Commercial Real Estate Lending Patterns and Distressed Residential Mortgage Markets

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This article discusses residential mortgage distress which continues to influence not only the parties directly involved, but residential real estate markets and commercial mortgage markets as well.

Commercial real estate lending shows patterns of increased origination volume within markets with lower levels of distressed residential mortgages. Commercial and multifamily loans were analyzed by searching the Termzsheets.com database and filtering for loan collateral specified at property specific levels. Primary indicators of residential market distress were the rate of seriously delinquent mortgages and frequency of negative equity mortgages, indebtedness greater than probable market value, indexes prepared by CoreLogic and disseminated by the Mortgage Bankers Association. Collateral properties were diverse including regional shopping centers, power centers, neighborhood and community centers, free standing retail, hotels, apartment communities, high rise office buildings, suburban office complexes, mixed-use buildings, and other uses. All commercial loans considered were "major" in that loan value exceeded $1 million and were originated after the September 2008 global financial crisis. Secured revolving credit lines and loans renegotiated utilizing bankruptcy proceedings were specifically excluded from the analysis. A total of $15 billion worth of major loan transactions were evaluated within the commercial loan analysis, the average loan size was $30.7 million. The Termzsheets.com data illustrated that major loan activity for commercial real estate was diversified geographically, with major loans originated in 40 different states, see Map One.

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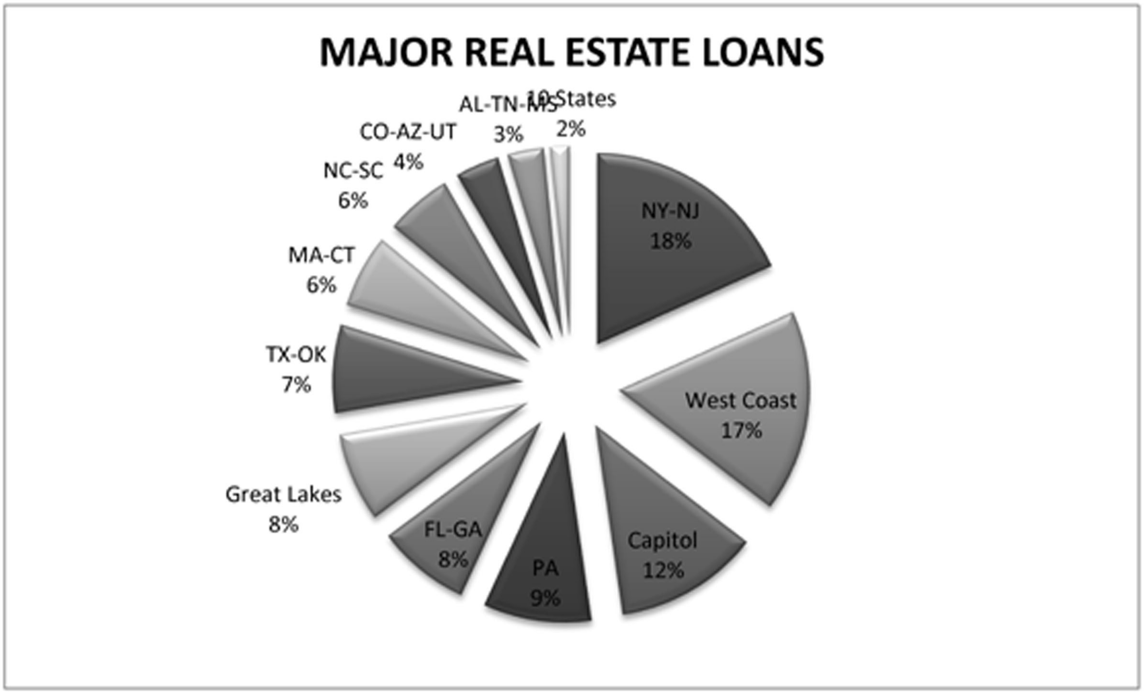
Map One

Source:TERMZSHEETS.com

Commercial Real Estate Lending Patterns

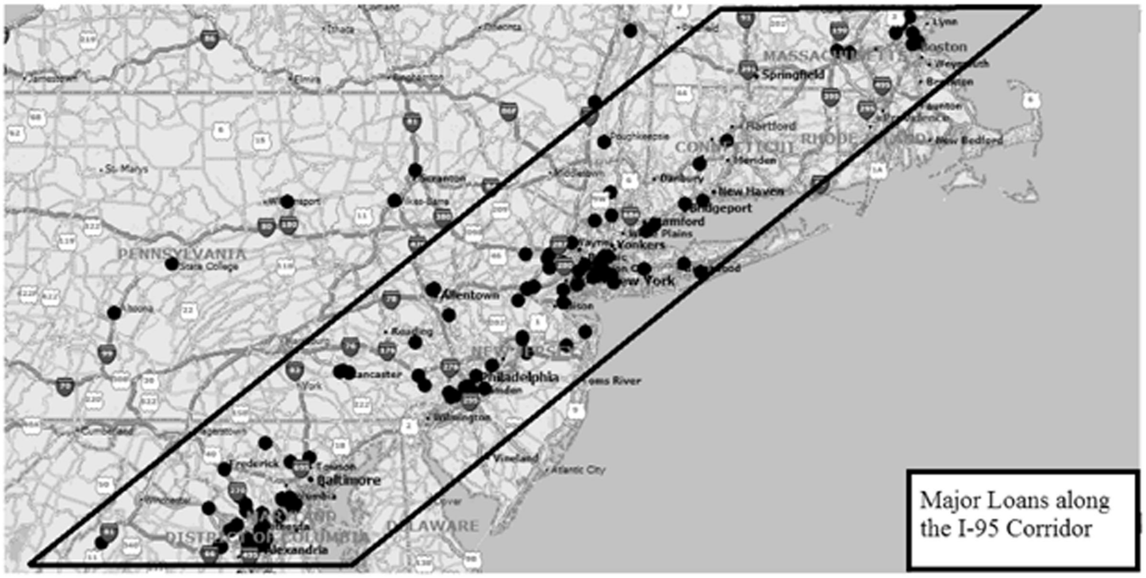
Three areas of loan origination concentrations were especially notable, including: A) New York-New Jersey with 18.1% of all major loans by value; B) California and other West Coast locations which represented 17.0% of major loan volume; and C) the greater Capitol area, inclusive of the District of Columbia, Maryland and Virginia, which is where 12.2% of major loans were located. Additional loan concentrations included Pennsylvania with 9.1% of major loans, and the south-central states of Texas and Oklahoma represented 7.4% of major loans. Loan activity within a broadly defined Great Lakes region, including six states, Michigan, Ohio, Indiana, Illinois, Wisconsin, and Minnesota, accounted for 7.5% of originations. Southeastern states of Florida and Georgia had 4.8% and 3.0% market share respectively. Ten states had low levels of major loan activity as indicated by the survey, including Nevada, Kentucky, Missouri, and Kansas, see Figure 1.

Figure 1



Grouping the commercial loan data at a more aggregated scale, the largest concentration of major real estate loans fell within the Interstate 95 corridor extending from Northern Virginia through Massachusetts. This portion of I-95 includes the Metropolitan Statistical Areas ("MSAs") of Washington-Baltimore, Philadelphia-Wilmington, New York-Northern New Jersey-Long Island, Hartford, and Boston-Worcester-Lawrence, see Map Two. Major loans within this mapped territory centered upon I-95 totaled $5.97 billion, 40.2% of all loans included in the commercial lending analysis.

Map Two



Source:TERMZSHEETS.com

Residential Mortgage Market Distress Indicators

There are significant variations in distress levels between mortgage markets. The Washington-Baltimore market, included within the northeastern I-95 corridor, has a higher level of residential mortgage distress than other portions of that region. The Washington-Arlington-Alexandria core based statistical area ("CBSA") has 29.5% of outstanding mortgages with negative equity, and another 5.2% with near negative equity. Baltimore-Towson, Maryland CBSA has a lower level of negative equity mortgages than Washington, with 16.2%. Alternatively, New York-White Plains CBSA has 10.9% of mortgages with negative equity, Philadelphia CBSA has 7.3% of mortgages with negative equity, and Long Island has only 5.7% with negative equity. The northern portion of the I-95 corridor exhibits relatively low levels of residential mortgage market distress.

Great Lakes market areas have some residential mortgage distress concerns. This central and northern Midwestern region includes Chicago-Joliet-Naperville CBSA that has a relatively moderate share of negative equity with 22.7%, but the residential market is so large that this translates to 350,000 negative equity loans, one of the top five centers of residential mortgage concern nationally. Also within the Great Lakes area, the northwestern suburbs of Detroit, the Warren-Troy-Farmington Hills CBSA have a high rate of negative equity, inclusive of 43.8% of total mortgages.

California also contains residential mortgage markets with high rates of distress, especially for the inland areas. Inland residential markets from the San Francisco Bay Area through Southern California exhibit high levels of distress. Oakland-Freemont-Hayward, California has negative equity associated with 32.4% of all mortgages, Sacramento-Arden-Arcade-Roseville, California has negative equity for 43.4% of outstanding loans, and Riverside-San

Bernardino-Ontario, California has higher yet levels of negativity with 51.3%. Coastal markets are more subdued with regards to distress. Santa Ana-Anaheim-Irvine, California indicate 18.1% negative equity situations, Seattle-Bellevue-Everett, Washington is also comparatively low with 14.2%, and Los Angeles-Long Beach-Glendale, California, where inland meets the coast, has 25.3% negative equity mortgages.

Florida Residential Mortgage Distress

The level of distress in Florida is significant enough to warrant separate treatment. Florida has 15 metropolitan areas on the CoreLogic list of the Top 25 nationally for seriously delinquent "prime" mortgage loans, all with a delinquency index rating of 170 or greater relative to the entire country. Florida contains six of the top seven MSA with the highest levels of seriously delinquent "prime" mortgages:

1) Miami has 29.2% of all loans either 90 or more days delinquent or in foreclosure, an index rating of 369 compared to the national average of 100;

2) Ft. Lauderdale, 23.3% of all loans;

4) Ft. Meyers-Cape Coral, 21.2%;

5) Ft. Pierce—Port St. Lucie, 20.9%;

6) Orlando, 20.6%; and

7) West Palm Beach—Boca Raton, 20.5%.

The eight highest levels of seriously delinquent "subprime" loans nationally, the vehicles that are credited with precipitating the entire mortgage crisis, are all located within Florida. Fourteen of the top 20 metropolitan areas with seriously delinquent "subprime" loans are located within Florida, including Orlando and Tampa and many other markets with close proximity to these areas, most with delinquency rates of 50% or greater. Additionally, amongst "subprime" credit rated mortgages, Miami has the second highest seriously delinquent rating in the nation, inclusive of 60.8% of these types of mortgages.

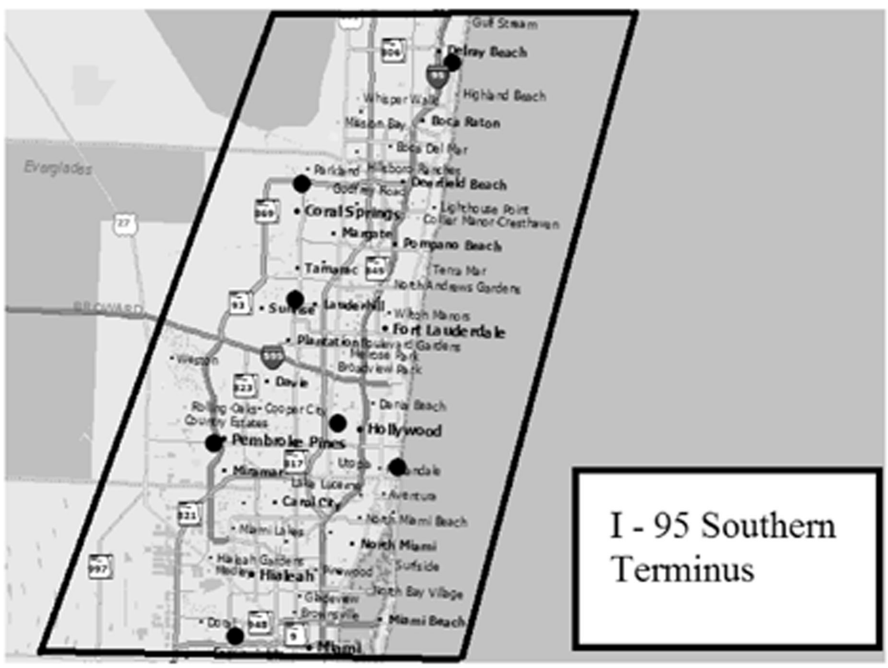
Negative equity loans are also a major concern in Florida. Tampa-St. Petersburg-Clearwater CBSA, for instance, has 46.7% of outstanding mortgages with negative equity, signaling much potential for ongoing and perhaps increasing distress within that market. Similarly, Orlando-Kissimmee-Sanford, Florida CBSA has the nation's second highest percentage of negative equity loans with 53.9%, so continuing distress is also likely for this residential mortgage market. The Miami CBSA has the highest level of seriously delinquent active mortgage loans amongst credit worthy "prime" borrowers of any metropolitan area in the nation, and the third highest level of outstanding mortgages with negative equity, 48.9% of the total 522,000 residential loans.

Florida is "ground zero" for the ongoing mortgage foreclosure crisis. Distress levels do not appear to be improving. The Miami region, for instance, has led the nation in seriously delinquent loans amongst credit worthy "prime" borrowers for over a year, while the proportion of seriously delinquent loans has increased from 22.1% of all loans last year to 29.2% this year. There are markets in other parts of the nation with somewhat higher levels of distress than any of the individual Florida markets, such as Phoenix-Mesa-Glendale, Arizona, but the clustering of distressed residential mortgage markets in Florida exceeds other comparisons. Florida residential mortgage indices point to likely continuations of high rates of residential foreclosure related issues within this state.

Commercial and Multifamily Loans in Florida

Florida commercial loans evaluated represented obligations of $711 million, including $299.4 million of scattered loan volume for the Miami-Fort Lauderdale and West Palm Beach metropolitan areas, see Map Three. Many of these Florida loans analyzed were purchase mortgage assumptions of existing obligations by a well capitalized REIT buyer. The largest Florida commercial loan was located in the Miami area, a $77 million one year loan extension secured by a one million square foot suburban office complex, 90% occupied, pursuant to a $13.1 million principal reduction of the outstanding loan balance. Five of the largest Florida loans were made by governmental sponsored entities ("GSEs"), multifamily originations in the Tampa and Orlando areas. The lending profile that emerges for these Florida commercial and multifamily loan originations is one of highly cautionary lending practices for reasons that may be linked to widespread residential mortgage distress.

Map Three



Source: TERMZSHEETS.com

Conclusion

Commercial and multifamily lending origination appears to be more robust in areas with low levels of residential mortgage distress. The northern I-95 corridor is a primary focus for major commercial and multifamily loan originations and this area has less residential mortgage distress than many other parts of the nation. Several market areas along the northern I-95 corridor have relatively low levels of negative equity residential mortgages, leading to an expectation of controlled exposure to residential mortgage distress issues. Residential mortgage markets with