KEYNOTE INTERVIEW

Refinancing takes center stage

Trimont president Alan Kronovet discusses the refinancing wave, distressed assets, lender workouts and how artificial intelligence is changing US commercial real estate loan servicing

Specialized commercial real estate loan services provider Trimont has around $825 billion of loans under management globally. It is also the largest master servicer of commercial real estate loans in the US in the CMBS space. The firm's president, Alan Kronovet, surveys the condition of the US commercial real estate debt markets as they face the maturity wall of loans originated five years ago, and considers the growing importance of technology across the loan servicing sector worldwide.

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Q What is driving activity in US commercial lending markets right now?

There are two sides to the market. Balance sheet activity from US banks and private credit lenders is increasing, and we are onboarding new loans and new clients, but refinancing is still driving more lending opportunities.

We have seen a high volume of loans maturing that originated around 2021.

As pricing stabilizes, that is creating refinancing opportunities with plenty of liquidity available from a variety of different sources.

Managers have raised money for distressed debt strategies. Meanwhile, on the equity side, rather than invest capital in their own underperforming assets, some managers are handing back the keys to the lender or loan servicer and investing opportunistic capital to buy struggling assets.

Q How is the maturity wall playing out in securitized debt markets?

We contact sponsors as their loans approach maturity to ask them their plans. We are seeing 75-80 percent of the loans in our US CMBS portfolio pay off on time – within a range of three to six months on either side of their maturity date.

We have seen that figure tick up over the course of the last 24 months or so to reach what is now a pretty good level. For some of the larger transactions, the borrower has the opportunity to extend automatically if nothing has materially changed, and some will take advantage of that.

The major challenge is loans that were financed in a very low-interest rate environment. They tend to be challenged in three areas.

First, operating expenses have increased, and rents haven't always kept pace. Second, for some property types in some markets, high levels of development have increased competition – you see that in multifamily in the southeast US and across the Sun Belt through to Texas and Arizona, for example.

Third, some older office buildings have become obsolete and can no longer compete with new space that is more sustainable and has better amenities. If you can't increase your rents, your expenses are going up and your property's obsolete, no matter where interest rates are, it's going to be a challenge to refinance.

Most of the loans that pay off on time are straight-up refinances where the sponsor has owned the property a long time or bought at the right price. The situations that are challenged can take longer to resolve. Some may get extensions, but they usually have to make concessions.

Lenders often want some principal paydown to lower the leverage. They may ask for additional reserves if the building needs re-tenanting, so there is some cash up-front to pay leasing commissions and tenant improvements. They may want to sweep all the cash off the properties so that they don't necessarily pay down the principal, but they have cash collateral at the end of the extension period. All those approaches provide more security for the existing lender.

Q What about the private debt markets?

Balance sheet lenders have the same concerns. In challenged situations, if the lender has a strong relationship

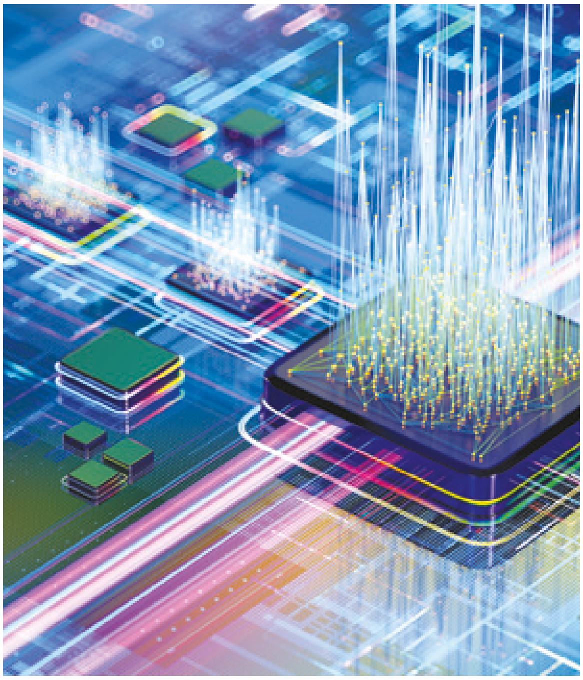
Q What impact will technological advances have on the loan servicing sector?

Technological innovation is changing the loan servicing industry, but its greatest impact will not be automation alone. The bigger shift is in how servicers use data to help clients understand risk, identify patterns and make better decisions across complex portfolios.

At Trimont, data and technology are central to how we think about the future of servicing. The industry has historically been process-driven, with significant time devoted to administration, reporting and document review. AI and advanced analytics are streamlining many of those functions, allowing teams to spend more time interpreting information and advising clients on what the data may mean for their portfolios.

That evolution is changing the role of the servicer. Clients still need accuracy, timeliness and operational discipline, but they also increasingly need perspective. They want to understand what is happening across asset classes, markets, borrowers and loan structures, and they need that insight early enough to act.

Scale matters in that context. With approximately $825 billion of loans under management globally, we have visibility across a wide range of assets, markets and situations, from construction loan administration and property transitions to stabilization, surveillance and workouts. That breadth creates a significant data set, but the real value comes from combining data with experienced judgment to identify trends, evaluate risk and support better decisions.



In workout situations, for example, AI-enabled tools can assess a broader range of outcomes more quickly, giving clients better visibility into paths forward. But technology is most effective when paired with people who understand the underlying asset, capital structure, borrower dynamics and market context.

Technology can accelerate analysis, but it cannot replace the commercial judgment required to interpret it.

and communication with the borrower, they generally work together to resolve the problem.

There may be an extension, or a modification – again, with some concessions on the borrower side, some principal paydown, some path to getting the property in a position to refinance or sell. Maybe the sponsor will have to take a bit of a haircut, but most lenders are reluctant to be too severe on their borrowers.

Lenders, especially banks, don't like taking back properties. Most private credit lenders are probably not too excited to be property owners either, unless a loan-to-own approach is part of their business. Lenders want good resolutions while maintaining relationships and remaining a long-term capital source for their borrowers.

Among borrowers, family-owned real estate firms often try harder to find a solution that allows them to keep the asset because they have emotional attachments to some properties. When big institutional managers have an asset that is performing poorly, they are more inclined to hand back the keys and perhaps purchase other non-performing assets through one of their opportunity funds.

Q What happens when a sponsor's equity has been wiped out?

The crucial consideration for the servicer or lender is minimizing the loss. At that point, extending is rarely an option because lenders only want to extend in situations where the sponsor can execute a viable business plan.

If there is a guarantee, then the lender can sue the guarantor, but in the US that is often an expensive proposition. Sometimes the lender will put in a receiver or manage the property themselves without foreclosing – perhaps repositioning and re-tenanting it – or they will just sell the note.

As a servicer, our level of involvement depends on our relationship with the transaction. In the public market, as a special servicer we would do the workout ourselves. We have around $5 billion of loans in active workout now.

With private clients we may just be carrying out basic credit administration activities, collecting payments and monitoring cash. But others may select a much wider range of services from our menu, including workouts.

Then we would make recommendations to the lender while they take the credit and business decisions. We would then execute on the agreed-to resolution plan.

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Q What skills and capabilities do loan servicers need to navigate the current environment successfully and protect their clients' interests?

First, you need to have the ability to build relationships with your clients, so that they trust you, recognize that you are highly competent, know that you will be an effective communicator providing timely updates and insights, all demonstrating that you have the same sense of urgency about their asset as they do.

You put yourself in your client's shoes by thinking of their asset as your asset, so if it were your money as opposed to theirs, how would you proceed?

On the operational side, you have to be expert at all aspects of moving money, basic credit administration functions, and monitoring the performance of the asset. That requires committed and skilled employees and a well-controlled environment with minimal operational incidents that impact your clients.

On top of that, you need commercial real estate expertise to perform the surveillance, understand how the property is performing now and forecast how it will perform in future. That means looking around corners to see what's going on in the market and the submarket and understand it. ■