CoStar™

Commercial Real Estate Loans Likely Next Trouble Spot for Banks, Jamie Dimon Says

JPMorgan Chase CEO Sees Office, Construction Loan Defaults Likely To Rise Across Banking Sector

Jamie Dimon, CEO of JPMorgan Chase, expects the banking sector will be hurt by rising delinquencies on office and construction loans. (Getty Images)

By Andy Peters
CoStar News

May 23, 2023 | 2:00 P.M.

An increasing number of delinquent commercial real estate loans are likely to soon cause problems for many banks in the United States, according to JPMorgan Chase CEO Jamie Dimon.

Three banks have failed so far this year — Silicon Valley Bank, Signature Bank and First Republic Bank — because of problems caused by higher interest rates. The next problem likely to hurt banks is elevated default levels on loans backed by office buildings and construction projects, Dimon said Monday during a conference with investors.

“There’s always an offsides,” Dimon said, according to CNBC. “The offsides in this case will probably be real estate. It will be certain locations, certain office properties, certain construction loans. It could be very isolated. It won’t be every bank.”

Dimon did not mention specific banks in his comments.

The remarks by the head of the largest U.S. bank by assets come as the banking sector struggles to get past the recent failures of Silicon Valley Bank, Signature Bank and First Republic Bank.

The recent failures were caused by the impact of rising interest rates on the value of those banks’ securities holdings and customers withdrawing deposits. But regulators and bank executives have said for months that commercial real estate is a potential problem area, especially loans for office buildings.

On Monday, Pacific Western Bank agreed to sell a portfolio of 74 construction loans with an outstanding aggregate balance of $2.6 billion to Kennedy-Wilson Holdings. Shares of the bank’s holding company, PacWest Bancorp, have fallen about 65% this year as investors worry it could be the next bank to fail.

Dimon also said Monday that he expects interest rates to continue to rise.

“I think everyone should be prepared for rates going higher from here,” perhaps to 6% or 7%, he said.