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New CREFC Report: Collaboration is Key to Handling CRE Debt

According to a recent report from the Commercial Real Estate Finance Council (CREFC), CRE debt markets are still in for a rough ride in the coming months, and we have yet to enter the "eye of the storm."

What will be crucial to weathering that storm is close collaboration between borrowers and lenders dealing with troubled loans.

Loan Maturities are Still Incoming

The report, titled "This Is Not the Commercial Real Estate Industry's First Rodeo" notes that there are still significant amounts in CRE loans expected to mature through 2025. Drawing on data from Trepp and the Mortgage Bankers Association (MBA), CREFC states that around 41.8 trillion in loans are expected to mature over the period, with:

- $601 billion maturing in 2023
- $605 billion in 2024, and
- $555 billion in 2025.

As has been noted throughout the year, many of those loans will be "challenged to secure sufficient refinance capital."

CREFC adds: "[I]t will take time for 2023 and 2024 maturing loans to be worked through between borrowers and loan servicers, suggesting a potentially prolonged downturn."

Managing the Challenge

CREFC's advice? Borrowers, lenders, and loan servicers need to keep channels of communication open when dealing with troubled loans. Doing so ensures that strategic workouts can proceed faster, and with a higher chance of success.

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CREFC says: "Borrowers should contact their lender or servicer at the first sign of distress," adding "Solutions for troubled CRE assets are borrower, lender, property, and loan specific. Lenders across platforms have longstanding procedures in place to work through challenging times."

Leveraging Lender Type

Another key consideration is the type of lender financing the debt. For example, certain lenders, like mortgage REITs (Real Estate Investment Trusts) and local banks, may have more flexibility in working out distressed debt than others.

In general, a trend we've seen in recent months is that the lending landscape has shifted somewhat in terms of the willingness of specific lenders to finance CRE debt, including new loans.

Quoted in a recent GlobeSt article, investment firm MSCI states: "The turmoil in the banking sector early in 2023 has made the market for commercial property lending more dependent on the stable financing from the GSEs [Government-sponsored enterprises]. These lenders were behind 26% of all originations for the first half of 2023, a jump from the 19% share in 2022."

MSCI also recently noted that smaller US banks drew back from CRE lending in Q2 this year, dropping from a "record high" of 34.2% of commercial mortgage originations in Q1 to 25.1% in Q2.

Navigating the Debt Landscape

Taken together, these reports paint a picture of a challenging landscape when it comes to refinancing old (or securing new) debt in the foreseeable future. As CREFC notes, the key to navigating that landscape is ensuring open communication and collaboration between lenders and borrowers of CRE debt.