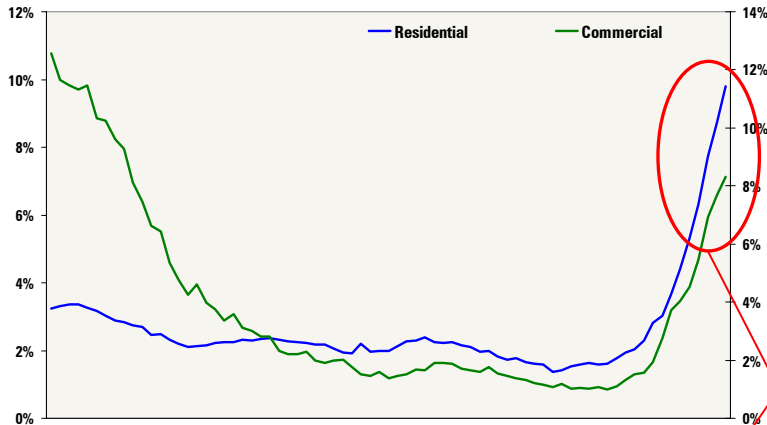


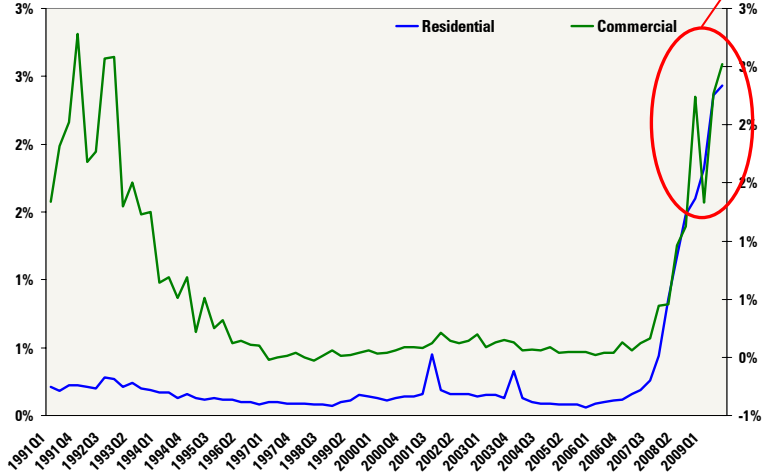
The Elephant in the Room Part III

Commercial Real Estate: “Next Shoe to Drop,” but still getting somewhere

Real Estate Loan Delinquency Rates for at U.S. Commercial Banks

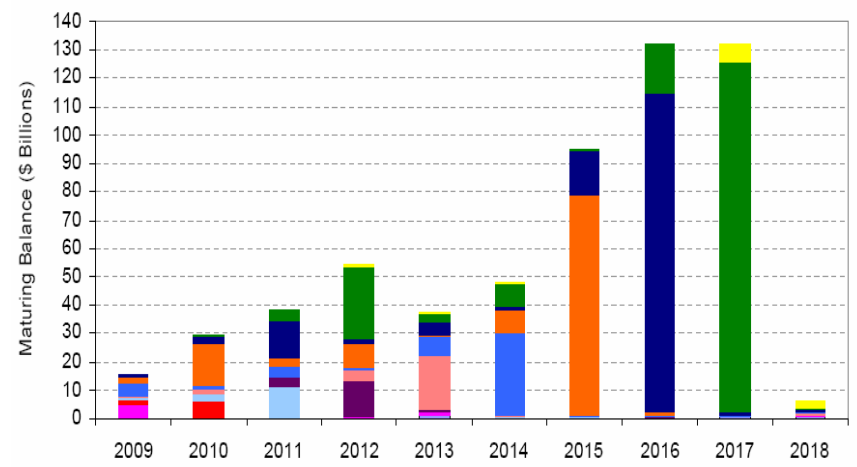


Real Estate Loan Charge-Off Rates at U.S. Commercial Banks



While **charge-off rates** between commercial and residential real estate loans have **converged** (see bottom chart), **delinquencies** for commercial real estate loans have yet to reach levels of delinquency on residential loans (top chart).

1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008



source: mlex, iiepp

In an environment of increasing delinquency rates, banks have raised reserves to adequate levels. The question remains for banks and investors in commercial mortgage backed securities whether banks can and will refinance loans as they mature in the near to medium-term (see above chart that shows vintage and maturity of commercial real estate loans through 2018).

Data from <http://research.stlouisfed.org/fred2/>; Deutsche Bank Commercial Real Estate Outlook Q1 2009.