

Commercial market looks better than residential

Russ Wiles
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Where's the bottom?

For anxious real estate owners, investors and professionals, the answer may continue to hinge on which segment of the property market you're talking about.

"Things will get worse before they get better," said Jay Brinkmann, chief economist at the Mortgage Bankers Association, speaking Friday in Phoenix about the residential end of the market.

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But commercial properties remain in relatively good shape, despite fears on Wall Street that the credit crunch and economic slowdown will spread throughout this sector, said Gordon DuGan, president and CEO of New York financial firm W. P. Carey & Co.

Speaking at a conference sponsored by Arizona State University's Center for Real Estate Theory and Practice, Brinkmann warned of rising delinquencies and foreclosures for single-family home loans in coming months, especially on

adjustable-rate mortgages.

Payment problems are spreading from sub-prime to prime, or more credit-worthy, borrowers, and that's worrisome, he said. Prime ARMs represent 15 percent of all loans outstanding, compared with 7 percent for sub-prime ARMs.

"The prime ARM market is an issue because it's so much larger," he said.

One peculiarity of the Arizona mortgage market is that foreclosures on investor-owned homes have been noticeably higher here than for the nation as a whole, Brinkmann noted.

Still, he said he wasn't particularly worried about the long-term health of the state's real estate market, thanks to Arizona's ability to keep attracting newcomers, especially recent college graduates.

Brinkmann also said he wasn't especially concerned about upcoming interest-rate resets on ARMs, which are expected to peak in volume later this year. He credited recent Federal Reserve interest-rate cuts for easing that problem.

DuGan said rising yield spreads and other indicators suggest Wall Street investors are preparing for escalating defaults on commercial mortgage-backed securities and corporate debt generally.

"Fundamentally, the people who own these bonds

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are scared," DuGan said. "Buyers of these bonds aren't sure what they got."

However, DuGan said he thinks much of this fear is overblown, assuming the economy avoids a deep recession, which he doesn't anticipate.

He indicated commercial properties remain relatively healthy, noting commercial mortgages are much different from residential loans.

For example, commercial-property borrowers tend to be more sophisticated, with substantial equity in their properties and steady cash flow to support debt payments.

He also credited a healthy global economic backdrop and a willingness among big foreign investors to provide liquidity to the U.S. market, helping to ease the credit crunch.

"We ought not throw the baby out with the bathwater in comparing what's going on with commercial real estate to residential," DuGan said.

Reach the reporter at russ.wiles@arizonarepublic.com or 602-444-8616.

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