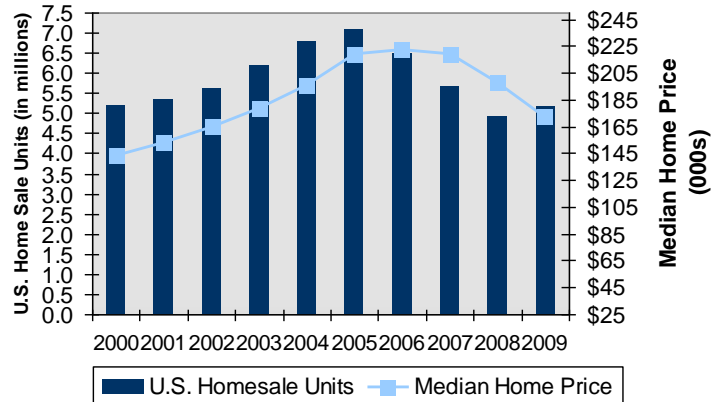


After a short period of “false” economic prosperity (See *Prosperous Times*), Americans experienced an economic crisis. In 2008, the National Bureau of Economic Research announced that we were officially in a recession. Unemployment rates sky-rocketed with well over a million jobs lost in 2008.

During the “Housing Market Boom,” inflated confidence in prices led lenders to give mortgages to unqualified buyers, which led to spectacular short-term gains. These “subprime” loans were packaged into groups that were traded like securities and purchased by some of the largest investment houses including Citigroup and Merrill Lynch.



Then, in 2007, home prices began a rapid decline. This occurred as mortgage loan terms changed and interest rates rose, causing homeowners to begin defaulting on the loans that they never should have qualified for in the first place. Many homes went into foreclosure and the excess supply of homes put downward pressure on prices. The relaxation of real estate valuation standards and real estate finance underwriting guidelines inflated loan to value ratios beyond levels that can be refinanced. The banks had to write down the value of their mortgage-backed assets. This created huge losses for banks in 4th quarter of 2007, and also restricted their ability to borrow and lend capital, which greatly reduced the capacity of banks to loan money, spurring a “liquidity” crisis. It came to a head when Wall Street hemorrhaged losses. Lehman filed for bankruptcy, Goldman Sachs and Morgan Stanley became bank holding companies, Wachovia merged with Wells Fargo, and Congress passed the Wall Street bailout package.

A series of government measures to rescue ailing companies like AIG, Fannie Mae and Freddie Mac followed. The “big three” car companies (General Motors, Ford, and Chrysler) asked Congress for a bail-out to prevent the auto industry from going bankrupt. Fearful Americans stopped shopping, and the retail industry hit a 40-year low.

## [Timeline of the entire Crisis](#)<sup>12</sup>

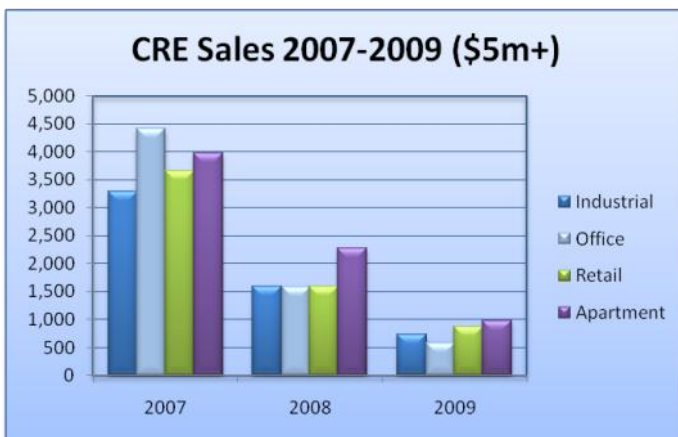
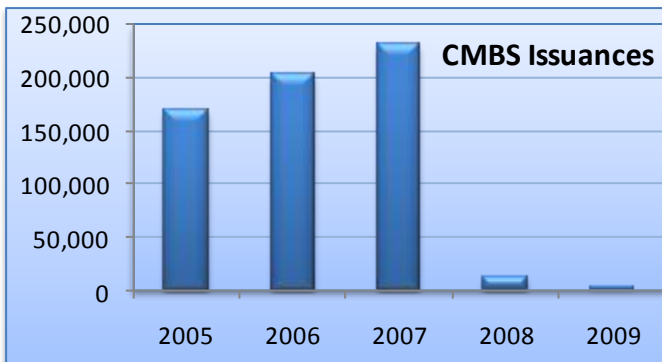
### Effect on Commercial Real Estate

In August 2007 on the commercial side of the business – as a result of the subprime mortgage debacle – the securitized debt markets became virtually non-existent. See *CMBS Issuances Chart*

Credit became unavailable due to the global financial meltdown. As such, virtually every aspect of the commercial real estate industry was impacted. Establishing current values was near impossible due to lack of market activity, comparable sales and short sales.

Investors were basing investment decisions on pure cash returns vs. using leverage to bolster yields. According to Real Capital Analytics, values declined considerably, by as much as 45%. Many would-be sellers were holding properties off the market and in many cases, find themselves today in “negative equity purgatory”. There was a huge gap between buyer and seller expectations.

The result was a 88% decline in overall volume of assets traded from \$423B year-end 2007 to \$51.4B in 2009 (the lowest of the decade). 2009 would go in the record books as a devastating year for commercial real estate. Price / SF also declined and development was virtually non-existent. Average cap rates rose, causing prices to fall. Vacancies rose to record levels and there are many debt maturities on the horizon. As a result, many projects were put on hold: [View 10 CRE projects put on hold](#)



Many distressed properties started to come to the market (with more slated to hit), and some commercial real estate professionals were taking advantage of this new-found opportunity.