

MIT commercial real estate index posts first drop since '03

November 15 2007

The value of U.S. commercial real estate owned by big pension funds fell 2.5 percent in the third quarter of 2007, according to an index produced by the MIT Center for Real Estate.

The drop in the MIT quarterly transaction-based index (TBI) may not only spell the end of a five-year rally that saw commercial property prices effectively double, but it may also signal that weakness in the housing market is spilling over into commercial real estate.

"The fall in our index is the first solid, quantitative evidence that the subprime mortgage debacle, which hit the broader capital markets in August, may be spreading to the commercial property markets," stated MIT Center for Real Estate Director David Geltner.

The TBI decline in the third quarter of 2007 marks its first quarterly downturn since the third quarter of 2003, when prices fell 2.4 percent. The last time prices fell more than in the third quarter of 2007 was in the fourth quarter of 2001 (9/11, recession), when they fell 3.9 percent.

Against a backdrop of more than a year's worth of housing price declines and an international credit crunch that erupted over the summer, analysts have been seeking clues about whether other markets and sectors of the economy-including commercial real estate-would be impacted.

By way of comparison, one widely used barometer of U.S. housing, the Case-Shiller price index for 20 metro areas, peaked in mid-2006 and had

fallen by 4.2 percent by August 2007. But in the four quarters since the housing price peak, the TBI showed commercial prices continuing to increase-by almost 20 percent.

The TBI is based on transaction price data from the National Council of Real Estate Investment Fiduciaries (NCREIF). Launched in February 2006 and covering the period since 1984, the index of commercial real estate prices is updated quarterly and published on the Center's website, web.mit.edu/cre.

The TBI is based on transaction prices of properties sold each quarter from the property database that underlies the NCREIF Property Index (NPI), and also makes use of the appraisal information for all of the more than 6,000 NCREIF properties. Such an index-national, quarterly, transaction-based, and by property type-had not been previously constructed prior to MIT's development in 2006. NCREIF encouraged development of the index, citing the need for better tools for research and decision-making in the industry.

The TBI was the first tool released by the Center for Real Estate's new Commercial Real Estate Data Laboratory (CREDL). CREDL, which has added further tools since the TBI, is designed to be "a real go-to site," according to CREDL co-director Henry Pollakowski, comparable to the University of Chicago's Center for research in Security Prices which tracks stock performance.

Source: Massachusetts Institute of Technology

Citation: MIT commercial real estate index posts first drop since '03 (2007, November 15)
retrieved 9 April 2024 from
<https://phys.org/news/2007-11-mit-commercial-real-estate-index.html>

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