

12/16/2022 15:00:15 [BN] Bloomberg News

Twitter's Skipped Lease Payments Hit Bonds Tied to Headquarters

- Mortgage for Twitter's main office is packaged into CMBS
- Some of the securities drop to 85 cents on the dollar

By Scott Carpenter

(Bloomberg) -- Elon Musk's efforts to cut costs at Twitter Inc. are hitting an obscure group of investors: holders of bonds tied to the company's headquarters building in San Francisco.

Twitter hasn't paid rent on its headquarters, or any of its other global offices, in weeks, the New York Times reported on Dec. 13. Its main office at 1355 Market Street in San Francisco has a mortgage that was packaged into a \$400 million bond in 2015.

Prices on one portion of the bond dropped to about 85 cents on the dollar in the middle of the week, from around 99 cents on Tuesday, according to price data compiled by Bloomberg. Those securities were originally rated B- by Morningstar.

Twitter isn't the only tenant in the building, but it's the biggest by far. The social media company is also looking to renegotiate terms of its leases on offices including its San Francisco headquarters, according to the New York Times.

Shorenstein Realty Investors manages the building and owns a portion alongside outside investors. Twitter's efforts to cut lease expenses only adds to the owners' difficulty. The mortgage on the building matured in September, and the borrower failed to refinance it, according to Morningstar Credit Information and Analytics. Shorenstein declined to comment through a representative.

Getting mortgages on big office buildings is difficult enough now, but missed lease payments from the biggest tenant will only make efforts to refinance the property harder, said David Putro, head of commercial real estate analytics at MCIA.

"In an already difficult lending environment, even a temporary cessation of lease payments would further complicate a refinancing," said Putro.

If Shorenstein and others on the hook for repayments fail to repay the mortgage loan again in January, lenders have a handful of options to try to ensure they get paid. That could include giving the borrowers more time to repay bondholders in exchange for other borrower concessions and equity contributions, or foreclosing on the building and selling it, said Michael Cohen, managing partner at Brighton Capital Advisors.

Musk didn't close on his buyout of Twitter until October, signaling that the owners' mortgage difficulty predated the new ownership. Shorenstein now has until January to refinance the loan. A representative for the property company declined to comment.

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