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Banks are feeling the heat of the commercial real estate crisis—and it'll get worse

Article

The news: **New York Community Bancorp (NYCB)**, the financial institution (FI) that acquired **Signature Bank** last year, experienced **a record 38% drop** **in its stock price this week due to**

the plummeting value of commercial real estate.

What happened? Multiple factors are at play—some of which are out of NYCB's control.

- When NYCB acquired Signature Bank, it also acquired more regulatory oversight. The bank said it was trying to raise its capital ratios to over $100 billion to comply with regulatory requirements.
- The bank also set aside a large amount of money—$552 million—to cover loan losses, mostly from commercial real estate.

How we got here: When companies went remote during the pandemic, reducing the need for office space, many landlords struggled to pay back their loans. That made the commercial real estate market a lot riskier.

- About $2.1 trillion in commercial real estate loans will be due by the end of 2025.
- Many FIs are trying to sell these loans to raise cash and limit their exposure.

Is this an isolated incident? Not every FI will see its stock prices plummet, but that doesn't mean they're safe from this crisis.

- **Deutsche Bank**, for example, is reporting 400% higher provisions for commercial real estate loan losses than in Q3. US commercial real estate constitutes 1.5% of its lending portfolio.
- The bank also described a potential scenario where loans on devalued properties may mature, requiring borrowers to contribute new funds before they're able to get more loans.
- However, even after this announcement, Deutsche Bank's stock price has remained fairly steady.

Key takeaways: It's a tough time to be a regional bank, but NYCB's troubles aren't a result of the existential crisis this sector faces.

- Rather, they're a symptom of the commercial real estate crash—to which regional banks are four times more exposed than bigger banks.
- All FIs heavily invested in the highly cyclical commercial real estate sector must make every effort to diversify their lending portfolios.

*Speaking of investment strategies, don't forget what brought **Citizens Bank of Sac City** down last year.*