise may have looked smooth based on deal parameters. This is especially the case in single-tenant situations, where the new lease plays a critical role in the property’s outlook.

The \$59 million Summit Rancho Bernardo loan, the largest remaining exposure in COMM 2014-UBS5, is a case in point. In 2020 Apple took over nearly the entire space in the 203.6K SF urban office in San Diego, CA. Deal reporting shows that Apple’s new lease runs through 2028. The loan recently transferred to special servicing for imminent maturity default (Figure 1). The borrower claims that it could not payoff the loan because Apple has a termination option, according to fresh servicer commentary. We could not easily track reference to such option in previous commentary or deal reporting.

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Figure 1. Summit Rancho Bernardo Loan and Property Parameters

Asset	Summit Rancho Bernardo	Lease Expiration Schedule		
Deal	COMM 2014-UBS5	Tenant	Sq. Ft.	Expiration
Loan Balance (\$ per sq. ft.)	\$59,093,128 (\$290 per sq. ft.)	Apple	196,734	Jan-2028
Maturity	September 2024	Google	6,879	Aug-2026
Coupon	4.42% fixed	Total	203,613	
Amortization	Interest-only for first 60 months; 360 months thereafter			
Loan Status	Matured Non-Performing			
Property Size / Occupancy	203,613 sq. ft. / 100% occupancy (June 2024)			
Property Type / Location	Office (100%) / San Diego, CA			
Appraisal History	\$94.0 million (June 2014), \$62.4 million (September 2024)			
Total Cash Reserves	\$398,000 (November 2024)			

Source: Morningstar Credit and Academy Securities

Apple’s reported early termination option could be particularly relevant for Summit Rancho Bernardo. The iPhone maker office footprint plans in the San Diego’s market remain uncertain. Apple has been expanding in the area, signing new leases, including the one in Summit in 2020. But in 2022 Apple made its first property acquisition in San Diego, buying the seven-building, 816K SF Rancho Vista Corporate Center. As such, it is not clear if Apple is interested in shifting its footprint to owned

## New Leases: Track Post-Issuance Replacement Tenants

space, at the expense of its leased space in the market. It is possible Apple may end up exercising its early termination option at Summit that the borrower alludes to. Still, Apple may also keep its entire leased space as it is reportedly looking to increase its workforce in the city to 5,000 employees by 2026.

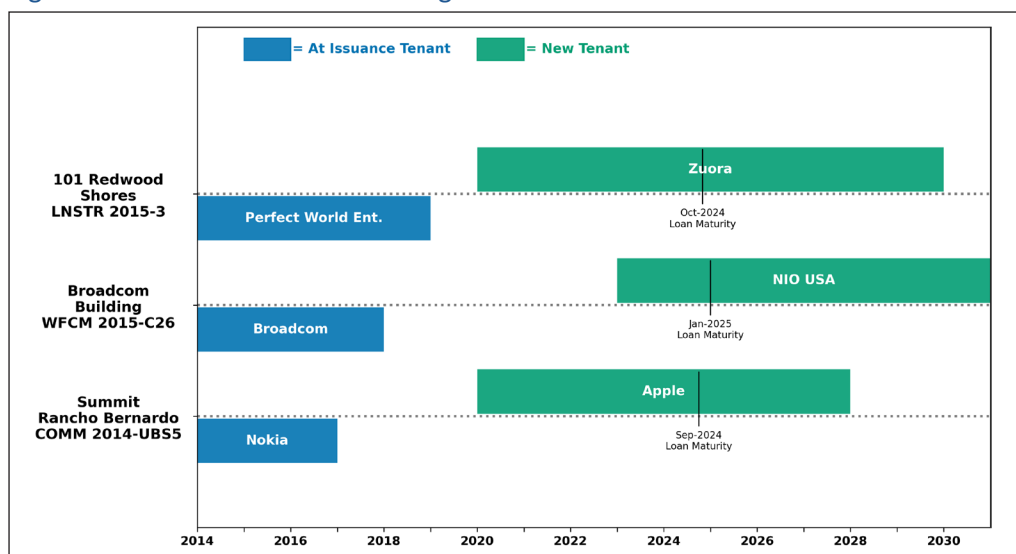
### Sifting Through Reporting for Post-Issuance Lease Provisions

**Deal documents usually provide extensive disclosure of tenant provisions on in-place leases at issuance.** Early termination and contraction options have become critical provisions, as office tenants rationalize [space](#).<sup>1</sup> The disclosures still typically only appear in footnotes or asset writeups, rather than in Annex A or data fields that are easier to track. But investors are now accustomed to looking for such tenant options as they underwrite new deals.

**In contrast, the disclosure of post-issuance lease provisions can be more haphazard.** The new tenants/leases may just show up in the current tenant fields. Investors may be able to learn a few more details about the new leases sifting through servicer commentary. Sometimes, it’s just about resorting to other data sources.

For example, in 101 Redwood Shores (\$37 million, top remaining exposure in LNSTR 2015-3), a new tenant took over back in 2020 the single-tenant office building in Redwood City, CA. Servicer commentary from that period noted the new lease is triple-net, and includes an abatement period. In turn, in Broadcom Building (\$32.6 million, WFCM 2015-C26), deal commentary provides scant detail about the new “multinational EV design and development company” that filled in the entire San Jose, CA, office building in 2023. In Broadcom, the at-issuance tenant exercised an early termination option in 2018, similar to the at-issuance tenant in Summit Rancho Bernardo. All told, we expect to see greater focus on post-issuance lease provisions, especially as the office market remains in flux and leases roll during CMBS deals’ term.

Figure 2. New Tenants in Outstanding CMBS Loans



Source: Morningstar Credit and Academy Securities

1 “Office Contractions: New Term Rollover Risk, and Perhaps Swelling Reserves,” Securitized Products Special Topics, Academy Securities, November 7, 2024

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