Yardi Matrix

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Multifamily Loans Coming Due Face Stress Test

Higher interest rates, lower property values and a surge in supply will test the multifamily market in the next few years as loans come due on a large volume of properties. A review of Yardi Matrix's database found that loans on more than 58,000 properties totaling $525 billion will mature over the next five years, nearly half of the total $1.1 trillion of loans currently backed by apartments. In the short term, through the end of 2025, loans on 6,800 properties totaling nearly $150 billion are set to mature.

The loan maturities are not spread evenly across the country. Metros with the largest volume of maturities and/or the most loans maturing as a percentage of stock include Atlanta, Dallas, Denver, Houston, Chicago and New York. Loans originated by the government-sponsored enterprises Fannie Mae and Freddie Mac have the largest volume of maturities, but most GSE debt comes due in five years or longer. On the other hand, nearly half of debt-fund loans mature through the end of 2025, as does nearly one-quarter of loans originated by commercial banks and CMBS.

Worries about rising loan defaults intensified when the Federal Reserve started raising interest rates in the spring of 2022. Years of zero short-term interest rates had pushed loan coupons to historically low levels, and many multifamily properties booked loans with coupons within the 3-4% range. However, loan coupons rose by 200-300 basis points or more after the Federal Reserve increased policy rates by 525-550 basis points over the next 18 months. Meanwhile, reflecting the higher capital costs, multifamily property values fell by 20-30% from the 2022 peak, and lenders tightened standards due to regulatory pressure, growing fears of a recession and weaker income growth.

The result is that many properties up for refinancing are qualifying for lower proceeds than they did when their existing loans were originated. Although multifamily loan defaults remain relatively low, they have risen slightly as lenders push maturities forward. The delinquency rate for GSE loans is roughly 0.4%, up from 0.1% before rates rose, while the multifamily CMBS delinquency rate was at 1.8% in February after falling as low as 1.0% in January 2022, according to Trepp and the CRE Finance Council.