The NAIC Capital Markets Bureau monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of U.S. insurance companies. Previously published NAIC Capital Markets Bureau Special Reports are available via its web page and the NAIC archives (for reports published prior to 2016).

U.S. InsurÁÎÃÅ)ÎÄÕÓÔÒÙ§Ó Commercial Real Estate Investments Near $1 Trillion as of Year-End 2023, Led by Mortgage Loans

Analysts: Steve Bardzik and Michele Wong

- The U.S. insurance industry's exposure to commercial real estate (CRE) totaled $995 billion as of year-end 2023, or 11.7% of the industry's total cash and invested assets.
- Life insurance companies are the third largest lender to the CRE market, accounting for 15.7% of outstanding commercial mortgages.
- As of year-end 2023, U.S. insurance companies' exposure to mortgage loans increased 5.9% compared to the prior year to $770 billion, with 84% of the total in commercial mortgage loans.
- Mortgage loans accounted for 9.4% of the U.S. insurance industry's total cash and invested assets and approximately 13.8% of life companies' cash and invested assets.
- Challenges in CRE are largely concentrated in the office sector, as the lodging and retail sector have experienced improvements from prior pandemic-related difficulties, and supply dynamics in the multifamily and industrial sectors are well-balanced.
- The share of office and retail properties in U.S. insurers' commercial mortgage loan portfolio decreased to 20% and 15%, respectively, with both sectors facing challenges due to paradigm shifts.
- Refinancing risk in the commercial mortgage loan portfolio has risen when compared to a year ago with approximately 51% of commercial mortgages maturing in the next five years.

As is now widely appreciated, commercial real estate (CRE) is firmly entrenched as a core asset class for many investors, particularly U.S. insurance companies. Nonetheless, it is not immune to disruptions particular to the sector, and it is very cyclical and linked to the state of the economy. Since 2000, the CRE asset class has enjoyed generally positive returns, with values increasing approximately 72% since the end of the prior century. However, the great financial crisis of 2008–2009 resulted in a loss of about 40% of CRE value overall in only three years. (Refer to Chart 1.)

Chart 1:

CRE values largely recovered to prior levels by 2013, and they continued to rise by 45% through 2020 until the onset of the COVID-19 pandemic. The effects of the pandemic have been mixed across sectors. Lodging and retail properties were initially hit hardest, but they recovered fairly quickly as business travel rapidly returned to normal, and consumers continued normal shopping habits. Multifamily properties, a longtime investor favorite, enjoyed continued high valuations, which in turn inspired significant additional construction. As a result of the widespread adoption of online commerce, industrial properties (i.e., storage and distribution warehouses) have enjoyed significant favor by investors with elevated valuations.

By far, the most problematic CRE sector has been office, both in central

The U.S. insurance industry has been a consistent and reliable lender to the CRE market for decades. U.S. insurance companies are exposed to CRE through various investments, including commercial mortgage loans, commercial mortgage-backed securities (CMBS), wholly owned real estate, and unsecured bonds issued by real estate investment trusts (REITs). While real estate provides portfolio diversification, it is a relatively illiquid investment that generally has less credit and pricing transparency, and it is, therefore, subject to greater price volatility, especially during market stress.

The U.S. insurance industry's total exposure to CRE—specifically commercial mortgage loans, CMBS, REITs, and real estate—totaled $995 billion in book/adjusted carrying value (BACV) as of year-end 2023, or 11.7% of the industry's total cash and invested assets. (Refer to Table 1.) Commercial mortgage loans are the largest CRE exposure by a significant margin, representing approximately 65% of the total. CMBS accounted for the second largest exposure at almost 29%, and REITs and real estate rounded out the exposure.

Table 1: U.S. Insurance Industry Commercial Real Estate Exposure, Year-End 2023 (BACV$ in Millions)

Note: Numbers in the table have been rounded.

Life insurance companies held the greatest exposure to CRE, with 87% of the industry's exposure, while property/casualty (P/C) insurance companies accounted for nearly 12%. While life companies' CRE exposure increased by only 0.5% year over year, CRE as a percentage of life insurers' cash and invested assets declined to 15.8% from 16.1% as of year-end 2022.

The mortgage loans category in Table 1

Table 2: Total U.S. Insurance Industry Mortgage Loans by Type, Year-End 2023 (BACV$ in Millions)

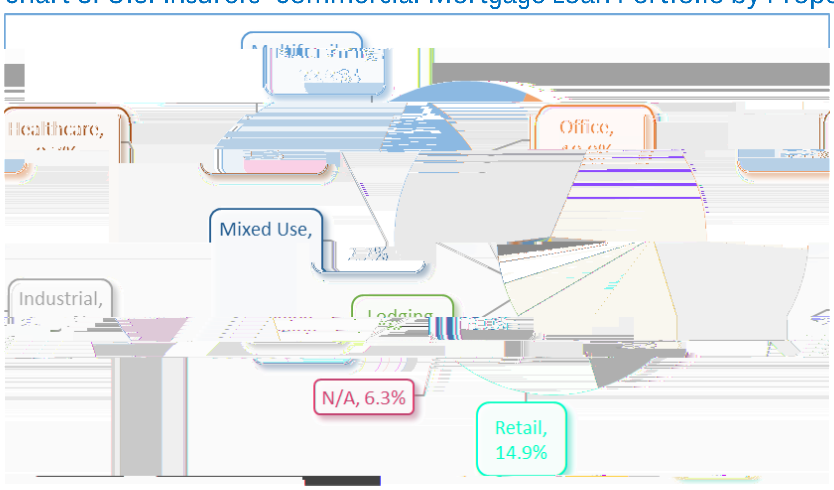
Mortgage Loan Type	Life	P/C	Health	Title	Total	% of Total
Commercial	614,288	29,764	749	1	644,802	83.8%
Residential	82,723	2,791	-	6	85,520	11.1%
Farm	26,774	246	-	-	27,020	3.5%
Mezzanine	11,464	809	-	-	12,274	1.6%
Total	735,250	33,610	749	7	769,616	100.0%
% of Total	95.5%	4.4%	0.1%	0.0%	100.0%	

Note: Numbers in the table have been rounded.

Life companies continued to account for the overwhelming majority of the industry's mortgage loan investments, or 95.5%, at year-end 2023. P/C, health, and title companies represented less than 5% of the exposure. As of year-end 2023, mortgage loans accounted for approximately 13.8% of life companies' cash and invested assets, having steadily increased from 10% at year-end 2014. For P/C, health, and title companies, mortgage loans represented approximately 1% or less of respective cash and invested assets for each insurer type.

U.S. insurance companies' portfolio of commercial mortgage loans totaled $645 billion as of year-end 2023 and remains well-diversified across property types. Based on reporting by insurers in annual statement filings, multifamily properties represented the largest share of the portfolio at approximately 33%, followed by office properties at nearly 20%. Industrial and retail properties were the third and fourth largest components, respectively, at approximately 19% and 15%. (Refer to Chart 3.) The share of multifamily and industrial properties increased from 32% and 17%, respectively, while the share of office and retail properties decreased from 22% and 16%, respectively, at year-end 2022.

Chart 3: U.S. Insurers' Commercial Mortgage Loan Portfolio by Property Type (Year-End 2023)



The CRE markets, particularly the CRE debt markets, are also affected by the level of interest rates. Interest rates serve as the foundation for both pricing commercial mortgages and valuation of commercial properties; that is, as they rise, so do mortgage loan interest rates, with values moving (down) inversely. Commercial mortgages typically have significant balloon payments due at maturity (i.e., they are generally not fully amortizing) and thus, at maturity, they must be refinanced with a new mortgage. When interest rates are at high levels, the new debt requires a significantly higher payment. This may not be affordable, especially if income (and valuations) has also declined. In the extreme, new debt may not even be available, and borrowers would then be faced with the requirement to infuse additional capital or relinquish the property to the lender.

by demand from potential single-family buyers who h0.00012 0 6ly ential single