The Monthly Minute

CRE Loan Maturity Trends

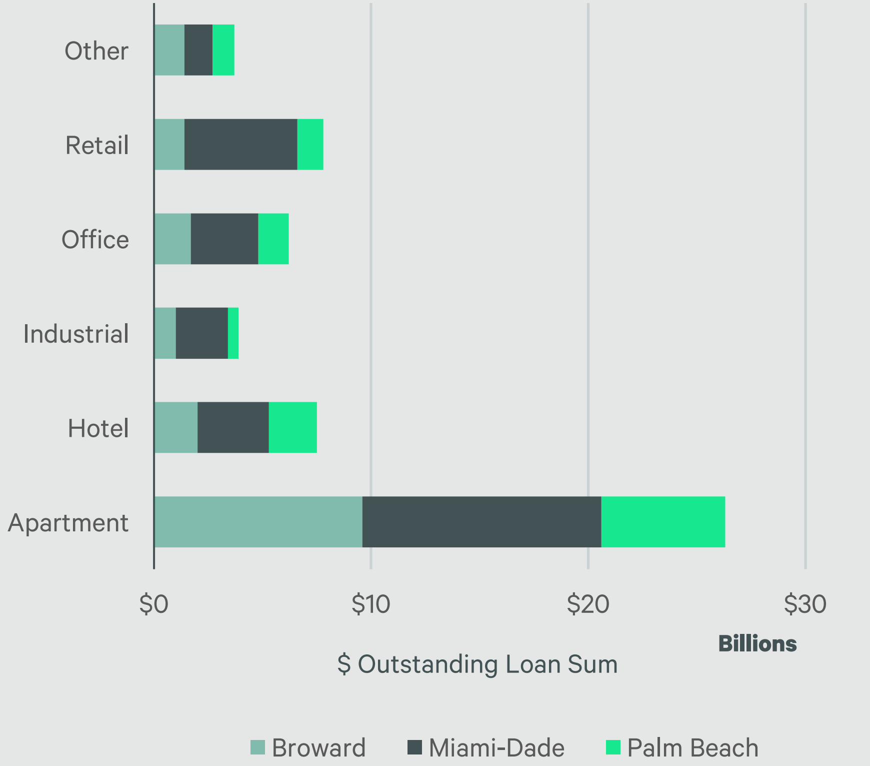
May 2024

South Florida outstanding loans breakdown

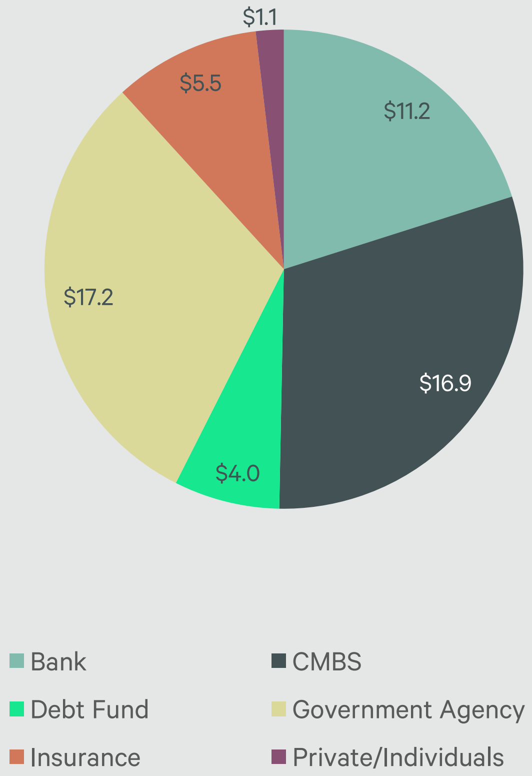
- Across all three counties CRE Loan Maturities amount to over $55 Billion through 2035. South Florida lending is heavily focused in Miami-Dade with 47% of all loans; 31% are in Broward and 22% are in Palm Beach County.

- Government Agency's and CMBS are the two largest lender types in South Florida accounting for more than 60% of all outstanding debt.

Loan Maturation by Property Type 2024 through 2035



Outstanding Loans by Originator



Source: CBRE Research, Q2 2024 and MSCI Real Capital Analytics

*Only includes future maturities dates and excludes matured loans prior Q2 2024

*Price Amount in Billions

Apartments account for the largest share of outstanding loans

- Apartment loan maturities account for the largest share of loans in South Florida at $26.3 Billion and nearly half (48%) of all CRE loans expiring through 2035.

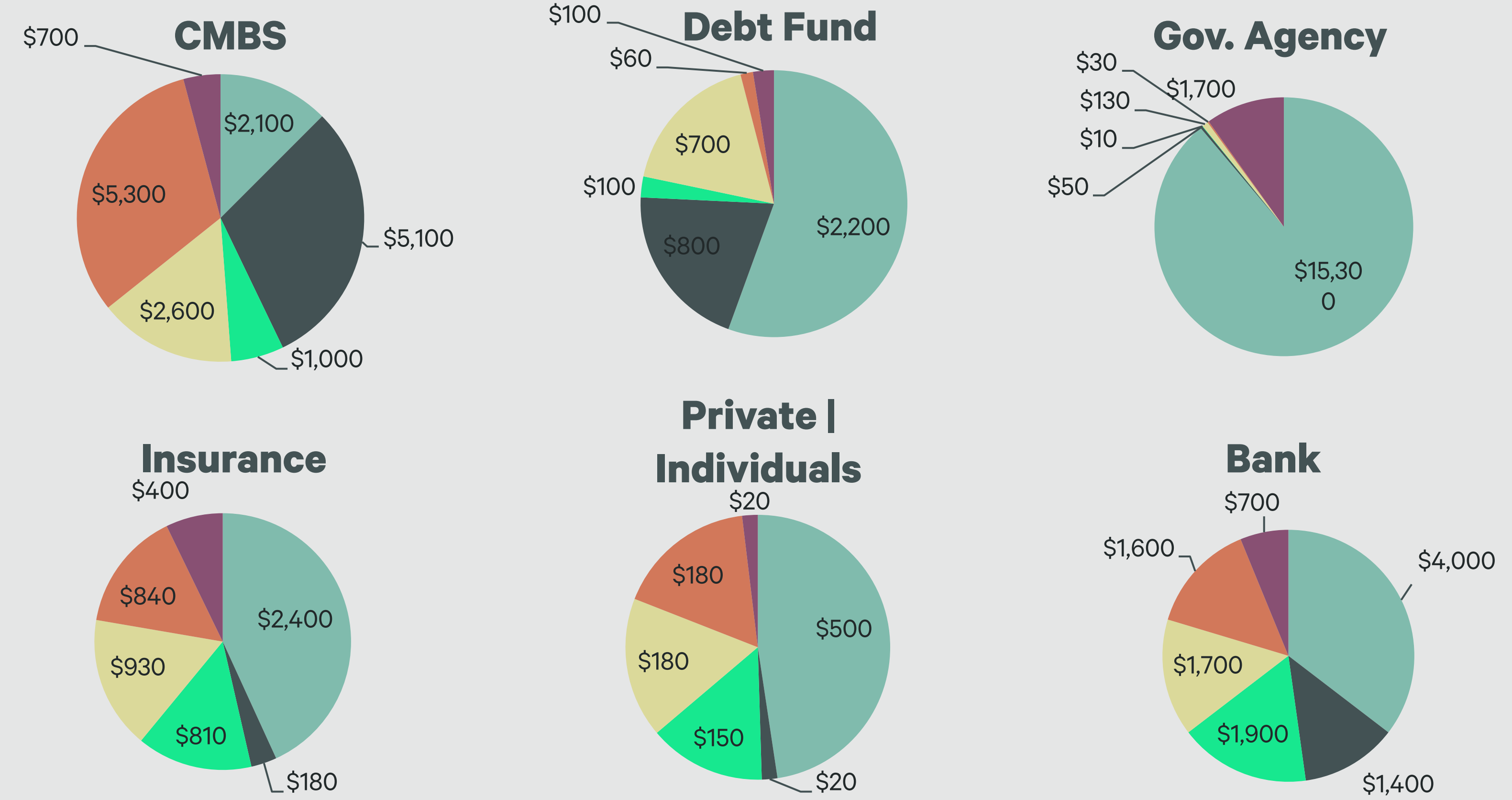
- Office loans are heavily focused in CMBS. In fact, 42% of all office outstanding office loans are CMBS, followed by 27% from Banks. Just 31% come from the combined 4 other sources of capital.

Legend Key

Apartment, Hotel, Industrial, Office, Retail, Other

*Price Amount in Millions

South Florida Loans by Lender Type



Source: CBRE Research, Q2 2024 and MSCI Real Capital Analytics

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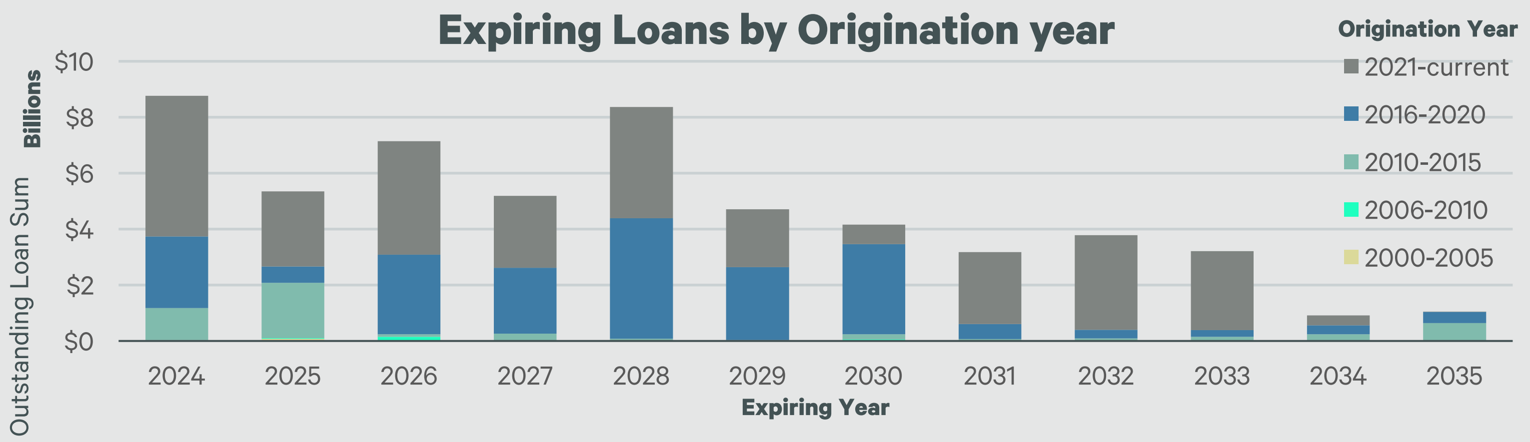
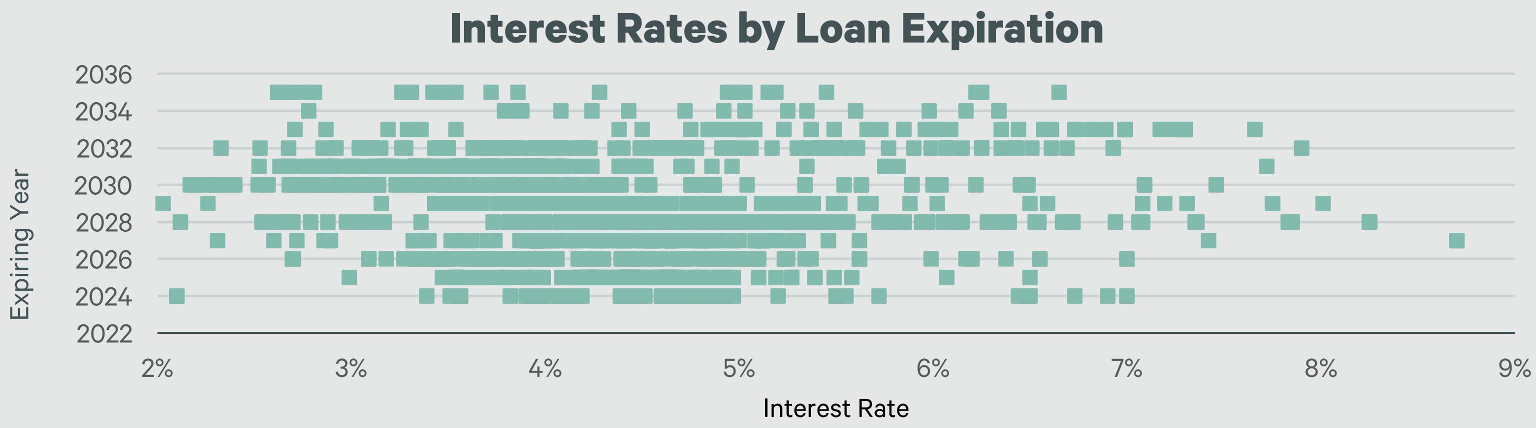
Billions expiring loans at below market interest rates

- More than half (62%) of all loans due by 2035 will come to term by 2028 at $34.7B. Of those, 41% and $14 billion are apartments, 19% and $6.4 billion are hotel, $5.4 billion and 16% are retail, and $4 billion and 12% are office. The remaining are industrial or other asset types.

- More than half (54%) of all loans expiring in through 2035 were initiated since 2021 and therefor expiring with an interest rate far below what we are seeing in the market today.

- The average expiring rate for loans is 4.5%; this is similar across property types. The average interest rate for hotels is 5.1%, office 4.6%, and retail 4.6%, apartments is 4.4%, and industrial 4.3%.





Source: CBRE Research, Q2 2024 and MSCI Real Capital Analytics
*Only includes future maturities dates and excludes matured loans prior Q2 2024 The Interest Rate Chart above chart only includes deals with known interest rates which is approximately 44% of all deals in the survey.

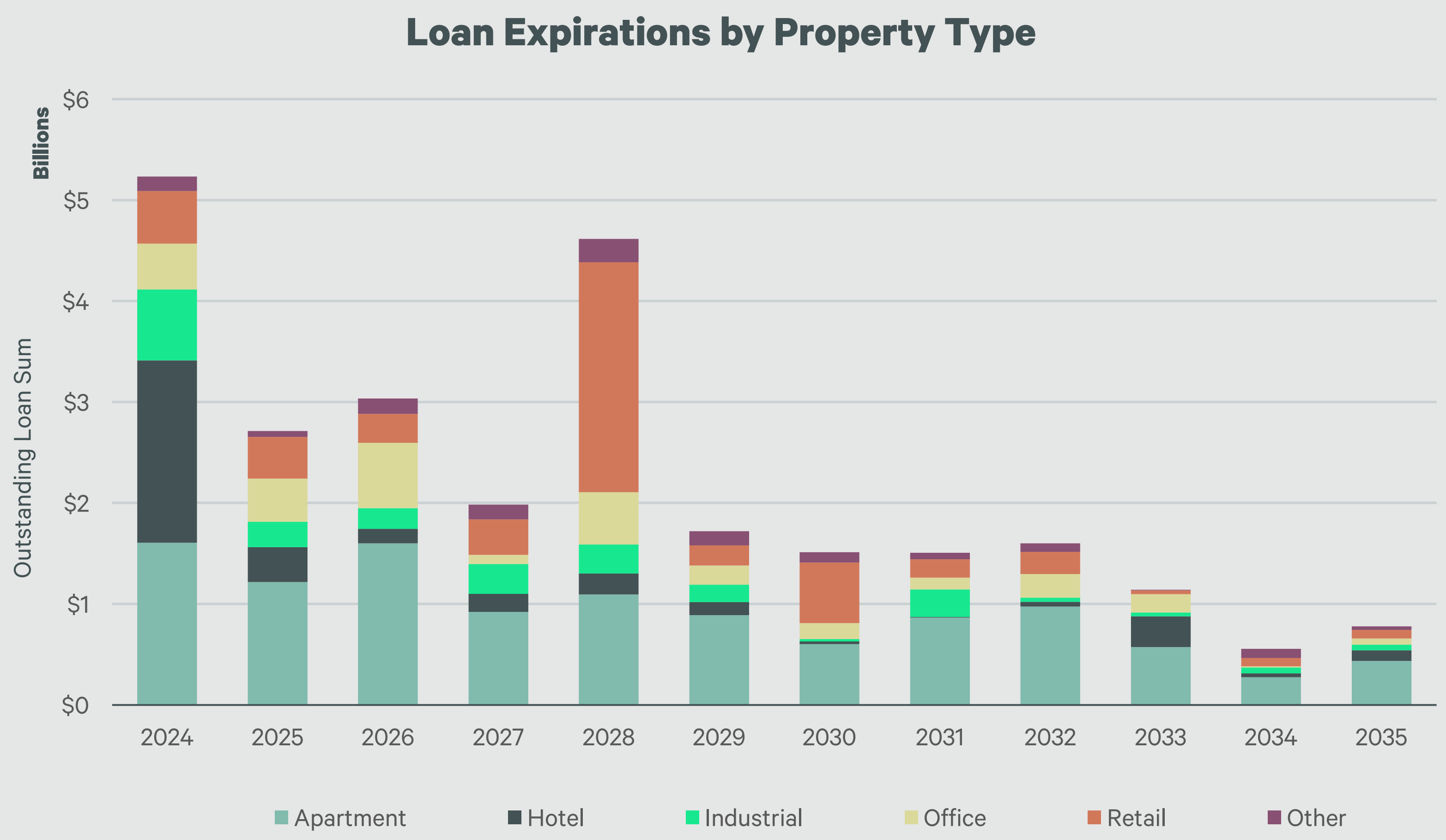
Highlight Statistics on Miami-Dade County

- There is currently $26 Billion of outstanding CRE loans coming to maturity through 2035 with 67% of maturing by 2028.

- The largest lender groups in Miami-Dade are CMBS ($9.1B) followed by Government Agencies ($6.2B).

- Most outstanding loans are apartments. Apartments account for $11 billion or 42% of outstanding debt.

- The average loan size $19 million. It is highest for hotels at $43 million and lowest for industrial at $10 million. These two are the outliers with apartments, office and retail all have an average loan size near the market average ranging between $18 million and $21 million.



*Only includes future maturities dates and excludes matured loans prior Q2 2024

Source: CBRE Research, Q2 2024 and MSCI Real Capital Analytics

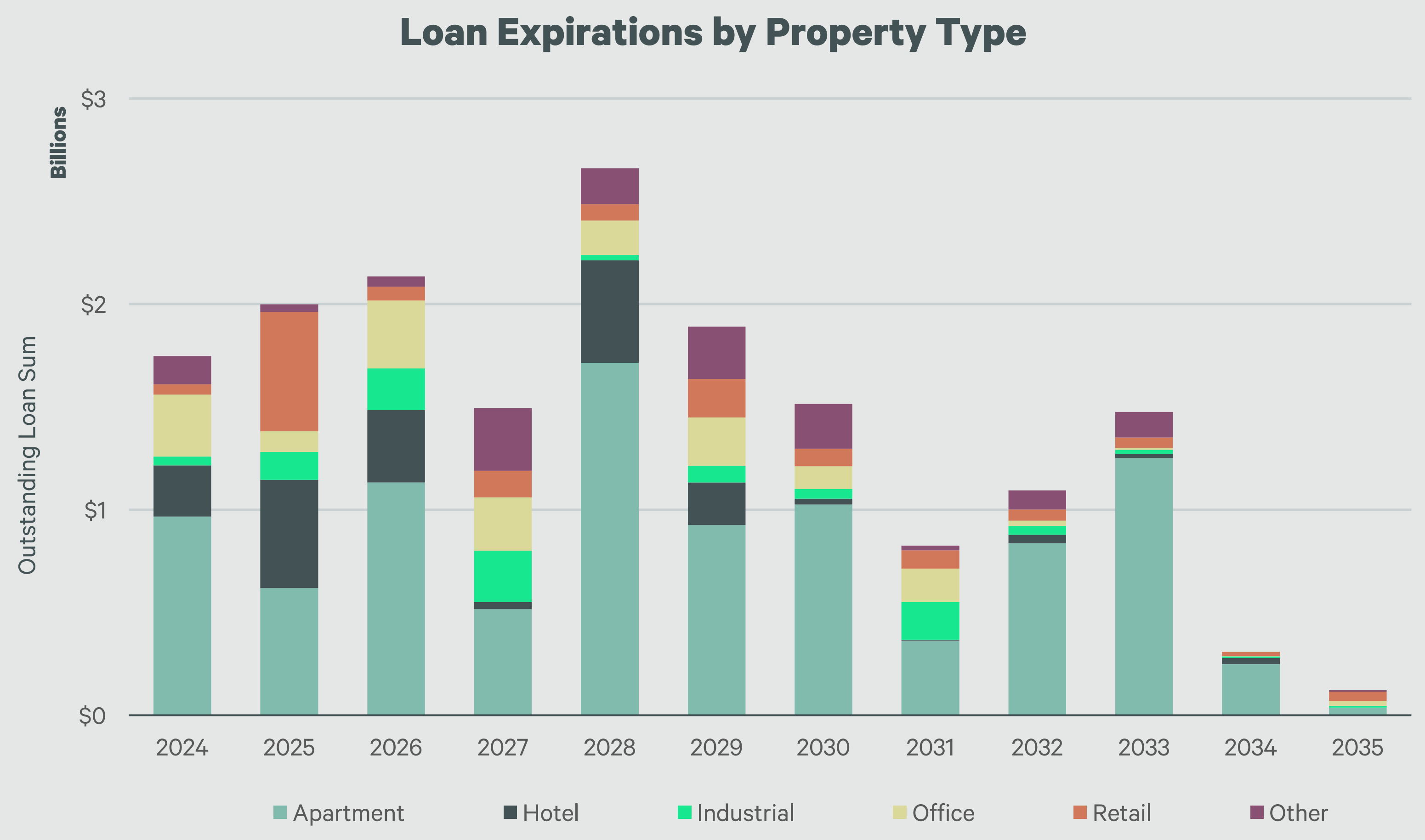
Highlight Statistics on Broward County

- There is currently $17 Billion of outstanding CRE loans coming to maturity through 2035 with 58% of maturing by 2028. In Broward, 2028 is the year currently projected to have the highest loan expiration sums totaling $2.7 billion.

- For office owners, 2026/2027 will be the biggest 24-months period. There will be $588 million in loans expiring which is 34% of all outstanding office loans.

- The largest lender groups in Broward are Government Agencies ($6.4B) followed by CMBS ($3.9B).

- The average loan size in Broward is $18 million, compared with $19 million in Miami-Dade. This trend of larger loans in Miami-Dade than Broward can be seen across the board among the five main property types but has one exception. In Broward, the average loan size for apartments is larger than Miami at $26 million compared with $21 million.



*Only includes future maturities dates and excludes matured loans prior Q2 2024

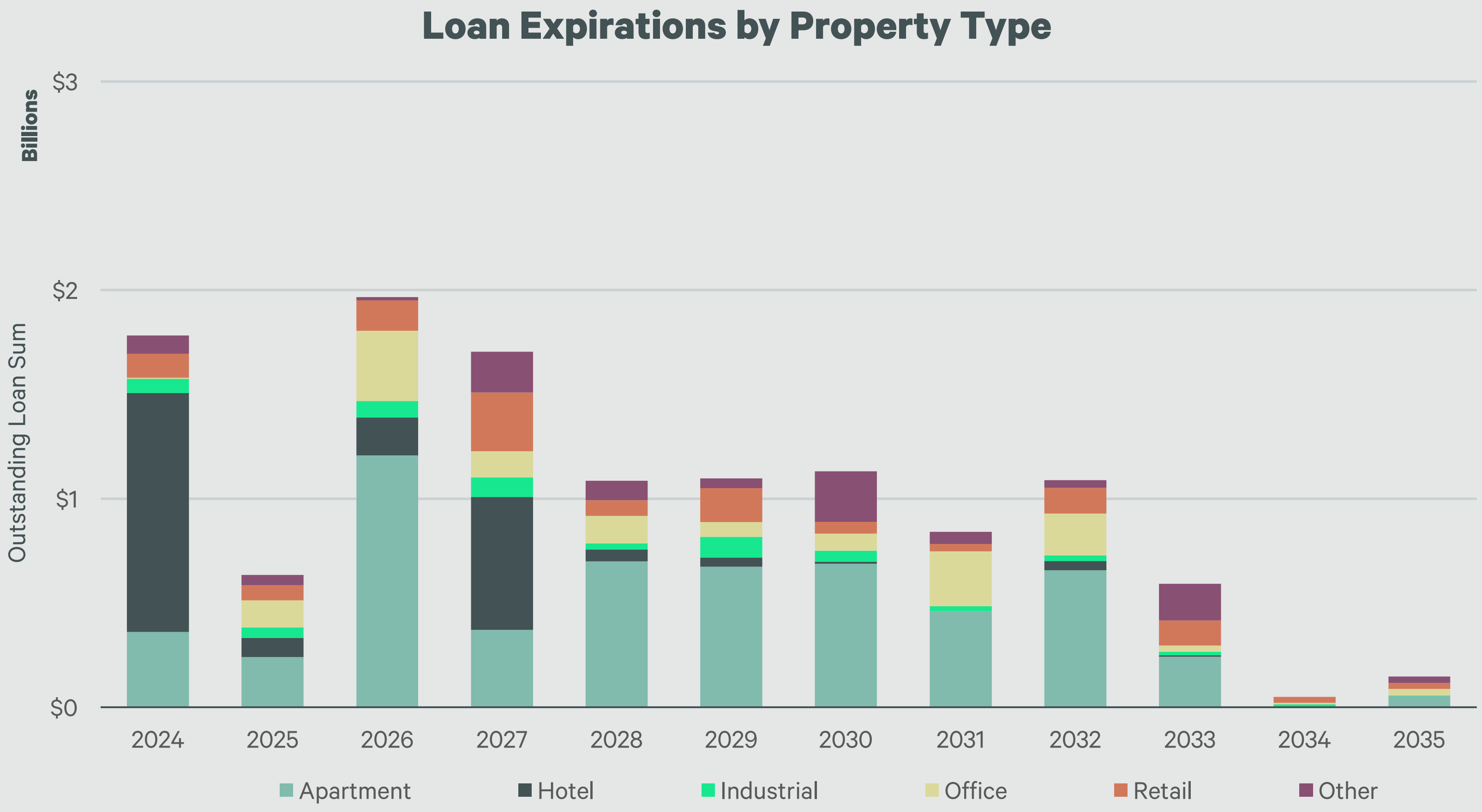
Source: CBRE Research, Q2 2024 and MSCI Real Capital Analytics

Highlight Statistics on Palm Beach County

- There is currently $12 Billion of outstanding CRE loans coming to maturity through 2035 with 59% of maturing by 2028. The total investment is the lowest of the three counties.

- The largest lender groups in Palm Beach are Government Agencies ($4.5B) followed by CMBS ($3.9B).

- There is more than $1.2 billion in apartment loans expiring in 2026; the highest year for apartment expirations. Three-quarters of this debt is a 1st mortgage and one-quarter is mezz-debt. These loans have an average size of $40 million each which is the second highest year in terms of average size only smaller than the current year which has an average size of $45 million.



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Source: CBRE Research, Q2 2024 and MSCI Real Capital Analytics

Office Market Outlook

Nearly half (43%) of the outstanding office loans in South Florida were issued by Banks (28%) or Life Insurance Companies (15%), both of which are trying to reduce their exposure to office properties. These lender types are not offering compelling re-financing options and would prefer to get these properties off their books even at a loss. This combination of a lack of re-financing options and a willingness of the lenders to take a loss is leading to increased sales activity as borrowers are forced to make a decision between 1) Investing substantially more capital into a property in order to re-finance them (Many of which view this as “throwing good money after bad”), 2) Giving the keys back to the lender (they don’t want them either, hence why they are willing to take a loss to get the loans off their books), or 3) Selling the property and recouping what they can for either themselves of the lender. In most cases, option #3 is the preferred choice.

CMBS & Debt Funds are the two most available sources of financing for office properties today and are likely to see a large uptick in originations as Life Insurance and Bank loans mature. While CMBS lenders traditionally offered longer-term fixed rate financing, the emergence of 5-year fixed rate CMBS loans has made it a viable option for office investors today.

These loans come with very restrictive occupancy (75%) and debt-service coverage covenants (1.25x), so they really only work for well-leased properties. These loans price around a 7% interest rate today, compared to the mid 3%’s just a few years ago. Debt Fund money is more widely available and comes with future funding facilities, even for less occupied properties, but is pricing in the 10%+ interest rate range compared to 4-5% just a few years ago.

With owners either working through a potential short sale with their existing lender, or using restrictive CMBS financing to buy deals, capital for leasing is much less available and under more scrutiny than it has been in recent years.

For the few groups that have strong capital relationships and are successful in buying office deals, their low basis will allow them to be more aggressive in their leasing strategies. This will likely lead to lower asking rents and more aggressive TI packages once the dust settles in the capital markets landscape.

Multifamily Market Outlook

Multifamily has the lion share of maturing loans in South Florida over the next few years. Agency, Banks, LifeCos and Debt Funds are the prevailing lenders in South Florida market. With 10-year rate remaining resiliently over 4% and spreads ranging from 160bps to over 200bps, most maturing loans in 2024 will encounter a significant debt service jump upon potential refinancing. Most of the maturing loans were placed 4-6 years ago with when market rents were significantly below current levels. This allows current owners to exit with significant profits despite the higher cap rate environment and the higher insurance costs.

Thus far we haven’t witnessed any significant selling based out of some sort of necessity i.e. distress, loan maturity, fund maturity or response to redemption requests. However, as we progress in 2024, we expect to see more properties, especially the ones with Q4 2024 and 2025 maturing loans to hit the market. The biggest challenge for these properties during marketing would be higher-for-longer interest rates, tight credit conditions, negative leverage environment, less 1031 available capital and differing buyer and seller expectations. With in-place cap rates consistently below interest rates, we expect buyers to continue placing more equity and receiving lower LTVs, frequently sub 60%.

Source: CBRE Research, MSCI Real Capital Analytics

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