

Granite Ridge Office Complex – Distressed Refinance Package (Commercial Office)

Document Type: *Investment Committee Memorandum*

Overview:

Granite Ridge is a 12-story, 285,000 SF Class B office tower located in downtown Louisville, KY. The sponsor is requesting a \$34.5MM refinance to pay off the maturing construction loan and provide \$1.5MM in TI/LC reserves. The property was completed in 2019, originally positioned as a Class A mid-tier corporate hub, but suffered lease attrition during 2021–2023. Current occupancy is 61%, with two tenants (representing 22% of GLA) on below-market subleases expiring within 18 months.

Key Financial Metrics:

- **Total Cost (original):** 45.2MM
- **Current Valuation:** 38.5MM (per CBRE appraisal, Aug 2025)
- **Loan Request:** 34.5MM ($\approx 90\%$ LTV)
- **NOI (TTM):** 2.35MM \rightarrow projected 3.05MM (stabilized 2027)
- **Cap Rate:** 6.1% current; 7.3% market cap range
- **DSCR:** 0.92 \times (as-is) \rightarrow 1.16 \times (stabilized)
- **IRR (levered, optimistic):** 8.9%
- **Occupancy:** 61% \rightarrow 82% assumed in model
- **Average Rent:** \$23.50 psf gross (vs. market \$25.75 psf)

Observations:

1. **Tenant risk:** Largest tenant (finance call center, 17% of GLA) has announced national footprint reduction; lease renewal uncertain.
2. **TI/LC assumptions:** Underwritten \$12 psf vs. market \$30–\$40 psf for this class.

3. **Valuation mismatch:** Requested proceeds imply 5.9% cap on pro forma NOI, inconsistent with recent comps trading 6.75–7.25%.
4. **Sponsor profile:** Moderate; prior default on unrelated hotel asset in 2020, now cured.
5. **Market trend:** Downtown Louisville office vacancy 25%+; negative net absorption three consecutive quarters.

Committee Discussion:

The sponsor's refinance case relies heavily on speculative lease-up without signed LOIs. Appraisal value already inflated by rent assumptions exceeding local market by 7–8%. Debt service coverage fails minimum 1.20× even on stabilized basis.

Recommendation:

Decline as proposed. Consider bridge-to-bridge structure up to \$28MM (≈75% LTV) with full cash sweep until occupancy ≥75%.