FEDERAL RESERVE BANK OF ATLANTA
2016 BANKING OUTLOOK CONFERENCE

OUTLOOK FOR COMMERCIAL REAL ESTATE LENDING AND REGULATION

FEBRUARY 2016

SAM CHANDAN, PHD
THE WHARTON SCHOOL OF THE UNIVERSITY OF PENNSYLVANIA /
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PROPERTY INVESTMENT TRENDS

Mortgage-Financed Apartment & Commercial Property Sales IN BILLIONS

Source: Chandan Economics; Based on Mortgage-Backed Sale Transactions and Refinancing Activity
PROPERTY FUNDAMENTALS TRENDS

Source: Chandan Economics; Based on Mortgage-Backed Transaction Activity; 2015 Q4 is Preliminary
FUNDAMENTALS CONSTRUCTION

Multifamily Units Under Construction and Ratio of Completions to Under Construction

Largest Number of Units Under Construction Since 1973

Source: Chandan Economics; Bureau of the Census
PROPERTY FUNDAMENTALS TRENDS

Rent of Primary Residence and Private Sector Wages
Change From Year Earlier

Source: Chandan Economics; Bureau of the Census; Through Q4 2015
Quarterly Change in Commercial and Multifamily Real Estate Loans Held on Bank Balance Sheets

Source: Chandan Economics, Federal Deposit Insurance Corporation; Through Q4 2015
BANK LENDING TRENDS

Quarterly Change in Construction Loans Held on Bank Balance Sheets in Billions

Source: Chandan Economics, Federal Deposit Insurance Corporation; Through Q4 2015
BANK LENDING TRENDS

Commercial and Multifamily Real Estate Loans Held on Bank Balance Sheets IN TRILLIONS

Source: Chandan Economics, Federal Deposit Insurance Corporation; Through Q4 2015
## BANK LENDING TRENDS

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BANK LEGACY DEBT PERFORMANCE

Default Rate for Bank Commercial & Multifamily Mortgages

Source: Chandan Economics, Federal Deposit Insurance Corporation; Through Q4 2015
1. Cyclical trends masking impact of new regulation

2. Controlling for risk, a higher long-term regulatory burden

3. Increase in bank lending costs and reduced lending volume

4. Unanticipated costs to the economy through higher input costs

5. Reduced competitiveness of highly-regulated institutions

6. Ambiguous impact on underwriting quality

7. Greater burden on small- and medium-cap borrowers
COMPETITITVE LENDING MARKET

Commercial Mortgages Outstanding by Lender Group
Excludes Construction Loans IN BILLIONS

Market Share of Commercial Mortgages Outstanding by Lender Group

Source: Chandan Economics, Federal Reserve
BANK LENDING TRENDS

Net Share of Lenders Expecting Easing in Lending Standards

- Multifamily
- Office
- Retail
- Industrial
- Hotel

Source: Chandan Economics, Real Estate Lenders Association; Winter 2016 Survey
BANK LENDING TRENDS

Net Share of Lenders Expecting Increase in Own-Institution Lending Volume

Source: Chandan Economics, Real Estate Lenders Association; Winter 2016 Survey
BANK LENDING TRENDS

When Will Lending Volume Reach its Cyclical Peak?

- 2017
- 2016
- 2015
- 2018+

As Compared to Mid-2015, How Have Your Expectations for the Timing of the Market Peak Changed?

- Earlier
- Unchanged
- Later

Source: Chandan Economics, Real Estate Lenders Association; Winter 2016 Survey
BANK AND NON-BANK LENDING TRENDS

Apartment Underwriting Ratio
Underwritten NOI as a Share of Most Recently Reported NOI

Source: Chandan Economics; Based on Partial Sample of Agency, Bank, and NBFI Mortgages $1.5M+
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