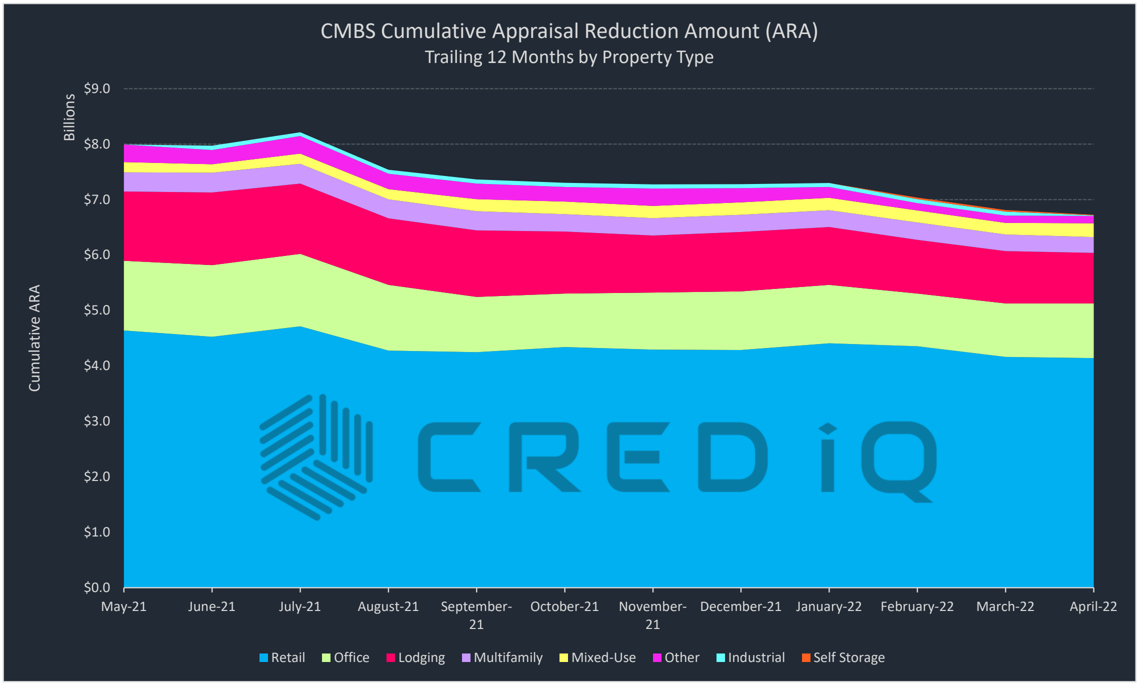
CMBS – Appraisal Reduction Amount (ARA) Trends

CRED iQ monitored trends in cumulative appraisal reduction amounts (ARAs) for the CMBS universe over the past year, gauging levels of distress and the prevalence of loan workouts and cures. An ARA is a mechanism that reduces the amount of servicer advances for distressed loans, usually secured by collateral with deteriorated valuations. An ARA is a high-level metric for monitoring the approximate level of distress in a CMBS pool and a key function in the management of the waterfall structure of a CMBS securitization. Additionally, the cumulative ARA for a particular deal, among other things, plays a role in determining changes in the controlling certificate holder of a deal and factors into thresholds for determining if a deal needs additional oversight in the form of an operating advisor. Monitoring the cumulative ARA for CMBS transactions can give broad insight into principal loss expectations; however, it is generally viewed that any given individual ARA for a loan is not an accurate predictor for realized losses at final resolution.

The cumulative amount of ARAs in CMBS securitizations trended down significantly over the past 12 months. Cumulative ARAs across conduit, SASB, CRE CLO, and Freddie K CMBS transactions were approximately $1.3 billion lower in April 2022 than in May 2021. The net decline is attributed to multiple factors: REO asset liquidations or loan dispositions, loan workouts, and property value recoveries (in less frequent instances). Conversely, ARA declines are offset by increases caused by property value declines and transfers to special servicing. ARAs totaling approximately $2.3 billion as of May



2021 were assigned to loans that were no longer active as of April 2022 – these loans were either liquidated, resolved, or paid off. There were ARA reductions totaling approximately $1.1 billion from May 2021 through April 2022. Reductions included loans that were worked out and returned to the master servicer, eliminating the servicer's need to advance debt service and property protection expenses, as well as loans secured by collateral that exhibited recoveries in valuations.

Despite the net decline in ARA over the last year, there were over $2 billion in ARA increases which included loans with newly assigned ARAs and loans secured by properties with deteriorating valuations compared to 12 months prior. Overall, these three buckets — ARAs no longer active due to liquidations or payoffs, ARA increases on active loans, and ARA decreases on active loans — combined to produce the net $1.3 billion decline in cumulative ARAs from May 2021 to April 2022.

CMBS - Net Appraisal Reduction Amount (ARA) Changes

Description	Amount ($ billions)
May 2021 ARAs from loans that have paid off	($2.3) billion
ARA Decreases May 21 to April 22	($1.1) billion
ARA Increases May 21 to April 22	$2.0 billion
Net Decline in Cumulative ARAs	($1.3) billion

From May 2021 through April 2022
Source: cred-iq.com

Retail properties accounted for 62% of cumulative ARAs in CMBS as of April 2022, which is the majority of appraisal reductions. Cumulative retail ARAs as of April totaled $4.1 billion with most of the total tied to regional malls with outsized debt balances. Office (15%) and lodging (14%) represented the next two highest concentrations of ARAs by property type, each accounting for just under $1 billion in appraisal reductions. While cumulative ARAs for both office and lodging loans have exhibited net declines compared to 12 months prior, the two property types have shown opposing trends over the past three months. Cumulative ARAs for lodging loans have declined in consecutive months since February 2022 while cumulative ARAs for office loans have risen for three consecutive months.

Circling back to regional malls, the retail subtype has been the source of headline risk for CMBS investors with significant variation in opinions on projected losses. Eight of the 10 largest increases in individual ARAs for active loans as of April 2022 compared to a year ago are secured by regional malls. Six of those loans did not have an ARA assigned as of May 2021. The largest individual increase in an ARA for a loan over the past 12 months was associated with the $681.6 million Starwood Mall Portfolio, which is secured by The Mall at Wellington Green (Wellington, FL), MacArthur Center (Norfolk, VA), Northlake Mall (Charlotte, NC), and The Mall at Partridge Creek (Clinton Township, MI). The ARA for the loan was $341.6 million as of May 2021 but ballooned to $474 million as of April 2022, equal to a $132.4 million increase or 39%.

As of April 2022, six of the 10 largest decreases in individual ARAs for outstanding loans over the trailing 12 months were secured by regional malls. The ARAs for all six of these loans were reduced to zero after each loan was returned to the master servicer during the past 12 months. A return of a loan to the

Largest Apppraisal Reduction Amount (ARA) Increases - Trailing 12 Months

Deal Name	Property Name	Property Type	Outstanding Balance - April 2022 (millions)	ARA as of April 2022 (millions)	ARA % of April 2022 Outstanding Balance	ARA as of May 2021 (millions)	Increase in ARA (millions)
SRPT 2014-STAR	Starwood Mall Portfolio	Regional Mall	$681.6	$474.0	70%	$341.6	$132.4
GSMS 2011-GC5	Park Place Mall	Regional Mall	$161.3	$88.5	55%	$0.0	$88.5
BBUBS 2012-TFT	Tucson Mall	Regional Mall	$99.8	$82.2	82%	$0.0	$82.2
WFRBS 2013-C14 WFCM 2013-LC12	White Marsh Mall	Regional Mall	$190.0	$73.0	38%	$0.0	$73.0
CFCRE 2011-C2 COMM 2012-CR1	RiverTown Crossings Mall	Regional Mall	$129.4	$66.3	51%	$0.0	$66.3
JPMCC 2012-WLDN	Walden Galleria	Regional Mall	$236.7	$56.3	24%	$0.0	$56.3
JPMBB 2013-C14 JPMBB 2013-C12	Southridge Mall	Regional Mall	$108.2	$50.9	47%	$0.0	$50.9
GSMS 2013-GC10 CGCMT 2013-GC11	Empire Hotel & Retail	Lodging	$167.4	$49.9	30%	$0.0	$49.9
JPMCC 2018-MINN	Hilton Minneapolis	Lodging	$180.0	$48.3	27%	$0.0	$48.3
GSMS 2013-GC13 GSMS 2013-GC14	Mall St. Matthews	Regional Mall	$161.6	$90.0	56%	$42.1	$48.0

Source: cred-iq.com

master servicer from special servicing is an action that allows an appraisal trigger event to no longer exist, which reduces ARA to zero. Also notable about the largest ARA declines from a year ago is that four of the loans had placeholder ARAs, equal to 25% of the loan balance. Placeholder ARAs are automatic calculations used to reduce servicer advances in the event a timely appraisal cannot be obtained, is determined to not be warranted, or has questionable assumptions in the view of the special servicer. Ironically, the loan with the largest individual ARA decline over the past 12 months is the Starwood Regional Mall Portfolio, similarly named as the loan with the highest ARA increase. This $513.2 million loan is secured by five regional malls – Plaza West Covina, Franklin Park Mall, Parkway Plaza, Capital Mall, and Great Northern Mall — see CRED iQ's March 2022 Weekly Asset Review. The loan was in special servicing in May 2021 but returned to the master servicer in January 2022 and no longer carries an ARA. However, the absence of an ARA does not preclude an eventual realized loss for the loan. As stated above, an ARA, whether one even exists, and the size of it is generally not an accurate indicator of the final tally of a loan's performance when it exits a CMBS pool.

Largest Apppraisal Reduction Amount (ARA) Decreases - Trailing 12 Months

Deal Name	Property Name	Property Type	Outstanding Balance - April 2022 (millions)	ARA as of April 2022 (millions)	ARA as of May 2021 (millions)	ARA % of May 2021 Outstanding Balance	Decrease in ARA (millions)
GSMS 2018-SRP5	Starwood Regional Mall Portfolio	Regional Mall	$349.7	$0.0	$47.9	14%	($47.9)
DBUBS 2011-LC3	Dover Mall and Commons	Regional Mall	$79.2	$0.0	$45.5	57%	($45.5)
COMM 2012-LC4	Square One Mall	Regional Mall	$84.9	$0.0	$44.2	52%	($44.2)
MSBAM 2015-C22 MSC 2015-MS1	Waterfront at Port Chester	Retail	$133.5	$0.0	$42.1	32%	($42.1)
CGCMT 2015-GC33 GSMS 2015-GC34 CGCMT 2015-CG35 GSMS 2015-GS1	Hammons Hotel Portfolio	Lodging	$229.7	$0.0	$39.7	25%	($39.7)
PCT 2016-PLSD JPMBD 2016-C2	Palisades Center	Regional Mall	$418.5	$0.0	$30.5	7%	($30.5)
WFCM 2016-C36 WFCM 2016-LC25 CD 2017-CD5 CSAIL 2016-C7 CSMC 2016-NXSR CD 2017-CD6	Gurnee Mills	Regional Mall	$224.9	$0.0	$29.1	13%	($29.1)
MSBAM 2013-C12 MSBAM 2013-C11	Marriott Chicago River North Hotel	Lodging	$98.5	$0.0	$25.0	25%	($25.0)
MSC 2011-C3	Westfield Belden Village	Regional Mall	$92.5	$0.0	$23.3	25%	($23.3)
GSMS 2017-GS5 GSMS 2016-GS4	Simon Premium Outlets	Retail	$90.1	$0.0	$23.3	25%	($23.3)

Source: cred-iq.com

About CRED iQ

CRED iQ is a commercial real estate data, analytics, and valuation platform designed to unlock investment, financing, and leasing opportunities. CRED iQ provides real-time property, loan, tenant, ownership, and valuation data for over $2.0 trillion of commercial real estate.

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