5 Major Markets Where Commercial Real Estate Owners Face Debt Maturities and Significant Refinance Risk

Over the next two years, commercial real estate property owners face more than $1 trillion in debt maturities. While some property owners can refinance or restructure their debt, other property owners may be forced to sell assets as traditional lending sources become increasingly difficult to access.

The significant increase in interest rates over the past two years has placed substantial pressure on commercial real estate owners who face near-term debt maturities. With higher debt costs and stricter underwriting standards, many real estate properties are at significant refinance risk.

At **Keyway**, we've used our proprietary technology – powered by AI, machine learning and data science – to identify and analyze the elevated refinance risk that multifamily property owners face in select Sunbelt markets: Dallas-Fort Worth, Atlanta, Austin, Nashville and Raleigh/Durham.

Through an in-depth analysis of loan origination, loan maturity dates, property revenue performance and other attributes, we can quickly identify how many owners, properties and banks are facing elevated financial risk. Then, we can use this data to identify owners who could face heightened financial distress and may be more willing to sell multifamily real estate assets.

Key Takeaways

- Of the five major markets, Atlanta faces the highest elevated refinancing risk, since a significant share of Atlanta multifamily properties may not get refinanced.
- Therefore, Atlanta may become the most attractive market in the Sunbelt to acquire multifamily properties facing elevated refinance risk.
- We've identified ~300 commercial real estate property owners across these markets that collectively control 126,000 units that are likely to face debt maturity issues in the coming years, as more than 50% of the properties in their portfolio are facing elevated refinancing risk.
- Due to their lack of asset diversification, smaller property owners (property owners who own one or two properties) may face higher refinance risk than larger property owners (property owners who own more than two properties).

Property Overview

We analyzed multifamily properties in five major Sunbelt markets with at least 50 units and an active loan or mortgage.

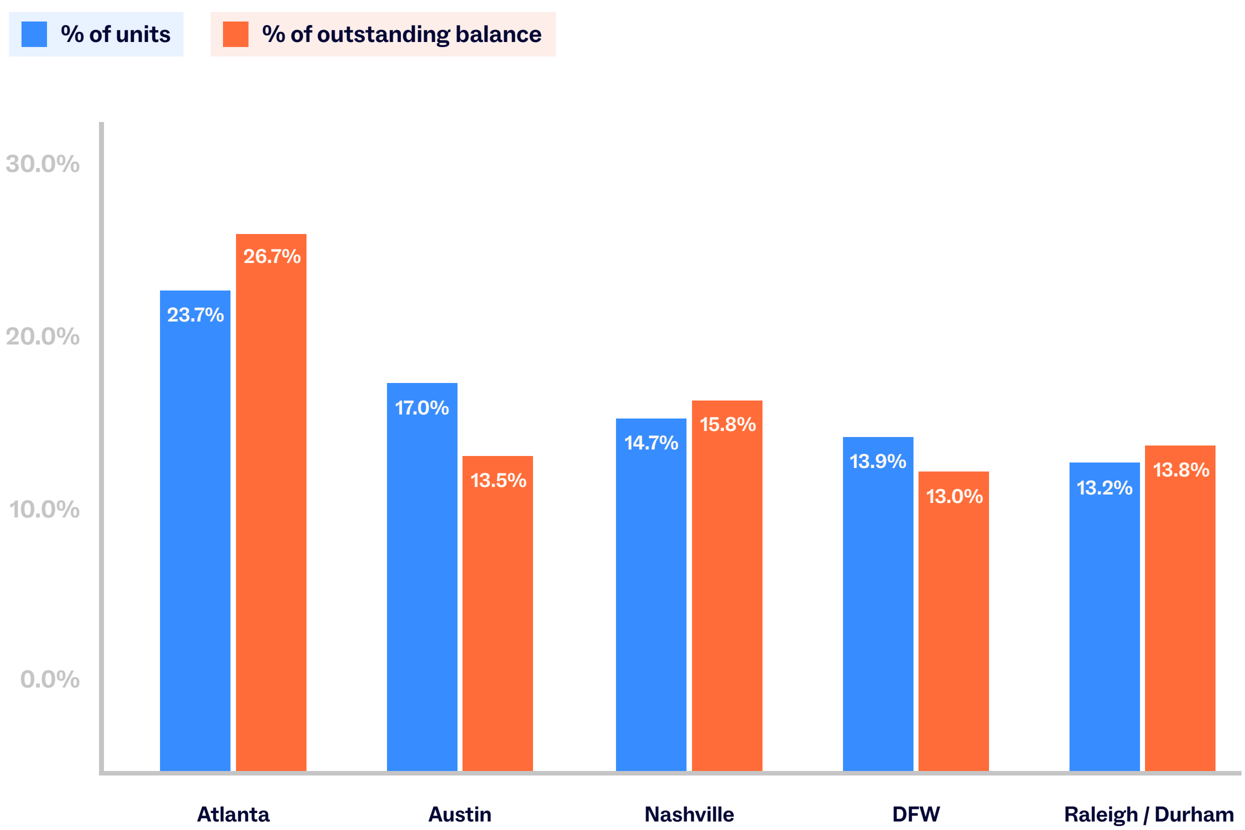
	DFW	ATLANTA	AUSTIN	RALEIGH / DURHAM	NASHVILLE
NUMBER OF PROPERTIES	3,500	2,300	1,400	675	675
NUMBER OF UNITS	840,000	540,000	330,000	165,000	150,000
OUTSTANDING DEBT ($B)	$75	$55	$34	$18	$18

Refinance Risk Overview

Two primary categories for debt refinancing emerged from the data:
- **"Elevated" refinance risk:** multifamily properties with loan maturity dates through December 2025.
- **"Extra Elevated" refinance risk:** multifamily properties with loan maturity dates through December 2025 and loans originated during the COVID pandemic beginning in 2020.

For each market, we examined both the % of total units and % of outstanding debt that is considered at risk.

Elevated Refinance Risk



Atlanta has the highest elevated risk – on both a percentage of units and outstanding debt basis – and may present a significant buying opportunity in the coming years.

For example, in Atlanta, 23.7% of units and 26.7% of outstanding debt are in properties with loans coming due between now and December 2025. These properties may face issues when refinancing, since interest rates are now substantially higher than when these loans were originated.

Austin is a distant second, which isn't surprising given the construction boom in recent years. Compared with Atlanta, Austin has 17% of units in properties with loans due in the next 18 months. Overall, Dallas-Fort Worth is the healthiest market in our evaluation. However, given the size of the Dallas-Fort Worth market, there's likely to be opportunities for distressed properties if there is an economic downturn.

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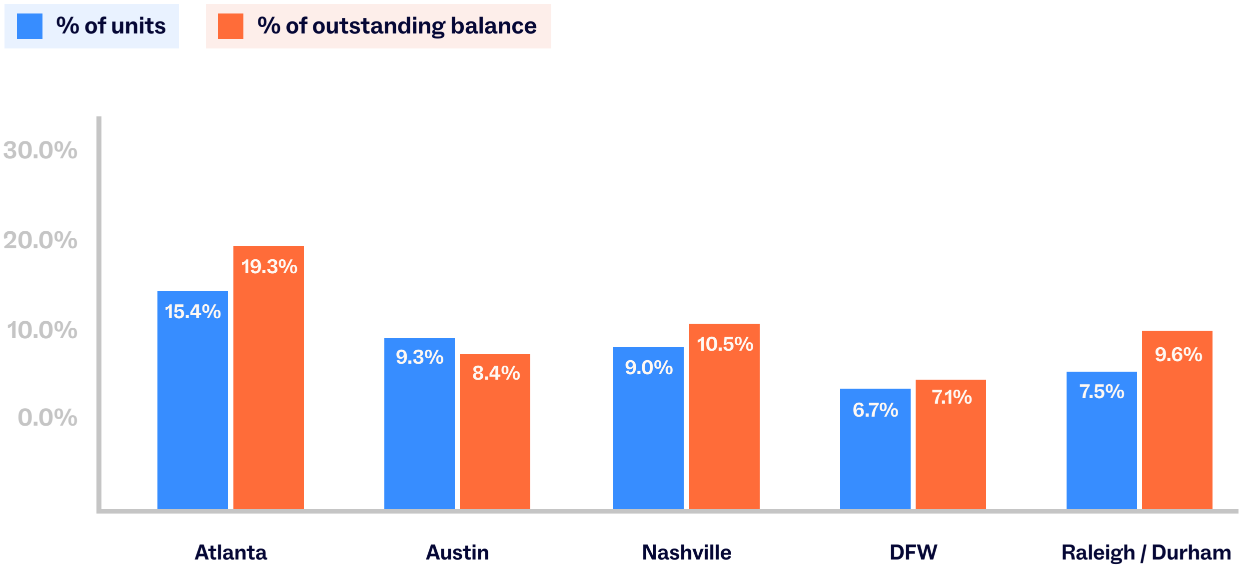
Extra Elevated Refinance Risk



The vintage year of loan originations is another important evaluation metric. Atlanta has significantly higher exposure than other major Sunbelt markets. For example, 19.3% of outstanding debt in Atlanta is not only due in or before December 2025, but also that amount of debt was originated during the COVID pandemic. These properties, which include 15.4% of units, will face elevated risk when refinancing.

For example, assume a multifamily property had a Debt Service Coverage Ratio (DSCR) of 1.25 on a 4% amortizing mortgage payment originated in 2020. To refinance with a 1.25 DSCR at a 7% mortgage payment, a property owner would need to increase NOI by 21% every year. While rent increases can help provide more cash flow for debt repayment, owners only have up to two years of rent increases to cover significantly higher debt costs.

A significant portion of properties in Atlanta likely face extra elevated refinance risk in the coming years, and we expect the opportunities to buy from motivated sellers to be extensive.

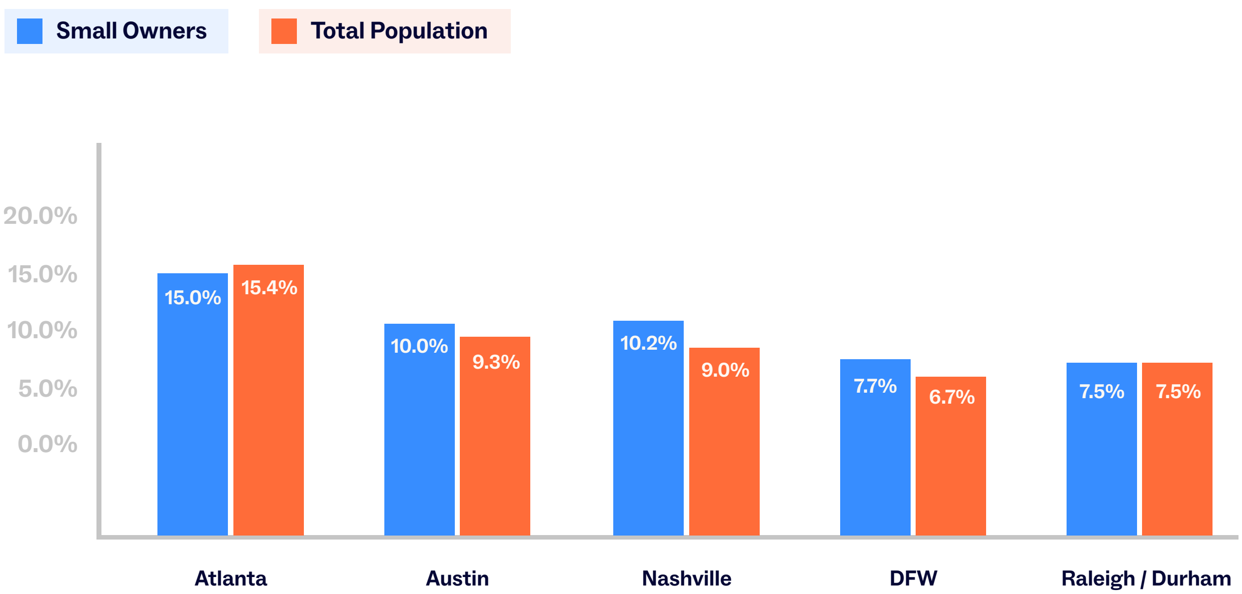
Do smaller property owners have elevated refinance risk?

To further target potential property owners facing financial distress, we also explored whether the number of properties owned impacted the level of refinance risk.

We reduced the sample size to analyze multifamily property owners who own one or two properties.

	DFW	ATLANTA	AUSTIN	RALEIGH / DURHAM	NASHVILLE
NUMBER OF PROPERTIES	950	600	500	300	325
NUMBER OF UNITS	190,000	130,000	110,000	65,000	70,000
OUTSTANDING DEBT ($B)	$19.0	$15.5	$12.0	$7.5	$9.0

Extra-Elevated Refinance Risk



Based on this data, "small property owners" do not have an elevated refinancing risk compared to their larger property owner counterparts. The difference is only a few percentage points of units or outstanding balance – the highest difference being 10.2% of small-owner Nashville properties facing extra-elevated refinance risk vs. 9.0% in the population as a whole.

However, "small property owners" still face an additional elevated refinance risk given the lack of diversification against idiosyncratic risk.

Which property owners are most at risk?

Our technology creates significant transparency into which owners specifically face the most amount of refinance risk. We dug further into both large and small multifamily property owners to identify which owners may be at risk given the overall level of refinancing risk in their portfolio.

	DFW	ATLANTA	AUSTIN	RALEIGH / DURHAM	NASHVILLE
NUMBER OF OWNERS	76	131	41	27	26
NUMBER OF UNITS	27,200	64,000	13,500	10,000	11,500
OUTSTANDING DEBT ($B)	$3.0	$8.5	$1.8	$1.5	$1.8
SHARE OF TOTAL UNITS	3.2%	11.7%	4.1%	6.2%	7.4%

While we won't disclose the identity of specific owners, we identified ~300 multifamily property owners across these five markets where more than 50% of their properties are facing elevated refinancing risk.

Again, Atlanta is the market with the most exposure – with 11.7% of units owned by an owner whose portfolio is facing elevated risk.

Conclusion

With the power of AI, machine learning, and data science, Keyway's comprehensive analysis offers a unique insight into the Sunbelt's commercial real estate landscape. These findings highlight the pressure on commercial real estate owners due to impending debt maturities, while also revealing compelling investment opportunities. By identifying specific markets like Atlanta with heightened refinance risk, the report provides actionable insights for investors looking to acquire small multifamily properties from distressed sellers and gain a competitive edge in today's environment.