News & Information

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Commercial Borrowing Down 50% in 2023, Says Mortgage Bankers Association

It's official: the first half of 2023 saw a sharp drop-off in commercial real estate (CRE) mortgage loan originations as compared to a year ago.

That's the message from the data presented in the last two Mortgage Bankers Association (MBA) quarterly surveys. The surveys cover mortgage originations across all major CRE property types, in addition to examining investor trends in the space.

Quiet Q1

After Q1, MBA reported that loan originations were 56% lower than for the corresponding quarter in 2022, with Jamie Woodwell, MBA's Head of Commercial Real Estate Research, noting at the time that this was: "the slowest pace since the first quarter of 2014."

Woodwell added that uncertainty and volatility in interest rates and property prices were to blame for the apparent "logjam in commercial real estate sales and financing markets."

Mid-Year Uptick

Meanwhile, the Q2 MBA report showed a 53% drop-off in loan originations (as compared to Q2 2022), with decreases in originations for all major property types.

The good news, however, was that origination volumes did increase between quarters, with the data showing a 23% uptick in origination volume between Q1 and Q2 2023.

Examined by property type, the data shows that originations increased for healthcare properties (44%), multifamily (37%), industrial (19%), and office (16%), while retail and hotel originations decreased 13 and 27% respectively.

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Healthcare and Office, Bearing the Brunt

While that upward correction in Q2 is undoubtedly better news than what we saw in Q1, it's worth noting that viewed year-on-year, these trends still give cause for concern. Compared to 2022, most of the major property categories MBA reviewed took big hits.

New originations for health care properties, for example, slipped heavily through the first half of 2023, with MBA noting a "74% year-over-year decrease in the dollar volume of loans for health care properties" in Q2, after a 69% drop in Q1.

Office meanwhile dropped 67% in Q1, and a closely matched 66% in Q2 as compared with last year's totals.

The Path Ahead

Despite these trends pointing to lower CRE investment this year, the current situation is far from "black and white" in terms of what we can expect in coming quarters. Specific sectors, like retail and multifamily, continue to show their resilience and firm fundamentals – factors that are likely to draw investor attention in coming months.

Back in August, MBA projected that despite challenges in 2023 the mortgage borrowing and lending market will rebound to $856 billion in 2024, with around $452 billion coming from multifamily spending. Exactly when (and how) that uptick manifests, however, remains to be seen, especially in light of prevailing economic challenges.

As Woodwell sums up: "We expect the logjam to begin to break in coming quarters, but the path forward will depend on where interest rates and other aspects of the economy go from here."