

Congress of the United States
House of Representatives
Washington, DC 20515

April 20, 2023

The Honorable Janet L. Yellen
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Secretary Yellen,

In the wake of the failure of Silicon Valley Bank (SVB) and Signature Bank, I write with regards to ongoing concerns about the relationship between the regional bank sector and critical commercial real estate markets.

I thank you and your agency for their swift action in conjunction with other federal regulators to contain the fallout of the SVB collapse and to stabilize the global banking system, which I believe has been substantially successful. However, I have ongoing concerns about continued and mutually reinforcing systemic risks posed by the commercial real estate sector to the health of regional banks.

As the former Mayor of Long Beach, I am deeply proud of my city's economic recovery from the Covid-19 pandemic. However, I am aware that the pandemic has triggered long term shifts in work patterns. Moody's reports that remote and hybrid work have, combined with other market forces, increased office vacancies to "19.0%, up 20 bps from a quarter-ago (...) and exceeding the pandemic peak of 18.5%. Office vacancies rose for the 5th consecutive quarter, another step closer to its historic peak of 19.3% in 1991."¹ In Los Angeles County, data from the 4th quarter of 2022 shows a 14.42 percent vacancy rate, up from 10.35 percent in 2019.²

Robust data show that regional banks are disproportionately exposed to the commercial real estate market- a point stressed by White House Council of Economic Advisers Jared Bernstein in congressional testimony on April 18th.³ While broad sectors of the commercial real estate market remain resilient, threats to the office sector are concerning for communities, and investor concerns have the potential to cause further shocks to regional banks. I therefore request relevant

¹ Moody's Analytics. (2023, April 3). *Q1 2023 preliminary trend announcement*. Moody's Analytics CRE. Retrieved April 19, 2023, from <https://cre.moodyanalytics.com/insights/cre-trends/q1-2023-preliminary-trend-announcement/>

² National Association of Realtors. (2023, February 21). *Office vacancy rates in 2022*. www.nar.realtor. Retrieved April 19, 2023, from <https://www.nar.realtor/blogs/economists-outlook/office-vacancy-rates-in-2022>.

³ Yahoo! (n.d.). *White House closely tracking commercial real estate after banking strains - bernstein*. Yahoo! Finance. Retrieved April 19, 2023, from <https://finance.yahoo.com/news/white-house-closely-tracking-commercial-145919820.html>

information on the extent to which the more vulnerable parts of the commercial real estate sector related to office space and in-person retail create systemic risks to regional banks, and on any potential responses by the relevant financial regulators. Please provide any information on the timing of refinancing pressures for shorter-duration commercial real estate loans that were originated during the recent low-interest rate environment.

Ultimately, state, local and federal government agencies have a critical role to play supporting the long term health of our communities. We can accomplish this by facilitating conversions of vacant office space to address our long term critical need to increase the supply of housing units, particularly affordable units, and particularly in areas which are well served by high quality transit.

I eagerly await your response and look forward to working with you.

Sincerely,

A handwritten signature in blue ink, appearing to read "Robert Garcia", written over a horizontal line.

Robert Garcia

Member of Congress