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Commercial real estate still precarious in U.S. Double-dip recession possible, report says

BY JOHN MORRISSY, CANWEST NEWS SERVICE JANUARY 14, 2010

- Crumbling property values in U.S. commercial real estate could derail economic recovery and send North America into a double-dip recession, warns the chief executive of real-estate services company Avison Young.

Mark Rose said he expects employment growth and expansion of the North American economy to lay these worries to rest. His 2010 National Forecast, released yesterday, calls for another depressed year for North American markets, but an eventual recovery in commercial real estate.

Yet without companies hiring more people to occupy U.S. offices, industrial and retail space burdened by double-digit vacancy rates, the issue "could be explosive."

"I absolutely believe that there could be a very, very serious problem," Rose said in an interview.

The issue is that these properties, selling at peak values in 2007 and often purchased with large amounts of debt, have fallen in value by 40 to 50 per cent. It is a situation similar to the U.S. residential real estate market, in which subprime lending eventually left property owners with much more debt than equity in their homes.

In a normal market, those commercial properties would probably have been foreclosed on, Rose said.

But "due to government intervention, the concept of distressed selling and buying did not materialize anywhere in North America. Washington put money into the major banks, which in turn extended every loan they could to avoid realizing losses.

"The Securities and Exchange Commission watched from the sidelines and allowed the impacted lenders to postpone the inevitable.

"Before recovery can occur in 2010," Rose added, "private markets must solve their own problems, even if that means capitulation."

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