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.

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Outstanding Multifamily Loans by Lender Type

Lender Type	Loans Outstanding	Amount (Mil)
GSE	30,505	$641,809.5
Commercial Banks	9,388	$187,257.4
HUD/Federal Gov't	8,196	$115,705.5
Local Gov'ts	2,732	$21,340.5
Life Companies	2,707	$67,606.5
Debt Funds	2,556	$69,929.4
CMBS	1,350	$25,237.8
Other	1,099	$9,705.4

Source:Yardi Matrix

The growing number of defaults has prompted investors to raise capital for distressed opportunities. This includes providing "gap capital" for owners of properties that need to put up extra funds to pay off maturing mortgages and/or acquisitions of properties where owners are forced (or choose) to sell.

Despite expectations, opportunistic transactions have been slow to come about, since the first choice for most property owners and lenders is to avoid defaults by negotiating extensions. As a result, investors looking for distress must search hard for opportunities that vary greatly by market as well as lender and loan type.

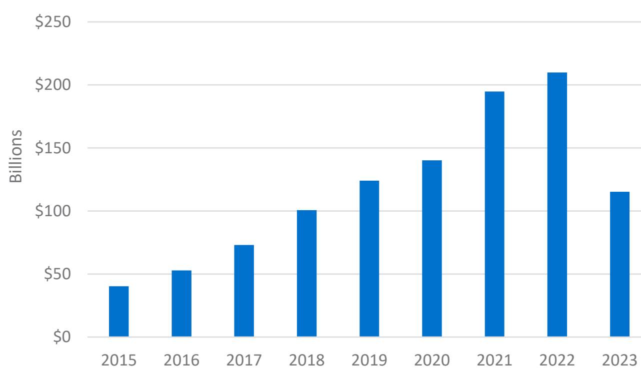
Distress Metrics

To get a handle on the potential opportunities for multifamily distress, we searched Matrix's multifamily database and found 58,533 properties with loans totaling $1.1 trillion. More than half, $641.8 billion (56.3%) was originated by Fannie Mae and Freddie Mac. The next-largest chunk, at $187.3 billion (16.4%) came from commercial banks, followed by the federal government/HUD ($115.7 billion, 10.1%), debt funds ($69.9 billion. 6.2%), life companies ($67.6 billion, 5.9%) and CMBS ($25.2 billion, 2.2%).

Not surprisingly, multifamily originations peaked during years with record transaction volume, including 2021 (when $194.7 billion of loans were originated) and 2022 ($209.8 billion), as investor demand reached a high point during a time of strong fundamental performance and low interest rates. Origination volume dropped by 45% to $115.3 billion in 2023 as high rates and tepid rent growth stalled transactions and refinancings. Many loans that were scheduled to mature in 2023 were extended by lenders, as loans were underwater due to greater debt-service costs under the higher interest-rate environment.

Of the loans in the database, $61.8 billion are set to mature in 2024, with another $84.3 billion in 2025, $89.3 billion in 2026, $77.9 billion in 2027 and $107.3 billion in 2028. By percentage, 5.4% of the loans will mature by the end of this year, 12.8% by the end of 2025, 27.5% by the end of 2027 and 46.1% by the end of 2029. The percentage of maturing loans changes over time as existing loans get paid off or extended and new loans are originated. Most of the loans in

Multifamily Loan Originations by Year



Source: Yardi Matrix

the database, about 85%, carry fixed rates, with 15% variable rates. Some 88% of the loans are backed by fully market-rate properties.

Multifamily Loans Maturing by Year

Year	Volume of Maturing Loans	Number of Loans
2024	$61,758.2	2,953
2025	$84,309.3	3,885
2026	$89,289.1	3,788
2027	$77,927.7	3,577
2028	$107,293.7	4,707
2029	$104,785.0	4,495
Post-2029	$613,229.0	35,121

Source: Yardi Matrix

Looking at loan maturities by lender type, the largest volume through the end of 2025 will come from the GSEs, with $47.4 billion, followed by banks ($46.5 billion) and debt funds ($33.3 billion). However, the percentage of volume maturing by lender type paints a different picture. Because GSE loans tend to be permanent, with longer terms, only 7.4% of GSE loans are maturing through 2025, compared to 47.8% of debt funds and 24.8% of bank loans.

Through 2029, $299.9 billion (46.7%) of GSE loans are maturing, compared to $104.0 billion (55.4%) of bank loans, $57.0 billion (81.6%) of debt fund loans and $36.9 billion (54.6%) of life company loans. The difference between lender types reflects lender product concentration. The bulk of loans originated by GSEs and life companies are backed by stable properties and carry long-dated maturities, while debt funds focus on short-term, floating-rate loans on non-stabilized properties that are more likely to have cash-flow issues.

Between now and the end of 2025, 15 metros have at least $3 billion of multifamily loans coming due, led by Atlanta ($11.9 billion), Dallas ($8.0 billion), Denver ($7.2 billion), Houston ($5.7 billion) and Chicago ($5.5 billion). Markets with the highest percentage of loans coming due through the end of 2025 are Atlanta (22.6%), Nashville (20.0%), Denver (17.8%), Portland (17.4%), Orlando (17.2%) and Raleigh–Durham (17.0%).

Multifamily Maturities by Metro Through 2025

Metros	Loan Volume Maturing by 2025 (Mil)
National	$146,067.5
Atlanta	$11,948.9
Dallas	$8,013.2
Denver	$7,162.1
Houston	$5,688.0
Chicago	$5,475.7
Los Angeles	$4,656.7
San Francisco	$4,258.6
Washington DC	$4,224.3
Miami	$4,150.3
New York	$4,131.0
Austin	$3,729.9
Orlando	$3,403.1
Phoenix	$3,333.4
Twin Cities	$3,259.2
Nashville	$2,962.5

Source: Yardi Matrix

Between now and the end of 2027, 21 metros have at least $5 billion of loans coming due, led by Atlanta ($24.4 billion), Dallas ($16.7 billion), Denver ($15.1 billion), Houston ($12.3 billion), Chicago ($11.2 billion) and New York ($10.3 billion). Markets with the highest percentage of loans coming due through the end of 2027 are Atlanta (46.1%), Nashville (38.5%), Denver (37.5%), Portland (34.9%), Austin and Miami (32.9%) and Raleigh–Durham (32.7%).

Multifamily Maturities by Metro Through 2027

Metros	Multifamily Volume Maturing by 2027 (Mil)
National	$313,284.2
Atlanta	$24,426.2
Dallas	$16,678.7
Denver	$15,115.8
Houston	$12,265.3
Chicago	$11,188.1
New York	$10,270.8
Los Angeles	$9,524.9
Miami	$9,203.0
San Francisco	$8,959.7
Wash DC	$8,620.3
Phoenix	$7,703.1
Austin	$7,535.8
Twin Cities	$6,645.7
Seattle	$6,615.8
Orlando	$5,892.5

Source: Yardi Matrix

Multifamily Maturities by Metro Through 2029

Metros	Multifamily Volume Maturing by 2029 (Mil)
National	$525,362.8
Atlanta	$34,906.4
Dallas	$26,589.2
Denver	$22,925.9
Houston	$20,803.6
New York	$19,893.0
Chicago	$18,770.8
Los Angeles	$16,608.2
Wash DC	$16,357.3
San Francisco	$15,103.6
Miami	$14,481.8
Phoenix	$13,615.2
Austin	$11,719.4
Seattle	$11,061.6
New Jersey	$10,444.2
Twin Cities	$10,026.3

Source: Yardi Matrix

Between now and the end of 2029, 27 metros have at least $5 billion of loans coming due, led by Atlanta ($34.9 billion), Dallas ($26.6 billion), Denver ($22.9 billion), Houston ($20.8 billion) and New York ($19.9 billion). Markets with the highest percentage of loans coming due through the end of 2029 are Atlanta (65.9%), Denver (56.9%), Nashville (56.2%), Las Vegas (55.9%), Houston (53.6%) and Chicago (53.2%).

While performance of individual properties and the immediate submarket are more important than metro-level data when determining potential distress, we can make some general inferences from market data. We plotted some performance metrics—such as rent growth, vacancy rates and the percentage of stock under construction—against the percentage of loans maturing in each metro to get a general sense of potential distress opportunities. Markets with a high percentage of loans maturing over the short term and recent negative rent growth include Atlanta, Houston, Raleigh–Durham, Orlando and Austin *(see appendix for charts)*. One of the main worries in the multifamily sector is the influx of supply in some markets that is leading to rents flattening or declining. Markets with a high volume of deliveries and also a large percentage of units under construction include Austin, Charlotte, Raleigh–Durham, Denver, Orlando and Miami.

To be sure, because loan defaults are property specific, market-level data isn't a great predictor of delinquency rates. Most high-supply markets also have strong apartment demand. However, large numbers of deliveries extend the time it takes to lease up new properties and increase concessions throughout the market, which has the potential to add stress to some properties. Whatever the strategy, investors should have as much information as possible about markets and submarkets, and dig deep into a database such as Matrix when making decisions about deploying capital.

Factors That Will Determine Distress

■ *The direction of interest rates.* Since much of the property-level stress relates to the difference between mortgage rates then and now, how high rates go and how long they stay high is critical. Multifamily owners would benefit from rate cuts in the near term, but Federal Reserve Chairman Jerome Powell has made it clear he will be cautious when it comes to rate cuts.

■ *Strategies around loan extensions.* Banks have been given the green light by regulators to extend loans, a strategy dubbed "extend and pretend" during the 2008 market crisis. Yet copious use of extensions mitigated bank losses following the 2008-09 recession, especially because low rates available then kept debt-service payments low. Many property owners were able to keep making payments until market fundamentals recovered.

■ *There are differences in the current cycle.* Banks have made it clear they want considerations such as a paydown of the loan balance or putting capital into a reserve account, and opportunistic capital is available to provide mezzanine debt or preferred equity to fill in the gaps. Borrowers must decide if it is worth the cost. Extensions will serve to avoid distress, at least as long as the loan is extended.

■ *Property fundamentals.* Multifamily performance has been strong for a long time. Rents have risen an average of 4.6% over the last 10 years, per Yardi Matrix. Strong property performance helps mitigate distress. But rent growth has flattened nationally and turned negative in some markets with a heavy delivery pipeline. Markets that struggle with rent growth and/or weak demand could see an increase in defaults.

■ *Regulatory issues.* Markets that enact measures to limit growth can lead to increased defaults and more property owners choosing to walk away from underwater loans. As an example, many New York City properties subject to rent stabilization are falling behind because expenses such as insurance, labor and maintenance are rising faster than income growth. That has led to increased distress among properties in this category.

■ *Loan seasoning.* Stable properties with long-term debt coming up for refinancing are in relatively good shape because of the increase in property values and income over the last seven to 10 years. Property values fell 25% over the last two years, but that hurts less for properties that saw prices double in the previous decade.

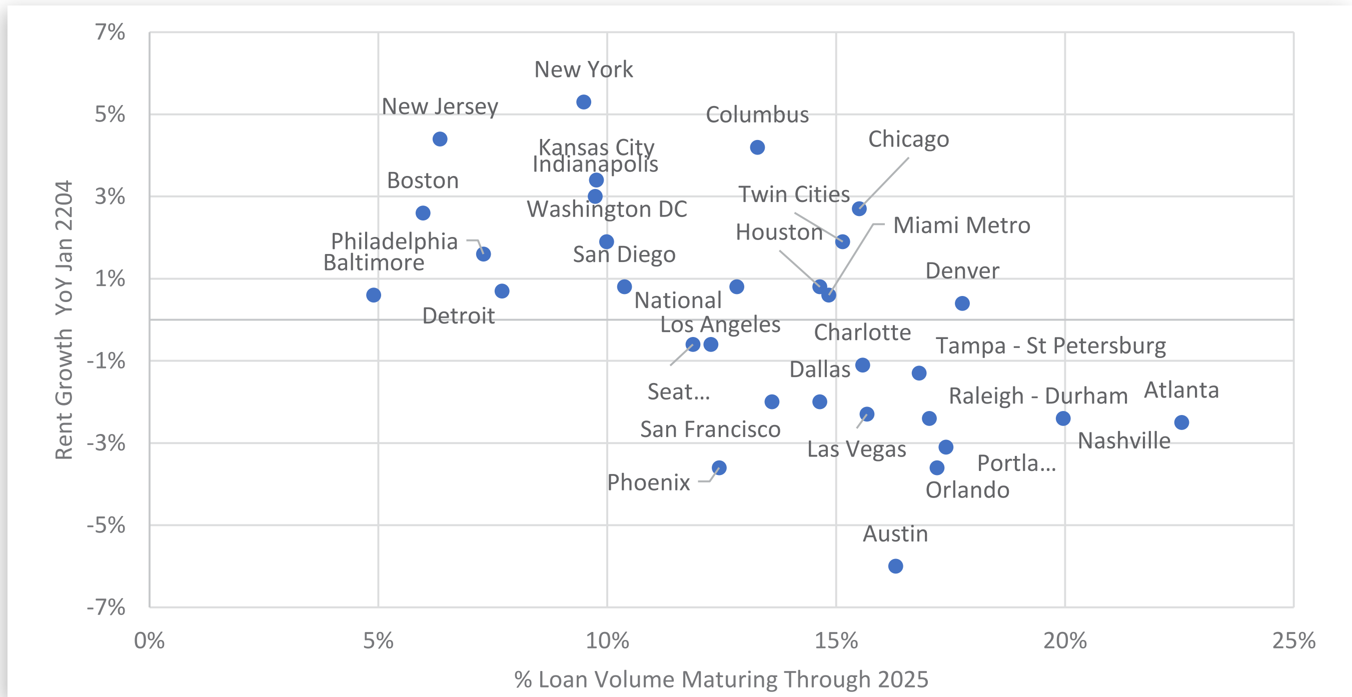
Consequently, distress is likely to be higher in value-add properties acquired with aggressive rent-growth assumptions at low yields and/or financed with short-term debt in 2020 to early 2022. A record $45 billion of collateralized loan obligations were issued in 2021, with $28 billion backed by multifamily properties, according to "Commercial Mortgage Alert." A recent report by Morningstar DBRS said the rate of CLO loans that are 30 or more days delinquent rose 285 basis points to 6.2% at the end of 2023, and that number is likely to continue trending upward.

The upshot is that despite the headwinds, multifamily market fundamentals are generally solid and the bulk of properties are on good footing, especially if rates have peaked and recede as expected. Long-term investors, as usual, are on more solid ground. Investors who try to time the market and expect to make a quick profit are more likely to see an uptick in defaults. Overall, multifamily delinquencies will increase from current low levels and provide a venue for opportunistic capital. But it may not be enough to deploy the amount of capital being raised or lead to a banking crisis akin to the last downturn in 2008-10.

—Paul Fiorilla, Director of Research, Yardi Matrix

Appendix:

Loans Maturing Through 2025



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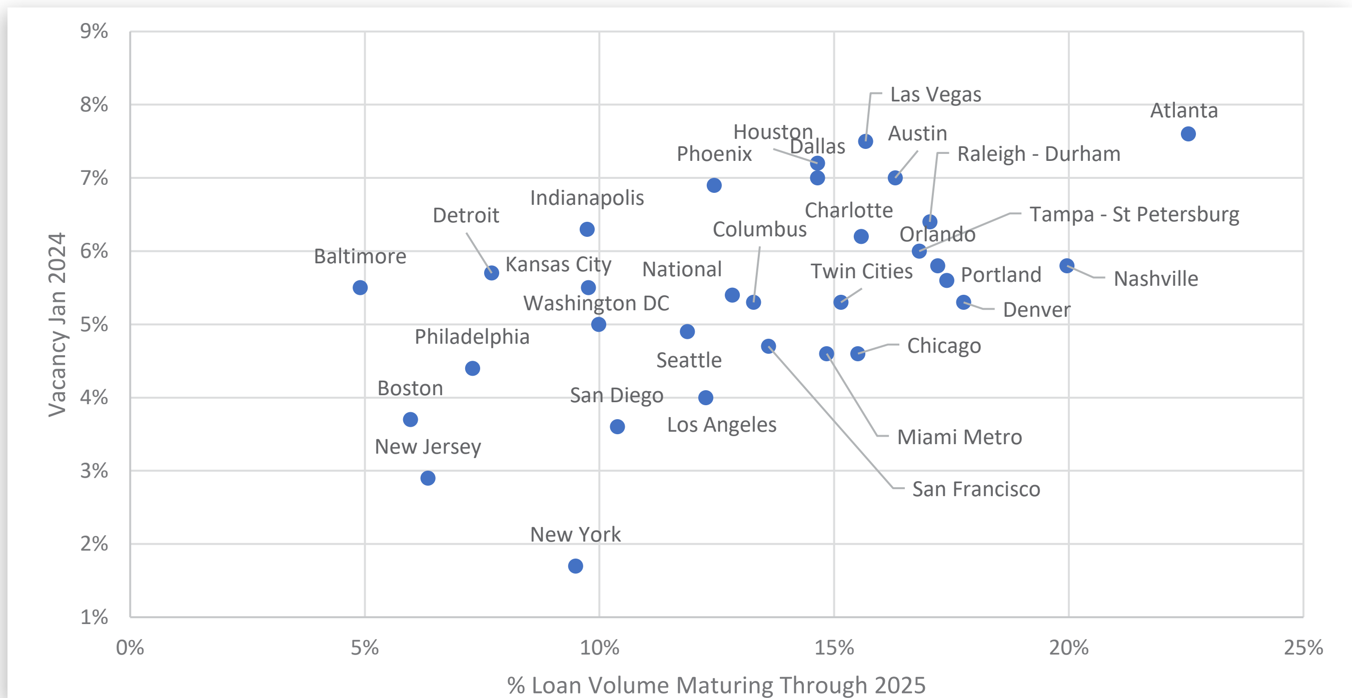

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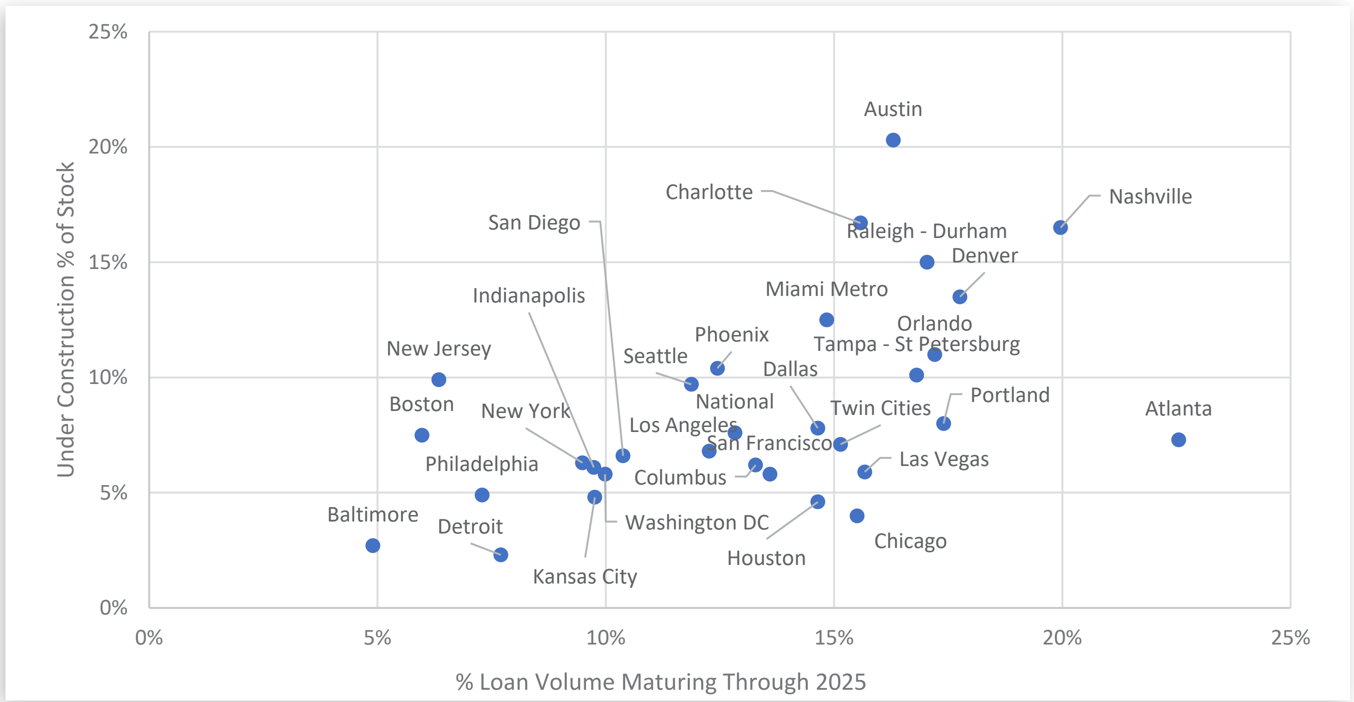
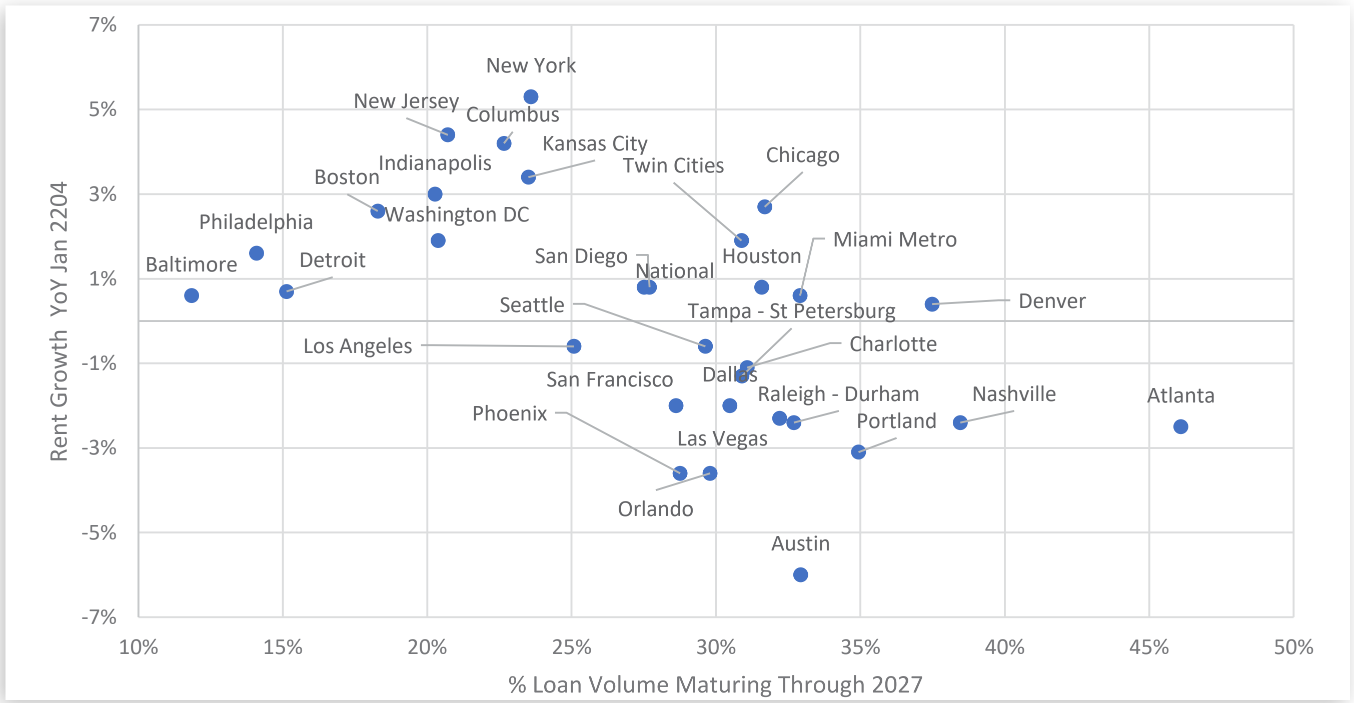


Source: Yardi Matrix

Loans Maturing Through 2027



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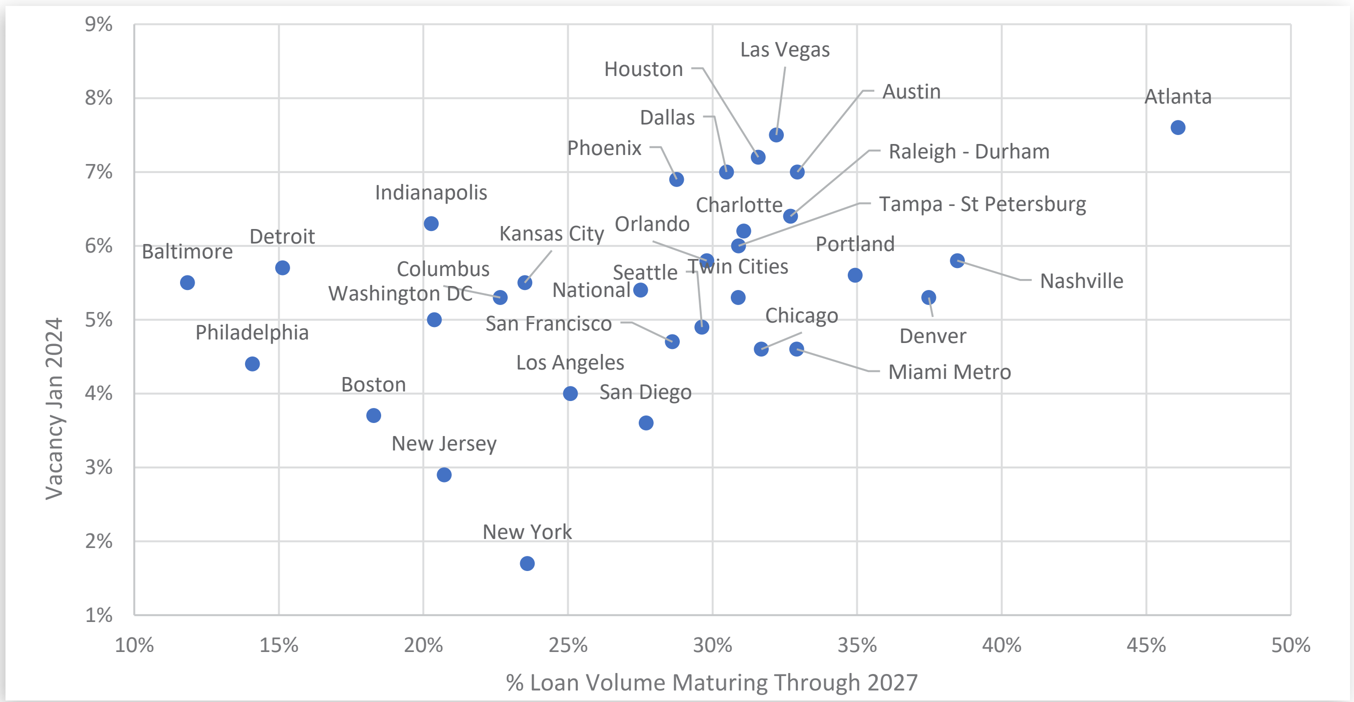

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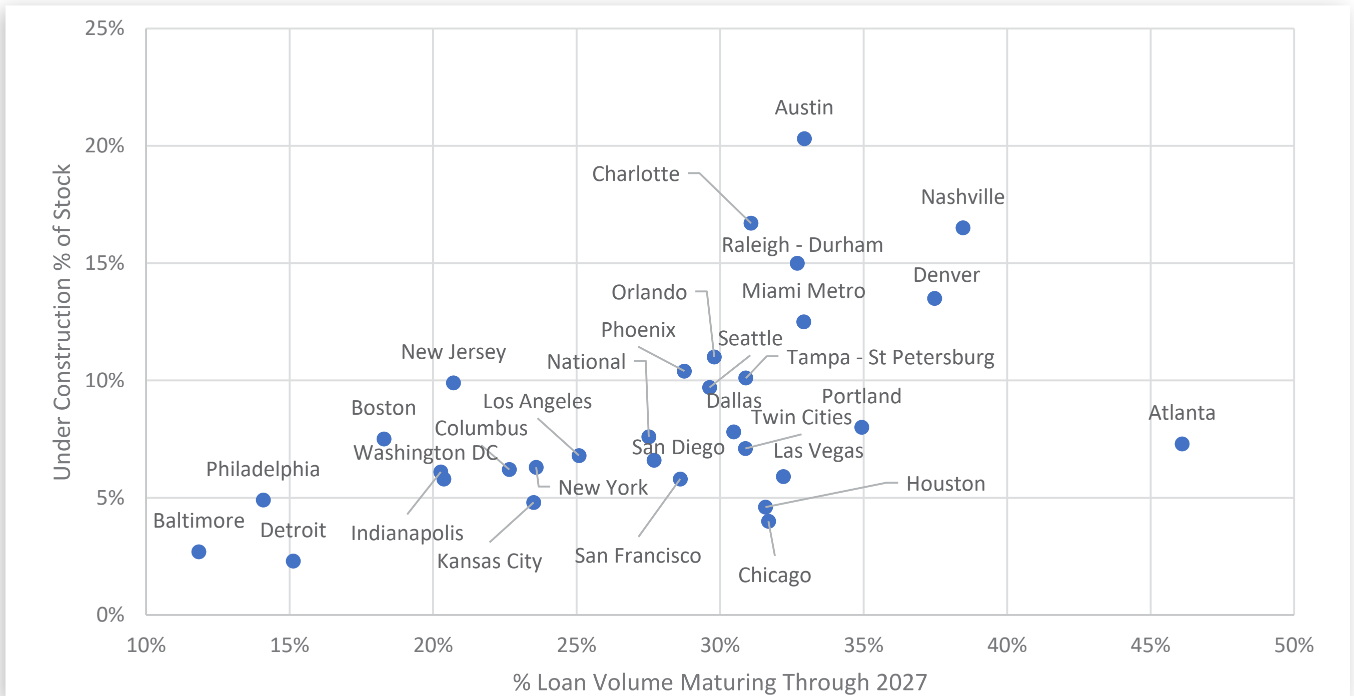

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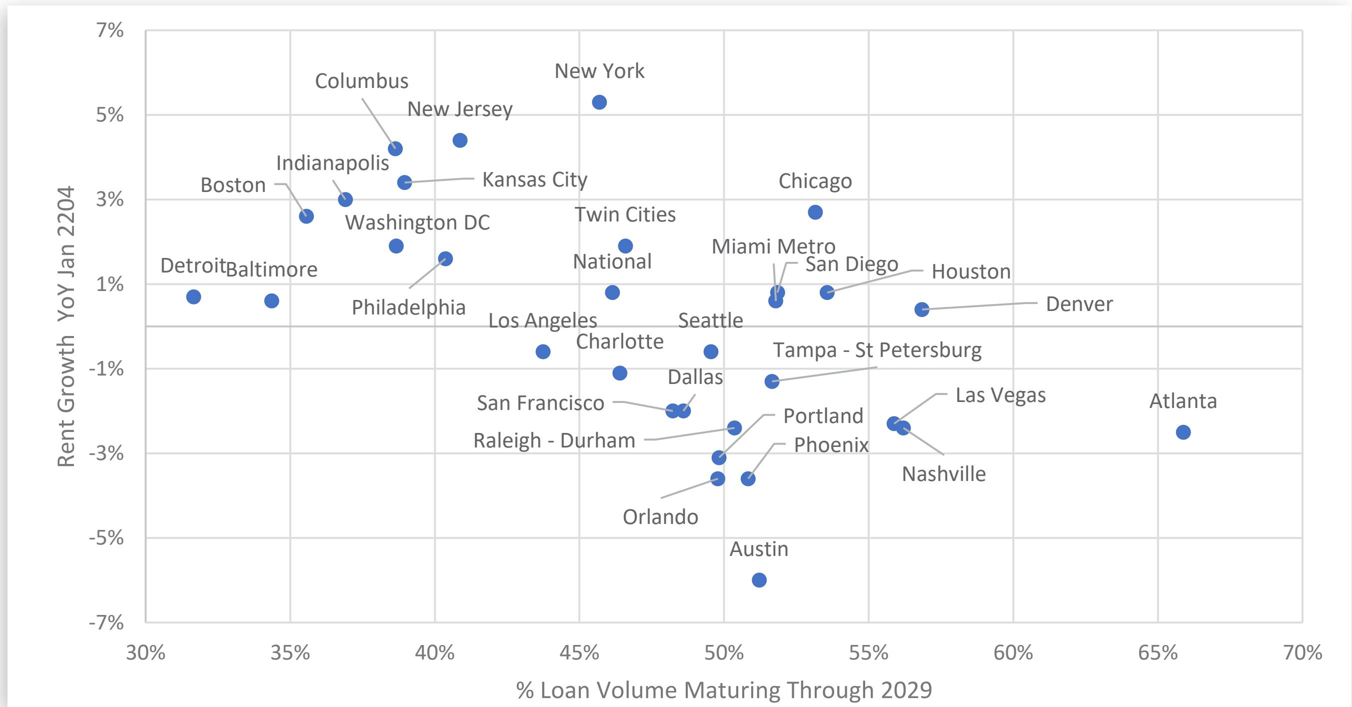
Loans Maturing Through 2029



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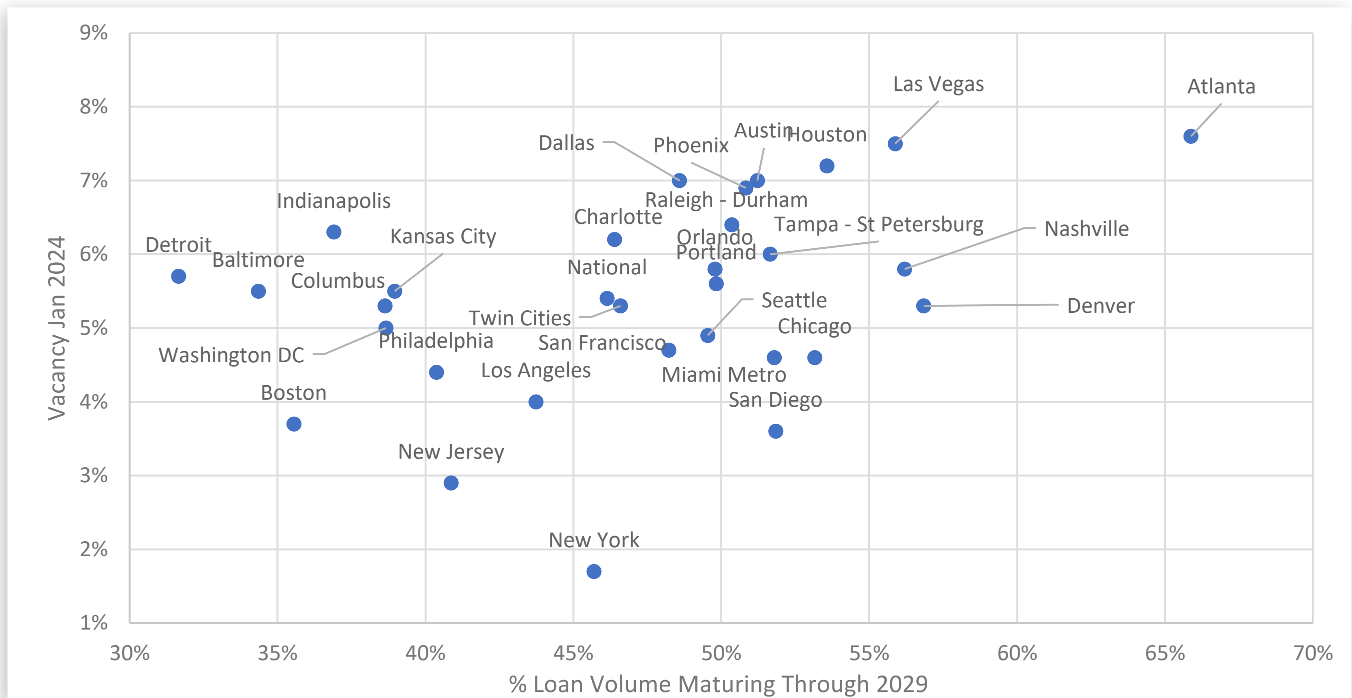

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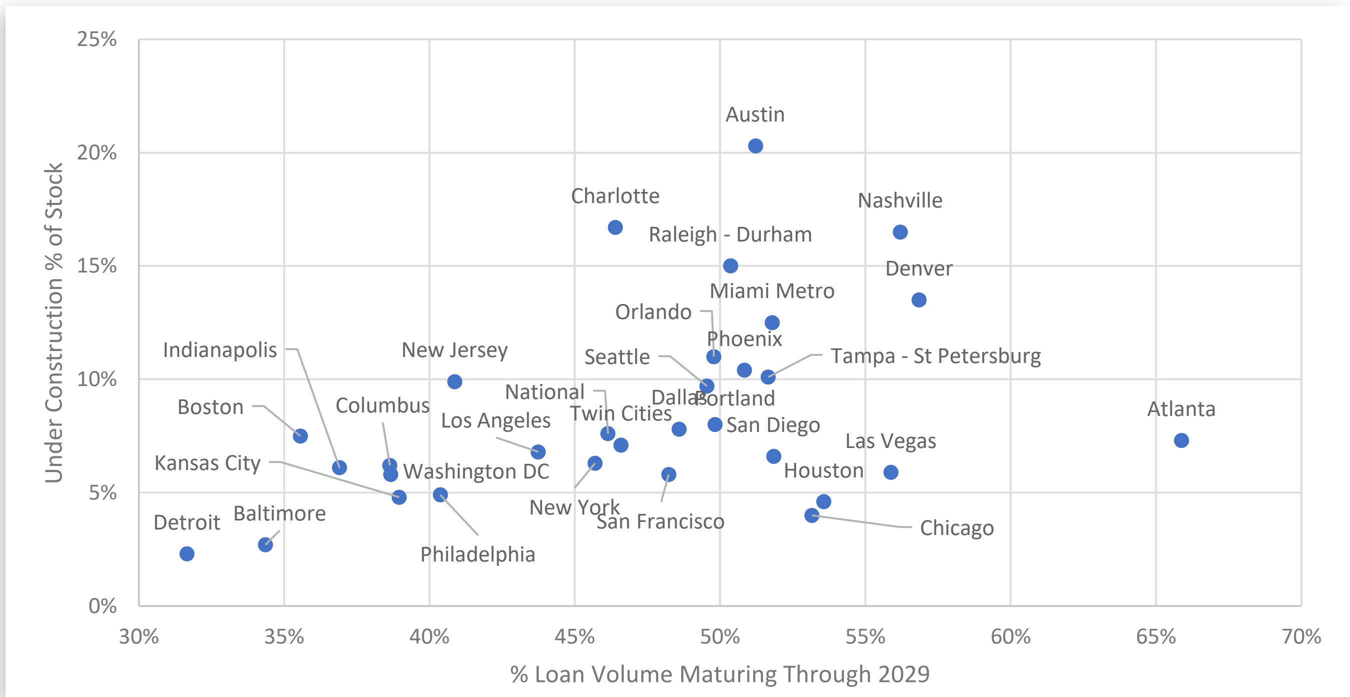

Source: Yardi Matrix

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