

Commercial real estate market sinks

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Listen to what Richard Parkus of Deutsche Bank has to say [about commercial real estate](#). He said that "We are not only not approaching stability, we are at a period of maximum deterioration."

We have often said that after the collapse of residential real estate in the last year, the next shoe to drop would be the commercial market. What is being wrung out of the home market is now beginning to be felt big time in commercial real estate. Landlords are putting together all kinds of packages, including free rent and other perks, and still prices are falling. It is believed that values are down a whopping 50% from their peak in 2007.

The damage being done now will continue through 2017, according to Mr. Parkus. Rents are plummeting and vacancies are rising, which is making it difficult for owners to meet their monthly mortgage payments. Losses are estimated to be in the 4% range this year and 12% over the next four years. These numbers seem small but keep in mind that this 12% is being calculated on a much larger principal than home mortgages.

Much like the home market, we are seeing an implosion in the commercial markets, which is likely to continue for several years. Less demand means less money coming in; and less money coming in keeps landlords scrambling to keep their buildings rented. In the process, many landlords will bite the dust and be forced into bankruptcy.

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