

[Search \(/search/\)](#)[\(/\)](#) [\(https://www.facebook.com/Globestcom\)](https://www.facebook.com/Globestcom) [\(https://twitter.com/GlobeStcom\)](https://twitter.com/GlobeStcom) [\(https://www.linkedin.com/company/globest-com/\)](https://www.linkedin.com/company/globest-com/) [\(/rss/\)](#)

refDoma

cre%2F%3Fkw%3DCRE%2520Is%25;

[MARKETS \(/MARKETS/\)](#) [SECTORS \(/SECTORS/\)](#) [CRE TECH CENTER \(/CRE-TECH-CENTER/\)](#) [BEST PRACTICES \(/BEST-PRACTICES/\)](#)[Commentary \(/commentary/\)](#)

CRE Is Dead. Long Live CRE

CRE has survived many crises in the past and it will overcome this one too.

By Joseph J. Ori | June 15, 2023 at 08:17 AM

[f](#) [in](#) [t](#) [✉](#) [© \(/asset-and-logo-licensing/\)](#)

The CRE industry in the U.S. is a large and diverse alternative asset sector valued at about \$15 trillion. The industry is very resilient and adaptable even though many pundits over the decades have called for its collapse and extinction. Since the 1980s, the country has been through numerous recessions and real estate crashes as follows:

1. Recession and high interest rates of 1980 to 1982
2. S&L, real estate, and oil crash from 1987 to 1992
3. Recession of 1990 to 1992
4. Dot.com crash of 2000
5. Recession of 2001
6. The Great Recession and real estate crash of 2007 to 2012
7. Covid recession of 2020

In each of the above downturns, the CRE industry has suffered mightily with substantial loan defaults, foreclosed assets, and billions in lost investment. In the crash of 1987-1992, the value of all property types declined at least 60% and there were thousands of vacant and “see-through” office buildings and run-down apartment complexes scattered in every market in the country. The carnage was especially bad in the southwest states of Texas, Arizona, and Nevada. In the Great Recession, the value of the average CRE property also declined precipitously to about 50% and there were thousands of defaults, foreclosures, and lawsuits.

During each of these calamities, the pundits proudly proclaimed the death of the CRE industry, and many properties would be vacant, untenable and need to be demolished. However, the CRE industry has thrived over this forty-plus-year period, even with all the defaults and foreclosures. Does anybody remember the Resolution Trust Corporation that was created in 1989 and sold much of the foreclosed S&L real estate assets at 30% and 40% on the dollar? Investors at the time who bought these discounted assets made huge profits years later when the assets were sold. This period also saw the creation of most of the public REITs that exist today.

What about the carnage that happened to the retail real estate industry just six or seven years ago? There were over 50,000 store closures, dozens of retail companies went bankrupt including Toys R Us, Sears, JC Penney, Gymboree, Forever 21, Mervyns, RadioShack, Ascena Retail Group, Belk, Payless Shoes and many more. Many financial mavens predicted that the retail industry was history, and everyone will shop online and never visit a store again. This did not happen. The closed stores were sold, repurposed, and re-leased and today, if you drive around any suburban area in the country, you rarely see a vacant Sears store or an empty box that was formerly a Toys R Us or big box tenant. The CRE industry is very adept at taking vacant and unused real estate and changing its "highest and best use" or repurposing the use into another cash-flowing real estate asset. Whenever these downturns or crashes occur, the distressed side of the industry, which is usually dormant until the crash occurs, rises to the challenge and mobilizes its resources to acquire, renovate, release, and sell these foreclosed and vacant properties.

Today, courtesy of the Federal Reserve raising interest rates at the fastest pace in history, the CRE industry is facing another disaster, especially in the office sector, of rising defaults and foreclosures and another potential downturn. There are currently \$4.5 trillion in CRE loans outstanding against a market value of all CRE in the U.S. of \$15 trillion or 30% loan to value. Currently, the default rate for all CRE loans is about 2% or \$90 billion of loans and not all of these loans will result in a foreclosure. Seventy-five percent of these are office buildings in the Gateway cities with high crime and a high out-migration of residents and companies. And this is where most of the distress will be in this down cycle.

The Federal Reserve at its meeting on June 13th and 14th elected to pause on another rate hike and left the federal funds rate at 5.0%. If it remains at this level, the default rate will remain at 2%. If it continues to raise rates and the federal funds rate increases from 5.5% to 6%, then the default rate will double to 4% or \$180 billion. Again, 75% of this will be concentrated in the Gateway cities and in the office sector. The other 25% of distress will be firms that overpaid for properties bought at low cap rates during the last few years and now the properties are seeing lower rent growth and lower net operating income.

The CRE resiliency machine is currently cranking up and billions of dollars of distressed capital is being raised to acquire many of these distressed assets. There is also approximately \$150 billion of private real estate equity dry powder that will pounce on these distressed assets. The largest private equity real estate investor is Blackstone, and they just raised the largest private equity fund ever with equity capital of \$30.4 billion. The majority of this capital will be levered at least two to one and will be invested in distressed CRE assets primarily in the U.S. but also around the world. The highest returns in the CRE industry are earned in these types of periods that appear to be so dystopian that the market will never recover again.

Joseph J. Ori is Executive Managing Director of Paramount Capital Corp., a CRE Advisory Firm.

NOT FOR REPRINT

© 2023 ALM Global, LLC, All Rights Reserved. Request academic re-use from www.copyright.com. (<https://www.copyright.com>) All other uses, submit a request to asset-and-logo-licensing@alm.com. ([mailto: asset-and-logo-licensing@alm.com](mailto:asset-and-logo-licensing@alm.com)) For more information visit [Asset & Logo Licensing](#). ([/Asset-And-Logo-Licensing/](#))

 SHARE  SHARE

Dig Deeper

[National \(/Markets/National/\)](#) [Midwest \(/Markets/Midwest/\)](#)
[Northeast \(/Markets/Northeast/\)](#) [Southeast \(/Markets/Southeast/\)](#)
[Southwest \(/Markets/Southwest/\)](#) [West \(/Markets/West/\)](#)

Trending Stories

- 1 **This Multifamily Developer Had to Approach 48 Lenders About One New Project**
[\(/2023/06/12/this-multifamily-developer-had-to-approach-48-lenders-about-one-new-project/\)](#)
- 2 **Return to Office Inducements Get Tougher, Creative**
[\(/2023/06/12/return-to-office-inducements-get-tougher-creative/\)](#)
- 3 **Capital Markets Continue to Thwart CRE Professionals**
[\(/2023/06/13/capital-markets-continue-to-thwart-cre-professionals/\)](#)

- 4 **URW Hands San Francisco's Largest Mall Back to Lender**
(/2023/06/13/urw-hands-san-franciscos-largest-mall-back-to-lender/)

- 5 **High-Volatility CRE Loans Take a High-Speed Crash in Q1**
(/2023/06/14/high-volatility-cre-loans-take-a-high-speed-crash-in-q1/)

(https://www.globest.com/asset-and-logo-licensing/?utm_source=website&utm_medium=reprintmodule&utm_campaign=B2B_reprints_general&utm_term=gst)

Recommended Stories

(<https://www.globest.com/2023/06/15/hybrid-work-leads-to-mid-week-crowding-and-need-to-retain-space/>)

Hybrid Work Leads to Mid-Week Crowding and Need to Retain Space

(<https://www.globest.com/2023/06/15/hybrid-work-leads-to-mid-week-crowding-and-need-to-retain-space/>)

BARBARA BALLINGER | JUNE 15, 2023

Despite some employees still working remotely, managers recognize the wisdom of keeping their same office square footage.

(<https://www.globest.com/2023/06/15/consumers-are-hesitant-to-spend-but-mall-visits-stay-the-same/>)

Consumers are Hesitant to Spend But Mall Visits Stay the Same

[\(https://www.globest.com/2023/06/15/consumers-are-hesitant-to-spend-but-mall-visits-stay-the-same/\)](https://www.globest.com/2023/06/15/consumers-are-hesitant-to-spend-but-mall-visits-stay-the-same/)

PHILIPPA MAISTER | JUNE 15, 2023

However, the summer months and especially Back-to-Schools sales could accelerate recovery.

(<https://www.globest.com/2023/06/15/these-three-factors-are-driving-office-tenants-decisions/>)

These Three Factors Are Driving Office Tenants' Decisions

[\(https://www.globest.com/2023/06/15/these-three-factors-are-driving-office-tenants-decisions/\)](https://www.globest.com/2023/06/15/these-three-factors-are-driving-office-tenants-decisions/)

ERIK SHERMAN (/AUTHOR/PROFILE/ERIK-SHERMAN/) | JUNE 15, 2023

Property owners and operators that don't keep up may get left behind.

Resource Center

(https://globest.tradepub.com/free/w_briv1)
REPORT

SPONSORED BY BRIVO

Integrating Control: Access and Security in the Age of Hybrid Working

(<https://globest.tradepub.com/free/v>)

As CRE professionals and companies advance into the next era of work, this report outlines what is actually happening with hybrid uptake, digital transformation, data and building security, and offers a frame to guide your digital transformation efforts.

[Browse More Resources > \(/resources/\)](/resources/)

(https://globest.tradepub.com/free/w_defa)
EBOOK

SPONSORED BY LEASEACCELERATOR

9 Ways to Save with Real Estate Lease Administration

(<https://globest.tradepub.com/free/v>)

Download this eBook to find ways to reduce 2-4% in costs across your real estate lease portfolio.

[Browse More Resources > \(/resources/\)](/resources/)

(https://globest.tradepub.com/free/w_plam
WHITE PAPER

SPONSORED BY PLACER LABS INC.

**Navigating a Changing Mall:
Analyzing Consumer Behavior**
(<https://globest.tradepub.com/free/v>

Malls still play a key role in the wider retail landscape. This white paper analyzes changes in shopping center visitor behavior to see how malls are maintaining relevance in 2023.

[Browse More Resources > \(/resources/\)](#)

GlobeSt Newsletters

Subscribe Today and Never Miss Another Story.

Subscrib

Don't miss another update on commercial real estate industry trends, analysis, news, and best practices to help you grow your business from the industry experts. Sign up FREE now, for any/all of our GlobeSt.com Daily and Weekly Newsletters.

(<https://store.law.com/promoCode=REI>
[Privacy Policy \(https://w](#)
[policy-r](#)

(/)

FOLLOW US ON

(<https://www.facebook.com/Globestcom>)

(<https://twitter.com/GlobeStcom>)

(<https://www.linkedin.com/compa>

(/rss/)

[About GlobeSt \(/static/about-us/\)](#) / [Contact Us \(/static/contact-us/\)](#) / [Site Map \(/sitemap/\)](#) / [Advertise With Us \(/static/advertise-with-us/\)](#)
/ [Asset & Logo Licensing \(/asset-and-logo-licensing/\)](#) / [Terms of Service \(https://www.alm.com/terms-of-use/\)](https://www.alm.com/terms-of-use/) / [Privacy Policy \(https://www.alm.com/priv](https://www.alm.com/priv)

Copyright © 2023 ALM Global, LLC. All Rights Reserved.