

CCBN CALIFORNIA COMMUNITY BANKING NETWORK

Chief Credit Officers' Conference

Balboa Bay Resort
March 25-26, 2025

Sponsored By:

bhgfinancial. **jack henry** **KlariVis** **PREMIER** **IntelliCredit**
BRING YOUR DATA TO LIFE AUDIT SOLUTIONS

CRE Lending / Risk Management in California

March 26, 2025



Today's Panelists



David Ruffin
Principal
IntelliCredit

david.ruffin@intellicredit.com



Stephen Bethel
Founder / National
Director
Frazier Capital
Valuation

sbethel@fraziercapital.com



Raleigh Green
Vice President | Credit
Risk Management
BankIndependent

RGREEN@bibank.com

Where Is Your Bank on CRE?



CA / National CRE Metrics

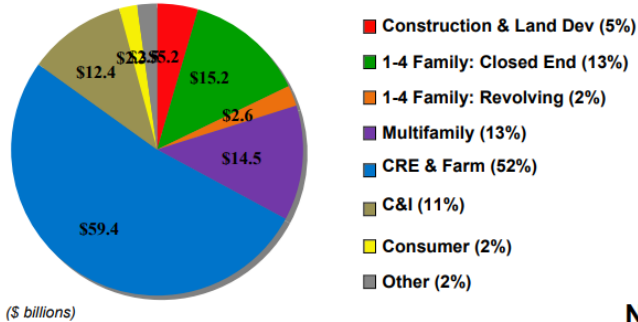


CA Ahead of National Average in Aggregate CRE Exposure

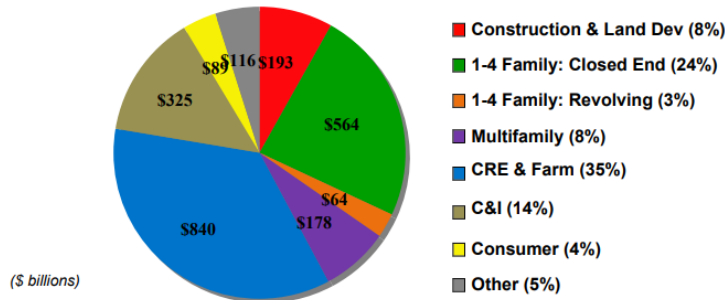
QwickAnalytics State Performance Trends Loan Composition

California
Banks
December 31, 2024

State Aggregate Loan Mix



National Aggregate Loan Mix



CRE Aggregate:

National 51%

California 70%

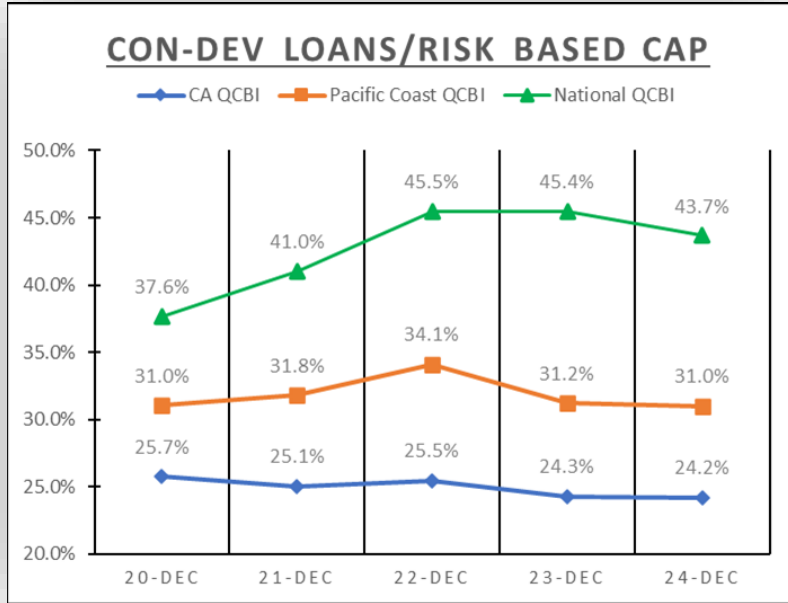
CA CRE Concentrations: Banks <\$10B



Regulatory Guidance:
≤ 100% RBC

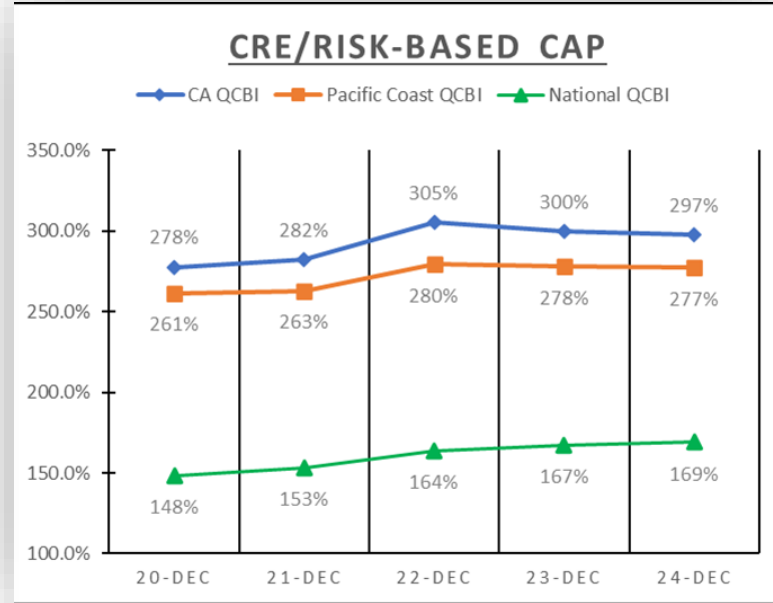
Q4 '24 Call Report Data*

Regulatory Guidance:
≤ 300% RBC



CA: 1 / Pacific Coast: 2 / National: 193

↑ 100%



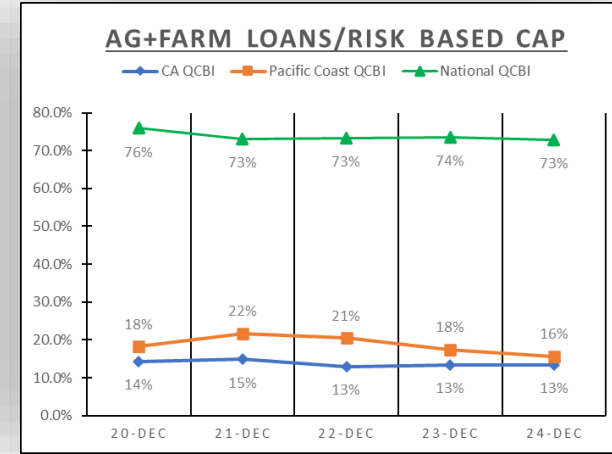
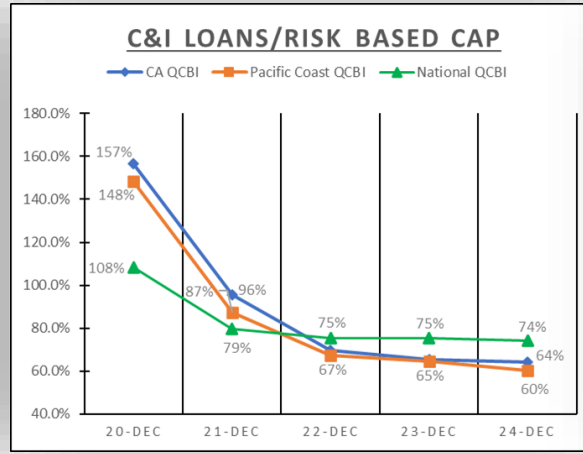
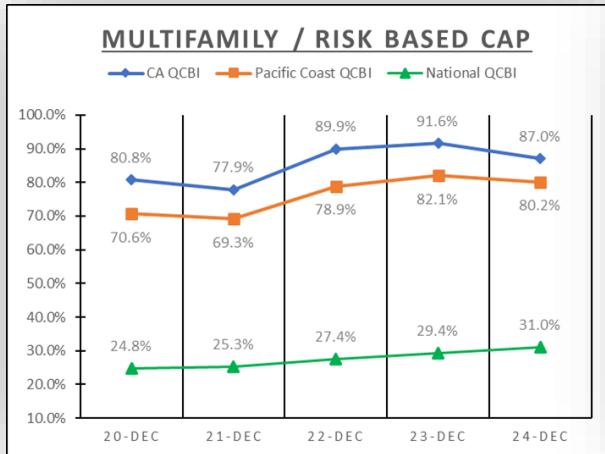
CA: 28 / Pacific Coast: 35 / National: 304

↑ 300%

Other Concentrations: Banks <\$10B



CA <\$10B / Pacific Coast <\$10B / National <\$10B



Q4 '24 Call Report Data*

Detailed CA CRE Metrics—*By Property Types*



FRAZIER CAPITAL VALUATION AND BROKERAGE

Stephen brings over 35 years of experience in valuation and brokerage and is the author of 10 books on valuation and brokerage. He has a Masters in Management, Economics and Politics from St. Andrews University in Scotland and a second in International Finance from Glasgow University in Scotland.

- Valuation
 - Businesses
 - Commercial Real Estate
 - Equipment
- Brokerage
 - Businesses
 - Commercial Real Estate



VACANCY RATES-OFFICE

San Francisco Financial District			Irvine Spectrum		
	2025 YTD	30.8%		2025 YTD	13.1%
	2019	7.2%		2019	12.1%
Downtown Los Angeles			Downtown San Diego		
	2025 YTD	20.9%		2025 YTD	35.2%
	2019	15.1%		2019	17.1%
Oakland			Riverside Office		
	2025 YTD	20.4%		2025 YTD	5.6%
	2019	9.2%		2019	8.2%
San Jose (Downtown)			Bakersfield		
	2025 YTD	27.5%		2025 YTD	10.8%
	2019	12.4%		2019	11.4%
Downtown Sacramento			Fresno		
	2025 YTD	9.9%		2025 YTD	5.5%
	2019	6.9%		2019	4.1%

VACANCY

RENTAL RATES-OFFICE

San Francisco Financial District			Irvine Spectrum		
	2025 YTD	\$4.21		2025 YTD	\$3.03
	2019	\$6.52		2019	\$3.30
Downtown Los Angeles			Downtown San Diego		
	2025 YTD	\$3.17		2025 YTD	\$3.49
	2019	\$3.29		2019	\$3.63
Oakland			Riverside Office		
	2025 YTD	\$3.83		2025 YTD	\$2.37
	2019	\$4.58		2019	\$1.93
San Jose (Downtown)			Bakersfield		
	2025 YTD	\$3.91		2025 YTD	\$1.92
	2019	\$4.22		2019	\$1.72
Downtown Sacramento			Fresno		
	2025 YTD	\$2.86		2025 YTD	\$2.10
	2019	\$2.67		2019	\$1.78

RENTS

ABSORPTION RATES-OFFICE

San Francisco Financial District			Irvine Spectrum		
	2025 YTD	(356,994)		2025 YTD	136,465
	2019	(309,961)		2019	116,554
Downtown Los Angeles			Downtown San Diego		
	2025 YTD	(875,920)		2025 YTD	43,394
	2019	(542,084)		2019	(120,707)
Oakland			Riverside Office		
	2025 YTD	(528,510)		2025 YTD	113,063
	2019	462,711		2019	(64,224)
San Jose (Downtown)			Bakersfield		
	2025 YTD	(167,043)		2025 YTD	4,181
	2019	59,577		2019	(159,390)
Downtown Sacramento			Fresno		
	2025 YTD	868,825		2025 YTD	24,344
	2019	171,351		2019	48,780

ABSORPTION

CAP RATES-OFFICE

San Francisco Financial District			Irvine Spectrum		
	2025 YTD	7.1%		2025 YTD	7.7%
	2019	4.6%		2019	6.1%
Downtown Los Angeles			Downtown San Diego		
	2025 YTD	8.4%		2025 YTD	9.8%
	2019	6.1%		2019	6.6%
Oakland			Riverside Office		
	2025 YTD	7.1%		2025 YTD	8.7%
	2019	5.3%		2019	7.7%
San Jose (Downtown)			Bakersfield		
	2025 YTD	7.0%		2025 YTD	10.1%
	2019	5.4%		2019	9.1%
Downtown Sacramento			Fresno		
	2025 YTD	9.2%		2025 YTD	10.2%
	2019	7.6%		2019	8.7%

VACANCY RATES-RETAIL

Los Angeles			San Francisco		
	2025 YTD	5.8%		2025 YTD	6.4%
	2019	4.6%	+11,000.00	2019	3.4%
Orange County			Sacramento		
	2025 YTD	4.1%		2025 YTD	6.0%
	2019	4.0%		2019	5.7%
Inland Empire			Fresno		
	2025 YTD	6.3%		2025 YTD	5.3%
	2019	6.5%		2019	5.0%
San Diego			Bakersfield		
	2025 YTD	4.1%		2025 YTD	5.0%
	2019	4.2%		2019	5.3%

VACANCY

RENTAL RATES-RETAIL

Los Angeles			San Francisco		
	2025 YTD	\$3.03		2025 YTD	\$3.52
	2019	\$2.78	+1,00.00	2019	\$3.56
Orange County			Sacramento		
	2025 YTD	\$3.15		2025 YTD	\$1.98
	2019	\$2.72		2019	\$1.77
Inland Empire			Fresno		
	2025 YTD	\$2.26		2025 YTD	\$1.63
	2019	\$1.82		2019	\$1.37
San Diego			Bakersfield		
	2025 YTD	\$3.06		2025 YTD	\$1.66
	2019	\$2.55		2019	\$1.40

RENTS

ABSORPTION RATES-RETAIL

Los Angeles			San Francisco		
	2025 YTD	(2,798,888)		2025 YTD	(98,168)
	2019	(1,235,588)	+1,00.00	2019	(800,065)
Orange County			Sacramento		
	2025 YTD	82,165		2025 YTD	147,178
	2019	(298,606)		2019	448,895
Inland Empire			Fresno		
	2025 YTD	(1,390,982)		2025 YTD	(349,130)
	2019	744,174		2019	375,069
San Diego			Bakersfield		
	2025 YTD	32,217		2025 YTD	(313,434)
	2019	(122,975)		2019	424,527

ABSORPTION

CAP RATES-RETAIL

Los Angeles			San Francisco		
	2025 YTD	5.6%		2025 YTD	5.1%
	2019	5.4%	+11,00.00	2019	4.6%
Orange County			Sacramento		
	2025 YTD	5.3%		2025 YTD	6.6%
	2019	5.3%		2019	6.7%
Inland Empire			Fresno		
	2025 YTD	6.1%		2025 YTD	7.2%
	2019	6.3%		2019	7.4%
San Diego			Bakersfield		
	2025 YTD	5.7%		2025 YTD	6.8%
	2019	5.7%		2019	6.8%

CAP RATES

VACANCY RATES-INDUSTRIAL

Los Angeles			San Francisco		
	2025 YTD	5.8%		2025 YTD	12.8%
	2019	2.4%		2019	4.0%
Inland Empire			Sacramento		
	2025 YTD	7.5%		2025 YTD	6.4%
	2019	4.4%		2019	4.6%
Orange County			Fresno		
	2025 YTD	5.6%		2025 YTD	4.5%
	2019	3.3%		2019	3.9%
San Diego			Bakersfield		
	2025 YTD	8.4%		2025 YTD	10.5%
	2019	5.6%		2019	3.9%

VACANCY

RENTAL RATES-INDUSTRIAL

Los Angeles		
	2025 YTD	\$1.50
	2019	\$1.15
Inland Empire		
	2025 YTD	\$1.11
	2019	\$0.77
Orange County		
	2025 YTD	\$1.62
	2019	\$1.18
San Diego		
	2025 YTD	\$1.90
	2019	\$1.38

San Francisco		
	2025 YTD	\$2.34
+11,00.00	2019	\$1.96
Sacramento		
	2025 YTD	\$0.98
	2019	\$0.71
Fresno		
	2025 YTD	\$0.73
	2019	\$0.58
Bakersfield		
	2025 YTD	\$0.83
	2019	\$0.66

RENTS

ABSORPTION RATES-INDUSTRIAL

Los Angeles			San Francisco		
	2025 YTD	(8,295,652)		2025 YTD	(1,152,206)
	2019	(1,768,760)	+1,00.00	2019	(84,694)
Inland Empire			Sacramento		
	2025 YTD	11,666,791		2025 YTD	195,787
	2019	25,752,805		2019	697,852
Orange County			Fresno		
	2025 YTD	(5,267,790)		2025 YTD	(1,327,706)
	2019	(596,078)		2019	(124,936)
San Diego			Bakersfield		
	2025 YTD	(2,220,300)		2025 YTD	(289,590)
	2019	100,927		2019	2,761,762

ABSORPTION

CAP RATES-INDUSTRIAL

Los Angeles			San Francisco		
	2025 YTD	5.1%		2025 YTD	5.8%
	2019	5.0%	+11,00.00	2019	5.2%
Inland Empire			Sacramento		
	2025 YTD	4.6%		2025 YTD	7.4%
	2019	5.0%		2019	7.1%
Orange County			Fresno		
	2025 YTD	5.3%		2025 YTD	7.7%
	2019	5.1%		2019	7.1%
San Diego			Bakersfield		
	2025 YTD	6.1%		2025 YTD	7.4%
	2019	5.9%		2019	6.9%

CAP RATES

BULK WINE TRENDS

WINE SALES ARE DOWN ANYWHERE FROM 10% TO 50% DEPENDING ON THE WINERY
RETAIL PRICES HAVE GONE TOO HIGH

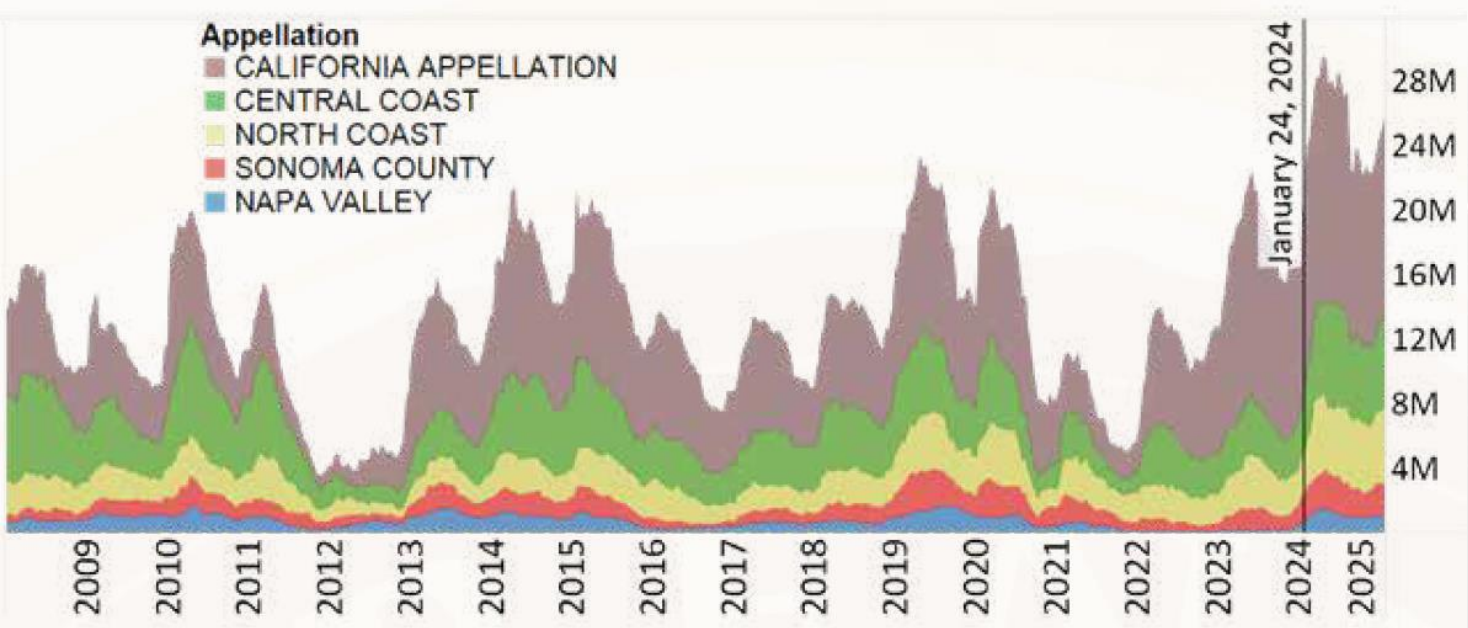
CALIFORNIA HAS BEEN OVER PLANTED AND THE SUPPLY IS TOO HIGH FOR THE CURRENT DEMAND

SOME VINEYARDS ARE ELECTING TO NOT HARVEST BECAUSE OF THE CURRENT CLIMATE. WE JUST HEARD OF A PREMIUM CABERNET SAUVIGNON GRAPE THAT TYPICALLY SOLD FOR AROUND \$2,000/TON JUST SELL FOR \$500/TON BECAUSE THE VINEYARD WAS DESPERATE TO MOVE THE PRODUCT.

TWO YEARS AGO VINEGAR DISTILLERIES WERE PAYING RETAIL PRICING FOR BULK WINE; HOWEVER, THERE IS SO MUCH SUPPLY THAT THEY ARE CURRENTLY PAYING A MAXIMUM BETWEEN \$1.50 AND \$2.00 PER GALLON.

WINE TRENDS

Figure 1 - California Statewide Bulk Gallons Available



Bulk gallons available statewide, all regions, all varieties. Source: Turrentine Brokerage

WINE TRENDS

WHAT IS HOT

- Gas Stations
- Car Washes
- Real Estate Contractor Businesses
- Educational Businesses
- Apartments
- Retail
- Second Hand Stores

WHAT IS NOT

FAST FOOD RESTAURANTS

- Minimum wage increasing to \$20/hour in April

HEALTH CARE BUSINESSES

- Minimum wage increasing to \$18, \$21 or \$23
- Depends upon What Facility is hiring them

OFFICE BUILDINGS

- Canada's Largest Pension Fund Sold Stake in Manhattan Office Building for \$1 in March
- Office Buildings are being demolished for Industrial or Other Uses
- San Francisco Office Buildings are worth 60% less than in 2019

Orchards

- Almonds used to be \$4/lb. and are now \$1/lb.

Best Practices for Managing CRE Risk?



Bank Independent

- Raleigh brings over 14 years of experience in credit risk management, commercial lending, and strategic financial analysis. He is a graduate of the Stonier Graduate School of Banking at the University of Pennsylvania, where he also earned the Wharton Executive Leadership Certificate.
 - VP Credit Risk Management
 - Loan Review
 - Risk Assessment and Stress Testing
 - ACL Model
 - Market & Economic Monitoring
 - Commercial Real Estate Analysis



Bank Independent

- Bank Independent is a closely held, community bank headquartered in Sheffield, Alabama. The Bank's philosophy of servant leadership and commitment to community has guided its growth from a small bank founded in Leighton, Alabama in 1947 to a seven-county footprint across North Alabama and beyond.
- Bank Independent operates 34 traditional sales offices and a digital branch, managing over \$2.7 Billion in total assets. The Bank also owns and operates Interstate Billing Service, an international accounts receivable management provider serving over 500 clients with annual receivables of over \$3 Billion.
- **The Bank is nationally recognized as reflected in recent honors:**
 - Newsweek Top 100 Most Loved Workplaces
 - American Banker - Best Banks to Work For
 - Forbes Best-in-State

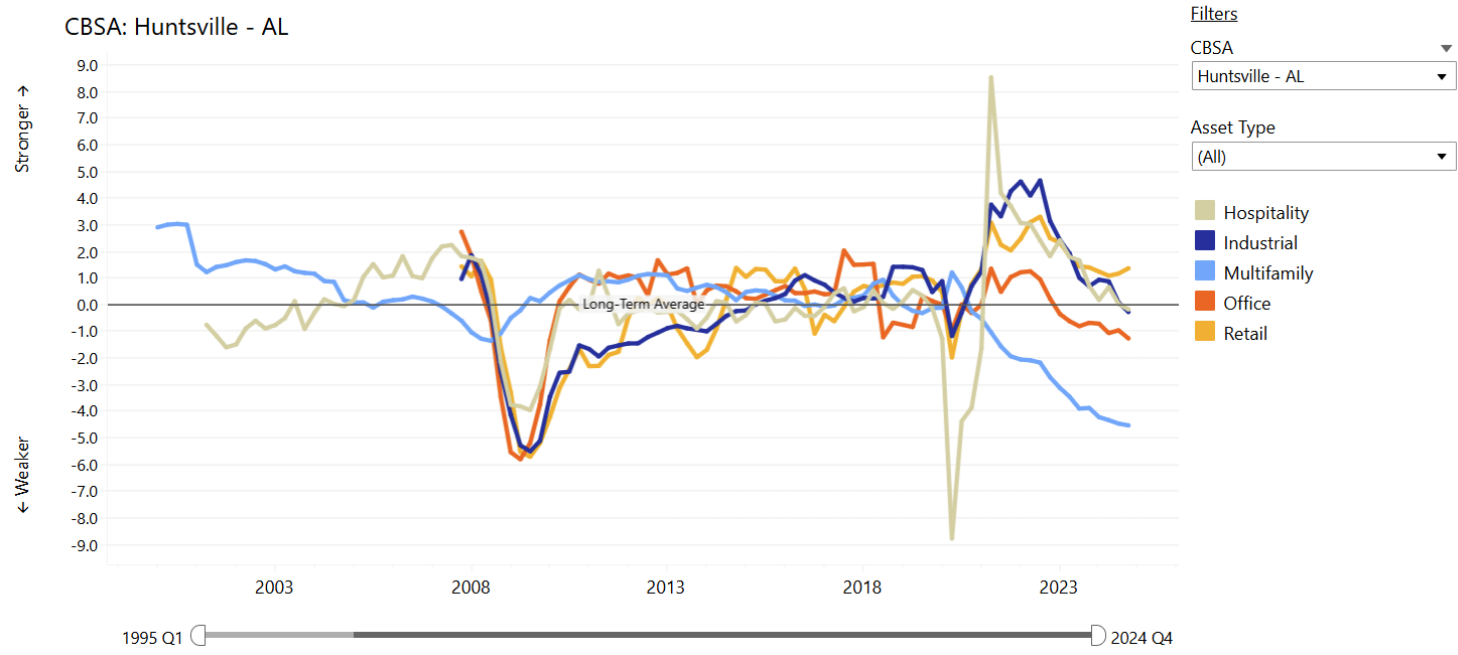
MIS and Building a Data Driven CRM Program

- Data is the Alpha Asset
- Segmentation of loan portfolios and accurate coding
- Review of Core data for gaps
- In addition, the Atlanta Federal Reserve publishes a few data tools worth considering:
 - Commercial Real Estate Momentum Index
 - Home Affordability Tracker
 - GDPNow

External Tools

Commercial Real Estate Market Index

CREMI Scores Over Time: CBSA Level



External Tools

Sacramento-Roseville-Folsom, CA

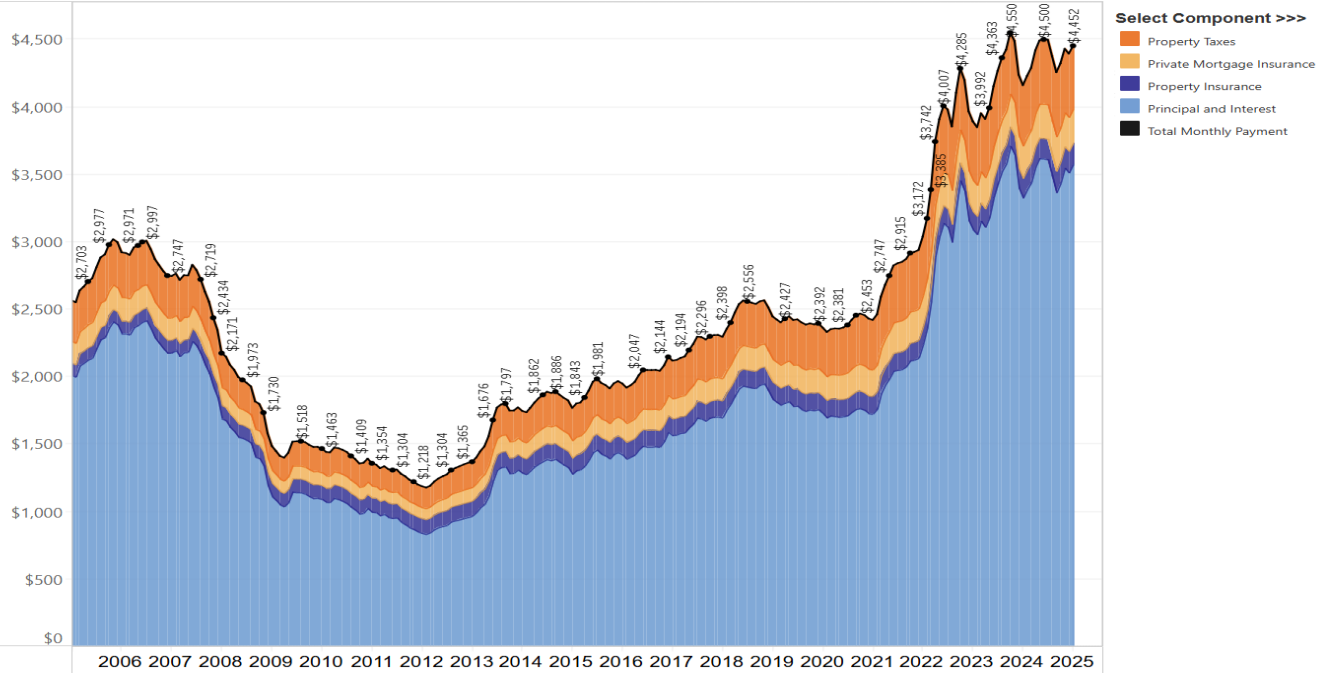
Monthly Cost Breakdown

(Select Cost Components in the legend, Hover for Values)

Source: Federal Reserve Bank of Atlanta

Select Metro >>>

Sacramento-Roseville-Folso...



Credit Risk Management Program

- **Credit Risk Management Fundamentals:**
 - Market & Economic Monitoring (MEM).
 - CRE Concentration Forecast
 - Risk Assessment Process
 - Stress Testing & Targeted Loan Review
 - Impact to ACL
 - Updates & Recommendations for Loan Policy & Capital Plans

Risk Assessments & Stress Testing

- **Risk assessments focus on connecting inherent risk in the market to portfolio risk characteristics. Criteria include:**
 - Concentration & Distribution
 - Occupancy
 - Construction & Absorption Rates
 - Leverage
 - Repricing Risk
- **Stress Testing Criteria:**
 - NOI
 - Capitalization Rates
 - Interest Rate.

The Reality:
Community Banks'
Disproportionate
CRE Burdens



IntelliCredit®



Community And Regional Banks:

CRE Exposure Disproportionately Higher!



All CRE Funding Sources

SHARE OF CRE FUNDING

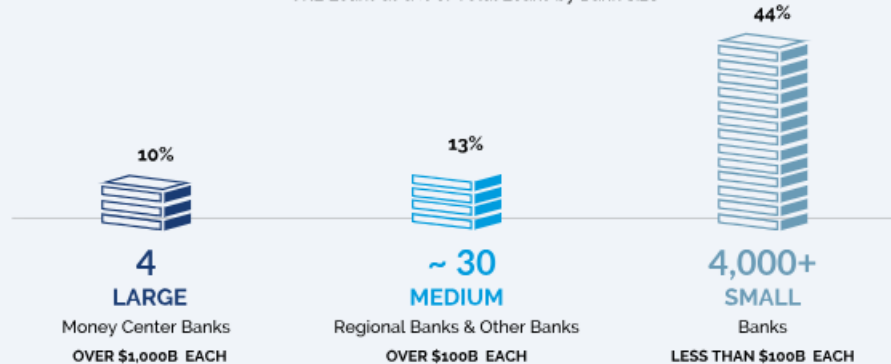


Source: MSCI Real Capital Analytics

Per Loomis Sayles

CRE LENDING BY BANK SIZE

CRE Loans as a % of Total Loans by Bank Size



Source: FDIC Call Reports via Capital IQ as of 30 September 2023. CRE=Commercial real estate. The chart presented above is shown for illustrative purposes only.

No more denial...CRE stress is growing!



Less Stress	More Stress
1-4 family housing??	Multifamily
Owner-occupied CRE	Office
Datacenters	Hospitality
Healthcare	Farmland
Smaller retail	Industrial
	Larger retail
	Specialty RE (e.g. Vinyards)

IntelliCredit's perspective per:

- Extensive loan reviews
- M&A due diligences
- 30+ conferences LTM
- Regulatory commentaries
- Expert analyses
- Bond trends
- REIT trends

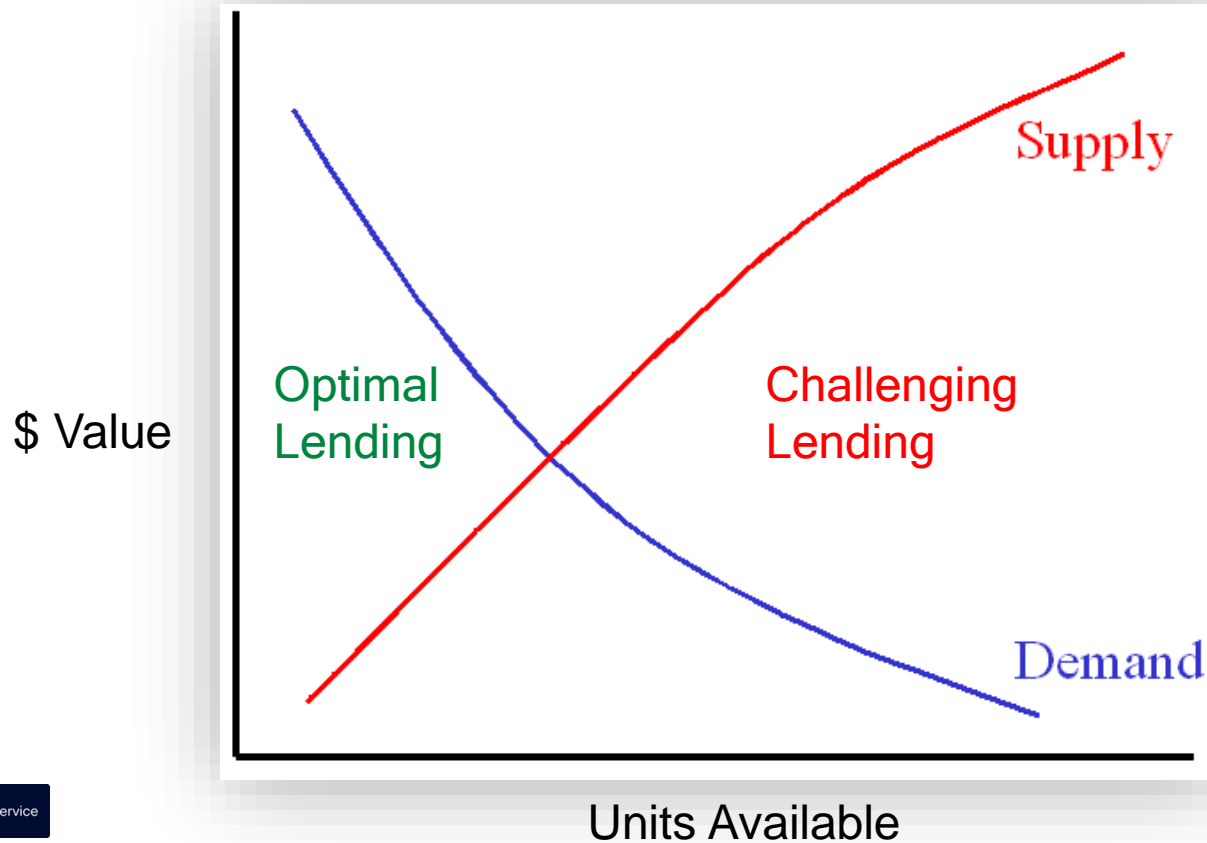
Estimated: \$900B CRE loans scheduled to mature in '25!

Rising CRE Bond Distress (*CMBS's & CLO's*)



- **CMBS (Commercial Mortgage-backed Securities ~\$625B) Record Distress: 10.6%**
 - Office Distress: 17%
 - Apartment Distress: 12.5%
- **CRE-CLO (Commercial RE-collateralized Loan Obligations ~\$75B) Distress: 13.8%**
- **Bank CRE Loans (~\$3T)**

Most Fundamental Metric In CRE – *Whatever The Type*



CRE Loan Analysis



Two halves of the same walnut:

1. One of which we're instinctively familiar: *underwriting the project / borrower for repayment capacity*
2. The other, emerging as equally important: *determining the market's supply and demand dynamic*



Improving CRE Portfolio Management



- Deepen CRE concentration assessments (to include all material subsets)
- Improve econometric / market data on lending footprint
- Enhance portfolio analytics / MIS data
- Adapt policies / underwriting to sync with conditions
- Embrace multiple stress test modes
- Expand loan review
- Integrate with strategic and capital plans
- Communicate effectively with both *Boards* and *Management*