



Net Lease ARD Loans Spotlight Built-In Mod Mechanism

Borrower decisions to skip payoff at loan anticipated repayment dates (ARD) test the efficiency of the ARD feature as a pre-negotiated modification mechanism. ARD “breaches” in net lease ABS deals have surprised some investors, based on conversations with market participants. The \$2.0 billion SORT 2020-1 is one example of a net lease deal that has some of its classes past their ARD. The borrower reportedly faced difficulties refinancing the loan, backed by Amazon triple-net leases. The ARD was on July 15, 2025. The bonds should now carry a much steeper post-ARD rate, of at least 10.0%, up from 1.69%.

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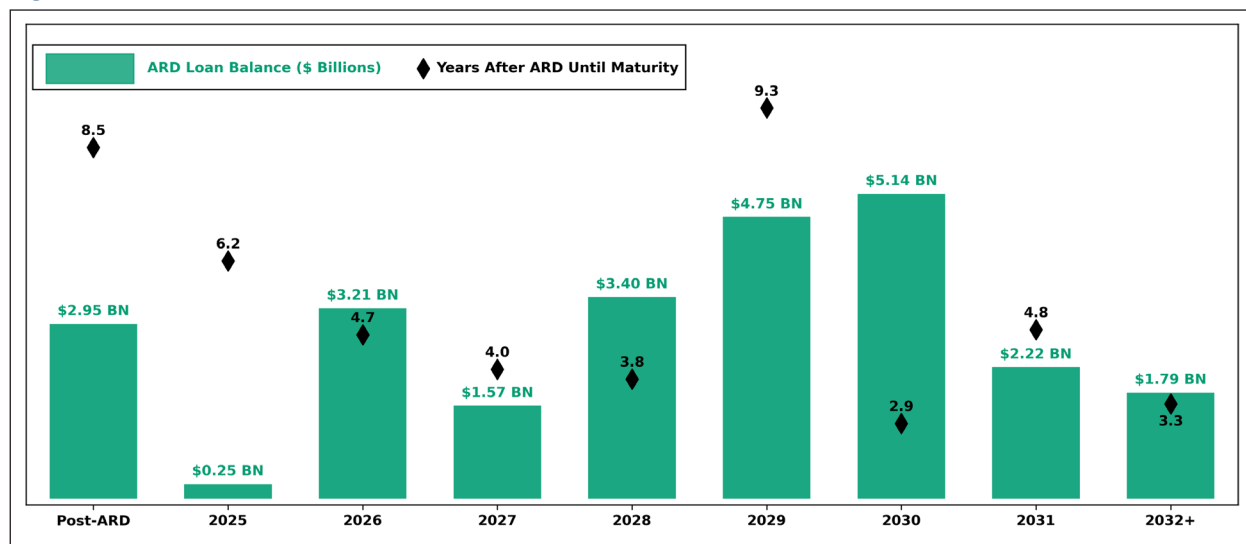
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ARD loans are not uncommon. Quite a few CMBS loans have this feature, including large leased-fee situations, and a few net lease [loans](#).¹ As a reminder, ARD loans do not default even if they do not pay off at the repayment date. Instead, there is usually a steep interest rate step up. The ARD may also trigger a cashflow sweep to capture all of the property’s cash flows into a lender-controlled lockbox to amortize principal. As such, ARDs indeed create an almost built-in modification mechanism. Skipping ARDs provides loan sponsors with some buffer (albeit potentially expensive one) to work through property issues (Figure 1).

Figure 1. ARD Schedule



Source: Morningstar Credit and Academy Securities

¹ “The Road to Conversion: Consider Ground Leases and ARD Loans in Office Analysis,” CMBS Credit Focus, January 5, 2023

ARDs: Missing Anticipated Repayments Not Unusual, But May Warrant Workouts

Quite a few Post-ARD Outstanding Loans

There are quite a few outstanding loans that have gone past their ARD, despite the apparent surprise over the ARD miss in the SORT deal. Notable examples include the \$268.7 million Graybar Building (MSC 2015-420) and the \$169.1 million 625 Madison Avenue (COMM 2014-CR14 and CR15). The Graybar Building loan reached its ARD in October 2024. The borrower did not pay off, and the loan's coupon dramatically stepped up to 8.02% from a pre-ARD rate of 3.77%. In turn, 625 Madison had its ARD back in December 2018. The loan's interest rate increased to 5.3% from 2.3% back then. It increased again in January 2023 to at least 6.05%. The loan's final maturity date is in December 2026. A few smaller net lease loans are also past their ARD. Examples include several of the Walgreens Net Lease Portfolio loans and Bluerock Net Lease Portfolio (Figure 2).

Figure 2. Post-ARD Loans

Asset	Graybar Building	625 Madison Ave	State Farm Portfolio	100 West 57th St.	Walgreens Net Lease Portfolios	Bluerock Net Lease Portfolio
Deal	MSC 2015-420	COMM 2014-CR14 COMM 2014-CR15	COMM 2014-UBS3 COMM 2014-UBS4 COMM 2014-UBS5 MSBAM 2014-C16	COMM 2015-CR22 COMM 2015-DC1 WFCM 2015-NXS1 WFCM 2015-NXS2	COMM 2015-LC19 COMM 2015 -C21 JPMBB 2015-C28	JPMBB 2013-C12
Loan Balance	\$268,700,000	\$169,100,000	\$319,477,106	\$180,000,000	\$132,919,485	\$9,561,496
Loan Status	Performing	Performing	Performing	Performing	Performing	Performing
ARD	October 2024	December 2018	April 2024	November 2019	January 2025	June 2023
Maturity	October 2040	December 2026	April 2029	April 2035	January 2030	June 2028
Pre-ARD Rate	3.77%	2.30%	4.63%	2.31%	4.22%	4.15%
Current Rate	8.02%	6.05%	7.86%	6.36%	6.57%	6.65%

Source: Morningstar Credit and Academy Securities

Some ARD Situations May Need Active Workouts

CMBS loans that miss their ARD typically do not transfer right away to special servicing, despite the potential distress that caused the borrower to skip payoff. The borrower is likely sufficiently incentivized to diligently work on refinancing the loan given steeper post-ARD interest rates. In a similar vein, post-ARD ABS also do not trigger workout management. The way SORT and other potential ARD misses in ABS deals play out may have investors questioning the passive approach to ARD situations. Some post-ARD CMBS loans, such as 625 Madison, did end up transferring to special servicing as the property situation became more complicated.

Investors may be interested in actively negotiating with borrowers missing their ARD. In some situations, it may be beneficial to negotiate a discount (or forgiveness) of the stepped-up ARD interest, in exchange for earlier payoff of the bonds. Further, missing ARDs mean bonds can remain outstanding for many more years. In SORT the legal final maturity is in 2060. Many of the

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underlying net leases still do not expire for many years as well. The pool leases had 19.3-year weighted average lease term at issuance, according to deal documents. But several properties have much shorter lease terms. The earliest lease expiration in the pool is 2031. With the borrower missing its ARD, the deal investors are now exposed to rollover risk before bond maturity. Any replacement tenant may not offer the strength of Amazon. Net leases do require focus on the tenant's credit profile given the tenant responsibility for a range of uncertain expenses, as we previously [discussed](#).²

² "Net Leases: Scarcity Value as Issuance Poised to Pick Up," Securitized Products Special Topics, Academy Securities, May 13, 2024

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