

Defaults on Apartment-Building Loans Set Record for U.S. Banks

Digested From "Defaults on Apartment-Building Loans Set Record for U.S. Banks"

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Real Capital Analytics Inc. reports that defaults on apartment-building mortgages held by U.S. banks climbed to a record 4.6 percent in the first three months of this year, nearly double the year-ago level. This occurred as more borrowers failed to repay debt approved near the market's peak. Defaults on so-called multifamily mortgages rose from 4.4 percent in 2009's October-through-December period and from 2.4 percent during the first quarter a year earlier. Sam Chandan, global chief economist at Real Capital, states, "Apartment defaults are leading other commercial real estate. Banks tended to make more aggressively underwritten apartment loans earlier during this last cycle. Credit and pricing reached their peaks for office properties and other commercial assets later." Defaults on apartment-building mortgages exceeded the previous record set 17 years ago for the last three straight quarters. It was the U.S. savings-and-loan crisis that drove apartment defaults to 3.4 percent in 1993. Defaults on other types of commercial property debt peaked at 4.6 percent in 1992.