



CONGRESS OF THE UNITED STATES

*JOINT ECONOMIC COMMITTEE*

CONGRESSMAN KEVIN BRADY

RANKING REPUBLICAN HOUSE MEMBER



NEWS RELEASE

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**STATEMENT OF  
CONGRESSMAN KEVIN BRADY**

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*The Commercial Real Estate Crisis*

I am pleased to join in welcoming the witnesses before the Committee this morning. The spreading crisis in the commercial real estate sector poses a serious threat to our financial system and economic recovery.

What I have heard repeatedly from people associated with the commercial real estate industry is that they are unable to refinance outstanding mortgage loans when they mature. While officials here in Washington talk about the need to boost the economy, federal regulators are pressuring banks to reduce their exposure to commercial real estate loans. The result is that even some profitable commercial real estate firms that cannot rollover their debt now face bankruptcy proceedings.

The magnitude of this problem is huge, with at least \$1 trillion of commercial real estate debt requiring refinancing over the next several years. Bank loans typically have a maturity of five years or less. Loans in commercial mortgage-backed securities typically have longer terms. These loans were made when credit conditions were very favorable and now will have to be refinanced during the most serious liquidity crisis in many decades.

The economic weakness resulting from the bursting of the credit bubble has reduced the market value of shopping centers, hotels, and office buildings. Consumers are cutting back purchases, and companies are retrenching to cut costs. Higher vacancy rates are boosting delinquency rates on commercial mortgage loans. Although the commercial real estate crunch began after the housing bubble burst, there is little doubt that the financial crisis has now spawned another dangerous threat to the prospect of economic recovery.

Consequently, now is the time to repeal the punitive tax treatment of commercial real estate, including provisions taxing foreigners on U.S. capital gains from real estate sales. Congress should consider reducing the depreciation period for commercial real estate and reject proposed tax increases that will undermine a potential economic recovery.

Another problem affecting commercial real estate relates to depressed appraisals of property. Obviously, low appraisals on property being refinanced are only going to make mortgage rollovers even more difficult in a liquidity crisis. Although it is understandable that appraisals will be affected by current depressed conditions in the industry, perhaps there is an alternative to valuing a long-lived asset in the trough of a severe recession. If a longer period of time were used as the basis for a property appraisal, a more accurate view of its long-term value might be available.

In conclusion, the problems in the commercial real estate industry are a serious threat to the economy. Congress should consider policies to increase financial liquidity in the industry and avoid policies such as tax increases that will only aggravate the financial and economic distress.

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