S&P Global Market Intelligence Report Finds Commercial Real Estate Lenders Feeling Stress but Weathering the Storm

NEW YORK, Nov. 20, 2024 /PRNewswire/ -- Changes in post-pandemic behavior and a larger debt service due to higher interest rates presents challenges to the viability of many commercial real estate borrowers. While those headwinds will lead to higher defaults, stress will differ across asset classes and could take longer to play out than many think. The newly published report, *Commercial Real Estate Outlook: Weathering the Storm*, is part of S&P Global Market Intelligence's Big Picture 2025 Outlook Report Series.

In this new report, S&P Global Market Intelligence's Financial Institutions Research Team discusses how insurers, banks and their regulators are responding to concerns over potential stress in the commercial real estate (CRE) market. The report includes details on recent investment activity from life insurers in the CRE market and expectations for future loss content banks will record from the CRE segment. The report also highlights how publicly traded real estate investment trusts (REITs) can offer some insight into market conditions since they trade daily.

"Commercial real estate borrowers' mettle will be tested over the coming year as they seek to refinance loans coming due. Many borrowers will find credit less available or at least significantly more expensive, leading to more defaults, particularly in the office segment, but not all CRE loans face the same fate," said **Nathan Stovall, director of financial institutions research at S&P Global Market Intelligence**. "Any pain should not be great enough to spur deleveraging in the financial system and threaten the US economy."

Key highlights from the report include:

- Banks with elevated CRE exposures have faced scrutiny from regulators and investors. Banks will feel some pain in their CRE books, particularly as borrowers seeking to refinance maturing credits find it more difficult to access credit, or they will at least face a significantly higher debt service given the increase in interest rates.
- S&P Global Market Intelligence's analysis of property records nationwide found that approximately$950 billion of CRE mortgages were set to mature in 2024 and carried rates nearly 200 basis points below those originated this year.
- Office REITs continue to trade at vast discounts to their estimated net asset value estimates, but valuations have improved from the low point in 2023.
- Despite asset quality concerns, life insurers holdings of mortgage loans have continued to reach record highs in 2024.

To request a copy of *Commercial Real Estate Outlook: Weathering the Storm*, please contact press.mi@spglobal.com.

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