Jobenomics- Commercial Real Estate Debt in the US

(PW) Charles Mosley October 01, 2010

Commercial properties include office buildings, hotels, shopping malls and apartments. This sector was in peak till 2007. However, the value of commercial property has dropped 36% in our country in the last two years. Commercial real estate market is v...

Commercial properties include office buildings, hotels, shopping malls and apartments. This sector was in peak till 2007. However, the value of commercial property has dropped 36% in our country in the last two years. Commercial real estate market is valued at $6.7 trillion and the outstanding debt in this sector amounts to $3.5 trillion. 50% of this debt is held by banks, 25%iof commercial mortgage backed securities and financial instruments are held by financial institutions and the remaining 25% by other investors. Low occupancy rates and depressed values shattered the commercial real estate sector a lot.

In the middle of 2009, nearly 9% of commercial real estate loans offered by banks were considered aberrant. It was almost double the level in the previous year. Construction and development loans are the most important problem for many banks. Chuck Vollmer provides all the details regarding **commercial real estate debt** and the possible solutions in his book Jobenomics. You can buy this book by logging on to the site www.jobenomics.com.

The owners of large apartment complexes in Stuyvesant Town and Peter Cooper Village in Manhattan defaulted on their commercial real estate holdings in January 2010. They simply turned over the keys to the lending institutions. The lenders have invested nearly $5.4 billion in these complexes. However, the investment is worth less than $1.9 billion today. A large portion of this investment capital was made from California Pension funds. California State Teachers Retirement System and the California Public Employees Retirement system are included in this pension fund. Their investments now become a waste. This in turn has increased the **commercial real estate debt.**

Residential mortgages are largely held by top 10 banks in our country and most of them are guaranteed by our government. Commercial real estate mortgages, on the other hand are held by middle and small size local and regional banks. This makes it difficult for our government to manage **commercial real estate debt.** Moreover, commercial real estate borrowers are more financially sophisticated than home or car buyers. Hence, there was some predatory lending prevalent in the commercial real estate sector. This situation points to a structural fault, which makes a potential **commercial real estate** crisis more problematic.

It is estimated that 55% of **commercial real estate** mortgages coming due before 2014 will be underwater. This will surely cause another mortgage crisis. Federal Deposit Insurance Corporation Chief Sheila Bait stated that mortgage crisis would pose a serious problem for our economy over the next three year. It will also lead to small and regional bank failures. However, the Treasury Secretary of our country states that current commercial real estate problems will not begin a new banking crisis. He points out that improved Gross Domestic Production rate, unprecedented stabilization efforts of the banks and increased private demand will prevent a potential commercial real estate market crisis.

You can understand the problems that are constantly discussed in the news by reading the book Jobenomics. Vollmer gives hope that we can recover from this crisis in this book. Visit www.jobenomics.com to get your copy of this book.