



Yardi® Matrix

National Office Report

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Loan Maturities Vex Office Investors

- Office loan defaults are set to rise. Demand for office space is down, expenses are up, and values have dropped with the prospect of large numbers of loans maturing over the next few years.
- An analysis of loan data from Yardi Matrix shows that nearly \$150 billion of office loans are maturing by the end of next year, and more than \$300 billion will mature by the end of 2026. Yet the risk these maturing loans pose varies by location, with maturing loans generally concentrated in primary markets, urban submarkets and Class A properties.
- Eight markets account for half of all maturing loan volume through the end of 2024. Manhattan leads the way (\$19.8 billion), followed by Los Angeles (\$10.3 billion), Chicago (\$10.1 billion), Washington, D.C. (\$8.6 billion), Houston (\$8.1 billion), Boston (\$7.9 billion), San Francisco (\$6.6 billion) and Atlanta (\$6.5 billion). In a few of these markets, the amount of loans maturing before the end of next year accounts for more than a quarter of all office loan volume. Chicago's maturities represent 26.4% of all loans, Houston's 29.7% and Atlanta's 28.8%. Urban markets will account for \$176.9 billion, or nearly 60%, of loans maturing by the end of 2026. Similarly, \$203.2 billion, or more than two-thirds of loans maturing through 2026, serve as collateral for Class A or A+ properties.
- Demand for office space has partially rebounded in recent quarters, but most metrics indicate utilization has plateaued at around 50-60% of pre-pandemic levels. Many tenants have downsized footprints, and although some companies are taking a tougher stance on return-to-office policies, we remain a couple of years away from a post-pandemic equilibrium. Weakened demand has given tenants increased leverage in lease negotiations, often getting landlords to pay for improvements and amenities. Other costs, such as insurance and maintenance, have also been increasing, depleting net operating income. Consequently, delinquencies are rising. According to Trepp, 6.1% of office CMBS loans were delinquent in November, up from 1.7% in November of 2022.
- The path forward for interest rates will be a big determinant in the level of distress and delinquencies. Banks will also play a role, both in their willingness to work out extensions and in their determinations as to how much exposure to offices they want. Investor demand for offices remains low and is unlikely to improve in the near term.

