

# Out of distress comes opportunity: the return to office credit

We believe significant dislocation in office lending has created compelling opportunities for investors. Today’s market presents the potential to achieve income-driven, equity-like returns by primarily investing in senior first mortgage loans secured by quality U.S. office properties and supported by robust credit metrics. This opportunity is underpinned by three factors: improving U.S. office leasing fundamentals; historically attractive yield potential and conservative loan structures; and enhanced downside credit protection from lower, reset lender bases.

## Return to Office and Improving Fundamentals

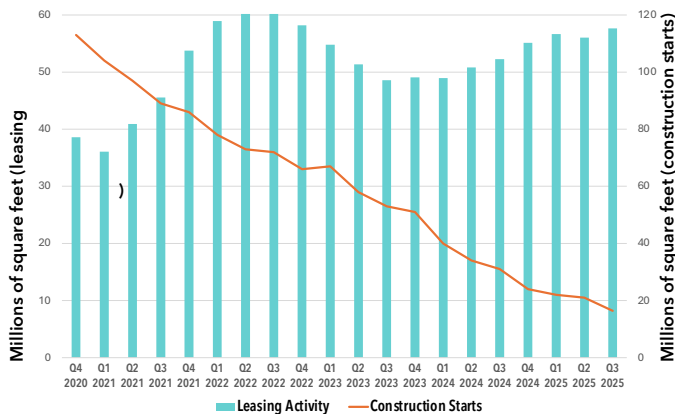
Companies across industries have intensified a push for greater workplace presence to foster engagement and collaboration, as 61 percent of U.S. firms<sup>1</sup> have implemented formal return-to-office (RTO) policies to align with these evolving expectations, including Microsoft, Apple, Boeing, Disney, Starbucks and Amazon. Further, according to CBRE’s 2025 Americas Office Occupier Sentiment Survey, employers have recognized the importance of enticing employees back to the office and are investing heavily in amenity-rich workspaces to support RTO strategies and meet attendance goals.

These trends have resulted in significant office leasing momentum as activity has nearly doubled relative to COVID lows – and not just within well-noted markets like New York and Miami. JLL’s U.S. Office Market Dynamics Q3 2025 report identified that 18 U.S. markets have exceeded prepandemic leasing activity levels, and seven more have returned to over 90 percent of those thresholds, signaling that recovery is playing out across a wide range of cities.<sup>2</sup>

CIM has observed these trends first-hand, as our in-house 16-person property leasing team is experiencing its best office production in recent years. Current leasing run rates indicate the team is on pace to achieve three-year growth rates of 170 percent and more than 70 percent<sup>3</sup> in terms of square footage and number of leasing transactions, respectively.

Further supporting the increased demand is the precipitous decline in office supply. As illustrated in the chart below, construction starts are down more than 85 percent from their most recent peak in Q4 2020.<sup>4</sup> Meanwhile, office deliveries in 2026 are expected to be at their lowest level in 30 years.<sup>5</sup>

Figure 1. Rolling one-year office leasing activity and construction starts



Source: CBRE Research, as of Q3 2025.

We believe this growing demand-supply imbalance supports office valuations, as does the stabilizing interest rate environment. The Federal Reserve’s recent interest rate cuts and forward guidance for modest additional easing have been well-received to date, with the 10-year Treasury rate settling just north of 4 percent as of December 18, 2025.<sup>6</sup> All things being equal, lower and steadier rates may be a stabilizing force for office valuations while also promoting a potential increase in transaction volume.

## Dislocation and Risk-Adjusted Opportunity

Prior to these recent positive trends, the office sector suffered through arguably its most challenging period in history. The onset of COVID supercharged market volatility and uncertainty, compounded by a Federal Reserve tightening cycle historic in magnitude and pace,<sup>7</sup> which ultimately led to a pullback from acquiring sponsors and traditional lenders like banks, mortgage REITs, and the commercial mortgage-backed securities market. Meanwhile, office property valuations declined 30 percent to 40 percent.<sup>8</sup>

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Against today’s fundamental backdrop however, we believe investors now have a historic opportunity to generate income-driven, equity-like returns by investing in senior first mortgage loans secured by quality office properties, as these loans offer: 1) historically attractive yields and conservative structures, and 2) enhanced downside mitigation. Notably, at CIM, we emphasize senior first mortgage loans for their inherent capital preservation attributes, stemming from their priority in the capital structure and security via tangible property collateral.

## Attractive Yield Potential and Conservative Loan Structures

As noted, traditional and private lenders have a sharply reduced appetite for office loans, creating a significant shortage of capital providers. As a result, willing senior first mortgage lenders can command historically attractive spreads of Secured Overnight Financing Rate (SOFR) plus 350 to 450 basis points, equating to all-in, unlevered yields of approximately 8 percent. Meanwhile, these loans are bolstered by more conservative structures: lower loan-to-values (LTVs), higher equity cushions absorbing first loss, and tighter covenants.<sup>9</sup>

Figure 2. Illustrative office loan terms in 2021 vs. 2025<sup>10</sup>

	2021	2025	Change
Spread (bps)	\$ +300	\$ +425	+125
Coupon (unlevered)	3.3%	8.1%	+4.8%
Prevailing LTV	75%	65%	-10%
Equity Cushion	25%	35%	+10%

Further, we believe office spreads/yields and structures are particularly attractive relative to more oversubscribed multifamily and industrial sectors. We observe that office loans currently offer spreads that are 150 to 200 basis points higher, LTVs that are 10 percent lower, and equity cushions that are 10 percent higher.

**Figure 3. Illustrative office, multifamily and industrial loan terms in 2025<sup>10</sup>**

	Office	Multifamily	Industrial
Spread (bps)	\$ +425	\$ +250	\$ + 250
Coupon (unlevered)	8.1%	6.3%	6.3%
Prevailing LTV	65%	75%	75%
Equity Cushion	35%	25%	25%

### Enhanced Downside Mitigation

Importantly, we believe senior first mortgage office lenders are also afforded enhanced credit downside protection given their ability to lend on lower, reset bases due to the aforementioned decline in property values. Put more simply, private lenders now have the potential to make materially smaller loans (30 percent to 40 percent smaller than a few years ago), secured by the same high-quality office properties.

As a hypothetical example, a high-quality office property valued at \$100 million in 2021 is now significantly discounted at about \$67 million. Assuming today's lower prevailing 65 percent LTV, a loan of only about \$43 million (65 percent LTV on a roughly \$67 million property) would be required today. This figure is 42 percent lower compared to the \$75 million loan (75 percent LTV on a \$100 million property) required in 2021. Further, assuming a constant net operating income (NOI) over time (\$6 million in this example), today's loan would be supported by a 13.9 percent debt yield (defined as NOI divided by loan amount, measuring the return a lender may expect if the borrower defaults and foreclosure is required) – about 600 basis points higher than 2021.<sup>10</sup>

**Figure 4. Illustrative office loan terms in 2021 vs. 2025<sup>10</sup>**

	2021	2025	Change
Property value	\$100.0M	\$66.7M	-33%
Prevailing LTV	75%	65%	-10%
Loan Amount	\$75.0M	\$43.3M	-42%
Net operating income	\$6.0M	\$6.0M	
Debt yield	8.0%	13.9%	+5.9%

### Value Considerations Among Office Assets and Locations

It is important to note that, like any investment asset class or sector, office credit should not be painted with one brush. We strongly believe exceptionally attractive risk-return opportunities from a senior lending perspective can be uncovered with a deep understanding of individual submarkets and properties within them. Even assets across the street from one another may exhibit drastically different risk-return dynamics.

At CIM, we continue to examine potential credit investments on class A and B+ office properties in top-tier markets like New York and Miami. At the same time, we leverage our in-house property leasing team to identify less obvious lending opportunities secured by top office assets within other submarkets. Indeed, we believe finding these assets in submarkets like Dallas, Boston and San Francisco, among others, can further enhance potential for attractive spreads/yields as well as conservative structures and strong covenants protecting our loans.

### Advantages of an Experienced Investment Manager

In seeking to exploit the dislocation opportunity in office credit, we believe it is of the utmost importance to partner with an investment manager with significant, cycle-tested senior lending experience as well as a deep and long-standing rolodex of borrower relationships to source and invest in unique and attractive opportunities.

Another key factor in choosing investment management partners wisely, is their ability to leverage in-house, vertically integrated platforms, including development, property management, leasing and capital markets capabilities. Having “boots on the ground” and senior team members involved throughout the investment cycle – in screening, diligence, monitoring and even workouts – can provide the holistic perspective and real-time information necessary to identify and navigate untapped office lending opportunities that generate risk-adjusted returns.

#### Notes

1. “Company's Back-to-Office Strategy” by The Hubble Team, as of 2/6/2025. “U.S. companies push for greater in-office presence to drive engagement, opposing a leading benefit of remote work” by WTW, as of 12/5/2024.
2. JLL U.S. Office Market Dynamics, Q3 2025.
3. CIM Group: Based on YTD activity through August 2025 annualized. No guarantee objectives will be met.
4. CBRE Research, as of Q3 2025. Office leasing activity reflected by rolling 1-year activity.
5. JLL Chronicle, Office Capital Markets, Mid-Year 2025, September 2025.
6. Bloomberg, as of 12/18/2025.
7. Bloomberg, as of 12/18/2025.
8. Green Street Research, as of Q3 2025.
9. CIM Group. No guarantee objectives will be met.
10. Hypothetical illustrations are not indicative of any product. Analysis of representative office property value change, loan credit metrics, and yield components is based on Green Street's nominal cap rate data from the period of 2021 to 2025, as of 12/18/2025. There can be no guarantee these objectives can be executed.

### COMPANY OVERVIEW

**CIM** is a community-focused real estate and infrastructure owner, operator, lender and developer. Since 1994, CIM has sought to create value in projects and positively impact the lives of people in communities across the Americas by delivering more than \$60 billion of essential real estate and infrastructure projects. CIM's diverse team of experts applies its broad knowledge and disciplined approach through hands-on management of real assets from due diligence to operations through disposition. CIM strives to make a meaningful difference in the world by executing key environmental, social and governance (ESG) initiatives and enhancing each community in which it invests. For more information, visit [www.cimgroup.com](http://www.cimgroup.com).

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