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Commercial Real Estate Distress: Lessons from the *Pinnacle* Bankruptcy



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Lender enforcement strategies responsive to commercial real estate distress are influenced by numerous factors.¹ Whether a lender is public or private, the degree to which it is subject to regulatory oversight, and whether shareholder interests and public scrutiny are at play, contribute to lenders' varying priorities and risk tolerances, impacting negotiations with borrowers, the flexibility the lender has in the decision-making process, and ultimately the path a lender chooses to address distress. The type of asset and the attributes of the borrower are also likely factors in a lender's calculus.

In the years following the pandemic, a common reaction among lenders to commercial real estate distress sometimes has been described as "extend and pretend."² Lenders agreed to amend and extend maturity dates and forbear from enforcing remedies, giving additional time for borrowers to get back on their feet or interest rates to decline.³ The use of this strategy contributed to a growing wave of maturing commercial real estate mortgages, and the "maturity wall" steadily grew steeper from 2022 to 2025.⁴

But trends are shifting away from maturity extensions as interest rates remain high and lenders become less comfortable waiting to enforce their rights.⁵ Recent data indicates the number of extensions trended downward coming into 2026.⁶ In addition, the maturity wall has seen its first decline since 2022.⁷

The Mortgage Bankers Association estimates that approximately \$875 billion in commercial mortgages is coming due in 2026, which represents a 9% decrease from the \$957 billion that were set to mature in 2025.⁸

On a national level, the office sector appears to be experiencing high levels of distress.⁹ Vacancy rates have not fully rebounded in the office sector post-COVID, and lenders who extended maturity dates for office landlords with the hope for a turnaround are growing less comfortable "delaying and praying" as it becomes clearer that the pandemic and remote work have fundamentally altered office usage patterns for the foreseeable future.¹⁰ Across the country, office buildings are selling at discounted rates. A Chicago office building that sold for \$68.1 million a decade ago was recently purchased for \$4 million.¹¹ In Denver, a two-building complex that sold for \$176 million in 2013 recently sold for \$5.3 million.¹²

Political and regulatory forces can add hurdles that weaken asset values and contribute to distress. For example, with respect to the affordable housing sector in New York City, the Housing Stability and Tenant Protection Act of 2019 materially changed rent-stabilization laws, limiting landlords' abilities to deregulate apartments that have high-income renters or high rent (pre-2019, apartments could be deregulated once the rent reached a certain dollar amount), raise rent upon vacancy, and pass on the cost of improvements to tenants.¹³ Legislative changes, such as this, imposed significant constraints on rent-stabilized property owners, the effects of which would be exacerbated by a strained

1 The authors acknowledge the contributions to this article from Real Estate Partners Thomas Henry and Jannelle Seales at Weil, Gotshal & Manges LLP.

2 Matteo Crosignani & Saketh Prazad, "Extend-and-Pretend in the U.S. CRE Market," Fed. Rsv. Bank of N.Y. Staff Rep. No. 1130 (Oct. 2024), https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr1130.pdf [<https://doi.org/10.59576/sr.1130>].

3 Hannah Miet, "The Count Down of the End of Extend and Pretend," Urban Land (Mar. 4, 2024), <https://urbanland.uli.org/the-countdown-to-the-end-of-extend-and-pretend>.

4 Xander Snyder, "Has the CRE Maturity Wall Reached a Turning Point?," First Am. Fin. Corp. CRE Insights Blog (Apr. 27, 2026), <https://blog.firstam.com/cre-insights/has-the-cre-maturity-wall-reached-a-turning-point>; Crosignani & Prazad, *supra* n.1 at 35-6.

5 Steig Seaward, *The End of "Extend and Pretend": A New Phase of Price Discovery*, Colliers Knowledge Leader (Apr. 15, 2026), https://knowledge-leader.colliers.com/steig_seaward/quick-hits-the-end-of-extend-and-pretend-a-new-phase-of-price-discovery/.

6 Snyder, *supra* n.3 ("Far fewer extensions were granted in 2025 than in 2024, falling from \$384 billion worth of extensions from 2024 into 2025 to \$200 billion worth of extensions from 2025 into 2026. Measured as a share of expected maturities at the start of each year, extensions dropped from 41 percent to 21 percent. Fewer loans were extended last year, both in absolute and relative terms.")

7 *Id.*

8 *Id.*; Reggie Booker, "Commercial Real Estate Loan Maturity Volumes," Mortgage Bankers Ass'n (Mar. 2, 2026), <https://www.mba.org/news-and-research/newsroom/blog-post/commercial-real-estate-loan-maturity-volumes>.

9 Michael Hass, CMBS Distress Rate Rankings: Top 100 U.S. Markets by CBSA – February 2026, CRED IQ (Apr. 10, 2026), <https://cred-iq.com/blog/2026/04/10/cmbs-distress-rate-rankings-top-100-u-s-markets-by-cbsa-february-2026/>; Beth Mattson-Teig, "Office Leads Distress, but Weakness Extends Beyond One Sector," Urban Land (Feb. 20, 2026), <https://urbanland.uli.org/capital-markets-and-finance/office-leads-distress-but-weakness-extends-beyond-one-sector> (noting that "in the CMBS market, where both the delinquency rate and the special servicing rate climbed higher in January, to 7.47 percent and 10.91 percent, respectively, according to Trepp, increases were led by problem office loans, with the office delinquency rate hitting a new high of 12.34 percent").

10 Peter Grant, "A Fire Sale Has U.S. Office Buildings Going for 90% Off," *Wall St. J.* (Apr. 7, 2026), <https://www.wsj.com/real-estate/commercial/a-fire-sale-has-u-s-office-buildings-going-for-90-off-8fa8b5d8>.

11 *Id.*

12 *Id.*

13 Jason M. Barr, "Harming Tenants: The Impact of the 2019 Housing Stability and Tenant Protection Act on New York's Affordable Housing," *Building the Skyline* Skynomics Blog (June 20, 2025), <https://buildingtheskyline.org/hstpa-maintenance/>.

commercial real estate market post-COVID.

Landlords' limited ability to increase rents and recover repair costs had caused operating expenses to outpace revenue growth; meanwhile, the pandemic caused elevated rent arrears due to persistent collection difficulties and delays in housing court proceedings, all while rising interest rates increased the cost of capital. The value-impacting domino effect of these converging factors has left lenders increasingly reluctant to provide financing.¹⁴ As a result, the value of rent-stabilized properties suffered, and rent-stabilized units have sold at a steep discount. In February 2025, a rent-stabilized apartment building in East Harlem, NYC, sold at a 97% discount to the purchase price from just nine years earlier.¹⁵ Similarly in April of 2025, five rent-stabilized properties were sold for 45% of the purchase price for the same properties in 2015.¹⁶

As maturities come due, lenders must decide which path forward best fits their needs, goals, and the facts and circumstances of the situation. Lenders might choose to pursue out-of-court options in the form of a discounted payoff, deed in lieu, loan modification or note sale, or in-court options, such as receiverships or foreclosure proceedings.¹⁷ The particular strategy chosen is likely to be influenced by the nature of the assets in question. Assets with more stable cash flow and manageable leverage may be candidates for refinancing or recapitalization, while weaker assets are more likely to face enforcement through foreclosure and receivership actions.¹⁸

At the same time, borrowers with looming maturities may consider what creative solutions and forums have the potential to stimulate collaboration with lenders and preserve asset value. Borrowers facing risk of immediate loss of control or value destruction may be well-suited to pursue these goals in chapter 11. The recent cases involving the Pinnacle portfolio, a collection of over 5,000 rent-stabilized apartments across New York City, make a compelling case that chapter 11 provides a reliable forum with the ability to de-escalate tension between borrowers and lenders and provide a value-maximizing process that is beneficial to all parties involved.

The Pinnacle Cases¹⁹

Background

The *Pinnacle* debtors were part of a real estate portfolio owned and managed by companies that held interests in approximately 120 multifamily residential buildings in New York City. The 82 entities that filed for chapter 11 collectively owned approximately 5,200 residential units across Manhattan, Brooklyn, the Bronx and Queens, substantially all of which were entitled to statutory rent

protection. The debtors financed their portfolio primarily with loans with interest rates that reset after five years. At the time of filing, the debtors' 93 properties were encumbered by approximately \$564 million of first-lien mortgage debt held by one bank.

The debtors had operated successfully for decades before entering distress due to a combination of changes in legislation, rising interest rates and inflation. As discussed above, the 2019 changes to the New York City Tenant Protection Act restricted the debtors' ability to convert apartment buildings to condominiums, raise rents, and recover the cost of improvements to regulated units. Beginning in 2022, interest rates began to climb and a large portion of the debtors' mortgage debt went from interest rates in the 3-4% range to the 7.5-10.25% range, causing annual debt service to more than double from 2022 to 2025. As the cost of debt service surged, rent collections remained stagnant, and rising inflation drove operating costs higher, further straining cash flow.

By January 2025, it became increasingly difficult for the debtors to service their mortgage debt. In March 2025, the mortgage lender commenced foreclosure proceedings in New York State courts. The mortgage lender sought to immediately appoint a receiver on an expedited, emergency basis to take control of and manage the debtors' properties.

Facing imminent risk of receivership, the debtors rapidly pivoted their restructuring efforts to preparing a defensive chapter 11 filing to preserve enterprise value and avoid significant disruption for their tenants. On May 21, 2025, shortly after the receivership request was granted, the debtors commenced chapter 11 cases in the U.S. Bankruptcy Court for the Southern District of New York, halting the foreclosure actions and preserving operations.

Chapter 11 Cases

The chapter 11 cases began with a valuation dispute in connection with the debtors' proposed use of cash collateral to finance operations and administer the chapter 11 cases. This dispute ultimately compelled productive negotiations between the debtors and the mortgage lender that began to shift the parties' contentious relationship into a more collaborative one that would lead to the successful resolution of the debtors' chapter 11 cases. The parties ultimately reached an agreement on the use of cash collateral to fund a six-month, comprehensive marketing process to sell or refinance the debtors' portfolio — a significant achievement given that the debtors faced the immediate loss of control to a receiver prior to the commencement of the chapter 11 cases. The agreement also included a governance structure that provided for the appointment of an additional company officer to oversee the sale or refinancing process, granted the lender certain access and oversight protections, and established court-approved sale/refinancing and chapter 11 plan process milestones.

Marketing and Sale Process

The debtors' real estate advisors initiated a comprehensive marketing process, contacting more than 14,000 potential purchasers across a wide range of investor types. On Dec.

¹⁴ Shimon Shkury, "Six Years After HSTPA, New York City Owners Face Escalating Costs, Falling Values," *Forbes* (June 4, 2025), <https://www.forbes.com/sites/shimonshkury/2025/06/04/six-years-after-hstpa-new-york-city-owners-face-escalating-costs-falling-values/>.

¹⁵ Nina Dale, "Rent-Stabilized Manhattan Building Sold at 97% Discount," *CRE Daily* (Feb. 25, 2025), <https://www.credaily.com/briefs/rent-stabilized-manhattan-building-sold-at-97-discount/>.

¹⁶ Shkury, *supra* n.11.

¹⁷ Vivek Denkanikotte, "Special Servicing 101: Trepp's Essential Guide to the Management & Resolution of Distressed CMBS Loans," Trepp (June 7, 2024), <https://www.trepp.com/trepptalk/special-servicing-101-trepps-essential-guide-to-the-management-resolution-distressed-cmbs-loans>.

¹⁸ Seaward, *supra* n.5.

¹⁹ See *In re Broadway Realty I Co.*, No. 25-11050 (DSJ) (Bankr. S.D.N.Y. 2025).

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22, 2025, the debtors designated Summit Gold, Inc. as the stalking-horse bidder with a purchase price of \$451.3 million for the entire portfolio. The debtors continued to engage with other qualified bidders and interested parties in an effort to enhance deal terms and encourage a competitive auction.

In parallel to the marketing process, the debtors and mortgage lender negotiated a chapter 11 plan structured as a “toggle plan” providing for either a sale or refinancing of the debtors’ properties. A major benefit to pursuing a sale through a chapter 11 plan rather than a stand-alone sale pursuant to § 363 of the Bankruptcy Code was the exemption from significant transfer taxes pursuant to § 1146 of the Code. Under § 1146, a transfer of property pursuant to a confirmed chapter 11 plan “may not be taxed under any law imposing a stamp tax or similar tax.” Given the size of the Pinnacle portfolio, § 1146 offered significant transfer tax savings that exceeded the cost of restructuring fees incurred throughout the cases, demonstrated the immediate value add of chapter 11, and incentivized the mortgage lender to actively support the sale and plan confirmation process.

New York City Intervention

On the eve of the auction, and just after a new mayor took office, New York City announced in court filings and on social media its intention to seek a postponement of the auction to allow the City time to explore alternatives. The court swiftly denied the City’s request, citing the importance of reliability in the chapter 11 process. The Court stated:

I am not persuaded that despite the [...] change in government that has occurred just recently and the city’s high-level focus on this, I am not persuaded that there is an adequately concrete or really legally viable basis to push those dates out in the face of the order that’s existed since October 1 and its clear specification that adjournments need to come at the behest of the Debtors with the support of or reasonable consent of [the mortgage lender] because otherwise we undermine the entire viability of or risk undermining the entire viability of bankruptcy-sponsored sale processes and — as well as the interests and economic

stakes of the parties in this case who have been litigating this case since May of last year.²⁰

With the City’s adjournment request in the rearview, the auction went forward as planned. Summit’s bid was ultimately designated the successful bid, and the debtors proceeded toward confirmation. The debtors’ chapter 11 plan was confirmed over objections filed by the City, certain tenant groups and the U.S. Trustee.²¹ The sale transaction closed, and the plan went effective less than three months after confirmation and well in advance of the outside date under the purchase agreement and cash collateral order. The structured and court-supervised sale process facilitated by the chapter 11 cases allowed for a significantly greater return to the mortgage lender than would likely have been possible in a fire sale foreclosure scenario.

Lessons from the Pinnacle Cases

The strategy employed by a lender to address commercial real estate distress depends on numerous factors and can take many forms, whether as an out-of-court deed in lieu or loan modification, or via a court proceeding to pursue foreclosure or seek receivership. As lenders begin to pursue remedies, borrowers may find themselves facing lender action they view as exposing their assets to imminent value destruction.

While the *Pinnacle* cases arose in the context of the New York City rent-stabilized housing market, the lessons offered by the chapter 11 cases are applicable to other real estate asset classes facing distress. Chapter 11 continues to provide a battle-tested forum with the unique ability to facilitate structured dialogues between lenders and borrowers, provide the time and framework to explore and achieve value-maximizing solutions, and offer material tax savings with the ability to offset the cost of the cases and inure to the benefit of the estate and its creditors. **abi**

²⁰ 43:19-44:7, Hr’g Tr., *In re Broadway Realty I Co.*, No. 25-11050 (DSJ) (Bankr. S.D.N.Y. Jan. 7, 2026).

²¹ The objections to confirmation involved issues of feasibility and adequate assurance of future performance under the tenant leases. The court’s bench decision addressing and overruling the objections can be found on the Court’s docket. See *In re Broadway Realty I Co.* No. 25-11050 (DSJ) (Bankr. S.D.N.Y. Jan. 19, 2026), ECF No. 982.

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