

Real estate investors go begging

Investors in real estate funds can't give their stakes away.

In another sign of more bad news to come for commercial real estate, Private Markets reports a sharp drop in prices for limited partnership stakes in real estate funds in the unregulated secondary market. NYPPEX says the average bid for these partnership shares plunged 61% over the past month to a price that represents roughly 22 cents on the dollar. NYPPEX, one of the larger dealmakers in the secondary market for private equity ownership stakes, says the rapid deterioration in bid prices for commercial real estate funds reflects rising concern about “vacancies, rental rates and refinancing risks” on the properties the funds’ either control, or have ownership stakes in.

And NYPPEX, in a client report to be released later today, says investors have good reason to be wary of buying shares in commercial real estate-focused funds. In the report, NYPPEX writes:

We estimate that less than 60% of commercial loans originated during the 2005 to 2008 period will qualify for refinancing in 2009 to 2012 due to lenders’ tighter underwriting standards, reduced cash flows and price declines. We expect fund terms to extend and investor returns to decline for commercial real estate partnerships unable to refinance loans coming due.

The inability to refinance commercial mortgage will, of course, mean a spike in defaults.

A surge in defaults also means bad news for the banks, many of them regional lenders, that hold commercial mortgages in their portfolios. Yesterday I [wrote](#) about how Goldman Sachs may be in the best position of all to prosper from a collapse of the commercial mortgage market because it began lightening its exposure well ahead of most other institutions.

This news about commercial real estate funds is just another indication that Goldman may once again prove to be two steps ahead of everyone else on Wall Street.