National Office Report

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Sector Struggles as Maturities Hit

- No longer able to kick the can down the road, borrowers and lenders will need to reconsider their options as billions of dollars in office loans near maturity and delinquencies continue to rise.

- There are currently 14,000 office properties encumbered by loans that have recently matured or will mature by the end of 2027. These loans account for 33% of all office loans and total nearly $290 billion, according to Yardi Matrix. Of the top metros, Atlanta has the highest percentage maturing at 50.5%, valued at over $11 billion. Next is Denver (49.0%; $8.4 billion), Bridgeport–New Haven (48.5%; $3.9 billion), Chicago (46.0%; $15.3 billion) and the Twin Cities (41.2%; $3.4 billion). By volume, Manhattan has the highest amount of loans maturing through 2027 at $59.9 billion, followed by Los Angeles ($18.1 billion), Boston ($15.4 billion), Chicago ($15.3 billion) and Washington, D.C. ($13.8 billion).

- The "survive until 2025" mantra so frequently heard in the second half of 2023 through 2024 has quieted as unfavorable conditions continue. Unprecedented levels of vacancy, weak office job formation and overall economic uncertainty have put the sector on edge as loans come due. Hope for relief from easing interest rates was shattered when a positive jobs report in June led Federal Reserve chairman Jerome Powell to continue his policy of maintaining interest rates at the current level. While the labor market has increased overall, office-using jobs fell slightly in June, according to the Bureau of Labor Statistics, delivering a one-two punch to the sector. High interest rates continue and demand remains weak just as maturities are beginning to peak. Struggling properties will find financing difficult to come by as higher rates prevent many refinancing options from penciling out.

- Of the loans maturing by 2027, 61% originated before 2020. As office demand fell after Covid and incomes dropped, the values of the properties securing these loans collapsed. This increased the funding gap and diminished the prospect of securing new financing. Loan extensions have kept borrowers afloat to some extent. However, office CMBS delinquency rates rose to 11.08% in June, a 3.5% increase from June 2024, according to Trepp. With delinquency rates on the rise, lenders will likely be hesitant to extend loans and defaults are certain to increase. Moody's in February reported the percentage of loans extended in 2024 dropped from the previous year, while defaults increased. Discounts on properties are sure to rise in the coming months, and the possibility of conversions may become more attractive for property owners and public policymakers alike.