

# US Commercial Real Estate Default Rate At 15-Year High

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Written by:

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*One thing that becomes more evident during a recession is how all parts of the economy are interconnected. When consumers lose their jobs they stop buying. Fewer customers means some small businesses can no longer afford to pay their rent. Which brings us to the fact that commercial real estate owners are experiencing the highest default rate in 15 years. For more on this see the following article from [Property Wire](#).*

The default rate of US commercial real estate bank loans has reached its highest level in 15 years and is not expected to peak until 2011, according to a new report.

During the first quarter 2009 the national default rate for commercial real estate mortgages held by regulated depository institutions rose to 2.25% from 1.62% in the fourth quarter of 2008, according to the report from property research firm Real Estate Econometrics.

The 0.63% jump is the largest quarterly increase since at least 1992 and pushed the default rate to its highest level since 1994, the New York based firm said. The default rate does not include loans on apartments, which increased by 0.68% between the fourth quarter of 2008 and the first quarter of 2009 to 2.45%.

Real Estate Econometrics attributed the default surge to rising vacancy rates, falling rents and increasing operating expenses all of which made it more difficult for borrowers to meet principal and interest obligations.

Additionally, those borrowers who had been current were not able to refinance or sell their properties in order to meet payments required by maturing mortgages because of tight lending conditions.

It is mortgages that originated in 2006 and 2007 that have experienced the most significant cash shortfalls because a large number of them were based on overly aggressive rent and occupancy projections.

'Increasingly, a challenge in refinancing these mortgages is that some lenders are seeking to diversify away from commercial real estate, while others are lending only with existing relationships,' the report said.

Real Estate Econometrics revised its default projections higher. It sees the default rate rising to 4.1% by the end of the year, up from its

previous forecast of 3.9%. By the end of 2010, the default rate is expected to rise to 5.2%, up from estimates of 4.7%.

Analysts from the firm expect the default rate for US commercial property loans held by banks to peak at 5.3% 2011, up from its forecast of 4.8%.

Analysts commented that the revised forecasts are due chiefly to a more pessimistic outlook for the overall US economy, a projected rise in long-term interest rates and a slower than expected policy response to commercial real estate credit constraints.

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