CRE Lenders Respond to Uncertainty With Extensions

About $5.65 billion in loans have been extended so far in 2023, says Trepp.

By Erik Sherman

How many times can you have a discussion and insight into CRE problems? At least one more.

Trepp released a research note about a rise of loan extensions in 2023. To set the stage, there have been many recent signs of problems in CRE loans and statuses. Here are a few:

- Loan modifications are already underway with many lenders that don't want to write off value and which were probably nudged on by the final policy on CRE loan accommodations and workouts announced by federal regulators.
- Banks have been increasing CRE loan charge-offs.
- Banks have doubled down on CRE loan reserves.
- According to S&P Global Market Intelligence, banks have built cushions against loss.
- CMBS delinquency rate increases have been a red flag.
- There are a few encouraging signs in office, and yet a lot of office valuations have plummeted.

Put briefly, no one in the industry knows what will happen and there is significant opacity in current conditions, particularly given low transaction rates.

Trepp's observation is that loan extensions through 2023 have been on the rise as a response to both uncertainty and high interest rates.

For example, a borrower hasn't paid off the balance on a 2013 fixed-rate office loan. Refinancing would require a higher monthly interest rate. If they don't refinance, then the borrower returns the keys to the lender, which then most likely sells the property at a loss.

This is why loan modifications are becoming important in CRE, because they "have come in handy for the parties that don't wish to see the above scenario play out," Trepp wrote. Many loans coming due are being handled with short-term extensions. Borrowers save money with the older interest rate and lenders don't have to take a hit to the balance sheet.

Trepp looked at all CMBS loan extensions in 2023. There has been $5.65 billion so far. About 37% saw a 1-to-12-month increase; another 32%, 13-to-24 month increases; 9% had 25-to-36 month increases; and the remaining 22%, at least 37 months.

Because the data sources are CMBS loans with public data, the results may not be representative of anything else. Learning how many other types of lenders are making such moves is impossible when the transactions and records are private.