JULY 2025

CBRE

The Debt Monitor

Chartbook

CBRE Capital Markets

Key Credit Themes- Review & Preview

MBA Commercial/Multifamily Mortgage Debt Q1 2025 Report Shows More Resilience. The MBA Q1 2025 Report highlighted continued growth in outstanding mortgage debt, up $47 billion, or 1%, to $4.81 trillion, driven by continued demand for commercial and multifamily debt from banks, GSEs and life insurance companies. The report also noted stable loan performance and manageable default rates, indicating resilient mortgage debt markets despite recent economic uncertainties. Commercial banks continue to grow the amount of commercial and MF mortgage debt they hold, however, on relative terms their share of debt held has fallen by 50 bps to 37.7% over the past year. Meanwhile CMBS, CDO and ABS investors have increased their share by a like amount to 13.3% as the structured market is funding more CRE debt refinancings. Overall, the report underscores ongoing confidence in commercial real estate with modest risk levels and steady lending activity supporting future growth.

Short-term Funding Rates Expected to Edge Upward With Higher T-Bill Issuance During H2 2025. CRE borrowers could face some near-term headwinds with the passage of the “Big Beautiful Bill” (BBB) in the form of potentially higher funding rates in the short-term lending market. The BBB, which suspends the debt ceiling, will allow the Treasury to increase its T-bill supply so that it can replenish its cash balance in the Treasury General Account. Most expect upwards of ~$600 billion of T-bill issuance by the end of August and up to $800 billion by the end of the year. The futures market is currently pricing in a minimum 5-bp bump in the SOFR rate for September 2025 and upwards of 10 bps by the end of November 2025 based on SOFR’s basis spread above the Fed Funds rate.

CRE Bond Volatility Goes On Holiday While Bond Vigilantes Remain Bearish. CRE debt volatility continues to trend lower, following the lead of Treasury Debt volatility indices, “MOVE,” and “VXTLT.” Volatility levels (30D annualized) for REITs, CMBS, and leveraged loans recently dipped below their long-term medians of ~2% - 4% extending a period of complacency following their vol spike in April. CRE debt volatility levels doubled in most credit strategies during April and have steadily retreated over the past couple of months. This decline in volatility portends market expectations for more stable yields and narrower spreads in some CRE credit strategies. Despite the extreme net short position in the 10-year Treasury Note, tail-risk could reappear if a market dislocation triggers leveraged funds to unwind their massive net-short futures contracts position. This is the second time since last August their bearish stance against the 10-year T-Note has risen above 2.0 million futures contracts, marking a double-bottom in net short positioning by Leveraged Fund managers (see attached chart).

CRE Credit Strategies Delivered Positive H1 2025 Returns, Ahead of U.S. Corporate Debt Benchmarks. With the first half of 2025 in the books, it merits noting CRE debt returns are running ahead of their U.S. corporate debt benchmarks. Total returns for I-Grade REITs and AAA CMBS are up +4.45% and +4.18% through June, respectively, which are ahead of U.S. I-Grade Corporate’s total return of +3.86%. Total returns for High-Yield REITs and BBB CMBS are up +7.66% and +5.03%, respectively, ahead of U.S. High-Yield Corporate’s total return of +5.03%. What makes this more noteworthy is annualized volatility for each CRE credit strategy is trading below their long-term medians and trailing their corporate benchmarks despite the material spike in bond volatility that occurred during April.

CRE DEBT STRATEGY	PRICING SPREADS		NEW DEBT ISSUANCE	
I-Grade REITs	**Spreads end June at 84 bps; Tighter by 6 bps M-o-M**	**Spreads:** IG REIT spreads tightened as 'risk-on' momentum continued. Spreads ended June at 84 bps, down 6 bps from May. **Relative Spreads:** IG REITs are trading on top of IG Corps, by a smidge, ~1 bps, which is below the 5-year average of +12 bps, placing some limits on any material tightening on a relative basis in the near term. **Outlook:** With REIT I-Grade spreads at or near their tightest levels in the past 2-3 years, outperformance appears limited with new REIT debt issues pricing wide of the secondary market, 106 bps for new REIT issues compared to 84 bps in the secondary market. Secondary spreads may fluctuate depending on how REITs use their financial flexibility to reduce leverage and/or buy back stock.	**New issuance during June topped $11.4 billion; Up $3 billion+ M-o-M**	**Volume:** New REIT debt offerings continued to grow in June with over $11.1 billion of REIT paper priced, improving on May's volume of $7.7 billion. Over $8.1 billion of REIT bonds priced at an average spread of 106 bps, tighter by 8 bps from May's new issues. New REIT loans priced totaled $2.9 billion at 131 bps over SOFR, which was a little wider than last month's average new issue margin over SOFR of 93 bps. The wider pricing was due to several 'Mixed-Use' REIT loans funded at 120-250 bps margins. **Calendar:** Capital remains readily available for most property sector REITs but offset by higher funding costs. Although narrow spreads have alleviated some of the impact from higher coupons, until REIT deal flow gains steam from earlier this year, most of the calendar will be centered on REIT-refi deals to meet the $31 billion in maturities over the next year.
Private Label CMBS	**Conduit 'AAA' CMBS Spreads end June at 97 bps; Tighter by 6 bps M-o-M**	**Spreads:** AAA CMBS loan spreads ended June at 97 bps, tighter by 6 bps, below their 5-year median of ~110 bps. BBB-rated CMBS spreads also retreated by 24 bps to 660 bps. **Relative Spreads:** AAA CMBS spreads relative to IG Corps remain wide, +14 bps at end of June, making them still relatively attractive compared to their historical spread average of -7 bps to IG Corps. **Outlook:** Private Label CMBS remains attractive relative to corporates, especially at the AAA level. CMBS investors continue to add to positions offering better relative value while trimming exposure with lower risk/reward ratios by moving higher in the capital stack.	**Private Label issuance slipped to $9.2 billion in June; Down $5 billion M-o-M**	**Volume:** Private-label CMBS issuance took a breather in June, slipping to $9.2 billion from $14.9 billion in May, driven by smaller deal size, on average. CMBS issuers remain active, with 15 deals priced in June (vs. 18 in May) and July's new issue activity looks to remain steady, at ~$9 billion, given preliminary 15G filings. **Cap Rates:** New issue cap rates for SASB deals fell again during June, averaging 5.5% or 90 bps below May. This is largely due to a higher quality deal mix with new issue Industrial and multifamily cap rates averaging 5.71% and 5.13%, respectively. **Calendar:** Issuance volume will remain active due to the $60 - $150 billion of refinancing demand in private label over the next few quarters.
FHLMC/FNMA Multifamily CMBS	**Spreads end June at 38 bps; Tighter by 1 bps M-o-M**	**Spreads:** Pricing remained flattish during June ending the month at 38 bps. **Relative Spreads:** Freddie K0 spreads ended June 1 bp below RMBS spreads. Historically, Freddie K0s have traded +1 to +8 bps over Agency RMBS spreads. **Outlook:** With Freddie K spreads still trading tight relative to historical norms, spreads should ease a little as new issues are pricing wide at 50/55 bps.	**Freddie Mac Issuance edges lower to $2.9 billion; Down 6% M-o-M**	**Volume:** Freddie Mac K0s CMBS issuance edged lower in June to $2.6 billion from $2.8 billion of loans priced in May as investor demand continued to favor Private Label. **Cap Rates:** New issue cap rates ended June at 5.2%, about flat for the month.. Average value/unit moved higher to $192,000, up from $151,000 in May. **Calendar:** Near-term supply in Agency CMBS looks favorable with expectations for another >$2.5 billion of Freddie Mac pricings in July per active 15G filings and $2.3 billion of fund flows into CRE debt ETFs during June. Another decline in multifamily delinquencies, down 34 bps to 3.79% in June, should add further tailwinds.

CRE DEBT STRATEGY	PRICING SPREADS		NEW DEBT ISSUANCE	
Private Credit / Direct Lending	**Deal Spreads averaged 462 bps in June; Tighter by 46 bps M-o-M**	**Deal Spreads:** Direct Lending deal spreads fell during June, down 46 bps to 462 bps, continuing a downward trend since January when deal spreads averaged 575 bps. On a year-to-date basis, deal spreads are averaging 523 bps as direct lenders and sponsors remain competitive to allocate dry powder especially after the recent slowdown in the credit markets and some tariff impacts on funding rates remain. **Relative Deal Yields:** New deal yields also slid during June, averaging 8.43%, down 92 bps from 9.35% in May. New deal yields have fallen 143 bps since January and are below the YTD average of 9.30%. Private credit deal yields relative to Leverage Loan yields tightened to 43 bps from 107 bps in May. Private credit yields still fall short of the 150 bps - 200 bps premium to Leveraged Loans yields most institutional investors target for direct lending yields to compensate for lost liquidity compared to more liquid credit markets in leveraged loans.	**Direct Lending Volume moves higher to $9.7 billion in June; Up 15% M-o-M**	**Volume:** Direct lending volume rose to $9.7 billion during June, up 15% from May's $8.4 billion loan volume. Higher volume in June reflects a higher average deal size of $1.1 billion ($840 million in May) as the number of deals priced has held steady at around 9 – 11 new deals each month (9 priced in June). **Calendar:** Private credit volumes are expected to continue growing near-term largely from new credit fund launches (10 in the past couple of months and over 35 are expected within the next 12 months). Sustained fund raising by private credit funds, at $22 billion YTD, is also a key tailwind. Near-term volume growth could be tempered, though, by cautious sentiment surrounding slower economic activity and elevated defaults in the private credit market, which have been averaging 4-5% YTD.

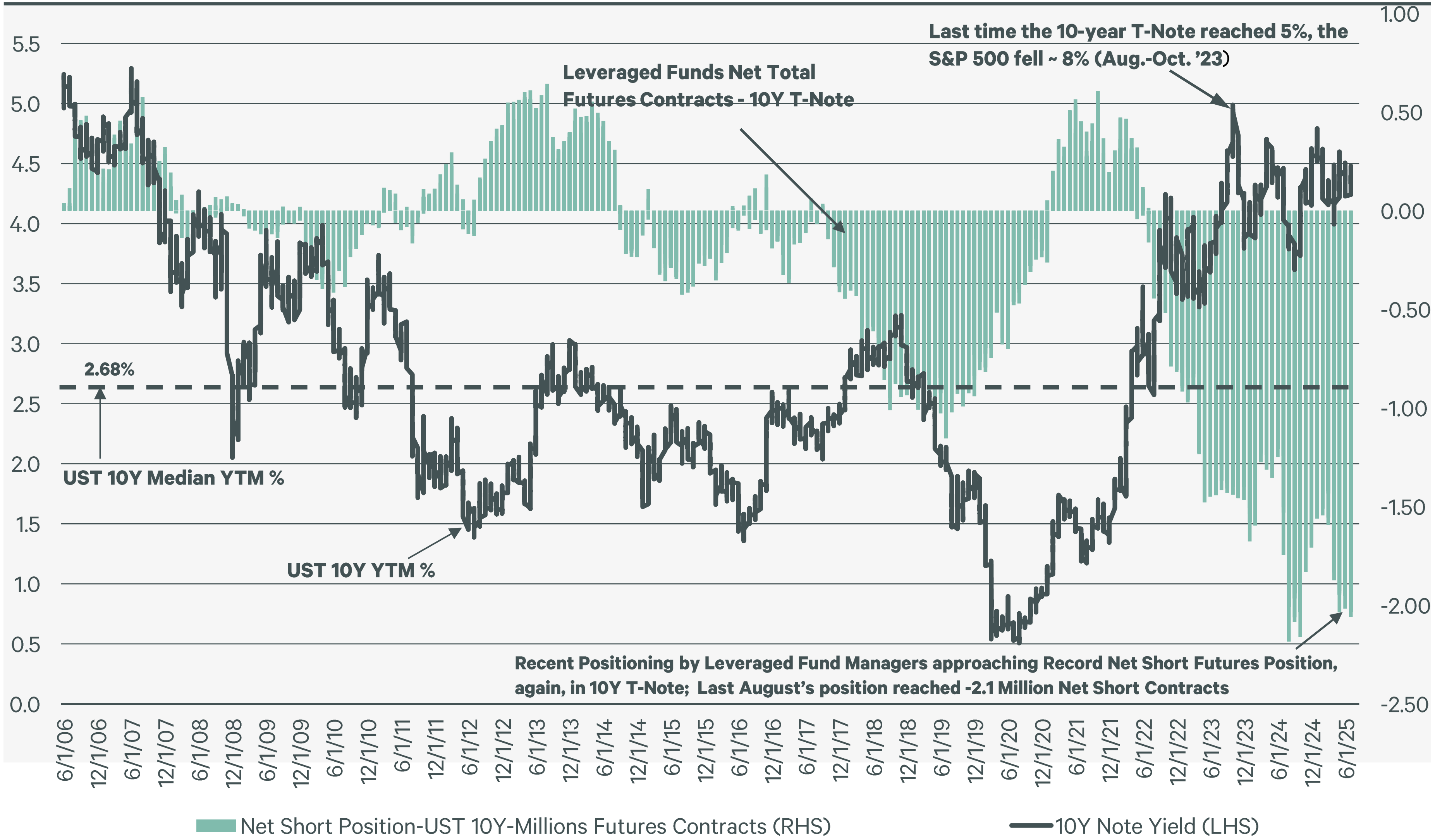
CRE Debt - Treasury Debt Spread, Year-to-Date Monthly Summary (bps):

CRE DEBT STRATEGY	JUN '25	MAY '25	APR '25	MAR '25	FEB '25	JAN '25	DEC '24
I-Grade REITs	84.9	90.5	113.7	98.0	87.4	81.4	82.2
AAA CMBS	97.2	103.6	115.8	106.1	95.8	90.8	92.2
FHLMC/FNMA Multifamily CMBS	38.0	38.7	44.6	38.6	34.7	33.0	36.0
Private Credit/Direct Lending	462.5	508.0	515.6	525.0	573.2	575.0	548.8

Net Short Futures Contract Positioning in the 10-Year T-Note at Record Levels, again..

- Leveraged Funds' Net Total Futures Contract position is approaching a near-record level, again, at 2.1 million net-short futures contracts in the 10-year Treasury Note.
- Besides the ongoing Treasury cash-futures basis trade, this extended net short positioning also implies hedge funds are making more directional bets against rising T-Note prices. The trade thesis behind adding to net short positions includes higher inflation expectations, new deficit funding requirements and the potential for accelerated selling by foreign holders of the 10-year.
- This is the second time since last August that the net short position in the U.S. 10-year note rose above -2 MM futures contracts, marking a double-bottom in net short positioning by Leveraged Funds.
- With implied vol higher than actual volatility, the bond market is anticipating greater price fluctuations in the near-term.

Net Total Futures Contracts (Long + Short) Held by Leveraged Funds Managers & 10-year Treasury Yield:



Source: CFTC

Thank you.

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