JV Seeking Debt On Midtown Offices

A **Tishman Speyer** joint venture is in the market for a $325 million mortgage it would use to refinance the office tower at 11 West 42nd Street in Midtown Manhattan.

The collateral is a roughly 944,000-sf building between Fifth and Sixth Avenues, across from Bryant Park and the main branch of the New York Public Library. Tishman and developer **Larry Silverstein,** which have owned the building for many decades, are in the market for the new loan via **Newmark.** They're taking a broad range of financing options.

The proceeds would be used to retire an existing CMBS mortgage on the property. In 2013, Tishman, Silverstein and the estate of developer **Bernard Mendik** obtained $300 million of debt from **Goldman Sachs.**

Goldman evenly split the mortgage into two pari-passu pieces it then securitized via two conduit offerings the same year (GSMS 2013-GC13, GCJ14). The loan carries a 4.05% coupon and is slated to mature in June. It can be prepaid without penalty beginning in two months.

The building was completed in the late 1920s. It formerly was known as Salmon Tower, for late developer **Walter J. Salmon Sr.,** whose firm constructed it and other properties in the area. It's along Bryant Park's northern perimeter, on the same block as the iconic Grace Building.

The tower was 96% leased as of the end of September. The largest tenants are **Michael Kors** (238,000 sf until 2026), **First Citizens Bank** (154,000 sf until 2034) and **New York University** (116,000 sf until 2027).

Tishman also has a chunk of its own branded coworking space, **Studio,** at the property. It launched the model four years ago as a competitor to **WeWork** and other operators, and now has Studio space at buildings it owns in New York, Chicago, Los Angeles, San Francisco and Washington, among other cities. The footprint at 11 West 42nd Street began as about 40,000 sf.

The building generated $19.9 million of net operating income through the first nine months of last year, which put it on target to beat the $23.04 million it produced in 2021 and in line with the $26.6 million it threw off in 2020. ❖

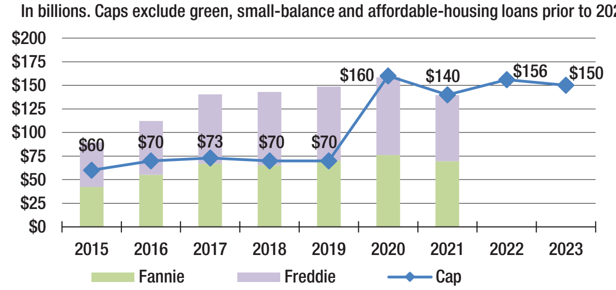
Agency Lending Seen Holding Steady

Fannie Mae and **Freddie Mac** are poised to play an outsize role in the multifamily lending market this year as banks hunker down and debt funds struggle to access capital markets.

Agency lenders expect both entities' 2023 production will match last year's levels, even as many anticipate that the overall lending market will shrink amid a continued slowdown in investment-sales activity. The **Mortgage Bankers Association's** latest forecast projects a 10.7% drop in overall multifamily lending volume this year, down to $393 billion from an estimated $439 billion in 2022.

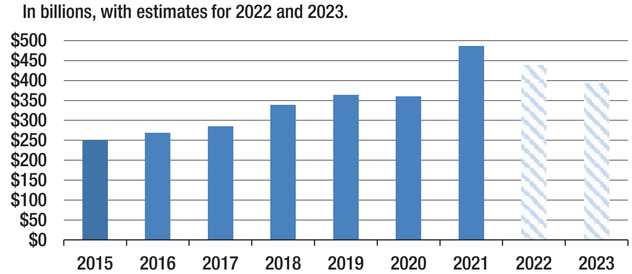
Agency Multifamily Loan Purchases And Caps

In billions. Caps exclude green, small-balance and affordable-housing loans prior to 2020.



Total Multifamily Financing Market

In billions, with estimates for 2022 and 2023.



Source: Mortgage Bankers Association

"I think there's a strong likelihood we see similar [agency production] numbers, albeit with a slower start and busier second half of the year," said **Dan Brendes,** a senior vice president and head of agency lending for **Berkadia.** "There are more uncertainties this year. … The [agencies] are going to play an extremely important role in the financing landscape."

While the agencies have yet to release their full-year results, Freddie's production was $57.4 billion through November, while Fannie's stood at $63.9 billion. Lenders don't expect either agency to reach their 2022 annual caps of $78 billion apiece.

For 2023, the **Federal Housing Finance Agency** has capped the agencies' business at $75 billion each — a level lenders say will enable the agencies to be competitive. The FHFA also left open the possibility that the cap could be increased, depending on market conditions.

Still, challenges remain. The increased prevalence of negative leverage — when the interest rate on a mortgage is higher than the underlying property's capitalization rate — can make it difficult to secure Fannie or Freddie debt. The agencies require a refinance risk analysis that tests a borrower's ability to secure a new loan when the agency loan matures. Specifically, originators must calculate the expected cap rate at maturity as well as the maximum interest rate that the property can support using debt coverage metrics. As interest rates ran up in the second half of 2022, it became harder for borrowers to find deals at cap rates above prevailing mortgage rates.

But there are signs that sellers of multifamily properties have started to lower their price expectations, which could cause cap rates to rise. Should that continue — and the **Federal Reserve** slows its rate-hike campaign — deal activity could pick back up.

"If we have some semblance of stability, I think that will greatly help the investment-sales market. And I think Fannie

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and Freddie are uniquely positioned to take advantage of that sort of market and play their countercyclical role," said **Ted Patch,** chief production officer for **Walker & Dunlop.**

But even without a substantial rebound in deal activity, the agencies may still be able to grow production in a lending environment bereft of competitors.

"The agencies may have an opportunity to capture a bunch of new deals coming off construction loans if the other capital sources are still reluctant," said **Kyle Draeger,** a senior managing director at **CBRE.** "I expect their end-of-the-year production is going to look similar to [last] year."

The FHFA also has made tweaks to its so-called scorecard, giving Fannie and Freddie a bit more flexibility. Half of the agencies' production is expected to meet mission-driven criteria, such as units being affordable to tenants earning no more than 80% of the area median income. But the 2023 iteration removes a requirement that at least 25% of production also be affordable at 60% of area median income. Lenders say that should ease the agencies' workflow but isn't likely to result in a meaningful change in production.

"Their focus on mission will be equal, if not more so, going into 2023," Patch said.

The new scorecard also adds a provision that increases the amount of mission credit the agencies receive for deals that preserve affordability. In March 2021, Fannie rolled out a program called sponsor-initiated affordability that did just that. Lenders expect Freddie to introduce a similar product. They also anticipate another version from Fannie that has easier compliance requirements.

"The only thing in the scorecard this year that may have an impact on production are the self-regulating rents in workforce housing," Draeger said. "That may have an impact on driving more of that type of business."

Fannie and Freddie also must meet affordable-housing goals, which are released separately from the scorecard. The rule calls for 61% of all units financed by the agencies' loan purchases to be affordable at 80% of area median income, a change from last year's goal of 415,000 units. The goals also require 12% of production at 50% of area median income.

Both targets are lower than the agencies' recent production levels, leaving little concern that they are achievable. In addition, the shift to gauging results as a percentage of business, rather than a flat unit count, better aligns them with the scorecard's goals.

Historically, the agencies have focused on affordable production at the beginning of the year to ensure they cleared their unit-count hurdles. The move to percentage targets gives the agencies "some flexibility" to broaden their approach, Brendes said, "but I think mission-driven production will continue to be the priority business early so you don't get behind on the percentages." ❖