



### Tracking Tenant Lease Sweeps and Reserve Accumulations

The nuances and limits of dark period provisions underscore investor need to track cash collateral accounts, especially account type “13” that typically accumulates post-trigger funds. A few recent situations illustrate it may not be clear if dark periods should have been triggered, and if they did, whether cash sweeps are in effect. For example, in the \$770 million MOFT 2020-ABC, investors questioned if a lease sweep triggered following Google’s intention to shed 737K sf across the three Moffett Towers buildings in Sunnyvale, CA, that back the SASB deal (Figure 1). In turn, a similar question on triggering dark event came up on the \$240 million 636 11<sup>th</sup> Avenue (largest exposure in CGCMT 2018-C5, and across five other 2018-vintage deals). Investors noted that the property’s sole tenant, Ogilvy Group, vacated its space prior to the lease expiration in December 2029. Investors cited Fitch rating withdrawal for WPP, Ogilvy’s parent, as another potential sweep trigger.

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Figure 1. Moffett ABC Portfolio Loan and Property Parameters

<b>Asset</b>	Moffet Towers Buildings A, B & C				
<b>Deals</b>	MOFT 2020-ABC (\$328.0MM); BMARK 2020-B17 (\$79.5MM); Non-securitized (\$362.5MM)				
<b>Balance</b>	\$770,000,000				
<b>Maturity</b>	February 2030				
<b>Coupon</b>	3.49%	<b>Appraised Value History</b>			
<b>Loan Status</b>	Current	<b>Property</b>	<b>Sq Ft</b>	<b>January 2020</b>	<b>October 2021</b>
<b>Property Size</b>	951,498 square feet	Building A	317,166	\$348.0	\$348.0
<b>Property Type</b>	Office	Building B	317,166	\$329.0	\$390.0
<b>Location</b>	Sunnyvale, CA	Building C	317,166	\$335.0	\$383.0
<b>Tenant</b>	Google	Total	317,166	\$1,012.0	\$1,121.0

Source: MCI and Academy Securities

Servicers clarified that in both Moffett ABC and 636 11<sup>th</sup> Avenue the circumstances did not warrant cash sweep triggers. In Moffett, the servicer noted that if Google is the lease sweep tenant, the trigger is not applicable, among other exceptions. In 636 11<sup>th</sup> there was no enforcement of a dark trigger event because Ogilvy is still under the lease, despite most of its employees not at the building. The servicer also mentioned that the Fitch rating trigger is not applicable because the servicer believes the rating was withdrawn for “commercial purposes”, that do not reflect concerns over WPP’s creditworthiness.

## Dark Triggers: Nuances in Focus as Tenant Departures and Subleasing Pick Up

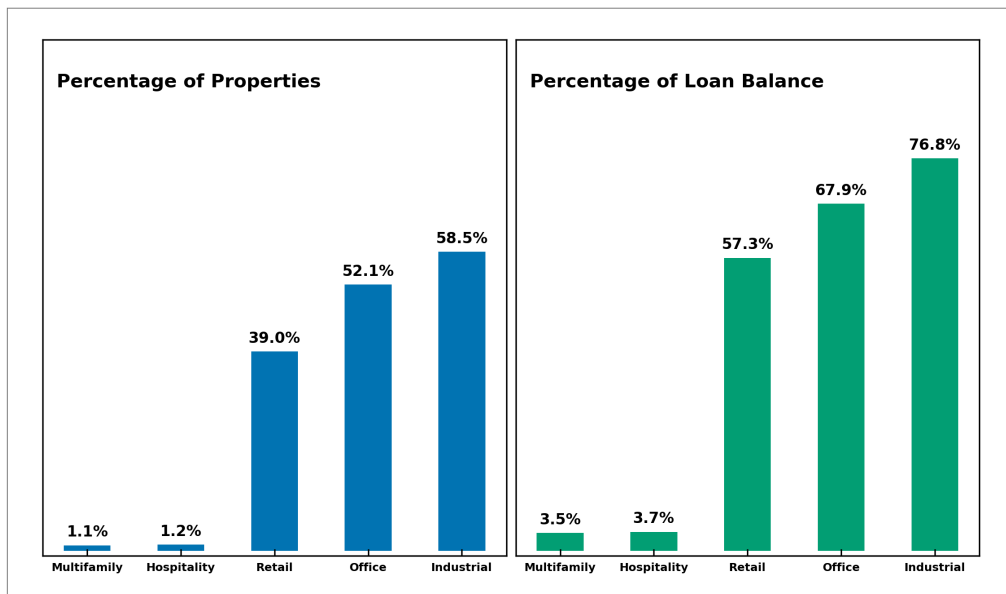
All told, sweep provision language and servicers detailed commentary may reasonably explain why triggers are not applicable in specific situations. Yet we expect the complexity of trigger definitions, along with lingering investor questions, to come to the fore as tenant distress, especially in the office sector, builds up. Specifically, elevated subleasing activity would sharpen the focus on the kind of sublease arrangements that trigger cash sweeps. Relatedly, dark period provisions can widely vary in identifying the specific events that trigger sweeps. Some provisions may exclude press releases or “corporate statements” on tenants’ sublease intentions, or even active marketing of their space.

### Office Utilization Triggers

Provisions can also greatly vary, perhaps not surprisingly, across specific tenants. Anchor tenants may have so-called “specified tenant” triggers (Figure 2). Such triggers may not necessarily be more lender-friendly compared to the non-specified tenant triggers.

The current distress in the office sector should spotlight trigger provisions unique to office tenants. For example, lenders may increasingly incorporate office utilization thresholds as trigger events. Sabre Headquarters (\$40 million, BANK 2022-BNK44), originated in late 2022, is a case in point. Deal documents note that if Sabre’s employee utilization rate in the 266K sf office building in Southlake, TX, falls below 50%, based a quarterly borrower attestation, a cash trap period will kick off.

Figure 2. Tenant Specific Triggers Across Recent Issuance



Source: Deal Documents and Academy Securities

## Post-Trigger Reserve Accumulation

Once dark period conditions are met, cash collateral reserves should start accumulating available cash. Investors may need to actively monitor loan reserve accounts, typically reported via IRP’s Loan Level Reserve/LOC Report. The loan periodic update (“L” data file) also reports the reserve balance (IRP field L104), but without a breakdown of the different 13 reserve types (Figure 3). Casually looking for the reserve report across large loans shows that the file is occasionally not populated, consistent with our previous observation while discussing [hotel reserves](#).<sup>1</sup>

Figure 3. IRP Package Reserve Account Types

Code	Reserve Type
1	Replacement Reserve
2	FF&E Reserve
3	Repair Reserve
4	Tenant Reserve
5	Environmental Reserve
6	Capital Improvement Reserve
7	Seasonality Reserve
8	Deferred Maintenance Reserve
9	Debt Service Reserve
10	Ground Rents Reserve
11	Leasing Reserve
12	Letter of Credit
13	Other

Source: Commercial Real Estate Finance Council (CREFC)

**The reserve account “Other”, #13, should typically accumulate cash sweep monies.** In another example of the ramifications of Google’s office footprint resizing, Technology Corners Building Six (\$113.9 million, JPMCC 2014-C20 and C21) started trapping excess cash because the technology giant did not renew its lease on the 232K sf office building in Sunnyvale, CA. The “Other” reserve account has accumulated \$2.0 million by now, according to deal data.

**Yet deal commentary also suggests it was not clear to some investors that sweep reserves are accumulating on the Technology Corners loan.** Such uncertainty over the timing and extent of post-trigger sweeps popped up in other cases as well. For example, in 650 Madison Avenue (\$800 million, MAD 2019-650M and 12 other conduit deals) following investor requests the master servicer confirmed earlier this month that a specified tenant trigger event occurred back in November 2021. The trigger period kicked off in December 2022, when a cash collateral reserve account started sweeping excess cash. The servicer noted the current reserve balance is \$5.9 million.

<sup>1</sup> Hotel Reserves: Key Performance Driver after Pandemic-Driven Depletion, CMBS Credit Focus, Academy Securities, April 19, 2022

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