



VIEWPOINT

From Rates to Risk:

CMBS Trends Every CRE
Investor Should Understand

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The Commercial Mortgage-Backed Securities (CMBS) market has long served as a vital source of liquidity for the commercial real estate industry, offering a mechanism for lenders to package and sell loans via bonds packaged within a pool to a broad base of investors. The CMBS market provides critical capital for property acquisitions and refinancing across all asset types. As a barometer for the health of the broader CRE landscape, the CMBS market provides insight into both investor confidence and underlying property performance. As 2025 draws to a close, we have observed a confluence of unique factors shaping new trends and presenting fresh challenges for participants.

Here, we examine the key forces influencing the CMBS market today. We explore how macroeconomic pressures, an evolving rate environment and shifting fundamentals in the office and retail sectors are impacting bond pricing and issuance. Notably, the Federal Reserve has recently announced two quarter-point rate cuts, providing some encouragement for tighter credit spreads and improved risk sentiment. Markets are pricing in one additional rate cut before year-end, as well.

This improvement in financing conditions has coincided with a meaningful pickup in primary market activity. Since Labor Day, the CMBS new-issue market has accelerated, with \$13.6 billion pricing during September. Through the first nine months of the year, U.S. CMBS issuance, according to Green Street, has reached \$92.3 billion – up about 27% from the same time one year ago – and full-year volume is tracking toward \$120 billion, compared with \$106 billion in 2024.

Amid these macro shifts, a significant focus is on the unexpected ripple effects of recent federal lease terminations, which have introduced a new layer of risk and volatility into securities once considered stable. For commercial real estate investors, understanding these interconnected trends is essential for navigating the current market, identifying potential opportunities and managing portfolio risk effectively.

The CMBS market in 2025 is being reshaped by a combination of broad economic forces and specific, event-driven risks.”

David Blum
Managing Director

What is CMBS?

Before diving into the market forces at play, it's helpful to understand the fundamentals of Commercial Mortgage-Backed Securities. So, what is CMBS? In simple terms, CMBS are a type of bond secured by the loans on commercial or multifamily properties. The process begins when lenders, such as banks or other financial institutions, originate mortgages for commercial properties such as office buildings, shopping centers or industrial warehouses.

Instead of holding these loans on their own balance sheets, the lenders pool them together and sell them to a trust. This trust then issues a series of bonds of varying risk and return profiles, which are sold to investors on the open market. The payments made by the property owners on their original mortgages flow through the trust to the bondholders. The senior most bond ("AAA") receives principal payments first and the junior most bonds receive principal last. Any losses are allocated in the reverse order according to trust documents. This structure provides essential liquidity to the commercial real estate market, transferring risk to third party bond investors, and allows lenders to originate more loans with different risk characteristics and manage their "on book" loan exposure.

Macroeconomic Pressures and CMBS Performance

The performance of the Commercial Mortgage-Backed Securities market is intrinsically linked to broader economic conditions. CMBS is a part of the overall fixed income market where investors consider all varieties of investments including residential mortgage-backed securities, asset-backed securities and other instruments. In 2025, a mix of persistent inflation, fluctuating interest rates and general economic uncertainty has created a challenging environment for both issuers, including loan originators, and investors. These macroeconomic pressures directly influence everything from loan origination and underwriting standards to bond pricing and overall market liquidity. As the cost of capital has been elevated, fewer commercial real estate transactions were penciling out during this recent cycle.

An important indicator of market activity is the current disparity between interest rates and capitalization (cap) rates which reflect property value. Interest rates are anticipated to come down and CMBS credit spreads have been stable and tightening throughout much of this year, versus historic levels, providing an overall reduction in borrowing costs. Cap rates, however, have not reached a level sufficient to encourage robust property sales – at least not just yet. Once this occurs, market participants anticipate a significant uptick in property sales and trading activity, creating increased demand for all commercial real estate mortgage debt, including CMBS.

Economic uncertainty affects the underlying performance of the commercial properties that serve as collateral for CMBS loans. Concerns about a potential economic slowdown can dampen tenant demand, increase vacancy rates and limit rent growth, particularly in vulnerable sectors like office and retail. This directly impacts a property's net operating income and its ability to service debt, raising the risk of delinquencies and defaults within CMBS pools. As a result, CMBS investor sentiment has been more cautious, with market participants placing a greater emphasis on the quality of underlying assets and the strength of the borrowers.



Federal Lease Terminations and CMBS Risk

The stability of the CMBS market relies heavily on the predictable performance of its underlying collateral. The widespread federal lease terminations in 2025 introduced a significant shock to this system, directly impacting securities backed by affected properties. This event forced a market-wide repricing of risk for a tenant class that was previously considered one of the safest. The most immediate effect was felt in the pricing of CMBS bonds with exposure to these leases.

Recent research shows that first-loss CMBS bond tranches directly backed by properties that received an early termination option (ETO) notification experienced a price decline of 3.8%. This immediate drop in value reflects investors' concerns about the sudden loss of rental income and the long-term viability of the underlying properties. When a primary government tenant vacates, the property's ability to generate cash flow to cover its debt service is thrown into question. This uncertainty leads to higher perceived risk and, consequently, lower bond prices.

Beyond immediate price adjustments, these terminations have broader implications for CMBS risk. The sudden vacancies can lead to increased delinquency rates within affected CMBS pools, as property owners may struggle to meet their mortgage payments without a primary tenant. Furthermore, research uncovered significant negative spillover effects. Nearby properties with non-federal tenants also experienced a decline in net operating income, which can weaken the financial performance of other loans within the same CMBS pool or geographic area. For investors, this event serves as a critical lesson: tenant creditworthiness alone is not a guarantee of stability. Lease terms, particularly clauses like ETOs, and the potential for policy-driven market shocks must now be a central part of any robust risk assessment for CMBS investments.

At the same time, emerging return-to-office mandates are providing a partial counterbalance. As more employers formalize in-office requirements – either through hybrid schedules or designated anchor days – select submarkets are seeing incremental absorption that helps stabilize occupancy usage and underwritten cash flows. While this momentum is uneven and highly market-specific, increased physical utilization of office space can support rent roll durability, reduce rollover risk and improve financing outcomes for assets with diversified tenant bases. For CMBS pools, even modest improvements in office demand can help mitigate delinquency pressures at the margin, particularly where properties benefit from essential-service tenants and long remaining lease terms.





Adapting to a Changing CMBS Landscape

The Commercial Mortgage-Backed Securities market in 2025 is being reshaped by a combination of broad economic forces and specific, event-driven risks. Macroeconomic pressures, including interest rate volatility and economic uncertainty, continue to influence bond pricing and issuance volumes, demanding a cautious approach from investors. The recent wave of federal lease terminations has added another layer of complexity, demonstrating how policy decisions can introduce significant, previously underpriced risks into CMBS pools. This event has served as a critical reminder that even assets with highly rated tenants are not immune to market adjustments.

For investors, navigating this environment requires a more dynamic and sophisticated strategy. The key is to look beyond surface-level metrics and conduct deeper due diligence on the underlying collateral, lease terms and tenant vulnerabilities. By understanding the interplay between macroeconomic trends and asset-specific risks, investors can better identify mispriced securities and position their portfolios for resilience. While challenges remain, the evolving landscape also presents opportunities for those who can adapt their analytical frameworks to account for these new market realities. A proactive, informed approach will be essential for success in the changing world of CMBS.



For more information please contact:

David Blum | *Managing Director*
dblum@northmarq.com | (949) 717-5215

Lanie Beck | *Senior Director, Content and Marketing Research*
lbeck@northmarq.com | (918) 494-2690

Bianca Farrington | *Content Marketing Manager*
bfarrington@northmarq.com | (972) 637-2159

Northmarq

3500 American Blvd W | Suite 500
Minneapolis, MN 55431
(952) 356-0100
www.northmarq.com