



The Real Estate Roundtable

Addressing the Wave of Maturing CRE Debt and Pro-Cyclical Regulatory Policy

Capital and Credit

Summary

More than \$950 billion of U.S. commercial real estate mortgages are [estimated](#) to mature in 2025. To help rebalance the wave of maturing loans, it is important to advance measures that will encourage additional capital formation and loan restructuring.

- As urged by RER, a policy statement—[Policy Statement on Prudent Commercial Real Estate Loan Accommodations and Workouts](#)—issued by regulatory agencies encouraging financial institutions to work constructively with creditworthy borrowers on CRE loan workouts is helping to see loans through the current environment.
- Many of these loans require additional equity, and borrowers still need time to restructure this debt.
- Capital formation is vital to help restructure maturing debt and fill the equity gap.

It is also important to avoid pro-cyclical regulatory actions such as the *Basel III Endgame*.

A revised *Basel III Endgame* proposal announced in September 2024 would have increased Tier 1 capital requirements for global systemically important banks by roughly 9 percent. Concerns remain that any increase in capital requirements will have a pro-cyclical impact on credit capacity and carry a cost to commercial real estate and the overall economy, increasing the cost of credit and constraining capacity.

In a January 2024 [letter](#), RER raised industry concerns about the negative impact of the *Basel III Endgame* proposal, including the higher cost of credit and diminished lending capacity, and requested that the proposal be withdrawn.

The Fed and other regulators remain deadlocked on advancing the revised proposal. With the appointment of Michelle Bowman to the post of Vice Chair for Supervision, however, there is speculation that the proposal could ultimately be withdrawn or end up being capital neutral.

Key Takeaways

- Providing banks with the flexibility to work constructively with their borrowers during times of economic stress has led to **billions of dollars of loan restructurings and reduced undue stress in bank loan portfolios**.
- The proposed *Basel III Endgame* regulations would come at a **significant economic cost** without clear benefits to the economy.
- The largest U.S. banks' capital and liquidity levels have grown dramatically since the original Basel III standards were implemented in 2013 in response to the 2008 Global Financial Crisis. **Since 2009, Tier 1 capital has increased by 56 percent and Common Equity Tier 1 capital has tripled.** Today, as the Federal Reserve recently observed, the U.S. "banking system is sound and resilient, with strong capital and liquidity."¹
- Further, it is important to bring more foreign capital into U.S. real estate by lifting legal barriers to investment, as well as **repealing or reforming** the archaic Foreign Investment in Real Property Tax Act (FIRPTA).

Background

Basel III Endgame

¹ <https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf>



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- The original *Basel III Endgame* proposal would have increased capital requirements for the largest banks by as much as 20 percent.
- Based on the resounding opposition to the proposal from the industry participants, a revised proposal was announced in September by Michael Barr, the outgoing Fed Vice Chair for Supervision, that would increase Tier 1 capital requirements for systemically important global banks by approximately 9 percent—less than half of what would have been required in the original proposal.
- Nonetheless, there are still concerns about the impact the change will have on commercial real estate and the overall economy. Former Fed Vice Chair Randy Quarles warned it is a “mistake,” saying, “It will restrict the ability of the financial system to provide support for the real economy.”
- The revised proposal reduces risk weights for certain residential mortgages and retail exposures, extending this reduction to low-risk corporate debt. Commercial real estate risk weights remain unclear.

Recommendations

Withdraw the Proposal to Increase Capital Requirements: While well-intentioned, we are concerned that the proposals could increase the cost of credit, diminish lending capacity, and undermine the essential role banks play in lending and financial intermediation for real estate.

- With new supervisory leadership at the Fed, the *Endgame* proposal could be scrapped or be capital neutral.
- As outlined in RER’s January 2024 [comment letter](#), the potential significant increase in capital requirements for large banks’ capital market activities due to the *Basel* proposal could materially reduce the depth of banks’ product and services offerings to the real estate sector, which will in turn lead to an **increase in hedging risk and the cost of raising capital in the industry**.

Support Robust Capital Formation: Additional capital is called for to help restructure and transition the ownership and refinancing of commercial real estate from a period of low rates to a time of higher rates. Additional capital is an essential element to this restructuring, and enacting policies that will encourage robust capital formation is imperative.