Another Lender Announces Slow Down for CRE Credit

Credit for commercial real estate (CRE) looks to be entering a crunch state in the second half of 2022 as a number of the big lenders announced in July that they were pulling back in that sphere.

The latest to make such an announcement are Signature Bank and M&T Bank. The former said it “expected to cut back on lending for multifamily and other commercial real estate assets”, and the latter laid the blame squarely at the feet of higher interest rates in its decision to make “fewer CRE loans this year”.

Construction Slump

M&T’s CRE loan balances declined by 2%, or $830m in Q2 2022, as reported by the Real Deal, who extracted key points from an earnings call hosted by M&T chief financial officer Darren King. King reportedly specified that construction loans declined, alongside a decline in completed projects and new developments coming online.

Interest Rates and Inflation

King said the rates moves were “affecting cap rates and asset values” and that they were “not seeing the turnover in properties like you might have under normal circumstances. And that will affect the pace of decline and our growth in permanent CRE.”

According to BisNow reporting, “Interest rates, raised in an attempt to beat back record-high inflation, have contributed to a drop in investment volume from the highs of 2021 and early 2022, slowing CRE deal volume”.

Global Pressures

In broad terms, these economic conditions are being seen at varying rates around the world right now. As S&P’s recent update explains: “Economic growth is slowing. Interest rates remain stubbornly high. Estimates of the risk of recession or even stagflation creep upward and questions persist on whether central banks are under- or over-reacting in pursuit of monetary normalization.”

Additionally, on the residential side, their PMI research indicates “a steep contraction in demand for real estate amid tightening financial cost of living”.