



The Honorable Barney Frank  
Chairman  
U.S. House Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, D.C. 20515

January 13, 2009

The Honorable Spencer Bachus  
Ranking Member  
U. S. House Committee on Financial Services  
B371a Rayburn House Office Building  
Washington, D.C. 20515

Re: Commercial Real Estate Lending Facility

Dear Chairman Frank and Ranking Member Bachus:

On behalf of the National Association of Real Estate Managers (NAREIM)<sup>1</sup>, I am writing to express our support for fiscal and monetary measures to stimulate the economy broadly, stabilize the housing industry and address the ever mounting liquidity crisis. We join with other real estate trade associations in pledging our assistance and cooperation in whatever way possible.

We appreciate the efforts to date by the President, Federal Reserve, Treasury and Congress to address the worsening economic and financial market conditions. Unfortunately, the difficulties not only persist, they are growing. As you well recognize, further measures are needed.

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<sup>1</sup> The National Association of Real Estate Investment Managers (NAREIM) is the leading association of companies engaged in the real estate investment management business. Members of NAREIM sponsor real estate funds and investment programs primarily for U.S. pension fund investors. Collectively, members manage over \$500 billion of investment capital.

In that regard, we support language included by Chairman Frank in Section 403 of H.R. 384, the Troubled Assets Relief Program (TARP) Reform and Accountability Act, which would grant authority to the Treasury Secretary to take any action “to establish or support facilities to support the availability of commercial real estate loans, including through purchase of asset-backed securities, directly or through the Board of Governors of the Federal Reserve System or any Federal reserve bank.” Specifically, we urge you to extend the Term Asset Backed Securities Liability Fund (TALF) to commercial real estate credit instruments such as Commercial Mortgage backed Securities (CMBS).

Also, we applaud President Bush for meeting President-elect Obama’s request to ask Congress for the remaining \$350 billion of TARP funds.

The impact of the liquidity crisis and the deteriorating economic fundamentals is packing a one-two punch that is leaving commercial real estate reeling. The commercial real estate credit problems surfaced noticeably in late 2007 when the commercial mortgage securitization markets froze in the wake of the subprime residential mortgage debacle. Commercial real estate fundamentals were solid then, but now are deteriorating. The liquidity crisis and the recession are feeding one another and each is becoming more acute.

Simply stated, commercial real estate lending capacity has all but dried up. Lending terms, when available, are so expensive that commercial real estate transactions cannot close. Perhaps even more troubling, approximately \$400 billion of commercial real estate debt will mature next year with only a small portion likely to find available refinancing. The commercial mortgage backed securities market is essentially shut down, banks have pulled back dramatically as they focus on their own balance sheet problems and portfolio lenders, such as insurance companies (which represent only about 10 % of the commercial real estate finance market), are simply unable to fill the void.

This lack of liquidity is putting tremendous economic stress on commercial real estate owners as well as the commercial real estate industry as a whole. In particular, asset values are falling precipitously and new developments and transactions have ground to a halt. We readily admit that real estate credit in recent years flowed far too freely and resulted in over-leveraging and inflated prices. Credit flows and lending terms need to re-balance to more reasonable levels and we are confident they will once the markets begin functioning again. However, few, if any, business models are designed to operate

in a broadly dysfunctional credit market. On top of this, tenants are incurring their own economic stress causing delinquencies, defaults and negative take up rates for space.

Attached is a compendium of examples of performing real estate loans for which there is no capacity in the lending market to renew. It also sets forth examples of transactions that are being shelved, disrupted and delayed due to the crisis in the capital markets.

The serious financial and economic problems posed by the liquidity crisis are being demonstrated every day. What are the solutions?

The most effective remedy for the commercial real estate sector is a strong economy. The housing sector has led us down this path and it must be stabilized before things can turn around appreciably. This should continue to be a top priority.

However, beyond the housing sector, we support broad economic stimulus measures such as increased public infrastructure investment, tax relief, and investment in energy efficiency and green technologies. As you develop an economic stimulus package in the coming weeks, we stand ready to work with you to advance this policy.

In conjunction with this fiscal stimulus, federal monetary intervention is needed to help the flow of credit to commercial real estate. The efforts to date to stabilize the financial markets have been historic and feature the \$700 billion TARP program and the Federal Reserve extending its balance sheet to inject liquidity into the economy by over \$2.2 trillion.

However, these measures, to the extent they are having positive effect in the financial markets, are not enough to stimulate lending to the broader real estate markets -- and credit woes continue to mount. With respect to the commercial real estate sector, these measures are working almost not at all. Bank balance sheets may be improving but banks are still not capable of lending at levels sufficient to refinance impending maturities of existing commercial real estate debt, let alone stimulate new transaction and construction activity. Therefore, we believe a relatively modest amount of federal intervention directly in the commercial real estate credit markets is called for immediately.

Intervention is not sought to remedy past borrowing and lending mistakes. Those loans will be worked out in the marketplace. We are focused on new loans that will reflect current valuations, pricing and strict underwriting standards.

There are two immediate means by which we believe this can be accomplished:

1. Expanding the Term Asset Backed Securities Loan Facility (TALF) to include commercial mortgage backed securities (CMBS).

The TALF currently is limited to asset backed securities backed by pools of auto, student and small business loans. It uses \$20 billion of TARP funds to seed \$180 billion of nonrecourse Federal Reserve loans to investors in new ABS securities. The nonrecourse loans establish and give loan originators greater confidence that a secondary market will exist for the loans they create. Originators will hold a piece of the loan and TARP funds will assume a risk of loss position. Although this program is still weeks away from being operational, its announcement was welcomed by the industry.

Expanding the program to commercial real estate loans by \$200 billion would facilitate the issuance of CMBS and improving market conditions for CMBS more generally. This will assist credit markets in accommodating the credit financing needs of commercial real estate owners and operators generally by facilitating a functioning market. We believe H.R. 834 takes an important step in this direction and urge Congress to move expeditiously in that regard.

2. Expanding “Quantitative Easing” to Include Commercial Mortgage Credit Instruments.

The central bank has authority to buy agency assets and other credit instruments as a means of injecting capital on to banks’ balance sheets. We urge the Federal Reserve to employ this “quantitative easing” tool and buy commercial mortgage backed credit instruments. By purchasing credit instruments, the Federal Reserve lowers yields on those and similar instruments. Through arbitrage, this lowers yields on slightly riskier and longer duration instruments and will gradually reopen credit markets.

The Federal Reserve's recent announcement that it would purchase mortgage related assets caused an immediate decline in mortgage backed security and agency yields and subsequently mortgage rates. It has followed this with a more specific announcement that it will buy beginning in January \$500 billion mortgage backed securities guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. We applaud this action and believe the Federal Reserve also should buy commercial mortgage related securities to generate a similar result. While this has inflationary risks, we believe that deflation poses a greater risk and the exigent circumstances in the commercial real estate lending market warrants such action.

These recommendations are by no means exclusive. There are other policies that the real estate industry is pursuing and we generally support them. They include (all temporary):

- modification to the rules governing Real Estate Mortgage Investment Conduits to allow loan modifications and extensions;
- modification of the mark to market rules to reflect mark to maturity value; and,
- relief from recognizing taxable income on the discharge of debt to facilitate workouts.

However, we believe the expansion of TALF to commercial real estate loans and quantitative easing can be implemented fairly quickly and will provide the most immediate results.

We sincerely appreciate your consideration of our proposals and support the actions you are taking. We are prepared to meet with you or your representatives to discuss this issue in greater detail at the earliest opportunity.

Sincerely,



Stephen M. Renna  
President

Attachment