Yardi Matrix

National Office Report

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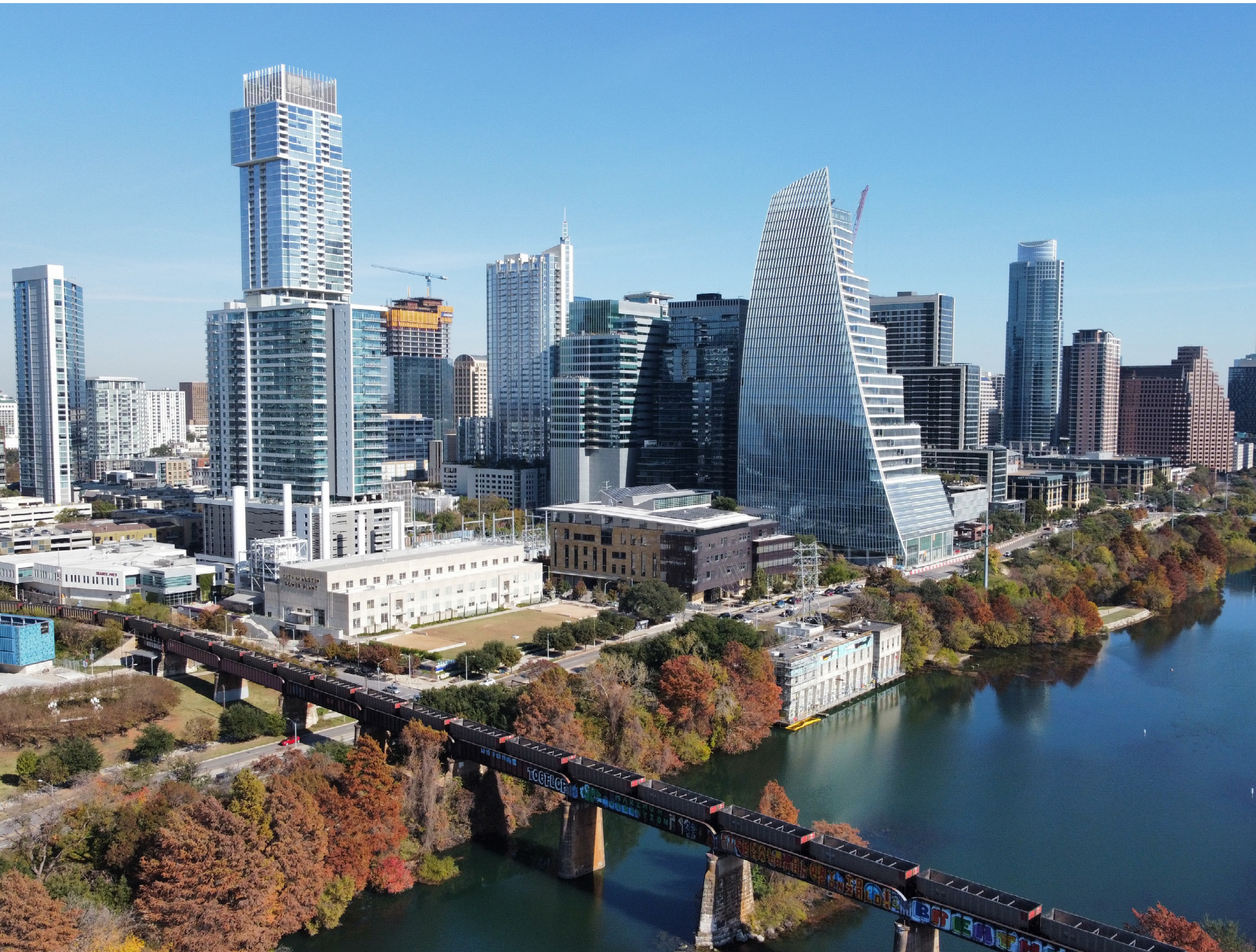

The State of Loan Maturities

- With interest rates rising, the economy slowing and demand for office space falling, office owners are in a tough position. This is especially true for owners with loans maturing in the next three years, which accounts for more than 9,500 buildings and 17% of all office stock, according to Yardi Matrix.

- Nationally, there is no wall of office maturities on the horizon, with the amount of office space with maturing loans holding at around 380 million square feet for the next three years.

- Loans are not maturing equally across markets, however, and some places will see more maturities than others in the near term. Among the largest markets, three—Portland, Atlanta and Denver—have more than 10% of office stock subject to a maturing loan in 2023, and two others—Chicago and Los Angeles—have more than 7% of office stock maturing this year. Over the next three years, eight of the top 25 markets will see at least 20% of stock subject to a maturing loan, led by Atlanta (29.1% maturing by the end of 2025), followed by Portland (27.5%), Denver (24.3%), Chicago (23.0%), Los Angeles (21.5%), Washington, D.C. (20.4%), Austin (20.0%) and Dallas-Fort Worth (20.0%). Some of these markets also have vacancy rates above the national average—with Atlanta sitting at 20.5%, Chicago 19.2% and Denver 17.6%—which will add more uncertainty for owners.

- Recent high-profile defaults hint that the pain may be only beginning for office owners. Columbia Property Trust defaulted on $1.7 billion in loans backed by seven buildings, Brookfield Asset Management defaulted on $784 million in loans for two office towers in downtown Los Angeles and RXR is reportedly considering handing the keys over to the lender for at least two of its New York offices.

- With weak demand and a rising cost of borrowing, refinancing office buildings will be challenging unless they include solid leases with high-quality tenants. In most cases, borrowers will need to bring more equity to refinance. The average sale price of an office building, which fell from a national average of $299 per square foot in the fourth quarter of 2021 to $214 a year later, could decline further as prices adjust to the current environment. Falling prices may lead to more buildings becoming candidates for adaptive reuse, although such projects will still require the building to have characteristics amenable to conversion.