

CRE Is About To Be A 'Real Mess' And A \$270B Problem For The Banks

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Commercial real estate is increasingly coming into focus as a source of stress on the financial system, as hundreds of billions in loans in the sector are set to expire this year.

There are \$270B of commercial real estate loans maturing this year, around \$80B of which is secured by office buildings, "which we're extra concerned about," Trepp Managing Director Matt Anderson told MarketPlace this week (<https://www.marketplace.org/2023/03/27/could-commercial-real-estate-be-the-next-shoe-to-drop-at-regional-banks/>).

The complicating factor for the banks is that those office loans would typically be refinanced, per the program, but the low office occupancy rates means a greater number of properties are at risk of foreclosure.

There have been multiple high-profile examples of office buildings going into default in the last year. Brookfield Asset Management defaulted on \$750M in debt (<https://www.bisnow.com/los-angeles/news/commercial-real-estate/brookfield-default-downtown-los-angeles-gas-tower-777-figueroa-117640>) backing the office buildings at 777 South Figueroa St. in Downtown Los Angeles last month, while lenders took control of an 846K SF, Class-B office property in North Dallas after its owner, California-based investor manager Pimco, failed to pay its loan, The Wall Street Journal reported (<https://www.wsj.com/articles/distress-in-office-market-spreads-to-high-end-buildings-c1adad48>).

Columbia Property Trust, which Pimco acquired in 2021, defaulted (<https://www.bisnow.com/national/news/capital-markets/columbia-reit-defaults-on-more-than-1b-in-offices-117809>) on more than \$1.7B of debt backed by seven of its buildings in New York City, Boston, San Francisco and Jersey City. Related Cos. and BentallGreenOak, too, handed back the keys (<https://www.bisnow.com/new-york/news/office/related-bentallgreenoak-hand-over-keys-at-lic-office-property-117596>) at two Long Island City office buildings last month.

The is not a “financial disaster” but the sector is facing a “real mess” that will have widespread impacts, particularly in terms of tax bases, Adam Posen, president of the Peterson Institute for International Economics told Private Equity News (<https://www.penews.com/articles/commercial-real-estate-heading-for-a-real-mess-but-may-avoid-disaster-says-leading-economist-20230328>).

“I expect a major correction in commercial real estate is already under way,” he said, according to the publication, noting that nonbank lenders play a big part in real estate lending.

Those lenders aren’t regulated in the same way as the banking sector, he noted, though it could be a better situation for the economy as a whole.

“We haven’t seen smooth repricing or terribly transparent repricing of the mortgages and commercial real estate lending that is held in nonbank financial intermediaries.”

Concern over the possibility of widespread CRE distress and its impact on regional banks has risen to the highest levels of federal government. Policymakers in the White House, Treasury Department and Federal Reserve have met to discuss the \$20T industry and the risks it poses to the

financial system, The Washington Post reports (<https://www.washingtonpost.com/us-policy/2023/03/27/commercial-real-estate-banks-loans/>).

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See Also: DTLA Reimagined: Downtown Los Angeles Is Evolving From 9-To-5 District To 24/7 Neighborhood (</los-angeles/news/commercial-real-estate/downtown-los-angeles-24-7-neighborhood-dcbid-studiob-118028>)

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