Commercial Real Estate Lending Forecast to Rebound From Historic Lows
Alternative Debt Providers Expected to Take Larger Share of Market

By Mark Heschmeyer and Jon Leckie

Total commercial and multifamily borrowing and lending can only go up this year following a record-slow 2023, according to two new forecasts.

The Mortgage Bankers Association expects commercial loan origination to rise to $576 billion in 2024, a 29% increase from 2023's estimated total of $444 billion.

Supply of credit from traditional lenders is likely to remain limited however, according to Center-Square Investment Management, a real estate firm with $12 billion in assets under management. That creates a meaningful opportunity for alternative debt providers to increase their share of new originations.

Private debt funds, mortgage real estate investment trusts and other specialty lenders are taking an increasing market share of commercial real estate debt commitments, according to Center-Square. As a result, they are also attracting a larger share of investor capital. Pension funds, for example, committed $5.98 billion to private debt funds through the first nine months of 2023. That fund flow should continue this year.

"2023 is likely to go into the record books as the slowest year for commercial real estate borrowing and lending in roughly a decade," Jamie Woodwell, MBA's head of commercial real estate research, said in a statement. "As the markets reset — on interest rates, property values, some property fundamentals and other factors — those volumes should pick up marginally.

"While up from last year's levels, we still expect borrowing and lending in 2024 to be below what was seen going back to 2017."

MBA conducts an annual commercial real estate finance outlook survey. This year's survey showed an industry that remains hopeful but measured.

The median respondent expects originations to rise this year, with 21% expecting an increase of 5% to 10%; 47% an increase of zero percent to 5%; 21% no change; and 10% a decline, according to the MBA survey. Not surprisingly, more than nine in 10 see the office market outlook as having a very negative impact, but half see the industrial outlook as a positive.

Multifamily lending alone, which is included in MBA's total figure, is expected to rise to $339 billion this year — a 25% increase from last year's estimate of $271 billion.

While that volume is up, it still won't bring mortgage lending back to where it was during 2021 and again in 2022 when total multifamily lending peaked above $480 billion. That run was driven by a mismatch between strong demand and low supply that decreased vacancy rates, drove up rents and enticed loans for new construction, Woodwell told CoStar News.

By 2023, volatile interest rates, uncertain property values and dramatically slowing rent growth brought the run to an end, and multifamily lending declined 44% from 2022 to 2023. MBA forecasts show those recent peaks won't be seen again at least through 2026, when multifamily lending is expected to reach $443 billion.

In the immediate future, there are competing narratives for commercial real estate, according to Woodwell.

"Commercial mortgage originations have historically followed property prices, and the uncertainty about the future path of interest rates has been a contributing factor to the current slowdown," he said. "If interest rates and cap rates were to fall, that should help boost values and promote borrowing. If they remain higher for longer, that will suppress activity. This uncertainty is a contributing factor in today's slowdown."

Woodwell said the Federal Reserve is currently working through how rents are affecting the Consumer Price Index and its decision on short-term interest rates. MBA forecasts assume rates will come down some but remain elevated from levels in 2021 and 2022.

Still, other factors may hold back financing, particularly in the multifamily sector. High levels of new supply may dissuade developers from taking out new construction loans, according to the MBA. And soaring insurance costs are expected to be a huge challenge for owners this year as they try to manage expenses.

Maturing Debt Might Feed Demand

There is another factor contributing to an expected modest rebound in commercial lending this year, according to Philadelphia-based CenterSquare in its 2024 real estate debt outlook: Borrowing demand should increase as real estate debt maturities keep mounting.

"While over $700 billion in loans were set to mature in 2023, many of those loans have been modified through a 'blend and extend' strategy, whereby lenders asked for additional collateral from the sponsor, adjusted the interest rate, and provided short-term modifications to the loan," the firm noted. "This has pushed more of these maturities into 2024 and 2025 with the hopes of a friendlier refinancing environment."

In the multifamily sector, a similar dynamic has been playing out with relatively low volumes of long-term and 10-year loans that are typical, Woodwell told CoStar News. Instead, there are more shorter-term loans, bank loans and investor-driven loans that are set to mature over the coming year.

"Folks that have been content to sit on their hands and see how the market plays out, more will be forced to decide to refinance or look to a sales transaction," he said.

Traditional bank lenders, though, are grappling with mounting delinquencies in their commercial real estate loan portfolios associated with office and regional malls, according to CenterSquare. That has opened up a window for more alternative lenders to step forward this year.

“Looking ahead into 2024, our optimism for real estate debt remains steadfast, driven by the characteristics of what we term a ‘lender’s market’ and creating an environment ripe for investment opportunities,” CenterSquare said. “Alternative debt providers, capitalizing on the vacuum created by an absence of traditional lenders, now wield substantial pricing power.”