Corporate bond surge boosting commercial real estate lending market

Robust corporate bond issuance since the start of September is having a positive knock-on effect for commercial real estate lending.

Samantha Rowan 1 hour ago

There was $60 billion of new issuance in the first week of September, with a similarly active pipeline ahead. BlackRock's Global Credit weekly cited two factors driving this high level of issuance.

"Investor demand for new corporate credit has been supported by all-in yields which remain attractive by historical standards. This is especially visible in the USD [investment-grade] market, where the tenor and rating composition has also been shifting," wrote Amanda Lynam, head of macro credit research at BlackRock.

While the issuance has been driven by non-real estate corporations, the surge demonstrates strong investor demand and favorable market conditions for corporate borrowing, even in a high-interest-rate environment, said Jim Dillavou, principal and co-founder of California-based retail development Paragon Commercial Group.

"There are two ways the commercial real estate will interpret this data," Dillavou said. "The knee-jerk reaction will be that high bond yields historically correlate to high borrowing costs and higher cap rates, both of which create industry headwinds."

Conversely, however, bond market liquidity is a good signal for global capital flows and should translate to improved commercial real estate liquidity.

"[This should allow] commercial real estate firms, real estate investment trusts and developers to issue new debt or refinance existing obligations at potentially lower costs," Dillavou said. "Broadly speaking, liquidity is healthy for a properly functioning market and commercial real estate is no exception."