

In this article, RICS-Americas reports that, not unlike the precipitous drop in residential values, the severe softening of US commercial real estate values, is exacerbating the global real estate gloom.

LOOKING FOR TROUBLE?

REPORT EXPOSES DEVASTATING LOSSES IN US COMMERCIAL REAL ESTATE.

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Based on the latest data from RICS-Americas' member firm, *Real Capital Analytics*, vital clues as to the scale and nature of troubled properties are coming to light. The research firm, founded by RICS-Americas member, Bob White, has published "Troubled Assets Radar" - the first accurate barometer of the scale of troubled property assets in the USA.

The report, "exposes greater than expected value losses in US commercial property investments"; and, in early 2009, the news could get worse as the company's troubled assets radar extends its sweep globally.

During 2008, US residential markets were shouldering most of the blame for the "sub-prime" fallout. It was clear however that, by early 2009, the economic pain had spread across billions of dollars worth of commercial real estate. Even the twin tourniquets of low oil prices and massive government bail-outs, have done little to stem the bleeding from disappointing retail spending, heavy job losses, and sharp declines in the travel business.

And not unlike the contagious drop in residential values, the domino effect of the softening US commercial property market, will almost certainly exacerbate the global economic gloom. Already the firm's analysts have tracked almost \$70 billion worth of global distress.

"The scale of the distress has surprised us", says *Real Capital Analytics'* Global Advisor, and former RICS President, Steve Williams. "So far, our report identifies roughly \$120 billion worth of US commercial properties either in distress or potentially troubled. If the pace of future value-declines continues, the impact of this sector across world real estate markets may be devastating".

"This is only the tip of what may be a huge 2009 ice berg," confirms RICS Fellow and *Real Capital Analytics'* founder and CEO, Bob White. "At the beginning of 2008, sub-prime loomed large in our rear view mirror. Because office, retail, industrial and lodging space remained for the most part well occupied, few predicted that commercial real estate investments would have encountered so much trouble by early '09".

The early-2008 optimism for continuing strong fundamentals (i.e. leased space generating market rents) began to evaporate in all sectors after the September 15th, "Lehman/AIG" weekend. US office space needs started to shrivel as corporations downsized. Retailers were hard hit by lower consumer spending, hotels and airlines saw sharp declines in global travel, and the world's industrial manufacturers (including the troubled US automakers) began to close factories in response to low

consumer demand. In turn, many transportation and shipping companies began to mothball their fleets.

“The pain reflected in our *Real Capital Analytics* TAAP (Troubled Assets Analytics Program),” says Managing Director, Dan Fasulo, “reflects the extent of the downturn. “As we extend our scan to the world” he continues, “we are beginning to identify declines in all sectors and in all countries”.

While the *Real Capital Analytics* report is the first accurate measure of the global contagion in distressed commercial real estate, its upside is the opportunities that lie hidden within the distress. The company reports a growing number of enquiries from bargain-seekers combing the data for investment opportunities.

These can be pin-pointed on the system’s maps which give a stark picture of broad distribution of distress properties across the US. Only sparsely populated States like, Utah, Montana, Oregon and the Dakota are spared. The regions most badly affected include the northeast, Florida, California, Arizona , Nevada and Texas. Of more concern is the “Potentially Troubled” map, which shows how widespread the future distress may become as 2009 unfolds.

The likelihood of *Real Capital Analytics’* European and Asian maps, offering any degree of optimism, is slim. “The scale and distribution of 2009 global real estate distress,” predicts John Purcell of Real Capital Analytics’ London office, “could get significantly worse”.

Ed Note: The reports can be viewed at www.rcanalytics.com.