Mortgage Debt Growth Continues for Commercial and Multifamily Real Estate

By: Thomas G. Voekler

03.31.2021

Recently released mortgage data shows that debt issued for commercial and multifamily real estate increased steadily in 2020 despite Covid-19-related economic uncertainty and a corresponding decline in lending volume.

According to information compiled by the Mortgage Bankers Association (MBA), outstanding commercial and multifamily debt was $212 billion higher than at the end of 2019, a 5.8 percent increase. Overall for 2020, commercial and multifamily debt rose 8.2 percent.

Total mortgage debt outstanding in the final three months of 2020 rose by 1.5 percent ($58.2 billion) compared to the third quarter of 2019, with the four major types of investor groups increasing their holdings. Multifamily mortgage debt grew by $41.8 billion (or 2.5 percent) to $1.69 trillion during the fourth quarter, and by $127.9 billion (8.2 percent) for the entire year, the MBA said.

Though certain segments of the commercial and multifamily real estate market?like certain retail and office space?have experienced significant declines in the last year, investors and institutions active in real estate financing have maintained their faith in the multifamily apartment segment and in other commercial sectors, like warehouse space.

CONTRIBUTING FACTORS

Which factors are contributing to the continued strength of real estate financing in the multifamily and commercial space?

Jamie Woodwell, MBA?s vice president of commercial real estate and research, noted two drivers during an interview with Bisnow upon the release of the latest MBA mortgage data: ?One was that multifamily lenders and investors continued to have a fair amount of faith in multifamily to get through the pandemic and to be in good shape on the other side of it. And, No. 2, you had federally backed lending that was available.?

Indeed, federally backed mortgages from Fannie Mae, Freddie Mac, and the Federal Housing Administration, coupled with investor confidence and low interest rates, spurred strong refinancing activity. While multifamily transaction volume fell off like other property types during the second and third quarters of 2020, ?we also saw its financing hold up better,? Woodwell told Bisnow.

Growth in multifamily mortgage debt in the fourth quarter outpaced other property types, just as it had in previous quarters of 2020. And ?strong appetites from all the major capital sources should keep growth going in 2021, but with key differences across property types,? the MBA said in a news release.

THE ROAD AHEAD

Among the property types to watch through 2021 is the multifamily apartment sector, which, industry analysts say, is likely to continue showing strength. During a recent podcast discussing real estate financing and related trends, analysts from Freddie Mac and Citi highlighted the resiliency of the multifamily market and noted that rent payments have been prioritized by people in the wake of the pandemic. Stimulus checks and forbearance efforts have helped multifamily residents continue to pay their rent, further strengthening the appeal of the sector to lenders and investors.

On the commercial side, much has been made of the growth of online shopping and its impact on the retail sector, and office buildings in the largest cities, like New York and the San Francisco Bay Area, have seen the lowest leasing activity in a decade.

However, certain types of retail?such as pharmacies and grocery stores?and commercial office space in smaller markets and suburban areas have better weathered the Covid crisis as shoppers and employers look for less density to accommodate social distancing. The Freddie Mac and Citi analysts said markets in the South?particularly Richmond, Va., Birmingham, Ala., and Louisville, Ky.?saw low availability rate increases in their commercial office sectors ?and just 20 percent drop-offs in leasing activity? compared to far larger declines in other markets.

In addition, industrial demand has strengthened, according to the Freddie Mac analysts, as online retailers seek more warehouse properties to accommodate deliveries. This demand, they said, is likely to continue to rise, particularly as Amazon and other large online retailers look for facilities that will serve the unique logistics of their businesses.

Again, suburban and smaller urban markets will likely benefit. The Richmond metro area, for example, is already seeing strong demand for warehouse space. In mid-March, a developer announced that it purchased 54 acres of the Meadowville

Technology Park from the Chesterfield Economic Development Authority to build a $20 million, 350,000-square-foot warehouse by the end of 2021. According to Richmond Biz Sense, the property will be marketed to potential tenants in the food-and-beverage, logistics and packaging sectors.

Williams Mullen attorneys work closely with clients on real estate financing issues and assists them through the entire real estate development and investment lifecycle. To learn more, contact us for a consultation.

Related People

- Thomas G. Voekler ? 804.420.6018 ? tvoekler@williamsmullen.com

Related Services

- Real Estate