Outlook for Commercial & Residential Mortgage Finance

WGA
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Mortgage Sector Trends

- The $20 trillion US commercial real estate (CRE) market, includes office buildings, retail space, commercial properties and multifamily housing assets. CRE is undergoing long-term deflation in asset values. *Change in direction* of CRE valuations is a massive reversal.
- Declining CRE valuations are driven primarily by higher interest rates, but other factors also contribute. Changes in behavior of businesses and consumers, and socialist policies in a number of blue cities and states, negatively impact asset values.
- Even as many commercial assets come under pressure due to credit defaults and a general trend toward reducing office space, the $13 trillion residential sector remains relatively quiet. Default rates are subdued due to the Fed's aggressive actions in 2019-2022, but a residential home price reset likely later in the decade.

Commercial Mortgage Finance

Commercial Real Estate (CRE)

- The MBA reports that > 90% of respondents have a “very negative” attitude regarding the $20 trillion CRE market. Significantly, office market fundamentals are seen as bigger negative than interest rates.
- Multifamily assets are fairing better than office CRE generally, but states with aggressive consumer laws (NY, CA) see valuations negatively impacted. Astute investors assume high rate of tenant turnover in all CRE due-diligence investigations.
- Falling valuations and rent rolls cause lenders to be cautious about underwriting new CRE exposures and negative on retaining impaired loans. Many NYC rent stabilized assets are unfinanceable by banks and now face a cash investor market.