

Analysis: Penciling Out - Real Estate Capital USA

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It is getting harder for New York's mid-market office owners with maturing debt to line up new loans.

There is about \$7.16 billion of New York office debt in commercial mortgage-backed securities deals maturing in 2022 – more than the past three years combined, according to data from Trepp, a New York-based analytics firm. While there is some liquidity for higher-quality assets, it is a different story for smaller, Class B assets.

“That is the big concern about replacing debt,” according to [Rob Gilman](#), a partner and co-leader of the [Real Estate Group](#) at Anchin, a New York-based consultancy. Gilman, who speaks frequently with clients who have near- and mid-term debt maturities on New York offices, says that most owners “think property values will go up during their hold and that they’ll be able to refinance for at least what their existing debt is. But with decreased valuations, the amount an owner can get might not be as much. With interest rates going up, debt service is more than it would have been a year ago.”

Gilman gives an illustrative example of a building valued at \$50 million, which currently has a \$35 million mortgage and a loan-to-value ratio of 75 percent. It’s more than likely that a lender would only offer about \$30 million in proceeds on the same property today because of the impact that higher rates are having on valuations – and that can cause a significant headache for the owner. “If the owner had to replace the \$35 million, but could only get \$30 million, the question becomes how to replace that \$5 million,” Gilman says. “Does that mean working with a mezzanine lender or putting in more equity? It’s about talking to lenders eight, 12 months out and not just waiting for a week before the debt would be due.”

Despite the dislocation, market participants are loath to count New York out. There is a dichotomy between the city’s residential and office sectors, which are respectively waxing and waning. The city residential vacancy rate is at less than 2 percent as of the end of June, per second quarter data from Marcus & Millichap, whereas commensurate office availability rate is at 19.1 percent, according to a July Newmark report.

“You have a big split between the commercial and residential markets right now.

Residential is thriving and everybody wants to live in the city, but no one wants to go to an office,” Gilman says. “I believe most lease renewals are with people who are taking less space than they did in the past because they don’t know what the future work model will be.”