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News & Information

June 8, 2023

Is a CRE Finance Crash Incoming?

Recently, commercial real estate (CRE) news has been dominated by the question of whether we should be bracing for a crash. For many, the combination of deep economic uncertainty, a growing bank crisis and mixed signals in CRE markets, means the industry should prepare itself for a hard landing. An added worry is that CRE itself will precipitate a deeper crisis as banks overloaded on real estate debt begin to fail.

According to other sources, however, there are many mitigating factors that need to be taken into account, and a downturn is far from certain.

As any savvy CRE professional knows, navigating those conflicting viewpoints requires comparing different sources to reach a nuanced view of the situation. With that in mind, we've rounded up opinions and data from some of our top economic and market sources.

Office Facing a "Refinancing Wall"

According to data from Morgan Stanley, one of the chief risks to CRE as a whole is the "refinancing wall" facing office real estate.

Lisa Shalett, Morgan Stanley's Chief Investment Officer for Wealth Management states: "More than half of the $2.9 trillion in commercial mortgages will be up for refinancing in the next couple of years. Even if current rates stay where they are, new lending rates are likely to be 3.5 to 4.5 percentage points higher than they are for many of CRE's existing mortgages."

A recent Bloomberg article adds that the Morgan Stanley data shows "office and retail property valuations could fall as much as 40%." Bloomberg states that there are growing concerns about the ability of smaller and regional banks to provide financing to borrowers in the wake of the recent issues in the banking sector.

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Moody's Outlook on Lending

Moody's Head of CRE Economic Analysis, Kevin Fagan, notes however, that the situation may be far less dire than some sources make out.

In a recent Bisnow podcast, Fagan pointed out that credit conditions are better this time around than they've been in previous downturns. He also adds that regional banks (like those that have been heavily hit in the recent crises) are "actually a relatively small portion of lending for commercial real estate."

Worth noting is that Fagan's estimate of the amount of CRE debt sitting with smaller banks (around 12%) is a lot lower than the 80% that's been circulated from some widely-quoted sources, including a recent cautionary report from Goldman Sachs.

If the lower figure is correct, the current banking issues give less cause for alarm that there will be no one to meet refinancing needs when CRE debts come due.

Fed Overview

In a recent press conference, Jerome Powell, Chair of the Federal Reserve, weighed in with a vote of confidence for the sector as well. When asked whether the financial risk posed by CRE loans and the banks that hold them was comparable to the situation unfolding with Silicon Valley Bank, Powell noted:

"So, you know, we're well aware of the concentrations people have in commercial real estate. I really don't think it's comparable to this. [The] banking system is strong, it is sound, it is resilient, it's well capitalized, and I really don't see that as at all analogous to this."

Clear-Cut Concerns?

Kevin Fagan notes in his interview that differences in how data is interpreted, and which data is included in a data set, strongly influences the conclusions we reach about the market. For the regional banks data, he states that the figures quoted might be skewed by construction and residential lending, leading to an inflated estimate of the risk posed by stabilized CRE assets.

In the coming weeks as more data emerges, it's therefore likely we'll get a much clearer picture of how serious a potential CRE financing crash might be. For now, our top advice for CRE professionals is to keep an eye on the data as it emerges.