RSA Reporter

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Policymakers Remain in Defiant Denial of Mortgage Crisis

Like a slow moving train wreck that everyone sees coming but does nothing to avoid, a mortgage crisis is enveloping the multifamily residential market. The numbers are all publicly available and easy to read. Think tanks and trade associations and building owners are sounding the alarm. Newspapers and analysts are writing about the danger. Economists are having fits about it. But policymakers are ignoring the obvious and, sadly no surprise, are making things much worse.

This isn't in the future. It's happening now. When it gets much, much worse than what we're already experiencing, agenda-driven legislators and reckless candidates will throw their hands up, blame building owners and lament how nobody saw this coming.

Those outside real estate can be forgiven for thinking it's not happening because the reports from the White House and federal agencies keep saying that the economy is improving. Maybe parts of it are, but not our part!

RSA has been, and will continue to be, a steady voice calling attention to the reality others are busy denying. Problems only get solved when you acknowledge the problem. There are policy and market solutions to be discussed, but not before the crisis is acknowledged as real.

The Mortgage Bankers Association (MBA) conducts an annual survey of upcoming commercial and multifamily mortgage maturities. The survey collects information directly from loan servicers on when the loans they service mature.

This year's survey collected information on $400 billion of bank-held commercial and multifamily mortgages – 23 percent of the outstanding universe. Using these results, MBA expanded their loan maturity analysis to include an estimate of the maturity profile of all commercial and multifamily mortgages – including the more than $1.7 trillion on bank balance sheets.

Its analysis estimates that of approximately $4.4 trillion of outstanding commercial/multifamily mortgages, $728 billion (16%) matures in 2023 with another $659 billion (15%) maturing in 2024. New York City, having among the most multifamily buildings in the country, is especially vulnerable to disruptions and turmoil in this market.

Now that what's happening and what will happen has been quantified, it's important to plainly state why it matters.

These mortgages are overwhelmingly short term loans, as is typical in the multifamily / apartment building economy. These aren't the 30-year fixed mortgages that single family homeowners get. All of the billions of dollars in multifamily loans coming due were taken out at much lower interest rates. Current higher rates - double previous rates, or more - have been steep, quick, and across all parts of the economy.

Regional and midsize banks hold a lot of these loans, as they are typically the lenders closest to the ground and more active in local residential real estate. The exposure of these banks, in apartment buildings and other local businesses, is extreme and puts them in a precarious position. If they stumble or fail, as some very publicly already have, it is the federal government and the taxpayers on the hook for the bailouts. Alongside those bailouts, as we've seen, larger sized banks then buy what's left after the government throws money at the shaky balance sheets, undercutting local ownership and local investments.

Where does that leave the borrowers? Where does that leave you?

Servicing maturing debt through refinancing will be more expensive and harder to come by, if building owners can find loans at all. Banks, unsteady themselves for the reasons above, won't be in a position to work with buildings in an uncertain financial situation. Owners, especially smaller ones, will be encouraged to sell. The local ownership that makes New York New York will be diluted or lost.

Why are building finances uncertain? Because New York legislators have made a difficult national economic situation worse with

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irresponsible legislation that has layered uncertainty on top of already ruinous regulations.

Consider that Democratic Assemblymembers and Senators passed legislation to revisit long-settled rents for more affluent tenants, predominantly in core Manhattan and Brownstone Brooklyn.

This time machine, that would only hurt owners and only benefit tenants who pay relatively higher rents for renovated apartments, would be a windfall for class action lawyers and activists. It upends rent rolls settled for years - sometimes decades! – and stretches the definition of fraud to absurd administrative lengths. The potential exposure for buildings, based on playing "gotcha" with rent levels set through earlier court decisions and government agency determinations, is enormous. So why would banks refinance in this situation? Who would buy a building or lend to it with a ticking litigation bomb tossed into the deal by activist legislators?

The Fed thinks it's necessary to continue raising interest rates to manage the national economy. New York legislators think it's a good idea to punish property owners to benefit affluent rent stabilized tenants in a public benefit system that isn't means tested. Policymakers – state and federal – are choosing to ignore an enormous mortgage crisis with the potential to wreck regional and midsize banks.

Who is speaking up for building owners? For New York's local and state budgets? For an affordable housing economy that works?

We are. ■

Protecting Your Investments

Over the last few years alone, building owners have experienced unfathomable challenges all at once. Increased operating expenses, inflation, devastating e-bike fires, unpredictable catastrophic weather events caused by climate change, higher refinancing interest rates, and a once-in-a-century global pandemic, in addition to all the other unknowns that come with owning in a major metropolitan area. Meanwhile, RSA Insurance Agency has been right here working diligently to help minimize at least some of the financial impact our customers have faced. After 20 years of navigating the insurance market to better help owners like you, RSA Insurance Agency understands the inner workings of the housing and insurance industry and all that goes on behind the scenes when it comes to protecting your assets.

With so many longstanding businesses having to close shop, many of you recognize, now more than ever, that it is the time to secure your investments. We have all seen the aforementioned impacts, with inflation and catastrophic weather events being key drivers in the continuously rising costs that many policyholders are experiencing. Yes, New York has always been a challenge but we feel it even more now with all the supply chain disruptions, labor challenges, and the nationwide increases in claims. It's unfortunate but we know at renewal time, it is you, the policyholder left feeling the heavy financial burden of nationwide disasters and rate increases, as insurance companies try to balance their own books, and reserve the necessary funds for those inevitable rainy days to come.

Analysts remain hopeful that the market will begin to level out over the coming year or so. Whether that happens or not remains to be seen. The fact is, insurance exists for times of uncertainty and you must be prepared for the unexpected. With a foundation based on the legislative and economic reality of the city, we have unique insight that others simply cannot offer. We are here for you to negotiate premiums, seek replacement options, request applicable credits, and ask for reasonable discounts in an effort to provide the coverage you need. ■

Please visit the RSA Insurance Agency website to learn more:
www.rsainsuranceagency.com

RSA MEMBERSHIP MEETING *ONLINE VIA ZOOM*

Wednesday, September 20, 2023 at 2:00PM

Join us for our next virtual membership meeting! The Membership Meeting is an opportunity for owners to learn about political, legal and regulatory updates as well as to raise questions and concerns. All paid RSA members are welcome to attend. Please register by clicking on this link: **https://bit.ly/3qS7Yli**.

Once you have registered, the Zoom meeting ID and password will be sent to you via email. Please be advised that this is a private meeting for RSA members **ONLY**. Do do not share meeting credentials with anyone else.