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Multifamily Strength Enticing Banks Back into CRE Lending

The Once-Dirty 'C' Word (Construction) Also Being Uttered by Bankers

The thaw in bank lending for commercial real estate appears to have quickened a bit in the second quarter based on comments from bank executives in their earnings conference call.

It is not a unanimous movement back into CRE lending as several of the larger banks are still working through mounds of distressed assets and many are still in cost-cutting mode. However, a number of others have decided the markets are ripening and the time is either right to return to CRE lending, or is fast approaching to do so.

Interest in multifamily properties is leading the comeback, but many bank executives said that is just the jumping in point and not the sole purpose for getting back into lending.

"We're not going into [the commercial real estate] market with just a bet that we're just doing multifamily," said Kirk W. Walters, senior executive vice president and CFO of People's United Financial Inc. "Certainly multifamily will be in the mix, it will be one of the things we'll be doing, but we'll be doing all types of commercial real estate."

"It's a business that we expect that we're going to build out, one that will be relationship oriented, and that we do have a good strong history on the commercial real estate side, but also other products and offerings that we'll be able to lever in that market," Walters said.

Nor are banks looking at just financing existing properties for investors.

Doyle L. Arnold, vice chairman and CFO of Zions Bancorporation, said the bank expects to see some growth in its construction and development category over the next several quarters.

"Most of the new construction loan commitments are in Class A apartment buildings," Arnold said. "Our multifamily lending continues to be the largest growth category or strongest growth category, up to about 10% annualized growth in the last six months."

Peter S. Ho, chairman, president and CEO of Bank of Hawaii, said in "commercial real estate and construction lending, we're actually up 5.6% year-on-year which is about the level that we think we can be looking at in the environment that we're in today. So, I think commercial has some upside, certainly that's what we're seeing in the pipeline."

James E. Rohr, chairman and CEO of PNC Financial Services Group, multifamily construction has been a big play this year but also sees the strength of the CRE market not in the product type per se but more in the borrowers.

"A lot of different REITs that are in [the market] have basically moved to quality. A lot of the foreign banks have moved away from that market, and clearly the quality that our bank -- and the calling effort and the history I think has worked very well for us in that space," Rohr said. "There has been some CMBS refinancing, and I think that's going to continue for the next two or three years."

Rene F. Jones, executive vice president and CFO of M&T Bank Corp., said most of the improvement in the CRE space "has lot to do with the low [interest] rate environment."

"We are finding that we are able to either restructure or workout transactions more favorably than we might have thought," Jones said. "And part of that is because other lenders or the markets are actually willing to sort of step in."

Banks also said the market has turned in their favor in regards to their foreclosed properties and distressed loans.

"We've continued to execute our strategy to aggressively liquidate foreclosed real estate," said Clarke R. Starnes, chief risk officer and senior executive vice president for BB&T Corp.

"This is having a very positive impact on reducing nonperforming assets and related credit costs and certainly contributing to higher earnings growth.

This quarter, we decreased foreclosed real estate $157 million or 41.5% compared to Q1. And since the second quarter of last year, foreclosed real estate is down $926 million or nearly 81%. As these balances are now down to $221 million, and we continue to be aggressive in our disposition as we go into the third quarter, we think we'll effectively complete the targeted OREO strategy in the next couple of quarters.

William Hartmann, chief credit officer of KeyCorp, said there is a tremendous amount of liquidity in the market and that is presenting more opportunities for the bank.

"We have had some performing but criticized loans where we've received some reverse inquiries from people who were willing to purchase those at relatively close to par," Hartmann said. "The accounting for that requires that, since there is a slight discount to our carrying value, that we actually move those into nonperforming in order to account for that discount -- that discount does flow through the net charge-offs, and then we could actually sell the assets."