Response to Questions on the FY 2010
County's Line of Business & Schools Program Review Processes
Fall 2008

Request By: Supervisor Gross

Question: Provide information on the potential for foreclosures of non-residential/commercial properties in Fairfax County.

Response: While the commercial market has softened over the past year due to the sluggish economy and volatile financial markets, widespread defaults on commercial loans are not expected in the County. During the 1990s, investment in the commercial market was primarily from developers with no equity commitment. Today, investors in the County's commercial market are more likely to be larger nationwide firms or international investors. These investors are more likely to be able to withstand higher vacancy rates in the commercial market. In addition, the direct office vacancy rate reported by the Economic Development Authority of 9.2 percent as of year-end 2007 is well below the rates recorded from 1989 through 1993 that ranged from 12.4 percent to 18.3 percent.

A few foreclosures in the office condo or warehouse condo market have been seen to-date in Fairfax County; however, these appear to be small local investors that may have purchased property for speculative purposes.

In addition, commercial/multifamily mortgage delinquency rates nationwide remain low. While no local data are available, the Mortgage Bankers Association reported that delinquency rates on commercial/multifamily mortgages nationwide were at the lower end of their historical range during the second quarter of 2008. The Mortgage Bankers analysis included Commercial Mortgage Backed Securities, and multifamily loans held by Fannie Mae, Freddie Mac and banks and thrift institutions. These groups make up over 80 percent of U.S. commercial mortgage debt outstanding.

Staff will continue to monitor commercial foreclosure activity and will inform the Board if the situation changes.