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A triple-A credit rating is the highest possible rating assigned to a debt instrument, signaling minimal credit risk and a very high likelihood of timely repayment, according to S&P. Institutional investors—such as insurance companies, pension funds, and banks—have long relied on triple-A rated securities to meet regulatory capital requirements, preserve capital, and construct low-risk portfolios. In securitization, triple-A tranches have traditionally been considered the safest part of the capital stack, backed by the most senior claims on cash flows generated by a financing agreement. They are typically paid first and absorb losses last, making them the most protected class in the structure. This principle holds across asset classes, including commercial mortgage-backed securities (CMBS).

CMBS issued in the private market comes in two primary forms: conduit deals and single-asset single-borrower (SASB) deals. Conduit CMBS pools together loans from approximately 30 to 60 properties and sponsors, offering investors diversification across geographies, property types, and borrowers. By contrast, SASB deals are backed by a single, often large, commercial property or a group of cross-collateralized assets owned by a single borrower—making them more exposed to idiosyncratic risks related to that specific underlying asset, or group of assets. Current market conditions are posing challenges to triple-A ratings specifically in the SASB CMBS sector, where the failure of a business plan at a single asset can directly affect the entire capital structure in the securitized loan stack.

In May 2024, BWAY 1015-1740, the SASB CMBS deal backed by 1740 Broadway—a 26-story office and retail tower in midtown Manhattan—incurred a 26% loss to its original triple-A tranche, marking the first such impairment at the top of the capital stack (ever?) since the 2008 financial crisis, according to Bloomberg. The 10-year interest-only loan, sponsored by Blackstone Property Partners, was secured by the 603,000-square-foot property and scheduled to mature in January 2025. Trouble began when the building's anchor tenant, L Brands—occupying over 70% of the net rentable area—vacated in March 2022.

Although the deal included a springing cash management trigger based on debt yield performance, it lacked structural protections to trap cash ahead of the vacancy, according to Morningstar DBRS. As a result, $15.5 million in excess cash flow went unreserved in the years prior, and by the time controls were activated, no excess funds remained. Despite significant capital improvements and confidence in the sponsor's strength, re-leasing efforts faltered amid a softening office market. The property ultimately sold for just $186 million—well below the $308 million loan balance—resulting in losses to bondholders, including those in the senior-most tranche.

In a May 5 report, Barclays's CMBS Research Analyst Lea Overby notes a similar risk emerging at EY Plaza in Los Angeles, where a $275 million SASB loan is unlikely to repay its triple-A class in full after the property sold for just $130 million in early 2025.

These challenges are unfolding amid a broader reset in office demand, shaped by the rise of hybrid and remote work. As of mid-May 2025, office occupancy in major U.S. cities averages 53.4%, according to Kastle Systems, which has tracked occupancy in Kastle-secured buildings since early 2020. Cities like San Francisco and Philadelphia continue to lag, while Houston and Austin lead the return-to-office trend. According to the latest WFH Research survey, remote and hybrid arrangements remain most prevalent in tech, finance, and business services—industries that historically filled urban office towers. This shift has reduced leasing velocity, weakened tenant retention, and depressed property-level cash flows.

While the 1740 Broadway loss was the first of its kind at the triple-A level, Barclays's Overby cautions in her May 17, 2025 report that it may not be the last. "Because we are only in the early stages of office price discovery," she writes, "we expect this list to expand to include several office deals." One example is 600 California Street (GSCG 2019-600C), where the latest appraisal of $124 million is just 1.2x the A note plus advances. Other properties showing stress include GSMS 2018-RIVR (River Point North) and MSC 2019-PLND (two Portland hotels), both of which recently reported interest shortfalls to their front-pay classes.

Overby also highlights valuation pressure beyond the office sector, identifying four additional SASB mall deals—Westfield San Francisco Centre, Palisades Center Mall, the Starwood Mall Portfolio, and Destiny USA—where the size of the first-pay classes exceeds current appraisals. Malls are contending with both secular and cyclical headwinds—many predating COVID but accelerated by the pandemic and evolving consumer behavior. As Overby notes, taken together, these cases "point to the necessity of thoroughly reviewing cash flow waterfall structures, especially across SASB holdings where deal constructs are more bespoke."

This risk is supported by recent analysis of appraisal-based loss severity data. While 96% of outstanding SASB loans currently show no appraisal reduction, the remainder exhibit an alarming tail of severity risk. According to Deutsche Bank Securitized Research, 60% or greater loss severity—considered a "problem zone"—would challenge many triple-A tranches, whose credit enhancement levels average around 55%. Even without widespread defaults, the presence of a few high-severity losses could push outcomes well beyond Moody's 10-year "idealized loss" assumptions of just 1 basis point for triple-A securities. These outsized losses are driven by multiple compounding factors: property obsolescence, limited refinancing options, steep liquidity discounts at sale, and mounting advance costs due to long resolution timelines.

As the CMBS market grapples with the fallout from triple-A tranche impairments in select SASB deals, issuance patterns are beginning to shift. Deutsche Bank Securitized Research reports that conduit deals in 2025 show reduced exposure to office and retail loans, and increased allocations to multifamily and mixed-use assets—reflecting investors' growing preference for diversification. In contrast, higher-quality office and retail properties continue to access financing through the SASB market, where performance remains "solid" and "better than conduit across most credit metrics," according to Deutsche Bank Securitized Research.

As investors recalibrate their approach to risk, credit assessments must evolve accordingly. While triple-A ratings remain a valuable benchmark, navigating the next phase of commercial real estate finance will require an updated understanding of underlying exposures and structural vulnerabilities.

Overall CMBS Outstandings vs 2025 Issuance

		Retail	Office	Hotel	Multi-Family	Other	Total, $bn
Overall	Conduit	24%	28%	11%	13%	24%	350
	SASB	12%	24%	20%	11%	34%	300
	Total	18%	26%	15%	12%	29%	651
2025	Conduit	15%	14%	13%	26%	31%	12
	SASB	16%	35%	12%	2%	34%	32
	Total	16%	29%	12%	9%	34%	44

Source: Deutsche Bank Securitized Research, The Outlook, May 19 2025