

2023 Banking Outlook Conference

Commercial Real Estate in the Current Economy



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The views expressed here are those of the presenters and do not necessarily reflect the views of the Federal Reserve Bank of Atlanta, the Federal Reserve Board of Governors, or the Federal Reserve System.

Components of Inflation

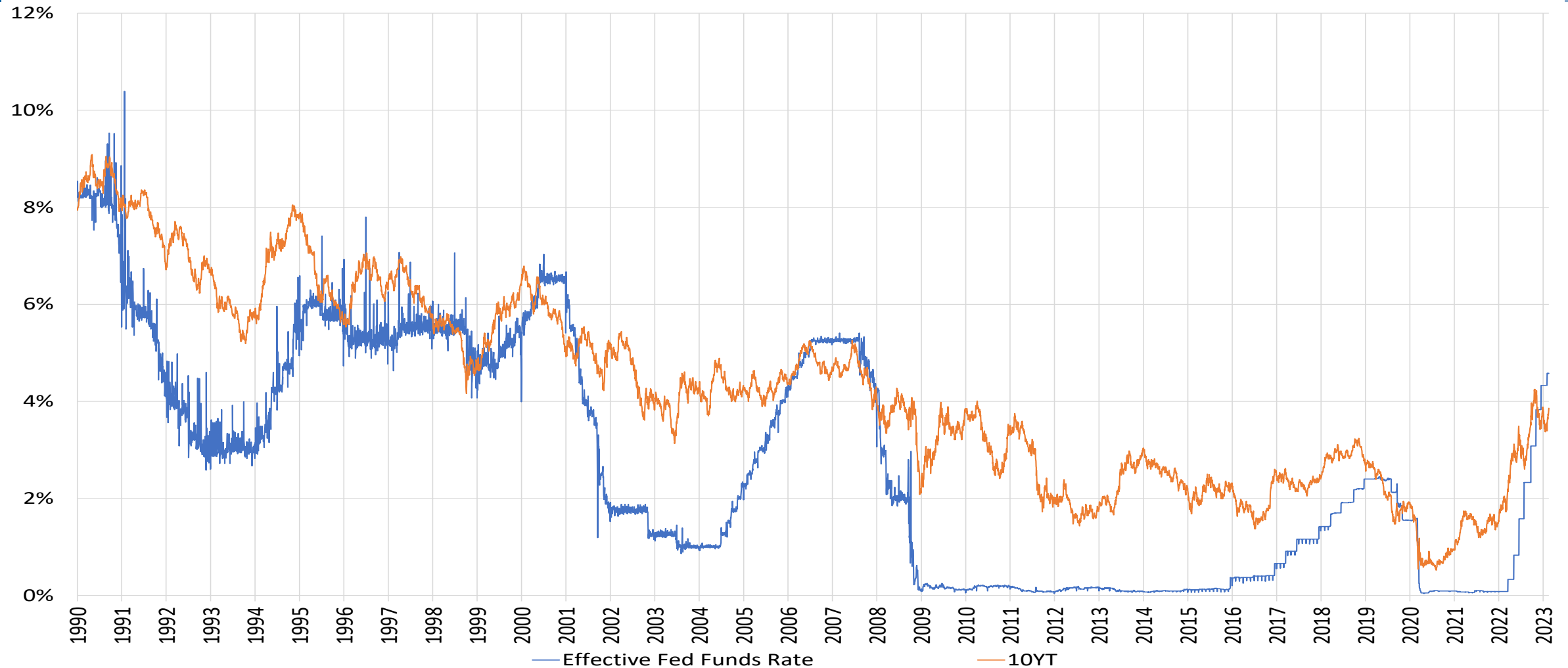
January 2023

Year-over-Year (YoY) Change in the Consumer Price Index

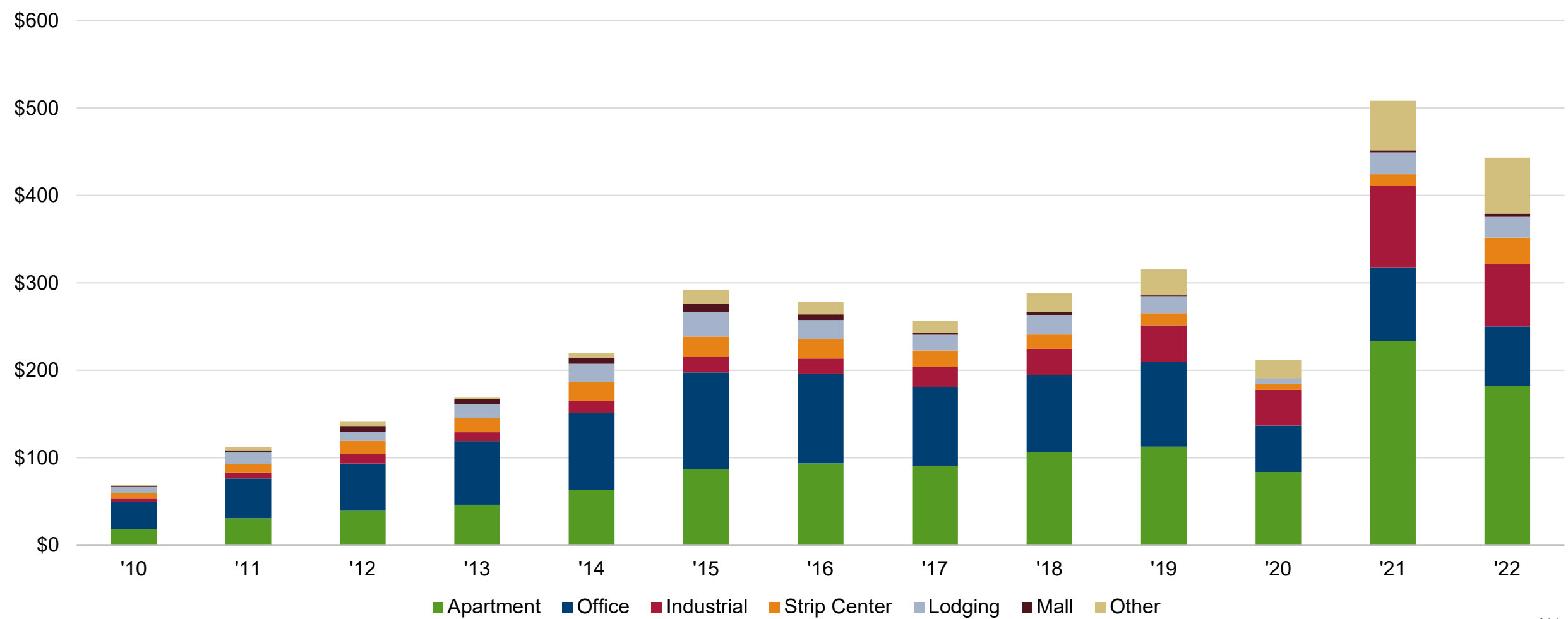
Date		CPI-U	Core	Food & Beverages	Energy	Housing	Shelter	Fuels & Utilities	Household Ops	Home Ownership	Rent	Recreation	Lodging	Apparel	Transportation	Medical Care	Education	Communication	Other Goods & Svcs	Gasoline	New Vehicles	Used Vehicles
2023	Jan	6.3	5.6	9.9	8.4	8.3	7.9	13.2	5.9	7.8	8.6	4.8	7.7	3.0	3.6	3.1	3.4	-0.7	6.2	1.5	5.8	-11.6
2022	Dec	6.4	5.7	10.2	7.1	8.1	7.5	13.5	6.7	7.5	8.3	5.1	2.9	2.9	3.7	4.0	3.3	-1.1	6.4	-1.2	5.9	-8.8
	Nov	7.1	6.0	10.3	13.0	7.8	7.1	13.1	7.6	7.1	7.9	4.8	3.1	3.6	7.8	4.2	3.1	-1.1	7.0	10.1	7.2	-3.3
	Oct	7.8	6.3	10.6	17.6	7.9	6.9	14.2	8.4	6.9	7.5	4.1	5.8	4.1	11.2	5.0	3.0	-2.1	6.5	17.5	8.4	2.0
	Sep	8.2	6.6	10.8	19.9	8.0	6.6	17.0	9.3	6.7	7.2	4.1	3.0	5.5	12.6	6.0	3.1	-2.0	6.9	18.2	9.4	7.2
	Aug	8.2	6.3	10.9	23.9	7.8	6.3	17.3	9.9	6.3	6.7	4.1	4.1	5.0	13.4	5.4	3.1	-1.5	6.6	25.6	10.1	7.8
	Jul	8.5	5.9	10.5	32.9	7.4	5.7	16.7	10.1	5.8	6.3	4.4	1.2	5.1	16.4	4.8	2.6	-1.0	6.3	44.0	10.4	6.6
	Jun	9.0	5.9	10.0	41.5	7.3	5.6	17.7	9.5	5.5	5.8	4.6	10.1	5.2	19.6	4.5	2.7	-0.6	6.7	59.9	11.4	7.1
	May	8.5	6.0	9.7	34.4	6.9	5.4	15.5	8.9	5.1	5.2	4.5	19.3	5.0	19.3	3.7	2.5	-0.5	6.3	48.7	12.6	16.1
	Apr	8.2	6.2	9.0	30.2	6.5	5.1	13.0	9.9	4.8	4.8	4.3	19.7	5.4	19.8	3.2	2.5	-0.1	5.7	43.6	13.2	22.7
	Mar	8.6	6.5	8.5	32.2	6.4	5.0	12.5	10.1	4.5	4.4	4.8	25.1	6.8	22.5	2.9	2.5	0.9	5.5	48.0	12.5	35.3
	Feb	7.9	6.4	7.6	25.7	5.9	4.8	11.0	9.7	4.3	4.2	4.9	25.1	6.6	21.1	2.4	2.1	1.2	5.6	38.0	12.4	41.2
	Jan	7.5	6.0	6.7	27.0	5.7	4.4	11.9	9.0	4.1	3.8	4.8	20.5	5.3	20.9	2.5	2.1	1.3	4.9	40.0	12.2	40.5
2021	Dec	7.1	5.5	6.0	29.4	5.1	4.2	9.4	7.4	3.8	3.3	3.3	24.2	5.7	21.3	2.2	2.0	1.3	4.5	49.3	11.8	37.3
	Nov	6.8	4.9	5.8	33.1	4.8	3.9	9.8	6.4	3.5	3.0	3.2	22.2	5.0	21.1	1.7	2.1	1.3	4.4	57.8	11.1	31.4
	Oct	6.2	4.6	5.1	29.8	4.5	3.5	10.4	6.2	3.1	2.7	3.8	22.5	4.5	18.7	1.3	2.1	1.5	4.2	49.5	9.8	26.4
	Sep	5.4	4.0	4.5	24.9	3.9	3.2	8.3	5.1	2.9	2.4	3.5	17.5	3.4	16.5	0.4	2.0	1.5	3.4	42.0	8.7	24.4
	Aug	5.2	4.0	3.6	25.1	3.5	2.8	8.1	4.0	2.6	2.1	3.4	17.1	4.1	17.6	0.4	1.4	1.1	3.5	42.8	7.6	31.9
	Jul	5.3	4.3	3.4	23.8	3.3	2.8	7.2	3.7	2.4	1.9	3.5	21.0	4.1	19.1	0.3	1.1	1.1	2.9	41.9	6.4	41.7
	Jun	5.3	4.5	2.3	24.5	3.1	2.6	6.6	4.1	2.3	1.9	2.4	15.0	4.9	21.4	0.4	1.2	2.8	2.5	45.4	5.3	45.2
	May	4.9	3.8	2.1	28.0	2.9	2.2	6.4	4.6	2.1	1.8	1.6	9.2	5.7	19.8	0.9	1.0	2.6	2.7	56.5	3.3	29.7
	Apr	4.2	3.0	2.3	24.9	2.6	2.1	5.6	3.5	2.0	1.8	2.2	7.5	2.1	14.9	1.5	0.8	2.4	2.7	49.7	2.0	21.0
	Mar	2.7	1.6	3.4	13.3	2.1	1.7	4.4	3.2	2.0	1.8	1.1	-6.3	-2.5	6.0	1.8	0.8	2.1	2.4	22.6	1.5	9.4
	Feb	1.7	1.3	3.5	2.3	1.8	1.4	3.4	2.7	2.0	2.0	0.8	-15.0	-3.7	0.6	2.0	1.2	2.2	2.1	1.4	1.2	9.3
	Jan	1.4	1.4	3.7	-3.9	1.8	1.6	2.1	2.9	2.0	2.1	0.1	-11.5	-2.8	-1.4	2.0	1.3	2.1	2.1	-8.9	1.4	10.0
2020	Dec	1.3	1.6	3.8	-7.3	2.0	1.8	2.1	3.1	2.2	2.3	0.9	-9.7	-4.2	-2.6	1.8	1.4	2.4	2.4	-15.3	2.0	10.0
	Nov	1.1	1.6	3.7	-9.7	2.0	1.9	1.6	2.7	2.3	2.4	1.3	-11.0	-5.1	-3.4	2.4	1.3	2.4	1.7	-19.5	1.6	10.9
	Oct	1.2	1.6	3.8	-9.3	1.9	2.0	1.0	2.0	2.5	2.7	1.3	-13.5	-5.4	-3.5	2.9	1.4	2.8	1.9	-18.2	1.5	11.5
	Sep	1.4	1.7	3.8	-7.6	2.0	2.1	1.3	2.2	2.5	2.7	1.5	-13.1	-6.0	-3.1	4.2	1.5	2.7	2.3	-15.4	1.0	10.3
	Aug	1.3	1.7	3.9	-8.9	2.1	2.3	0.3	2.5	2.7	2.9	1.3	-11.5	-6.0	-4.1	4.4	1.7	2.7	2.2	-16.7	0.7	4.0
	Jul	1.0	1.6	3.9	-10.8	2.0	2.3	0.1	1.5	2.8	3.1	1.0	-13.5	-6.4	-5.8	5.0	2.2	2.4	2.7	-20.1	0.5	-0.9
	Jun	0.7	1.2	4.3	-12.2	2.0	2.4	0.2	1.4	2.8	3.2	1.6	-14.0	-7.2	-7.9	5.1	2.0	0.9	2.8	-23.1	-0.2	-2.8

Source: Bureau of Labor Statistics; Center for Real Estate Excellence/Federal Reserve Bank of Atlanta

Fed Funds & Effective 10-Year Treasury Yield



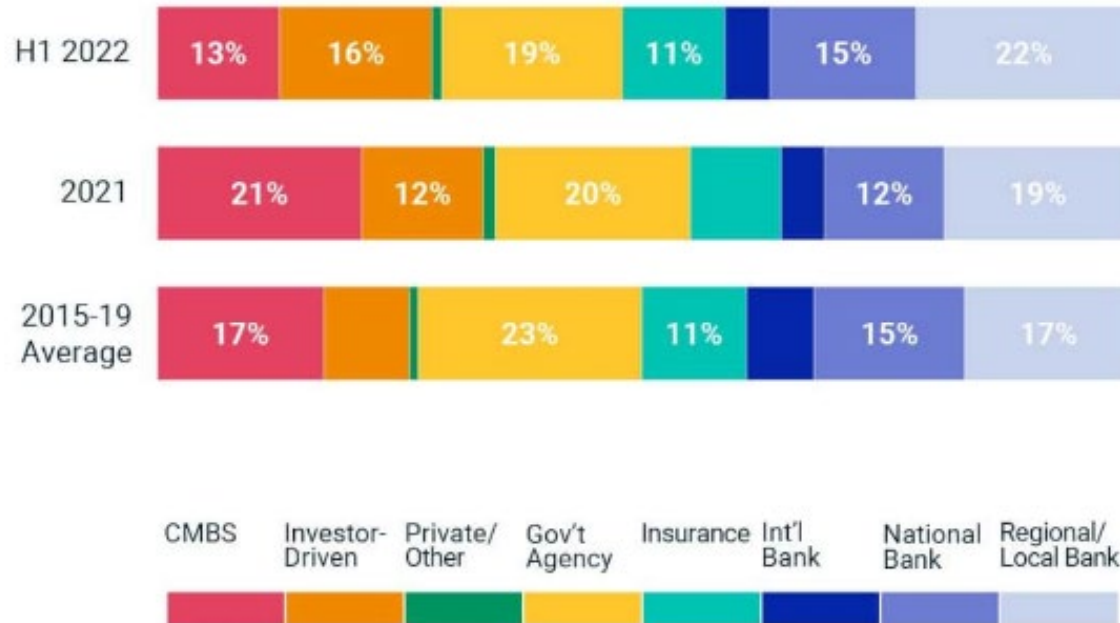
Annual CRE Transaction Volume (\$B)



Source: Greenstreet; Risk Analysis Unit/Federal Reserve Bank of Atlanta

Lending

Lender composition, all major property types



2015-2019 vs. 2022: Local/Regional Banks and Nonbanks have grown market share.

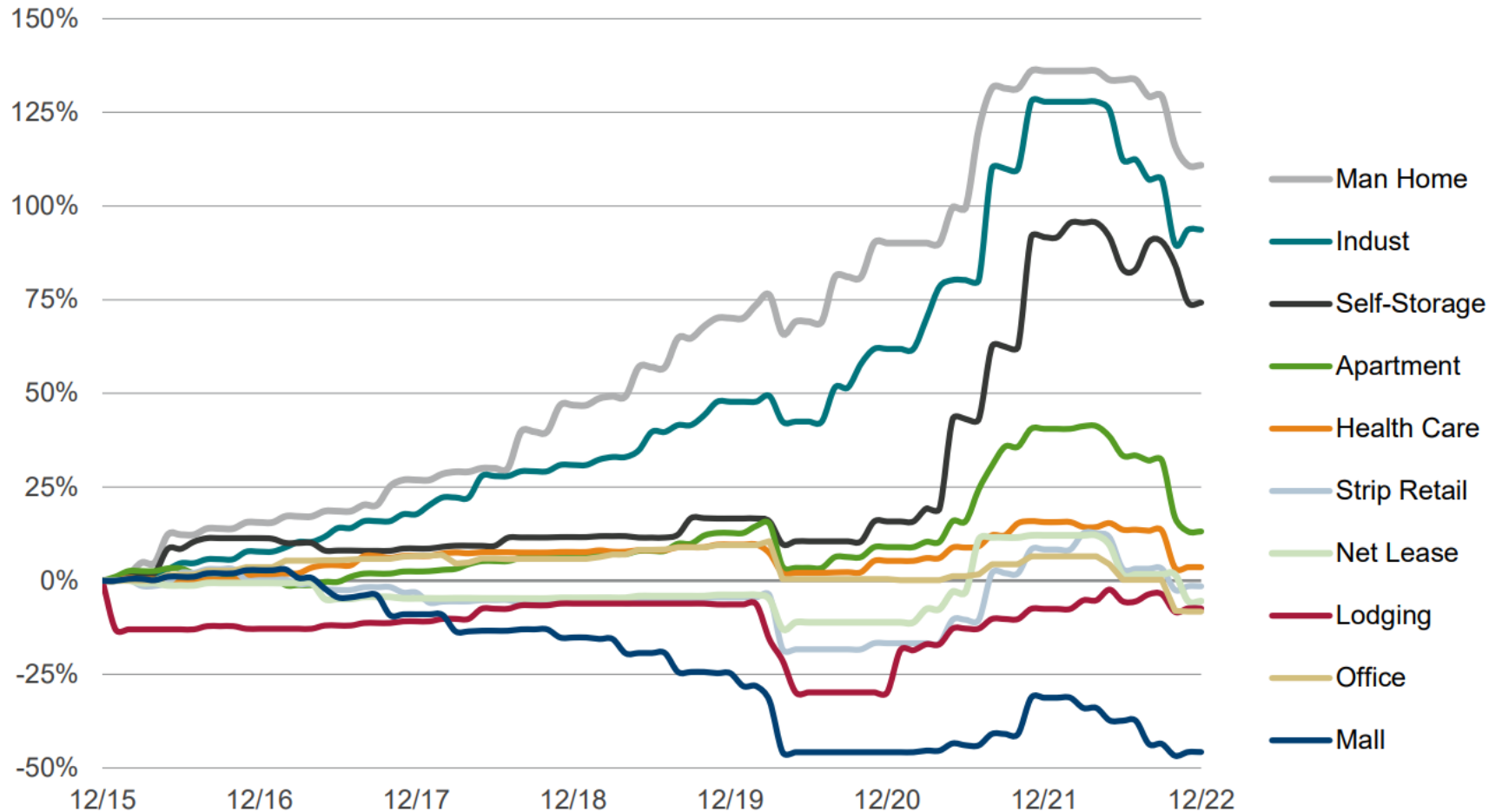
CMBS lending decreased dramatically compared to 2021.

Investor-driven funds have driven competition but appear to be slowing lending as financing sources have dried up.

Commercial Property Price Indices

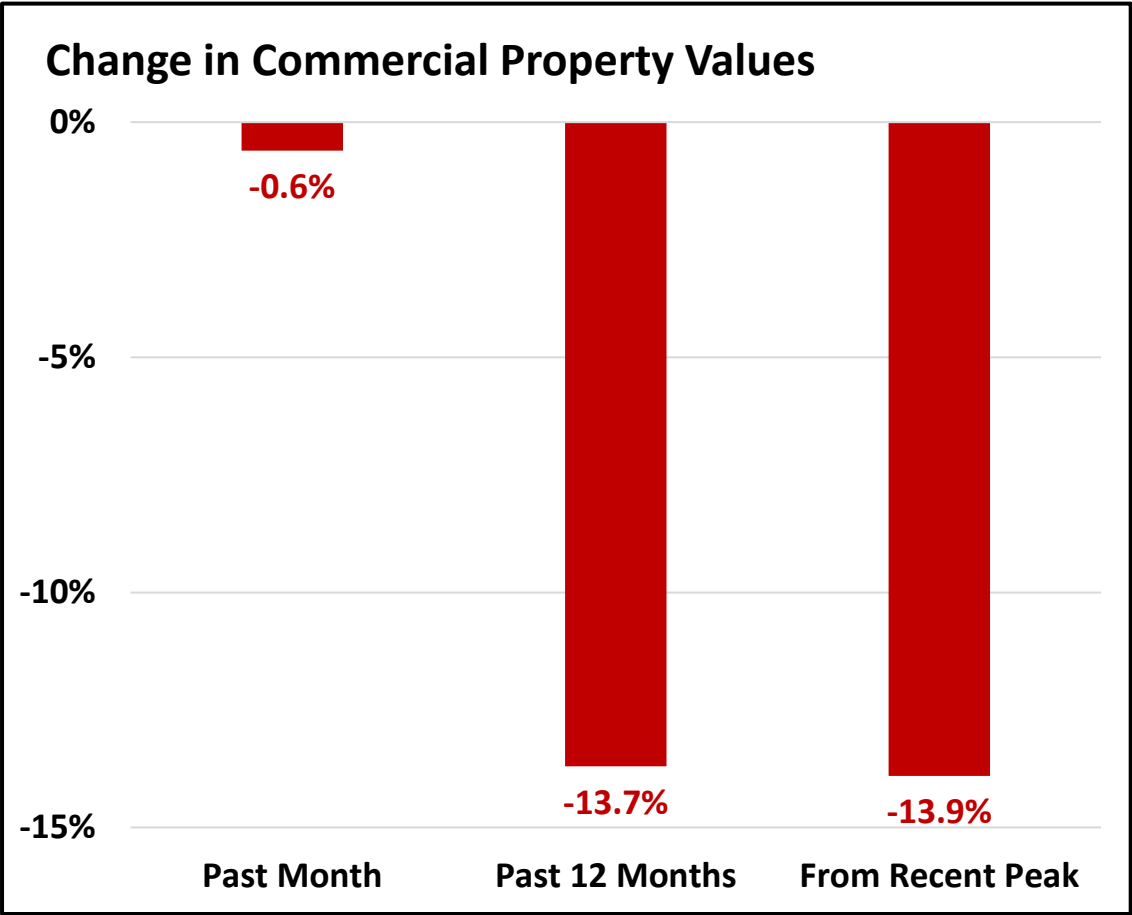
Includes both transactions and appraisals (February 2023)

Cumulative Change in CPPI®: Past Seven Years



Change in CPPI	
	Past 12 Mos
All Property	-13%
Core Sector	-16%
Apartment	-20%
Industrial	-15%
Mall	-21%
Office	-14%
Strip Retail	-13%
Health Care	-10%
Lodging	-5%
Manufactured Home Park	-11%
Net Lease	-16%
Self-Storage	-11%

Declining Value and Leverage = Increased Risk



LTV at Origination

Decline
in Value

	65%	75%	85%
-5%	68%	79%	89%
-10%	72%	83%	94%
-15%	76%	88%	100%
-20%	81%	94%	106%
-25%	87%	100%	113%
-30%	93%	107%	121%
-35%	100%	115%	131%
-40%	108%	125%	142%

85%	New LTV with Elevated Risk
100%	New LTV with High Risk
120%	New LTV with Ultra Risk

Questions