



April 30, 2024

The Honorable Lisa McClain
U.S. House of Representatives
Chair
Subcommittee on Health Care and
Financial Services
444 Cannon House Office Building
Washington, DC 20515

The Honorable Katie Porter
U.S. House of Representatives
Ranking Member
Subcommittee on Health Care and
Financial Services
1233 Longworth House Office Building
Washington, DC 20515

Dear Chairwoman McClain and Ranking Member Porter:

On behalf of the more than 1.5 million members of the National Association of REALTORS® and its commercial real estate affiliates, the CCIM Institute, the Institute of Real Estate Management (IREM), and the Society of Industrial and Office REALTORS® (SIOR), thank you for holding today's hearing, "Health of the Commercial Real Estate Markets and Removing Regulatory Hurdles to Ensure Continued Strength." NAR's membership includes approximately 96,000 commercial real estate practitioners, and many more who work in both commercial and residential real estate. The state of the commercial real estate market in the United States is an important topic, as it holds implications for the economy as a whole and the health of communities big and small around the country.

Commercial real estate suffered heavy blows during the COVID-19 pandemic; once vibrant downtowns were emptied as localities enacted mandatory stay-home orders, restaurants were forced to temporarily close to in-person dining, and retail centers saw local customers turn to e-commerce to purchase goods. These impacts did not go away with the lifting of COVID-related restrictions though. Office occupancy remains low as many companies pivoted to more liberal work-from-home policies permanently. Many independent restaurants and shops never reopened, and those that did see fewer customers with less downtown foot traffic and changes to the habits of former frequent patrons. Businesses continue to rebuild and recover from the losses they were dealt by the two-plus year pandemic, and the commercial real estate industry is working to adjust to the new market realities it produced.

At the same time, commercial borrowers are facing a looming debt challenge. Between 2023 and 2028 an estimated \$2.81 trillion in commercial loans will mature and need to be refinanced¹. Much of that debt was originated under vastly different economic conditions – pre-COVID occupancy rates and income from customers, as well as much lower interest rates. As a result, while many commercial property owners and occupants are still attempting to recover from the economic damage done by COVID and adapt to new consumer trends, they may be facing larger loan payments to their lenders. If the country's financial regulators then require that those lenders – typically banks, and frequently small or community banks – increase their capital and liquidity to reflect the current mark-to-market models, liquidity in the market will decrease and the asset values will go down as well. Inflexibility in this area will inflict further harm not just on the commercial real estate market and their lenders but on the economy as a whole.

¹ Trepp®, "CRE Mortgage Maturities and Debt Outstanding: \$2.81 Trillion Coming Due by 2028," Yue, Emily. December 21, 2023. <https://www.trepp.com/trepp-talk/cre-mortgage-maturities-debt-oustanding-2.81-trillion-coming-due-by-2028>

The approximately \$20 trillion commercial real estate market in the U.S. contributes an estimated \$2.3 trillion to the economy each year (or 9% of the total U.S. GDP), supports over 15 million jobs, and provides \$559 billion in property taxes to local governments.² The country's financial regulators and lawmakers should be considering prudent, but flexible policies that assist this critical sector in its recovery, not arbitrary requirements that will only serve to further reduce values and leave both lenders and commercial real estate borrowers in danger. There is precedence for this – in 2009, 2010, 2020 and 2022 the financial regulatory agencies established a program encouraging financial institutions to work prudently with borrowers on commercial real estate troubled debt restructuring. We ask that Congress urge the financial regulatory agencies to once again establish this program which has proven results of lessening economic hardship and harm to both the commercial real estate market and the U.S. economy as a whole.

Commercial real estate serves an important role in our society – it provides people with places to live, work, eat, shop, and countless other experiences. External, unexpected factors such as the impact of a global pandemic and steeply rising interest rates should be met with common-sense policies that support the industry as it gets back on its feet. Once again, thank you for holding today's hearing, and we look forward to working with you to develop solutions to protect this critical sector of the U.S. economy.

Sincerely,



Kevin M. Sears
2024 President, National Association of REALTORS®

Cc: House Committee on Oversight and Accountability

² The Real Estate Roundtable, "Commercial Real Estate By the Numbers: 2023." <https://www.rer.org/wp-content/uploads/CRE-By-The-Numbers.pdf>