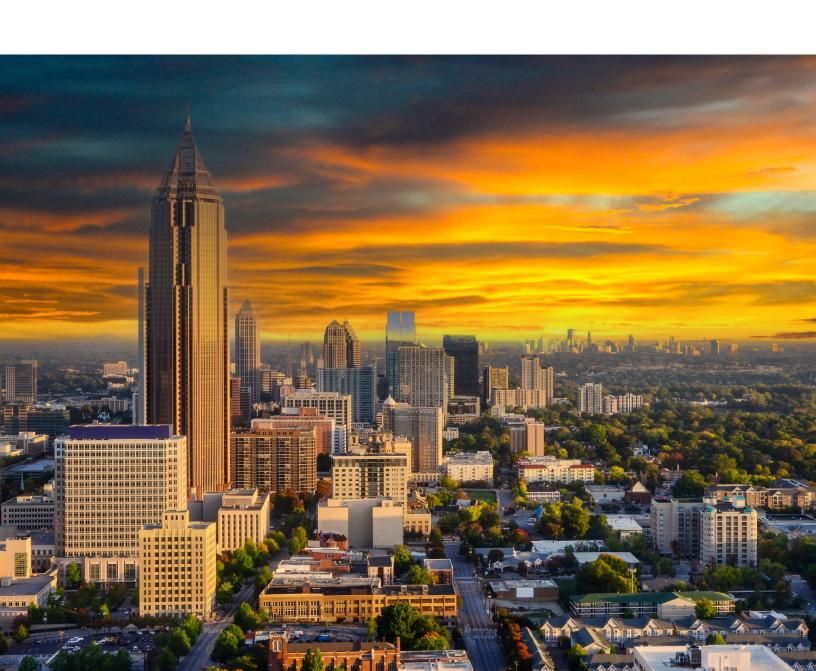


## National Office Report

July 2024



## Loans Mature Into Rocky Environment

- Office utilization has plateaued, values have fallen, and interest rates remain elevated for new loans and refinancing. Office defaults and delinquencies are rising in 2024, and hundreds of billions in office loans are set to mature over the next few years.
- More than \$260 billion of office loans have matured recently or will mature before the end of 2026, according to an analysis of Yardi Matrix data. This accounts for 30% of all office loans and more than 12,000 properties. However, the risk that maturing office loans pose is not distributed equally across markets. Among top markets, Atlanta has the highest concentration, with 48.3% of office loan volume having matured recently or maturing through the end of 2026. That's followed by Denver (41.8%), Nashville (41.7%), Chicago (40.7%) and the Twin Cities (39.2%) as the only top markets that cross a 35% threshold.
- Maturing loans are concentrated in top-rated properties and city centers. While a flight to quality among tenants has been a boon to a smattering of trophy buildings, most continue to struggle. A whopping \$164.5 billion in maturing office loans (62.6%) are in urban submarkets, and \$187.7 billion (71.4%) are Class A buildings.
- The billions in maturities on the horizon form a precarious path forward for offices, and delinquencies are already rising in the sector. According to Trepp, \$1.87 billion of office loans were newly delinquent in June, raising the delinquency rate for the sector to 7.5%. This is up from 4.5% last June and 5.8% at the end of 2023. Lenders and investors have so far been mostly accommodative of owners that are facing large blocks of vacant space. However, the practice of extend and pretend can only continue for so long, and losses for lenders are inevitable.
- Discount purchases have been increasing in 2024, and we expect the frequency of such sales will only continue to rise in coming quarters. However, because most lenders are looking to decrease their exposure to office and debt costs remain elevated, we expect the amount of all-cash sales to increase, as well. Bargain shoppers will be able to bounce, quickly provided that they can offer cash up front, but owners with a strong track record and solid lender relationships will also be able to obtain financing for discounted properties.

