

Credit Risk Management

Focus on Commercial Real Estate Portfolios

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Topic #1

Concentration levels, quality, and performance of CRE portfolios within California's banking sector, providing insights into the current state and trends.

Topic #2

The strategies for maintaining a healthy balance between profitability and risk in banking operations, crucial for sustainable growth and stability.

Topic #3

Latest emerging issues in the sector and how we should adjust our underwriting criteria.

Topic #4

Analysis of the current market capitalization rates, exploring their implications for the banking and real estate sectors and how these rates influence strategic decision-making.



"Morgan Stanley analysts think commercial real estate is heading for something 'worse than in the Great Financial Crisis" - here's what Golman Sachs and UBS have to say..." - Yahoo Finance

"Investors Are Bearish This Year: DLA Piper" - CommercialSearch

"The Commercial Real Estate Dumpster Fire Burns On" - Nasdaq

"JPMorgan Asset Management chief warns on commercial real estate risks" - Financial Times

"Bear Market Persists For Commercial Real Estate Stocks" - Seeking Alpha

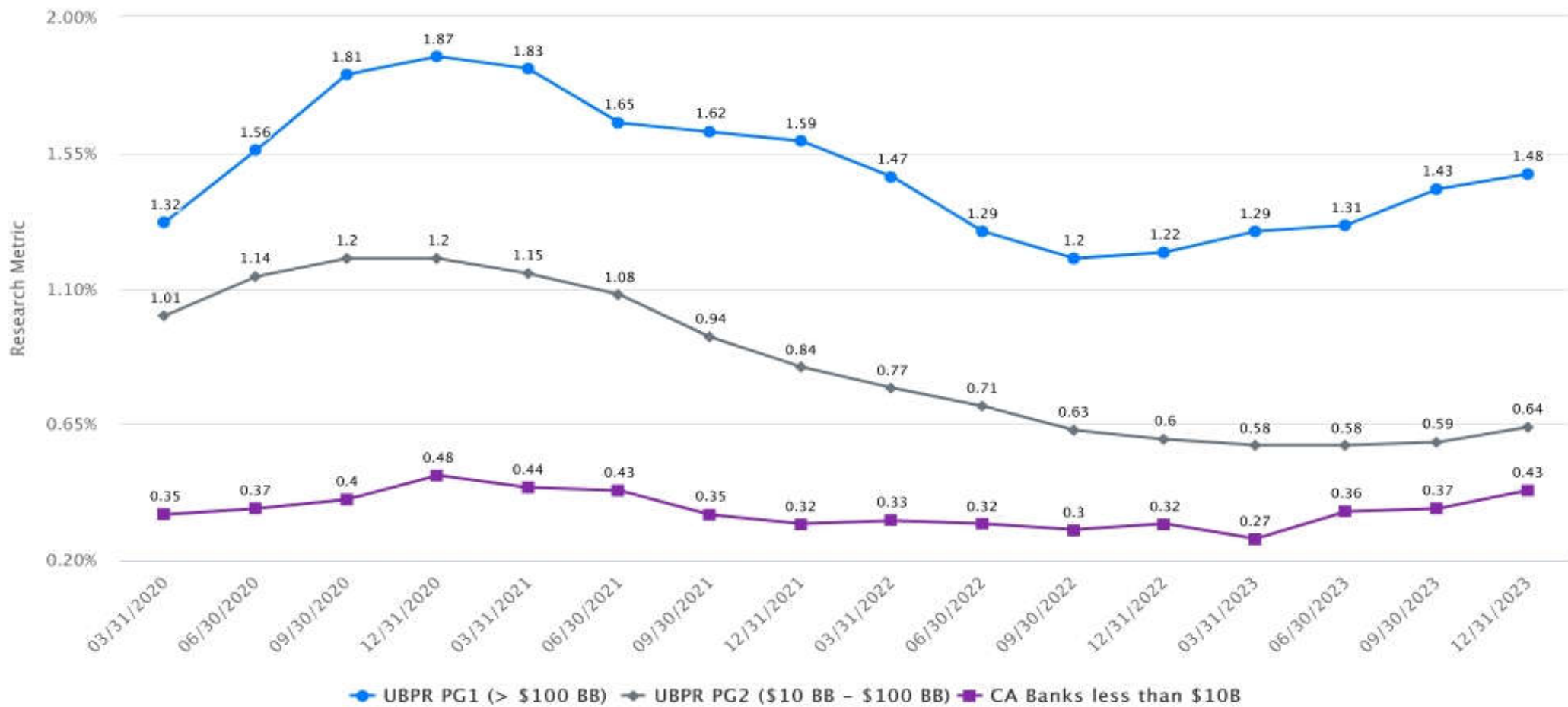
"Why commercial real estate concerns haven't subsided for banks just yet ..." - ING

"CRE Leaders Blame Bearish Outlook On Interest Rate Hikes" - Law360

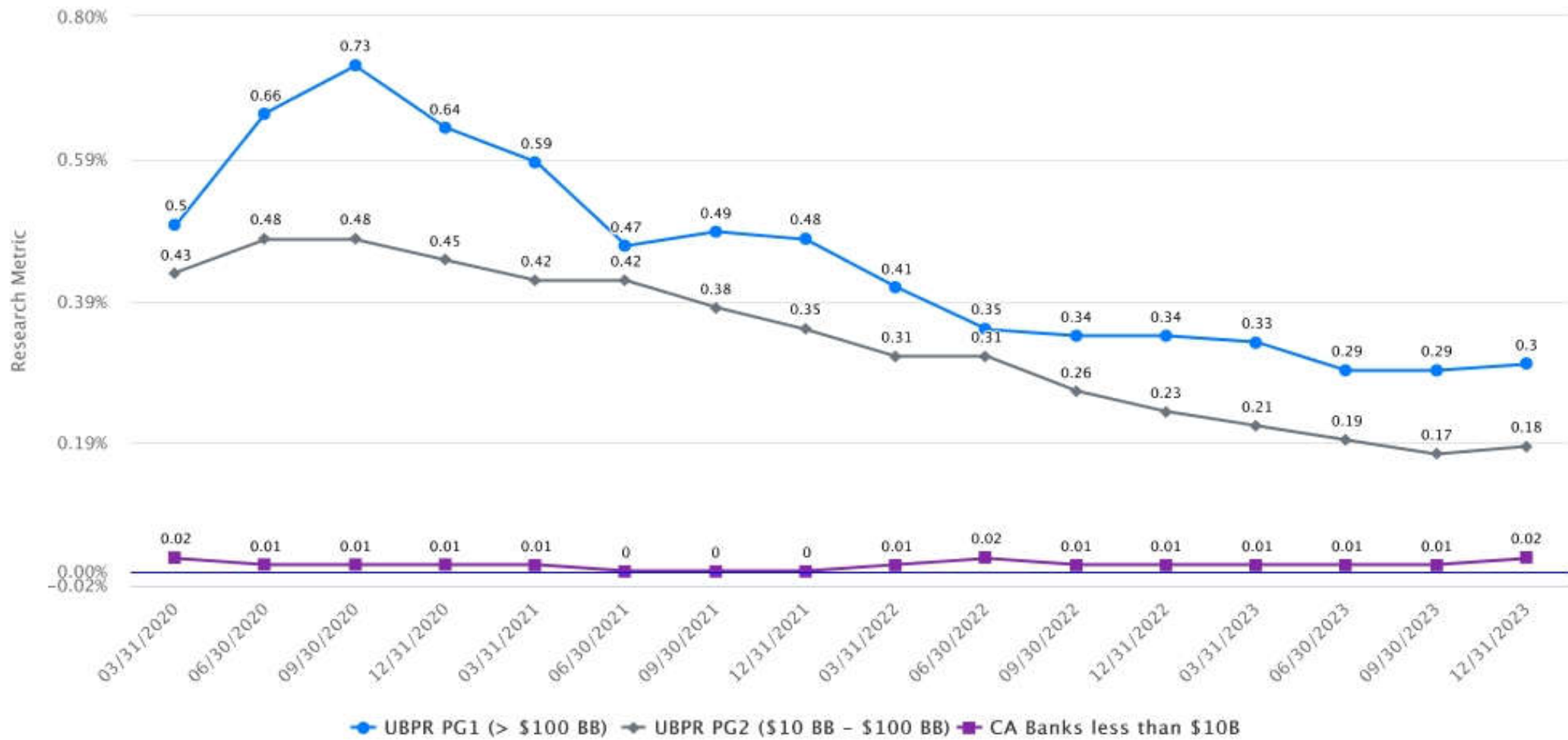
"Elon Musk Bearish on Real Estate" - Nasdaq

"US commercial property investors are more bearish" - Reuters

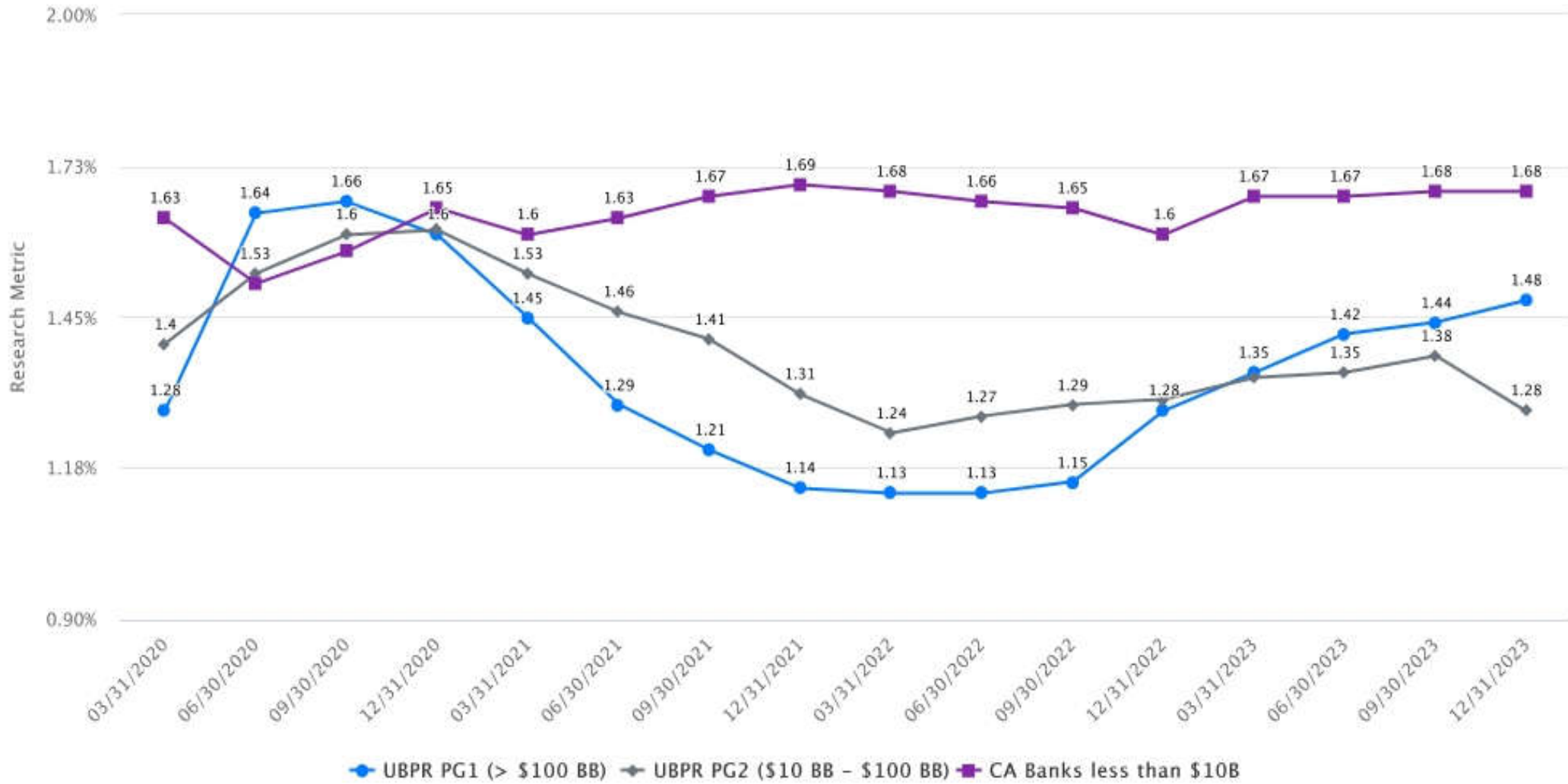
Total Real Estate Loans Non-Performing Loans, % Loans



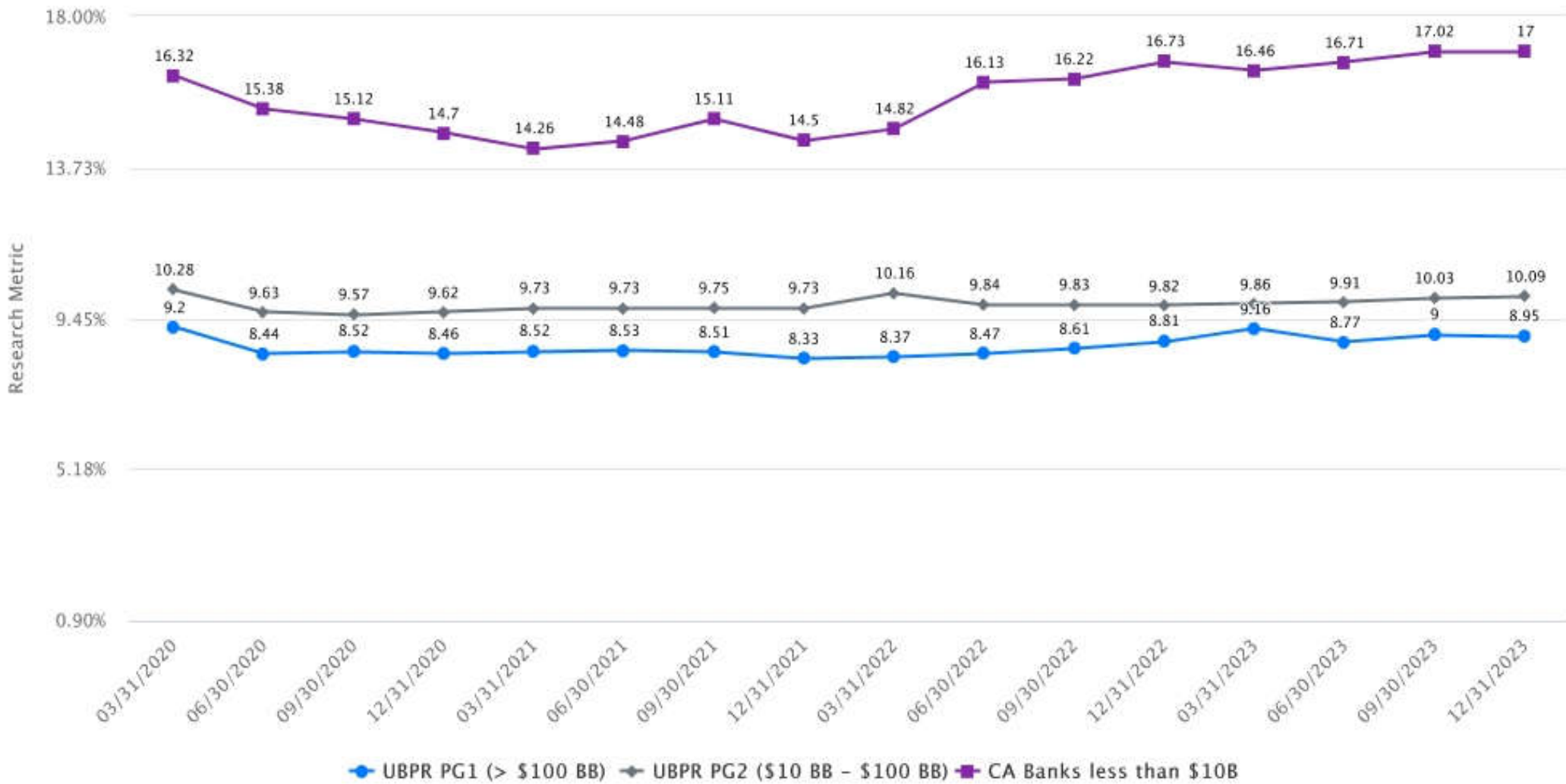
Total Real Estate Loans Loans 90+ Days Past Due, % Loans



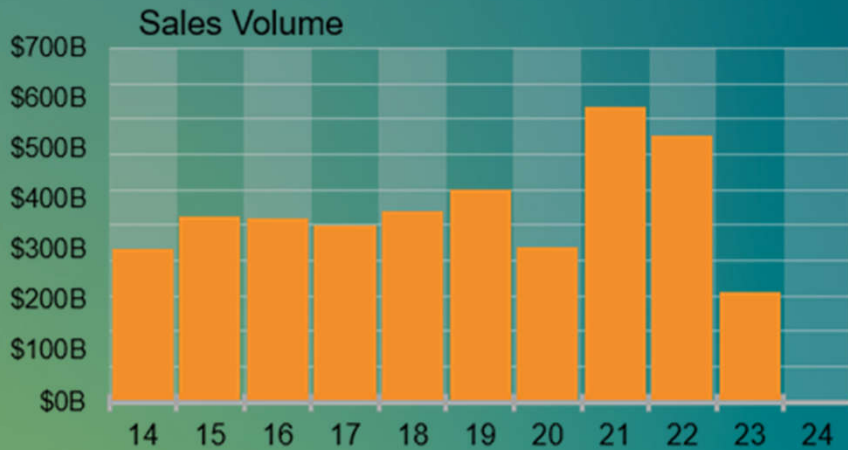
ACL (ALLL) / Loans



Leverage Ratio



Sales Volume - US Commercial Real Estate - All Properties



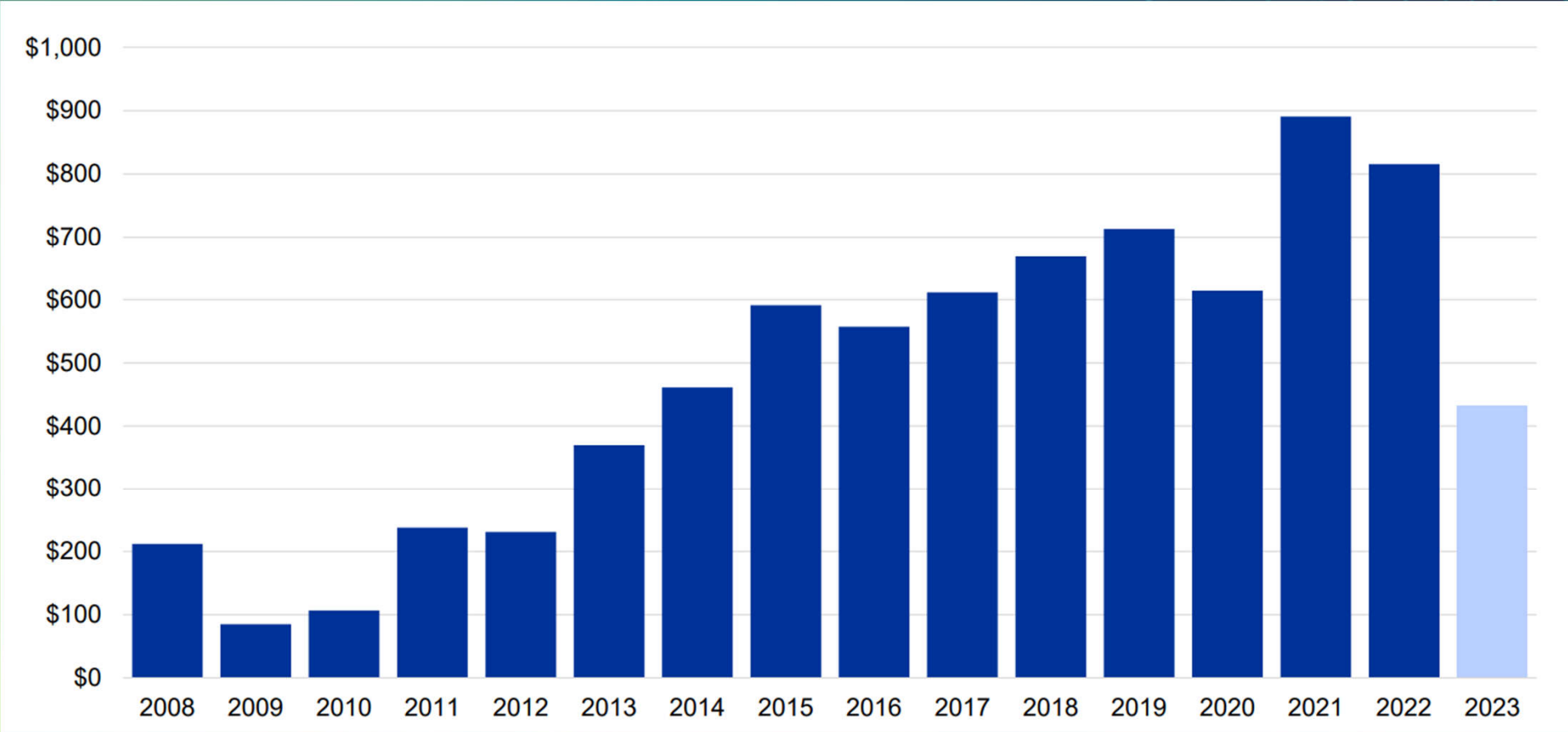
Year	12 Mo Sales Vol	12 Mo Sales Vol Growth	Number of Sales	# of Sales Change
2023	\$217B	-58.8%	77,765	-35.5%
2022	\$527B	-10.0%	120,573	-11.6%
2021	\$585B	91.4%	136,351	40.0%
2020	\$306B	-27.5%	97,422	-17.1%
2019	\$422B	11.6%	117,502	-4.1%
2018	\$378B	7.7%	122,568	3.1%
2017	\$351B	-3.7%	118,896	1.1%
2016	\$364B	-0.9%	117,609	1.4%
2015	\$367B	21.2%	115,959	9.7%
2014	\$303B	18.8%	105,750	8.8%

- \$375B/year in sales is “normal”
- The peak 2021/22 years were \$585B & \$527B – so about 50% higher than normal
- 2023 was well below normal at \$217B: 37% of the peak in 2021 and just 58% of “normal” levels.
- If we get back to \$375B in sales in 2024, that would be an increase from last year of 73%



Data provided by CoStar through Q4-2023

Commercial Mortgage Originations (\$billions)



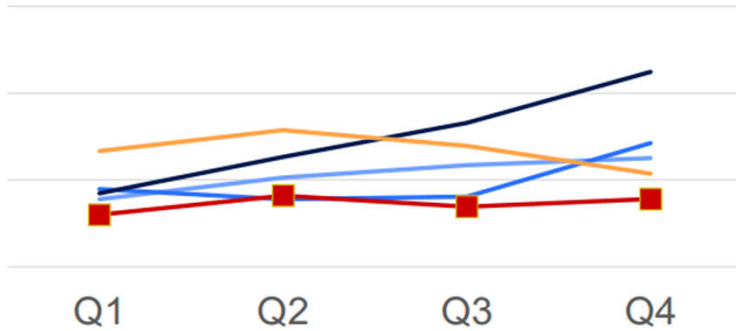
Data as of February 2024. Source: MBA CREF Database

Commercial Mortgage Originations - By Asset Type

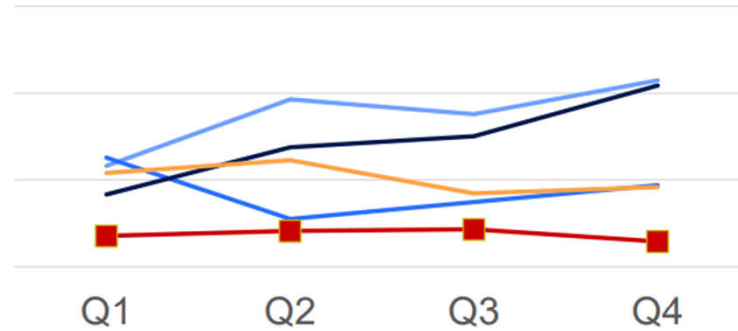
CRE Mortgage Originations

— 2019 — 2020 — 2021 — 2022 ■ 2023

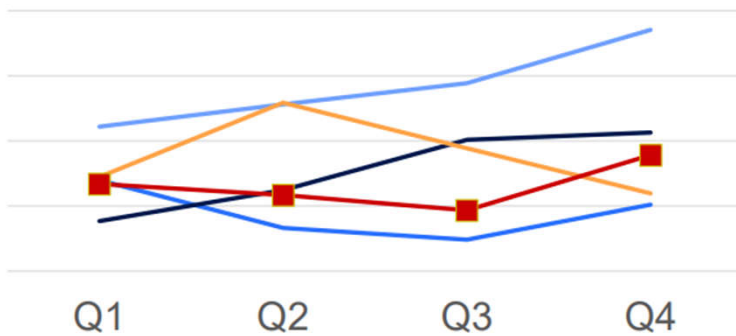
Multifamily (-46%) Est 2022 to 2023



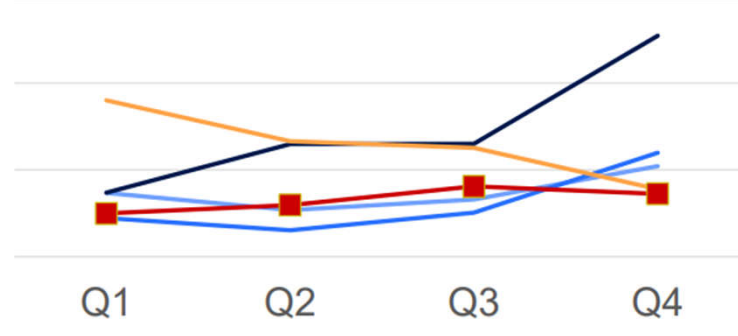
Office (-65%)



Retail (-27%)

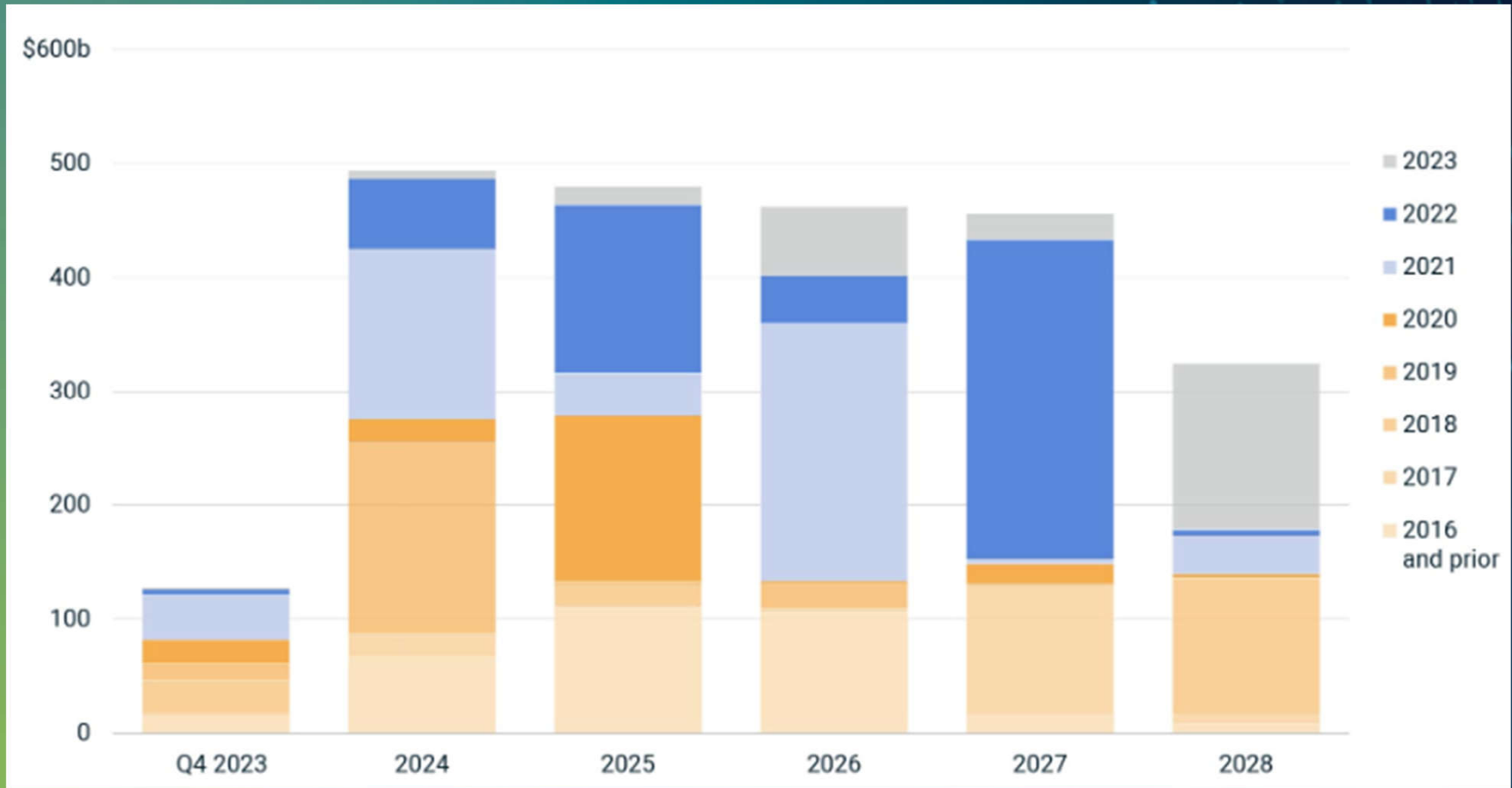


Industrial (-49%)



Data as of February 2024. Source: MBA CREF Database

Looming US Loan Maturities - By Origination Vintage

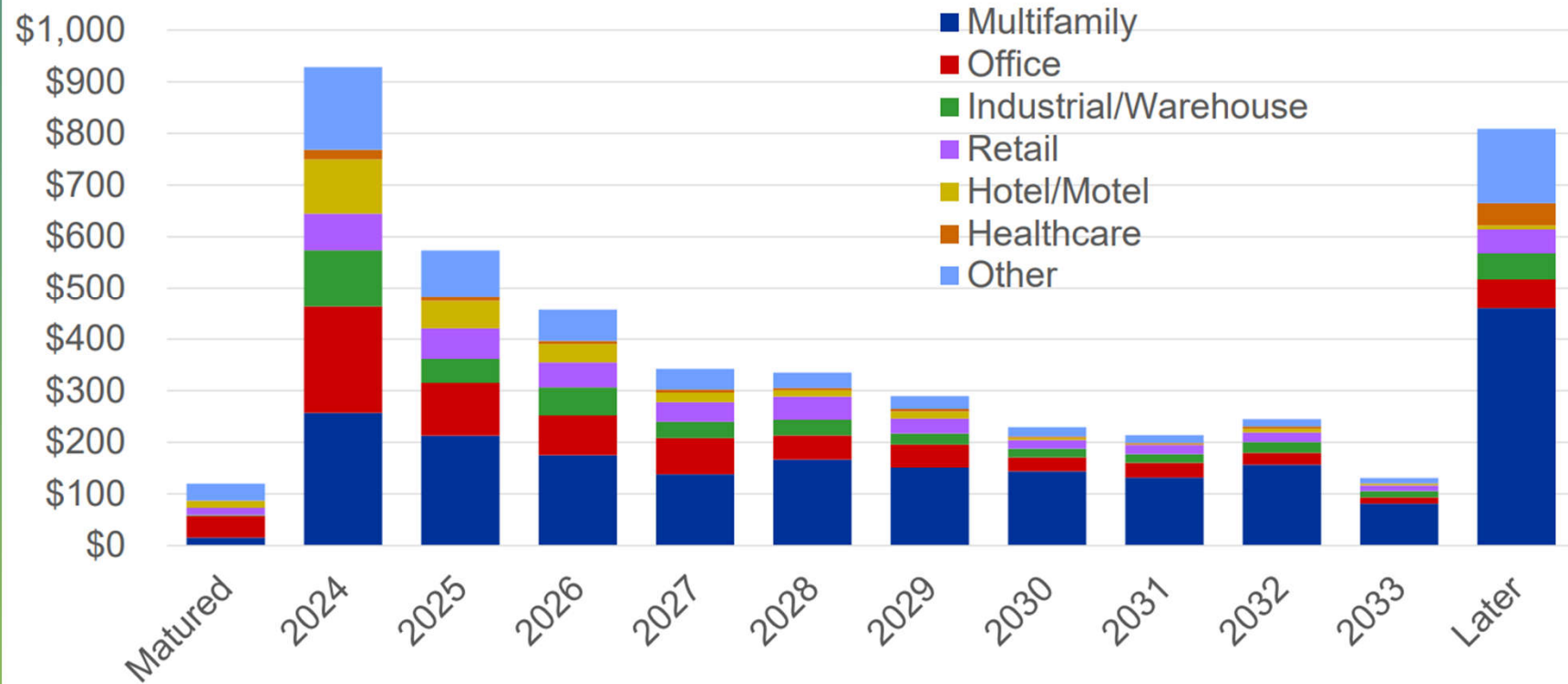


Loan maturities by origination vintage. Loans outstanding at Q4 2023.
Data as of Dec. 5, 2023. Source: MSCI Mortgage Debt Intelligence

Looming US Loan Maturities - By Asset Type

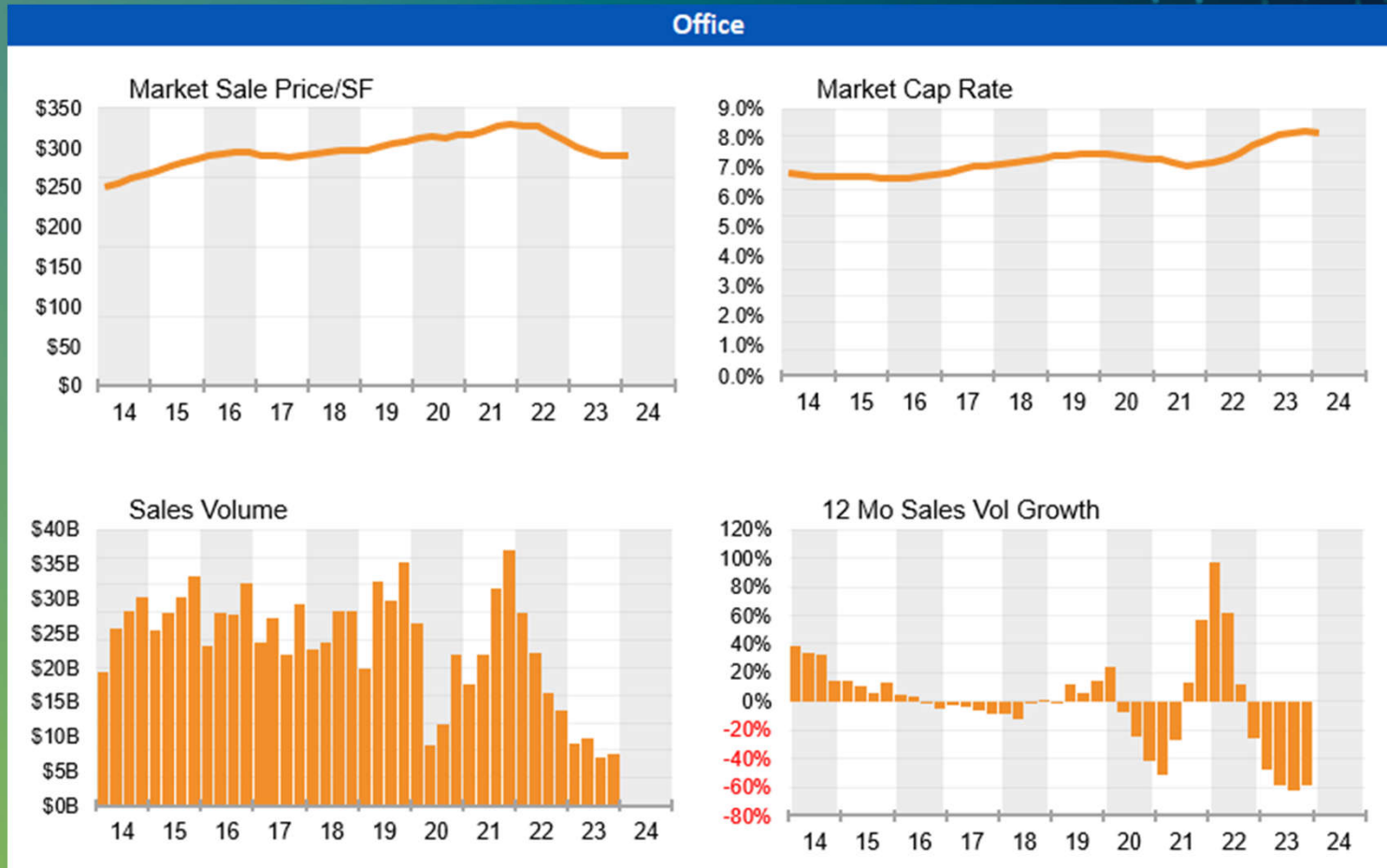
\$929 billion of CRE mortgages maturing in 2024, 20% of total

Estimated Total Commercial Mortgage Maturities (\$billions)



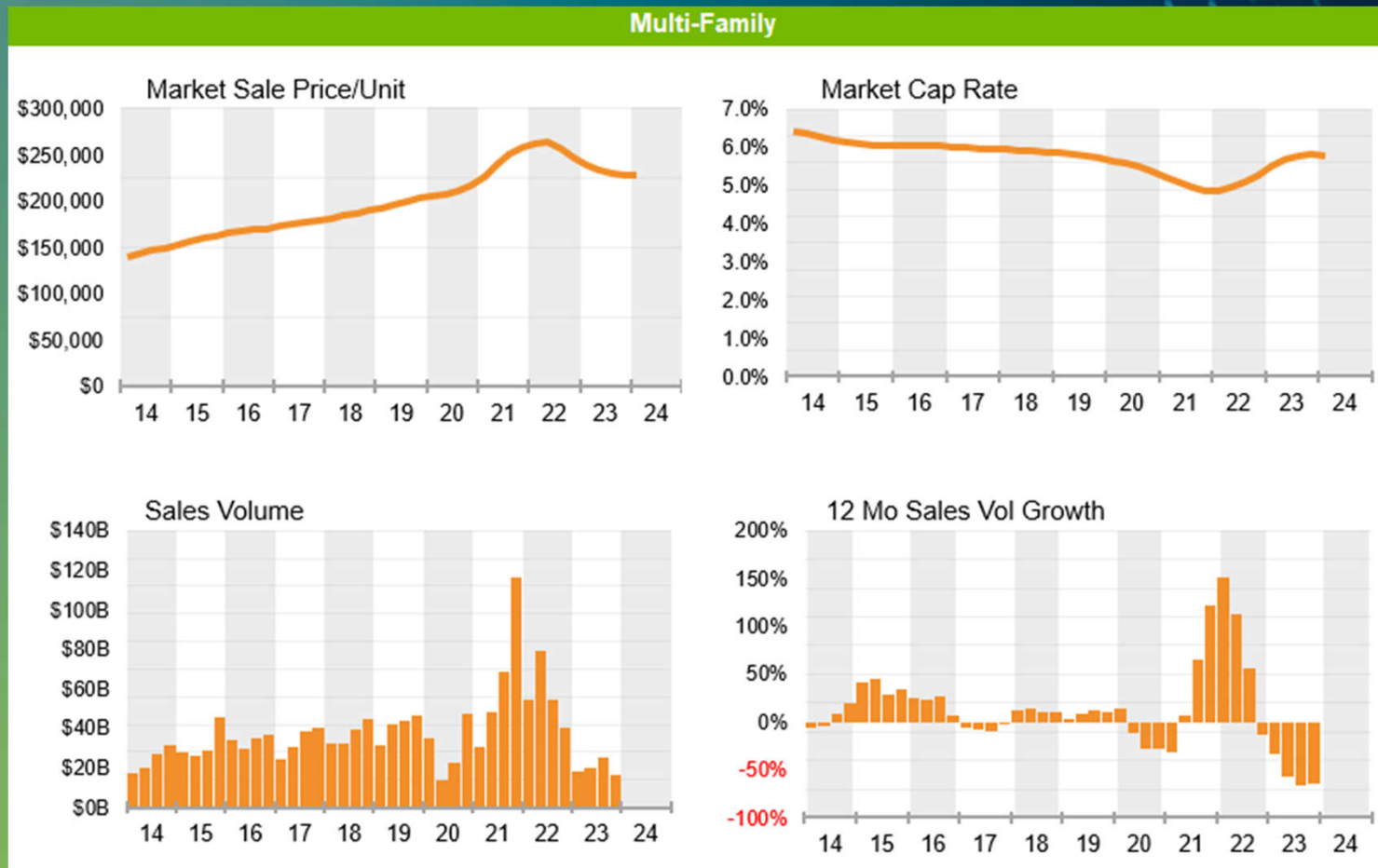
Data as of February 2024. Source: MBA CREF Database

Value Trends by Asset Type - US Commercial Real Estate



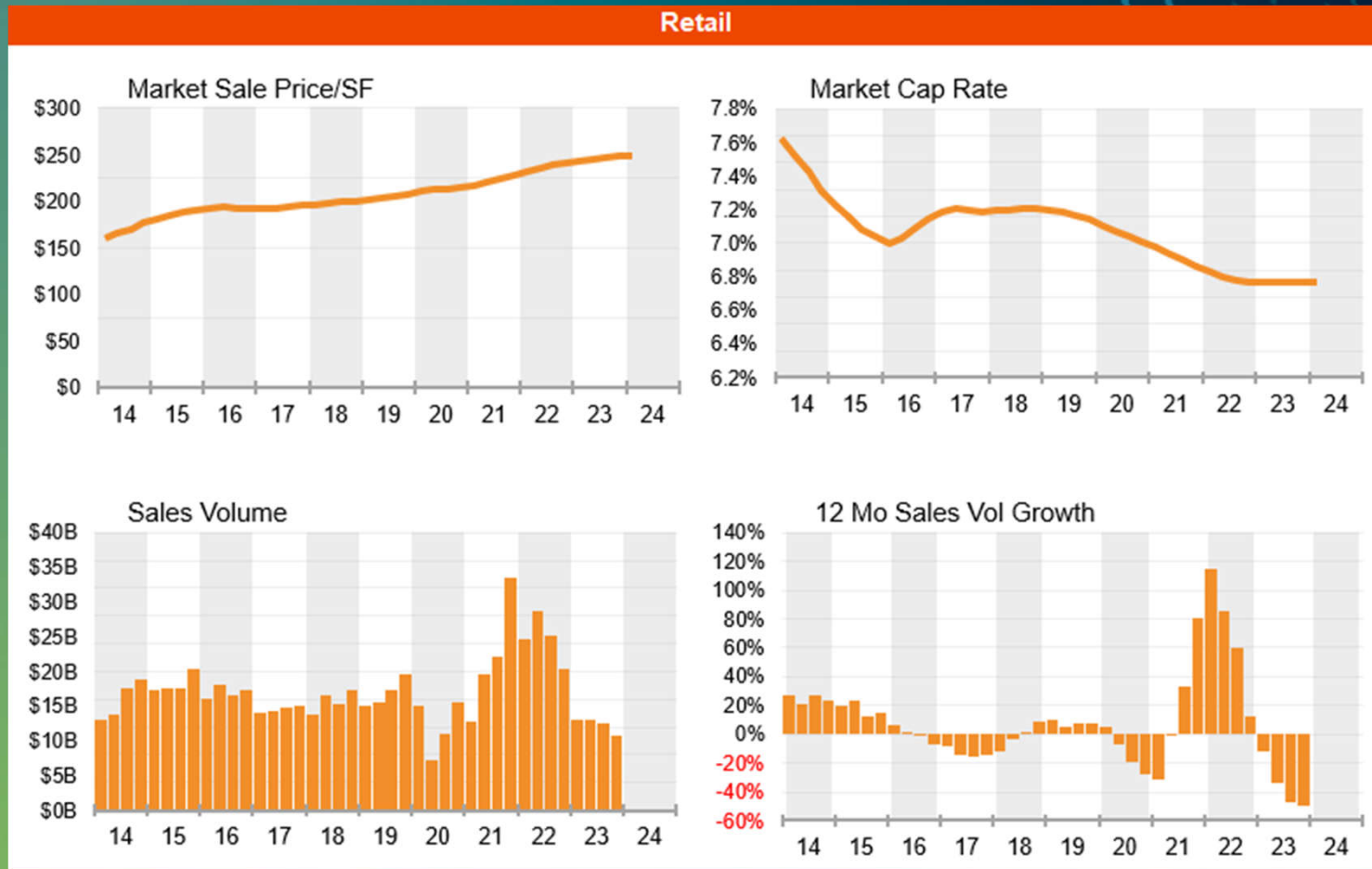
Data provided by CoStar through Q4-2023

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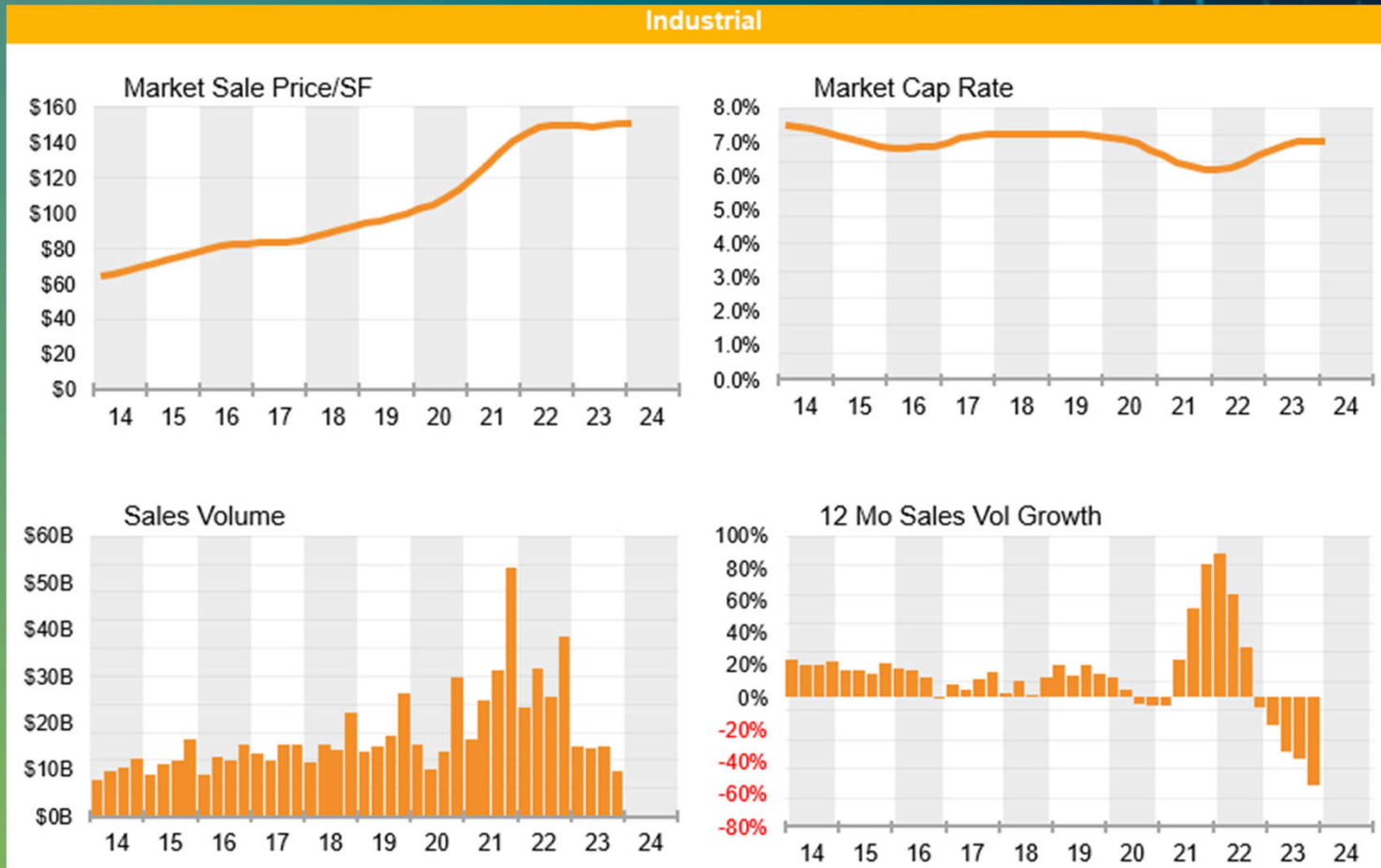
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Value Trends by Asset Type - US Commercial Real Estate



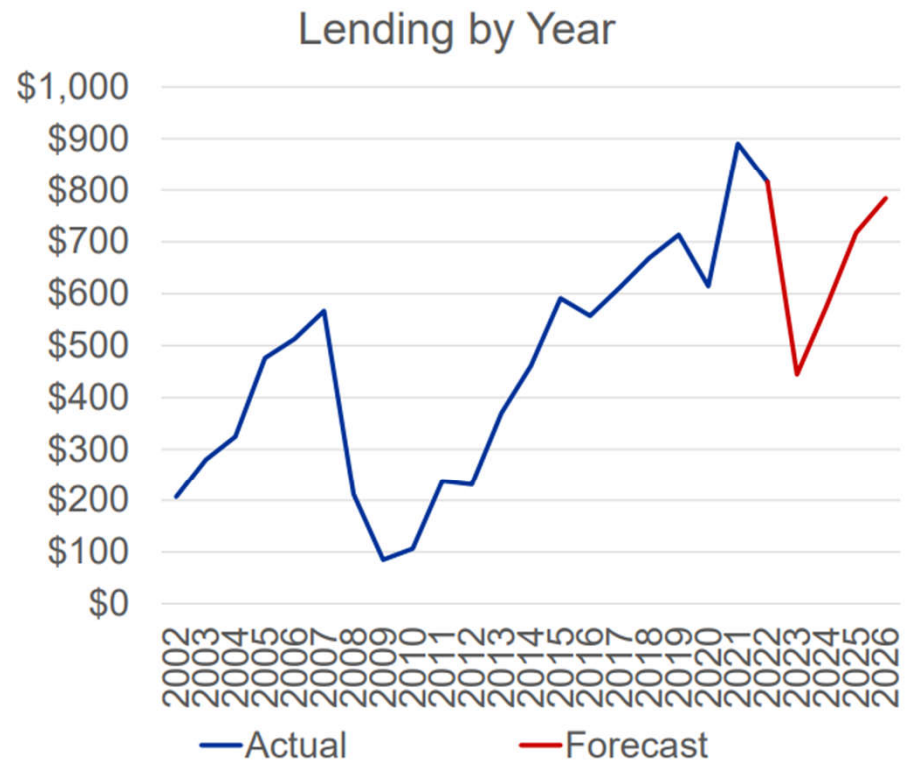
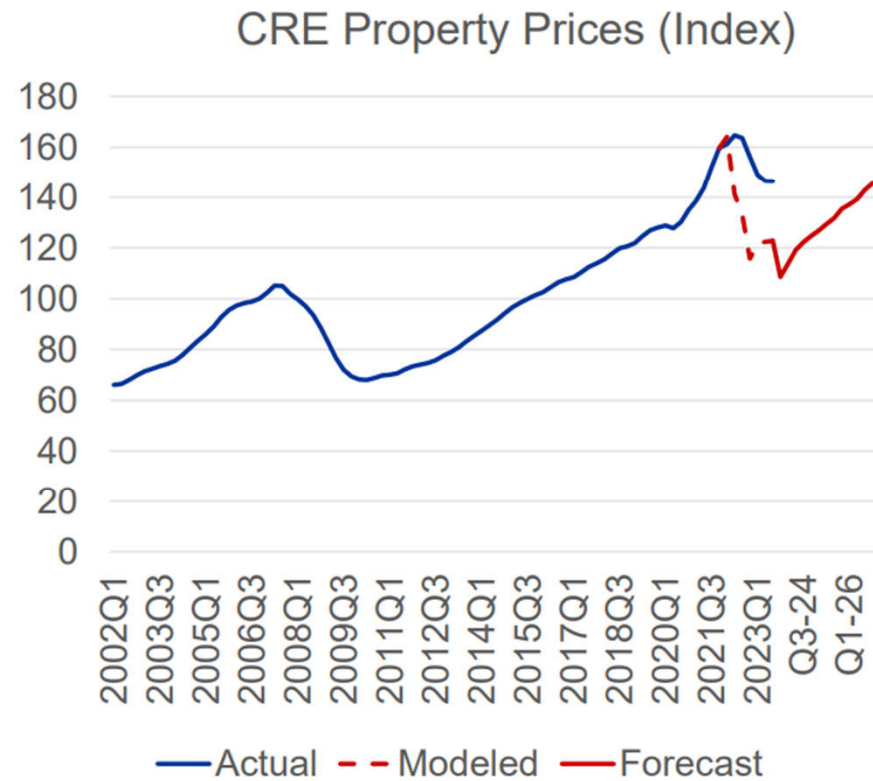
Data provided by CoStar through Q4-2023

Value Trends by Asset Type - US Commercial Real Estate



Data provided by CoStar through Q4-2023

Commercial Real Estate Values Have Likely Already Moderated



Data as of February 2024. Source: MBA CRE Database

B	I	N	G	O
Soft Landing	War in Ukraine	War in the Middle East	Conversions	AI/LLMs
Capital	Cold/Chip War with China	Election	Rate Normalization	Recapitalization
Do More in '24	Data Security/Fraud	Opportunities	Banks and CRE	End of QT
Debt/GDP	Contributing to Corp Growth?	Office	Maturities	Distress
Climate/Insurance	Tax Change Sunsets	Affordability	Stay Alive 'til '25	Multifamily

Data as of February 2024. Source: MBA CREF Database