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CCIM and RERC release R.E. recovery report

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The CCIM Institute and the Real Estate Research Corp. (RERC) released a report that the commercial real estate recovery has become dependent on, and stands precariously linked to, the re-pricing and deleveraging of property positions, and less contingent on access to capital, given that liquidity has returned to the commercial real estate markets, and in some cases, is scarily reminiscent of the pre-credit crisis capital market environment.

"The money is there," said Richard Juge, CCIM, the 2010 president of the Chicago-based CCIM Institute and president of Re/Max Commercial Brokers in Metairie, La. "It's a re-pricing and deleveraging issue versus a liquidity issue. Capital is being invested in commercial real estate assets that have been re-priced to a level that makes sense and with sufficient deleveraging, meaning there's not too much of a loan above the value of the asset. The large institutions and other investors have been able to re-price their assets down by 40 to 50% while still maintaining a positive equity position."

The CCIM Institute's chief real estate economist, Ken Riggs, CCIM, believes that given the amount of liquidity in the market and the ability of lenders to re-price assets at a level that will clear the market, the process of refinancing debt will be at a more measured pace than most predict and serves as a guiding hand out of this severe and Draconian commercial real estate recession.

"I don't see this huge onslaught where large volumes of distressed assets are placed in the market and the supply of properties at distressed levels overwhelms the investment demand side," said Riggs, who is also president and CEO of the Chicago-based RERC.

"There's equity sitting on the sidelines now, waiting for this to play out.

"The process will be very selective, with some banks and insurance companies taking back properties and leaving them on the balance sheet. They will take them to the market when it's the right time and when the pricing can be properly achieved. It will be a slow, arduous, and challenging process, but I don't see it as being catastrophic or disrupting the current recovery."

CCIM and RERC say the industry is at a stabilization point with commercial property becoming attractive on a relative basis and getting the attention of many diverse investors.

"We are starting to get traction. The recovery is becoming real," said Juge. "While it's still not as attractive as it was in 2006 and 2007, commercial real estate came into this recession in better shape than it had in the past with less building than in other downturns. If you put that in context, there is equity that wants to invest in the market. It's a question of re-pricing."