RESEARCH BRIEF

Marcus & Millichap
THE VARA GROUP

CRE DISTRESS UPDATE

SEPTEMBER 2025

Will A Wave Of Distressed CRE Come to Market? Recent Data Offers Important Insights

Delinquency is rising, but distress sales are uncommon. While the number of trades of financially or operationally challenged commercial properties has increased since the pandemic, these distressed transactions have not become as prevalent as after the Global Financial Crisis. A considerable slowdown in hiring during late spring and early summer, however, has brought up renewed concerns about distress. One potential indicator is the level of delinquency among CMBS loans.

- The overall CMBS delinquency rate in July 2025 was **7.2 percent**, up from 5.4 percent in July last year.
- However, the rate was still well below the post-Global Financial Crisis peak of **10.3 percent in 2012**.
- Delinquency rates this year are also much more weighted toward only certain property types.
- The office delinquency rate was near **11.0 percent** in July, while the measures for retail, hospitality and multifamily were all in the low-to-high 6 percent band. The delinquency rate for industrial properties was **0.5 percent**.
- Just because a borrower misses a loan payment does not mean a property falls immediately into distress.

Volume of distress takes a step back. Separate from CMBS loan delinquency, Real Capital Analytics estimates the volume of commercial real estate that faces distress in the U.S. Their data indicates that while distress has become more prevalent over the past year, it has recently shown signs of improving.

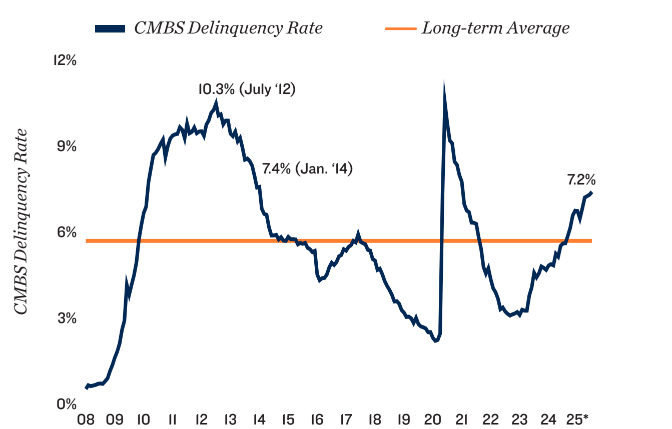
- According to RCA, about **$122 billion** of commercial real estate faced distress at the end of the second quarter.
- That is up about $25 billion from a year ago but **down slightly** from the first quarter of 2025.
- Office properties face the most distress, at **47 percent** of the total, followed by multifamily, retail and hospitality at shares of between 13 and 19 percent. Only **2 percent** of the distress came from industrial properties.

Waiting for distress carries costs. In the first half of 2025, only about 2.6 percent of total trade volume came from distressed sales, on par with 2016 levels. Lender leniency may be helping keep the share of such sales relatively low. Compared to after the Global Financial Crisis, debt capital so far in 2025 has remained generally available, and many lenders continue to offer borrowers in good standing workout options.

- Borrowers have a range of options with rates ranging from about **5.5 percent to around 8.0 percent**, depending on the conditions and location of the asset.
- While investors targeting distressed properties do have some opportunities, they are frequently fringe cases where ample hurdles such as deferred maintenance impact the appeal.
- Capital waiting for the right distressed option **may miss the opportunity** to acquire a higher quality asset at a historically elevated cap rate.

7.2%	*Overall CMBS Delinquency Rate as of July 2025*	$122 Billion	*Value of CRE Facing Distress in 2Q 2025*

CMBS Distress Elevated But Below Historical Highs



*As of July

Sources: Marcus & Millichap Research Services; Moody's Analytics; Real Capital Analytics, Trepp

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