

Select Opportunities in CMBS Amid Broader Challenges

This report is excerpted from the Fourth Quarter 2025 Fixed-Income Sector Views.

Multifamily opportunities screen favorably, while office markets remain under duress.

Senior CMBS spreads rallied in the third quarter, with AAA CMBS yields falling below 5 percent for the first time this year. Robust demand for higher quality, investment-grade structured credit supported the sector, even as year-to-date issuance increased by 50 percent. AAA spreads tightened by 5-10 basis points, in line with investment-grade corporate bonds of similar duration. Security selection remains critical, as properties facing secular challenges are likely to struggle despite the tailwind of lower mortgage rates.

Sector Commentary

- Historical data suggests that lower interest rates alone are unlikely to significantly enhance commercial real estate (CRE) values, challenging traditional assumptions about the relationship between borrowing costs and asset performance.
- A JPMorgan study analyzing data since 1999 reveals a negative correlation between cap rate spreads and 10-year Treasury yields, indicating that declining borrowing costs have been offset by widening cap rate spreads historically.
- Property fundamentals remain a key determinant of valuation. Multifamily and industrial assets in resilient markets better positioned for refinancing amid current market conditions, while office properties in weaker markets continue to face significant refinancing challenges.
- The divergence in refinancing outcomes underscores the importance of sector and geographic resilience in navigating the current CRE landscape.

Investment Themes

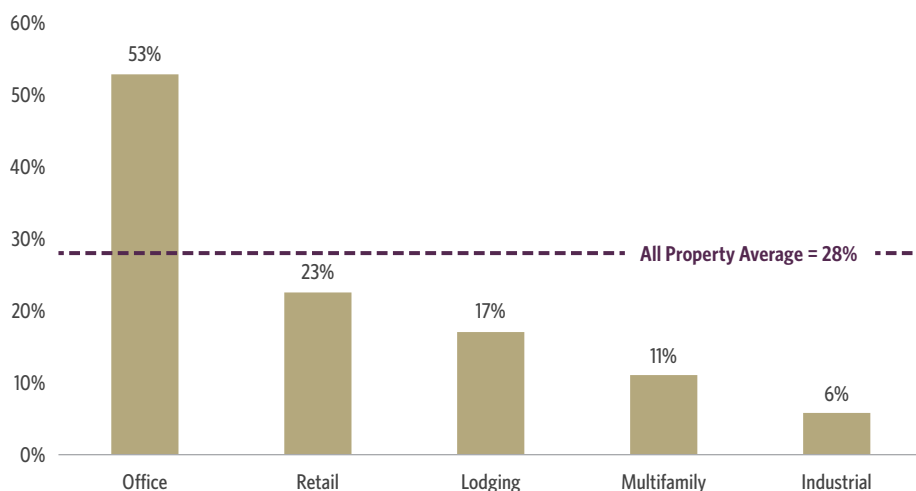
- Credit selection remains critical in the CMBS market, as certain segments, such as single asset/single borrower (SASB) bonds backed by office properties, face mounting losses, even on originally AAA-rated securities.
- Multifamily CMBS in supply-constrained markets with strong absorption rates offer attractive opportunities with higher returns relative to more liquid corporate bonds, and resilience to interest rate fluctuations, supporting steady performance.
- For CMBS backed by other property types, senior securities with strong sponsors and favorable credit attributes are preferred. In the data center sector, bonds with long-term leases to investment-grade tenants and scalable green energy access offer compelling spreads of 75-100 basis points over comparable corporate bonds, compensating for structural and liquidity risks.

By Tom Nash and Hongli Yang

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Office Underperforms, Multifamily and Industrial Outperform Average

% of Conduit Loans Due to Pay Off in 2025 That Did Not Refinance on Time



Source: Guggenheim Investments, JPMorgan, Trepp. Data as of 9.30.2025.

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