

# Commercial real estate prices in freefall

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Commercial real estate values around the country have dropped 35 percent from their peak in October 2007, according to Moody's REAL Commercial Property Price Indices.

The decline appears to be accelerating as the index dropped more than 15 percent during April and May. Transactional volume also fell along with value, which is showing signs of effects from distressed sales.

"May marked a new low for both counts," the report said.

Along the lines of kicking a sector when it's down, a rise in interest rates caused several deals to unravel, hitting apartment sales the hardest.

To calculate the index, Moody's used 52 repeat sales, which had a dollar value of \$400 million in April 2002.

Dan Fasulo, managing director of Real Capital Analytics, said Moody's report is beginning to reflect true market pricing conditions "well ahead of any other indicators" and noted that commercial property values have fallen more than residential prices in annual terms.

David Geltner, who led the team that developed Moody's indices, said May's figures have dropped 22 percent from the same month a year ago.

"This makes the second month in a row of near-record losses in the same-property transaction prices of U.S. commercial real estate tracked by Real Capital Analytics," he said.

Geltner described himself as "bravely looking for the bottom" and wrote in a column that accompanied the report: "Almost every month this year as I've written this commentary for REAL I've speculated on how far the CPPI will fall in order to complete the current downturn. And I keep getting surprised for the worst."

The West, according to Moody's, which rated sectors and regions around the country, fared slightly better than the rest of the nation. Apartments in the West fell 14 percent from a year ago; industrial property fell 7 percent; office fell almost 18 percent and retail dropped 7 percent.

Nationally, those figures showed that the West fared slightly better than the rest of the nation.

Nationally, the index measuring apartments fell 16 percent compared to a year ago; industrial property fell 12 percent; office dropped almost 29 percent and retail fell 18.5 percent.

Geltner said May's drop should be put the country near the bottom.

"The worst is clearly over in terms of the transaction price drop," he wrote. "Of course, arrival at a solid bottom does not guarantee that the market won't 'fall through' into a negative bubble'. But that seems unlikely given the amount of capital poised on the sidelines of the property market, at least provided that the real economy doesn't take another nose-dive."

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