Trepp®

Commercial RealEstate Direct

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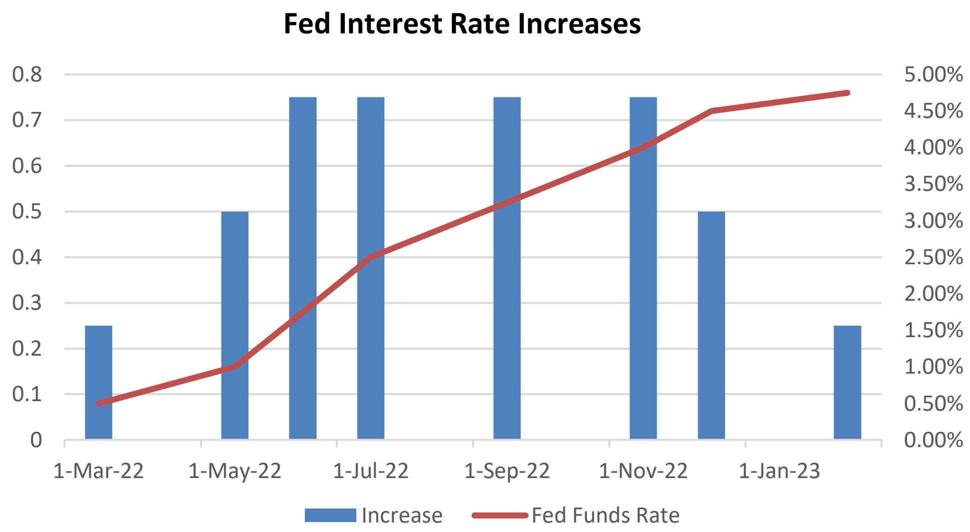
1989 All Over Again?

March 2023

The State of Commercial Real Estate

- Investment-sales transaction volume down 51 percent YoY in February
  - 2022 sales volume: $729.81Bln, down 15 Percent from 2021
    - Still, second highest annual volume ever.
    - Volumes started declining in 2H as rate hikes accelerated



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Property Pricing

Increased by 0.92 Percent in 2022

In February, down by 6.9 Percent YoY

Expectation

Decline of 15 Percent or More in Property Values

Driven by higher interest rates and higher credit spreads

10-Yr T Yield: 3.59% vs 1.78% in early 2021

CMBS Mortgage Coupons: 6.3% vs 3.54% in early 2021

CMBS Benchmark bond spreads: 160 bps 3/17/2022 vs
72 bps 1/28/2022

Had ballooned last week by 20 bps.

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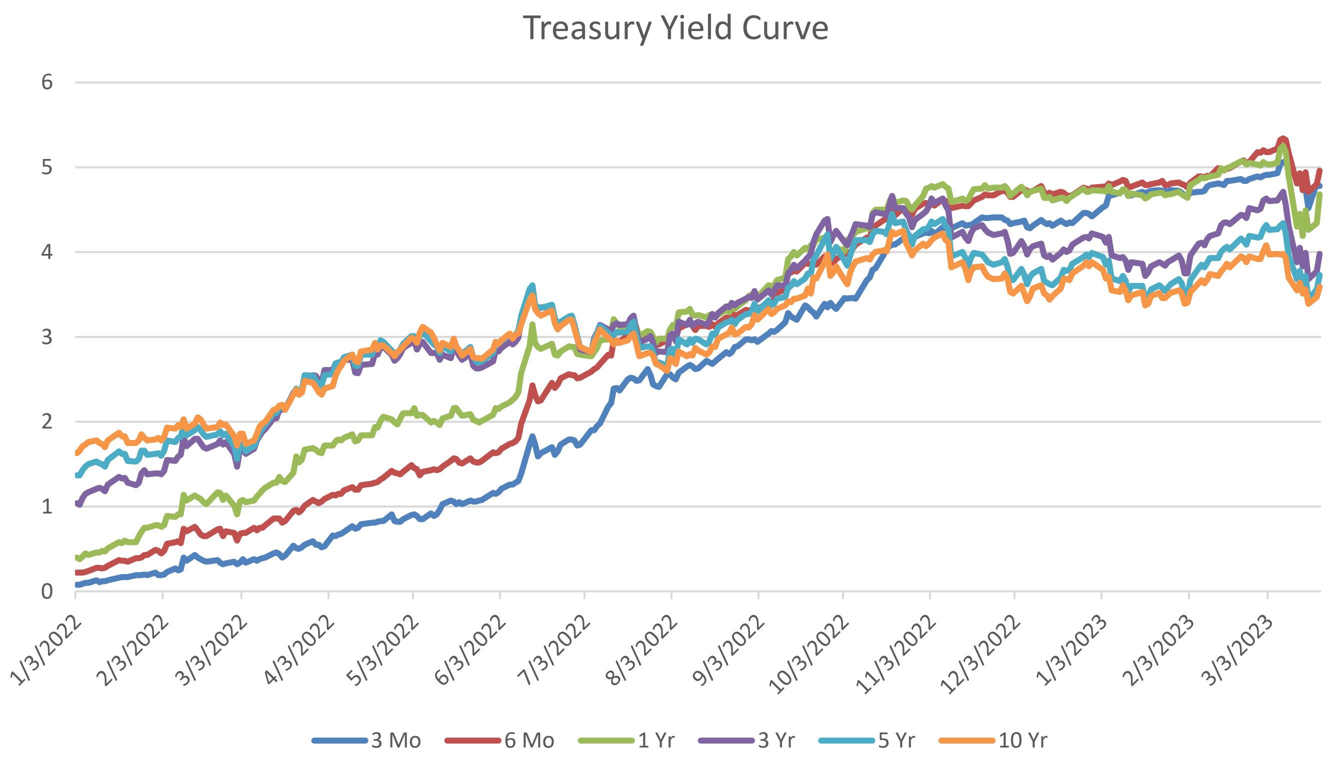
Yield curve is inverted. Rates, across board, much higher than in early 2022



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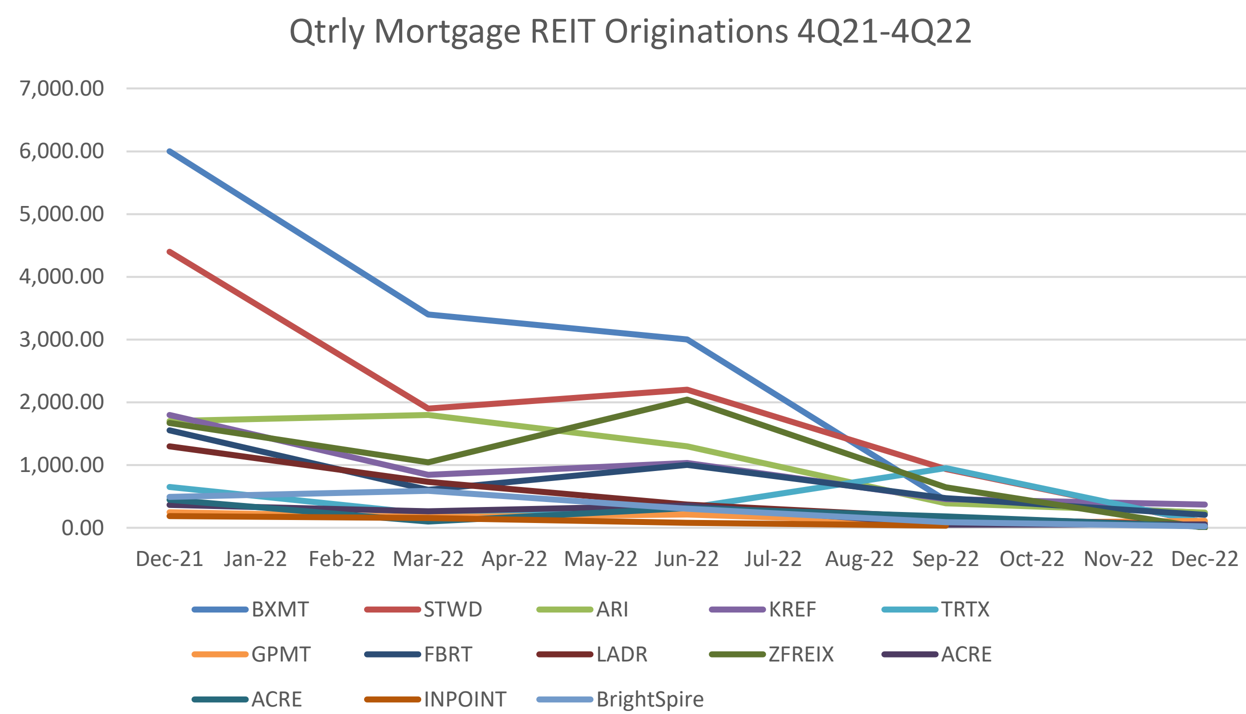
Lender Volumes Have Plunged



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Banks and Thrifts hold $1.75Trn of CRE debt, or 38.6% of $4.53Trn total

Banks smaller than $250Bln of assets hold 70% of bank-held CRE debt

Pressure on banks will have negative impact on availability of credit

Meanwhile ….

$250Bln of bank-held debt matures this year

$50Bln of CMBS loans mature

53% of bank senior loan officers report tightening standards, even for apartment loans (40% are tightening standards.)

MSCI reports # of apartment lenders in 4Q down 15%

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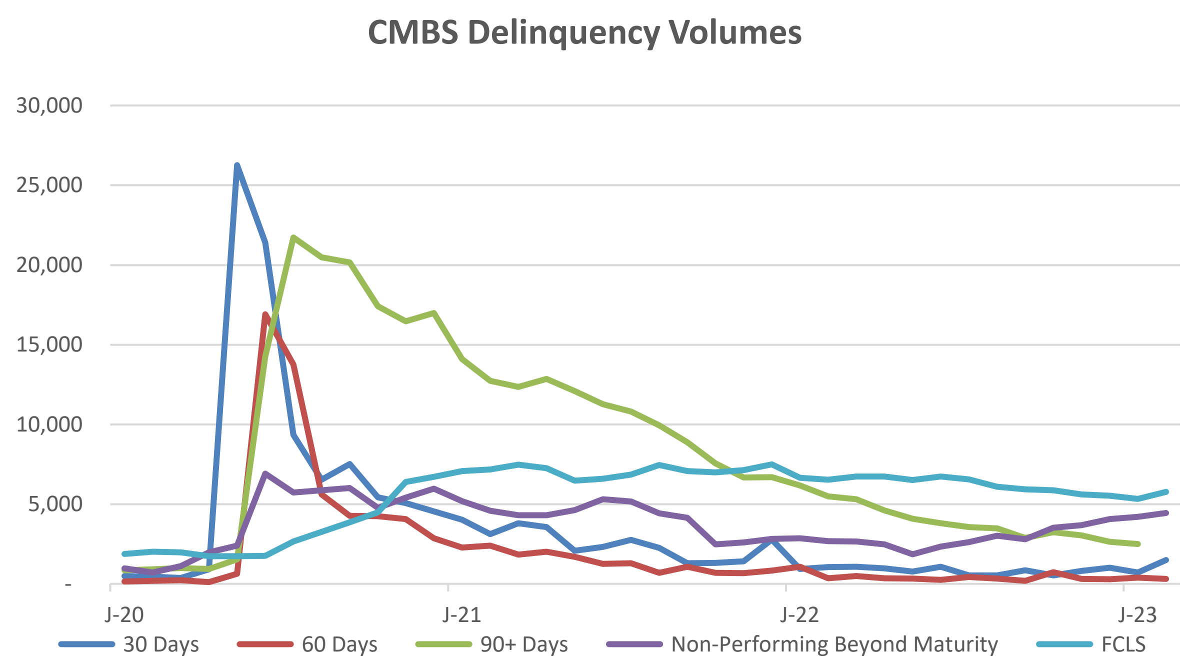
Retail CMBS loan maturities:

$24Bln through 2024…$6.1Bln, or 25% has DSCR of <1.25x

Retail is worst-performing property type in CMBS

$8.18Bln of CMBS retail loans are DQ: 6.97% DQ Rate



Source: Trepp Inc.

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Office is the sector to watch, particularly commodity office

Risks: Work-from home; Flight to quality

CMBS Loans in Special Servicing									
	Feb-23				Jan-23				
PropType	#Loans	Bal $mln	%ofTotal	%ofProp	#Loans	Bal $mln	%ofTotal	%ofProp	Chg%
Retail	312	12,923.45	40.18	10.74	320	13,344.85	42.20	10.98	-3.16
Office	187	7,486.60	23.32	4.43	179	6,741.16	21.32	4.01	11.06
Hotel	227	5,877.55	18.31	6.30	237	5,994.39	18.96	6.36	-1.95
Other	101	3,898.65	12.14	3.05	102	3,914.46	12.38	3.07	-0.40
Multifamily	52	1,772.75	5.52	2.70	48	1,462.29	4.62	2.27	21.23
Industrial	9	173.43	0.54	0.40	8	164.81	0.52	0.39	5.23
TOTAL	888	32,132.43			894	31,621.96			1.61
Source: Trepp Inc.									

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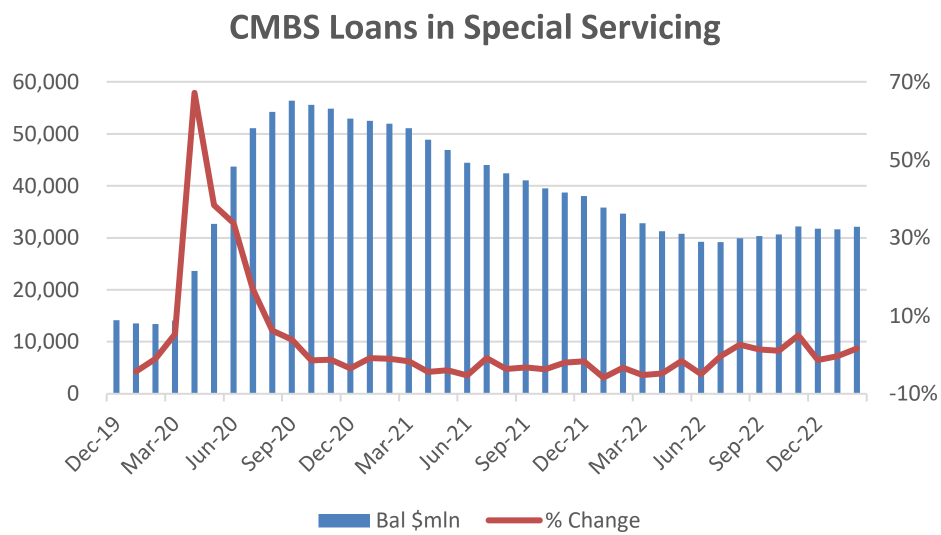
$32.13Bln of CMBS loans in special servicing; 5.18% of CMBS universe



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Floating-Rate loan Issue to Watch:

Floating-rate loans typically require interest-rate caps
Those have become very expensive
$109Bln of floating CMBS loans mature in 2023

Example: 2yr rate cap for $25mln w/3% strike rate in Dec: $724,000
5% strike rate cost: $125,000

Example: $373Mln loan package on Wells Fargo Center in Denver
Loan coupon: Libor + 146.9 bps, subject to Libor cap at 3%
Cost of cap w/Libor at 4.33% would be $7mln annually.
At origination, Libor was 1.76%, cap cost nominal (out of the money)

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The 1989 CRE crisis was driven by S&L-held loans/properties
long-duration assets and short-duration liabilities

Today: Banks are much better hedged.
But …
SVB held long-duration Treasurys
Most banks hold short-duration CRE loans
Some hold long-term loans, ie: Signature would write 5/5 loans with five-year initial terms that would then re-set. Many funded via FHLBB.

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Signature Bank:

$110.36Bln of Assets; $35.65Bln, or 48% in CRE

$25.5Bln of Loans Against NYC CRE; 12% Mkt Shr

$19.51Bln Against NYC Apartments

Many rent-stabilized

Housing Stability and Tenant Protection Act of 2019

Increased risk in portfolio by eliminating vacancy driven rent increases; repealing luxury decontrol; restricting potential rent increases.

More potential risk in additional pending regulation