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KCP Insights: Market Enters Final Stretch of 2025

Welcome to the December 2025 issue of KCP Insights. Our newsletter covers the latest in KCP's industry-leading research, analysis, and CMBS news.

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Markets Wrap

The Federal Reserve cut its benchmark rate by 25 basis points (bps) on December 10 in a move that was widely expected by market participants. The path forward remains uncertain, as three officials dissented from the decision—an action rarely taken. Chair Jerome Powell indicated the cut was driven by signs of a weakening labor market. In addition, the Fed announced it will begin expanding its balance sheet this month by purchasing $40 billion in securities, aiming to boost liquidity in short-term funding markets. Looking ahead to 2026, markets broadly expect at least one additional rate cut, with expectations skewed toward two cuts (31.1% probability).

In securitized markets, private label commercial mortgage-backed securities (CMBS) issuance reached $124.7 billion year-to-date (YTD) through December 12, up from $104.7 billion over the same period in 2024. This year has also been an exceptionally strong year for commercial real estate (CRE) collateralized loan obligation (CLO) issuance, which has risen to $30.6 billion YTD from $8.7 billion in 2024.

Expanded Partnership With Intex Solutions

We are pleased to announce further integration with Intex Solutions, bringing KCP's trusted CMBS loan-level analytics directly into INTEXcalc for mutual subscribers. Enhanced data includes multiple valuations, loss projections, underwriting assumptions, and analyst commentary.

KBRA Loan of Concern (K-LOC) Index

K-LOC Index 27.02% ↑ | **K-LOC Count** 3,221 ↓ | **K-LOC Balance** $82.78 Billion ↓

The KBRA Loan of Concern (K-LOC) Index, KCP's primary metric to measure stress in the CMBS conduit market, increased to 27.02% in October 2025 from 26.96% in September 2025. We identified 80 new loans as K-LOCs with an unpaid principal balance (UPB) of $1.5 billion.

The K-LOC designation identifies loans that are in default or at heightened risk of default, based on KCP's proprietary research and analysis.

175 West Jackson Sale Sharpens Focus on Chicago's Investment Climate

Chicago's office market continues to be challenged by asset value deterioration and elevated vacancy. Weighted average KBRA loan-to-values (KLTV) have nearly tripled from pre-pandemic levels to over 170%, and 77% of Chicago office loans by balance are classified as K-LOCs, underscoring the heightened risk of default. While Q3 2025 vacancy increased to 26.6% from 25.6% year-over-year, market conditions may be nearing an inflection point as sublease availability fell to a four-year low, according to Cushman & Wakefield, signaling a potential deceleration in vacancy rates. In addition, city-led initiatives such as LaSalle Street Reimagined and other incentive-supported programs are helping transition older, noncompetitive buildings into residential or mixed-use properties that align better with current demand.

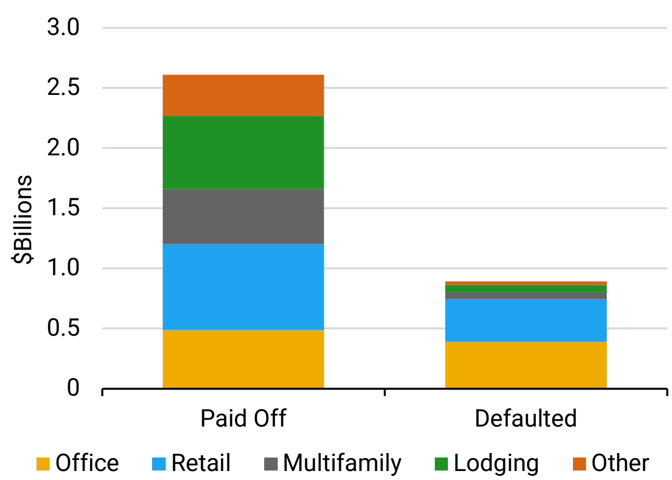
175 West Jackson illustrates the depth of distress in the Central Loop submarket as an imminent sale appears poised to clear at a steep discount. Despite $17.5 million in capital investment completed by 2021, performance has not rebounded at the 1.45 million sf tower. Occupancy slid to 53% as of June 2025 from 92% at origination. The loan has remained in special servicing since late 2021, and further rollover risk looms as Wolverine Trading (6%) plans to vacate and additional tenants downsize. Reports indicate that 601W Companies—the New York-based owner of Chicago's Old Post Office and Aon Center—is in active discussions to acquire the property, potentially at a price below recent appraisals, which have been cut 75% since issuance to $84 million ($58/sf) as of November 2024. Valuation updates elsewhere offer a clear benchmark for the possible outcome at 175 West Jackson. At 111 West Jackson, a June 2025 appraisal reduced its value to $25.3 million ($44/sf), an 84% drop from issuance. The 1.3 million sf tower at 135 South LaSalle experienced an 87% cut to $44.5 million ($34/sf) in November 2024. That building was recently approved for $98 million in tax increment financing (TIF) funding through LaSalle Street Reimagined, with current proposals calling for roughly one-half of the building to be converted to residential and retail use.

KCP Releases Inaugural Monthly Payoff Report for November 2025

Our new conduit-focused monthly report analyzes loans with scheduled maturities in the reporting month, providing top-line and property type-specific payoff and maturity default rates. We also stratify early and late payoffs and provide insight into the volume and composition of upcoming maturities. KCP subscribers can access our first report and read more about our methodology here.

In November 2025, 259 non-defeased loans ($3.5 billion) matured, of which 25.47% (47 loans; $891.8 million) by UPB defaulted at maturity. The default rate for loans collateralized by office was 44.33%, followed by retail (33.32%), multifamily (10.19%), and lodging (9.56%). The paid off cohort comprises 212 loans ($2.61 billion) with November maturities, including 91 ($1.16 billion) that paid off ahead of schedule.

Payoffs and Defaults at Scheduled Maturity in November 2025



Source: KBRA Credit Profile (KCP)

Ashford Initiates Strategic Review

Ashford Hospitality Trust (AHT) announced in December that its board has formed a special committee to evaluate strategic alternatives, including a potential sale of the company. The Dallas-based lodging real estate investment trust (REIT), which holds ownership interests in approximately 70 hotels comprising over 17,000 rooms, noted that its equity valuation continues to trail underlying real estate values despite recent efforts to improve adjusted earnings, sell select assets, and reduce leverage.

KCP identified 74 properties—$2.4 billion by allocated loan amount (ALA)—collateralizing nine loans in eight CMBS transactions that have exposure to AHT. KCP subscribers can access that list here.

Recent Credit Alerts

Queens Retail Center Under Contract

The collateral securing The Shops at Skyview Center loan (BX 2021-VIEW) is reportedly under contract to sell for approximately $450 million ($830/sf) to a joint venture between TPG Real Estate and Acadia Realty Trust. The 509,500 sf collateral portion is part of a larger 687,000 sf mixed-use complex in Flushing, New York, and was marketed for sale by Newmark earlier this year.

Retail Tenant Ceases Operations at Missouri Industrial

Home Depot, the largest tenant at the Central Missouri Distribution Center (BMARK 2021-B23), has physically vacated its 600,000 sf space ahead of its October 2027 lease expiration. Without a replacement tenant, economic occupancy will fall to just 33%.

West Coast Florida Beach Resort Reno

Per KCP research, the 474-key, full-service Naples Grande Beach Resort (DBJPM 2016- C1, JPMBB 2016-C1, JPMDB 2016-C2) is expected to undergo a comprehensive propertywide renovation in 2026. The renovation is scheduled to begin in April 2026 and run through December, during which time the resort will be temporarily closed.

Previous Newsletters

- KCP Insights: U.S. Job Growth Tops Forecasts
- KCP Insights: CPI Reading Reinforces Rate Cut Expectations
- KCP Insights: Yields Decline as Markets Bet on Fed Cuts
- KCP Insights: Issuance Gains Momentum Despite Fiscal Uncertainty
- KCP Insights: Issuance Slows Amid Market Volatility
- KCP Insights: Seattle Office Drives MSA Distress Rate Higher