

News Release

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IS COMMERCIAL REAL ESTATE RELIVING THE 1980s AND EARLY 1990s?

Concerns over the health of commercial real estate are growing as residential mortgage defaults rise and recent reports suggest prices for commercial real estate are falling. It is too early to judge the full extent of any problems, but commercial real estate financing has been shaken by the financial market turmoil associated with recent residential mortgage defaults.

For some perspective on the current situation, Alan Garner, a former assistant vice president and economist at the Federal Reserve Bank of Kansas City, revisits the historical experience of 20 years ago in the article “Is Commercial Real Estate Reliving the 1980s and Early 1990s?” The article appears in the third quarter edition of the Bank’s *Economic Review*.

A number of factors show a natural comparison with that period. In the 1980s, commercial construction boomed, leading to a massive oversupply of commercial space. Many analysts believe the resulting problems for banks and investors helped lead to a credit crunch in the early 1990s, which slowed overall economic growth, Garner writes.

Garner finds that a major similarity between then and now is banks’ large direct exposure to commercial real estate loans. A major difference is that the recent commercial construction boom was not as large as in the 1980s, suggesting that excess supplies of commercial space may not grow as large. Another difference is that increased commercial real estate securitization may expose developers and investors to shocks that originate outside the commercial real estate sector.

The article is available on the Bank’s website at www.KansasCityFed.org.

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