

## US commercial mortgage default rate at 3.4%

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<http://www.ft.com/cms/s/0/285da848-de1b-11de-b8e2-00144feabdc0.html>

The default rate for commercial mortgages in the US climbed to a fresh 16-year high in the third quarter of this year, as the property market continued to struggle under the weight of tight credit and falling rents.

During the third quarter the commercial default rate rose from 2.88 per cent to 3.4 per cent, the highest level since 1993, according to figures set to be released on Tuesday by Real Estate Econometrics, a property research firm. The quarterly increase was the third-highest since 2003 and the default rate has more than doubled in the last year.

“The dramatic decline in real economic activity and labour markets since last September has undercut property fundamentals, increasing the number of recently originated loans that are at risk for delinquency and default because of cash flows falling short of principal and interest obligations,” said Sam Chandan, chief economist at Real Estate Econometrics.

The rising default rate is bad news for banks, which hold more than 80 per cent of maturities on commercial real estate debt over the next two years. According to Real Estate Econometrics, during the latest quarter the total balance of delinquent and defaulted [commercial mortgages](#) jumped by 14 per cent to \$50.3bn.

“What is apparent from the most recent results is that policy interventions to date have not had a significant impact on the performance of mortgages being held on the balance sheets of banks,” Mr Chandan said.

Last month the Federal Deposit Insurance Corporation urged lenders to extend commercial real estate loan workouts to struggling borrowers. The Federal Reserve has also [extended the term asset-backed securities loan facility](#) (Talf) for existing commercial mortgage-backed securities through to the end of March.

“Some of the major banks have more trouble than meets the eye,” said John Cushman, chairman of Cushman & Wakefield, the property group. “Rents are falling, vacancies and concessions are rising and sublease space is exploding.”

During the past year, while [US unemployment](#) has soared from 6.6 per cent to 10.2 per cent, US commercial real estate values have fallen by 37 per cent, according to the November Moody's/REAL commercial property price index.

Mr Cushman, also chairman of asset management firm Rock Creek Capital, said that while urban property is suffering he sees investment in rural and alternative land assets as an investment opportunity as land owners deleverage. Land, he argues, is also a hedge against inflation and the weakening US dollar.

Real Estate Econometrics projects that commercial mortgage defaults will continue to rise, peaking at 5.3 per cent in 2011 before falling back, as loans from 2006 and 2007 miss aggressive cash-flow projections.

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