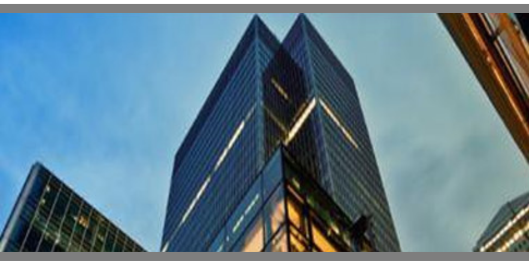
# Securitized Products Special Topics

## CRE CLO Liquidations: Losses Accumulate, but No Immediate Writedowns



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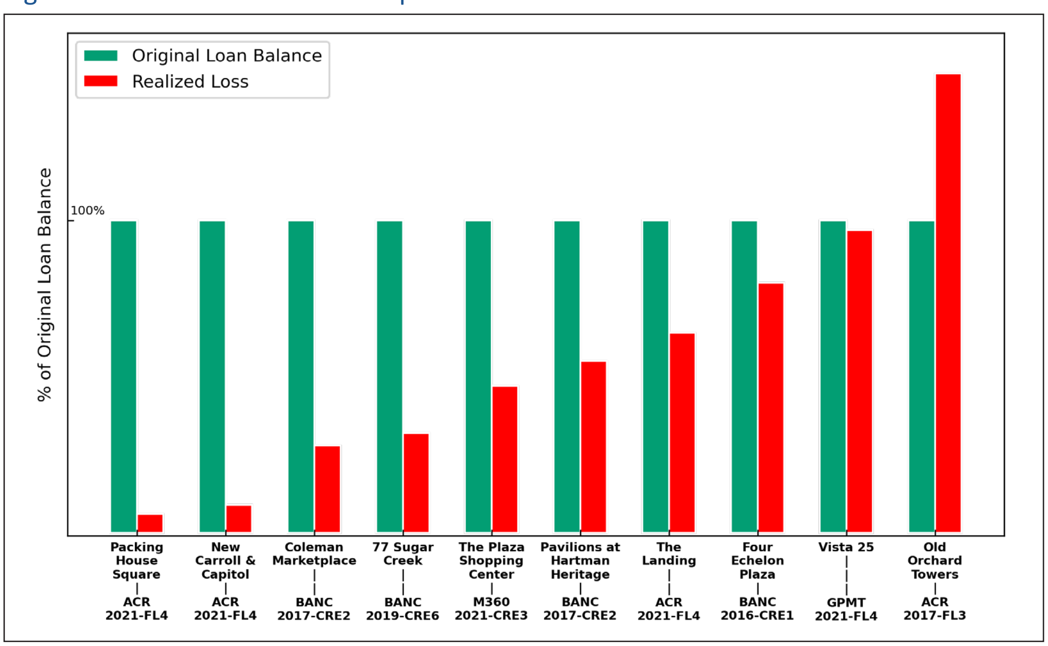
### Recent Liquidations Illustrate CRE CLO Loss Absorption

**A spate of recent CRE CLO loan liquidations with large losses illustrates the distinctive way CRE CLO deals absorb and report such losses.** The losses do not immediately result in class/note writedowns, like in CMBS. Rather, only the loan level reporting reflects the realized losses. Investors are left to track accumulating CRE CLO losses in cashflow systems, which may show writedowns only at the class final payoff date.

The Landing ($32.4 million pre-liquidation balance, ACR 2021-FL4) and Vista 25 ($19.9 million, GPMT 2021-FL4) show the implications of large CRE CLO losses. The two loans recently liquidated with losses of $20.2 million (54.3%) and $13.3 million (58.0%), respectively. In both cases the deal remittance reports do not show any principal losses/writedowns on the outstanding classes. Only the liquidated loan details reflect the losses on the office buildings in Oakland, CA, and Greenwood Village, CO.

Figure 1. Recent CRE CLO Loan Liquidations




Source: Morningstar Credit and Academy Securities

## Expect Liquidations to Pick Up as Business Plans Fizzle

**CRE CLO liquidations with losses will pick up as business plans do not pan out and borrowers give up on their properties.** Instances of liquidation-driven losses have been fairly limited so far (Figure 2). But as property distress lingers, servicers may be inclined to foreclose and market assets for sale. This is also happening as collateral managers potentially exhaust the number of allowed "criteria-based modifications" or borrowers re-default on modified loans.[1]

Figure 2. Liquidated CRE CLO Loan Parameters

| Loan | Deal | Realized Loss To Trust ($MM) | Original Balance ($MM) | Liquidation Date | Property Type | Location | Most Recent DSCR | Most Recent Occupancy | UW DSCR | UW Occu-pancy |
|---|---|---|---|---|---|---|---|---|---|---|
| **Old Orchard Towers** | ACR 2017-FL3 | 50.1 | 34.1 | Mar-2024 | Multi | Skokie, IL | 0.20 | 45% | NA | NA |
| **The Landing** | ACR 2021-FL4 | 20.2 | 31.6 | Nov-2024 | Office | Oakland, CA | 0.57 | 77% | 1.00 | 76% |
| **Vista 25** | GPMT 2021-FL4 | 13.3 | 13.7 | Dec-2024 | Office | Denver, CO | 0.31 | 51% | 1.71 | 62% |
| **Pavilions at Hartman Heritage** | BANC 2017-CRE2 | 8.9 | 16.3 | Nov-2024 | Retail | Independence, MO | 0.03 | 41% | 1.99 | 76% |
| **Four Echelon Plaza** | BANC 2016-CRE1 | 7.6 | 9.5 | May-2020 | Office | Voorhees, NJ | NA | NA | 1.72 | 68% |
| **77 Sugar Creek** | BANC 2019-CRE6 | 6.8 | 20.9 | Aug-2023 | Office | Sugar Land, TX | NA | NA | NA | NA |
| **Coleman Marketplace** | BANC 2017-CRE2 | 4.9 | 17.4 | Jun-2023 | Retail | Danville, VA | -0.10 | 56% | 1.49 | 89% |
| **The Plaza Shopping Center** | M360 2021-CRE3 | 3.6 | 7.5 | Dec-2024 | Retail | Tulsa, OK | 0.01 | 34% | 0.80 | 48% |
| **New Carroll & Capitol Hill Park** | ACR 2021-FL4 | 1.7 | 18.7 | Feb-2024 | Multi | Seattle, WA | 0.74 | 100% | 1.08 | 88% |
| **Packing House Square** | ACR 2021-FL4 | 1.6 | 26.9 | Jan-2024 | Mixed | Yorba Linda, CA | 0.58 | 58% | 1.35 | 57% |

Source: Morningstar Credit and Academy Securities

**The Landing and Vista 25 show what might be CRE CLO distressed assets typical path to liquidation.** In the 198.3K sf The Landing office property, the borrower was planning to complete upgrades, and roll tenants to market rents. The issuer pegged stabilized occupancy and DSCR at 92% and 1.83x. Those metrics stood at 61% and 0.36x, as of Q2 2024, based on deal documents. The borrower did cover shortfalls for a while, but the servicer moved to foreclose after the loan defaulted at maturity.

In turn, in the 194.6K sf Vista 25 suburban office, the sponsor's business plan was to "compete aggressively" for new and renewal tenants by offering "value economics" on the newly renovated and amenitized property. The sponsor implemented a $3.1 million capital expenditure program, and spent additional $1.4 million to create 35.1K sf spec suites. A 3Q 2024 update notes that

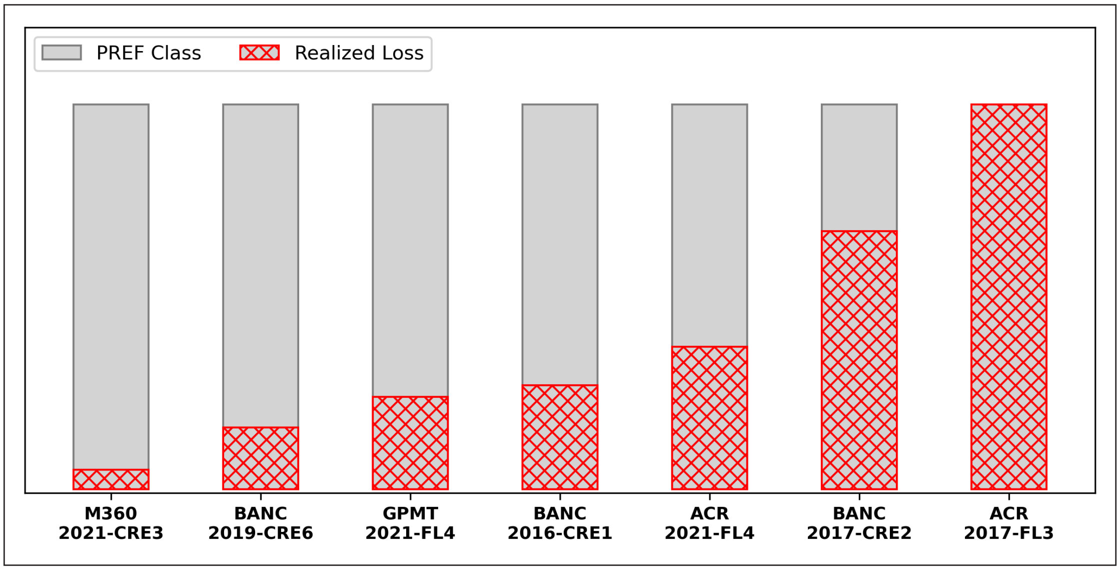
1 "CRE CLO Mods: Rising Volume Not Necessarily Telegraphing Distress," Securitized Products Special Topics, Academy Securities, October 5, 2023; "Office Re-defaults: Foreclosures to the Fore as Modified Maturities Approach," CMBS Credit Focus, Academy Securities, January 8, 2025

the market has been "moderately active" for small tenants looking for turnkey-ready space, especially in the Greenwood Plaza Market. There were some large tenants looking for space, but an abundance of supply existed. In August 2024, the sponsor engaged a commercial broker to sell Vista 25.

## No Writedowns Even as Losses Exceed Equity Classes

**A rising number of liquidations should focus investor attention on tracking deal level realized losses.** So far, such losses have not exceeded the preferred shares class balances across the affected deals (Figure 3). As such, the absence of note writedowns can be viewed as erosion of the equity, or risk retention positions on the deal. ACR 2021-FL3 is one case where the overall loan losses, at $50.1 million, are very close to the deal's preferred class outstanding balance, at $52.9 million. The Old Orchard Tower loan, backed by a 355K sf office property in Skokie, IL, that liquidated back in March 2024 is driving the losses in the deal.

Figure 3. Preferred Equity Classes on CRE CLO Deals With Loan Losses




Source: Morningstar Credit and Academy Securities

Still, CRE CLO deal indentures, as well as deal commentary following loan liquidations, suggest that investors should not expect to see writedowns even when loan losses reach classes beyond the deal sponsor's equity positions. Commentary notes that indentures do not include the concept of "realized loss" as is commonly incorporated in CMBS deals. As such, realized losses on the collateral are not applied to the deal notes. In contrast, CMBS prospectuses contain explicit language on the calculation and allocation of realized loss across deal certificates.

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