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KCP Insights: Higher Energy Costs Drive Higher-for-Longer Rate Expectations

Welcome to the July 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

Energy prices and inflation remained the primary macroeconomic drivers as the conflict in the Middle East enters its third month, disrupting global oil supplies and contributing to higher energy costs. Headline Consumer Price Index (CPI) accelerated at its fastest annual pace in more than three years, largely reflecting volatility in the energy component. Against this backdrop, the Federal Reserve held steady at a 3.50%-3.75% target at its July meeting. Combined with a resilient labor market and equity markets remaining near record highs, current economic conditions provide limited justification for near-term interest rate cuts. According to CME FedWatch, markets are pricing in a mere 9% probability of an unchanged benchmark rate through December 2026, and a 91% chance of an increase of at least 25 basis points (bps).

In securitized markets, private label commercial mortgage-backed securities (CMBS) issuance year-to-date (YTD) through July 17 reached $75.1 billion, outpacing the $66.8 billion at this point in 2025. Meanwhile, commercial real estate (CRE) collateralized loan obligation (CLO) issuance remains active, reaching $26.1 billion YTD, up from $18.2 billion over the same period in 2025.

KBRA Loan of Concern (K-LOC) Index

K-LOC Index 26.94% ↑ | **K-LOC Count 3,142 ↓** | **K-LOC Balance $82.19 Billion ↓**

The KBRA Loan of Concern (K-LOC) Index, KCP's primary metric to measure stress in the CMBS conduit market, increased slightly to 26.94% in May 2026 from 26.72% in April 2026. We identified 54 new loans as K-LOCs with an unpaid principal balance (UPB) of $1.12 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.

Multifamily Distress in Texas With an Eye on HFC Reform

Multifamily loans have accounted for a disproportionate share of distress in recent conduit pools spanning vintages 2022 through 2025, with sector-specific K-LOC rates exceeding broader averages. The disparity is even more pronounced for loans backed by properties in Texas, where multifamily K-LOC rates exceed benchmark levels.

Distress levels in the state reflect both the broader pressures facing multifamily collateral and more localized risk factors, including the use of Public Facility Corporation (PFC) and Housing Finance Corporation (HFC) ownership structures that enable property tax exemptions in exchange for housing affordability requirements.

For example, the Texas multifamily K-LOC of 65.97% for the 2023 vintage is driven by several larger balance assets, including The Muse & Eden Pointe loan (BBCMS 2023-C22, BBCMS 2024-C24) and the BLE Portfolio and La Primavera crossed loan group (MSWF 2023-2, BBCMS 2024-C24). Both loans are collateralized by properties subject to PFC structures. Underlying credit concerns stem from reduced financial performance and public ownership compliance issues. The Muse property has building code violations that have led the City of Dallas to petition for a receiver.

In certain cases, multifamily loans have been securitized before anticipated PFC or HFC agreements were finalized, despite originators underwriting under the assumption that related tax exemptions had been achieved. Loan terms generally stipulate certain recourse carveouts if the agreement is not secured by a certain date after securitization. These protections can include items such as mandated principal paydowns, though some trusts are experiencing issues with enforcement. Waterford Grove Apartments (MSBAM 2025-5C1) and Langdon at Walnut Park (BBCMS 2024-5C29) both demonstrate execution risk associated with HFC structures.

Recent legislative changes are expected to disrupt the application and prevalence of HFC structures in the near term pending the outcome of ongoing legal challenges to the reforms passed in May 2025 under Texas House Bill (HB 21). Properties that retain their public ownership structure will still be subject to increased compliance monitoring and enhanced affordability requirements, including a mandate to reinvest 50% of property tax savings toward additional rent reductions for tenants. These reforms could place additional negative pressure on properties already experiencing weak financial and operating conditions. For properties that lose tax exemption benefits, revenue growth will be essential to ensure adequate debt service coverage and refinancing ability.

Saks Global Exits Chapter 11

Saks Global Holdings LLC—the parent company of Saks Fifth Avenue, Saks OFF 5TH, Bergdorf Goodman, Neiman Marcus, and Neiman Marcus Last Call—has emerged from Chapter 11 bankruptcy following confirmation of its restructuring plan, which included a 75% debt reduction alongside $500 million of exit financing. The restructuring transferred ownership of the company to its lender group.

As part of its Chapter 11 restructuring, Saks Global announced three rounds of store closures between January and March 2026. KCP subscribers can access an updated list of CMBS loans and properties with exposure to store closures here, which spans 17 loans—$5.3 billion by allocated loan amount (ALA)—across 36 securitizations.

Payoff and Default Rates: June 2026

In June 2026, 117 non-defeased loans ($2.54 billion) matured, of which 51% (79 loans; $1.3 billion) by UPB paid off at maturity. This cohort includes 29 loans ($354.7 million) that were paid off ahead of schedule. Meanwhile, 49% (38 loans; $1.24 billion) defaulted at maturity, including loans that were already in payment default or special servicing. The maturity default rate for loans collateralized by office was 73.51%, followed by retail (56.64%), multifamily (40.24%), and lodging (12.54%).

A total of $40.9 billion (2,255 loans) is scheduled to mature over the next 12 months. More than one-half of the maturing balance comprises office (28.43%) and retail (26.15%) loans.

Recent Credit Alerts

No Deal at 1500 Market Street

The proposed sale of the 1.8 million sf 1500 Market Street property securing the $368.0 million 1500 Market Street loan (JPMCC 2020-MKST) has fallen through. The reported contract price was less than $100 million and the property was slated for a mixed-use redevelopment. The failed transaction leaves the resolution of the distressed asset uncertain as the special servicer continues to work through the foreclosure process.

CFTC Appears Set to Stay at Lafayette Centre

According to KCP research, the Commodity Futures Trading Commission (CFTC, 36% of gross leasable area (GLA)) has canceled its planned relocation and intends to renew its lease at Lafayette Centre (GSMS 2017-GS5, GSMS 2017-GS6, GSMS 2017-GS7) for an additional five-year term. The $243 million loan is secured by a 793,553 sf office complex in Washington, D.C.

Netflix Under Contract to Buy Radford Studio Center

Netflix is under contract to acquire Radford Studio Center, the collateral securing the $395.2 million CBS Studio Center loan (SHOW 2022-BIZ), for a reported $400 million. The pending transaction follows the loan's June 2025 maturity default and multiple unsuccessful extension and modification attempts.

For past alerts, visit KCP's research portal here.

Previous Newsletters

- KCP Insights: A Hawkish Hold: June FOMC Signals Policy Patience
- KCP Insights: Higher Rates, Higher Hurdles for CMBS Borrowers
- 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