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CRE Investors and Apts. Remain Bankers' Favorites, While Construction Lending Declines

Bank CRE Asset Quality Continues To Improve

Commercial real estate lending among banks during the second quarter continued to provide good news and bad news for CRE borrowers.

Overall, lending for investment and multifamily properties continued to increase modestly with multifamily lending up more than 1.6%, outpacing the year-over-year growth of slightly more than 4%.

Nonresidential CRE investment lending also saw a modest increase during the second quarter of half a percent, although off the pace as compared to the year-over-year increase of slightly more than 9%.

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However, neither gains in investment or multifamily lending were enough to make up for the decline in construction and development lending, which was down 4.8% in the quarter and 20.8% year to year. Balances of real estate construction and development loans fell by $10.9 billion in the quarter while the balances on investment CRE and multifamily properties increased only $6.7 billion.

As a result, overall CRE lending slipped four-tenths of a percent from the first quarter and down 3.4% from a year earlier, according to data CoStar Group collected and analyzed from FDIC for the nation's 7,522 operating banks and savings and loans.

Also notable in the second quarter numbers is that small and large businesses that own their occupied properties faced a tougher borrowing environment. Bank lending for refinancing or buying owner-occupied CRE properties dropped four-tenths of a percent in the second quarter following three previous quarters of increases.

Additionally, business loans to small business secured by nonresidential real estate were down 1% from the previous quarter and down 5% year over year. Banks had 185,642 fewer small business loans on their books at the end of the second quarter of this year compared to the same period last year. That amounted to $32.5 billion less in outstanding small business loans.

For more on the state of small business transactions, see Sales of Small Businesses See Slump in Q2, While Overall Business Health Continues To Improve

According to the Federal Reserve Board's latest credit conditions survey (Beige Book), investor interest in CRE remains high, especially for multifamily rental properties, and interest rate spreads are lower than a year ago for comparable deals.

Some bank lenders noted an increase in small-scale (less than $10 million) loan demand in recent months in the office and retail sectors. However, some said that they were beginning to see a few signs that investors were becoming less aggressive in pursuing CRE deals outside of multifamily.

CRE asset quality indicators continued to improve for banks in the second quarter.

The amount of total delinquent CRE loans and foreclosed properties fell significantly. The total amount dropped 12.26% from the first quarter and now stands at less than $100 billion. The total amount is down

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almost 28% from a year ago.

Banks disposed of $1.74 billion in foreclosed properties in the second quarter with the largest percentage drop off coming from multifamily properties. Banks still held more than $25 billion in foreclosed CRE assets on their books, with more than $14 billion of that being construction and development properties.

The number of FDIC-identified "problem" institutions fell for the fifth quarter in a row. The number of "problem" institutions declined from 772 to 732. This is the smallest number of "problem" banks since year-end 2009. Total assets of "problem" institutions declined from $292 billion to $282 billion.

Fifteen insured institutions failed during the second quarter. This is the smallest number of failures in a quarter since the fourth quarter of 2008, when there were 12.

Another nine banks have failed so far in the third quarter, bringing the total for the year to date to 40. At this point last year, there had been 68 failures.

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