Yardi Matrix

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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.

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One-Third of Office Loans Mature by 2026

In the short term, through the end of 2024, Yardi Matrix found just over 6,000 properties with $148.2 billion of mortgages that are scheduled to mature. That represents 16.1% of the total volume of loans on office properties.

Office Loan Volume

Market Name	Total Office Loan Volume
National	$920,029.8
Manhattan	$174,510.2
Los Angeles	$60,076.0
Washington, D.C.	$51,959.9
Boston	$42,929.5
Bay Area	$41,552.6
Chicago	$38,189.4
San Francisco	$36,558.3
Dallas	$31,138.2
Houston	$27,104.3
Seattle	$25,426.5
Philadelphia	$23,169.0
Atlanta	$22,414.9
New Jersey	$20,003.2
Denver	$18,419.7
Orange County	$15,356.2
Phoenix	$14,981.6
San Diego	$14,392.4
Austin	$12,731.9
Miami	$11,889.0
Brooklyn	$11,630.1
Charlotte	$9,950.9
Minneapolis	$9,526.3
Connecticut	$8,843.6
Nashville	$7,281.2
Raleigh - Durham	$6,946.0

Source:Yardi Matrix

The metro with the most at stake is Manhattan, which is the largest market by virtue of having the most total office space and the highest price per square foot. Yardi Matrix identified 1,159 office properties in Manhattan with $19.8 billion of loans coming due by the end of 2024, nearly double the next highest metro, Los Angeles, which has $10.3 billion of loans coming due over that period. Other metros with a large amount of maturities by dollar volume include Chicago ($10.1 billion), Washington, D.C. ($8.6 billion), Houston ($8.1 billion) and Boston ($7.9 billion).

Office Loan Maturities Through 2024

Market	Loan Volume	% Loans Maturing
National	$148,217.5	16.1%
Manhattan	$19,778.9	11.3%
Los Angeles	$10,289.5	17.1%
Chicago	$10,088.4	26.4%
Washington, D.C.	$8,586.5	16.5%
Houston	$8,057.6	29.7%
Boston	$7,923.0	18.5%
San Francisco	$6,564.8	18.0%
Atlanta	$6,447.8	28.8%
Dallas	$6,397.6	20.5%
Philadelphia	$6,188.6	26.7%
Denver	$4,777.3	25.9%
Bay Area	$3,729.0	9.0%
Brooklyn	$2,991.2	25.7%
Minneapolis	$2,757.1	28.9%
Seattle	$2,535.1	10.0%
Connecticut	$2,416.2	27.3%
New Jersey	$1,952.6	9.8%
Austin	$1,830.6	14.4%
San Diego	$1,717.8	11.9%
Phoenix	$1,616.3	10.8%
Miami	$1,611.8	13.6%
Charlotte	$1,599.6	16.1%
Nashville	$1,443.9	19.8%
Orange County	$1,415.6	9.2%
Raleigh	$1,141.0	16.4%

Source: Yardi Matrix

Nine metros will see at least 20% of all office mortgages by volume maturing by the end of 2024, and 10th place Nashville was close at 19.8%. Metros with the highest percentage of mortgage volume maturing in the short term include Houston (29.7%), Atlanta (28.8%), Con-

necticut (27.3%), Philadelphia (26.7%) and Chicago (26.4%).

When looking at a longer time frame, through the end of 2026, Yardi Matrix found nearly 14,000 properties—accounting for 32.7% of all office property mortgage volume—with $300.9 billion of loans coming due. Ten metros have at least $10 billion of loans maturing, led by Manhattan with $56.7 billion. Other metros with large maturity volumes include Los Angeles ($21.6 billion), Chicago ($17.9 billion), Washington, D.C. ($16.2 billion) and Houston ($13.7 billion).

Office Loan Maturities Through 2026

Market	Loan Volume	% Loans Maturing
National	$300,896.1	32.7%
Manhattan	$56,690.0	32.5%
Los Angeles	$21,585.2	35.9%
Chicago	$17,890.4	46.8%
Washington, D.C.	$16,149.1	31.1%
Houston	$13,689.4	50.5%
Dallas	$12,142.2	39.0%
Boston	$11,801.8	27.5%
Atlanta	$11,790.9	52.6%
San Francisco	$11,483.8	31.4%
Bay Area	$10,423.8	25.1%
Philadelphia	$8,436.2	36.4%
Denver	$8,322.6	45.2%
Seattle	$6,966.2	27.4%
New Jersey	$4,534.9	22.7%
Brooklyn	$4,205.8	36.2%
Minneapolis	$4,180.4	43.9%
Connecticut	$3,954.8	44.7%
Orange County	$3,939.2	25.7%
Austin	$3,894.9	30.6%
San Diego	$3,514.0	24.4%
Miami	$3,120.5	26.2%
Nashville	$3,090.9	42.5%
Phoenix	$3,065.0	20.5%
Charlotte	$2,745.9	27.6%
Raleigh	$2,191.8	31.6%

Source: Yardi Matrix

Eight metros have at least 40% of total office mortgages coming due by 2026, and in 18 metros at least 30% are set to mature. More than half of office loans by dollar value will mature by the end of 2026 in Atlanta (52.6%) and Houston (50.5%). Other metros with high percentages of maturities through 2026 include Chicago (46.8%), Denver (45.2%), Connecticut (44.7%) and Minneapolis (43.9%).

Maturing loans are concentrated in urban properties, which account for $176.9 billion, or 58.8%, of the loans maturing through 2026, while $123.8 billion are situated in suburban properties. Not surprisingly, primary markets are the leaders in both volume and percentage of urban office mortgages maturing. Manhattan tops the list ($56.7 billion, 32.5% of total mortgage volume), followed by Los Angeles ($21.6 billion, 28.9%), Chicago ($17.9 billion, 32.2%) and Washington, D.C. ($16.1 billion, 19.9%). Houston ($13.7 billion, 50.5% of maturing mortgages) leads in the volume of suburban office properties with mortgages maturing by 2026, with other concentrations in San Jose ($10.4 billion, 25.1%) and Dallas $12.1 billion, 39.0%).

Another concentration is in higher-quality properties, as just over two-thirds ($203.2 billion) of office loans maturing by 2026 are backed by assets rated A+/A by Yardi Matrix, while $97.7 billion are rated B or C. Manhattan, at $47.0 billion, leads in A+/A property mortgages maturing, followed by Los Angeles ($15.5 billion), Chicago ($12.6 billion) and Washington, D.C. ($11.9 billion). Metros with the most maturing mortgages on B/C offices include Manhattan ($9.7 billion), Houston ($7.6 billion), Los Angeles ($6.0 billion), Chicago ($5.3 billion) and Philadelphia ($5.3 billion).

The potential for default involves not just volume but the performance of the market and individual properties. Defaults are more likely to occur in markets that are overbuilt and/or have seen demand crushed as a result of the pandemic.

Office Loan Volume Maturities by Location Classification

Market	Urban Loan Maturing Volume	% Maturing	Suburban Maturing Loan Volume	% Maturing
National	$176,867.3	19.2%	$123,836.8	13.5%
Manhattan	$56,665.8	32.5%	$0.0	0.0%
Los Angeles	$17,350.0	28.9%	$4,235.1	7.0%
Chicago	$12,322.5	32.3%	$5,567.9	14.6%
Washington, D.C.	$10,340.6	19.9%	$5,808.6	11.2%
Boston	$8,409.4	19.6%	$3,392.4	7.9%
San Francisco	$8,106.6	22.2%	$3,377.2	9.2%
Atlanta	$5,881.5	26.2%	$5,909.4	26.4%
Seattle	$5,146.9	20.2%	$1,819.3	7.2%
Houston	$4,915.7	18.1%	$8,773.7	32.4%
Brooklyn	$4,205.8	36.2%	$0.0	0.0%
Denver	$3,947.6	21.4%	$4,375.0	23.8%
Dallas	$3,911.6	12.6%	$8,230.6	26.4%
Philadelphia	$2,544.3	11.0%	$5,868.8	25.3%
Minneapolis	$2,096.6	22.0%	$2,083.7	21.9%
Connecticut	$2,062.8	23.3%	$1,891.9	21.4%
Miami	$1,906.4	16.0%	$1,214.1	10.2%
Bay Area	$1,847.1	4.4%	$8,576.7	20.6%
Austin	$1,623.2	12.7%	$2,271.7	17.8%
Nashville	$1,534.1	21.1%	$1,556.8	21.4%
New Jersey	$1,497.7	7.5%	$3,037.2	15.2%
Charlotte	$1,267.8	12.7%	$1,478.1	14.9%
Phoenix	$893.4	6.0%	$2,171.6	14.5%
Raleigh	$640.3	9.2%	$1,551.6	22.3%
San Diego	$493.5	3.4%	$3,020.5	21.0%
Orange County	$0.0	0.0%	$3,939.2	25.7%

Source: Yardi Matrix

Office Loan Volume Maturities by Property Quality Level

Market	A/A+ Loan Volume	%	B/C Loan Volume	%
National	$203,170.1	22.1%	$97,726.1	10.6%
Manhattan	$46,964.2	26.9%	$9,725.8	5.6%
Los Angeles	$15,543.8	25.9%	$6,041.4	10.1%
Chicago	$12,610.6	33.0%	$5,279.8	13.8%
Washington, D.C.	$11,944.7	23.0%	$4,204.4	8.1%
Atlanta	$9,532.7	42.5%	$2,258.2	10.1%
San Francisco	$8,704.8	23.8%	$2,778.9	7.6%
Dallas	$8,183.1	26.3%	$3,959.1	12.7%
Boston	$8,086.9	18.8%	$3,714.9	8.7%
Houston	$6,064.9	22.4%	$7,624.5	28.1%
Bay Area	$5,978.5	14.4%	$4,445.3	10.7%
Denver	$5,280.0	28.7%	$3,042.6	16.5%
Seattle	$5,109.3	20.1%	$1,856.9	7.3%
Brooklyn	$3,656.5	31.4%	$549.3	4.7%
Philadelphia	$3,174.9	13.7%	$5,261.3	22.7%
Connecticut	$2,938.9	33.2%	$1,015.9	11.5%
Minneapolis	$2,723.2	28.6%	$1,457.2	15.3%
New Jersey	$2,683.5	13.4%	$1,851.4	9.3%
Austin	$2,585.8	20.3%	$1,309.1	10.3%
Miami	$2,446.8	20.6%	$673.7	5.7%
Orange County	$2,092.1	13.6%	$1,847.1	12.0%
Nashville	$2,040.2	28.0%	$1,050.7	14.4%
Charlotte	$1,964.2	19.7%	$781.7	7.9%
San Diego	$1,941.1	13.5%	$1,572.9	10.9%
Phoenix	$1,782.6	11.9%	$1,282.3	8.6%
Raleigh	$1,521.5	21.9%	$670.4	9.7%

Source: Yardi Matrix

Metros with a combination of high vacancy rates and a large number of loans maturing by 2026 include Houston (24.9% vacancy rate as of October 2023 and 47.1% of loan volume maturing); San Francisco (24.2% vacancy rate with 30.1% of volume maturing); Austin (21.2% vacancy rate and 30.3% of volume maturing); Denver (20.7% vacancy rate and 41.3% of volume maturing); Atlanta (18.7% vacancy rate and 49.1% of volume maturing) and Chicago (17.9% vacancy rate and 42.4% of volume maturing).

One way rent declines play out is through the lease spread, or the difference between the rate of expiring leases and new leases. A negative lease spread is a red flag because it signals weakness in demand and potential for declining rates going forward, while a positive spread indicates a more balanced supply-demand equation.

As of October, Yardi Matrix found that lease spreads were negative in nearly one-third of major metros, with the largest negative gap found in metros including Pittsburgh (-10.5%), San Francisco (-5.4%), Chicago (-4.8%), Washington, D.C. (-3.3%) and Manhattan (-2.6%). It is no coincidence that the largest negative spreads are happening in most of the biggest office markets in the country, which have had weak office attendance and lower demand and absorption post-COVID-19.

Metros with positive lease spreads—where new rents are rising—include Miami (9.0%), where the financial and business services sectors have grown in recent years, Austin (5.9%), Charlotte (5.6%) and Portland (5.5%). To be sure, lease spreads can change from month to month and are not a perfect indicator. Positive lease spreads in any given period can mask potential longer-term problems. Austin, for example, has one of the most active development pipelines in the country, with nearly 6 million square feet under construction that will add 6.6% to current stock. While Austin remains a metro with rapid job growth, new office buildings are filling slowly as technology firms cut back growth.

Office Vacancy & Lease Spread by Market

Market	Vacancy Rate	Lease Spread
National	17.8%	-
Miami	13.8%	9.0%
Austin	21.2%	5.9%
Charlotte	16.2%	5.6%
Nashville	16.6%	3.8%
Brooklyn	16.7%	3.8%
Phoenix	18.8%	3.2%
San Diego	15.1%	3.2%
Boston	10.3%	2.9%
Raleigh	22.2%	2.8%
Philadelphia	14.0%	2.4%
Dallas	19.0%	2.0%
New Jersey	17.6%	1.5%
Los Angeles	16.5%	1.4%
Minneapolis	16.9%	1.2%
Atlanta	18.7%	0.8%
Denver	20.7%	0.6%
Seattle	22.3%	0.4%
Houston	24.9%	-1.0%
Bay Area	19.9%	-2.2%
Orange County	16.0%	-2.4%
Manhattan	17.7%	-2.6%
Connecticut	18.0%	-2.7%
Washington, D.C.	16.0%	-3.3%
Chicago	17.9%	-4.8%
San Francisco	24.2%	-5.4%

Source: Yardi Matrix

Distress Rising—How Much?

The office sector is uniquely positioned among commercial property types for distress. Demand for space has dropped 10-20% since the onset of COVID-19, as employees have become accustomed to working from home and most companies have embraced a hybrid workplace out of either convenience or necessity to retain them. While asking rents have remained flat—the aver-

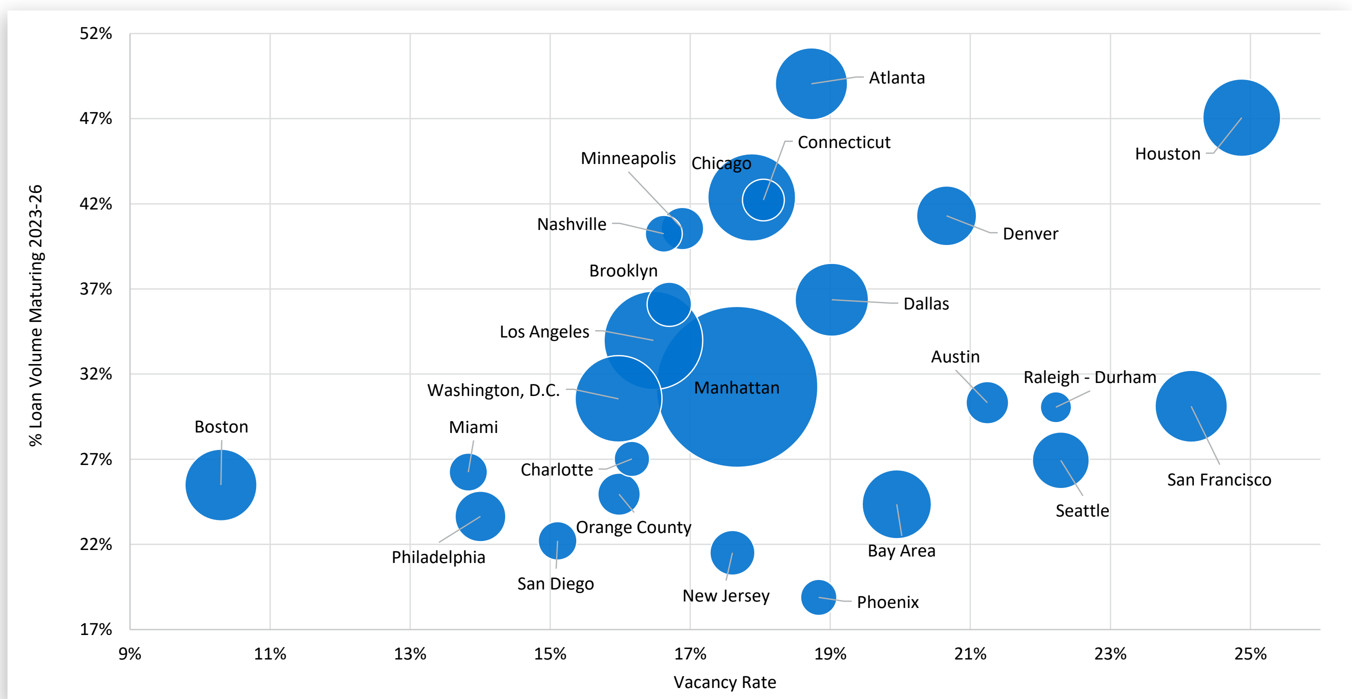
age national asking rent as of September 2023 was $31.75, up 1.1% from the pre-pandemic level of $31.38 in January 2020, per Yardi Matrix—net income is falling as expenses such as tenant improvements, maintenance and insurance are increasing rapidly.

The national vacancy rate has increased by 440 basis points since January 2020, with the biggest increases in core office markets in Manhattan and San Francisco. Going into the pandemic in January 2020, Manhattan's vacancy rate was 7.9% while San Francisco's was 7.3%, per Yardi Matrix. In October, Manhattan's vacancy rate stood at 17.7%, up 200 basis points year-over-year, while San Francisco's was 24.2%, up 450 basis points, according to Yardi Matrix.

Office property values are down sharply as capitalization rates increase. As of early November 2023, office REIT stocks were down 28% year-over-year and had produced a -10.8% average annual return over the previous five years. Even though private measures such as the NCREIF Property Index (NPI) are much slower to react to changing prices, total returns for office properties in the NPI were -17.1% for the year ending 3Q 2023, while appreciation was -21.1%. Total returns for urban offices in the NPI were -20.6% during that period and -12.9% for suburban assets, and industry analysts expect private office property values to continue sinking.

Liquidity in the capital markets is a major headwind. Investor demand is weak, and lenders limit office loans to those with low leverage and high coupons, terms that borrowers only accept as a last resort. CMBS investors are reluctant to buy bonds backed by office properties. Through three quarters in 2023, CMBS and collateralized

% Office Loans Maturing 2023-26, Vacancy Rate by Metro



Source: Yardi Matrix

loan obligation (CLO) issuers had securitized just $3.7 billion of office loans, down 75% from the year-earlier period, according to "Commercial Mortgage Alert." As recently as 2021, offices served as collateral for $38.6 billion of loans securitized by CMBS and CLO issuers, per CMA.

Distress has already started to climb. As of October 2023, 5.8% of office CMBS loans were delinquent, up from 1.8% in October 2022 and 1.9% in December 2019, according to the CRE Finance Council and Trepp. Some $9.8 billion of CMBS loans on offices, or 8.3%, were in special servicing as of September 2023, per Trepp. Those negative numbers will increase as loans mature and properties face a funding gap—in other words, they qualify for fewer proceeds than existing debt in place because banks have grown more conservative while mortgage rates have shot up as Treasury and SOFR indexes rise.

How much office property distress will grow depends on the extent of interest rate increases and how long rates remain elevated. The worst-case scenario is if the job market weakens while property values continue to fall and interest rates rise from current levels. A more optimistic scenario would have the employment market remaining strong while interest rates stop rising or even fall. In either scenario, office delinquencies are likely to jump, but the optimistic scenario would mitigate the pain as opposed to creating a larger crisis.

—Paul Fiorilla, Director of Research, Yardi Matrix

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