November 2023

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Paul Fiorilla
Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Office Mortgage Maturities Signal Coming Distress

Nearly $150 billion of mortgages on U.S. office buildings are maturing by the end of 2024 and just over $300 billion of loans will mature by the end of 2026, according to a study of Yardi Matrix's database.

The review of more than 80,000 office properties in the U.S. with $920 billion of mortgage debt found that 16.1% of loans by dollar volume will mature by the end of 2024 and 32.7% will mature by the end of 2026. Maturing loans are concentrated in the largest markets, led by Manhattan, and more generally in urban areas and Class A properties. Ten metros have more than $5 billion of office loans maturing through the end of 2024 and 10 have at least $10 billion of loans maturing by the end of 2026, per Yardi Matrix.

The volume of loan maturities is worrying, coming at a time when the combination of weaker demand, rising costs and lower property values is squeezing office owners, while banks and investors are trying to reduce exposure to offices.

The advent of work-from-home has prompted companies to cut back on space requirements, especially in primary office markets with long commutes. The national office vacancy rate rose to 17.8% in October 2023, up 120 basis points year-over-year and up from 13.4% before the pandemic in January 2020, according to Yardi Matrix. As companies reduce requirements, the amount of sublease space is growing as well, to 2.5% of office inventory nationally. While average asking rents nationally have increased slightly since 2020, metros with high vacancy rates such as Detroit, Houston and San Francisco are seeing rent growth turn negative.

Office building tenants now have more options and leverage to negotiate for favorable terms, such as shorter lease terms and requiring landlords to finance renovations for amenities including cafeterias, fitness centers, improved air circulation and outdoor break spaces. As tenant improvements and other costs increase, owners find it increasingly difficult to maintain net income. Consequently, office delinquency rates are rising and are likely to get worse as a growing number of underwater loans mature.