

Gold and Your Money – Commercial Real Estate Crisis?

To fully appreciate what it might take to ignite another financial meltdown, we need to get a clear picture of where we are today. If the economy was growing from a base of solid economics, this topic would be nothing more than speculative thinking. Morbid speculative thinking of which I would have no part. My faith would tell me to focus on what's good in life. It still does, but my experiences, skill sets, AND my faith, mandate that I write what I see and let you decide what it means for you.

Without going into pages and pages of detail a quick survey of current economic conditions are warranted.

The stock markets and financial markets in general seem to be trying to hold up in spite of what is generally bad news. There is this sense that everything is on the edge....like it is waiting for something to push or pull it one way or another. Do you feel it? There is nothing anywhere on the near term horizon that looks strong enough to pull the market up with any real, continued, well supported recovery. Unfortunately, if there was a direction that the facts would be pointing to...it would be for a decline. This recovery really has no legs. There is not a stitch of evidence suggesting anything else. And there any number of ways a correction could start.

For example, let's say another wave of increased home foreclosures begins to show up. It has. In spite of the U.S. Government's 75 billion Home Affordable Modification Program, foreclosures rose again in April and are on course to exceed the 2.8 million initiated in 2009. Over 932,000 filed in the first three months of 2010. In addition, there are a great number of adjustable mortgages coming due this year.

What About Commercial Real Estate?

This is really going to be the story over the next year or two. The largest bankruptcy in the history of America happened in 2009 when the huge commercial real estate-mall owner/operator General Growth declared bankruptcy – roughly 9.7 billion dollar bankruptcy. To begin to understand this, Wikipedia lists the GDP of over 191 countries – 69 of which are smaller than this one bankruptcy. See Wikipedia for global Gross Domestic Product: [Global GDP](#)

There is much evidence that the only reason we have not seen wide spread commercial defaults is because the market is being artificially supported knowing that the combination of residential and commercial defaults would crush the U.S. economy taking most of the world with it. Lenders are holding on looking for government bailout funds while hoping and praying for a turn around sufficient to get them back in the black. It is a tenuous situation.

On February 11, 2010, the Huffington Post ran an article titled: **Elizabeth Warren Warns About Commercial Real Estate Crisis, 'Downward Spiral' For Small Businesses and Local Banks.**

"There is a commercial real estate crisis on the horizon, and there are no easy solutions to the risks commercial real estate may pose to the financial system and the public," says a report issued Thursday by the Congressional Oversight Panel, the bailout watchdog led by Harvard Law professor and middle-class advocate Elizabeth Warren. It went on to report:

"Over the next five years, about \$1.4 trillion in commercial real estate loans will reach the end of their terms and require new financing. Nearly half are "underwater," meaning the borrower owes more than the property is worth. Commercial property values have fallen more than 40 percent nationally since their 2007 peak. Vacancy rates are up and rents are down, further driving down the value of these properties." You can read more on this article here: [Commercial Real Estate Looming Crisis](#)

There are many stories about this if you go looking for them. This may not be main stream quite yet...but it is widely known by those of us that follow these trends. Many more will know before the end of 2010.

Eric Pryne, a business reporter for the Seattle Times wrote a great piece on the commercial real estate market. He tells of a project in Seattle that pretty well summarizes the US market today:

In 2007, developers excavated a deep hole in downtown Seattle at Second Avenue and Pine Street for the foundation of a 23-story luxury hotel and condo tower.

They filled the hole in 2009.

That pretty much captures the kind of year it's been for commercial real estate in the Seattle area. The development pipeline dried up. A few projects were halted mid-construction.

Office and industrial vacancy rates soared. Rents fell. Condo developers, desperate for sales, resorted to auctions and big price cuts to unload units. Banks foreclosed on some properties.

He went on to say that "2010 won't be any better, according to year-end forecasts by developers, brokers and other industry insiders.

"2010 in my world is going to be rough," Bart Brynestad, who heads the Seattle office of industrial developer Panattoni Development, told one recent industry gathering.

"I think we have just seen the tip of the iceberg on what's coming," said Tom Parsons, senior vice president of developer Opus Northwest.

Here's his brief list of 2009 Seattle tips.

- *Developers delivered 2.4 million square feet of new office buildings in greater downtown Seattle — the equivalent of more than 1 ½ Columbia Centers. At last count, more than 90 percent of it remained unleased.*
- *Michael R. Mastro, for decades one of the region's most prolific real-estate developers and lenders, was forced into what probably is Western Washington's biggest, most complex bankruptcy.*

- *The mostly empty, 42-story tower known until recently as the WaMu Center sold for one-third what it cost to build three years ago.*

More space on the way

The last of the big unleased and unsold development projects conceived during the real-estate boom will come to market next year. They include The Bravern and Escala condominium towers in downtown Bellevue and downtown Seattle, respectively, and 505 1st Ave. S., an office building in Pioneer Square.

Those projects will increase supply further when demand shows no signs of resurgence. Downtown Seattle's mostly empty new office buildings could take three or four years to fill, Jim Neal, a principal with Talon Private Capital, told one recent industry forum.

Not surprisingly, few new projects of any kind broke ground in 2009. Pine Street Group had planned to start a 650-unit apartment complex in downtown Seattle at Sixth Avenue and Lenora Street. At the insistence of its equity partner, Pine Street recently put the project on hold for one to three years.

Few properties changed hands in 2009. Only five office transactions of more than \$20 million have been recorded this year, Chamberlin said, down from 117 in 2007.

But that could change dramatically, locally and nationally, as more lenders take back financially distressed properties and put them up for sale at bargain-basement prices, the Urban Land Institute and others say.

Jim DeLisle, a University of Washington professor of real-estate studies, said he fears a 40 to 60 percent drop in commercial real-estate values from their 2007 peaks.

Not good...and not confined to the US borders. Only weeks after Dubai declares to the world that it is bankrupt, it christens the tallest building in the world. I could go on and on with example after example.

Commercial Real Estate aside, perhaps the worst sign of all is our own government's complete lack of fiscal restraint with what can only be characterized as wild and undisciplined spending. The trillions of dollars of freshly printed fiat money at outpaced anything we have ever witnessed in the history of the U.S. With every additional dollar they create and flood in the economy, the farther away we are from knowing what will happen next. It seems obvious to me that they do not know what to do and are just working month to month. In truth they have very few options left, most all have been spent.

And they are not alone. Virtually every economy in the world that had any semblance of stability printed billions of their own currency as a global stimulus ensued in the aftermath of the economic crisis of October 2008. From Viet Nam to Dubai to China, Europe and many, many more governments went to their Treasuries and Central Banks and authorized them to print more currency in an aggressive attempt to stave off economic collapse. The world's economies are on edge.

With global economies on shaky ground, and investors around the world hyper nervous

just waiting to push the panic (sell), button, any combination of economic – political – environmental situations could trigger fear which moves to selling which moves to panic and a global crash like 2008 or worse.

It may in fact have already started. Smaller western style economies are already failing. Iceland led the group. Next it was Greece. This does not take into account money the International Monetary Fund has given to countries on the brink of economic collapse. Well respected Roubini Global Economics (RGE), commented on April 20, 2010:

“Public debt sustainability has exploded as a serious issue in advanced economies, most notably in the eurozone’s “PIIGS”—Portugal, Italy, Ireland, Greece and Spain—but also in many larger OECD economies, including the U.S. These issues within the Eurozone stem primarily from a loss of competitiveness, high wage growth and labor costs which outstripped productivity, undisciplined fiscal policies and, crucially, the appreciation of the euro between 2002 and 2008.”

You can read the synopsis here as well as signing up for his free daily summaries: [RGE](#)

International Monetary Fund and the Eurozone countries have come under increased criticism by the markets and its own citizens around their inability to deal with the continued debt sustainability. They target Spain, which is not yet in the minds of many typical citizens still focused on Iceland and Greece as the next country with potentially worse economic and labor market problems needing international help and strategic economic and political reform not likely to happen. Its citizens would have to willingly accept a greatly reduced standard of living. They won't do this on their own. No matter – they will be forced to in the near term as will so many countries trying to live so very far from their means.

So follow the progression...the world's economies were on the brink of economic collapse in late 2008. They all printed large amounts of un-funded money and infused their economies with it artificially stimulating economic growth. This debt is still out there and the support it provided is now moving through the system and losing its affects. From a balance sheet perspective, all of these economies, the US included, are worse off than ever before...and we are approaching that same place...again. Is another round of stimulus funding an answer? It cannot go on forever. Sooner or later, spending our own money that we are borrowing from ourselves beyond what we can ever pay back just can't work. It is not wrong to flatly state that we have never been here before. We have not. This is all a grand experiment and I am certain we will have our answers sooner rather than later. One to three years is my guess.

These countries share similarities to the US economy. They all of course had run up so much debt, that it became apparent to the rest of the world that they would never see their money so they stopped lending. These economies were so far underwater, that without additional loans to fund their debt, they collapsed. Social programs and other free spending habits of politicians who had no idea what the word 'no' meant bankrupted these countries. These politicians had the power to protect their citizens to be sure, but

the citizens themselves shoulder a fair amount of the blame. Many apparently believe(d) that the government was a source of unlimited funds that would never circle back and hurt them individually. Sure.

What is the point you ask? The point is we are being offered some time to take some steps none of us had probably even considered up until 2007 or certainly 2008. Real value will become paramount. Unfunded, inflated, fiat “systems” will be exposed to steep losses. You need to transition your thinking. Thinking more about what holds value when everything we thought about value changes. Then you need to quietly acquire as much of this as you can. And, if you are smart about it, you focus on things that minimize losses should we be wrong about all of this and an economic miracle takes place and we get back on a solid track in the next few years without drastic changes.

Conclusion: I want nothing more than to be wrong about this. Who doesn't want the US and global financial systems to correct without real serious pain. They are trying. We are witnessing the greatest 'de-leveraging' the world has ever seen. Unfortunately, this is only necessary on the back end of the greatest leveraging the world has ever seen. You should be transitioning 10% to 20% of what you own under the broad term “investment” be in hard assets, real goods. Things that maintain value under any scenario and in times of scarcity would put you in a position to have what others wanted and needed.

About the Author: Steve Peters combines 24 years of equities, international business and gold trading and broker experience to help new and/or uncertain precious metal buyers avoid the mistakes he has seen so many make over the years. He has recently released a new book entitled: ['How to Buy Gold Like an Insider – THE Guide to Insider's Success!'](#)