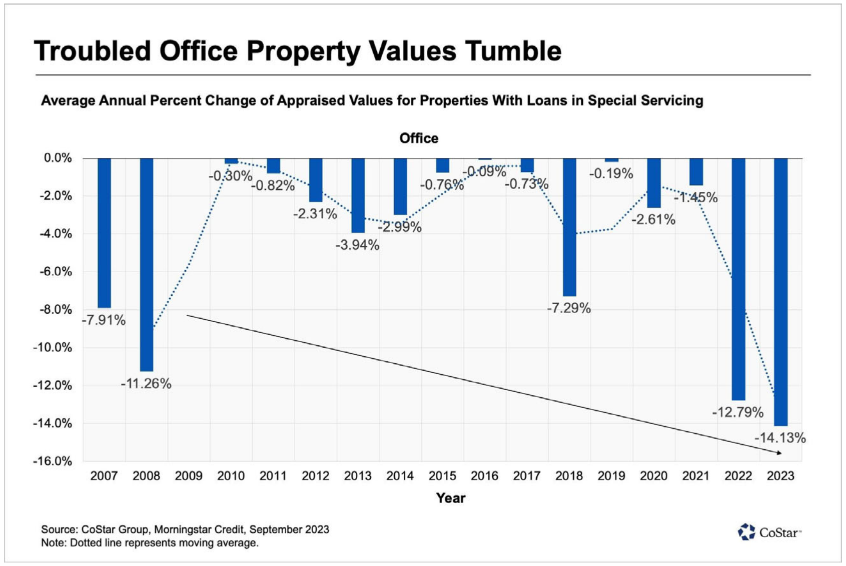
CMBS NOTEBOOK

Decline in Office Values Outpaces Great Recession, Blackstone-Owned New York Office Building Goes Up for Sale, Silver Star To Sell Properties Tied to Loan

A Weekly Look at the Commercial Mortgage-Backed Securities Business



By Mark Heschmeyer and Nicole Shih
CoStar News

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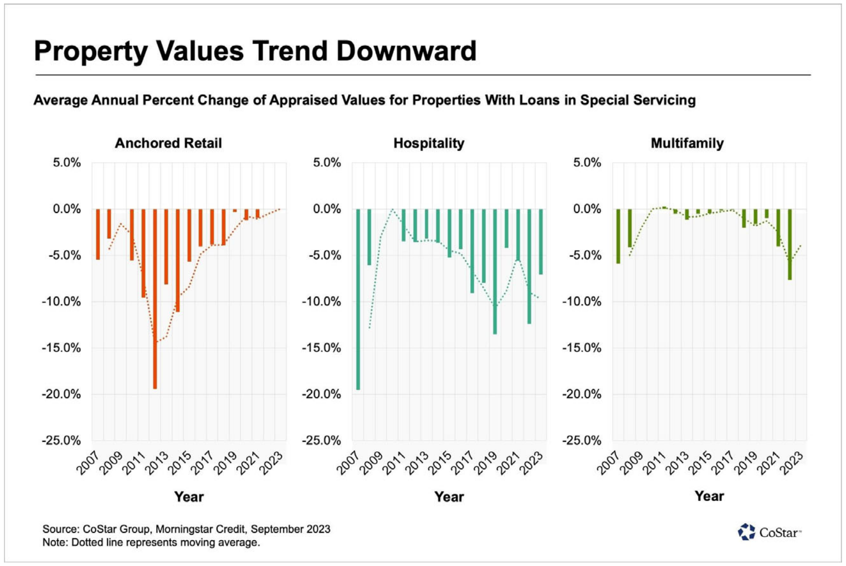
Decline in Office Values Outpaces Great Recession: The values of office properties financed by troubled loans in commercial mortgage-backed securities have been reappraised lower in 2022 and 2023 to a greater degree than in 2008 during the Great Recession, according to a CoStar News analysis of Morningstar Credit data.

CMBS special servicers are required to obtain new appraisals every year on loans that have troubling issues such as making regular payments, delinquencies at maturity and defaults. For 2022 and 2023, the office properties backing such loans have been reappraised lower by an average of 12.8% in 2022 and 14.1% so far this year. That beats average write-downs of 11.3% in 2008.

New appraisals have wiped out more than $17 billion in value on office properties backed by specially serviced CMBS loans since year-end 2021. By comparison, securitized multiborrower and single-borrower multifamily properties have lost $5.5 billion in value in the same period; hospitality properties have lost $3.4 billion in value; and anchored retail properties have lost just $9 million in value.



Of note, the value of multifamily properties with securitized Freddie Mac loans has gained $1.8 billion in the same time frame. Freddie Mac acquires loans on multifamily properties using tighter lending guidelines, which contributes to higher values.

Office operating performance has been clobbered by shrinking demand as tenants cut back on space requirements, while the persistence of high interest rates keeps the cost of capital elevated.

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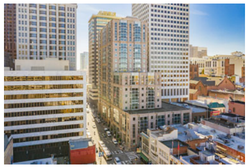

In San Francisco, recent sale prices and property appraisals show that values for distressed office properties have fallen by 50% or more below previous levels, according to an analysis by Nigel Hughes, CoStar senior director of market analytics.

The new pricing evidence from the past 20 months, despite being focused on properties that are compromised by high vacancy and deficient performance, suggests that office pricing in the city is likely to decline further, Hughes said.

CBRE is looking for a buyer for 1740 Broadway in New York. (CoStar)

Blackstone-Owned New York Office Building Goes Up for Sale: CBRE has been hired to sell a 640,000-square-foot New York office building on which owner Blackstone Group stopped making CMBS loan payments two years ago. If sold, the price could help establish a benchmark for troubled U.S. office buildings.

CBRE will begin marketing 1740 Broadway after failing to identify a committed buyer in a series of private negotiations over the past year, Alan Todd, CMBS strategist for Bank of America Securities, said in a weekly note to clients.

Blackstone confirmed the developments to CoStar News.

“We wrote this property off two years ago, and in the event a buyer is identified, we will work collaboratively to transfer the ownership,” a Blackstone spokesperson said in an email.

Blackstone has moved away from office investments, focusing instead on logistics, student housing and data centers, the spokesperson said.

The loan for 1740 Broadway was initially assigned to special servicing in March 2022 after Blackstone said it would no longer make debt service payments on the property, which had suffered from declining occupancy and revenue, according to CoStar CMBS data. The office space within the property is located on the second through 26th floors and is currently only 7.4% leased. The property’s value has fallen 71% from its 2014 appraisal of $605 million to $175 million as of April.

Still, said Todd, as 1740 Broadway reflects the “doom and gloom” of the office market, it remains an outlier among notable properties in which many common gauges of performance are trending less negatively.

Silver Star To Sell Properties Tied to Loan: Hartman SPE LLC, a subsidiary of Texas real estate investment trust Silver Star Properties REIT, has filed for Chapter 11 bankruptcy protection, disclosing in the process details of its troubles on $217 million in CMBS debt.

Houston-based Silver Star is repositioning itself as a self-storage investment trust. The real estate investment trust's indirect subsidiary filed for an expedited Chapter 11 bankruptcy recently, notifying the court it plans to sell off its legacy real estate, including the properties backing the CMBS loan.

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CMBS deal GSMS 2018-HART holds the loan backed by Texas office and retail properties in the Dallas and San Antonio areas, according to CoStar data.

The loan had an initial maturity date of Oct. 9, 2020, which the borrower extended to Oct. 9 of this year.

The Silver Star subsidiary has discussed the upcoming date with the loan's master servicer, KeyBank, and it is in the process of selling properties in order to pay off the debt, according to KeyBank loan commentary.

The firm also indicated it is trying to obtain new financing if it is not able to pay off the debt through individual property sales, the loan notes said.

CoStar News emailed Silver Star for comment but did not immediately hear back.