



Just How Much Commercial/Multifamily Mortgage Debt Is There?

The commercial real estate finance market is a big market. But how big? As with many queries, the answer depends on how you define the question.

The Fed's numbers

Each quarter, the Federal Reserve Board releases its Flow of Funds Account of the United States, a gargantuan tabulation representing the financial balance sheet of the U.S. economy. The Fed's Flow of Funds data track household wealth, corporate borrowing and a wide variety of other capital balances and flows, including the amount of commercial and multifamily mortgage debt outstanding. At the end of the third quarter of 2008, the Fed reported that commercial/multifamily mortgage debt outstanding stood at \$3.4 trillion.

The Fed data also show how much of this mortgage debt is held by which investor groups. Commercial banks were reported to hold the greatest share, \$1.5 trillion; followed by commercial mortgage-backed securities (CMBS), collateralized debt obligations (CDOs) and other asset-backed securities (ABS) issues with \$758 billion; life insurance companies with \$315 billion; savings institutions with \$191 billion; the government-sponsored enterprises' (GSEs') portfolios with \$179 billion; and agency- and GSE-backed mortgage pools with \$149 billion.

In compiling these numbers, the Fed relies on a variety of sources and uses a fairly broad definition of what constitutes "commercial mortgages." In the Fed's calculus, the commercial mortgage figures include an estimate of construction loans for commercial properties, as well as business loans for which an owner-occupied commercial property has been pledged as additional collateral. While these categories fall into "commercial mortgages" by some regulatory definitions, they are distinct from what is traditionally thought of as the commercial mortgage market.

The FDIC's numbers

One can cross-reference the Fed's numbers to other sources to better understand what is, and what is not, included in the \$3.4 trillion figure. According to the Federal Deposit Insurance Corporation (FDIC), at the end of the third quarter, FDIC-insured banks and thrifts held \$1.043 trillion of nonfarm nonresidential (commercial) real estate loans, \$205 billion of multifamily real estate loans and \$617 billion of construction loans. (To get to its \$1.7 trillion figure for banks and thrifts, the Fed adds the \$1.043 trillion of commercial mortgages, the \$205 billion of multifamily mortgages and a portion of the \$617 billion of construction loans.)

As a part of the commercial loans category, both the Fed and the FDIC numbers include business loans that are collat-

eralized by owner-occupied commercial properties. These are loans made to businesses, where the repayment of the loan is dependent on the business' operating income—not income from rents, leases or other property operations. In underwriting these loans, banks and thrifts place a lien on the owner-occupied property as additional collateral. Because these are business-based, not property-based, they are affected less by property-market fundamentals than by the operations of the debtor business.

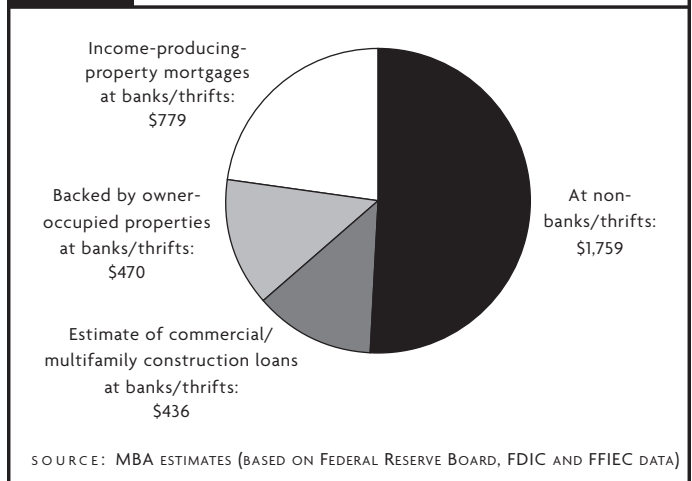
The Federal Financial Institutions Examination Council (FFIEC) reports the aggregate holdings of bank holding companies, by peer group, and includes in its reports details of the shares of commercial mortgages that cover owner-occupied and non-owner-occupied properties.

According to data from the third quarter of 2008, at bank holding companies with assets of \$10 billion or more, 41 percent of the commercial real estate loans were on owner-occupied properties.

The same was true for 45 percent of the commercial real estate loans at bank holding companies with between \$3 billion and \$10 billion in assets, 46 percent of those at banks/thrifts with between \$1 billion and \$3 billion, 49 percent of the loans at banks/thrifts with between \$500 million and \$1 billion, and 49 percent of the loans at banks/thrifts with less than \$500 million in assets.

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Figure 1 Commercial/Multifamily Mortgage Debt Outstanding, Q4 2008 (\$ billions)





If we estimate that approximately 45 percent of commercial real estate loans are owner-occupied, that means that banks and thrifts hold approximately \$574 billion of mortgages on income-producing commercial properties, \$205 billion in multifamily mortgages (which are by definition income-producing) and \$470 billion of mortgages on owner-occupied commercial properties. Focusing just on the income-producing properties, one gets a total of \$779 billion—a significant number, but well below the \$1.684 trillion reported by the Fed's Flow of Funds report.

What's the question?

The commercial real estate finance market is a big market, but depending on how one wants to define it, its size varies considerably (see Figure 1). The volume of outstanding mortgages on income-producing properties (which are supported by rents and leases) is approximately \$2.5 trillion. If one also includes loans collateralized by owner-occupied commercial properties, the volume rises to \$3 trillion. And if one adds the portion of construction loans the Federal Reserve Board attributes to commercial properties, the number rises to \$3.4 trillion.

How big is the market? It depends on the question.

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