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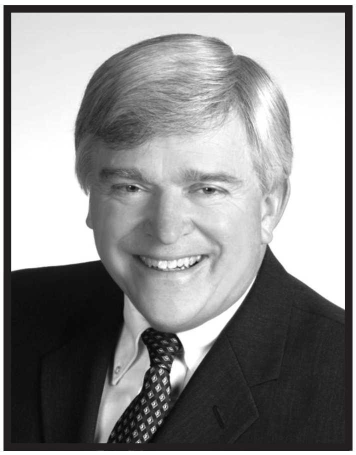
Will Commercial Transactions Increase in 2010?



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Like many other players in the commercial real estate industry, title insurance companies depend heavily on a steady flow of commercial real estate transactions.

Accordingly, as we begin 2010, it's helpful to look at the number and types of transactions that closed in 2009 and then determine if any patterns have emerged that can be used to predict the volume and types of deals that we will be working on in 2010.

Although the number of commercial real estate transactions for all property types in the $20,000,000+ range that closed in 2009 was significantly less than the number of similar transactions that occurred at the height of the real estate boom, the good news locally is that, according to Real Capital Analytics, a New York real estate research firm, the New York City metropolitan area led the list of U.S. marketplaces for deals of that size in 2009.

Based on the fact that there are many expensive, trophy-type commercial properties in New York City and the surrounding suburbs that will be refinanced/restructured in 2010, and that many potential buyers – both foreign and domestic – are interested in high-end, New York City metro-area commercial properties, we expect that the New York City metro area will again be at the top of the list of transactions in that range in 2010.

Primarily because of the increase in the size of the federal government, we also expect that, as in 2009, the second most active market for large commercial transactions in 2010 will be the Washington, D.C. metropolitan area.

When you look at the number of large U.S. commercial transactions by property type in 2009, most of those transactions involved the sale of retail properties like regional malls.

With the recent announcement of the sale of the 22 Prime Outlets to Simon Property Group; the disposition of the properties of the bankrupt "big box" retailers; and the projected opening of many new stores by low-price/bargain retailers, we expect that many of the commercial real estate transactions in 2010 will also involve the purchase and sale of retail properties. Also, if Congress extends healthcare to more Americans, we expect that another commercial property type that will see a lot of activity in 2010 is the medical office building segment.

In this age of specialization, many real estate professionals (including brokers, attorneys, appraisers and title people) who are primarily engaged in commercial real estate transactions sometimes fail to pay much attention to what's happening in the residential real estate industry and vice versa. If you look at the "big picture," however, it becomes apparent that there are many links between the residential and commercial real estate markets.

For example, many experienced real estate professionals point out that residential real estate market conditions are usually a precursor of commercial real estate market conditions by about 6 to 12 months. Similarly, the purchase of certain types of commercial properties is closely related to sale of residential properties. For example, there was a drop in the number of senior housing community construction starts in 2009 because many senior citizens were unable to sell their homes in order to buy senior-only housing units or to pay the entrance fees for continuing care retirement communities.

In late 2009, however, we started to see an increase in the number of residential transactions primarily because of lower interest rates and various governmental incentives.

If this trend in residential real estate continues into 2010, we expect to see an increase in the number of transactions involving residential-related commercial real estate transactions as well. One early example of that trend may be the recently announced purchase of the senior housing properties of the Erickson Retirement Communities by Redwood Capital Investments LLC for a price higher than expected by many observers of this market segment.

In December 2008, many title insurance professionals expected to see a big increase in the number of commercial real estate transactions in 2009 because they thought that the increase in defaults on commercial mortgages would result in an increase in foreclosure sales. They also expected the FDIC to sell many of the other real-estate-owned (REO) properties that they acquired as a result of the failure of several banks.

Because of a significant decrease in property values; a willingness on the part of lenders to extend the terms of the mortgages; and a general sense of economic uncertainty, there were not as many commercial foreclosures and REO transactions in 2009 as expected. As we begin 2010, however, we think that the number of commercial foreclosures and REO transactions will start to increase as lenders and borrowers stop "pretending and extending" and banks start to liquidate their REO portfolios.

In summary, we are optimistic that, in 2010, there will be an increase in the velocity of commercial real estate transactions in the New York City metropolitan area, and that, at the national level, the number of transactions involving retail, medical office building, foreclosure and REO properties will grow; and that as the residential market improves, there will be some recovery in the senior housing segment as well. ■