

CRE Mortgage Default Rate to Double by 2010, Study Says

By Allen Kenney

(June 9)—Commercial real estate mortgage defaults are at a 15-year high and will more than double by the end of 2010, according to a new report from research firm [Real Estate Econometrics](#) (REE).

REE found that the default rate climbed from 1.62 percent in the fourth quarter of 2008 to 2.25 percent in 2009's first quarter. It was the largest quarter-to-quarter increase since 1992, at a similar stage of the last severe real estate market downturn. The first quarter rate also marked the highest peak in defaults since 1994, and looking ahead REE projected that the default rate would reach 5.2 percent by the end of 2010 and peak at 5.3 percent at some point in 2011.

The balance of delinquent loans grew even faster between the two quarters, up from \$11.4 billion in 2008's fourth quarter to \$14.7 billion at the end of March 2009.

"The principal contributors to the rise in the commercial and multifamily delinquency and default rates include deterioration in property cash flow, resulting in an increase in the number of borrowers that are unable to meet current principal and interest obligations, and constraints on the availability of credit to support the refinancing of maturing mortgages," said Sam Chandan, REE's president and chief economist. Chandan also noted that government data showed a tightening of credit standards for commercial real estate loans for fourteen straight quarters.

Chandan stressed the need for further action on the part of the government to stabilize the commercial real estate sector, including tax, regulatory and accounting proposals for the industry. "In the best case, such intervention may open the door to new sources of sustainable, risk-sensitive private credit, reducing the need for public funds," he said.

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