

# Commercial Real Estate Finance:

## Conditions & Trends

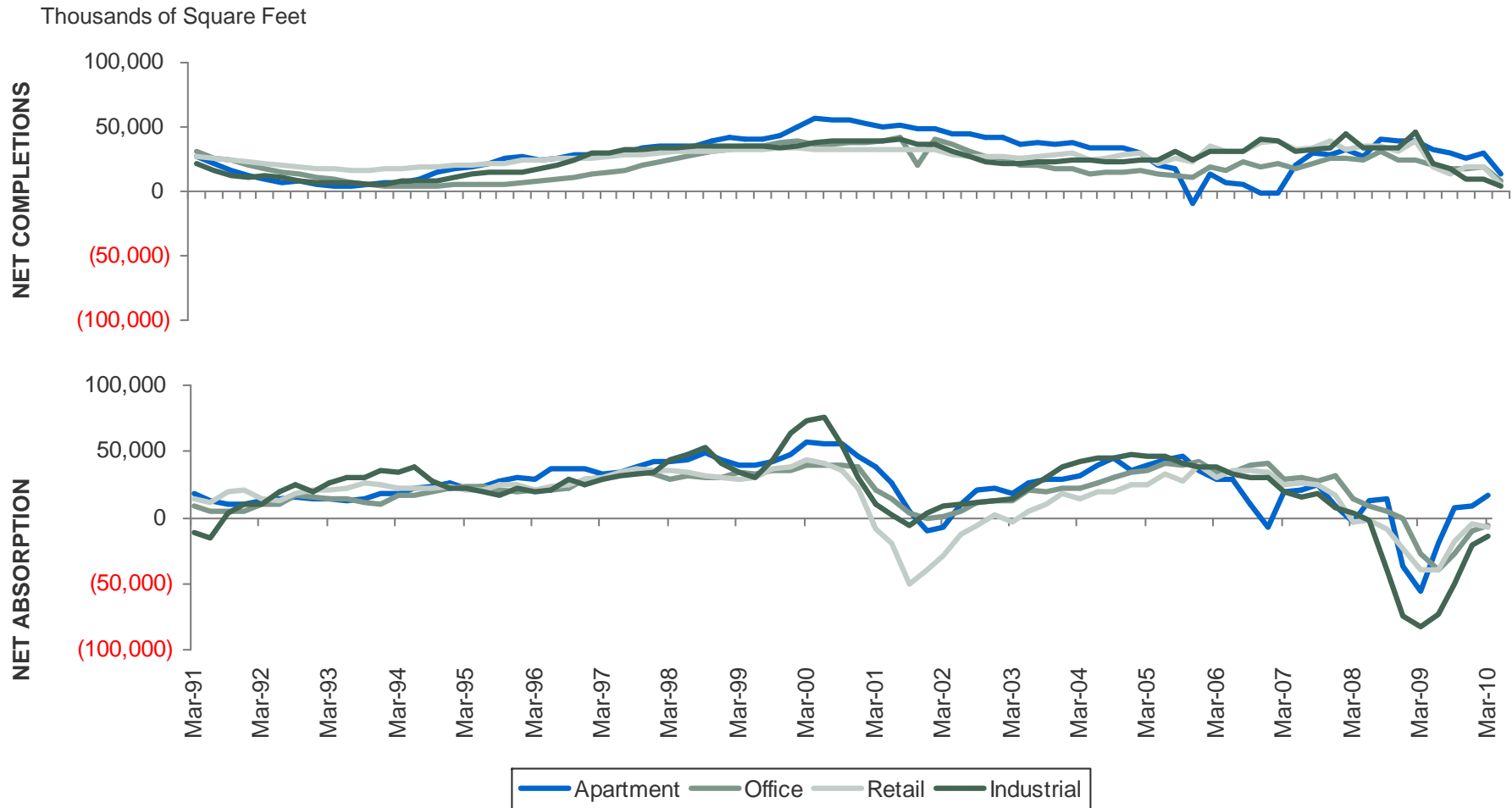
July 2010

Jamie Woodwell  
Vice President  
Commercial Real Estate Research  
Mortgage Bankers Association

The current commercial/multifamily downturn is driven by a steep fall-off in demand, not the “traditional” increase in supply. Either way, there is a significant amount of excess supply.



Completions And Absorption, by Property Type by Quarter

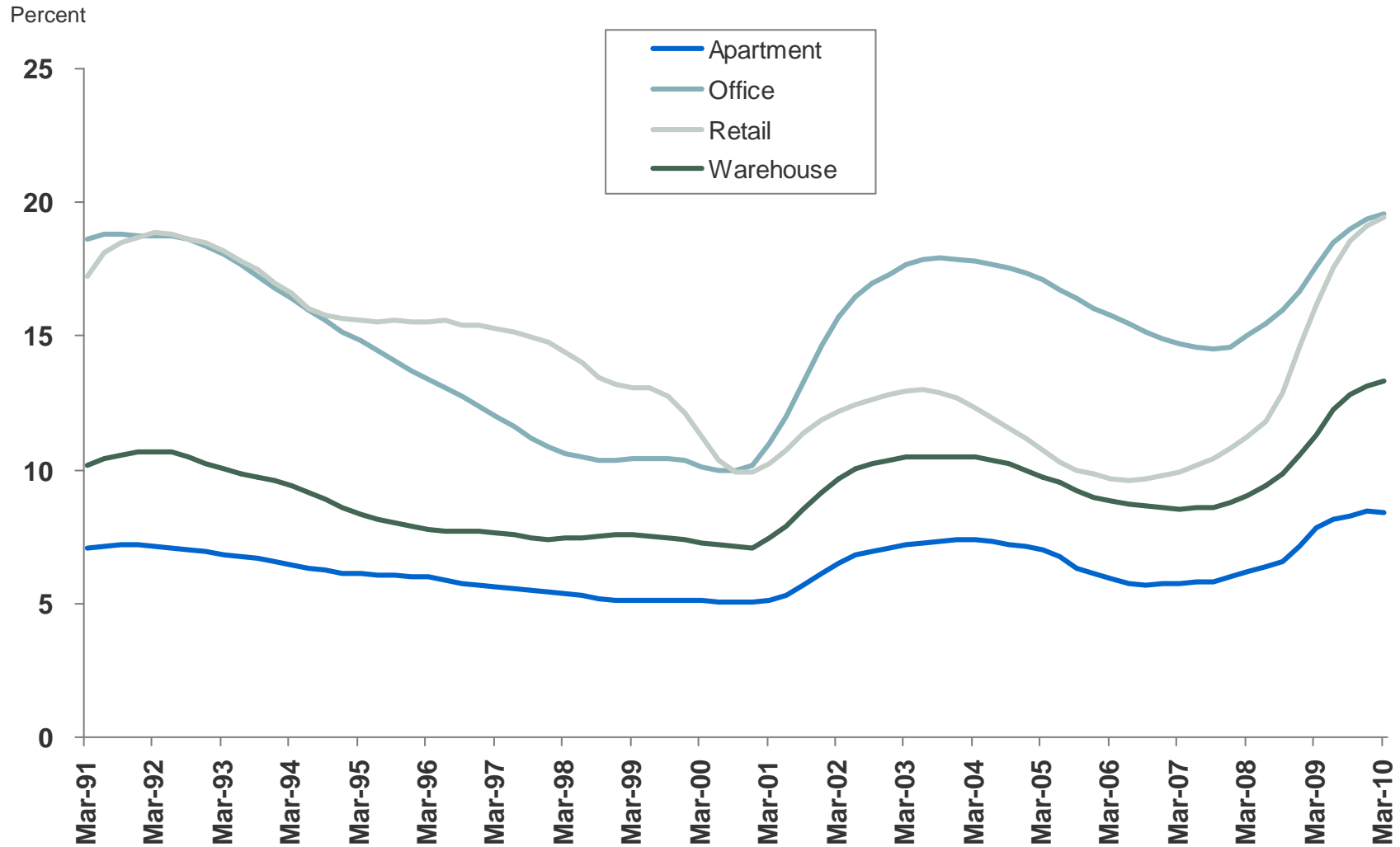


Source: Property and Portfolio Research

# Vacancy rates are plateau-ing across most property types, exceeding the highs of the early 1990s



Commercial/Multifamily Vacancy Rates, by Property Type by Quarter



Source: Property and Portfolio Research

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# Vacancy trends vary by market



## Selected Apartment Vacancy Rates, Q1 2010

### 1Q 2009 to 1Q 2010 Change in Apartment Vacancy

Top 10 Markets by Least Change in Vacancy		
Metro	1Q 2010	Y-O-Y Chg. (bps)
San Jose	4.5%	-110
New Haven-Fairfield County	4.6%	-70
New York City	2.8%	-60
Sacramento	7.4%	-40
Denver	8.3%	-30
Tucson	11.4%	-30
Philadelphia	6.3%	0
Washington, D.C.	6.0%	0
Boston	6.5%	10
San Diego	4.8%	10
<b>U.S. Metro Average</b>	<b>8.0%</b>	<b>60</b>

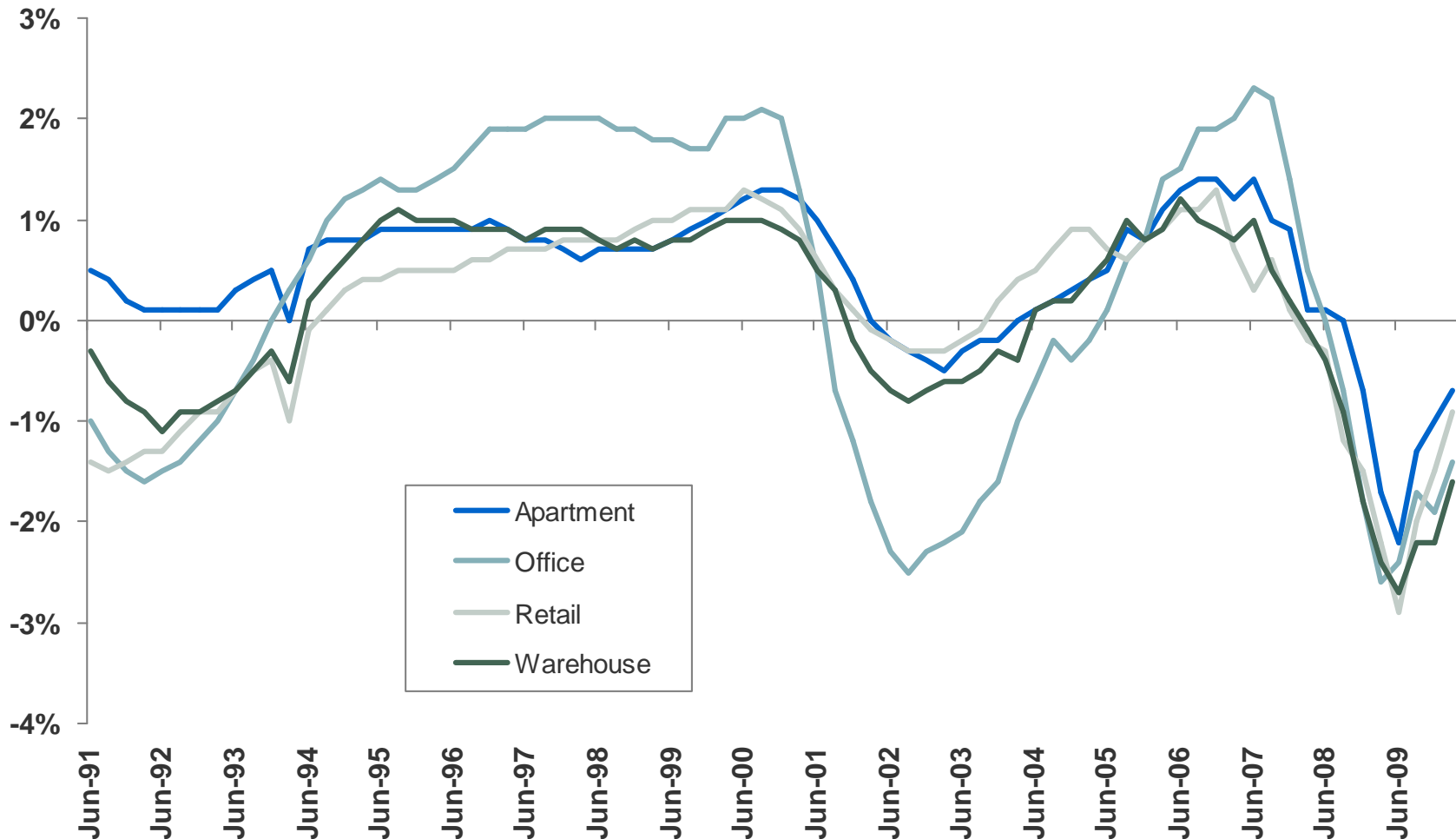
Top 10 Markets by Greatest Change in Vacancy		
Metro	1Q 2010	Y-O-Y Chg. (bps)
Dallas-Fort Worth	10.6%	270
Las Vegas	11.5%	270
Houston	12.9%	240
Charlotte	10.6%	170
Kansas City	10.3%	170
Indianapolis	10.0%	160
Salt Lake City	7.0%	160
Columbus	9.5%	120
Oklahoma City	10.1%	120
Orlando	11.5%	120
<b>U.S. Metro Average</b>	<b>8.0%</b>	<b>60</b>

Sources: Marcus & Millichap Research Services, Reis

# Properties are faced with rent pressures; Asking rents continue to fall, but at slower paces



Quarter-over-quarter Asking Rent Growth, by Property Type by Quarter

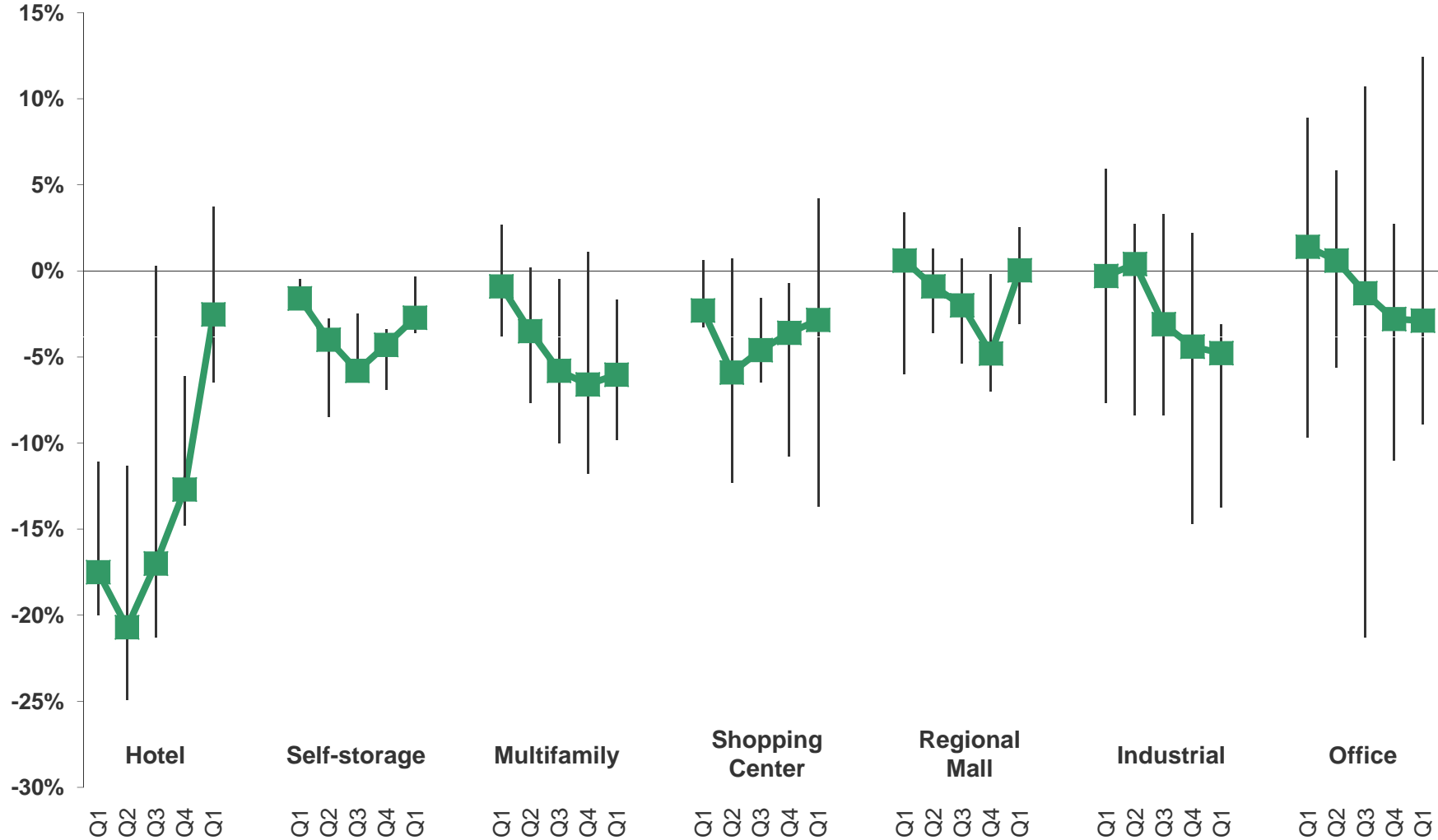


Source: Property and Portfolio Research

# Lease structures are having a profound impact on the ways different property types experience the recession



Year-over-Year Change in REIT "Same Store" NOIs (Q1 2009 – Q1 2010) [High/Low/Avg]

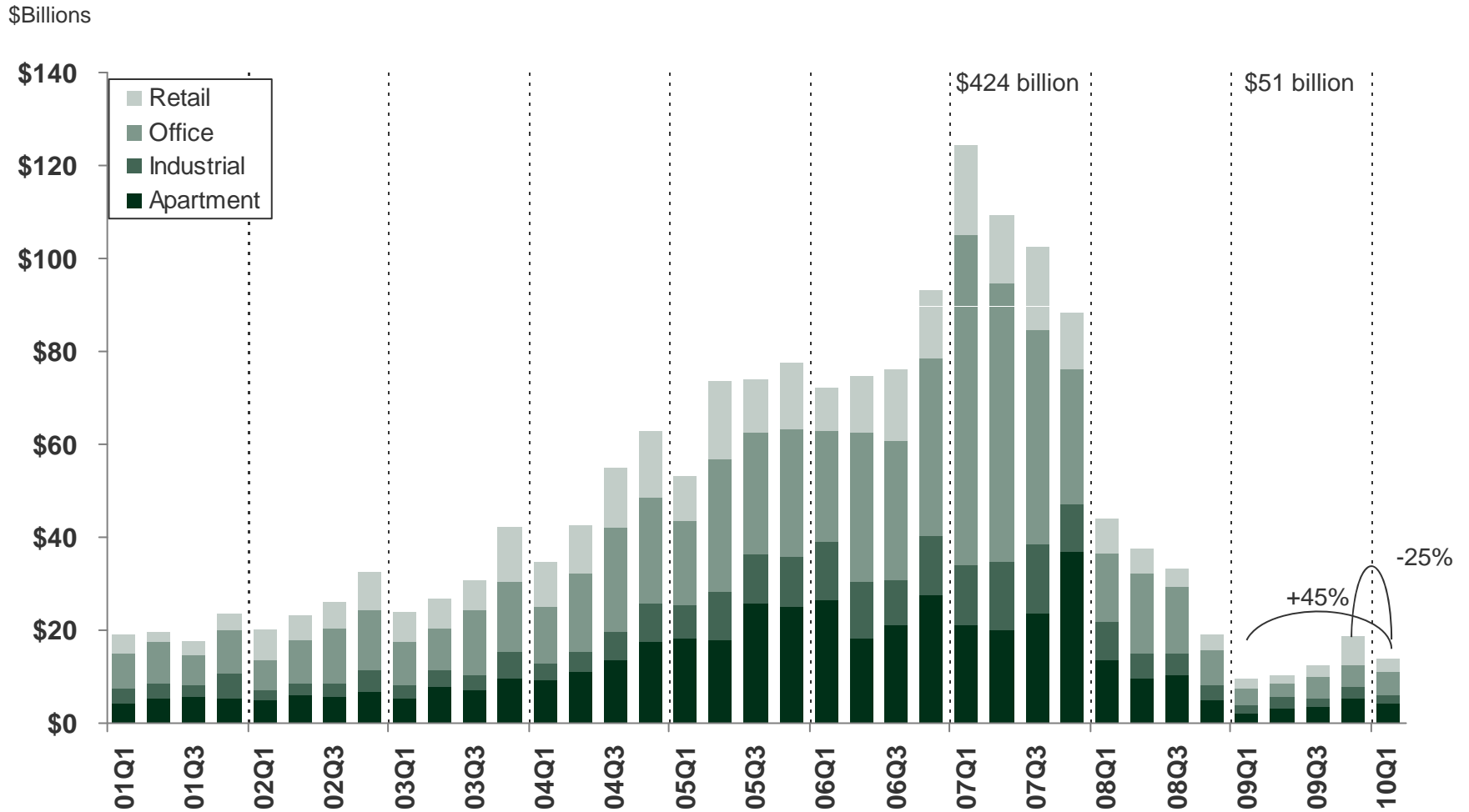


Source: SNL Financial

# Little incentive for most owners to sell in the current environment; A lack of transaction volume means a lack of meaningful comps



Commercial/Multifamily Property Sales Volume Properties and Portfolios \$5 million and greater



Source: Real Capital Analytics

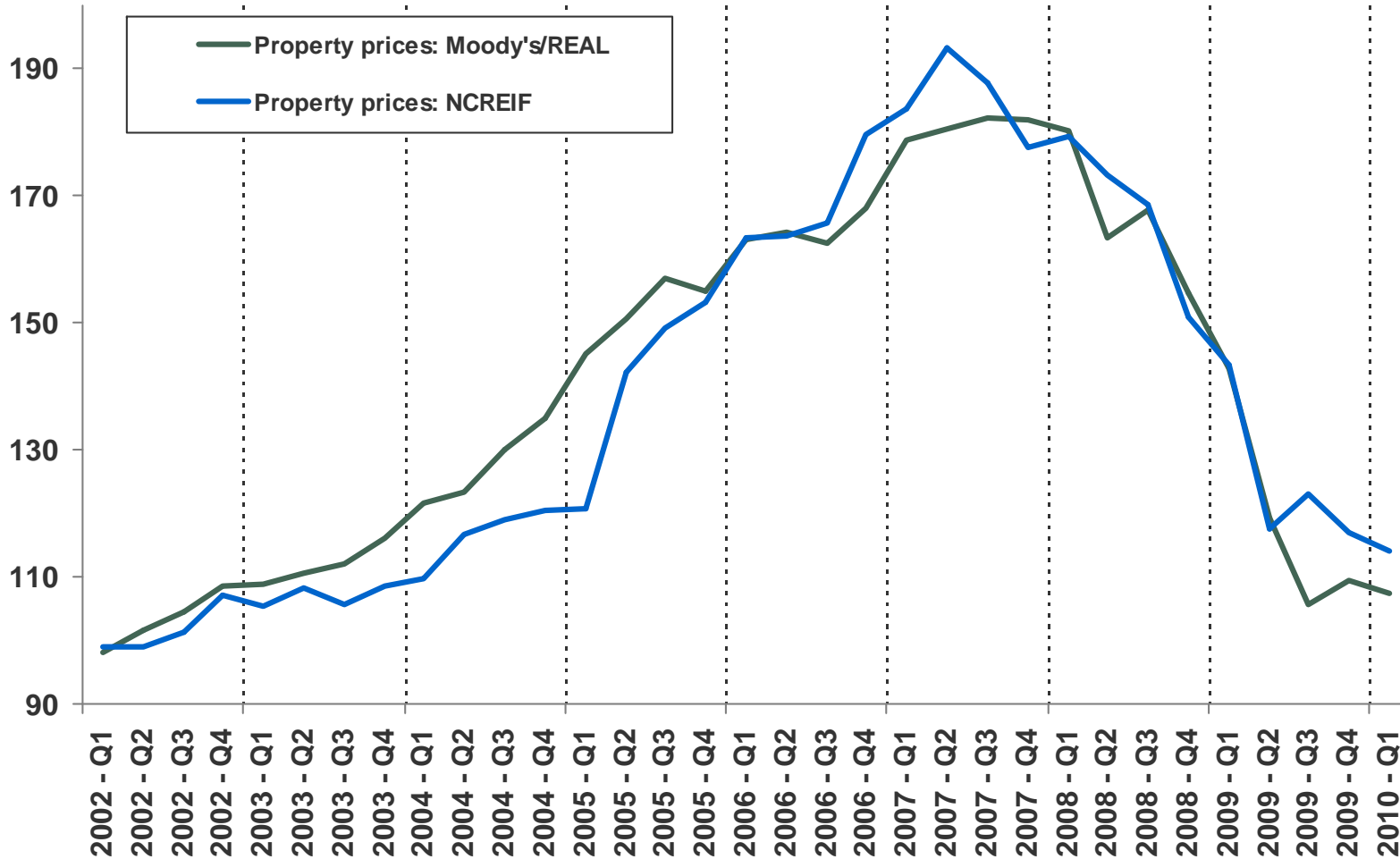
# Property prices grew rapidly during the '00s, then fell even more rapidly



Index of Commercial/Multifamily Property Prices (2001 Q4 = 100)

Commercial Property Price Changes (Moody's):  
 Q4 2001 – Q2 2007: +81 percent  
 Q2 2007 – Q4 2009: - 41 percent  
 Q4 2001 – Q4 2009: +15 percent

Index Value



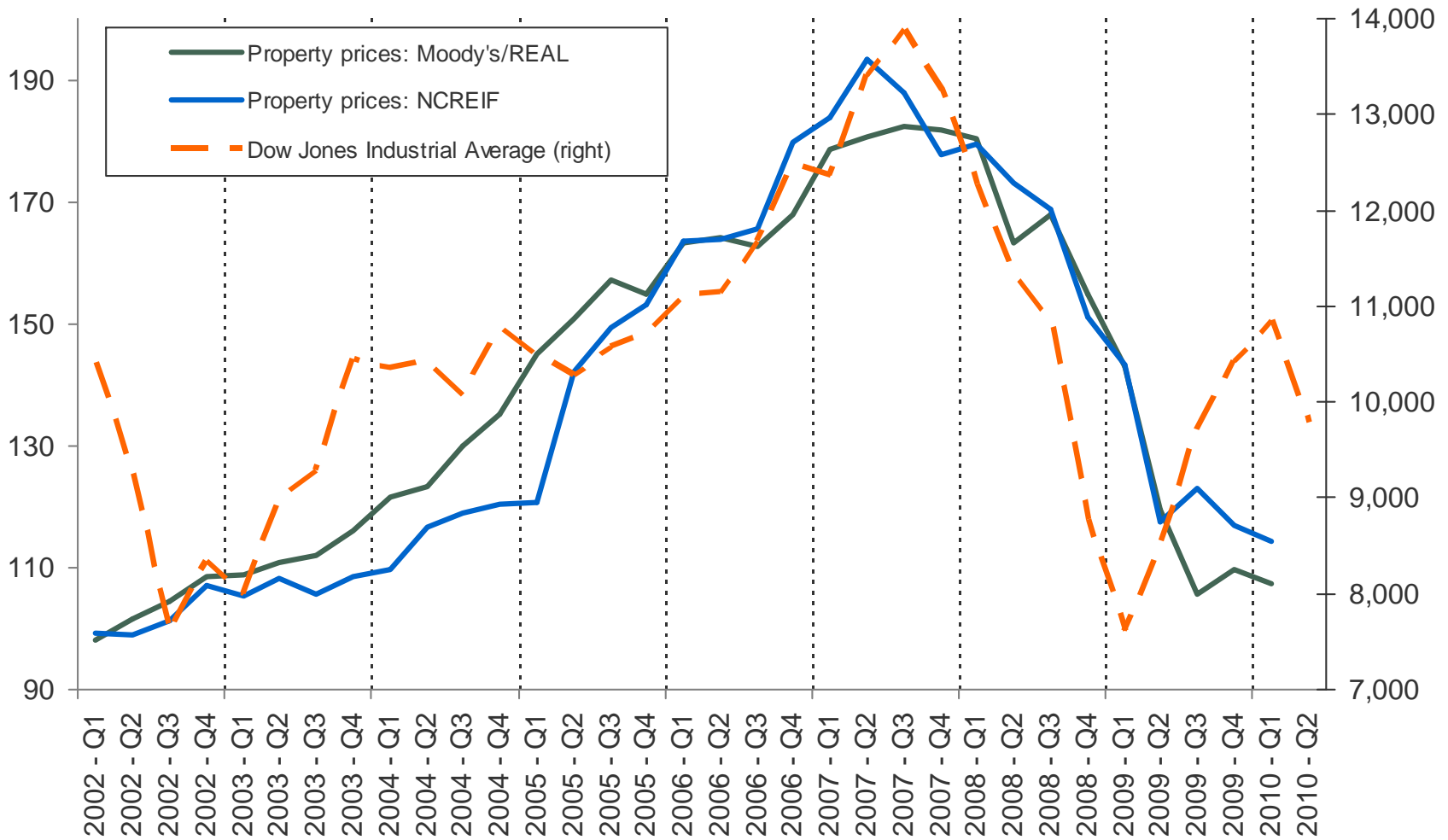
Source: MBA and Moody's/REAL, MIT

# Property prices generally tracked other equity prices in their rise; appear to have lagged in their fall and return



Index of Commercial/Multifamily Property Prices (2001 Q4 = 100)

Index Value



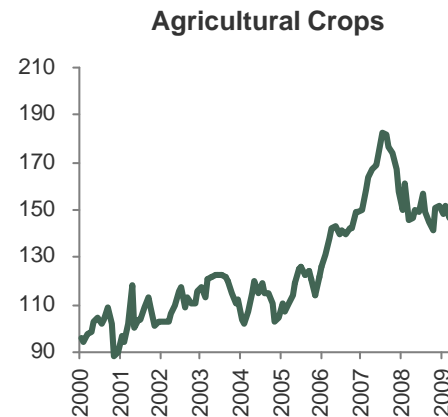
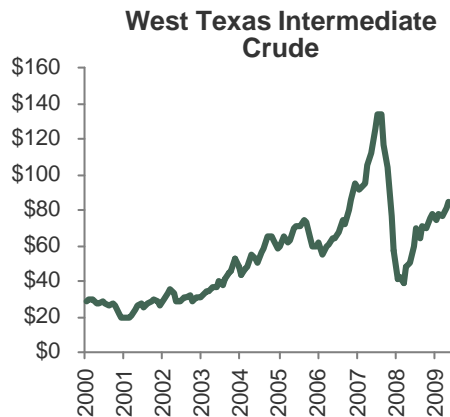
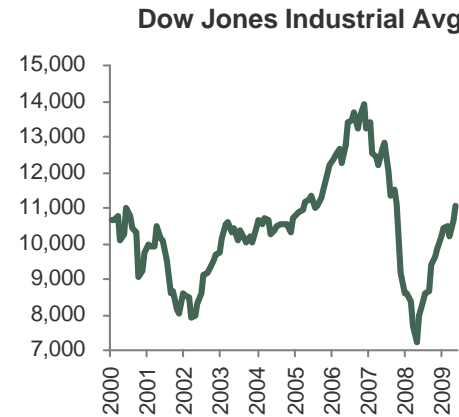
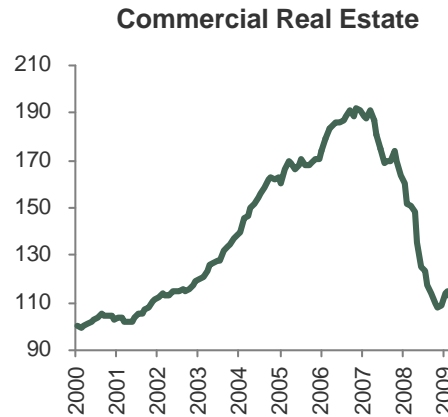
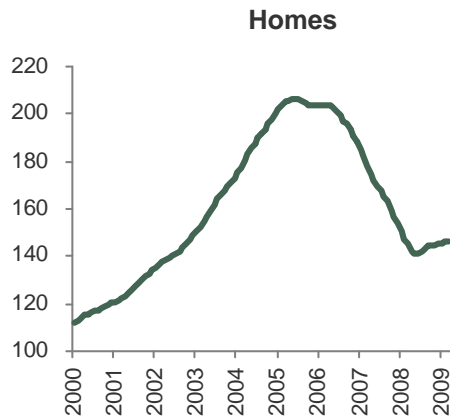
Source: MBA and Moody's/REAL, MIT, Wall Street Journal

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# Selected Prices During the Boom and Bust



## Indices of Selected Prices

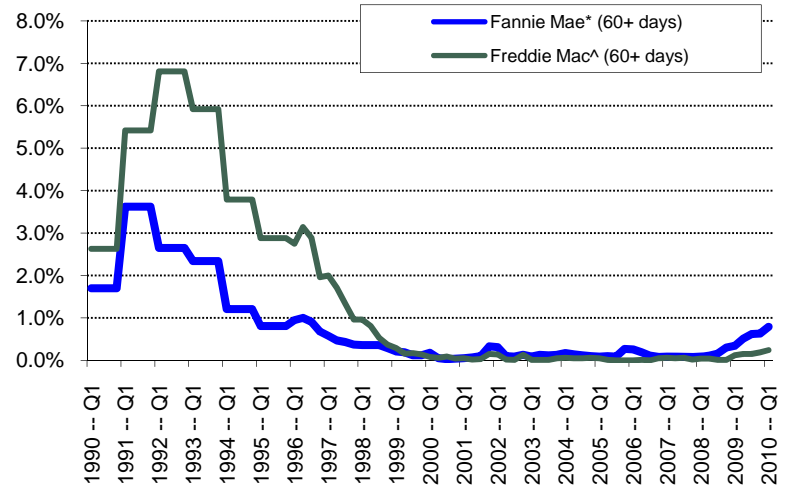
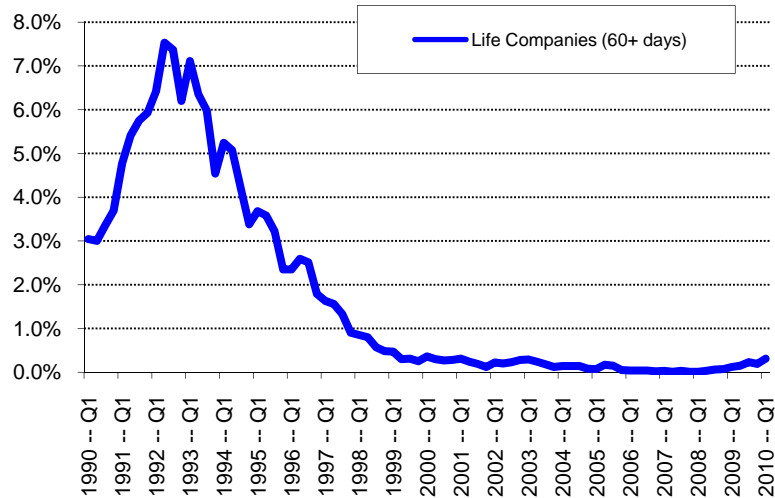
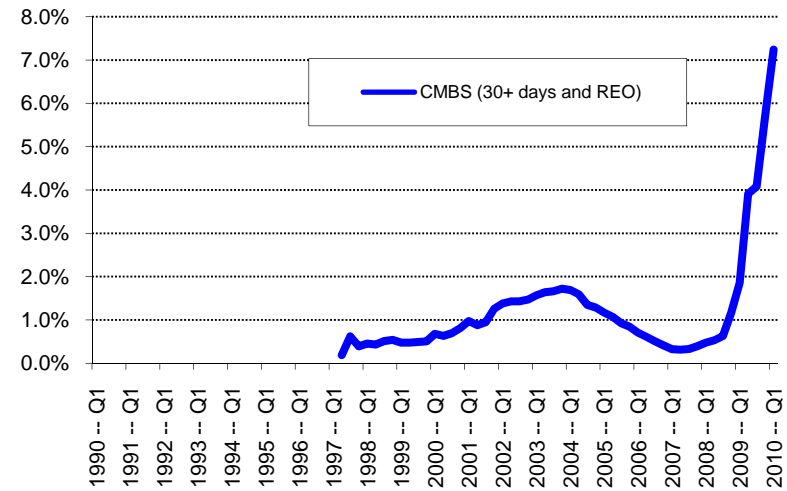
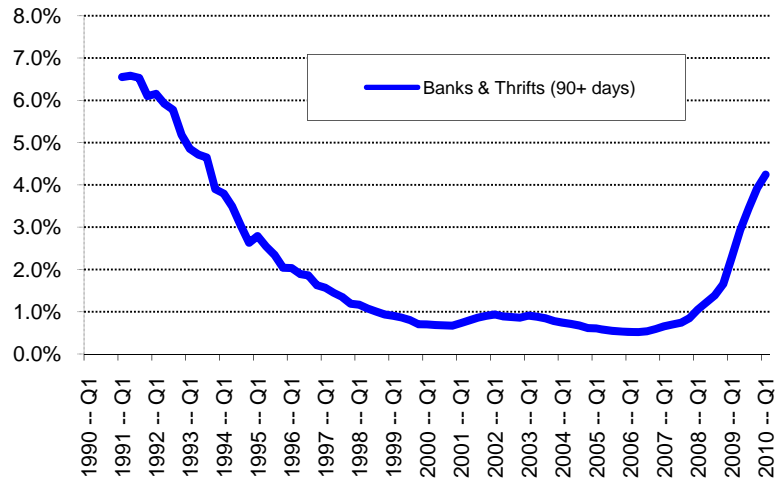


Source: Wall Street Journal, Standard & Poor's, Fiserv and MacroMarkets LLC, Moody's/REAL, Department of Agriculture, Goldman Sachs

# Large variations in delinquency rates by mortgage investor group (since 1990)



## Commercial/Multifamily Mortgage Delinquency Rates Among Major Investor

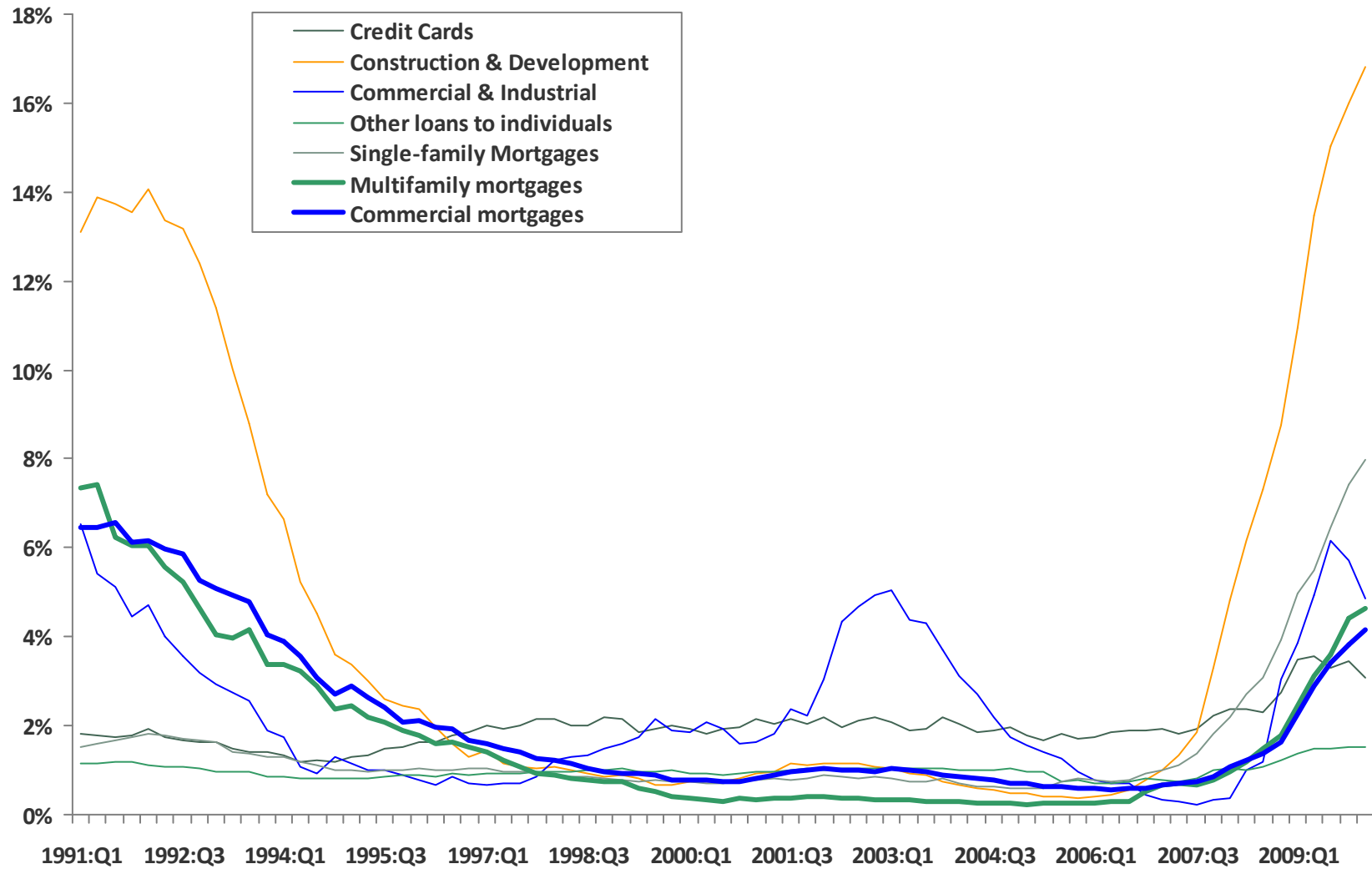


Sources: MBA, FDIC, Wachovia Securities, ACLI, Fannie Mae and Freddie Mac

# Unlike most other loan types, commercial and multifamily mortgage delinquency rates have not exceeded the rates seen in the early-1990s



**BANKS & THRIFTS: Percent of balance 90+days past due or in nonaccrual**

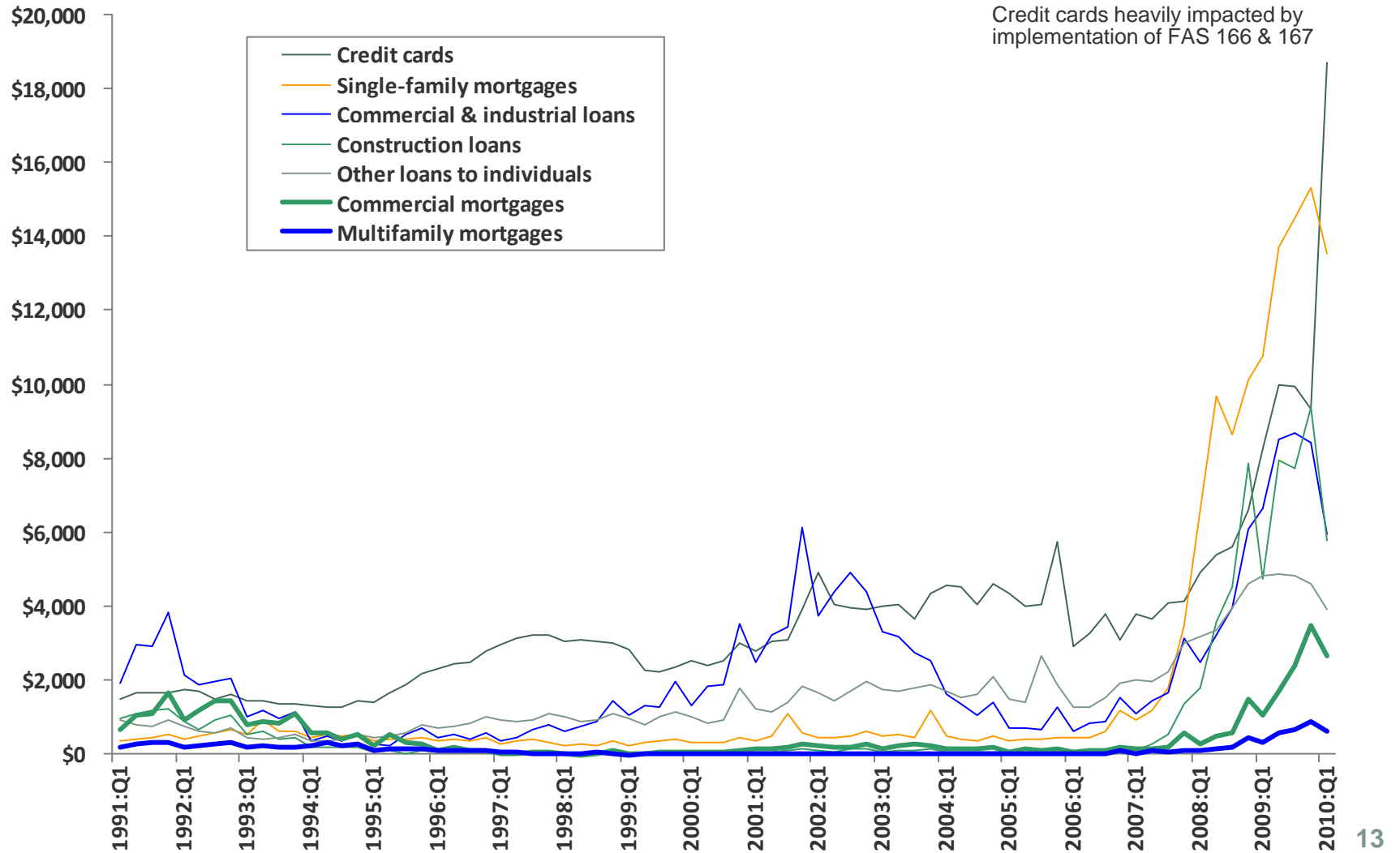


Sources: MBA and FDIC

# In dollar terms, charge-offs of commercial and multifamily mortgages have been a fraction of the overall charge-offs at banks and thrifts



## BANKS & THRIFTS: Charge-offs of bank loans



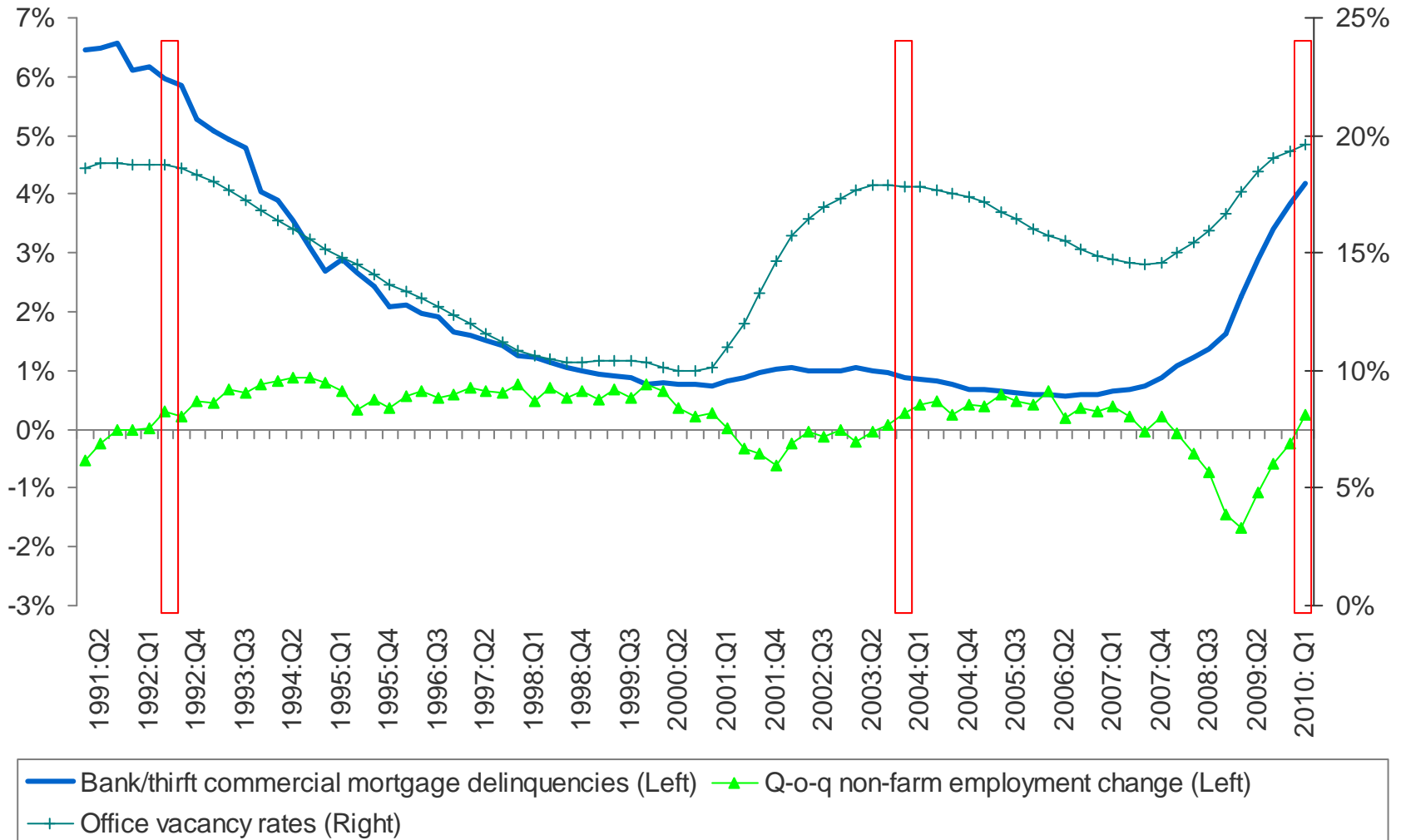
Sources: MBA and FDIC

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# It does not appear that commercial mortgage performance has lagged job growth in past recessions; The depth of this recession may bring a different outcome



90+ Day delinquencies rates on commercial mortgages held by banks/thrifts, quarter-over-quarter percentage change in private sector employment, and office vacancy rates

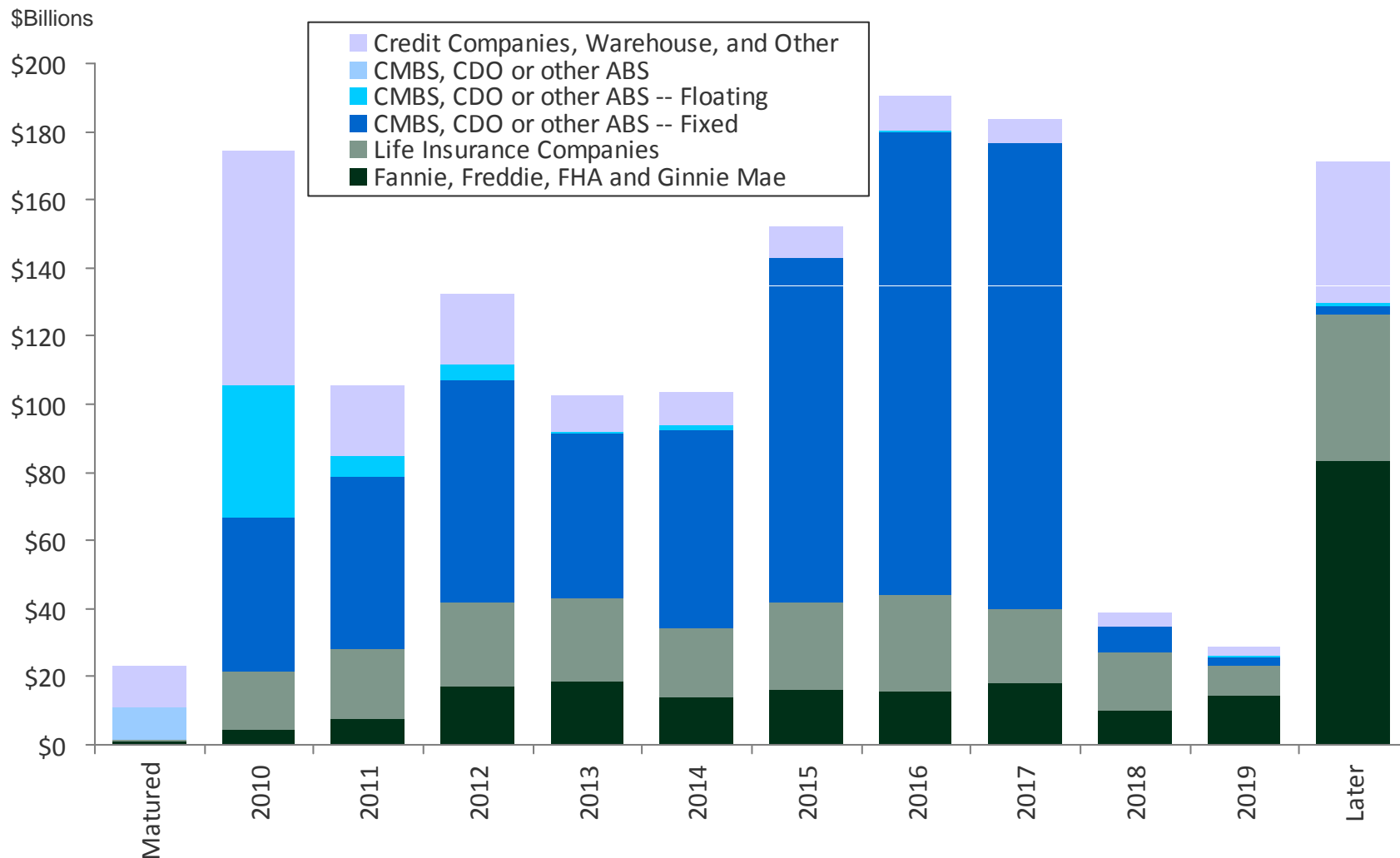


Source: MBA, FDIC, BLS and PPR

# Non-bank mortgage maturities are relatively low in the coming years, with 2015, 2016 and 2017 seeing the largest volumes; Large differences between different investor groups



Non-Bank UPB of Outstanding Commercial/ Multifamily Mortgages, by Year of Maturity, as of Dec. 31, 2009

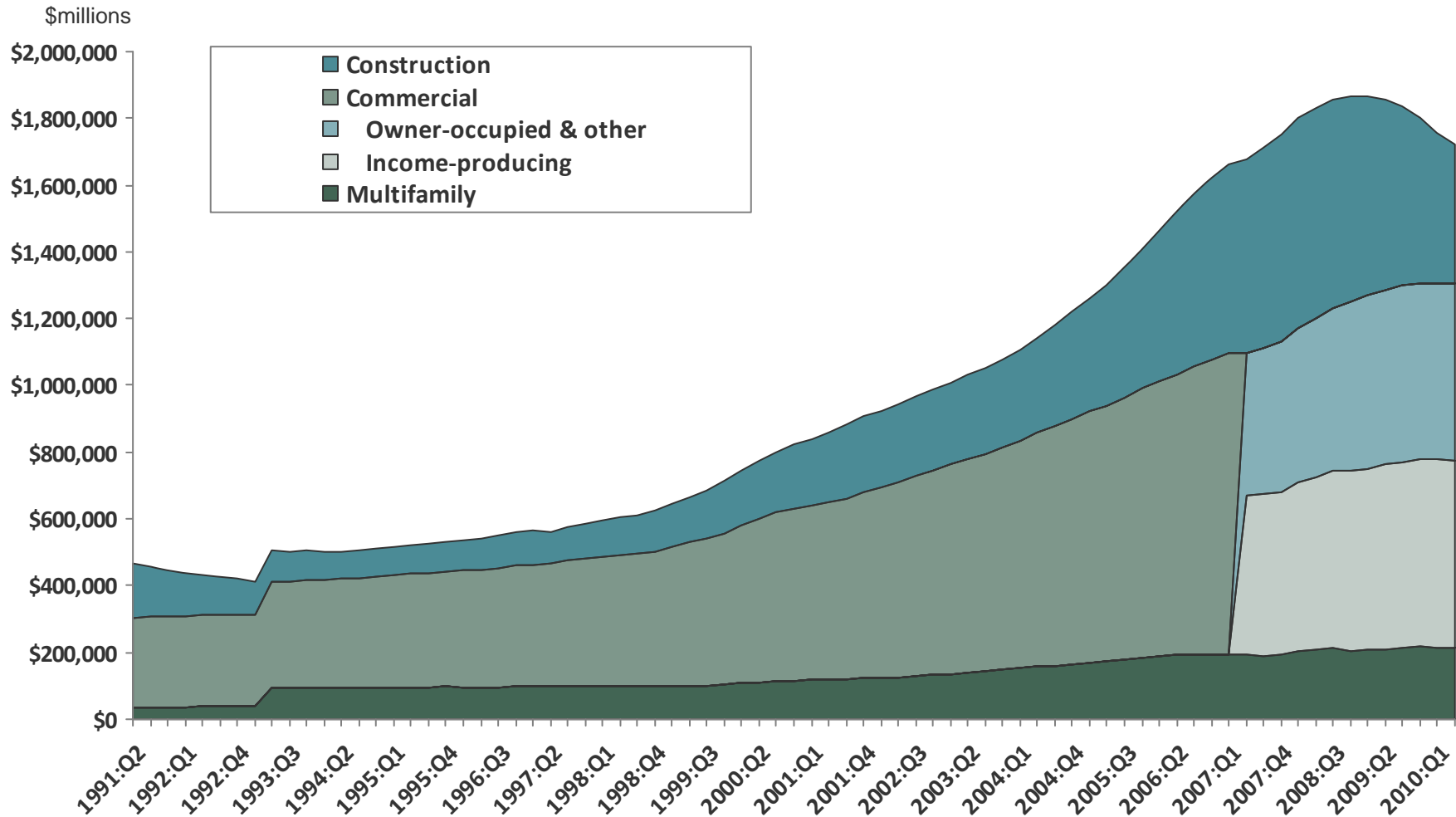


Source: MBA

# Banks/thrifts have seen a drop in the balance of outstanding construction loans; Increases in outstanding commercial and multifamily mortgages



**BANKS & THRIFTS: Holdings of Commercial and Multifamily Mortgages and Construction Loans**

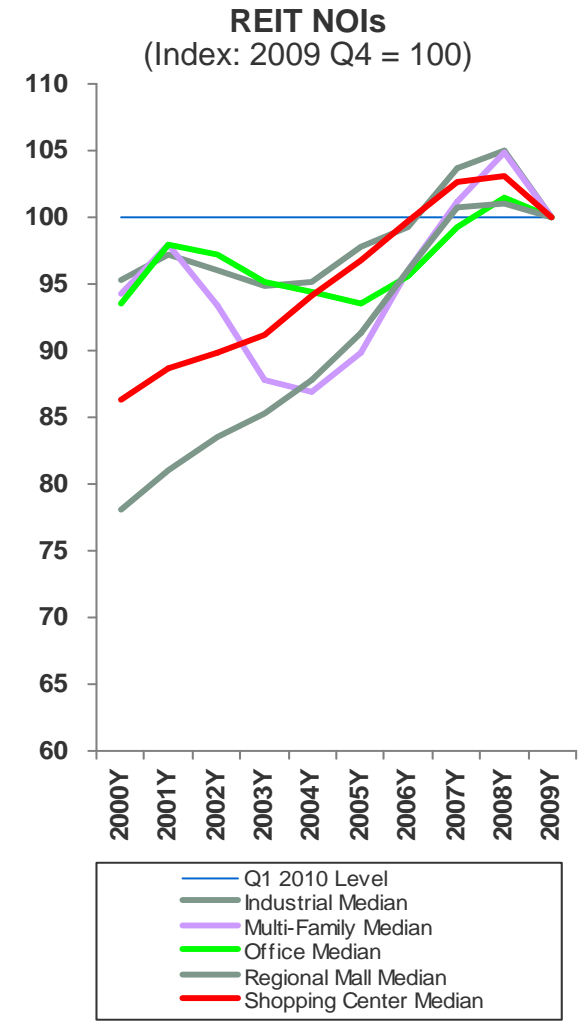
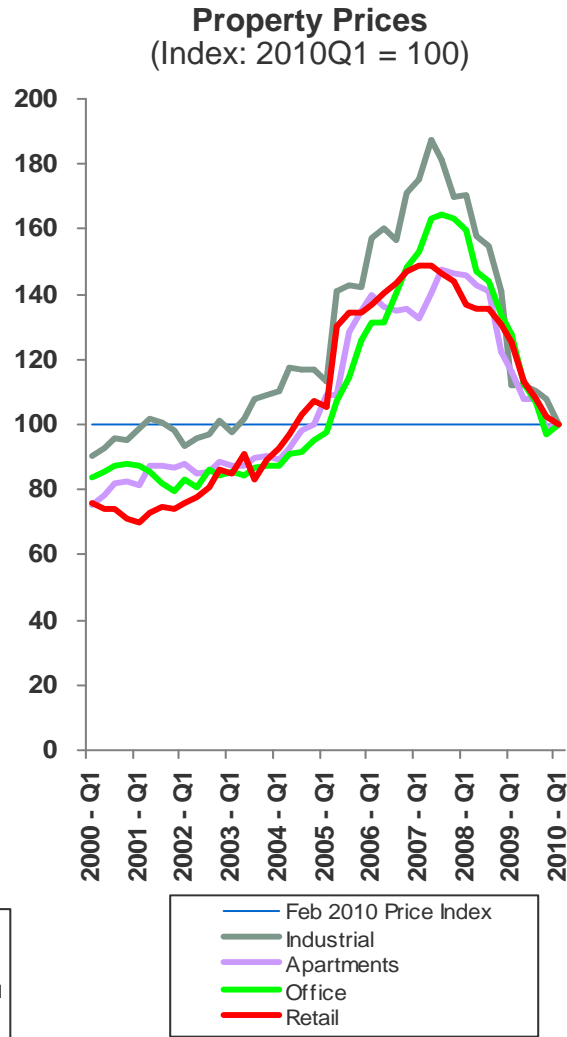
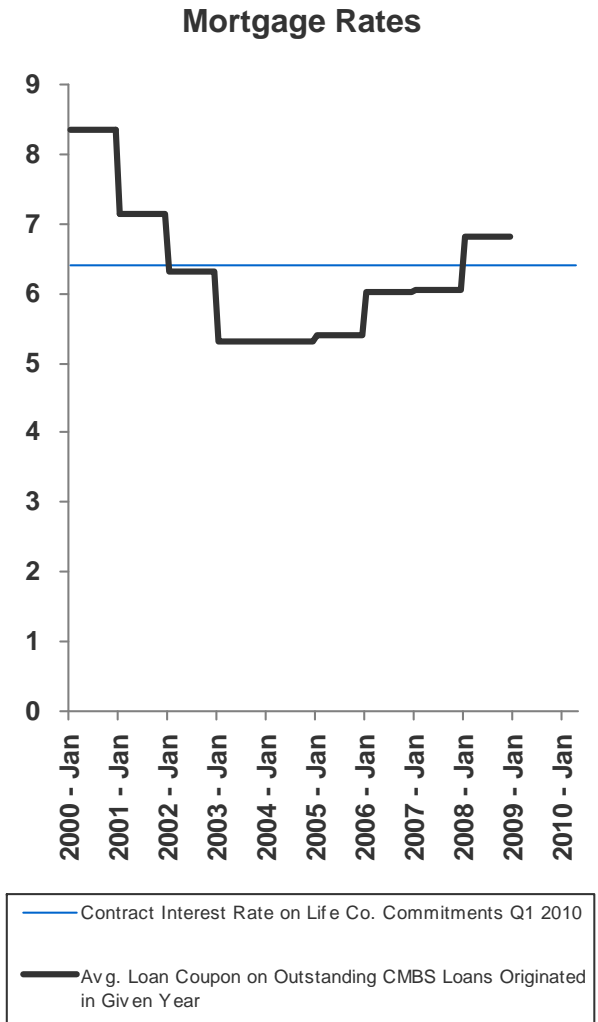


Sources: MBA and FDIC

# Refinancing challenges will depend on the mix of conditions at maturity and how significantly they differ from conditions when the loan was initially made



Historical Mortgage Rates, Property Prices and REIT Median NOIs Relative to Current Levels



Source: JP Morgan, ACLI, MIT, SNL Financial

## Morning Cup of Coffee: The Federal Reserve Board

**Housing Wire** (07/12/10) Golobay, Diana

The **Federal Reserve Board** has set the first public hearing on changes to **Regulation C** – which implements the **Home Mortgage Disclosure Act** – for **July 15** at the **Atlanta Fed**. The board is assembling lenders, consumer advocates and others to assess the effectiveness of mortgage regulations on originators. Hearings also have been scheduled for **Aug. 5** and **Sept. 16** at the **San Francisco** and **Chicago Feds**, with the final hearing taking place at the Federal Reserve Board on **Sept. 24**.

[\(More\)](#)

## US CMBS Delinquencies Slow Temporarily in June

**RiskCenter** (07/12/10)

**Fitch Ratings'** latest index results show that a net gain in delinquencies of **\$512 million** pushed the U.S. CMBS delinquency rate to **8.14 percent** last month. June's jump of 17 basis points was the smallest increase in 11 months. It also was the fifth consecutive month of loan resolutions topping \$1 billion.

[\(More\)](#)

## Small-Biz Lending Fund Makes Comeback

**American Banker** (07/12/10) P. 1; Hopkins, Cheyenne

Despite initial opposition, the **Senate** is likely to pass legislation creating a **\$30 billion** fund to be used by community banks to boost lending to small businesses. The bill – which the **House** approved in June – would offer tax relief to small businesses, give federal funding to states with capital access programs and expand the **SBA's 7(a)** and **504** programs, among other provisions.

[\(More\)](#)

loans may cause homeowners to take on too much debt and impede their ability to meet their existing debt obligations, refinance into a new loan or obtain a mortgage modification, if necessary, because of the additional debt."

--From an **MBA** letter to **HUD** and **Department of Energy** officials expressing concerns with the structure of the **Property Assessed Clean Energy** program.

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