



CRE Recovery Looks Mixed – Winners and Losers

🔗 lending CRE

Summary: Commercial real estate (CRE) was hit hard because of the pandemic. Now, lenders are hoping that with the economic recovery, CRE will get back on track. We map out what to expect in the coming months with some of the winners and losers along with how to best prepare your institution for the anticipated CRE recovery.

Published in 1859, “A Tale of Two Cities” is considered by many to be the most famous of all of Charles Dickens’ books, as it has been adapted into plays, radio segments, movies, television shows, and podcasts. These days, we are even seeing glimpses of it in the financial industry.

Lenders looking for cues on what’s ahead for commercial real estate (CRE) lending activity and valuations are finding a story that reads a little like this classic novel — “It was the best of times. It was the worst of times.” As we review the last year, some CRE sectors are coming out on top while others continue to struggle.

CRE investment sales dropped sharply in 2020 due to disruptions from the pandemic. The uncertainty that clouded the outlook for property performance made investors cautious and underwriting difficult. The outlook ahead for CRE transactions and values varies widely by property sector with some clear winners and losers — and those property sectors that fall somewhere in the middle. We give you the lay of the land so that you can discuss business opportunities with your CRE customers and prepare for the months to come.

Winners & losers

According to [Real Capital Analytics](#), property sales ended 2020 with a 30% decline from 2019 with a total volume of \$420B. The trailing 12 months of data through January 2021 shows that the hotel sector remains the most negatively impacted one, with sales down 71% YoY.

In contrast, the two sectors that might be considered “winners” because they are least affected are development sites (down only 1%) and industrial sales (down 22%). Additionally, self-storage has proven to be highly resilient over the past year. That momentum has carried over into 2021, with a record high of \$968MM in sales during January and February.

Expected CRE recovery

Commercial real estate performance does have a strong correlation to the overall health of the economy, which bodes well for a more optimistic outlook for property performance. Economists have revised forecasts on GDP growth to be more bullish for the coming year, largely due to the continued rollout of the vaccine, states reopening for business, and the approval of the new \$1.9T stimulus package. In early March, the [OECD increased its growth forecast](#) for US GDP to 6.5% in 2021, up from 3.3% in December.

The National Association of Realtors’ Chief Economist Lawrence Yun said in the association’s [2021 Commercial Real Estate Forecast](#) that improvement in the economy is likely to drive gains across most CRE markets. Multifamily and industrial real estate, in particular, are expected to remain as the two strongest sectors.

Growth in e-commerce continues to provide a strong tailwind for demand for distribution and warehouse space, while the country continues to face a shortage of rental housing in most markets, particularly affordable housing, that is generating sustained demand. Still, the office sector and some sectors of the retail market will continue to face challenges in the coming year.

That said, returning investor confidence for a brighter outlook ahead will likely spark more property sales in 2021. Rates are expected to remain favorable for borrowers, which should contribute to a steady appetite for financing to fund both acquisitions and refinancing of properties in the coming year.

Community financial institutions are in a good position to continue serving their CRE customers successfully. Keep communication going, update expected cash flow for customers as needed, and stay prudent with their lending practices and things should look up soon.

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