THE NORTH STAR UNIVERSAL — MARKET BRIEFING

Refinancing Risk in NYC Commercial Real Estate: Navigating the Next Stress Test

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At The North Star Universal, LLC, we have spent the past week closely tracking one issue that continues to surface in nearly every NYC commercial real estate conversation: refinancing risk under sustained higher interest rates. What makes this moment different is not simply where rates sit, but how quickly lender behavior, underwriting standards, and asset valuations are adjusting in real time.

For owners who financed aggressively between 2019 and 2022, the next 12–24 months will define portfolio outcomes. Refinancing is no longer a mechanical exercise. It is now a strategic stress test.

Why Refinancing Risk Is the Defining Issue Right Now

Recent market data from early January 2026 shows NYC commercial mortgage rates holding materially above their five-year averages, while spreads remain wide for secondary and transitional assets. At the same time, citywide office vacancy has edged up again this week, and select retail corridors are seeing slower absorption despite stable foot traffic.

> *Higher debt costs and uneven demand place immediate pressure on debt service coverage ratio (DSCR), especially for assets with near-term loan maturities. Even properties with stable tenants can face refinancing gaps if underwriting assumptions no longer align with lender models.*

At The North Star Universal, LLC, we see refinancing risk as an operational issue first, not a capital markets problem alone.

How Lenders Are Rewriting the Rules

1. DSCR Is Now the Primary Gatekeeper

Many lenders are underwriting to higher DSCR thresholds than they were even six months ago. This week’s market conversations point to DSCR targets tightening by another 10–15 basis points for mixed-use and office-adjacent assets. For owners, this means NOI volatility that once felt manageable can now derail a refinance entirely.

2. CapEx Scrutiny Is Intensifying

Lenders are no longer deferring CapEx planning. They are asking detailed questions about near-term capital needs, sustainability upgrades, and deferred maintenance. Buildings without a clear CapEx roadmap face lower proceeds or higher reserves.

3. Exit Strategy Matters Earlier

Exit assumptions are being stress-tested at loan origination. Cap rate compression is no longer assumed. Instead, lenders want to see downside-protected exit strategies that account for longer hold periods.

Mini-Case Analyses: Risk Management Across Markets

NYC — OFFICE CONVERSION

Midtown Manhattan Office Conversion

A mid-size office asset approaching refinance this quarter faced a projected DSCR shortfall due to slower lease-up. The sponsor mitigated risk by pre-negotiating flexible lease terms with anchor tenants and reallocating CapEx toward conversion-ready improvements. This stabilized cash flow enough to preserve refinancing options.

SUN BELT — INDUSTRIAL

Sun Belt Industrial Portfolio

In a global context, an industrial portfolio in the Southeast benefited from strong NOI growth but still faced refinancing pressure due to higher rates. The owner addressed this by extending loan maturity early and reallocating capital away from speculative expansion toward debt reduction. Cash flow stability outweighed short-term growth.

EUROPE — MIXED-USE

European Mixed-Use Asset

A European mixed-use property navigating ESG compliance costs used sustainability upgrades to unlock preferential loan pricing. Environmental improvements reduced long-term operational risk and improved lender confidence, supporting valuation despite rate headwinds.

Each case underscores the same lesson: refinancing outcomes are shaped months before lenders are engaged.

Practical Strategies We Are Seeing Work

At The North Star Universal, LLC, our current advisory focus centers on three actionable strategies:

> **NOI Hardening**
> Tighten expense controls and eliminate revenue leakage. Small improvements now materially affect DSCR later.

> **Capital Reallocation**
> Shift discretionary CapEx toward items that directly support valuation and lender confidence.

> **Early Lender Dialogue**
> Engage lenders well before maturity to test assumptions and adjust strategy proactively.

These steps transform refinancing from a reactive event into a managed process.

Looking Ahead

Refinancing risk will remain front and center throughout 2026, but it does not have to be destabilizing. Owners who approach this cycle with disciplined analysis, realistic exit strategies, and operational clarity can protect valuation and position assets for the next phase of growth.

We believe this moment rewards preparation over prediction.
