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As Residential Real Estate Rebounds, a Crisis Looms for Commercial Sector

As a Realtor who specializes in residential properties, I've never paid much attention to the commercial real estate market, even though I once owned a small office building in downtown Denver.

I do remember, however, that only short-term mortgages were available for my office building. Mine was amortized over 30 years but with a 5-year term, so that I would have to refinance at the end of that term.

So, it made sense to me when I read that the next big economic crisis will be in commercial real estate. If such properties are typically financed for five years only, with balloon payments that require refinancing, the unavailability of refinancing can spell ruin for 20% of those properties each year.

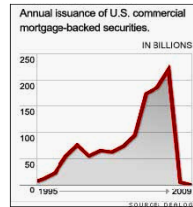
And that's exactly what is hap-

pening. According to reports from the National Association of Realtors and other sources, \$178 billion of commercial mortgages are maturing in 2009, but only \$33 billion in new mortgages are expected to be issued through the first half of this year.

There will be many commercial properties selling at a discount or simply going into foreclosure despite significant equity, simply because of the lack of refinancing, unless the federal government is able to improve liquidity in that market quickly — as it is working to do. In fact, there is a hearing this Thursday morning of a congressional oversight panel specifically regarding federal plans to restart the markets for industrial and commercial loans.

Individual loans are just one component of commercial real

estate financing. Another, which is currently dead in the water, is commercial mortgage-backed securities, or CMBS. In 2007 a record \$221 billion of these were sold, but not a single such sale has happened in 2009. At right is a chart prepared by the research firm Dealogic, printed by Fortune this week.



As NAR chief economist Lawrence Yun has pointed out, commercial real estate is experiencing a "double whammy" of not only tightened credit but increasing unemployment, which reduces the demand for commercial space.

As with residential real estate, Colorado is in better shape than the rest of the country, but be prepared to see the troubled commercial real estate industry develop into a major economic issue in the coming weeks after GM's bankruptcy fades from the headlines.

REAL ESTATE TODAY



By JIM SMITH, Realtor®

This Week's Featured Listing:

An Executive Rental in Mountain Ridge

The Village at Mountain Ridge is dominated by owner-occupants, so the availability of a rental property is big news. The owners of this home are taking an out-of-area assignment for one year, so they are making their home available for a one-year lease at a competitive rate for a home of this size — 3,600 finished square feet, with four bedrooms upstairs plus two more bedrooms (one used as a study) and a second family room in the walk-out basement. You'll like the great city and mountain views from the master suite as well as from the main-floor wood deck. This home is available July 1st for one year only. One month's security deposit is required. You can take a [video tour](#) of this home on its website (above).



Jim Smith
 Broker/Owner

Golden Real Estate, Inc.

DIRECT: 303-525-1851
 EMAIL: Jim@GoldenRealEstate.com
 OFFICE: 303-302-3636
 17695 South Golden Road, Golden 80401
 WEBSITE: www.GoldenRealEstate.com

