# Anticipating the Wave: Understanding What's Next for Lenders Across the Commercial Real Estate Office Market

Nutter

JLL

Eastern Bank

AXA Investment Managers

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# With You Today

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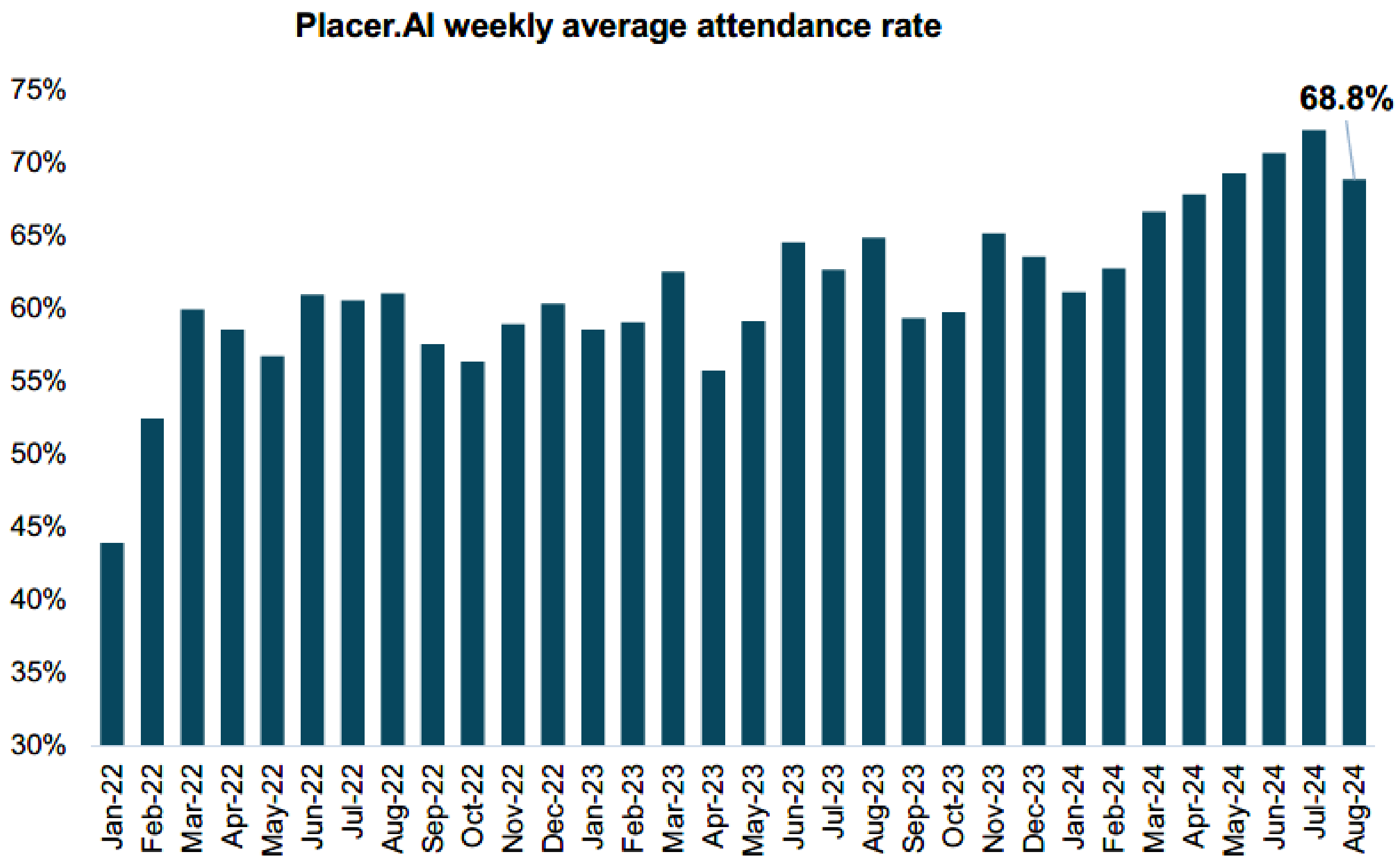
# US Office Capital Markets Update

# US Office Capital Markets Update

National re-entry rates reflect dominance of three-day workweek; further gains in office attendance will likely be incremental as policies evolve more slowly.



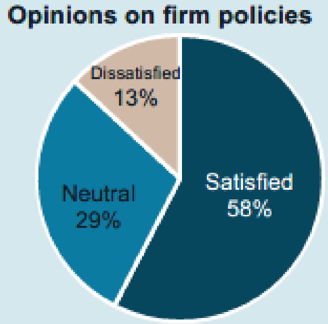

Source: JLL Research, Placer.ai, KPMG

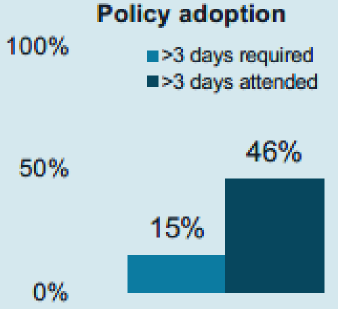
## KPMG 2024 CEO Outlook

Executives are coming to terms with hybrid work, while remote work continues to be marginalized.


## Reuters Law Firm Survey

350+ law firm survey reveals employees are adopting policies and engagement has improved.

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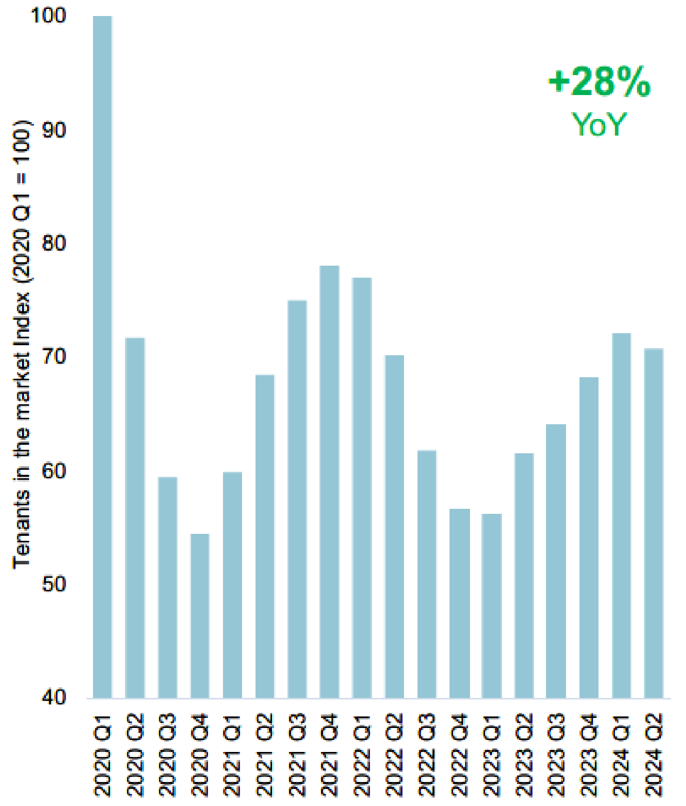
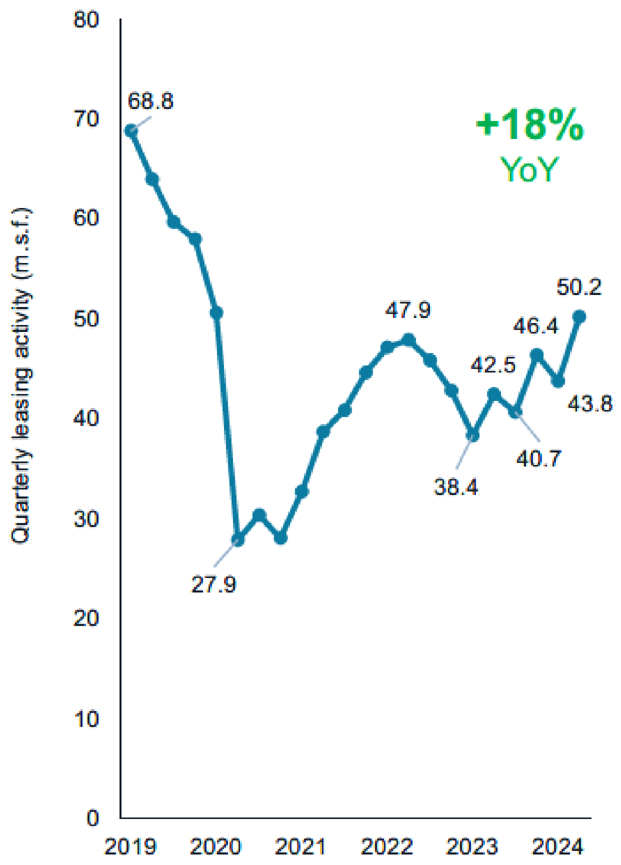
# US Office Capital Markets Update

Trifecta of positive leasing datapoints in Q2; higher tenant requirements, leasing velocity and substantially slower sublease additions.

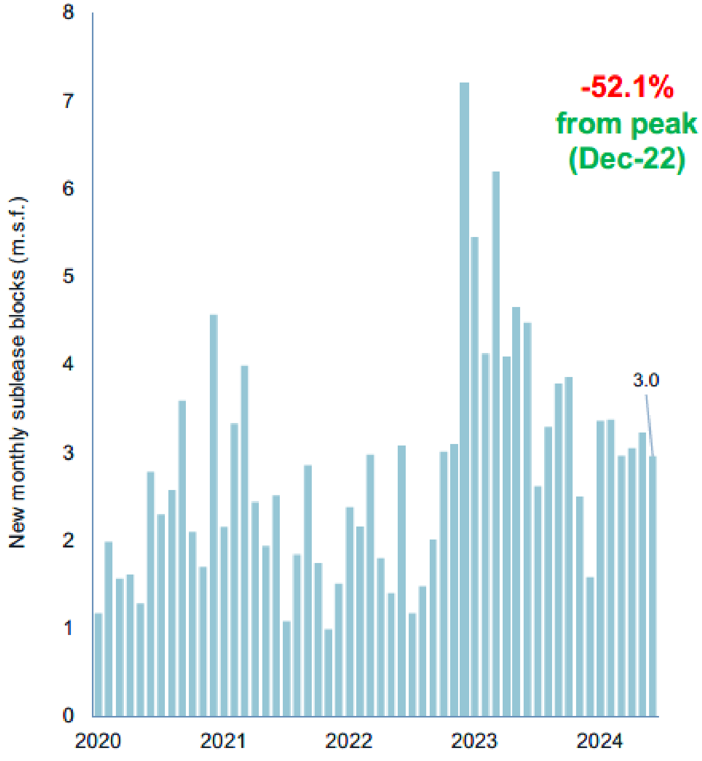
Tenant requirements have increased 5.7% QoQ and 28.3% YoY




Gross leasing activity



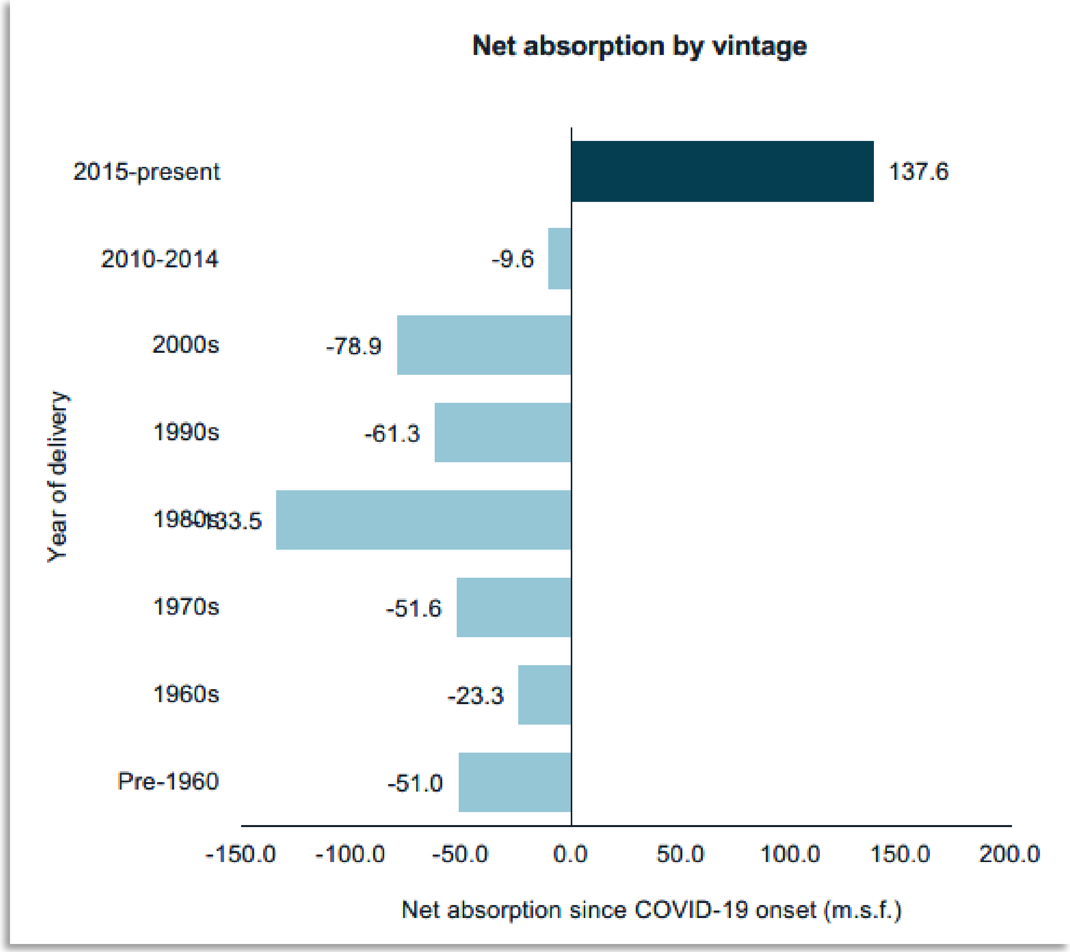

Gross sublease additions over 20,000 s.f.

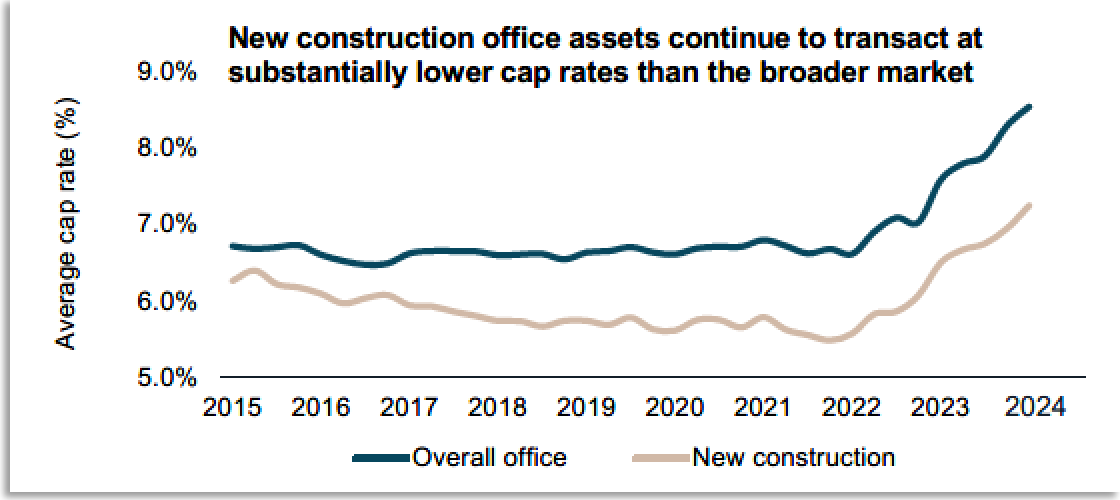


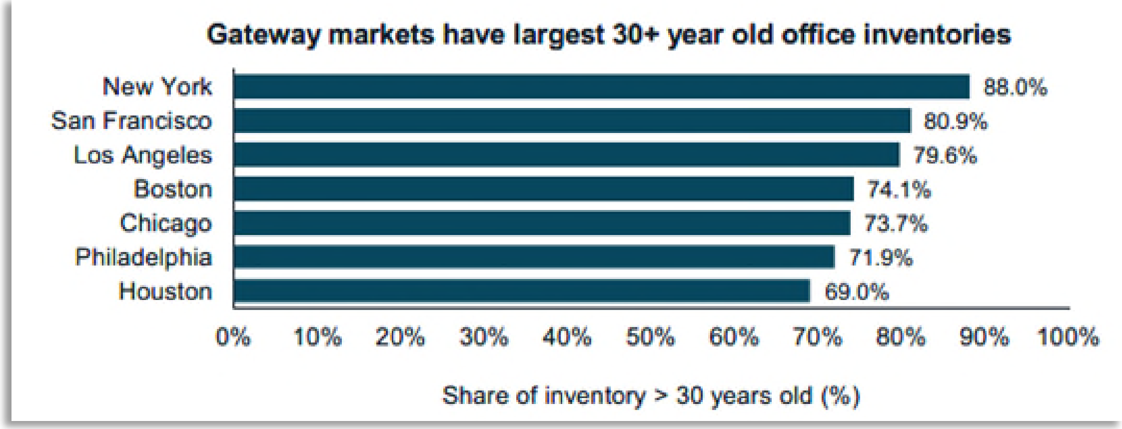

Source: JLL Research
Note: TIMs index covers roughly 70% of gateway markets and 65% of secondary markets in the U.S.

# US Office Capital Markets Update

Why quality matters: 133 m.s.f. of net absorption in new vintage buildings since COVID-19 onset, lower cap rates and higher investor demand.




Source: JLL Research, Real Capital Analytics (Transactions larger than $5.0 million)

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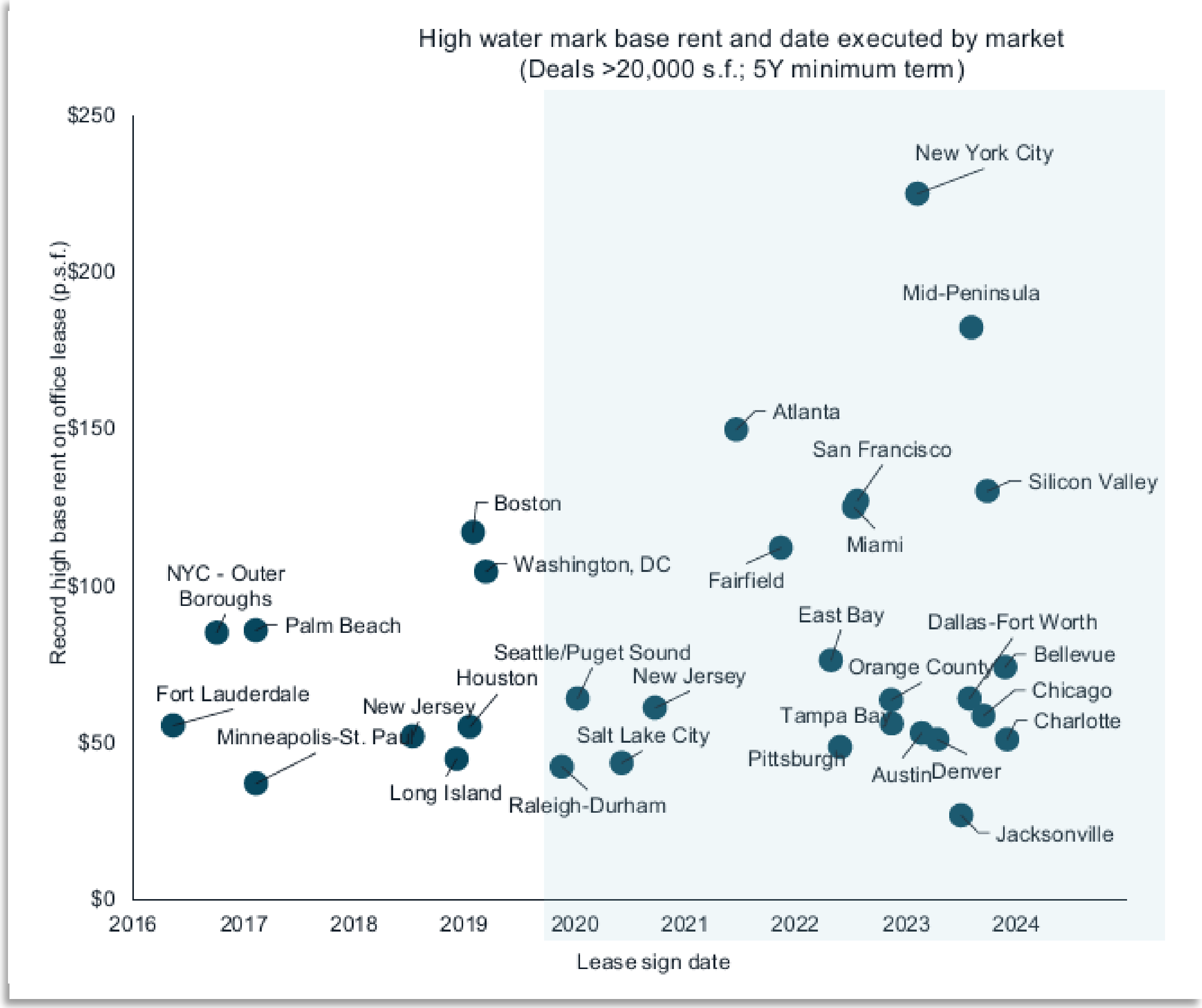
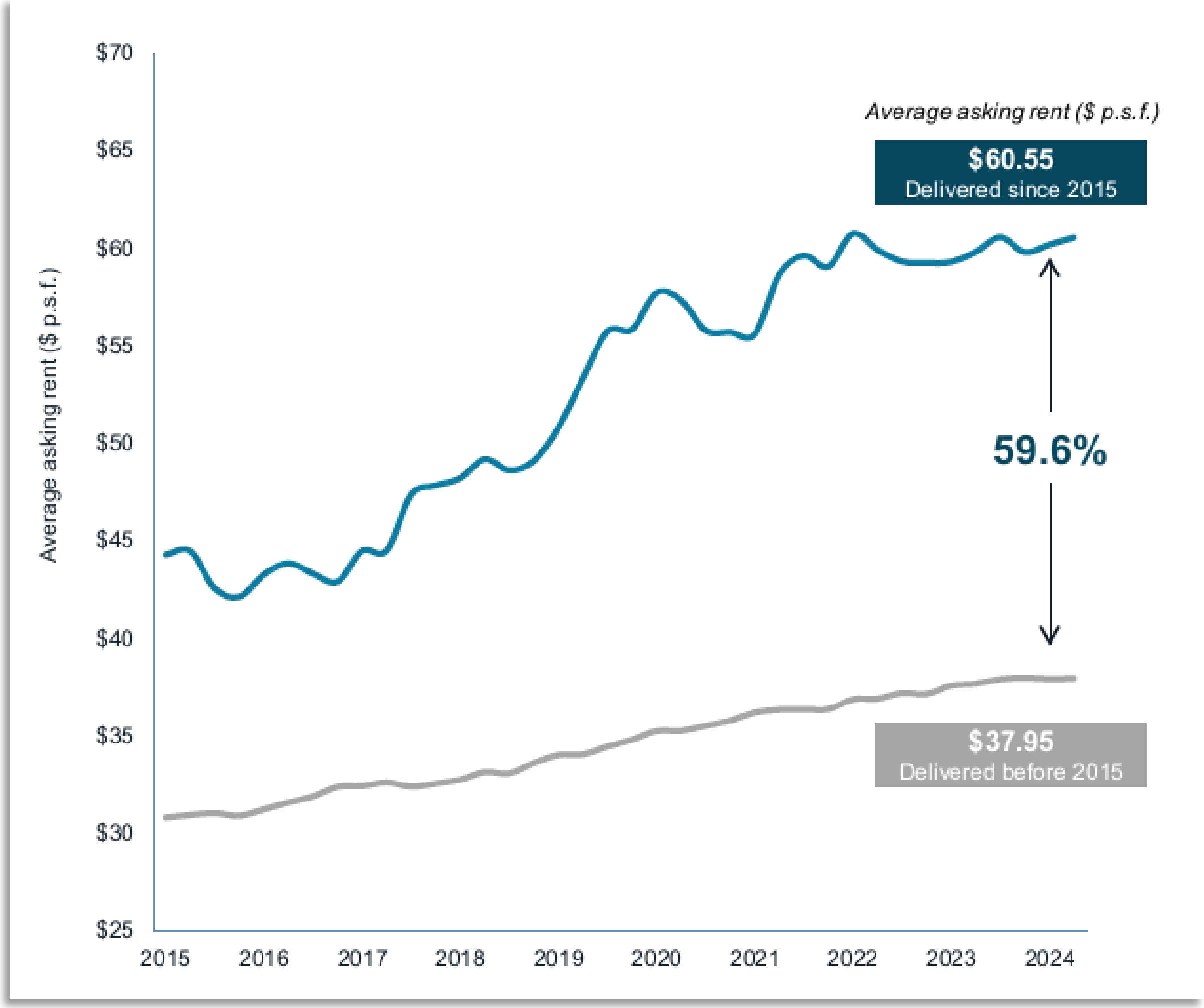
# US Office Capital Markets Update

Flight to quality is consistent across the US and rental rates remain highly bifurcated…




Source: JLL Research

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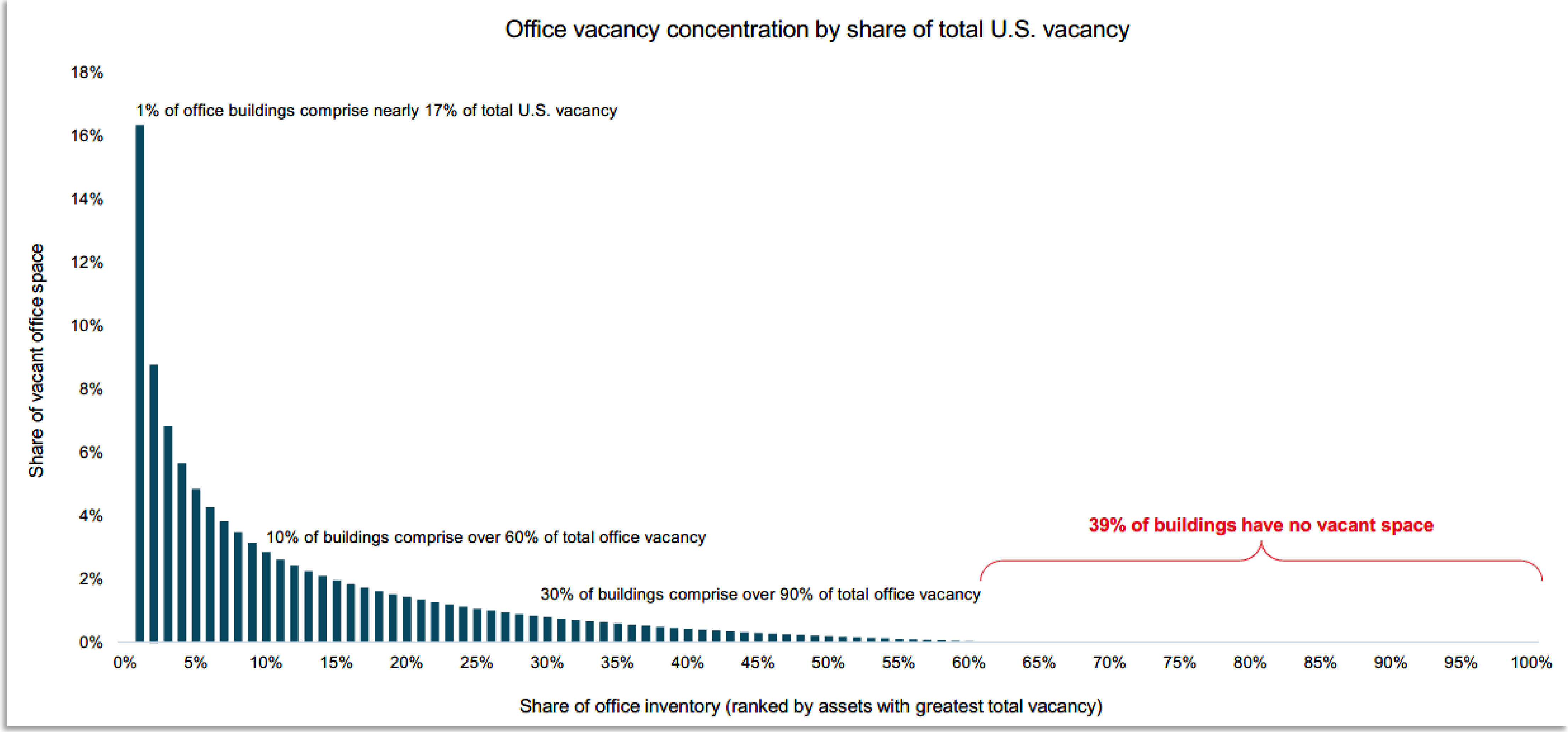
# US Office Capital Markets Update

… which has driven vacancy to be concentrated in a small segment of the office market.




Source: JLL Research

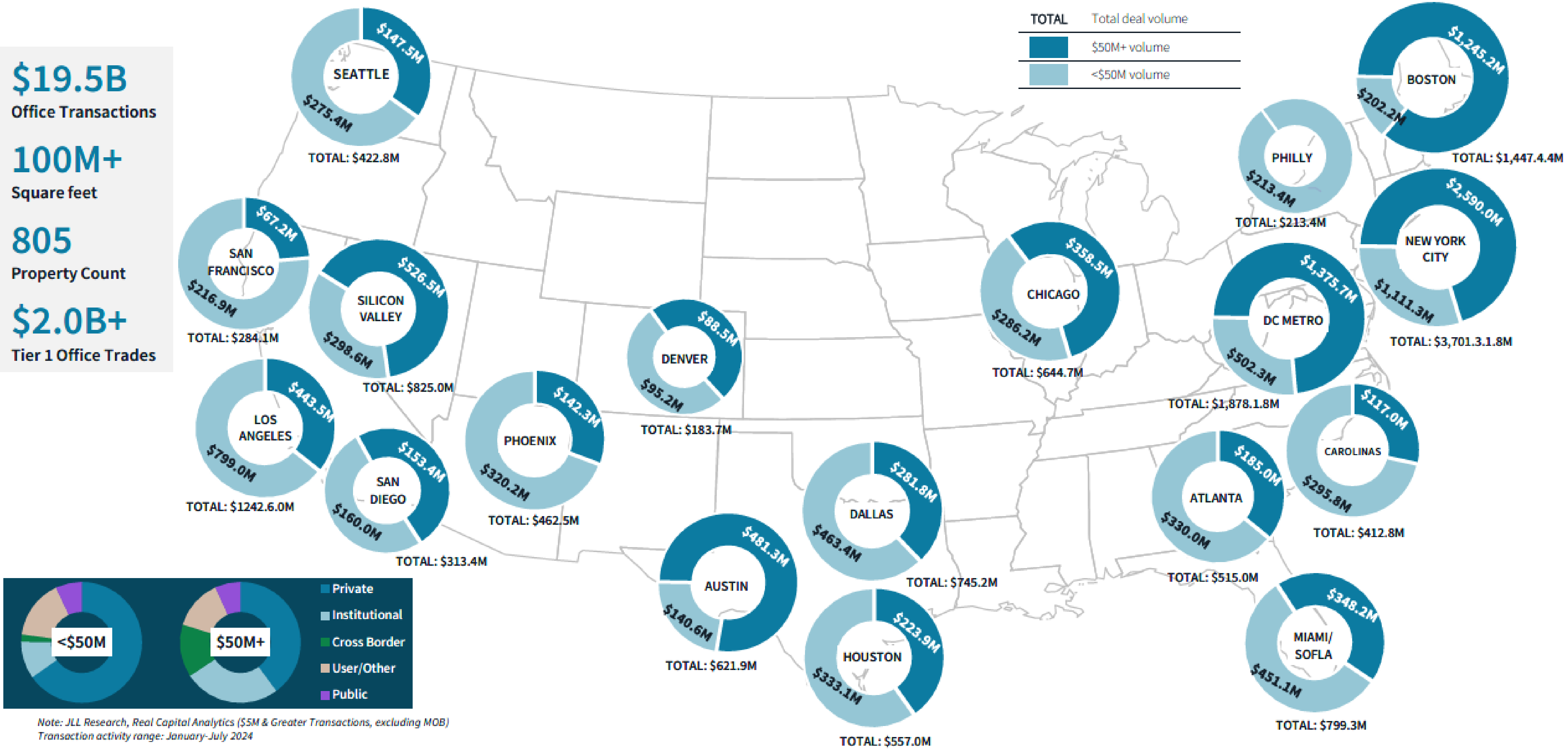
# National Office Transaction Activity: Through July 2024

**$19.5B**
Office Transactions

**100M+**
Square feet

**805**
Property Count

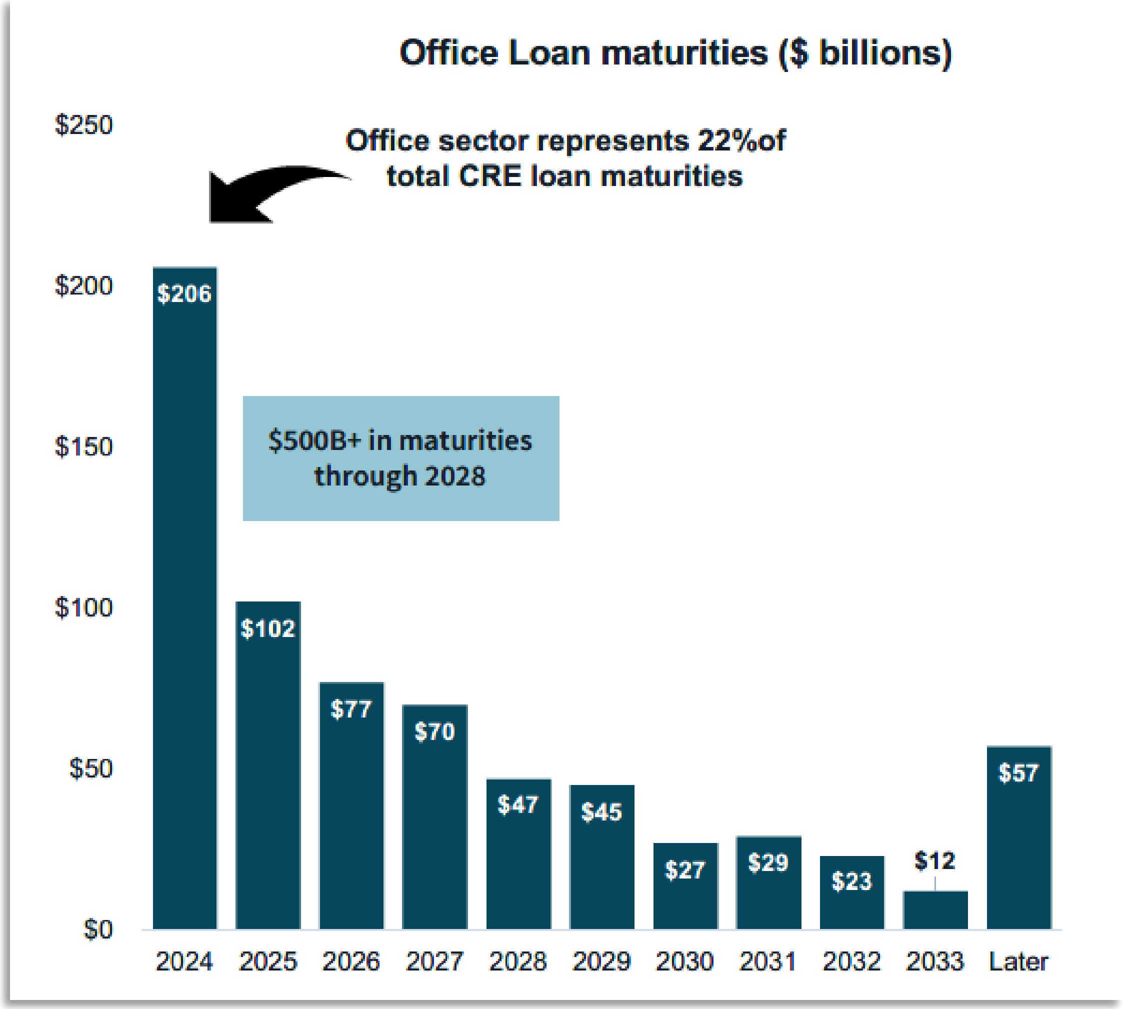
**$2.0B+**
Tier 1 Office Trades

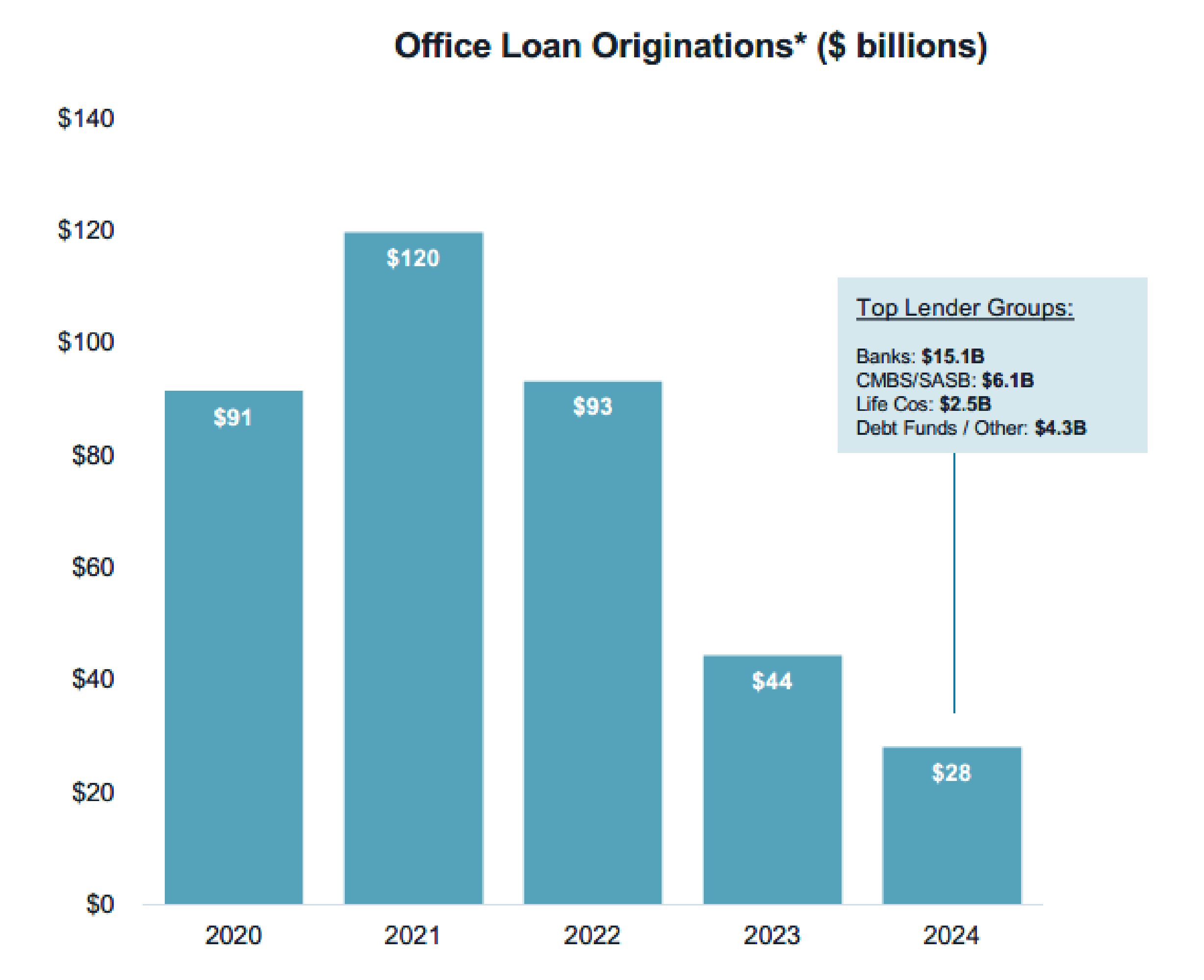



*Note: JLL Research, Real Capital Analytics ($5M & Greater Transactions, excluding MOB)*
*Transaction activity range: January-July 2024*

# US Office Capital Markets Update

Upcoming loan maturities will catalyze transactions activity; originations remain muted.




*Office only, excluding MOB, includes all loan types (refinancing & acquisition financing)
Source: JLL Research, Mortgage Bankers Association (Data is as of December 31, 2023, and is released once per year, and does not reflect extensions that have taken place during the year)

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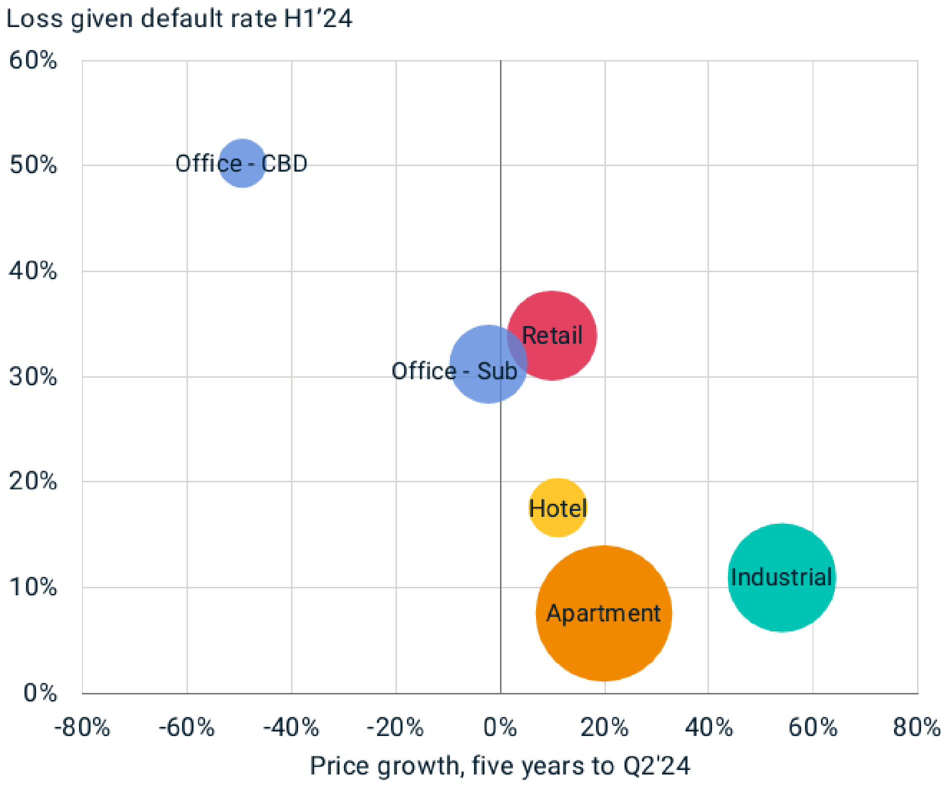
# MSCI Capital Trends

August 2024

# Loss Rates Tick Higher in 2024

- Distressed asset sales have consequences for loss rates, with an increase in such sales usually exerting downward pressure on pricing, and ultimately the rate of loss on a previously defaulted loan.
- In the first half of 2024, sales of distressed commercial properties accounted for 3% of total transaction volume, an increase of 1.2 percentage points versus the same period a year prior. Across the five core asset classes, the losses taken by lenders on previously defaulted loans averaged 26% for H1 2024, compared to 22% for all of 2023.
- In the first half of this year, recoverability was less evident for a defaulted loan if that loan was attached to either an office or retail asset. Given a default, the average loss rate stood at 36% for an office asset and 34% for a retail property. Driving the losses in each sector were CBD offices and shopping centers, where loss rates stood at 50% and 41%, respectively.

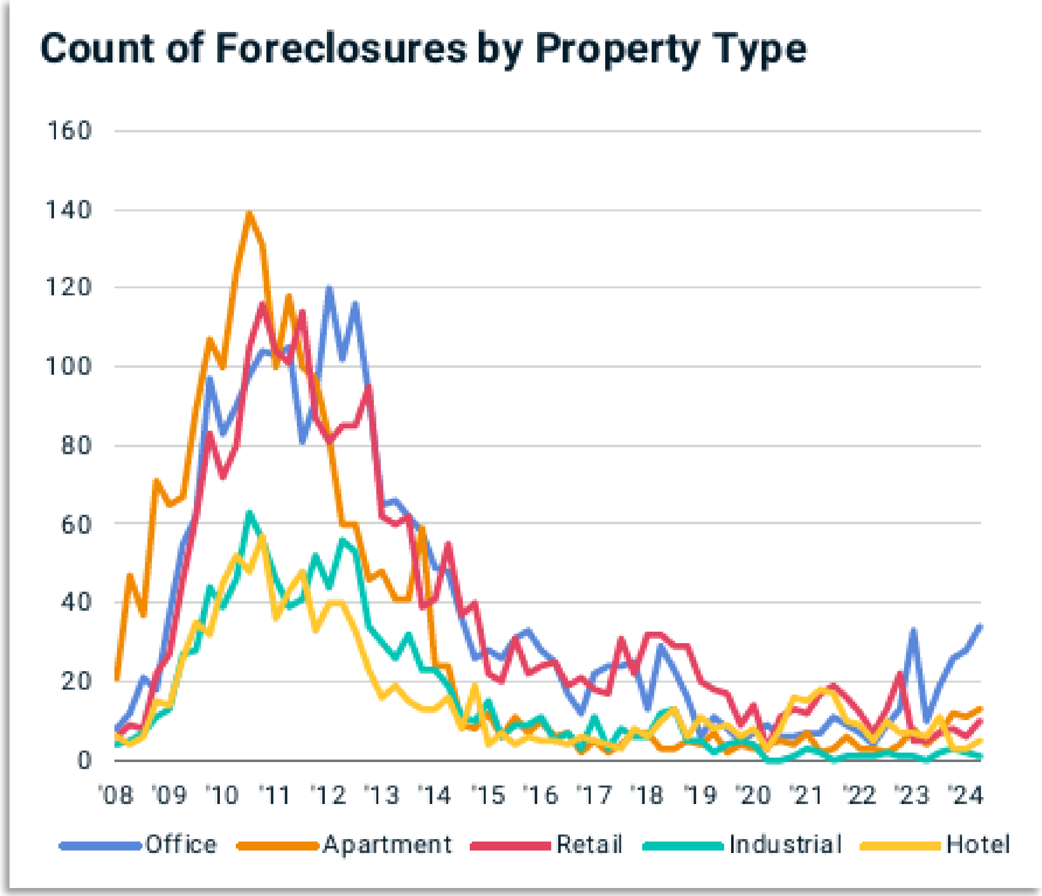
## Loss Rates and Price Change




Bubbles sized for H1 2024 sales volume.

# Office Leads Increase in Foreclosures

- In the first six months of 2024, more than 120 foreclosures have taken place, some 40 more than in the first half of 2023 and the largest number in any first half since 2018. Still, the pace of foreclosures is far from that seen in the aftermath of the GFC: more than 750 foreclosures occurred in the same period for each of the years 2010, 2011 and 2012.
- In the current downturn, foreclosures are not occurring with the same intensity across all asset classes. At a count of more than 60, the majority of assets taken back by lenders during the first half of 2024 were offices. Over the same six-month period during 2015-19, each year averaged about 40 office foreclosures.
- With more than 20 foreclosure transactions, the apartment sector registered double the number of foreclosures in the current year than for the average first half of a year during 2015-19. Still, this is merely 10% of the number of apartment foreclosures that took place in the fallout from the GFC.



# The Maturity Wall

# Solutions, Opportunities and Disputes

- Loan Portfolio Sales and Purchases
  - Limited diligence and document flexibility vs. discounted bids
- A-Note/B-Note Loan Restructurings
  - A-Note reflects property's current market value and cash free for debt service
  - B-Note reflects remaining principal loan balance, which might require payment only when property is sold, refinanced or reaches financial benchmarks
- Junior Lender Blocking Senior Loan Remedies
  - As rates decrease and values rise, junior/mezz lenders more willing to purchase senior loans, withhold consent to senior loan modifications, bid at foreclosure sales, force chapter 11, etc.
  - Senior lender (UCC) foreclosure on accommodation pledges
- Short Sales

# Solutions, Opportunities and Disputes

- Workouts
  - Forbearance
  - Payment Deferrals
  - Maturity Extensions
  - Deed-in-Lieu
  - Pre-Negotiation Agreements?
- Legal Proceedings
  - Receivership
  - Foreclosure (non-consensual)
    - Rights of Reinstatement, Rights of Redemption, One Action Rules, etc.
  - Actions Against Guarantors
  - Challenges to Bankruptcy Remote Structures
  - Chapter 11
    - Non-recourse Carve Out (“bad boy”) Guarantees
- Environmental Risks
- Lender Liability

# Questions?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