How Has CRE Lending Changed?

On the long list of things impacted by the coronavirus pandemic, commercial lending wasn't immune to the global disruption.

In fact, it's actually the opposite. Many industry experts and analysts are saying that the impacts of COVID may change commercial lending forever.

While these statements are big, it's plain to see that they're not exaggerated. The coronavirus wasn't just a public health issue. It spurred a global economic shift that's altered the way nearly every business functions. In this way, it's safe to say that what we just went through was worse than a recession - and we're still not clear of the situation.

Here's what all commercial professionals should watch moving forward.

Office

As teleworking prevailed during the COVID market closures, it has thrown off the balance of office leasing. Some companies are abandoning their physical spaces, others are looking to downsize their office requirements, and the ones trying to re-open are facing unprecedented issues.

Because of this turbulent situation, commercial lenders aren't holding office properties in the high esteem they once did. This decline in demand for office space will likely cause the market to ebb and the value of these properties to drop.

If what just happened repeats itself, their returns are no longer guaranteed. All these factors happening simultaneously will completely alter the eagerness of lenders to provide loans for office properties.

NAI Realvest®
News & Information
August 14, 2020

How Has CRE Lending Changed?

Multifamily

With missed rent payments being forgiven throughout the pandemic, multifamily returns have been compromised. This protective response protects unemployed tenants from evictions but it doesn't help multifamily owners who need rental income to pay their mortgage.

This situation has severely weakened the multifamily industry's reputation in the eyes of commercial lenders. With a possible further extension to the rent forgiveness ordinances, multifamily developments are walking on thin ice with lenders.

Retail

Retail was already in a tight spot before the pandemic hit. E-commerce continues to grow in popularity and shoppers are abandoning the once-booming American malls.

Retail's outlook took an additional hit during COVID market closures and the recent string of bankruptcies has further tarnished the reputation of brick-and-mortar assets.

At this point, retail is in another predicament as commercial lenders remain wary of getting involved in these developments. The risks are considerable and in a time where other more stable sectors are also affected, the negative implications cannot be ignored.

Industrial

After the massive boom in industrial, warehousing remains a stable and prosperous commercial sector.

Even in the height of the pandemic's supply chain issues, industrial didn't collapse and played an integral role in supporting domestic industries. Slowdowns and delays were inevitable, but all things considered, the industrial sector performed greatly.

After proving itself as vital, industrial still has room for expansion and is likely to funnel CRE's investor interest as time moves on. This resilience and stability may make lenders more inclined to favor industrial developments over any other CRE sector.

Be sure to keep an eye on these trends as the commercial real estate industry paves forward into the 'new normals' ushered in by COVID.