

Commercial real estate outlook darkens for '09

Shopping centers and office buildings are likely to suffer the most

NEW YORK - What a difference six weeks makes.

Like blows to the commercial real estate industry, the headlines just keep coming: [Circuit City](#) files for bankruptcy protection, DHL is slashing its U.S. operations, Wall Street is handing out pink slips like ticker tape.

The 2009 outlook for the commercial real estate sector has turned suddenly bleak. Rents and vacancies at shopping centers and office buildings will suffer the most, but industrial buildings and apartments won't be immune to the downdraft.

"It blows my mind how fast this has happened. We had thought commercial real estate would be OK because it wasn't overbuilt," said Robert Bach, chief economist at Grubb and Ellis Co., at the company's 2009 Real Estate Forecast panel in New York on Wednesday.

Worse still, about \$36 billion of commercial real estate debt will expire next year, and about \$55 billion of debt on average will roll over annually by 2012. That's a "significant" increase from most recent years, said Glen Esnard, president of the capital markets division at Grubb and Ellis.

In normal times, much of that debt could be easily financed. But in recessionary times?

"A lot of that won't be (refinanced) at current rates or terms," he said. "Lenders will have to take action on these loans."

Esnard expects commercial real estate delinquencies and foreclosures to "surge" next year as landlords can't refinance. The rate is around 1 percent now. The tipping point would be between 4 percent and 5 percent.

"That would be concerning," he said.

A spike in the default rate would deal another blow to the already battered [credit](#) markets and limping global economy. It would hamper efforts by governments worldwide to halt the financial bleeding and restore consumer and investor confidence.

"It's one of many shoes left to drop," Bach said.

Already, there are signs the unraveling has started. General Growth Properties, the nation's second-largest shopping mall owner, warned investors this week it might have to seek bankruptcy protection if it can't refinance or extend nearly \$1 billion in debt due next month. The [real estate investment trust](#) faces another \$3.07 billion of debt due next year.

And on Wednesday, ProLogis, the largest industrial real estate investment trust, said its cutting its 2009 dividend by more than half to help pay down debt and bolster its balance sheet.

Even if the economy recovers next year, a turnaround in commercial real estate won't occur until at least 2010 because it lags the economic cycle. That will be too late for many landlords who need to refinance.

"It'll be awhile," Bach said. "Defaults on these loans could continue for several years."

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