CASE-03 · BANKING & CREDIT RISK

Increasing office-building loans by 30% in city «M»

Growing in mortgages on office real estate: attractive yields, buildings as collateral, long-standing relationships with developers.

THE JUDGMENT	CALIBRATED CONFIDENCE	SECTOR
+30% → selective	41%	Banking

73

Δ-CSI

EXECUTIVE VERDICT

It isn't diversification: it's **concentration in disguise**.

THE CALL

+30% → selective

CONFIDENCE

41%

IN ONE LINE

Avoided a **concentration disguised as diversification** in a declining market, before the next downturn.

§ THE PROTAGONIST & THE CONTEXT

The head of commercial real-estate lending, with a portfolio growth target set by the board and a relationship team bringing new applications every week.

A regional bank with a traditionally conservative commercial property portfolio. City M is a mid-sized office hub that saw a construction boom in the pre-pandemic decade. Relationships with the main local developers go back twenty years.

§ BACKGROUND

The mid-tier office market in city M shows contradictory signals: nominal occupancy rates hold up thanks to multi-year leases not yet up for renewal, but active search for new space is at a historic low. Remote work has reduced effective space demand per employee by 30–40% at medium-sized services firms — exactly the typical tenant of B and C grade offices. Prime buildings with high energy ratings and flexible layouts hold or appreciate; mid-tier has no such defense. The peak of rental contract expirations is clustered in 2025–2027, meaning price correction could materialize precisely as the bank needs to roll its exposure.

§ COUNTER-INTUITIVE SCENARIO

It looks like diversification, it's the opposite. Mid-tier offices in that city are in **structural decline**: remote work empties them, and those who remain pick only the best buildings. The point is that all the collateral would collapse **together**, for the same reason, at the same time — and most of the loans all mature in 2026-27. You don't have thirty different risks: you have one, repeated thirty times.

IMPLICIT ASSUMPTIONS

- Office values act as a floor: the collateral holds.
- After remote work, offices will fill up again.
- At maturity, clients will refinance without problems.

FALSIFICATION TESTS

- Recalculating on real sale value (not appraisals), how many loans are worth more than the property?
- In past stress events, how often did all the collateral collapse together?
- How much matures within two years and will have to refinance at higher rates?

QUESTIONS THAT RAISE THE BAR

- If mid-tier offices lose 25%, how much loss and how much capital does it burn?
- How much of this «diversification» disappears in a crisis that hits everyone at once?

CALIBRATED CONFIDENCE & PROVENANCE

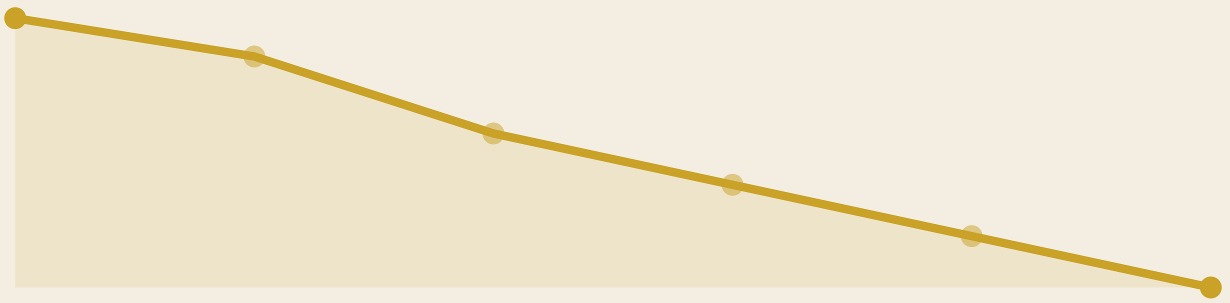
that the +30% withstands a drop in real-estate values

Provenance: transaction prices in the M market · current rent roll · loan maturity schedule · red-team base.

§ EXHIBITS

Mid-tier office value index, city M

ILLUSTRATIVE DATA



100 · 2019

79 · 2024

Indexed transaction values for mid-tier offices in city M over the past six years — the post-pandemic correction has not been absorbed (illustrative data).

OUTCOME

Cap reduced and shifted to the best buildings with loans below 60% of value; provisions and hedges on the maturity wall revised.

VALUE

Avoided a **concentration disguised as diversification** in a declining market, before the next downturn.

METHODOLOGICAL NOTE — READ FIRST

Composite cases, in the method of the Harvard Business Review: reconstructions based on real, recurring situations in each sector, merged and anonymized to protect confidentiality. The decision dynamics are authentic; names, figures and details are altered and not traceable to any single client or case. The «provenance» notes describe the type of evidence the engine cites with traceability in production. The Δ-CSI values illustrate the intensity of the pressure the contradiction put on the assumptions.