RCA in the commercial property press:

Default Rates Reach 16-Year High

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Source: Globe St.

Globe St. reports: With a $4.5 billion rise in volume during the fourth quarter, the default rate on commercial mortgages reached 3.82% at the end of 2009, the highest since the 4.1% default rate last seen in 1993, said Real Capital Analytics in a report released February 16th. Given that the Federal Deposit Insurance Corp. has said that banks' losses are largely driven by commercial real estate loans, it stands to reason that the agency said on Tuesday that its list of "problem" lenders similarly reached a 16-year high of 702 institutions.

However, neither commercial mortgage defaults nor the number of institutions on the FDIC's so-called "Problem List" have peaked. According to published reports, FDIC chairman Sheila Bair said she expects more bank failures this year than there were in '09, which itself saw the highest number since 1992. Bair says increased losses on CRE exposure will be largely to blame.

And Sam Chandan, global chief economist at RCA, tells GlobeSt.com, "We project that default rates for commercial mortgages will rise to 5.1% by year-end 2010 and will peak at 5.4% by year-end 2011." He adds that these projections assume "limited additional policy intervention in support of bank lenders with concentrations in commercial real estate."

RCA's projections for commercial mortgages are separate from those for multifamily loans, and the company's definition of "commercial real estate loans" is narrower than the FDIC's, which also includes land and development borrowings. Currently, the default rate for apartment properties is higher than it is for the commercial sector at 4.44%. The year-over-year increase in the default rate was greater: up 250% from 1.77%, compared to a 234% rise from the Q4 2008 rate of 1.63% for commercial loans.

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