

NYU professor tells Palm Beach County forum that the commercial real estate market scare is overblown

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WEST PALM BEACH — While many experts predict a pending commercial real estate crash that could devastate the tax base and further threaten bank stability, economist Hugh Kelly said reports of an apocalypse are overrated.

Kelly, a New York University real estate professor who spoke to members of the Economic Forum of Palm Beach County today, said he knows he's bucking conventional beliefs when he dismisses the most dire predictions.

But, he said, a growing GDP and new jobs he believes are coming this year could soften a crash.

"I think forecasts of a crash are navigating out of a rear-view mirror of a recession that is over," Kelly said inside the Kravis Center. "Demand for use of commercial space remains weak and absorption is negative, but we're growing in terms of consumption."

Last month, the Congressional Oversight Panel issued a nearly 200-page report on commercial real estate losses and the risk to the nation's financial stability.

The report warns that between 2010 and 2014, about \$1.4 trillion in commercial real estate loans will reach the end of their terms, when most borrowers have to repay the remaining balance of the loan and find new financing. Nearly half of the loans are underwater with commercial property values having fallen more than 40 percent since the beginning of 2007.

"A significant wave of commercial mortgage defaults would trigger economic damage that could touch the lives of nearly every American," the report notes.

Palm Beach County has about \$2.4 billion in troubled commercial assets, according to a report released earlier this month by Real Capital Analytics. The report ranks Palm Beach County seventh nationally for distressed properties as a percentage of total investment volume.

The county's troubled assets include \$365 million in office space, \$520 million in retail, and \$852 million in apartments.

Still, the Real Capital Analytics report notes that nationwide the pace of the increase of distressed commercial properties has slowed considerably as lenders become savvy in modifying troubled loans.

Kelly said Palm Beach County's recovery will likely lag other areas of the country because of the large run-up in pricing during the boom.

"South Florida is so far overextended that the bad odor permeates the commercial market," he said. "Economics is always a rebalancing act."