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Is the drop in commercial values really that bad?

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Estimates of U.S. commercial property declines make the shakeout in the home market look tame.

Commercial real estate values are down almost 44 percent from their peak in 2007, according to the latest report from Moody's Investors Service and Real Estate Analytics LLC.

During the last three years, nationwide median home sales prices have slid by about a quarter.

The drop in residential values has been fueled by record foreclosures. On the commercial side, foreclosures have so far been a trickle.

So why the bigger drop in values?

Some real estate execs don't believe things are as dire as the commercial price indexes show.

"I don't think it's as bad as some of the indexes you are seeing," said Glenn Rufrano, the new CEO of Cushman & Wakefield Inc., who was in Dallas last week.

He thinks the true commercial value shakeout is now less than 30 percent.

One problem analysts have in gauging commercial real estate values is the dearth of recent sales.

Only in the last few months has the market begun to see a rebound in commercial transactions, which last year fell to about a tenth of what they were in 2007.

And distressed properties and second-rate buildings have made up a sizable share of what's changed hands.

But researchers who track commercial property markets around the country say there are enough prime property sales that they feel confident about the latest price decline reports.

"The percentage of distressed sales are stabilizing somewhere between 25 and 30 percent," said Neal Elkin, president of New York-based Real Estate Analytics. "It's actually a little surprising that so little distressed stuff is selling."

Real Estate Analytics finds that prices for troubled commercial properties have dropped 52 percent since 2007.

During the same time, prices of healthy properties (of course, in a major recession that's a relative term) have declined by 37 percent nationwide.

"The price indices are not being overrun by distressed sales," Elkin said.

The commercial real estate sector was predicting a boom in troubled property sales starting late last year. So far that hasn't happened, because many lenders have kept their hands in their pockets and delayed pulling the foreclosure plug.

"We were expecting a repeat of '92 and '93," Elkin said.

Anyone who was around for the early 1990s property market crash doesn't want a do-over. The foreclosures back then were the biggest transfer of U.S. real estate since the Louisiana Purchase.

And many of the foreclosed properties sold for just 10 cents and 20 cents on the dollar.

Texas was ground zero for that debacle.

This go-round, through better planning or happenstance (more likely), Dallas is arguably one of the best real estate markets in the country.

Maybe that's why those 40-plus percent commercial property price declines don't sound right.

Researchers admit that Texas' laws that allow real estate sales prices to remain secret make it hard to get a handle on the Lone Star State.

"Texas is different because of the nondisclosure situation," Elkin said. "No one really knows what is happening there."