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HEALTH OF THE COMMERCIAL REAL ESTATE MARKETS AND REMOVING REGULATORY HURDLES TO ENSURE CONTINUED STRENGTH

HEARING

BEFORE THE

SUBCOMMITTEE ON HEALTH CARE
AND FINANCIAL SERVICES

OF THE

COMMITTEE ON OVERSIGHT
AND ACCOUNTABILITY

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Witnesses

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Documents are available at: docs.house.gov.

HEALTH OF THE COMMERCIAL REAL ESTATE MARKETS AND REMOVING REGULATORY HURDLES TO ENSURE CONTINUED STRENGTH

Tuesday, April 30, 2024

HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND ACCOUNTABILITY
SUBCOMMITTEE ON HEALTH CARE AND FINANCIAL SERVICES
Washington, D.C.

The Subcommittee met, pursuant to notice, at 2:17 p.m., in room 2154, Rayburn House Office Building, Hon. Lisa McClain [Chairwoman of the Subcommittee] presiding.

Present: Representatives McClain, Foxx, Grothman, Burlison, Porter, Lee, Crockett, Norton, and Pressley.

Also present: Representative Garcia.

Mrs. MCCLAIN. This hearing of the Subcommittee on Healthcare and Financial Services will come to order. Welcome, everyone.

And without objection, the Chair may call or declare a recess at any time.

I recognize myself for the purpose of making an opening statement.

All right. I would like to thank our witnesses for appearing before the Subcommittee today, sincerely. We are here to examine the strength of the commercial real estate markets and talk about what Congress can do proactively to ensure the financial health of this enormous part of our economy. The continued health of commercial real estate industry is critical to Americans of all stripes. Whether it is the construction industry that builds and rehabilitates properties; to the people that clean and manage the properties; to the tenants, both commercial and residential; America needs a healthy commercial real estate industry.

I do have a little fear. The headwinds are building and could lead to serious distress, and we need to hear what policy-makers, what we can do to avoid reaching the point of no return. Listen, we have time, we have a runway, but we cannot face another real estate crisis that requires taxpayers to bear the burden of that.

It is undeniable that COVID–19 and the pandemic reshaped the commercial industry. Throughout the pandemic, businesses, both large and small, enacted telework policies, and consumers adjusted to online retail. These trends have not changed significantly as the world has returned to a sense of normalcy. In 2023, the national office vacancy rate reached almost 20 percent, 19.2 percent for office vacancies. Delinquency rates were about 6.5 percent during the final months of 2023. This increase comes as more than $2.2 trillion in commercial debt will come due between now and 2027, and refinancing this debt comes as interest rates have jumped due to the Biden Administration's inflationary crisis.

The Democrat spending spree has driven rampant inflation and forced the Federal Reserve to take significant action to tame inflation. Sadly, the Federal Reserve's interest rate increases are not the only concern the Federal Government is causing in the commercial real estate market. The Department of Housing and Urban Development has continued to decrease the number of loans it has made to support the commercial housing market. At the Department of Transportation, developers have reported that it takes a year longer after the loan is approved to receive a disbursement on a qualifying commercial real estate asset. This delay is unacceptable.

Across the Federal Government, agencies are allowing staff to work from home despite decreased productivity, failures to adequately regulate important sectors of our economy, and calls from Congress.

[Audio malfunction.]

Mrs. MCCLAIN. Someone has got something to say.

[Laughter.]

Mrs. MCCLAIN. Even Mayor Bowser has told President Biden that his Administration's telework policies are killing Washington, D.C.'s local businesses. The Biden Administration has offered vague information and statistics to support their claim that post-pandemic telework has been successful. It took 4 months and the threat of a subpoena from the Federal agencies to produce to the Committee basic information about their use of telework.

Listen, I am from the private sector, so I do have a bias. When you do not show up for work, you lose your job. For too long, this Administration has allowed Federal employees to skirt by on lax telework policies on the back of American taxpayers. The commercial real estate market cannot flourish if its offices are empty. The American people cannot flourish when their Federal offices refuse to show up for work and do their jobs, delaying new treatment and approvals, halting new infrastructure projects, and enabling waste, fraud, and abuse. We have to get back to doing America's business. Congress and the Federal Government must do more to get out of the way of industry leaders and eliminate burdensome regulations and red tape.

Despite these troubling headwinds, there are signs that the health of the commercial industry real estate market is actually strong, right? We have these headwinds. We have all of these negatives, but there is a sense that the commercial industry is strong. I want to keep it that way. I want to make sure that we do not end up in a bad situation, right? Neighborhood retail properties continue to perform well. Industrial real estate has also been a bright spot, with analysis predicting moderate rent growth over the next 10 years. Multifamily properties continue to hold strong with vacancy rates remaining stable. It is vital that we bring Federal employees back into the office and ensure our commercial real estate market remains strong.

I am looking forward to having this very important discussion, and I want to yield to Ranking Member Porter for her opening statement on this topic as well.

Ms. PORTER. The calm before the storm is where everything gets very peaceful before a big disruption. Congress gets this phenomenon. It is like last week's calm district work period before now facing a month of unpredictable governance in the House. While it is easy these days to predict chaos in our politics, Congress also needs to spot other possible disasters while we are in a calm period. So, I want to thank my colleague, Chairwoman McClain, for calling this hearing.

Too many of us get lulled into a false sense of security, and nowhere is that truer than with financial crises. Over and over again, when the economy is strong, politicians are so busy taking credit that they fail to see storms on the horizon. Last spring, government leaders were shocked when Silicon Valley Bank, Signature Bank, First Republic all collapsed. Most folks had not thought about bank failures since the financial crisis of 2008, but all of a sudden, those banks failed. Businesses were at risk of not making payroll or failing, deepening the storm. Even though we weathered that storm, the government should have seen it coming. Why didn't we? Maybe because Congress was negligent during the calm.

In 2018, Republicans were joined by over four dozen Democratic lawmakers to green light a bill that made it easier for banks to legally take a position where the banks would be less likely to be able to pay their depositors when they wanted their money back. That law increased the risk of a storm, but Washington was too busy enjoying the calm to prepare for it. The 2008 financial crisis is the same story.

Washington thought that mortgage markets would be OK. Mortgages where you can choose what to pay, lending 115 percent of a home's value, what could go wrong besides everything? Yet, the Federal Reserve itself insisted the risk was under control, with Chairman Greenspan saying in 2006 that, "There is no evidence that home prices will collapse" and later admitting that "He didn't see it coming." Why? Because he did not look, and neither did Congress, which praised Greenspan right up until they blamed him. It really makes you wonder what financial warning signs are we ignoring right now in this period of calm? Look no further than commercial real estate.

This year, commercial property owners across the country are due to repay $929 billion in debt. That debt is held by banks, hedge funds, investment vehicles, pension funds, and others. If we do not want a major financial meltdown, the vast majority of that debt needs to be paid back, but commercial property owners are having a hard time doing that. Property owners are not making the same money that they did before the pandemic. The businesses who were their tenants canceled or did not renew leases, and many cannot make payments, especially with rising interest rates, and those interest rates make it harder to sell their properties or pay off their mortgages. And to make it even worse, some local governments are doubling down on the commercial real estate crisis. Can you believe how aligned we are?

Mrs. MCCLAIN. Cats and dogs living together.

Ms. PORTER. That is right. Can I be the dog?

Mrs. MCCLAIN. Yes.

Ms. PORTER. OK. Today, any property transfer in Los Angeles County worth more than $10 million gets taxed at a whopping 6 percent. This kind of big tax change adds huge risk to the commercial real estate market at the worst possible time. It compounds the risk of a major collapse that all levels of government should be working together to prevent. Look, commercial property owners take risks, and losing money is one of them, but when the whole market crashes, that causes a problem that hurts all of us. It could mean widespread unemployment, bank failures, and slow economic growth.

So, what do the banks and other lenders do? They keep extending due dates for loans, hoping that commercial property owners will eventually get into a better place to pay them back, but that has not happened even after a few years of extensions. Ultimately, property owners will need to pay back the loans, or they will default on them. Those are the only two choices. The longer we postpone the outcome, the bigger the balance grows and the greater the economic risk becomes. Problems never get smaller when you push them into the future, and this one will get bigger. Let us try to prevent or minimize a future storm for our economy while we are still in the calm. I yield back.

Mrs. MCCLAIN. Thank you. I am pleased to welcome our witnesses for today. Mr. Jeffrey DeBoer is the president and CEO of the Real Estate Roundtable, an expert in commercial real estate management, ownership, and development. Welcome. Mr. Jeffrey Weidell is the CEO of NorthMarq and an expert on commercial real estate debt and equity financing, testifying on behalf of the Mortgage Bankers Association. Thank you for being here. And Mr. Doug Turner, a Senior Fellow for Housing Policy at American Progress. Welcome, sir. We look forward to hearing what you have to say on today's important subject.

Pursuant to the Committee Rule 9(g), the witnesses will please stand and raise their right hand.

Do you solemnly swear or affirm that the testimony that you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

[A chorus of ayes.]

Mrs. MCCLAIN. Let the record show that the witnesses answered in the affirmative. Thank you, and you may have a seat. We appreciate you being here today and look forward to your testimony.

Let me remind the witnesses real quick that we have read your written statements, and they will appear in full in the record. Please limit your oral statements to 5 minutes. As a reminder, please press the button on the microphone in front of you so that it is on, and we can hear you. When you begin to speak, the light in front of you will turn green. After 4 minutes, the light will turn yellow. When the light comes on, which is red, your 5 minutes has expired, and we would ask you to please wrap up. I now recognize Mr. DeBoer for your witness testimony.

STATEMENT OF JEFFREY DEBOER
PRESIDENT AND CEO
THE REAL ESTATE ROUNDTABLE

Mr. DEBOER. Well, thank you very much. I think I will just align myself with your remarks. That seemed to be right on point, but seriously, thank you for holding this important hearing today. It is frequently, I think, misunderstood because real estate is so intertwined with the economy, how important it is to the economy, and you both highlighted many ways. Let me just point a couple of other things out.

The industry directly supports more than 15 million jobs in the economy. Real estate asset values and transaction volume provide the principal source of tax revenue for local budgets, paying for education, road construction, law enforcement, emergency planning. And people oftentimes do not think about pension fund, but pension funds invest a substantial amount of money in commercial real estate, and those returns build nest eggs for the retirement for millions of people. I also want to be clear that today, the commercial real estate industry is not here seeking a bailout of any sort. We agree with what you are saying. Let us understand the problem and get in front of it, but there is no bailout. To the contrary and, again, consistent with what you said, we believe all stakeholders, regulatory and private sector, should work together to make sure that real estate continues to be a prime part of our economy and enables cities to grow, business needs to be met, and housing challenges to be beaten.

I want to focus my comments, my oral statement anyway, on two sectors of the real estate commercial market that are on the top of your minds: the office sector and housing. Regarding the office market, stress began to elevate in 2023 as the uncertainties of the post-pandemic office space use came to be better known, and then became combined with higher inflation-induced operating costs and higher inflation-fighting finance costs. These factors, in essence, created a perfect storm of significant challenges for the office market, but even in office markets, there are notable differences. Some individual owners are facing considerable pressure, potentially leading to foreclosures, as you mentioned, defaults, and large losses of equity. At the same time, many top tier modern office buildings with strong ownership and workplace amenities are currently weathering the storm. Most commercial real estate bank loans, by the way, are 8-to 10-year terms. They are frequently interest only, and many times they were originated with floating interest rates.

You might want to look at what came before to understand where we are today. The environment of government-mandated, artificially low interest rates began in earnest in 2008. Rates increased marginally over the next decade, but they remained historically low during that time period. Commercial real estate markets, office markets in particular, were in balance, roughly about 12 percent office vacancy at that time. It is easy to forget that the Fed was holding the Federal funds rate at around zero as recently as the first quarter of 2022. Moreover, commercial real estate loans from that period are generally considered to have been originated quite conservatively, 50 percent to 60 percent loan-to-value and a strong debt coverage. The Fed started hiking rates, as we all know, in the first half of 2022 and, in a span of roughly 18 months, raised rates 11 times, bringing the key Fed funds rate to a target range of five-and-a-quarter, or five-and-a-half, the highest since early 2001. Not since the 1980's has the Fed hiked rates at this speed.

Around this time, as concerns about a recession increased, regulators for banks began calling for increased loan loss reserves on commercial real estate lending, and they also called for a reduction in commercial real estate loan portfolio concentration. In other words, not only were financing costs rising rapidly, but financing availability was shrinking. Liquidity was contracting substantially in all commercial real estate markets, but particularly office. For example, in the second quarter of 2023, the overall commercial property debt market rose only 1 percent. Diminished market liquidity and the drop in transaction value, in turn, increased pressure further on property evaluations. It is in this environment that nearly half of the $4.7 trillion property debt market originated during the government-mandated low interest rate period is scheduled to mature by 2027. This is an environment where base interest rates have risen nearly 500 basis points in a 24-month time, and one in which lenders are urged to reduce their commercial portfolios.

There have been, and it is worth acknowledging, helpful policy actions. Principally last year, the Federal regulators issued guidance where they instructed lenders to work with creditworthy borrowers, and they gave flexibility to restructure maturing commercial loans. That was helpful, but more needs to be done. Banks need to be encouraged to restructure existing loans with new equity. These new loans should be classified as performing, and they should also reflect transitory assets. When a new owner comes in, they have to move that asset into a stabilized position. That should not be criticized.

I also want to mention office use space. During the pandemic, authorities sent people home, and that was probably the right thing to do, and the real estate industry worked diligently to provide safe work environments and to accelerate the reopening of activity. Today, returning to in-person work is critical to the health of cities, local economies, tax bases, and small businesses, as you have mentioned, but while the private sector office space occupancy is slowly picking up, the Federal Government workforce is behaving as if the pandemic still exists. This is despite President Biden's call for agencies to return to work. We applaud the work of this Committee in the SHOW UP Act, and we think that more effort should be done. It has passed the House. Let us get it through the Senate.

In summary, this self-reinforcing cycle of higher financing costs, less credit availability, and fewer transactions must be broken. And it certainly should not be made worse by adopting procyclical measures, such as the Basel III endgame and other regulatory matters, that will restrict credit and capital formation, and the Federal Government should get back to work.

Now, regarding housing, yesterday a coalition sent a letter to Congress cataloging a host of pending items that we have, including converting obsolete buildings into housing, increasing the low-income housing tax credit volume caps, incentivizing local zoning and permitting reforms, increasing efficiency in the Section 8 Housing Voucher Program, and more. Finally, I would like to note that rent control and eviction moratoriums are, on first blush, appealing concepts, but they have proven time and again that they are counterproductive to addressing the housing shortfall.

I probably went over time. Thank you for your indulgence, and I think I only said in conclusion once. So, thank you.

Mrs. MCCLAIN. Thank you, sir. We will now hear from Mr. Weidell. Thank you.

STATEMENT OF JEFFREY WEIDELL
CEO
NORTHMARQ

Mr. WEIDELL. Chairwoman McClain, Ranking Member Porter, and the Members of the Subcommittee, thank you for the opportunity to speak to you today on behalf of the Mortgage Bank Association. My name is Jeff Weidell. I am Chief Executive Officer at NorthMarq, a top ten commercial real estate finance and sales firm with expertise in debt, equity, property sales, and loan servicing. I am testifying in my capacity as the current Chair of the MBA's commercial multifamily board of Governors. My full written statement provides an overview of the commercial real estate sector.

In short, it is exceedingly difficult to paint the picture of commercial real estate with broad brush strokes. The market is big and diverse, with a range of different property types, geographic markets, and submarkets, borrower and lender types, and loan and deal vintages. These property types include multifamily, retail, industrial, lodging, self-storage, office, and many others. They are located in markets across the country, from downtown corridors to rural areas. They are owned by sophisticated institutions and funds, by public companies, and by private investors and individuals.

The MBA estimates there are $4.7 trillion of highly diversified commercial mortgage debt outstanding. About $2 trillion of that is backed by apartment buildings, $740 billion by office, $415 billion each by retail and industrial, and then the remainder by the other range of property types. MBA also estimates that roughly $1 trillion in commercial real estate mortgages will mature this year. However, it is also important to note that its statistics show 96.8 percent of outstanding loans are performing. Commercial banks hold the largest share of this debt at $1.8 trillion, but that bank total is not just office. It is diversified between all the various property types that I previously mentioned. The GSEs hold the second largest amount of commercial mortgage debt at $1 trillion. Life insurance companies hold $733 billion, and other capital sources combined hold $573 billion.

Certainly, delinquency rates on commercial mortgages have been rising, particularly for loans backed by office properties. Twenty percent of the commercial mortgage debt is set to mature in 2024. Multifamily markets make up the largest piece of those maturities this year at $257 billion, followed by office at $206 billion, but every property, as you mentioned, and every owner are in unique situations. The mix of variables involved are critical to determining which properties and loans face challenges and which do not.

Between 2014 and 2022, on average, commercial property values grew by 90 percent, and multifamily values grew by 144 percent. In other words, if owners have been holding a property over time, they likely have built a fair amount of equity. The real challenge and the opportunity is that the markets have reset from where they were a few years ago in terms of interest rates, property values, and, in some instances, the fundamental operations of the properties themselves. Owners, developers, lenders, and other market participants are all working through the process of transitioning the commercial real estate market to this new reality of higher rates.

What can regulators do to ensure a smooth transition? Kind of four things I note here. First is re-propose the Basel III Endgame. If it is left unchanged, it will negatively impact the availability of commercial credit. The second is exempt multifamily and commercial property loans from the HMDA and Section 1071 reporting. Third is to urge HUD on in two ways: to reduce its multifamily mortgage insurance premiums and application fees and to reconsider program requirements that raise the cost of building rental housing. And last of these items, we would like you to urge state insurance commissioners to work with key stakeholders to address the cost and availability of property insurance.

Now, what can Congress do? Three points: pass bipartisan/bicameral tax proposals, pass bills that provide incentives for state and local governments which help support and increase the affordable housing supply, and enhance existing affordable housing programs and initiatives. Thank you again for this opportunity to represent the MBA, and I look forward to answering any questions.

Mrs. MCCLAIN. Thank you, Mr. Weidell. The Chair now recognizes Mr. Turner for 5 minutes.

STATEMENT OF DOUG TURNER
SENIOR FELLOW FOR HOUSING POLICY
CENTER FOR AMERICAN PROGRESS

Mr. TURNER. Thank you. Chairwoman McClain, Ranking Member Porter and distinguished Members of the Subcommittee, I appreciate the opportunity to address you on an important aspect of the topic at hand today.

At the same time, many communities have seen greater vacancies in office buildings and other commercial properties, the Nation itself is several years into a substantial housing shortage and, particularly, an affordable housing shortage. The problem is not new. Housing production has not kept pace with demand since 2007. Estimates currently are that the country needs an additional 2 to 4 million housing units, but that number grows as production lags household formation. According to the last data from the Census department, almost 41 million households are considered housing cost burdened, meaning they pay more than 30 percent of their gross income for housing. That is almost a third of the country. More than half of the renters and over 19 million homeowners are housing cost burdened. We have actually not fared well in the production of affordable housing for almost 15 years. There are 43 million rental households but fewer than 14 million units available at a price point under $1,000.

Today, in discussing the conversion of commercial space to housing, one of the most relevant populations here are those perhaps more in the middle-income tiers. Those making $35,000 to just under $50,000, half of them—half of them—pay 30 percent or more of their gross income for housing costs. This is no longer a problem of only those in poverty, though it is certainly, certainly a problem for those who are on far lower incomes. This problem now reaches well into the middle class.

There is no question that higher mortgage rates have hampered the effort to reduce the housing cost burden. Uncharacteristically, they also reduced the supply of existing homes for sale. Typically, when mortgage rates rise, prices of existing homes fall to compensate, but we have a number of owners with pandemic-era mortgages well below 4 percent who do not wish to sell, and there are roughly 2 million fewer existing homes for sale than would typically be the case. It is overly simplistic to say that housing of any type would be helpful, but to the greatest extent possible, the country needs new housing units that immediately serve lower-income and middle-class families specifically to conversion.

This is not a new idea. Former office buildings, department stores, hotels, and schools have been converted to housing, and those have spanned from luxury condominiums to homeless shelters. The difference is that those are typically vacant buildings, and the commercial office properties we are looking at now, there is an urgency, which is not typically a factor if we are going to convert them to housing. We have an urgency as a country, communities have an urgency, and, yes, owners and lenders have an urgency to preserve the maximum possible value of their assets. Conversion on this scale is needed by many stakeholders.

There are great environmental benefits to conversion. Even older office buildings are typically more energy efficient, climate resilient than much newer freestanding homes. The scale of feasibility remains a question. Few days go by that at least one article in my news feed does not have a story that either says conversion is the ultimate solution to all the problems facing both industries or that it is a naive fantasy that is just never going to work, and the truth lies somewhere in between. Commercial real estate conversion is not a panacea for all of the problems. They are assets in market-specific conditions, and we need to do this for the wider benefit of American communities.

The Biden Administration has prioritized affordable housing, even issuing in October the first version of a guidebook to aid the process of conversion. And I think it is helpful to understand that this sent a strong signal of the seriousness of the Administration to both the CRE problems and a recommitment to affordable housing.

I see I am over, but I want to compliment the Real Estate Roundtable for a second. They sent a letter to the Council of Economic Advisors in April and offered some very specific suggestions on how to improve the conversion process. Many of these are sensible, and they could help direct what is an evolving policy. We have not seen an attempt to convert this much real estate in a short period of time. One of his points was that new incentive programs are needed, and there is an agreement there that we would have to find this, to expand the toolbox for both the Federal Government and the local communities. So, again, I think there is more common ground here as well.

I will wrap up. Thank you. Thank you for the opportunity to speak with you about our country's need for more affordable housing and the part that this situation can play in the shared goals of the leaders of both the commercial real estate industry and those of affordable housing. Thank you.

Mrs. MCCLAIN. Thank you, Mr. Turner. The Chair now recognizes Mr. Burlison for 5 minutes.

Mr. BURLISON. Thank you, Madam Chair. Under President Biden, Americans have been consistently experiencing a detrimental impact to their pocketbooks through inflation, and the polls indicate that Americans believe that they are worse off under this scenario than the previous Administration. The answer seemed to be to reduce inflation or to pass the Inflation Reduction Act. Mr. DeBoer, do you believe that the Democrat legislation, the Inflation Reduction Act and the American Rescue Plan, actually succeeded in lowering inflation and, ultimately, interest rates?

Mr. DEBOER. Well, I would like to leave it to others on that point, but I will say that raising interest rates applied primarily to the commercial real estate industry and car buyers. Much of the economy was not even subject to interest rates going up, education, the spending under the infrastructure bill, and other things. Do I think that bill lowered inflation? I do not know. To the extent, maybe it opened up the supply chain problems.

Mr. BURLISON. Mr. Weidell, do you believe that the Inflation Reduction Act lowered inflation?

Mr. WEIDELL. I cannot speak to the Inflation Reduction Act. Our industry is benchmarked mainly off of short-term interest rates and the 10-year Treasury, and we are still kind of suffering through the rate increases there and the inflation in the cost of mortgages.

Mr. BURLISON. OK. So, let us dive into that then. So, we are experiencing higher interest rates than before. Either one of you can chime in. How is that having an economic impact on your industry?

Mr. WEIDELL. I could jump on that one. I mean, from a mortgage finance perspective, it is pretty simple, and it is consistent with what is happening on the residential side. It seems as if a lot of existing mortgage rates are about four percent. The current market, let us call it 6 1/2 percent, and that is a major adjustment. You cannot qualify for the same amount of leverage, and the leverage costs more. So, when people come to us for a loan, we are often coming up with less proceeds than they need at a higher cost, and that is the transition the industry is going through.

Mr. DEBOER. I think that also there is so many mortgages that were originated in the period of historically low interest rates that are now coming up to be refinanced, and they are 500 basis points roughly higher on the Fed funds rate.

Mr. BURLISON. Yes.

Mr. DEBOER. That makes it very, very difficult to refinance commercial mortgages under this scenario.

Mr. BURLISON. So, that is a good question because we have experienced this before where we have had a cliff. I mean, do you see this as a cliff effect where you have got a lot of commercial loans that are now hitting their expiration date or coming up for renewal, and they are going to have a dramatic increase in their interest rates. Do you see——

Mr. DEBOER. I would not necessarily term that issue as a cliff. It is more of a slow-moving train wreck as these mortgages come up, they are restructured, the meetings are going on with lenders. Some are not going forward. Some are. So, it kind of builds up. It is not an overnight problem, I guess I would say.

Mr. WEIDELL. The mortgages that are maturing this year, I mentioned the word "vintages," and they come from all different vintages. A lot of our industry operates off of 10-year mortgages, a convention on kind of the longer-term, and then some operate on bank loans off a 3-year. So, for example, we will have a 10-year loan from 2014 maturing this year in 2024, as well as a 3-year loan from 2021 maturing this year in 2024, and they tend to have very different characteristics. The one that has been in place longer probably has more margin. The one that just came in, into effect a few years ago does not have the margin. So, there is a mounting maturity, but the maturities are not the same.

Mr. BURLISON. So, are we seeing a softening in the industry from demand because of the ecommerce move to have people work from home as well?

Mr. DEBOER. I think there is substantial question in the office market about future office needs, but the occupancy has been going up. On interest rates, I would also say just because the rates went up, the values are coming down, so refinancing those mortgages at the number that they were originated at is going to be very, very difficult without a lot of equity and new capital going into that product. This is a very self-fulfilling prophecy. As rates go up, values go down, concentrations are decided to be lessened, and values go down again, so.

Mr. BURLISON. Real quick, the last question is, how do you see this comparing to what we experienced in 2008?

Mr. DEBOER. Well, 2008. You want to take this, Jeff?

Mr. WEIDELL. No.

[Laughter.]

Mr. DEBOER. I would say I think in 2008, arguably, there were a lot of loans that may have been originated that were not, let us say, conservatively underwritten and maybe never should have been written in the first place, that were coming due that clogged up the plumbing within the financial system. That is not what is happening here. These mortgages were issued in a conservative basis. Markets were largely in balance when they were done. They have been thrown out of balance because of high interest rates and a change in the demand side of things, primarily. So, I do not see them as all that equal.

Mr. BURLISON. My time has expired.

Chairwoman McCLAIN. Thank you. The Chair now recognizes Ms. Crockett for 5 minutes.

Ms. CROCKETT. Thank you, Madam Chair. Mr. Turner, as a trained attorney, I am not supposed to ask a question I do not know the answer to——

[Laughter.]

Ms. CROCKETT [continuing]. But I am so about to do that because I trust and believe in you, OK? So do not let me down. I want to level set really quickly. Inflation, Biden-induced or pandemic-induced?

Mr. TURNER. Goodness. No pressure.

[Laughter.]

Mr. TURNER. Thank you for that. I think that, first of all and as was said earlier——

Ms. CROCKETT. Hold on. I only got 5 minutes, and I got a lot of questions. So, just real quick, Biden or——

Mr. TURNER. There was a period of extraordinarily low interest rates after the 2008. I mean, over the long term, the average 30-year mortgage rate, which is what I am most familiar with in housing, I think that it was much more supply chain, COVID-related than——

Ms. CROCKETT. OK.

Mr. TURNER [continuing]. Anything President Biden did.

Ms. CROCKETT. Thank you so much. My next question is, as it relates to inflation, is this a domestic inflation, or has inflation been global?

Mr. TURNER. Well, there are others who can speak much more to global economics than I can with my expertise being——

Ms. CROCKETT. But you agree with me that it was global?

Mr. TURNER. It is. There are very few markets anymore that are purely domestic——

Ms. CROCKETT. OK.

Mr. TURNER [continuing]. Particularly for financial problems.

Ms. CROCKETT. Thank you. So, I just want to make sure that we level set with that really quickly about the fact that the inflation that we are experiencing has not been a Biden-Harris-induced inflation but pandemic related, as well as inflation has been global and not domestic or limited to domestic, as well as the fact that the United States is actually rebounding better as it relates to our inflation than some of our other counterparts that are similarly situated. So, I wanted to make sure that we talked about that really quickly, in addition to the fact that every time we come into this Committee, it seems like maybe once every so few months, we got to start blaming these government workers for not going to work because they are lazy. That is what we hear, is that all of our problems in the world are because of telework. If I had a dime for every time we blamed telework, then I may have enough money to pay Trump's legal fees for his four criminal indictments.

But nevertheless, what I would like to make sure that I get admitted into the record, so Madam Chairwoman, I would ask unanimous consent to enter into the record a 2024 white paper from 2024, Brookfield published——

Mrs. MCCLAIN. Without objection.

Ms. CROCKETT. OK. Thank you.

All right. So, there are a couple of things that I want to talk about. Is there a problem as it relates to commercial real estate right now? Yes, there is, and I appreciate your response that you just had about the fact that it is not necessarily the same as 2008. It is nothing like 2008 from everything that I can tell, and that is coming from the business major side of me that is speaking, but I do want us to make sure that we focus on a couple of things that are going on.

At one point in time, we used to have a thing called a typewriter, and then we moved on to computers, and then we moved on to computers with the internet. At another point in time, we used to have this thing called a telegram, and then we moved on to landline telephones, and then we moved on to cellphones. And at one point in time, we used to have horse and buggy, and then we moved on to gasoline-operated vehicles, and now we are moving on to E-vehicles.

Here is the deal. We have a transitioning workforce. We understand that while a lot of people were not in their offices specifically because of the pandemic, we know that some companies and corporations saw benefits in not being in the building as they had to adjust because of the pandemic, but they found that, you know what? Maybe this is where we should develop, and they decided to do that, and I think that that is OK, but we now have to adjust. So, I want to talk to you about solutions. I do not want to just say, well, you know, back before the pandemic, everything was great. Back before the pandemic, a lot of people did not die either. So, yes, there are a lot of things that I would prefer did not take place as a result of the pandemic, but I just cannot go back. And so, I want to talk about solutions because that is what we are supposed to do in Congress. Instead, we play games, but I am going to be real with you, and I want to ask you all questions. Anybody can jump in.

In my opinion, as we have these commercial buildings that are sitting vacant for whatever reasons, and it seemed like the numbers were ticking up for those businesses specifically as it relates to commercial properties. Would it be helpful if the Federal Government offered a subsidy of some sort or some sort of incentive to convert some of that commercial real estate that is sitting there empty into, say, housing because that would solve two issues that we currently have. We have a housing supply issue, and we also have an issue as it relates to the cost that a lot of commercial property is enduring right now. Anybody jump in? And, Madam Chairwoman, I would just ask that you allow them to answer. Thank you.

Mr. DEBOER. Ma'am, it would be very, very helpful if there was some sort of Federal subsidy. A lot of state and local governments are providing incentives to convert. Here in D.C., there are some, New York has some, other cities, but the Federal Government could be very helpful with some sort of a conversion tax credit, perhaps modeled after the REHAB tax credit that is in law now or something. These conversions, as Mr. Turner mentioned, are extremely expensive. It is not good for every building, but it is good for some, and it would, as you said, help housing and it would help cities and so forth, so the answer is yes.

Ms. CROCKETT. Thank you so much.

Mr. DEBOER. And by the way, Mr. Gomez, who is on this Committee, has been working on a bill in this area that could be very helpful.

Ms. CROCKETT. I will let him know that you have lobbied for him.

[Laughter.]

Mrs. MCCLAIN. Thank you. The Chair now recognizes Mr. Grothman for 5 minutes.

Mr. GROTHMAN. See, there we are. Even our witness thinks the answer is more government money. That is why we are broke. OK. Mr. Weidell, your testimony states the current Administration is producing overburdensome regulations. Can you give me some examples and explain why it is an issue?

Mr. WEIDELL. Sure. I think the two that we speak of, you know, kind of on a simple basis involve things that are more consumer driven and really should not apply to the multifamily business and commercial properties in terms of the HMDA in the section 1071 reporting. You know, these things are more for small proprietors and business owners, and we are really involved in property finance and it kind of creates a layer of——

Mr. GROTHMAN. Can you narrow it down and give me a specific example where it does not apply?

Mr. WEIDELL. I am going to have to allow the MBA to provide that information to you because they have access to that. I mean, and in the other area I would go to HUD, and, you know, the regulations and the structure of HUD is such that it is the least preferred alternative in the market when it could be the most preferred alternative. And that has to do both with the cost of delivery and the timing of delivery, and the structure of it and the regulations involved. Yes, the MBA will get back to you on the details, but within HUD, I mean, for example, they require guarantees of access of fire service and water and sewer. They require sound studies, burrowing animal studies, all these sort of things that are covered by other government agencies that are duplicative in the work, and they add to the timeline and the cost and not really to the housing which we need to build.

Mr. GROTHMAN. OK. Mr. DeBoer, I want you to elaborate a little bit on inflation, the effect higher interest rates have on the whole commercial real estate market.

Mr. DEBOER. Sure, and I should also rehabilitate myself a little bit, in your eyes anyway. Not only is Mr. Gomez, but also Congressman Mike Carey, is very interested [inaudible].

Mrs. MCCLAIN. Can you turn your mic on?

Mr. DEBOER. In terms of inflation and cost, both the pandemic and what the President has done. Many of these programs have Davis-Bacon attached to it and provisions like that, that drive up the cost of construction dramatically, so I just want to separate——

Mr. GROTHMAN. Could you give us an idea how much it drives it up?

Mr. DEBOER. We have seen indications between 20 and 25 percent of cost is going up on some projects, yes.

Mr. GROTHMAN. OK. Which projects do they require it on?

Mr. DEBOER. Well, anything under the IRA is in that case, and there are a variety of programs. Some people want, for example, to attach that to this conversion situation. We think that would be counterproductive, so, and obviously, interest rates are a big problem for existing owners seeking to refinance.

Mr. GROTHMAN. Could you give me some just ballpark, throw out some numbers of a typical example, and you can show us how much it would drive up rents or cause the underlying property owner to go under?

Mr. DEBOER. I would prefer to get back to you on that, except to say that if you had a loan of, let us say, a hundred dollars that was done at 65 percent loan-to-value, today, with higher interest rates, that hundred-dollar value is probably down to $80. You are not going to refinance the $65 on that. You are only going to get probably $45. So, you are going to have to pay down that $65, and you are going to have to put additional capital into the property because of what is happening in the market in terms of driving office tenants to higher-amenity buildings, if that helps, but I would be happy to give you a more concrete——

Mr. GROTHMAN. OK. If you could give us an example of some sort of commercial development, and apart from the interest rates, how much would a property you are building, say, go up in the last 3 years since the big inflation, the big increase in government debt?

Mr. DEBOER. I think those would be a unicorn to find in the economy where they have gone up in the last 3 years. We are seeing office declines of 30–40 percent. All assets went down in value because interest rates went up. It is a simple math situation there. On operating costs, keep in mind, property and casualty insurance premiums have dramatically increased over the last several years.

Mr. GROTHMAN. OK. The cost of building residential real estate has gone up considerably.

Mr. DEBOER. Yes.

Mr. GROTHMAN. Has that affected the cost of building commercial real estate, or you just stopped building commercial?

Mr. DEBOER. Of course. Yes, it does. Land, labor materials have all gone up in cost, yes.

Mr. GROTHMAN. OK. Thank you.

Mr. DEBOER. It does not matter if it is residential or office.

Mr. GROTHMAN. Thank you.

Chairwoman McClain. Thank you. The Chair now recognizes Ms. Norton for 5 minutes.

Ms. NORTON. Thank you. This is a question for Mr. Turner. The commercial real estate market is obviously critical to our Nation's economy, and it is critical to the District of Columbia's economy, and I represent the District. D.C., like other cities, has seen a sharp decline in the assessed value of commercial office buildings since COVID, leading to a reduction in tax revenue for our cities. This dramatic reduction in office values is both deeply concerning and an opportunity to reimagine our downtowns.

I would like to turn to the residential real estate market, which is also critical to our economy and American families. The shortage of affordable housing in the District of Columbia and across the country is troubling. The National Low-Income Housing Coalition estimated that we have "a shortage of 7.3 million rental homes, affordable and available to renters with extremely low incomes." Mr. Turner, is our Nation's housing affordability crisis a recent development?

Mr. TURNER. “No” is the very short answer. Thank you for that question. We have always had a percentage—we term it cost burdened, meaning you are paying more than 30 percent of your gross income for housing expense. Even after the 2007–2008 bubble where there was a great deal of housing built that sometimes was unoccupied, we still had a sizable percentage of the population, a sizable number of households who could not find affordable housing or pay for it. It is important to note that the operating cost of housing, including insurance, maintenance, even if the home is free, without the ability to pay those operating costs to continue it, if that is more than 30 percent of the income, it is not an affordable home. We have had this for a very long time, and it has gotten worse in terms of the unit count in the last 15 years, and operating costs are driving that, but, no, ma’am, this is not a new problem. This is just one that has been exacerbated.

Ms. NORTON. Well, Mr. Turner, what would it mean for American families and for our economy if we could expand the availability of affordable housing?

Mr. TURNER. I do not think it is an overstatement to say that it would mean real financial futures for many of them. I mean, if you are paying 50 percent of your income for rent, you have very little money to buy the proper foods, for transportation, for all of life’s other necessities. You are likely taking much more consumer debt. I mean, we like to think of homeownership as the path to gaining equity and to gaining a stake. Exactly the opposite is happening with those who are unable to find housing that is affordable to them. They are having to forego something.

Ms. NORTON. Well, Mr. Turner, what are the most important things we here in Congress should be doing to expand the production of affordable housing for Americans?

Mr. TURNER. It is extraordinarily important that we look at the raw number that needs to be provided. We have programs, and the funding levels of those programs, the use of those programs, the direction of those all need to look at the greatest needs. I hope this is answering your question. I mean, encouraging starter homes instead of homes that have grown to 2,500 square feet, encouraging apartments being built or rehabilitated that are actually affordable to the lowest-income tier and, where necessary, providing more rental subsidy for a number of families who otherwise are still going to fall below the affordability gap there.

Ms. NORTON. Thank you, and I agree that expanding the availability of affordable housing must be an urgent priority. I thank the Biden Administration for their focus on addressing this challenge, including through the American Rescue Plan, and I yield back.

Mrs. MCCLAIN. Thank you. The Chair now recognizes Ms. Foxx for 5 minutes.

Ms. FOXX. Thank you, Madam Chairwoman. I thank our witnesses for being here today. Mr. Weidell, in your testimony, you state that the Biden Administration is producing “over burdensome regulations”. Can you give us some examples of those regulations and tell us how that is harmful to the commercial real estate sector?

Mr. WEIDELL. Well, I think there are a couple. We had mentioned a few before. Certainly, the Basel regulation is a high priority for the MBA to make sure it does not go through in its current form. It will diminish liquidity in the banking system at a time when we really need it. The other is just to amplify on HUD. HUD has actually seen a decrease in volume of construction of units by about 75 percent at a time where everybody agrees those units are needed to a great degree, and it is simply overburdened both by cost and by the regulations.

Ms. FOXX. And I want to do a quick follow-up on that. President Biden boasted his Administration is cracking down on junk fees in private industry that he argues are unnecessary and driven by greed. Meanwhile, as you point out in your testimony and just now, the Department of Housing and Urban Development seems happy to apply its own junk fees that undoubtedly have a greater impact. How do these government-driven junk fees impact the development of commercial real estate?

Mr. WEIDELL. Well, certainly to the negative. You know, the higher the cost, the less the development, and it is certainly something the MBA has been working on and has kind of a long list of these fees that we would like to see reduced or eliminated.

Ms. FOXX. OK. Further, you discussed the mortgage insurance premium that is required for certain loans backed by the Federal Housing Administration. How would developers and communities benefit from lower insurance rates or from the opportunity to acquire insurance by other measures?

Mr. WEIDELL. Again, the cost of financing is a significant component of the cost of the construction. So, to the extent it brings down the cost of the financing, which is what that would do, it increases the leverage and the ability to build projects.

Ms. FOXX. Thank you. Mr. DeBoer, what are the most significant barriers, either Federal or local, that developers and investors face when deciding to build multifamily projects?

Mr. DEBOER. You know, I think I got that. You asked what the major considerations were in building affordable housing. Land costs obviously, but some of these things you just mentioned, junk fees in owning real estate. That increases the operating costs and expenses of owning property, but certainly zoning issues, permitting problems. I would throw out the Section 8 Program, which is a longstanding program but requires apartments usually to be vacant while they check to make sure that the person qualifies, so the owner is floating that, and then to recover the Section 8 voucher amount is a lengthy process. That could be streamlined. It would be very, very helpful. And just to respond over here on the low-income housing tax credit, if that was done, it would produce about 2 million new low-income homes over the next decade. So, there are things that could be done.

Ms. FOXX. I think anybody with half a brain understands that the high cost of housing is coming from unnecessary rules and regulations from the local government, state government, and the Federal Government. It does not take a rocket scientist to figure this out. Could you describe how the Biden Administration's actions, Mr. DeBoer and then Mr. Weidell, if you want to, describe how the Biden Administration's actions have undermined growth in the commercial real estate market. Do not repeat what you have already said, but any other comments that you want to make?

Mr. DEBOER. I think I probably said more than I could have said. I cannot think of anything more except——

Ms. FOXX. OK.

Mr. DEBOER [continuing]. To agree with your comment about too much regulations are negative.

Mr. WEIDELL. I would just offer there are two components. One is the GSEs. Freddie and Fannie were unable to meet their cap allocations last year, and we would like to see them meet those this year and provide liquidity to the market overall. They are focused appropriately on mission driven and affordable housing, but the greater market can use their help, too, and assistance.

Ms. FOXX. Well, thank you very much. Madam Chair, I yield back.

Mrs. MCCLAIN. Thank you. The Chair now recognizes Ms. Lee for 5 minutes.

Ms. LEE. Thank you, Madam Chair. Unfortunately, my district is not unique in experiencing the dual challenges of a struggling downtown market alongside an affordable housing crisis. Although Pittsburgh is only the 28th largest metropolitan area in the country, we have the fifth highest concentration of office space in the U.S., and right now, more than 20 percent of that office space is vacant. At the same time, according to the Habitat for Humanity of Greater Pittsburgh, Pittsburgh is in need of at least 15,000 affordable homes. That means dozens of our downtown buildings are standing empty while thousands of hardworking families are experiencing housing insecurity and are part of the unhoused crisis.

But as we have heard from our witnesses' testimony, it is clear that we have an opportunity, and, in my view, an obligation to solve both of these problems, perhaps at the same time, by converting unused office space into affordable housing and other mixed uses that meet the needs of the community.

In my district, the Urban Redevelopment Authority, through the city of Pittsburgh, just recently launched a new pilot program to enact these exact types of efforts, with a focus on ensuring that everyone who works downtown has the opportunity to live downtown, also. For decades, systematic discrimination, redlining, and policies weighted toward the corporate interests have led to high housing costs that have collectively fueled the exodus of Black residents from the city. Now, under the leadership of Mayor Ed Gainey, our city is committed to righting these wrongs by re-envisioning and rebuilding a downtown that benefits everyone. So, Pittsburgh cannot achieve these goals without the engagement of commercial real estate developers and without additional Federal resources.

So, Mr. DeBoer, what are some of the key challenges developers face when considering converting an office space into a housing development?

Mr. DEBOER. Well, size. How big is the building? What is its configuration? What is the floor plan? What are the window sizes? Does it fit with zoning? All kinds of issues to convert. It is not an easy process, and there is a very real problem, too. The building needs to be vacant, and, you know, how do you move out those last business tenants if you do want to convert? So, there are a lot of hurdles, but it is not impossible. As Mr. Turner said, it is not a panacea, either, to these problems, but I applaud you for what is going on in Pittsburgh, and it should go on elsewhere, and do not confine it to office buildings. There are other obsolete buildings, whether they are small retail centers or something like that, that could also be converted to housing.

The last thing I would say on that is look at it from both ends of the spectrum. Part of the problem with availability for low-income or lower-income housing availability is the lack of availability for single-family housing at the other end, and production at the single-family level has been way off for a decade or more as well. So, it is the whole spectrum.

Ms. LEE. Yes. Thank you, Mr. DeBoer. Mr. Turner, what role should the Federal Government have in supporting the conversion of, for instance, office spaces into affordable housing, and can you speak to what actions the Biden Administration has already taken to that end?

Mr. TURNER. Yes, I will. First of all, I think that the Biden Administration most recently has, through HUD and other efforts, really tried to incentivize local municipalities, state and local government, to be more open with their zoning and land use laws, which is a problem in doing this. I think that providing additional, again, subsidy for this, raising the amounts of programs that are both now on the books, and perhaps looking to new programs to fund this is extraordinarily important. And so, it is a great partnership.

Ideally, it is a partnership between state and local government and the Federal Government because the Federal Government, but for very few places, is the place that actually has the resources——

Ms. LEE. Yes.

Mr. TURNER [continuing]. But they do not need to be proscriptive, and I think the Biden Administration really recognizes that. There is a whole point unrelated to Pittsburgh here. They are encouraging the use of manufactured housing in areas where it is good—you do not want that in downtown Pittsburgh, I am sure, but it is very important in other ways. So, I think they are very open to that.

Ms. LEE. Certainly. If I can ask another one more. How do we ensure that conversion incentive programs actually serve underserved populations and do not just enrich large corporations and corporate landlords?

Mr. TURNER. We have to put very strict income limits, and actually, ideally, a mixed-income facility, mixed-income development is best, but, yes, we have to have strong oversight. I see my time is up. Sorry. Strong oversight. I mean, that is the one thing.

Ms. LEE. We finish our sentences all the time here until they gavel us.

Mr. TURNER. That is the one thing in discussions of HUD, and, I mean, you know, there is a really clear and important role for HUD and other Federal agencies to play in fair housing. I mean, as you spoke to African-American families leaving Pittsburgh and things like this. One of the numbers that bothers me the most about housing is that, from a homeownership standpoint, only 44 percent of African-American households own their home, whereas

65-plus percent of others do. Frighteningly, in 1970, that number was 42 percent when 2 years prior it had been actually legal to discriminate against. So, we have not moved that needle. I know it is something that the Biden Administration takes very seriously, and I appreciate your letting me go over time just to say that.

Ms. LEE. Thank you, Madam Chair.

Mrs. MCCLAIN. Thank you. Without objection, Representative Garcia from California is waived onto the Subcommittee for the purpose of questioning the witnesses today at today's Subcommittee hearing.

Mr. GARCIA. Thank you very much, Madam Chair. I appreciate you and appreciate the witnesses. I wanted just to thank this opportunity for joining the Subcommittee.

Mrs. MCCLAIN. Go ahead. Go ahead. You are good.

[Laughter.]

Mr. GARCIA. Should I continue? OK. Well, I will start over. First of all, thank you to our witnesses for being here. A really important topic, and I am grateful to be waived on to the Subcommittee for today.

I served as Mayor of Long Beach for 8 years prior to just joining the Congress last year, and so issues around housing, commercial sector viability, kind of real estate markets, and how we are ensuring that the most vulnerable are supported, I think are all important issues and all have been important to me. Downtowns, we know, are vital economic engines. It is where the workforce oftentimes lives. It is where oftentimes you can find housing that is currently being built. There is good density policy typically in downtowns, all things which lead usually to a good, strong, vibrant community. We also know that we are facing major challenges, especially post-COVID, as it relates to our downtowns.

Now, downtown commercial vacancy rates, we know, are much higher after the pandemic. This has been discussed. According to estimates, we know that values of office buildings have also fallen pretty dramatically during this time, and really, the pandemic really had, I think, obviously, a huge part in this. Now, the industry often relies on short-term loans, which we know are now more expensive than ever to refinance. As much as $1.5 trillion in commercial real estate loans are set to mature this year and the next, and U.S. regional banks will provide a bulk of these loans, putting them especially at risk.

So, just last year, I wrote to the Treasury over this issue and to evaluate whether stress in the commercial sector posed a systemic risk to regional banks. I asked the Treasury Secretary to do more, to respond, and to advise Congress on what to do, especially as it relates to downtowns.

I would like to ask for unanimous consent to introduce that letter into the record.

Mrs. MCCLAIN. Without objection.

Mr. GARCIA. Thank you.

Commercial vacancies also create, we know, additional problems. As has been discussed by my colleagues today, cities face declining tax revenue. Nearby small businesses like restaurants, shops, dry cleaning places, places where you can maybe pick up flowers or groceries, all suffer when we have vacancy rates, and we are not building enough housing. We know that living nearby office buildings has also been a challenge as we see these vacancy rates across the country, but it is crucial that we also look at the opportunities.

We have a massive shortage demand. We have a massive need for additional tenant support across this country. We know that demand is high, but we also know that the rent is really high, so people are forced to spend so much of their income on rent and just to survive. They cannot save, invest, and certainly cannot afford to spend oftentimes on other services that also help build cities. The whole economy pays a price, and we know this is not just a local issue.

The shortage of affordable housing costs us all approximately $2 trillion a year due to lower wages and productivity, and it is a travesty also that in the wealthiest, most powerful country in history, we have over 650,000 of our fellow Americans that are homeless, that are unhoused, and this is especially true in my home state of California.

And I want to thank those of you that really promote density. We have to get away in this country from thinking "density" is a bad word. Density is the future. It is how we build more housing. We have to ensure that we are densifying cities, we are densifying suburbs, that we are creating and removing as much regulation to build as much housing of all types as possible, with, of course, focusing on affordable at any opportunity that we can build, including, I believe, policies that force, in certain areas, inclusionary zoning, which I think can be a positive tool for downtowns especially.

I also want to note that the Administration has recognized this opportunity. They released, of course, its guidebook to available Federal resources to commercial and residential conversions. Mr. DeBoer, I know you wrote back to the Administration once the guidebook was released. You had some praise for the creativity but also saw some obstacles within the guidebook as well, and I agree with some of those challenges that you noted. In your letter, you had mentioned the RRIF Program, the Railroad Rehab Improvement Financing Program. I also wrote to Secretary Buttigieg as well. I will enter that into the record.

Mrs. MCCLAIN. Without objection.

Mr. GARCIA. A lot of the money is not getting out of the door, and so that is a huge issue. And so, before I close, I just wanted to give you a second to respond. There are resources right now in our Federal agencies, but why is the money not getting out the door? Is it an issue of the application process, or what can we do in Congress to help ensure that that happens faster?

Mr. DEBOER. I would just echo what you said. The application process is quite lengthy. These programs are not well coordinated. You mentioned Transportation has a significant amount of grant money under the TIFIA loans, RRIF loans, and so forth. The process is lengthy. NEPA, by the way, the National Environmental Protection Act, there is a long process to get through that. Perhaps you could waive NEPA on conversions, that would speed the process. Conversions are, as Mr. Turner said, environmentally friendly, and so I would do that, sir. Thank you.

Mr. GARCIA. Well, thank you very much. Just to close, I will just say I know, while oftentimes unpopular, I do think there is a Federal purpose and a role for the Federal Government as it relates to zoning across the country. We should densify all of America. Thank you.

Mr. DEBOER. By the way, the previous President started an effort to incentivize local governments to speed up their permitting and their processing, which has also been followed up a little bit by the Biden Administration. So, there is an effort, whether it is through block grant proposals or other things, to incentivize local governments to reduce the weight given to NIMBYs and so on and so forth.

Mr. GARCIA. Thank you.

Mrs. MCCLAIN. Thank you. The Chair now recognizes Ms. Pressley for 5 minutes.

Ms. PRESSLEY. Thank you, Madam Chair. Across the country, downtown areas were hit hard by the pandemic and are still recovering. Boston is no exception with foot traffic still only about half of it what it was before the pandemic. However, areas dedicated to culture, art and retail services are showing signs of improvement, in large part due to the role of small businesses. Mr. Turner, how do small businesses contribute to the economic success and sense of community that are unique to downtown areas?

Mr. TURNER. Thank you. Representative, I think they are critical. I mean, one of the reasons that conversions to housing of office space should work and should be attractive to a large or some percentage of the population is that they have these sort of cultural amenities, that they have restaurants, that they have those type of things available, very different perhaps, than living far out. So, yes, I mean, this has hurt a number of small businesses. You can walk not far from here and see a number of empty what were retail bays. And, you know, so replacing or fixing that by having people who live in a place rather than people who work in a place where that is the best use of it, I believe, would help small business tremendously.

Ms. PRESSLEY. Thank you. Mr. Turner, what barriers do small businesses face when attempting to access commercial real estate in downtown areas?

Mr. TURNER. Well, let me preface, my expertise here is housing. I think that you do need a headcount, if you will, right? I mean, there has to be a tipping point where conversions, be it conversions, office space, or attractions, are sufficient to bring the number of people to, say, a restaurant or something. So, it is a tipping point issue, I believe.

Ms. PRESSLEY. Thank you. Well, you know, Boston actually has been really innovative in our efforts to support small businesses, offering grants and wraparound services through, it is a new program called SPACE, Supporting Pandemic-Affected Community Enterprises, and incentivizes small business owners to set up shop in vacant storefronts. So, these efforts have been particularly impactful for our BIPOC businessowners, who, even before the pandemic, were already underrepresented in the downtown area. Mr. Turner, I am very passionate about the merits of mixed-use development in housing, and could you just speak to how that supports our housing affordability goals, also smart growth, transit arena development that is also mixed use, how that supports not only our affordable housing goals and our housing goals writ large, but also how we can support small businesses? Can you speak to that model?

Mr. TURNER. Absolutely, and I appreciate that question. I think too often when we talk about conversion of office buildings, that we think of the largest glass building that, you know, is very high priced, filled with attorneys, and can we make that into housing, you know, like, empty it out and make it into housing. And I do not think that that is really what we are talking about mainly in conversion. I think that the best model is the one you just described, where you may leave, if it is a very large building, a portion of that building for commercial uses. And then, you know, we have a mix of both incomes of those moving in, subsidizing those who cannot afford it, perhaps not those who can afford it, but it is going to be more attractive to them, right? Back to your small business question, it is going to be more attractive, and you are going to be more likely to have success with these projects where you are not just getting a place to live, but you have many amenities around it. So, I agree with you.

Ms. PRESSLEY. Wonderful. Thank you. And again, just to lift up this innovative model in the city of Boston to support our small businesses. In Boston, small businesses have already received nearly $3 million in SPACE grants, 75 percent of which are minority owned and more than 60 percent are women owned. I really do think this should be a national model that is backed by Federal investment. By uplifting our small business owners and strategically investing in affordable housing, inclusive development, accessible spaces, we can ensure that downtowns leverage commercial real estate to emerge from this pandemic better than before. Thank you, and I yield.

Mrs. MCCLAIN. Thank you. I now recognize myself for 5 minutes.

I appreciate your honesty and your candor today. It seems to be coming clear to me that we are at a crossroads with the commercial real estate market right now. What I am looking for is how do we plan now and what steps do we need to take now to make sure we have sustainability and we do not end up in a crisis, right? My concern is, and these are just the facts, inflation has steadily climbed over the past 2 years, and in response, the Feds have raised interest rates over 550 basis points. There is consistent data that shows vacancies are rising, delinquencies are climbing, and there was a recent spike in foreclosures last month. Those are, maybe not alarming, but they are definitely pause for us to look at in areas of concerns, right? I do not think we are there, but if we do not address these issues on a proactive basis, I think we are going to wake up and think, oh my gosh, now we are in a crisis. Let us avoid that.

What I am trying to get a gauge on is what is your level of concern right now in this real estate market?

Mr. WEIDELL. Is that for everyone?

Mrs. MCCLAIN. Yes, and try and keep it brief if you can.

Mr. WEIDELL. Sure. I will summarize. We were able to have a meeting with the NBA and Chairman Powell about a month and a half ago, and we kind of voiced these concerns and they took their measured approach to this. And I know he came away with a statement claiming, at least at the bank level, that this is manageable, right? The banking system is manageable, and given——

Mrs. MCCLAIN. Did he give you any indication of why? Did you talk about liquidity, the new changes of liquidity that the banks are required to have?

Mr. WEIDELL. Boy, I cannot speak to his thinking, but I can speak to the fact that this is a known risk. Once we had the great financial crisis, they were very in tune with commercial real estate and commercial real estate exposure. So, this is something that has been quantifiable to them and has been measured, and they analyze, and they stress the reserves, and, consequently, it is not an unknown. It is not something out of left field.

Mrs. MCCLAIN. With all due respect, right up until the time that it is a crisis. So, I understand. Mr. DeBoer?

Mr. DEBOER. The level of concern, I guess I would say, is high. High. These mortgages need to be extended and restructured. The banking system right now is not encouraged to do that necessarily, and there should be some way to incentivize banks to get back into lending, by and large. Construction lending is almost nonexistent right now. So, I guess I would urge that regulators start to acknowledge that not all commercial real estate is the same. The office market is where the main problems are, and instructing institutions to lower their concentration in commercial real estate may mean that they are not making loans to perfectly creditworthy borrowers in another asset class.

Mrs. MCCLAIN. So, there needs to be some changes in the restructuring of loans, underwriting perhaps at the banks. Is that what you are saying?

Mr. DEBOER. No. I think in supervisory guidance, there should be more flexibility not only in not criticizing banks for working with borrowers, but there should be more flexibility when they say reduce your concentration in real estate. And, you know, office loans are not an enormous part of bank lending. Commercial real estate is an enormous part of local and regional banking.

Mrs. MCCLAIN. You got about $2 trillion coming due, though.

Mr. DEBOER. Yes, but not in office, OK? So, I just think there needs to be a better distinction and not a monolithic treatment of commercial real estate.

Mrs. MCCLAIN. OK.

Mr. DEBOER. There should be incentives to treat restructured loans. Where equity has gone in, those should be now classified as performing loans, so almost a new loan.

Mrs. MCCLAIN. OK. Thank you. We have heard concerns that proposed capital standards coming out of the Federal Reserves are punitive to the real estate industry, and I would like to know if you can comment on this. Is the U.S. banking system vulnerable due to its commercial real estate exposure?

Mr. WEIDELL. Well, again, I think that is along the same lines of the last question. We cannot speak to that. The analysis that we have done with other lenders, particularly with the life insurance lenders and the other sectors, are that their portfolios are somewhat diversified and balanced, and they have adequate reserve capacity. You know, the banking system has different oversight, as you just spoke to it. I would say the fact that loans mature is a normal course of business.

Mrs. MCCLAIN. But under these conditions?

Mr. WEIDELL. Right, and there is capacity in the system to refinance those loans. It is the willingness and the ability to do it with the capital structure they have that is kind of important.

Mrs. MCCLAIN. And the regulations and the constraints perhaps.

Mr. WEIDELL. And to Mr. DeBoer's comment, yes, if a loan has been paid down with some equity infusion, it should be reclassified as something that is performing and be willing to loan.

Mrs. MCCLAIN. Thank you. I now yield to Ranking Member Porter for 5 minutes.

Ms. PORTER. Thank you very much. What factors, Mr. Weidell, do banks consider when deciding whether or not, or I will say lenders broadly, not just banks. What factors do they consider when deciding whether or not to give a borrower more time to pay a commercial mortgage?

Mr. WEIDELL. OK. That varies significantly, and it probably varies significantly on their capital source and their oversight.

Ms. PORTER. Let me limit it to office.

Mr. WEIDELL. OK. But, again, you know, it depends on the lender. Does the lender have the ability and capacity to extend the loan? That is kind of the first criteria, right? If it is a securitized mortgage with Wall Street, they cannot simply do that.

Ms. PORTER. OK. Great. Let us actually pause there. I just looked at helpful testimony, and you are right, whoever said it, that banks' biggest exposure in commercial real estate is not office, but it is the biggest chunk of the commercial mortgage-backed security market. Am I correct? I looked at the chart. It is red. I am pretty sure this is what you gave me. So, how do we work those out?

Mr. WEIDELL. Not my area of expertise, but they go to a special servicer, and those special servicers are very busy, and they consult with the owner, and they consult with the bondholders, and, effectively, there is a process there for determining just what you said. Do we have an ability to extend this loan and not take repayment with the bondholders in exchange with something else of the owner?

Ms. PORTER. But is there enough flexibility in the terms of most of those commercial mortgage-backed security agreements to allow that kind of negotiation because this was a huge problem in RMBs, as you recall. Is it going to be better or different here?

Mr. WEIDELL. I think there is somebody in the back of the room I just met who has better experience with that who could explain it. I know they are busy. It seems as if the system thus far is working, you know, and in the meantime, the CMBS market is issuing new debt to help its way out of this cycle.

Ms. PORTER. Well, respectfully, I think issuing new debt to help its way out is what it always does. Whether it works or not, is a little bit of a different story. I think that is what Wall Street does, and it is a good thing, but I do not know that we can look to that as necessarily a positive sign. And I guess I am mostly worried about, this hearing has been really wide ranging, and I think one of the things I have taken from it is that we ought to have some more hearings. Because I have not been fully satisfied with what we have said about the office situation, and particularly with regard to the CMBS and the life insurance companies, who have very, very different regulatory relationships than banks, and I think we need to dig into that a little bit more.

I mean, part of what I am concerned about is, and this goes to what the Chairwoman was saying, is that this kind of mowing and waiting, I will call it, like the owner of the property, he is mowing the grass, and he is waiting for the market to turn, and kind of pretend and extend mindset is going to hit its limits at some point. How long do you think we can sustain kind of extensions in office space the way we have been?

Mr. WEIDELL. Again, I do not want to be avoiding the question directly, but it is very circumstantial. I know certain life insurance companies have pretty much budgeted a 5-year program for this, saying that we do not expect a recovery in this space to occur this year or next, and anything we structure, we want to give 5 years to. So, they are looking at it in an extended way.

Ms. PORTER. OK. Let me ask Mr. DeBoer. Commercial real estate has gone up a lot in the last decade, 2014, 2022, in the last 8, 10 years, 90 percent, and that is not multifamily. That is the more traditional commercial real estate. Given that it has gone up so much, did these companies fail to pay down? I mean, in other words, it is one thing when your property value is declining, and you have very limited options. I understand it is more expensive to refinance today, I understand that the income on the properties is lower than it is today, but your property is worth a lot more than it was. Have they continually levered up to where the loan-to-value ratio has continued to be high?

Mr. DEBOER. No, I think your point——

Ms. PORTER. Could you turn your microphone on? Yes. Thank you.

Mr. DEBOER. I think your point is a very good point, but not everyone bought in 2012, and so the vintage, I think, was referenced earlier. If someone bought in 2012, 2013, low interest rates, they have seen a substantial increase in their value. They have seen equity created, OK, but that is not necessarily true for the 2019–2020 buyer. There again, when you asked about what someone would look at on extending a loan, what is the vintage of the property? What is the financial strength of that borrower? Do they have capital to put in to justify extending that loan? That is the best I can do on that. But your point is obviously perfectly correct, but, again, with rates going up 550 basis points or whatever you have, you have a tremendous impact on value and a destruction of equity at the same time that you are requiring new equity to go in to refinance, at the same time, you need new equity to amenitize that building——

Ms. PORTER. You chew up a lot of that added value with all of those things put together.

Mr. DEBOER. Yes. Right. I mean——

Ms. PORTER. Do you mind? I know I am over time, but do you mind?

Mrs. MCCLAIN. Yes.

Ms. PORTER. Otherwise, I am going to ask for another round, so you might as well just let me keep going.

I want to talk about HUD. I know that the Chairwoman had this on her mind as well. I think this is your testimony Mr. Weidell, that you said something along the lines of HUD is quickly becoming the most expensive, difficult—one of you said this, and I know it was not Mr. Turner—that HUD is quickly becoming one of the most difficult, expensive places to do multifamily, and the volume at HUD for multifamily is down 75 percent in the last two fiscal years. Mrs. McClain and I both were like, tell us more. Why, and what can we do about that because that seems counter to everything that we have said about supply.

Mr. WEIDELL. Well, thank you for noticing that, and that is what we think as well. We are all talking about building more for affordable housing, and here is an opportunity to do it, and it is not getting done.

Ms. PORTER. Well, it is going the wrong direction even.

Mr. WEIDELL. Correct.

And as a practitioner, I have not done a lot of HUD business because it is generally the lender of last resort at this point. The process is way too long. The requirements are way too great. They evolve, they get added during the process, and particularly with the rise in interest rates, it just made a lot of projects unfeasible that may have been put into the pipeline 2 years ago, and by the time they got into the HUD pipeline now, with all of these requirements, they do not work.

Ms. PORTER. So, I just want to make sure I am understanding this. So, it is not that there has been any huge, wild change in the requirements. You may think there are too many. Someone else may think there is not enough. Let us just posit they have basically stayed the same, but what you are saying is now that interest rates are higher, you are paying more for the money to do the project. You do not have as much leftover to absorb all of the costs of the loan itself.

Mr. WEIDELL. There are new ones, I am being reminded, and I know there were a couple that came out just last week that we are really not in favor of. But these things, what happens is obviously during good times, you could kind of overcome some of these obstacles, but

Ms. PORTER. Well, if money is cheap, that helps.

Mr. WEIDELL. When money is cheap, it helps, and you can get through all of this. When money got expensive, expensive, then all of these things really mattered, and that is where we are, and it is a great time, really, to examine what is necessary in this process and what is not necessary. And, you know, one of the contentions here is there is a high insurance premium that borrowers are paying, and HUD has performed exceptionally well.

Ms. PORTER. Yes.

Mr. WEIDELL. There have been very few losses. It has been good for the taxpayer and the Treasury.

Ms. PORTER. Well, we have seen mortgage insurance premiums come down on single family, and I think it is time to consider, at least, whether we can do something similarly on multifamily, particularly when we have a lot of people within the Administration talking about density. Like, multifamily is dense compared to single family, so that seems like a sensible thing.

And I guess the last thing I just want to close on, and I appreciate your indulgence, is I am so frustrated with Congress. I could end this so many ways, I just want to say. I am so frustrated with Congress for not taking up the Affordable Housing Credit Improvement Act. I just do not get it. There are 221 Members signed onto this bill. Half are Democrats. Half are Republicans. You know what I call that? A goddamn miracle. So, I just do not understand why we cannot get this moving, and I really would implore, like, the wonderful, talented people that work with MBA and other organizations to really turn up the heat on Republican leadership, just because it controls the Floor, to get this bill on the Floor because we just do not see this kind of good agreement on commonsense stuff. And to have the business community behind it at the same time we have the low-income housing for all, do-gooder community behind it, I mean, it is a miracle. And I just would love to see this get over the finish line before the end of this Congress. Thank you so much.

Mrs. MCCLAIN. Thank you. In closing, I want to thank our witnesses once again for your testimony today. It was a very good conversation. I think it was truthful, it was honest, it was candid, but I do agree with the Ranking Member. I think there is a lot more to talk about, and we just have scratched the surface today. So, I know she has talked twice, but I am going to give her an opportunity to do her closing remarks as well.

Ms. PORTER. I just want to close on one observation, which is when we talk about commercial real estate, particularly office, and we are talking about life insurance companies and mortgage-backed securities, I think it is really easy to lose that there is a human element in office space default. I think when we are talking about residential, it is easy to see the foreclosure, it is easy to see the family becoming homeless, but offices employ some of the most underappreciated, hardest-working, low-income Americans who are janitors and cleaning staff and security guards, and they are all going to be victims of any kind of office property collapse or big downturn. And so, I just want to end with humanizing a little bit.

I am probably one of the last people in Congress that you will hear fighting just for Wall Street to make one more dollar, and so I just want to make clear that is not all that is at stake here. It is the vibrancy of local communities. It is whether or not they are occupied, and crime goes down. It is whether those people have places to go to work. And so, I just want to recognize that there are lots of partners here, including those in organized labor and others who really need to see the office market stabilize. And if it is going to change, then it changes in a smooth and gradual way, so we avoid those job losses.

Mrs. MCCLAIN. I ask unanimous consent to enter into the record CREF–30, dated April 30 of 2024; SISC, April 30, 2024; and a letter from Muriel Bowser dated April 29 of 2024.

And without objection, so ordered.

I now recognize myself for my closing statements.

Today's hearing, I think, was a necessary step toward monitoring the health of the commercial real estate market. So many times, what I see, is we have hearings after the fact. We are not proactive. We do not talk about what we can do to avoid a consequence or a crisis. We just want to come up and pontificate and lay blame after the crisis has occurred, and we have seen that time and time and time again. What I would like to do is more of what we are doing today, and I appreciate your thoughts, your inputs, and the comments really on both sides of the aisle, is we have some issues. And we can talk about who is at fault and who is at blame.

But, look, we have COVID. That happened. We have interest rates that are higher. That is a fact. We have vacancies that are up. We have delinquencies that are up. I mean, in my opinion, the telework may have been a great answer to the problem during the pandemic. But we have a ton of office space, especially downtown D.C., and people are not working. People are not going into the office to work. And some of my colleagues said, oh, well, we just think they are lazy. I do not think that is the case at all. People are logical. I mean, if I do not have to workout and I can eat McDonald's and stay a supermodel, I would do that. That is just not the case, right? We have to look at these events, and we have to be able to project a policy's effect.

Office vacancies matter, interest rates, getting people back to work matter, and they matter for this simple fact: when people are back to work—and just read the letter—when people are back to work, there are more coffee shops, there are more restaurants that are open, there are more dry cleaners, there are more small businesses, and small business is what was the heart and soul that built America. And without small businesses and people working at those small businesses, we do not have tax revenue, and it is our economic systems that give us our social programs, and that is what is hampering D.C. right now. No one is back to work. Office space is empty. Interest rates are up. I mean, project a policy's effect.

What my greater concern is, is what do we do with the amount of paper that is coming due and these loans that are coming due in 2027, roughly $2 trillion of them, so we do not wake up and say, oh my gosh, we are at crisis, and we ask the American people, because whether it is a subsidy or a bailout, that falls on the backs of the American taxpayer, we do not have to go back to the American taxpayer like we have done so many times in the past and say, we need you to bail us out. Let us work on commonsense legislation.

What I have heard, we have got some good ideas today. Let us eliminate some of this regulation, make it easier and less burdensome for both businesses and lending institutions to refinance some of these loans, to reclassify some of these loans. And I think, Mr. DeBoer, you said something very interesting, is let us take a look. Instead of a one-size-fits-all approach, maybe we need to change some classifications. So, what I am most proud of with this hearing today, is we actually talked about some real solutions, so we avoid a problem.

So, with that, I thank you all for being here. I thank my Ranking Member, and a little administrative business.

With that, and without objection, all Members have 5 legislative days within which to submit materials and additional written questions for the witnesses, which will be forwarded to the witnesses.

If there is no other further business, without objection, this Subcommittee stands adjourned. Thank you.

[Whereupon, at 3:55 p.m., the Subcommittee was adjourned.]