Lending Opportunities Rise In 2022

lending commercial industrial CRE

Summary: Consumer spending was up 2.1% in January, which has prompted several businesses to increase their inventory and turn to their community financial institutions for loans. What exactly is driving this need for more funds right now and how can bankers capitalize on them?

Flared jeans and pants are popular this year, a style that is reminiscent of the bell-bottoms that dominated the fashion world throughout much of the 1960s and 1970s. Despite the style's strong ties to the hippie era, bell-bottom pants can actually trace their origin to the early 1800s when it is believed that they were worn by sailors because of the ease of rolling the pants while working barefoot on ships. When the style re-emerged and became popular in London in the 1960s, it wasn't long before the trend made its way to America.

As some of us have flashbacks to our own set of bell bottoms, we shift gears to the current state of business borrowing. As COVID threat levels finally seem to be winding down, many businesses' interest in building up inventories and strengthening services is once again on the rise. This shift has begun to fuel a resurgence in commercial lending. We provide you with the economic landscape and the key drivers in this commercial lending activity.

Changing tides

Consumer spending. In January, consumer spending increased a seasonally adjusted 2.1% from December, despite inflation and Omicron. Robust savings and rising wages have helped to spur spending. Durable goods orders also increased in January by 1.6% to $227.5B, according to the Commerce Department. This boost in consumer spending has led several businesses to begin ramping up their inventories and look for capital.

Commercial lending. This increase in commercial lending was already noticeable in Q3 and Q4 of 2021. According to the Fed's Senior Loan Officer Opinion Survey on Bank Lending Practices, banks experienced their highest demand for commercial and industrial loans since 2014 in Q4, along with a significant uptick in queries about lines of credit. Analysts expect that commercial and industrial loans, in particular, will continue to drive loan growth for financial institutions throughout 2022, particularly as organizations rush to secure funding in advance of expected interest rate hikes. Furthermore, the Mortgage Bankers Association predicts that 2022 could see commercial and multifamily borrowing surpass $1T for the first time.

The drivers of commercial lending

Hybrid work. Following 2Ys of remote and hybrid work situations, companies are finally beginning to return employees to offices. This change oftentimes necessitates upgrading existing office spaces to upgrade air quality, change building layouts, or enhance technology to support hybrid work situations. Since hybrid work situations are expected to stay for numerous businesses, many organizations are moving to higher quality and more cost-effective facilities.

Housing costs. Demand for multifamily housing continues to rise, as housing prices stay high. Many people instead seek out rentals or lower-cost properties with shared costs. According to Origin Investments, average rent growth surged by 13.5% last year, reaching almost $1,600, which is a new record. Meanwhile, cap rates are falling – cap rates go lower as property values go higher. There will be additional multifamily lending opportunities to support this market.

Proptech. The use of property technology (a.k.a. proptech) is soaring as people, who seek out and manage commercial real estate properties, are constrained by the lack of labor. Using proptech "*to efficiently run, search, rent, and sell office, industrial, and retail property assets*" allows landlords to ramp up business despite employment constraints. They may need extra funds to get set up with this digital tool.

Geographic moves. The geographic movement of labor away from major cities, like Manhattan, toward smaller markets, such as Atlanta, Phoenix, and Charlotte, is also expected to fuel the need for loans within certain pockets of the country. The influx of new inhabitants means additional housing and services will be needed.

All of this, coupled with rising construction costs, due to supply chain issues, the rising cost of materials, and labor shortages, is expected to bolster the demand for commercial loans.

Opportunities for community financial institutions

The above trends present opportunities for significant revenue growth in 2022 for community financial institutions (CFIs). Yet, the competition will be fierce. Talk to your customers, develop a plan, and launch targeted marketing campaigns to grab a piece of the pie. In addition, you may want to revisit our BID article, *Five Lending Tips to Stay Competitive*.

Things seem to be getting back on course for many businesses, which is good news for CFIs. The one wild card is the impact of the Russian invasion of Ukraine. We are all watching closely as the developments unfold to better understand the implications as we hope for the best.

EXPAND YOUR LENDING

Looking for more lending income? PCBB's loan participations allow you to increase and diversify your lending, while protecting your customer relationships. Contact us today.

ECONOMY & RATES

Rates As Of: 03/28/2022 02:38PM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.59	0.24	0.53
6M	1.08	0.39	0.89
1Y	1.69	0.69	1.30
2Y	2.35	0.91	1.61
5Y	2.56	0.84	1.30
10Y	2.46	0.63	0.95
30Y	2.54	0.38	0.64

FF Market	FF Disc	IORB
0.33	0.50	0.40

SOFR	Prime	OBFR
0.28	3.50	0.32