



# Commercial Real Estate Exposure At U.S. Life Insurers

It's all about the office, but it's manageable

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**S&P Global**  
Ratings

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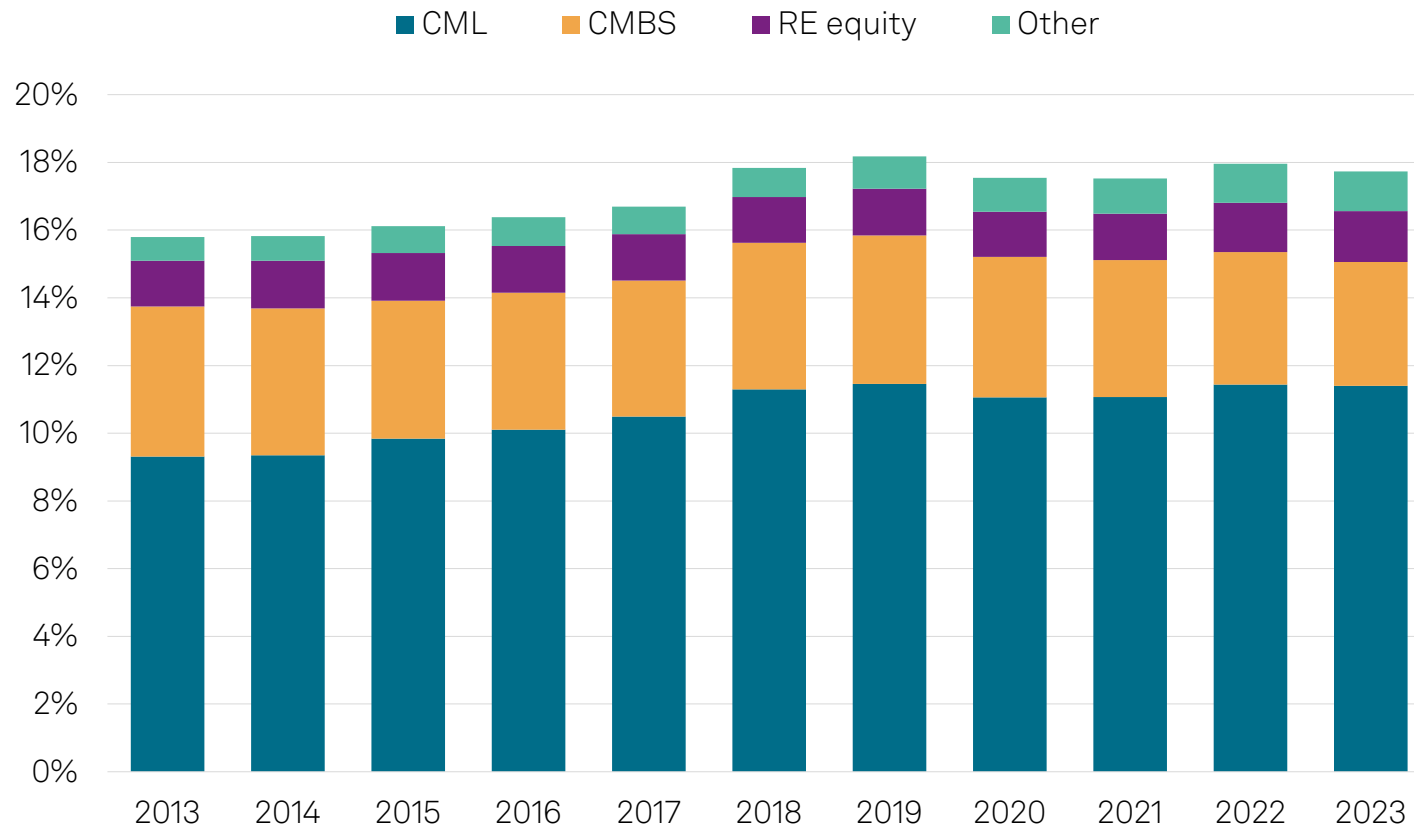
May 29, 2024

*This report does not constitute a rating action*

## Key Takeaways

- The U.S. life insurance industry's exposure to commercial real estate (CRE) across commercial mortgage loans (CMLs), commercial mortgage-backed securities (CMBS), and real estate equity has grown over the last decade but has plateaued in the last few years.
- The credit quality of the industry's CRE exposure is high, driven by the conservative, diversified nature of its investment in the space.
- The office sector is experiencing stress, but thus far the magnitude is very limited within life insurers' commercial mortgage loan portfolios.
- While life insurers will likely incur some losses from mortgages on office properties in the next few years, the combination of high credit quality and limited exposure will keep these losses manageable.
- We will continue to monitor this sector through our ongoing surveillance and as more data emerges over time.

# CRE Exposure Has Grown As A Share Of Total Invested Assets

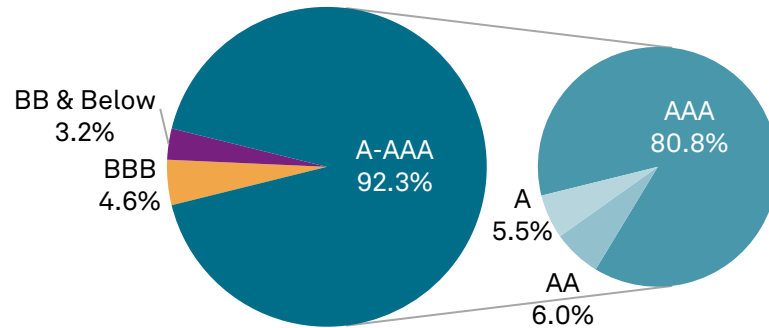


- CRE exposure has grown over the last decade.
- This is especially in directly underwritten CML, which grew to over 11.4% of total assets in 2023, from 9.3% in 2013.
- The long-term and fixed-rate nature of CML fits well with the industry's long-term liabilities.

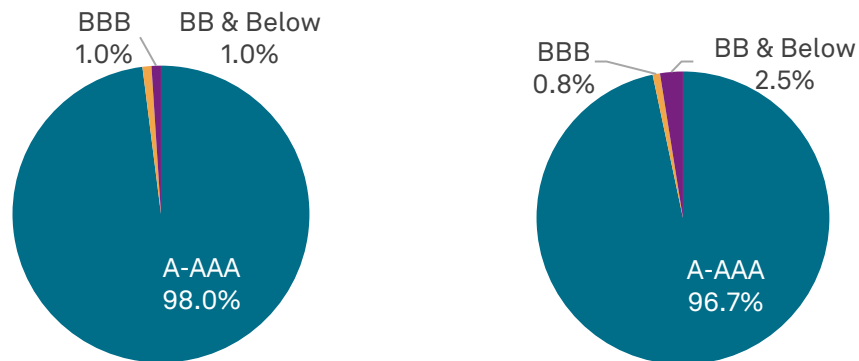
CML--Commercial mortgage loans. CMBS--Commercial mortgage-backed securities. RE--Real estate. Other--Farm loans, mezzanine loans, and commercial mortgages held in funds, joint ventures, and LLCs. Source: S&P Capital IQ Pro.

# CMBS Credit Quality Remains High

Life industry CMBS credit quality (2023)



Life industry CMBS credit quality (2013 left side, 2018 right side)

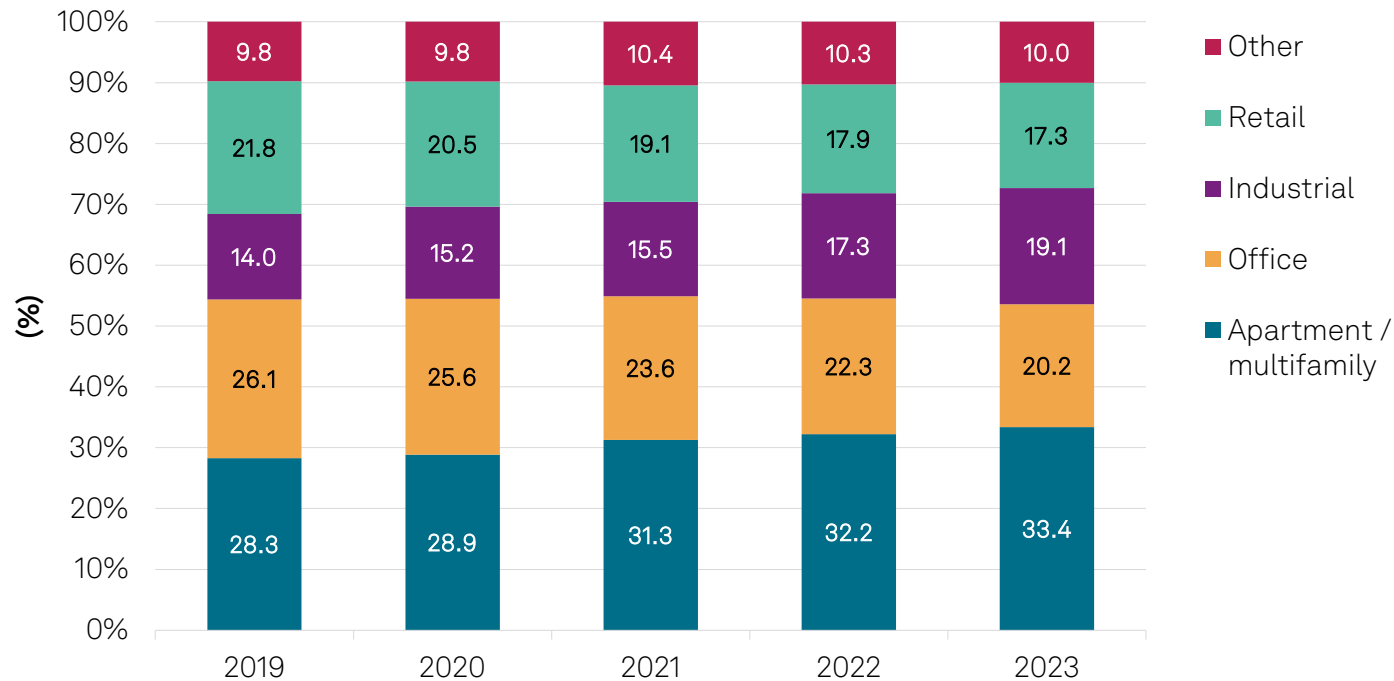


- Most life insurer CMBS holdings are in the 'AAA' category, alongside a much smaller allocation to 'AA,' 'A,' and 'BBB' securities.
- 'BBB' and speculative-grade securities have grown in recent years, at least partially due to downgrades.
- Nevertheless, they remain a small sliver of CMBS holdings.

As of Dec. 31, 2023. A-AAA: NAIC 1; AA: NAIC 1B-1D; A: NAIC 1E-1G; BBB: NAIC2; BB & Below: NAIC 3-6. Source: S&P Capital IQ Pro.

# Office Properties Are Slowly Declining As A Share Of Commercial Mortgages

Commercial mortgages by property type



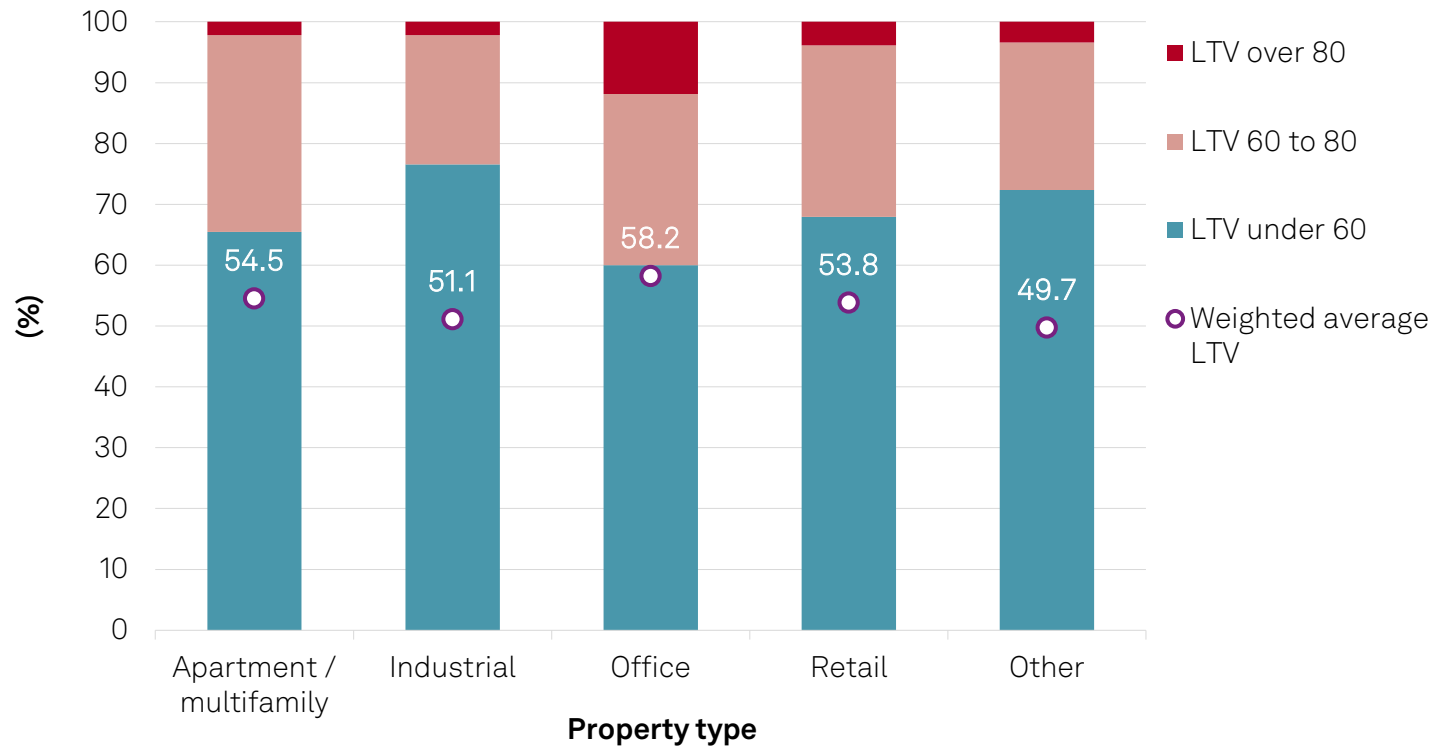
Sources: S&P Capital IQ Pro and S&P Global Ratings.

- U.S. life insurance companies have all but stopped underwriting office buildings.
- As office mortgages have matured and paid off, the percentage of office in the mortgage portfolio has fallen.
- In 2023, total office mortgages declined to \$123 billion from \$133 billion, while the total dollar amount of all other property types grew.

# Life Insurers Tend To Be **Conservative Underwriters** Of CML

At end-2023, the weighted average of loan-to-value ratios for all property types was under 60%.

Loan-to-value distribution by property type as of Dec. 31, 2023

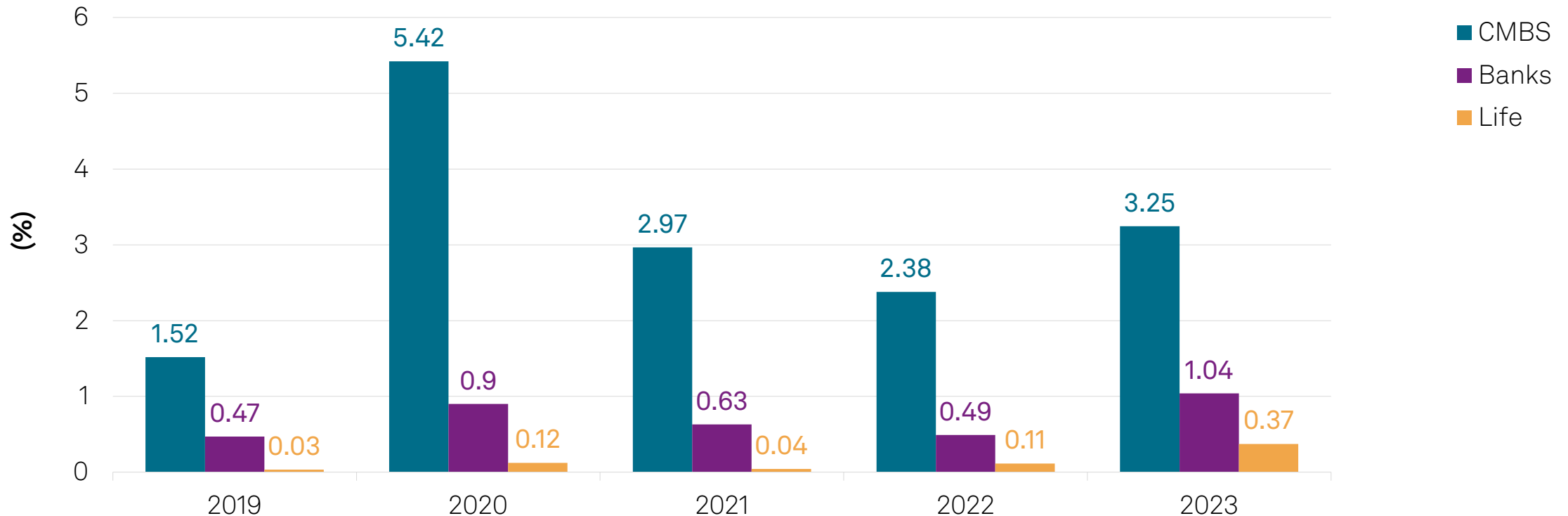


- Life insurers typically write loans with low LTVs, high DSCRs and prefer high-quality buildings with strong sponsors.
- Office is unsurprisingly faring worse than other property types, with the highest weighted-average LTV.
- While some losses are likely, especially for office, low LTVs help absorb property-value declines.

LTV--Loan-to-value ratio. DSCR – debt service coverage ratio. LTVs are based on latest appraisals; the weighted-average age of appraisals is 2.7 years.  
Source: S&P Global Ratings.

# Life Insurers' Commercial Mortgages Are **Holding Up Well**

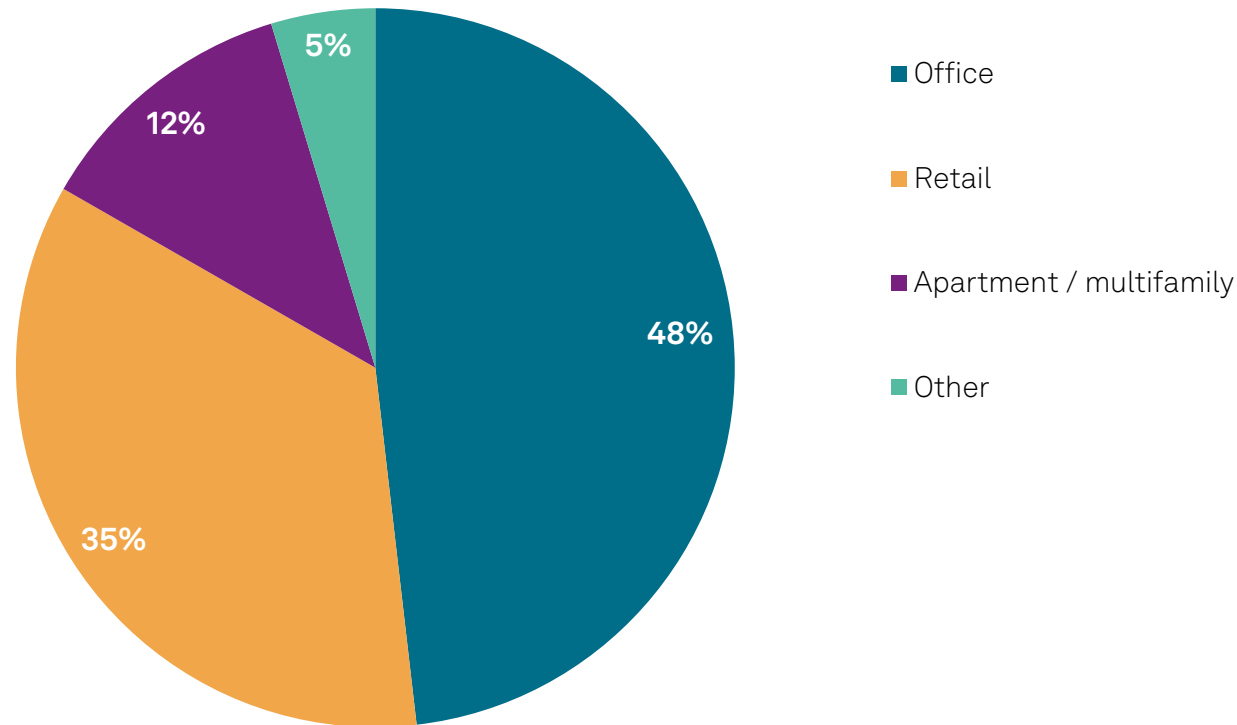
U.S. CMBS, banks, and life insurers--Percentage of loans that are 90+ days delinquent or in foreclosure



Figures are as of each year-end. Sources: S&P Capital IQ Pro and S&P Global Ratings.

# Delinquencies And Foreclosures Are Mostly In **Office And Retail**

U.S. life insurer's 90+ day delinquent and in-foreclosure CML by property type



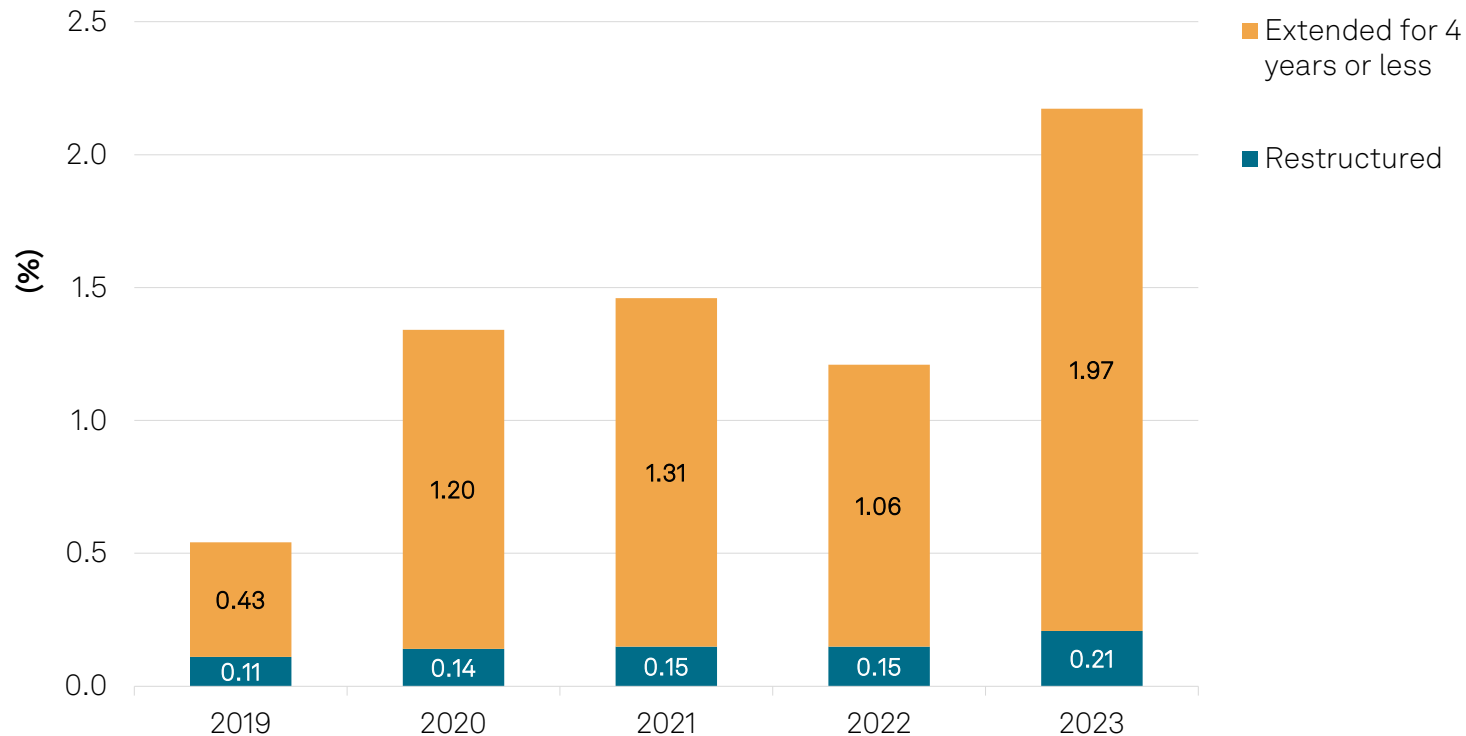
- At end-2023, roughly \$2.28 billion (0.37%) of CML were either 90+ days delinquent or in foreclosure.
- Office loans make up almost half of them, split roughly evenly between delinquent loans and foreclosures.
- Troubled retail loans are 44% delinquent and 56% foreclosures.

As of Dec. 31, 2023. CML--Commercial mortgage loans. Source: S&P Capital IQ Pro.



# Extensions Are Increasing

Restructured and short-term extended commercial mortgages as a share of all mortgages



Sources: S&P Capital IQ Pro and S&P Global Ratings

- Restructured loans are ones where life insurers adjusted terms to accommodate a stressed borrower.
- Our analysis identified loans that were extended for 4 years or less at current market rates.
- These loans are not restructured, but are performing and current, and are considered in good standing under statutory accounting rules.
- We believe such short-term extensions might suggest that the borrower had trouble refinancing, and that the extension may have prevented a default.
- However, there is no way to be certain of the rationale for the extensions or what the outcome would have been otherwise.

# U.S. Life Insurers Can Withstand Deep Losses On Office Mortgages

Total losses on office mortgages as a share of statutory surplus (%)

Decline in office property value (%)	U.S. life industry	Range for individual companies	Median life insurer
20	0.5	0.0-6.6	0.0
40	2.0	0.0-14.0	0.3
50	4.1	0.0-21.6	1.4
75	13.5	0.0-58.6	7.7

Sources: S&P Capital IQ Pro and S&P Global Ratings.

- We calculated total losses on office mortgages given steep theoretical declines in property value.
- Total losses = Sum of losses on each loan (assuming **all** office properties decline in value by the given percentage).
- Declines in property value are from the latest appraisal. On Dec. 31, 2023, the weighted-average age of office appraisals was 2.9 years.
- These are **extreme stress scenarios**; the likelihood that **all** office properties experience such large drops in value is exceedingly remote.

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