

'Tis the Season for CRE Property Valuations



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As year-end approaches, commercial real estate (CRE) property valuations take center stage, with loan portfolio sales ramping up. Professional appraisals of various forms are critical for navigating the complexities of distressed mortgage sales.

Recent [research](#) highlights that bank CRE portfolios are under increasing strain, with loan delinquencies hitting four-year highs in Q3. Non-performing, income-producing property loans have surged, accompanied by spikes in loan modifications and charge-offs. The "extend and pretend" era is winding down, prompting many financial institutions to accelerate the sale of CRE loans—a trend that began last year and has gained momentum in the second half of this year.



Some banks are also pursuing portfolio sales to reduce high CRE loan concentrations on their balance sheets. For example, Valley National Bank recently sold \$925 million in performing CRE loans to Brookfield Asset Management, illustrating this strategy.

For CRE investors, this environment presents opportunities to acquire troubled loans and discounted notes. While the broader CRE property sales market is recovering slowly, incremental improvements in price discovery are encouraging lenders to offload underperforming loans and enable investors to make more informed decisions.

Among the many aspects of due diligence, reviewing property documents and obtaining updated valuations are critical. Asset valuations play an especially vital role in distressed CRE loan sales for several key reasons:

- **Determines the True Collateral Value** – With troubled loans, the underlying property often serves as the primary collateral. A reliable valuation ensures that the property's current market value is clearly understood, especially when the asset's condition may be impaired or facing adverse market conditions.
- **Guides Pricing for Loan Sales** - Buyers of distressed mortgages need to evaluate the potential recovery value of the loan. The appraisal helps determine whether the outstanding loan balance is aligned with the property's market value or if the loan is undercollateralized. This is critical for setting a fair price in the loan sale transaction.
- **Supports Risk Assessment** – Problem loans often carry significant risks, such as borrower insolvency, property deterioration, or market instability. An appraisal provides insights into the property's current condition, income potential, and market trends, helping buyers assess the likelihood of recovering their investment.

- **Compliance with Legal and Financial Requirements** – Lenders, investors, and other stakeholders often require an appraisal to comply with regulatory standards or internal risk management policies. Appraisals are particularly critical in distressed situations, where valuations may be scrutinized more heavily due to potential losses.
- **Facilitates Buyer and Seller Negotiations** – An appraisal promotes transparency in negotiations between the current lender and potential buyers of the distressed loan. It provides a professional, objective valuation that can serve as a common reference point, reducing disputes and streamlining the sale process.
- **Mitigates Financial Losses** – An accurate appraisal minimizes the risk of overpaying for a distressed loan or undervaluing the property's recovery potential. For the seller, it ensures the property is not undervalued in the sale, while for the buyer, it provides a safeguard against unforeseen losses.

With a comprehensive line of property valuation tools, ranging from desktop valuations and commercial evaluations to USPAP-compliant appraisals, Boxwood offers, and is actively supporting investors' needs for reliable valuations in a timely manner. For more information on our various valuation reports, contact us [here](#).