CoStar Group Real Estate Information

News: National

April 27, 2011
Written by Mark Heschmeyer (mheschmeyer@costar.com)

Banks Whittle Away at CRE Assets While Waiting To Jump Back Into Lending

Banks Beginning To Point to the Second Half of the Year as Their Return to CRE Lending

Coming out of the first quarter, most U.S. banks still view commercial real estate as an anathema to be further banished from their books, or at least kept off their rolls. However, for the first time in a long time, they have started talking about the day when that won't be the case. And that day could come sometime in the second half of this year.

In a review of first-quarter banking results and earnings conference calls, banks said they're looking toward the second half of the year for a return to CRE lending. For now, though, banks fall into one of three general categories with regard to commercial property loans: still clearing the books, maintaining existing customers, or ready to jump back in. The number in the first two categories is probably about equal and makes up the vast majority of banks, which has left an opening for the third group.

Wilshire Bancorp Inc., a $2.9 billion Los Angeles-based holding company, is typical of the first group. Jae Whan (J.W.) Yoo, president and CEO of the bank holding company, told analysts that CRE is approximately 78% of its loan portfolio and by the end of the year he wants to have it down to about 72%. That could mean clearing about $175 million of CRE assets from its books.

"To achieve these goals, we will be very aggressive in selling CRE loans in the coming quarters, which will not only help reduce our CRE concentration but also decrease our level of problem assets," Yoo said. "At the same time, we'll have to continue to produce in the commercial & industrial [portfolio] and SBA and residential mortgage so that we have larger denominator so that it becomes a percentage that will be reduced."

Regions Financial Corp., a $94 billion holding company in Birmingham, AL, kind of balances between the first and second categories. On the one hand, its focus on CRE lending continues to be on renewing and restructuring real estate loans with existing clients. On the other, it is still seeing its CRE portfolio decreasing -- somewhat willfully but also because of lack of demand in the market.

"I think that several months ago, we came out with an internal goal of reducing that portfolio to no more than 100% of risk based capital," said O. Hall, vice chairman, CEO and president of Regions. "And we'll achieve that this year."

"Frankly, we have the other concern," Hall said. "Our concern is while we are seeing some opportunities in investor commercial real estate space, they are very limited and we are not seeing new production opportunities rebound with any materiality and if they don't, then we'll see that portfolio decline below that $14 billion mark."

Clearly in the second category would be bank holding companies such as Pacific Continental Corp., a $970 million holding company in Eugene, OR.

Charlotte Boxer, president and director of CRE for Pacific Continental told analysts: "It appears that by the end of the second quarter of 2011 that we will probably have bottomed out on our reduction in our commercial real estate asset. While we're not out there looking for new business per se, we do have existing commercial real estate borrowers who have fared quite well through their last three or four years who are beginning to express some interest in some additional financing. And we will obviously look at those deals very carefully, but should be able to accommodate some small growth in some very high quality commercial real estate transactions."

KeyCorp, a $59.8 billion holding company in Cleveland, is another example in the second category and is one of the many banks that points to growth in the back half of the year.

"Interestingly, [in its real estate book] we're starting to see, frankly, a fair amount of traction," Christopher M. Gorman, president of Key Corporate Bank, told analysts. "In that portfolio, we still think it will be down in the second quarter, we think it will stabilize in the third quarter, and we think it will grow in the fourth quarter."

"Our confidence in the growth is based on the pipeline," Gorman said. "We see the pipeline is up, say, 8.5 times, believe it or not, from where it was in April of 2010. Not everything in the pipeline is going to matriculate, but the fact of the matter is when you have that kind of pipeline, we feel pretty good about it. Real estate's a little bit of an out wire and that it grows later as we implement our strategy, but we see stabilization to second quarter growth and the third and fourth."

Creeping into the third category would be bank holding companies such as Prosperity Bancshares Inc., a $7.5 billion holding company in Houston. James D. (Dan) Rollins III, president and COO of Prosperity, generally sided with Regions' Hall who just did not see demand for borrowing. Rollins said he just doesn't see the competition for lending.

Rollins said he keeps hearing about banks chasing stuff very aggressively, but he's not seeing it on deals they're involved in.

"Three or four years ago, the competition was so hot, probably everywhere, but in Texas, you picked up the phonebooks, you called 10 banks, and within 5 minutes, just like the record drivers, you had 10 bankers in your office, begging you to please take the money," Rollins said. "Today, you pick up the phonebook, you call 10 banks, eight banks don't return your call."

"So, the market has clearly moved in our favor," Rollins added. "Sometimes your own bank doesn't return your call. So, that's making it a lot easier for us to take care of business, and our team is very focused on making that happen."

Prosperity's chairman and CEO, added: "I think if you wanted [to increase your] commercial real estate portfolio, and you were competitive on the rate, you could fill your boat up pretty easily."

Independent Bank Corp., a $3.7 billion holding company in Rockland, MA, has also jumped back into CRE lending.

"Our commercial loan activity has been strong," said Christopher Oddleifson, president and CEO of Independent. "Our commercial portfolio grew at an annualized rate of 9% since year-end. Growth was generated in both the C&I and commercial real estate sectors, and this is not a one quarter aberration, but rather extends our track record of strong loan growth over many quarters now. Our loan pipeline remains strong."

In its CRE portfolio, Independent has seen growth in retail and non-owner occupied properties.

Bank of Hawaii Corp. in Honolulu with $9 billion in assets also has been growing its CRE portfolio in the last couple of quarters.

"We are seeing some improvement in transactions in the marketplace as compared to a year to two ago, although that was a pretty a muted environment to begin with," said Peter S. Ho, chairman, president and CEO. "But really I think the bulk of our growth has come from the fact that a number of essentially out of town lenders are not in the marketplace any more with the conduit market being a bit more muted and a number of the monolines are really not having a presence anymore."

Keep up weekly on national news, trends and property leads with the Watch List Newsletter, a weekly pdf that includes other news and leads not found on the CoStar Group web news pages. Sign up for the Watch List E-Mail Alert. A new issue is published late each Wednesday.