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Office CRE Debt Delinquency Hits Record 11.08% in 2025

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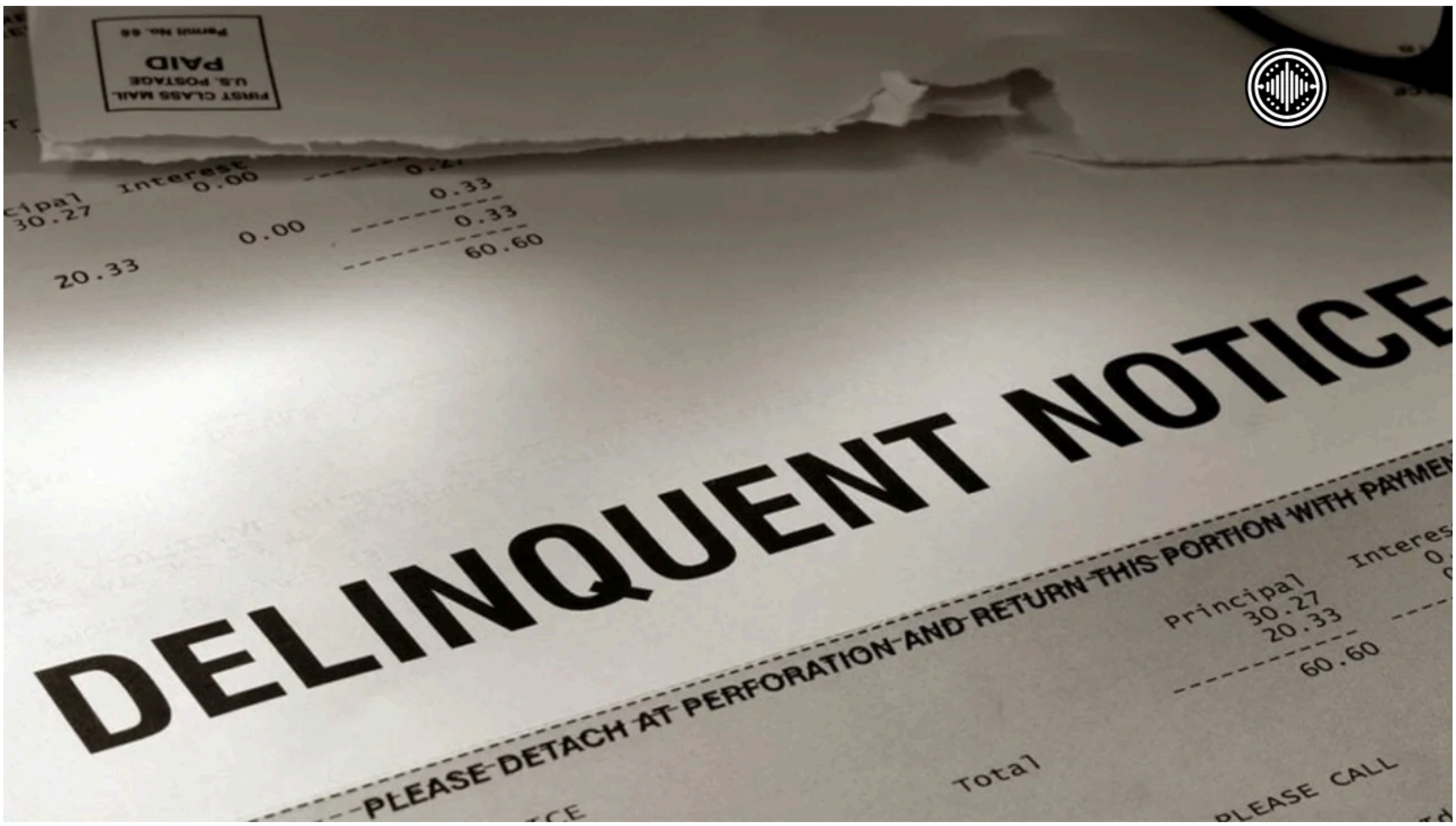

More than five years after the COVID-19 pandemic disrupted global economies, commercial real estate (CRE) debt linked to vacant or outdated office buildings continues to face significant challenges. Recent data shows that delinquency rates on these loans are rising, with office properties leading the trend toward record levels of financial distress.

The pandemic accelerated changes in how people work, with many companies shifting to remote or hybrid work models. This shift has left a surplus of office space unused or underutilized, impacting these properties' value and revenue potential. As a result, loans secured by these buildings have become riskier for lenders and investors.

According to Trepp, a leading data provider for commercial mortgage-backed securities (CMBS), delinquency rates across all major types of commercial mortgage loans increased during the first quarter of 2025. CMBS loans, which pool multiple commercial mortgages into securities for investors, showed the highest delinquency rate at 6.42%. This figure represents a 0.64 percentage point rise compared to the last quarter 2024.

The situation worsened in June 2025, with CMBS delinquency reaching 7.13%, a slight increase from the previous month. Most notably, the office sector experienced the most significant distress. Delinquency rates on office property loans hit a record 11.08%, surpassing the last peak of 11.01% recorded in December 2024. This trend highlights the ongoing financial strain faced by owners and lenders of office real estate.

The growing delinquency rates pose risks to lenders, investors, and the broader commercial real estate market. High delinquency levels often lead to loan defaults, foreclosures, and distressed property sales, reducing overall market confidence and affecting property values.

Experts note that the office sector's difficulties stem from the persistent impact of shifting work habits and the slow pace of repurposing office space. Many office buildings remain vacant or underutilized because transforming them for other uses is costly and complex. This limits potential income streams and increases the risk of loan repayment issues.

Despite these challenges, some investors and developers see opportunities to adapt office properties to new uses, such as residential or mixed-use developments. However, these conversions require significant investment and regulatory approval, which can be hurdles in the short term.

Looking ahead, the commercial real estate industry is closely monitoring these trends. Stakeholders hope evolving work patterns and creative property uses will stabilize the market. Until then, the rising delinquency rates, especially in the office sector, remain a critical concern for lenders and investors navigating a post-pandemic landscape.