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Commercial Property Prices May Fall, Apollo's Azrack Says

By Dan Levy - May 3, 2011

U.S. commercial property prices may fall within a year as building owners attempt to refinance \$1 trillion in mortgages, according to Joseph Azrack, head of real estate for Apollo Global Management LLC.

Rents in some cities don't justify the rising prices being paid and may force owners to give up properties when their loans mature, Azrack said during a panel discussion yesterday at the Milken Institute Global Conference in [Beverly Hills](#), California.

The market is "due for a correction" in the next 12 months as the first stage of the financial crisis's aftermath, including loan extensions, comes to a close, he said.

"Supply and demand fundamentals have stabilized and U.S. banks at least have enough reserves/capital to take their losses," Azrack said today in an e-mail. "So the market clearing process can begin, which is a prerequisite to longer-term recovery in property cash flow and values."

Real estate investors are focused on the least risky assets amid an uneven U.S. economic recovery, bidding up prices in such cities as [New York](#) and Washington. Property has shown "less of a crack in prices than I would have expected" as deals for offices, retail centers and other buildings remain on the "low side," billionaire [Warren Buffett](#) said in a May 1 interview.

Commercial values rose 4 percent in March from the previous month and 22 percent from a year earlier, while remaining 14 percent below the August 2007 peak, according to research firm Green Street Advisors Inc. in Newport Beach, California.

The Moody's/REAL Commercial Property Price Index, which tracks completed sales, shows prices 45 percent below their peak. Green Street's index includes deals in negotiation or under contract and is weighted by asset value.

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The price run-up results from global investors needing to place capital as low [interest rates](#) reduce yields on other assets, [Barry Sternlicht](#), chairman of Greenwich, Connecticut-based Starwood Capital Group LLC, said during the panel discussion. A record number of private-equity property investors, including [Blackstone Group LP \(BX\)](#), are seeking to raise \$160 billion, according to London-based researcher Preqin Ltd.

That doesn't mean the funds will succeed, Azrack said.

"When everyone is running for core, you should be running away," Sternlicht said.

The losses at such vehicles as [Goldman Sachs Group Inc. \(GS\)](#)'s Whitehall fund and Morgan Stanley's real estate funds increase the need for a "margin for safety" in property investing, Sternlicht said.

"We're not sure how much we're going to get from our traditional sources," he said.

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