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KCP Insights: Inflation Pressures Keep Treasury Yields Elevated

Welcome to the October 2026 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

U.S. Treasury yields remained elevated over the past month amid persistent inflationary pressures, geopolitical uncertainty, and expectations that monetary policy will remain restrictive. The 10-year Treasury yield briefly surpassed 5.30% earlier in the month. Inflation concerns intensified following the September Consumer Price Index (CPI) report, which showed headline inflation rising to 3.7% year-over-year (YoY), up from 3.4% in August, largely driven by rising energy prices associated with ongoing tensions in the Middle East. According to [CME FedWatch](#), markets are pricing in a 74% probability of another rate hike in 2026.

In securitized markets, year-to-date (YTD) private label commercial mortgage-backed securities (CMBS) issuance through October 16 reached \$108.1 billion, ahead of the \$99.7 billion recorded over the same period last year. Commercial real estate (CRE) collateralized loan obligation (CLO) issuance also remains active, reaching \$38 billion YTD, up from \$23.1 billion over the same period in 2025.

KBRA Loan of Concern (K-LOC) Index

K-LOC Index 27.29% ↑ | **K-LOC Count 3,126 ↓** | **K-LOC Balance \$81.40 Billion ↓**

The [KBRA Loan of Concern \(K-LOC\) Index](#), KCP's primary metric to measure stress in the CMBS conduit market, increased to 27.29% in August 2026 from 27.24% in July 2026. We identified 70 new loans as K-LOCs with an unpaid principal balance (UPB) of \$1.40 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.



Bridge & Tunnel Vision—Multifamily Performance in NYC’s Outer Boroughs

New York City’s outer-borough multifamily market continues to benefit from strong renter demand, high occupancy, and positive rent growth. Occupancy across the broader New York market stood at 97.4% in Q2 2026, while effective rents increased 3.2% over the trailing four quarters, according to Colliers. Despite these favorable market conditions, KCP has observed a modest uptick in distress across outer-borough multifamily loans. While K-LOC, delinquency, and special servicing rates remain relatively low compared to the broader CMBS market, the upward trend warrants monitoring as higher operating costs continue to pressure property cash flows, particularly for loans underwritten with limited margin for error.

KCP analyzed 216 non-agency CMBS loans securitized from 2022 to 2026, totaling \$4.11 billion and secured by multifamily properties across New York City’s outer boroughs. The analysis compared originator-underwritten occupancy, revenue, expenses, NCF, DSCR, and DY with the latest available 12-month financials.

At issuance, the cohort had a weighted average (WA) underwritten occupancy of 94.1%, DSCR (NCF) of 1.37, and DY (NCF) of 8.5%. Based on the most recent available financials, occupancy increased to 96.5%, while property revenue ticked up 2.8% relative to underwritten levels. However, operating expenses increased 31.3%, significantly outpacing revenue growth and contributing to a 2.4% decline in NCF. Consequently, the WA DSCR declined to 1.27 from 1.37 at issuance, while DY edged down to 8.4% from 8.5%.

Loans accounting for 4.5% of the cohort by current balance were identified as K-LOCs as of August 2026, while delinquency and special servicing rates stood at 3% and 1%, respectively. However, the upward trend in distress warrants attention, particularly as most loans in the cohort have yet to reach their scheduled maturity dates and may face refinancing challenges amid the current interest rate environment.

Payoff and Default Rates: September 2026

In September 2026, 134 non-defeased loans (\$2.56 billion) matured, of which 64.09% (94 loans; \$1.64 billion) by UPB paid off. This cohort includes 45 loans (\$1.01 billion) that were paid off ahead of schedule. Meanwhile, 35.91% (40 loans; \$920.3 million) defaulted at maturity, including loans that were already in payment default or special servicing. Among major property types, office had the highest maturity default rate of 57.68%, followed by lodging (23.75%), retail (8.31%), and multifamily (4.27%).

A total of \$41.46 billion (2,258 loans) is scheduled to mature over the next 12 months. More than one-half of the maturing balance comprises office (29.22%) and retail (24.52%) loans.

Hurricane Isaias Threatens Northern Gulf Coast

Hurricane Isaias made landfall on October 9 as a Category 2 hurricane with 105 mph winds. KCP identified 462 properties collateralizing 305 loans—\$4.65 billion by allocated loan amount (ALA)—across 274 CMBS securitizations located in counties subject to state or local emergency declarations related to the hurricane. KCP subscribers can access the list [here](#).

Recent Credit Alerts

Blackjack Portfolio Busts at Maturity, Transfers to Special

The \$517.7 million [Blackjack Portfolio](#) loan ([BX 2021-21M](#)) transferred to special servicing in October, with special servicer commentary indicating that a three-month forbearance agreement was finalized to provide additional time to complete pending asset sales. The remaining collateral comprises six multifamily properties totaling 1,842 units following the release of Lakeside Villas, which resulted in a \$51.6 million principal curtailment this month. At issuance, the portfolio comprised 21 multifamily properties totaling 6,671 units.



Sony Weighs Relocation From 11 Madison Avenue

Sony Corporation of America (25% of GLA), the second largest tenant at [11 Madison Avenue \(MAD 2025-11MD\)](#), is reportedly in negotiations with Tishman Speyer to relocate its U.S. headquarters from its current 578,791 sf space to the proposed 99 Hudson Boulevard office development in Hudson Yards. The proposed 1.2 million sf development is expected to be ready for occupancy around 2030, with Sony reportedly considering the relocation partly due to its inability to expand at its current location. Although no agreement has been finalized, a potential departure would heighten refinancing credit risk, as Sony's lease expires approximately three months after the \$1.4 billion loan's October 2030 maturity.

JPMorgan Chase to Sublease Space at 2400 Market

JPMorgan Chase has agreed to sublease approximately 62,000 sf (10% of GLA) at [2400 Market \(COMM 2021-2400\)](#), a 592,476 sf, Class A office and retail property in Philadelphia securing a \$205.4 million loan. JPMorgan will occupy the fifth floor, currently leased by Aramark (50%), the property's largest tenant, which plans to consolidate its operations on its remaining four floors. JPMorgan expects to relocate more than 250 employees from One Liberty Place and [1735 Market Street \(DBGS 2019-1735\)](#).

For past alerts, visit KCP's research portal [here](#).

Previous Newsletters

- [KCP Insights: 10-Year Treasury Tops 5%](#)
- [KCP Insights: CMBS Resolutions Lean on Assumptions](#)
- [KCP Insights: Rates Spike on Oil Shock](#)
- [KCP Insights: Cautious Fed, Shifting CRE, and Retail Fallout](#)
- [KCP Insights: Retail Closures and Chapter 11 Bankruptcies](#)
- [KCP Insights: Market Enters Final Stretch of 2025](#)

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