TRANSCRIPT – [The Real Estate Roundtable](http://www.rer.org)

[House Oversight and Accountability Committee Health Care and Financial Services Subcommittee](https://directory.politicopro.com/committees/congress/500521c0-4df2-4481-9c41-ebbf33b5dba8)

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2154 Rayburn House Office Building

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[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Even Mayor Bowser has told President Biden that his administration's telework policies are killing Washington DC is local businesses. The Biden administration has offered vague information and statistics to support their claim that post pandemic telework has been successful. It took four 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'm from the pirate private sector, so I do have a bias.

When you don't show up for work, you lose your job. For too long this administration has allowed federal employees to skirt by on lacks telework policies on the back of American taxpayers. The commercial real estate market cannot flourish. If its offices are empty.

The American people can't 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 commercial industry, real estate market is actually strong.

So right we have these headwinds, we have these 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 don't end up in a bad situation, rate 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'm 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.

[**Rep. Katie Porter (D-Calif.)**](https://directory.politicopro.com/congress/member/P000618)

The calm before the storm is where everything gets very peaceful. Before a big disruption. Congress gets this this this phenomenon. It's like last week's calm district work period before now facing a month of unpredictable governance in the House.

Well, it's 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 McLean 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 failed to see storms on the horizon. Last spring, government leaders were shocked when Silicon Valley Bank Signature Bank first republic all collapsed. Most folks hadn't 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 greenlight 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 28th 2008 financial crisis is the same story. Washington thought that mortgage markets would be okay. mortgages where you can choose what to pay, lending 115% of a home's value. What could go wrong?

Besides everything, the Federal Reserve itself insisted the risk was under control. With Chairman and Greenspan saying in 2006 that quote, there is no evidence that home prices will collapse, quote, and later admitting that quote, he didn't see it coming, quote. Why? Because he didn't 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 don't 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 aren't making the same money that they did before the pandemic, the businesses who were their tenants cancelled or didn't 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? Cats and dogs living together? That's right.

Can I be the dog Okay? Today, me property transfer in Los Angeles County, worth more than $10 million gets taxed at a whopping 6%. This kind of big tax change adds huge risks 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 are 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 hasn't 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's try to prevent or minimize a future storm for our economy. While we're still in the calm.

I yield back.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Thank you. I am pleased to welcome our witnesses for today. Mr. Jeffrey De Boer is the President and CEO of the Real Estate Roundtable, an expert in commercial real estate management, ownership and development. Welcome.

Mr. Jeffrey Wydell 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 nine G the witnesses will please stand and raise your 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?

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 it will appear in full in the record, please limit your oral statements to five minutes. As a reminder, please press the button on the microphone in front of you. So that is on and the microphone can and we can hear you. When you begin to speak the light in front of you will turn green after four minutes the light will turn yellow when the light comes on is red.

Your five minutes has expired. And we would ask you to please wrap up. I now record all my salt my sorry. I now recognize Mr. Boyer for your witness testimony.

**Jeffrey DeBoer**

Well, thank you very much. I think I'll just align myself with your remarks that seem 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. 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 don't 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're saying, let's understand the problem and get in front of it. But there's 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 cost. 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 home ownership and workplace amenities are currently weathering the storm. Most commercial real estate bank loans by the way are eight to 10 year terms. They're frequently interest only, and many times they were originated with a 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 imbalanced, roughly about 12%.

Office vacancy at that time, it's 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 conservative, conservatively 50 to 60%. 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 five and a half the highest since early 2001.

Not since the 1980s as the Fed hiked rates at the 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% diminished market liquidity and the drop in transaction value in turn increased pressure further on property valuations. 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, you know, 20 and 24 months at a time and one in which lenders are urged to reduce their commercial portfolios.

There have been and it's worth acknowledging helpful policy actions principally last year, the federal regulators issued guidance where they instructed lenders to work with credit worthy borrowers and they gave flexibility to restructure maturing a commercial loans. Now it 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 I also and they should also reflect a transitory assets when a new owner comes in they have to move that asset into a stabilized position that shouldn't 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 we end to accelerate the reopening of activity. Today, returning to impersonal work is critical to the health of cities, local economies, tax bases and small businesses, as you 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 if passed the House, let's 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 three end game and other regulatory matters that will restrict credit and capital formation and the federal government should get back to her. Now regarding housing. Yesterday, a coalition sent a letter to Congress cataloguing a host of pending items that we have, including converting obsolete buildings into housing, increasing Low Income Housing Tax Credit volume caps, incentivizing local zoning and permitting reforms, increasing efficiency in the section eight housing voucher voucher program and more. Finally, I would like to note that rent control and eviction moratoriums are on first blush, appealing concepts, but they proven time and again that they're 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

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Thank you, sir. We'll now hear from Mr. Weidell. Thank you.

**Jeffrey 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 Bankers Association. My name is Jeff Vidal. I'm Chief Executive Officer in North America top 10 commercial real estate finance and sales firm with expertise in debt equity, property sales and loan servicing. I'm testifying in my capacity as a current Chair of the MBS 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 brushstrokes. 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 in many others.

They're 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 estimated that roughly $1 trillion in commercial real estate mortgages will mature this year. However, it is also important to note that it's statistics show 96.8% 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 in other capital sources combined hold $573 billion. Certainly delinquency rates on commercial mortgages have been rising, particularly for loans backed by office properties.

20% of the commercial mortgage debt is set to mature in 2024. Mortgage 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 in every owner are in unique situations. The mix of value variables involved are critical to determining which properties and loans face challenges in which do not between 2014 and 2022 on average commercial property values grew by 90% in multifamily values grew by 144%.

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's left unchanged, it will negatively impact the availability of commercial credit. The second is exempt multifamily and commercial property loans from the HUMDA 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 really reconsider program requirements that raise the cost of building rental housing.

And lastly of these items, we'd 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 passed bipartisan, bicameral tax proposals, pass bills that provide incentives for state and local governments, which helps support and increase the affordable housing supply and enhance existing affordable housing programs and initiatives. Thank you again for this opportunity to represent the NBA.

And I look forward to answering any questions.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Thank you, Mr. Weidell. The Chair now recognizes Mr. Turner for five minutes. Doug Turner

Thank you, Chairwoman McClain, ranking. Chairwoman McClain, sorry, Ranking Member Porter distinguished members of the Subcommittee, I appreciate the opportunity to 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 isn't new housing production has not kept pace with demand since 2007. Estimates currently are that the country needs an additional two to 4 million housing units.

But that number grows as production lags household formation. According to the last data from from the Census Department, almost 41 million households are considered a housing cost burden, meaning they pay more than 30% of their income, their gross income per housing. That's almost a third of the country. More than half of the renters, and over 19 million homeowners, are housing cost burden.

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, the most one of those relevant populations here are those perhaps more in the middle income tiers, those making 35 to just under $50,000. Half of them, half of them pay 30% 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's no question that higher mortgage rates have hampered the effort to reduce the housing cost burden. Uncharacteristically, they to the they also reduced the supply of existing homes for sale.

We have a win typically when mortgage rates rise, prices of existing home fall to compensate. But we have a number of owners with pandemic air mortgages well below 4% To who who don't wish to sell and there are roughly 2 million fewer existing homes for sale, that then would typically be the case. It's 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. The difference is, and those have spanned from luxury condominiums to homeless shelters. The difference is those are typically vacant buildings.

And the commercial office properties we're looking at now, there is an urgency which is not typically a factor if we're 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, then much newer, freestanding homes. The scale of feasibility remains a question. Few days go by that at least one article in my newsfeed doesn't have a story that either says conversion is the ultimate solution to all the problems facing both industries. Or that it's a naive fantasy that's 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, their assets and market specific conditions. And and that 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, the first version of guidebook to aid the process of conversion.

And I think it's helpful to understand this send a strong signal of the seriousness of the administration to both the CRA problems and recommitment to affordable housing. See him over. But I want to compliment the real estate roundtable for a second, they sent a letter to the Council of Economic Advisers 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 haven't 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's an agreement there that we would have to find this to expand the toolbox for both the federal government and the local communities.

So I again, I think there's more common ground here, as well. I'll 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, both the commercial real estate industry and those affordable housing. Thank you.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Thank you, Mr. Turner. The Chair now recognizes Mr. Burlison for five minutes.

[**Rep. Eric Burlison (R-Mo.)**](https://directory.politicopro.com/congress/member/B001316)

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 was 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?

**Jeffrey DeBoer**

Well, I I'd 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 and car buyers, much of the economy was not even subject to interest rates going up education to spending under the infrastructure bill and other things. Do I think that Bill lowered inflation? I don't know.

To the extent maybe it opened up the supply chain problem is.

[**Rep. Eric Burlison (R-Mo.)**](https://directory.politicopro.com/congress/member/B001316)

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

**Jeffrey Weidell**

I can't, I can't speak to the Inflation Reduction Act, we, our industry is benchmarked, mainly off of short term interest rates and the 10 year treasury. And we're still kind of suffering through the rate increases they are and the inflation in the cost of mortgages.

[**Rep. Eric Burlison (R-Mo.)**](https://directory.politicopro.com/congress/member/B001316)

So okay, so let's, let's dive into that then. So you're we're experiencing higher interest rates than before. Either one of you can chime in that, how is that having an IQ, an economic impact on your industry?

**Jeffrey Weidell**

I can jump on that one. I mean, from a mortgage finance perspective, it's pretty simple. And it's consistent with what's happening in the residential side, it seems as if a lot of existing mortgage rates are about 4%. The current market, let's call it six and a half percent.

And that's a major adjustment, you can't qualify for the same amount of leverage. And leverage costs more. So when people come to us for a loan, we're often coming up with less proceeds than they need at a higher cost. And that's the transition the industry is going through.

**Jeffrey DeBoer**

I think that also there's so many mortgages that were originated in the period of historically low interest rates that are now coming up to be refinanced. And there's 500 basis points roughly higher on the Fed funds rate, that makes it very, very difficult to refinance commercial mortgages under this.

[**Rep. Eric Burlison (R-Mo.)**](https://directory.politicopro.com/congress/member/B001316)

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

**Jeffrey DeBoer**

I would not necessarily term that issue as a cliff, it's more of a slow moving train wreck as these mortgages come up, they they're restructured to meetings are going on with lenders, some aren't going forward, some are so as it kind of builds up. It's not overnight problem, I guess I would say.

**Jeffrey 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 a 10 year mortgage as a convention on kind of the longer term. And then some operate on bank loans off a three year. So for example, will have a 10 year loan from 2014, maturing this year in 2024, as well as a three year loan from 2021, maturing this year in 2024.

And they tend to have very different characteristics. The one that's been in place longer, probably has more margin, the one that just came in into effect a few years ago, doesn't have the margin. So it's there's a mounting maturity, but the maturities aren't the same.

[**Rep. Eric Burlison (R-Mo.)**](https://directory.politicopro.com/congress/member/B001316)

So we're seeing a softening. Are we seeing a softening in the industry, from demand because of the E commerce move? Moved to have people work from home?

**Jeffrey DeBoer**

As well, I think there's substantial question in the office market about future office needs. But the occupancy has been going up on interest rates, I'd also say just because the rates went up, the values are coming down. So refinancing those mortgages at the number that they were originated 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.

[**Rep. Eric Burlison (R-Mo.)**](https://directory.politicopro.com/congress/member/B001316)

So real quick. And last question is how do you see this comparing to what we experienced in 2008?

**Jeffrey DeBoer**

Well, 2008, you want to take the show I would say I think in 2008 arguably, there were a lot of loans that may have been originated that were not, let's say conservatively underwritten and maybe never should have been written in the first place that we're coming to that clogged up the plumbing within the financial system. That's not what's happening here. These mortgages were issued in a conservative basis, markets were largely imbalanced when they were done. They've been thrown out of balance because high interest rates and a change in the demand side of things primarily, so I don't see them as all that equal.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Thank you. The Chair now recognizes Ms. Crockett for five minutes.

[**Rep. Jasmine Crockett (D-Texas)**](https://directory.politicopro.com/congress/member/C001130)

Thank you Madam Chair. Mr. Turner, as a trained attorney, I am not supposed to ask a question I don't know the answer to but I am so about to do that because I trust and believe in you. Okay, so don't let me down. I want to level set really quickly inflation Biden induced or pandemic induced?

Doug Turner

Goodness no pressure. Thank you for that. I think that the first of all, and as was said earlier,

[**Rep. Jasmine Crockett (D-Texas)**](https://directory.politicopro.com/congress/member/C001130)

Hold on guy five minutes. And I got a lot of questions. So just real quick Biden or

Doug Turner

There was a period of extraordinarily low interest rates after the 2008. So for that, me over the long term, the average 30 year mortgage rate, which is what I'm most familiar with in housing, I think that it was much more supply chain COVID related than anything President Biden or the

[**Rep. Jasmine Crockett (D-Texas)**](https://directory.politicopro.com/congress/member/C001130)

Thank you so much. My next question is, as it relates to inflation, is this a domestic inflation? Or has inflation been global? Doug Turner

Well, there are others who can speak much more to global economics than I can with my expertise being big, but you agree with me that global it is there are very few markets anymore that are purely domestic, okay, particularly financial.

[**Rep. Jasmine Crockett (D-Texas)**](https://directory.politicopro.com/congress/member/C001130)

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're 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 lazy, that's, that's 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 us for criminal indictments. But nevertheless, what I'd 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 Brookfields.

With only section. Okay, thank you. Alright, so there's a couple of things that I want to talk about, is there a problem as relates to commercial real estate right now? Yes, there is.

And I appreciate your response that you just had about the fact that it's not necessarily the same as 2008. It is nothing like 2008, from everything that I can tell. And that's 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 cell phones. 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're moving on to E vehicles.

Here's the deal. We have a transitioning workforce, we understand that, wow, a lot of people were not in their offices, specifically because of the pandemic. We know that some companies and corporations saw benefits and not being in the building as they had to adjust, 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's okay, but we now have to adjust. So I want to talk to you about solutions. I don't want to just say, Well, you know, back before the pandemic, everything was back before the pandemic, a lot of people didn't die either.

So yes, there's a lot of things that I would prefer, did not take place as a result of the pandemic, but I just can't go back. And so I want to talk about solutions, because that's what we're supposed to do. And Congress instead, we play games, but I'm gonna be real with you. And I want to ask your questions anybody can jump in.

And my opinion as we have these commercial buildings that are sitting vacant for whatever reasons, whether 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's 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 relates to the cost that a lot of commercial property is enduring right now. Anybody jump in?

And Madam Chairwoman, I just ask that you allow them to answer Thank you,

**Jeffrey DeBoer**

Ma'am. It would be very, very helpful if there was some sort of federal subsidy, lot of state and local governments are providing incentives to convert here and DC 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's in law now, or something. These conversions, as Mr. Sherman mentioned, are extremely expensive.

It's not good for every building, but it's good for some and it would, as you said, Help housing and it would help cities, and so forth. So the answer is yes.

[**Rep. Jasmine Crockett (D-Texas)**](https://directory.politicopro.com/congress/member/C001130)

Thank you so much.

**Jeffrey DeBoer**

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

[**Rep. Jasmine Crockett (D-Texas)**](https://directory.politicopro.com/congress/member/C001130)

I will let them know that you have lobbied for him.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Thank you, the Chair now recognizes Mr. Grothman for five minutes.

[**Rep. Glenn Grothman (R-Wis.)**](https://directory.politicopro.com/congress/member/G000576)

See, there we are even our witness thinks the answer is more government money. That's why we're broke. Okay, Mr. Weidell, your testimony states the current administration is producing over burdensome regulations. Can you give me some examples and explain why it's an issue?

**Jeffrey Weidell**

Sure, I think the the two that we speak of, you know, kind of on a simple basis, involve things that are more consumer-driven, and really shouldn't apply to the multifamily business, in commercial properties in terms of the Honda and the section 1071. Recording, you know, these, these things are more for small proprietors and business owners. And we're really involved in property finance, and it kind of creates a layer of

[**Rep. Glenn Grothman (R-Wis.)**](https://directory.politicopro.com/congress/member/G000576)

Can you narrow it down and give me a specific example where it doesn't apply?

**Jeffrey Weidell**

I'm gonna have to allow the MBA to provide that information to you because they've, they've accessed that. I mean, in the other area, I would go to HUD, and and, you know, the regulations and the structure of HUD is such that it is it's 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 the structure of it and the regulations involved.

Yes, we're gonna, the NBN will get back to you on the on the details. But within HUD, I mean, for example, they require guarantees of access of fire service in water and sewer. They require sound studies, very burrowing animal studies, all these sorts of things that are covered by other government agencies that are duplicative in the work. And they add to the timeline in the cost, and not really to the housing, which we need to build.

[**Rep. Glenn Grothman (R-Wis.)**](https://directory.politicopro.com/congress/member/G000576)

Okay, 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?

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Can you can you turn your mic on?

**Jeffrey DeBoer**

The President has done many of these programs have Davis Bacon attached to it and, and provisions like that, that drive up the cost of construction dramatically.

[**Rep. Glenn Grothman (R-Wis.)**](https://directory.politicopro.com/congress/member/G000576)

So I just wanted, so you give us an idea how much it drives it up?

**Jeffrey DeBoer**

We've seen indications between 20 and 25% of cost is going up on some projects.

[**Rep. Glenn Grothman (R-Wis.)**](https://directory.politicopro.com/congress/member/G000576)

Yes. Okay. That's just as for which projects are they required on?

**Jeffrey DeBoer**

Well, anything under the IRA? Is is in that case? And there's a variety of programs that 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.

[**Rep. Glenn Grothman (R-Wis.)**](https://directory.politicopro.com/congress/member/G000576)

Could you give me some just ballpark throughout some numbers of a typical example. And you can show us how much it would drive a brand's or cause the underlying property owner to go under?

**Jeffrey DeBoer**

I prefer to get back to you on that except to say that if you had a loan of let's say, $100, it was done at 65% loan to value today with higher interest rates, that $100 value is probably down to $80 You're not going to refinance the $65 on that, you're gonna only gonna get probably $45. So you're gonna have to pay down that 65. And you're gonna have to put additional capital into the property because of what's happening in the market in terms of driving office tenants to higher amenity buildings, if that helps, but I'd be happy to give you a more kind.

[**Rep. Glenn Grothman (R-Wis.)**](https://directory.politicopro.com/congress/member/G000576)

Okay, well, if you could give us an example of some sort of commercial development, and apart from the interest rates, how much would a property do You're building say, go up in the last three years since the big inflation, the bid the big increase in government debt?

**Jeffrey DeBoer**

I think those would be a unicorn to find in the economy where they've gone up in the last three years. We're seeing office declines of 30 40%. All assets went down in value because interest rates went up. It's a simple math situation there on operating costs.

Keep in mind insurance premiums, property and casualty insurance premiums have dramatically increased over the last several years.

[**Rep. Glenn Grothman (R-Wis.)**](https://directory.politicopro.com/congress/member/G000576)

Okay. The cost of building residential real estate has gone up considerably. Yes. Is that affected the cost of building commercial real estate?

You just stopped?

**Jeffrey DeBoer**

Yes, it does. Land. Labor materials have all gone up in cost. Yes.

Okay. Thank you if it's residential or office.

[**Rep. Glenn Grothman (R-Wis.)**](https://directory.politicopro.com/congress/member/G000576)

Thank you.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Thank you. The Chair now is recognize this as Ms. Norton for five minutes.

[**Del. Eleanor Holmes Norton (D-D.C.)**](https://directory.politicopro.com/congress/member/N000147)

Thank you, the commercial. This is a question for Mr. Turner. The commercial commercial real estate market is obviously critical to our nation's economy, and it is critical to the district Oh, Columbia's economy and I represent the district. DC like other cities has been, as seen a sharp decline in the assessed value of commercial office buildings since COVID, leading to a reduction in tax tax revenue for our cities.

This dramatic reduction in office values is both deeply concerning and an opportunity to reimagine our downtown's 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 in here I quote, a shortage of 7.3 million rental homes affordable and available to renters with extremely low incomes in quote.

Mr. Turner, is our nation's housing affordability, affordability crisis, a recent development? Doug Turner

No, is the very short answer. Thank you for that question. It has we have always had a percentage, we term it cost burden, meaning you're paying more than 30% of your gross income for for housing expense.

Even with 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. It's a sizable number of households who could not find affordable housing or pay for it, it's important to note that the operating costs of housing, including insurance, maintenance, even if the home is free, then without the ability to pay those operating costs to continue it if that's more than 30% of the income. It's not an affordable home.

We've 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's been exacerbated.

[**Del. Eleanor Holmes Norton (D-D.C.)**](https://directory.politicopro.com/congress/member/N000147)

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

I don't think it's an overstatement to say that it would mean real financial futures for many of them. I mean, if you're paying 50% 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're likely taking much more consumer debt. I mean, it is a as we like to think of homeownership as the way as the path to gaining equity into gaining a steak. Exactly the opposite is happening with those who are unable to find housing that is affordable to them, they are having to forego something.

[**Del. Eleanor Holmes Norton (D-D.C.)**](https://directory.politicopro.com/congress/member/N000147)

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? Doug Turner

It's it's extraordinarily important that we look at The number, the wrong 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. And so it is hope this is answering your question. And encouraging starter homes instead of homes that have grown to 2500 square feet encouraging apartments being built or rehabilitated, that are actually affordable to the lowest income tier.

And we're necessary providing more rental subsidy for for a number of families who otherwise are still going to fall below the the affordability gap there.

[**Del. Eleanor Holmes Norton (D-D.C.)**](https://directory.politicopro.com/congress/member/N000147)

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.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Thank you. The Chair now recognizes Ms. Foxx for five minutes.

[**Rep. Virginia Foxx (R-N.C.)**](https://directory.politicopro.com/congress/member/F000450)

Thank you, Madam Chairwoman. I thank our witnesses for being here today. Mr. Weidell, in your testimony, you stated the Biden administration is producing, quote, 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?

**Jeffrey Weidell**

Well, I think there, there are a couple we've mentioned a few before. Certainly the Basel regulation is a high priority for the NBA, to make sure it doesn't go through in its current form, it will just, 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% at a time where everybody agrees those units are needed to a great degree. And it's simply overburdened both by cost and by the regulations.

[**Rep. Virginia Foxx (R-N.C.)**](https://directory.politicopro.com/congress/member/F000450)

And I'm going to do a quick follow up on that. President Biden boasted his administration to cracking down on junk fees and 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 undoubtably have a greater impact. How do these government driven junk fees impact the development of commercial real estate?

**Jeffrey Weidell**

Well, certainly to the negative, you know, the higher the cost, the less the development. And it's certainly something the NBA has been working on and has kind of a long list of these fees that we'd like to see reduced or eliminated.

[**Rep. Virginia Foxx (R-N.C.)**](https://directory.politicopro.com/congress/member/F000450)

Okay, further, you discuss the mortgage insurance premium that's 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?

**Jeffrey 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.

[**Rep. Virginia Foxx (R-N.C.)**](https://directory.politicopro.com/congress/member/F000450)

Thank you, Mr. DeBoer. What are the most significant barriers either federal or local, that developers and investors face when deciding the bill multifamily projects?

**Jeffrey DeBoer**

You know, I think I got that you asked what 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'd throw out the section eight program, which is our long standing 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 eight voucher amount is a lengthy process that could be streamlined and be very, very helpful. And just to respond over here on low income housing tax credit, if that was done, it would produce about 2 million new low income housing homes over the next decade.

So there are things that could be done.

[**Rep. Virginia Foxx (R-N.C.)**](https://directory.politicopro.com/congress/member/F000450)

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 doesn't 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, don't repeat what you've already said.

But any other comments that you want to make?

**Jeffrey DeBoer**

I think I've probably said more than I could have said any I can't think of anything more except to agree with your your comment about too much regulations are negative.

**Jeffrey Weidell**

But I would just offer their their 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're focused appropriately on mission driven and affordable housing, but the greater market can use their help to at assistance.

[**Rep. Virginia Foxx (R-N.C.)**](https://directory.politicopro.com/congress/member/F000450)

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

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Thank you. The Chair now recognizes Miss Lee for five minutes.

[**Rep. Summer Lee (D-Pa.)**](https://directory.politicopro.com/congress/member/L000602)

Thank you, Madam Chair. Unfortunately, my district is not unique and experiencing the dual challenges of a struggling downtown market alongside an affordable affordable housing crisis. Although Pittsburgh is only the 28th largest metropolitan area in the country, we had the fifth highest concentration of office space in the US. And right now more than 20% 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 who are experiencing housing insecurity and are part of the health crisis. But as we've heard from our witnesses testimony, it's clear that we have an opportunity, and in my view, and 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 has 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 towards the corporate interests have led to high housing costs that have collectively fueled the Exodus, the exodus of black residents from the city. Now, under the leadership of Mayor Ed Gainey, our city is committed to writing these wrongs by Re envisioning and rebuilding a downtown that benefits everyone. So Pittsburgh can't 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?

**Jeffrey DeBoer**

Well, size. What how big is the building? What's its configuration? What is the floor plan?

What is the window sizes? Does it fit with zoning? All kinds of issues to convert, it's not an easy process. And there's a very real problem to 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's a lot of of hurdles, but it's not impossible, as Mr. Turner said, it's not a panacea, either to these problems, but I applaud you for what's going on in Pittsburgh, and it should go on elsewhere. And don't confine it to office buildings. There are other obsolete buildings, whether they're small retail centers or something like that, that could also be be converted to housing.

And the last thing I'd 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's full spectrum.

[**Rep. Summer Lee (D-Pa.)**](https://directory.politicopro.com/congress/member/L000602)

You Mr. DeBoer. Mr. Turner, what should or 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? Doug Turner

Yes, I will.

First of all, I think that the Biden administration most recently has, through HUD and and other efforts, really tried to incentivize local, local municipalities state local government to be more open with their zoning and land use laws, which is which is a problem in doing this. I think that providing additional, again, subsidy for this raising the raising the amounts of programs that are both now on the books and perhaps looking to new programs to funded this is extraordinarily important. And so it's a great partnership or ideally, it's a partnership between like state and local government and the federal government, because the federal government has is, but for very few places, is the place that actually has the resources. But they don't need to be prescriptive.

And and I think that I think the Biden administration really recognizes that there's there's a whole point unrelated to Pittsburgh here that, that we're like, they're encouraging the use of manufactured housing in areas where it's it's a good, I mean, it is, you don't want that in downtown Pittsburgh, I'm sure. But like, it's very important another way. So I think they are very open to that.

[**Rep. Summer Lee (D-Pa.)**](https://directory.politicopro.com/congress/member/L000602)

Certainly, if I can ask one more, how do we ensure that conversion incentive programs actually serve underserved populations and don't just enrich large corporations and corporate landlords? Doug Turner

We have to put very strict income limits and actually, ideally, a mixed a mixed income facility mixed income development is is is best, but we Yes, we have to have strong oversight. And that's the one. I see my time is up.

[**Rep. Summer Lee (D-Pa.)**](https://directory.politicopro.com/congress/member/L000602)

Sorry. Wrong. I mean, that is the one thing we finish our sentences all the time here today. Yeah.

Well, that is one thing. Doug Turner

In discussions of HUD, and I, you know, there's a really clear and important role for HUD and other federal agencies to play in fair housing. I mean, and and 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% of African American households own their home, whereas 65 plus percent of others do. Frighteningly, in 1970, that number was 42%, when two years prior, it had been actually legal to discriminate against so we have not moved that needle.

I've got Oh, something for the Biden administration takes very seriously, and I appreciate your letting me go over time. Just to say that.

[**Rep. Summer Lee (D-Pa.)**](https://directory.politicopro.com/congress/member/L000602)

Thank you, Madam Chair.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Thank you. Without objection, Representative Garcia from California has waived on to the Subcommittee for the purpose of questioning the witnesses today at today's Subcommittee hearing.

[**Rep. Robert Garcia (D-Calif.)**](https://directory.politicopro.com/congress/member/G000598)

Thank you very much, Madam Chair. Appreciate you and appreciate the witnesses. I want to just to thanks opportunity for joining the Subcommittee.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Go ahead. Go ahead. You're good. Did you want to?

[**Rep. Robert Garcia (D-Calif.)**](https://directory.politicopro.com/congress/member/G000598)

Okay. Okay. So they continue. Okay.

Well, I'll start over. They think first of all, thank you to our witnesses for being here, a really important topic. And I'm grateful to be waived on to the Subcommittee for today. I served as mayor of Long Beach for eight years prior to just joining the Congress last year.

And so issues around housing, commercial sector viability, kind of real estate markets, and it's and how we are ensuring that the most vulnerable are, are supported, I think are all important issues and all that important to me. downtown's, we know are vital economic engines is where the workforce oftentimes lives. It's where oftentimes you can find housing that is currently being built. There's good density policy, typically in downtown's all things which lead usually to a good, strong, vibrant community.

And we're also we also know we're facing major challenges, especially post COVID. As relates to our downtown's. Now, downtown commercial vacancy rates when you 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 he obviously a huge part in 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 in the next and US region, regional banks will provide a bulk of these loans, putting them especially at risk. So just last year, I wrote to the Treasury over over this issue and to evaluate where the stress in the commercial sector pose 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 downtown's. I'd like to ask for unanimous consent to introduce that letter into into the record. Thank you, um, commercial vacancy has also created we know additional problems as have 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 pick up flowers or groceries, all suffer when we have vacancy rates, and we're 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's 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 can't save, invest, and certainly can't afford to spend, oftentimes in 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 cost us all approximately $2 trillion a year due to lower wages and productivity. And it's a travesty. Also in the wealth and 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.

We know 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's how we build more housing, we have to ensure that we are densifying cities, we're densifying suburbs that we're 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 that force in certain areas inclusionary zoning, which I think can be a positive tool for downtown's especially. I also want to note that the administration has recognized this opportunity they released of course, it's 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 it for the creativity, but also saw some obstacles within the guidebook as well. And I agree with some of those challenges that you noted. You letter in your letter, you had mentioned the RIF program, the railroad rehab improvement financing program, I also wrote to Secretary Buttigieg, as well enter that into the record. A lot of the money is not getting out of the door.

And so that's a huge issue. And so I just 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 an issue of the application process or what what can we do as in Congress to help ensure that that happens faster?

**Jeffrey DeBoer**

The application process is is quite lengthy. These programs are not well coordinated. But you mentioned transportation has a significant amount of of grant money for under the TIFIA loans, Rif loans and so forth. The process is lengthy NEPA, by the way the National Environmental Protection Act 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. Sure.

[**Rep. Robert Garcia (D-Calif.)**](https://directory.politicopro.com/congress/member/G000598)

Thank you. Well, thank you very much. Just to close, I'll say I know well, oftentimes unpopular, I do think there is a federal there for a federal purpose and a role for the federal government that releases zoning across the country, we should densify all of America.

**Jeffrey DeBoer**

And 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's through block grant proposals or other things, to incentivize local governments to reduce the weight given to NIMBYs and so on, so forth. Thank you.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Thank you. The Chair now recognizes Miss Pressley for five minutes.

[**Rep. Ayanna Pressley (D-Mass.)**](https://directory.politicopro.com/congress/member/P000617)

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 are 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? Doug Turner

Thank you, Representative. I think they're 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 the sort of cultural amenities that they have restaurants that they have those type things available, very different perhaps than living far out.

So it Yes, I mean, the, 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 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's where that's the best use of it, I believe would help small business business tremendously.

[**Rep. Ayanna Pressley (D-Mass.)**](https://directory.politicopro.com/congress/member/P000617)

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

Well, I preface by my business, 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 via conversions office space, or attractions are sufficient to to bring the number of people to say a restaurant or something. I think that is, so it's a tipping point issue, I believe.

[**Rep. Ayanna Pressley (D-Mass.)**](https://directory.politicopro.com/congress/member/P000617)

Thank you. Well, you know, Boston actually has been really innovative in our efforts to support small businesses offering grants and wraparound services through its it's 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 a bipoc business owners who even before the pandemic were already underrepresented in the downtown area. Mr. Turner, I'm very passionate about the merits of mixed use development and housing.

And could you just speak to how that supports our housing affordability goals, also smart growth, transit oriented 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 to that model? Doug Turner

Absolutely. And I appreciate that question. Because I think too often, we think of when we talk about conversion of office buildings that we think of the largest glass building that you know, is very high priced high, filled with attorneys.

And, and so can we make that into housing, you know, like empty it out making it housing. And I don't think that that's really what we're talking about mainly in conversion, I think that the best model is the one you just described, where you may leave, if it's a very large building a portion of that building, as for commercial uses, and then, you know, we we have a mix of both incomes of those moving in subsidizing those who can't afford it, perhaps not those who can't afford it, but it's going to be more attractive to them, right. If there are back to your small business question, it's going to be more attractive. And you're going to be more likely to have success with these projects, where you're not just getting a place to live, but you have many amenities around it.

So I agree with you.

[**Rep. Ayanna Pressley (D-Mass.)**](https://directory.politicopro.com/congress/member/P000617)

Wonderful, thank you. And again, just to lift up this innovative model in the city of Boston to support our, our small businesses and Boston, small businesses have already received nearly 3 million in space grants, 75% of which are minority owned and more than 60% 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 the downtown's leverage commercial real estate to emerge from this pandemic better than before.

Thank you, and I yield.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Thank you. I now recognize myself for five minutes. I appreciate your your honesty and your candor today, it seems to becoming clear to me that we're at a crossroads with the commercial real estate market or right now. What I'm 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 don't end up in a crisis? Right? My concern is and these are just the facts, inflation has steadily climbed over the over the past two 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 foreclosures last month. Those are maybe not alarming, but they are definitely pause for us to consider for us to look at in areas of concerns.

Right. I don't think we're there. But if we don't address these issues on a proactive basis, I think we're going to wake up and think oh, my gosh, now we're in a crisis. Let's avoid that.

What I'm trying to get a gauge on is what is your level of concern right now in this real estate market? Is that for everyone. Yes. And try and keep it brief, if you can, but, sure.

**Jeffrey Weidell**

I'll 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.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

And did he give you any indication of why do you talk about liquidity, the new changes of liquidity that the banks are required to have?

**Jeffrey Weidell**

Boy, I can't speak to his thinking. But I can speak to the fact that this is a known risk that you'll 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's been quantifiable to them and has been measured, and they analyze and they stress the reserves. And, and consequently, it's not an unknown, it's not something I left

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

With, with all due respect, right up until the time that it's a crisis. So I understand Dr. or Mr. DeBoer?

**Jeffrey 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 they there should be some way to incentivize banks to get back into lending by and large construction lending is, 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're not making loans to perfectly credit worthy borrowers in another asset class.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

So there needs to be some changes in the restructuring of loans, underwriting perhaps at the banks, is that what you're saying?

**Jeffrey DeBoer**

No, I think in supervisory guidance, it should be, 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

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Local and regional bank and about $2 trillion come and do though.

**Jeffrey DeBoer**

Yes, but what but not in office. Okay, so I just think there needs to be a better distinction and not a monolithic treatment of commercial real estate. Okay, the incentives to treat restructured loans where equity has gone in, those should be now classified as performing loans. It's almost a new loan.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Okay, thank you. We've heard concerns that proposed capital standards are coming out of the Federal Reserve are punitive to the real estate industry. In addition, I'd like to know if you can comment on this, is the US banking system vulnerable due to its commercial real estate exposure?

**Jeffrey Weidell**

Well, again, I think that's along the same lines of the last question. I, we can't speak to that the the analysis that we've 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. And as you just spoke to it, I would say the fact that loans mature is a normal course of business that under these conditions, right in there is capacity in the system to refinance those loans.

The it's the willingness and the ability to do it with the capital structure they have.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

That's kind of important, and the regulations and the constraints perhaps.

**Jeffrey Weidell**

And to Mr. DeBoer's comment. Yeah. If a loan has been paid down with some equity infusion, it should be reclassified as something that's performing and be willing to [UNINTELLIGIBLE].

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

Thank you, I now your to Ranking Member Porter for five minutes.

[**Rep. Katie Porter (D-Calif.)**](https://directory.politicopro.com/congress/member/P000618)

Thank you very much. What factors Mr. Weidell, do banks consider when deciding whether or not or sell, 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?

**Jeffrey Weidell**

Okay, that could vary significantly. And it probably vary significantly on their capital source and their oversight.

[**Rep. Katie Porter (D-Calif.)**](https://directory.politicopro.com/congress/member/P000618)

I mean, limited to office.

**Jeffrey Weidell**

Okay, but but again, you know, it depends on the lender, does the lender have the ability in capacity to extend the loan? That's kind of the first criteria, right? If it's a securitized mortgage with Wall Street, they can't simply do that.

[**Rep. Katie Porter (D-Calif.)**](https://directory.politicopro.com/congress/member/P000618)

Okay great. Let's let's actually pause there. I just looked at helpful testimony. And you're 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's read, I'm pretty sure this is what you gave me. So those, how do we work those out?

**Jeffrey Weidell**

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

[**Rep. Katie Porter (D-Calif.)**](https://directory.politicopro.com/congress/member/P000618)

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. And RMBs, as you recall, isn't going to be better or different here?

**Jeffrey Weidell**

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

[**Rep. Katie Porter (D-Calif.)**](https://directory.politicopro.com/congress/member/P000618)

Well, I mean, respectfully, I, I think issuing new debt to help its way out is what it always does, whether it works or not isn't a little bit different story. I think that's what Wall Street does. And it's a good thing. But I don't know that we can look to that isn't necessarily a positive sign.

I mean, I guess I'm mostly worried about this hearing has been really wide ranging. And I think one of the things I've taken from it as we ought to have some more hearings, because the concerns that I have not been fully satisfied with what we've 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 than banks. And I think we need to dig into that a little bit more. I mean, part of what I'm concerned about is, and this just goes to what the Chairman was saying is that this kind of kind of mowin and waitin, I'll call it, like the owner of the property, he's mowing the grass, and he's waiting for the market to turn.

And we kind of pretend and extend mindset is, is going to hit its limits. At some point. How long do you think we can sustain kind of extensions in office in office space, the way we have been?

**Jeffrey Weidell**

Again, I don't want to be avoiding the question directly, but it's very circumstantial. I know certain life insurance companies have pretty much budgeted a five year program for this, saying that we don't expect a recovery in this space to occur this year or next. And anything we structure we want to give five years to so they're looking at an extended way.

[**Rep. Katie Porter (D-Calif.)**](https://directory.politicopro.com/congress/member/P000618)

Okay, let me ask Mr. DeBoer. One of the things that commercial real estate has gone up a lot in the last decade 2014 2020 to about the last 810 years 90%. And that's not multifamily. That's the more traditional commercial real estate, given that it's gone up so much.

Why did these companies did these companies fail to pay down? I mean, in other words, it's one thing when your property value is declining, and you have very limited options. I understand it's more expensive to refinance today, I understand that the income on the properties is lower than it is today. But your property's worth a lot more than it was have they continually levered up to where the loan to value ratio has continued to be high.

Can you turn your microphone?

**Jeffrey DeBoer**

Yeah, 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.

Okay, but that's not necessarily true for the 2019 2020. Buyer. And there again, it depends when you asked about what what someone would look at on extending 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's the best I can do on it. But your point is, is obviously perfectly correct.

But again, with with that, 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're requiring new equity to go in to refinance at the same time you need new equity to amenitized that building .

[**Rep. Katie Porter (D-Calif.)**](https://directory.politicopro.com/congress/member/P000618)

Do you chew up a lot of that added value with all of those things put together? Right? I mean, do you mind I know I'm over time, but do you mind otherwise, I'm gonna ask for another round. And 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 on her mind as well. Tell us why 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 wasn't 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%.

In the last two fiscal years, we were both real Mrs. McClanahan we're both relate. Tell us more. Why. And what can we do about that, because that seems counter to everything that we've said about supply?

**Jeffrey Weidell**

Well, thank you for noticing that. And that's what we think as well, we're all talking about building more affordable housing, and here's an opportunity to do it. And it's not getting done.

[**Rep. Katie Porter (D-Calif.)**](https://directory.politicopro.com/congress/member/P000618)

In the wrong direction, even.

**Jeffrey Weidell**

Correct. And, and as a practitioner, I haven't done a lot of HUD business, because it's generally the lender of last resort at this point, the process is way too long, the requirements are way too great. The 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 two years ago.

And by the time they got into the HUD pipeline. Now with all of these requirements, they don't work.

[**Rep. Katie Porter (D-Calif.)**](https://directory.politicopro.com/congress/member/P000618)

So I just want to make sure I'm understanding this. So it's not that there's been any huge wild change in the requirements, you may think there's too many someone else may think there's not enough, let's just posit they've basically stayed the same. But what you're saying is, now that interest rates are higher, you're paying more for the money to do the project, you don't have as much leftover to absorb all of the costs of of the loan itself?

**Jeffrey Weidell**

There are new ones, I'm being reminded. And I know there are a couple that came out just last week that we're 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 well, if money is cheap, that helps when money is cheap, it helps and you can get through all of this when money got expensive, then all of these things really mattered.

And that's where we are. And it's a great time really to examine what's necessary in this process and what's not necessary. And you know, one of the contentions here is there's a high insurance premium that ours are paying, and HUD has performed exceptionally well, there have been very few losses. It's been good for the taxpayer and the Treasury.

[**Rep. Katie Porter (D-Calif.)**](https://directory.politicopro.com/congress/member/P000618)

Well, and we've seen mortgage insurance premiums come down on single family. And I think it's it's 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 depths compared to single family. So that seems like a sensible thing. I guess the last thing I just want to close on I appreciate your indulgence is I'm so frustrated.

With Congress, I could end this so many ways. I just want to say I'm so frustrated with Congress for not taking up the Affordable Housing Credit Improvement Act, I just don't get it. There are 221 members signed on to this bill, half are Democrats half or Republicans, you know what I call that? A miracle.

So I just don't 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 I think it's one we just don't see this kind of good agreement on common sense 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's 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.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

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, if it was honest, it was candid.

But I do agree with the Ranking Member. I think there's a lot more to talk about. And we just have scratched the surface today. So I know she's talked twice, but I'm gonna give her an opportunity to do her closing remarks as well.

[**Rep. Katie Porter (D-Calif.)**](https://directory.politicopro.com/congress/member/P000618)

I just want to close on one observation, which is when we talk about commercial real estate, particularly office and we're talking about life insurance companies and mortgage backed securities, I think it's really easy to lose that there is a human element in office space to fault I think when we're talking about residential, it's easy to see the foreclosure it's easy to see the family li becoming homeless. But offices employees, 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 an 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's not all that's at stake here. It's the vibrancy of local communities, it's whether or not there they're occupied and crime goes down. It's 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 stabilized and if it is going to change that it changes in a smooth and gradual ways that we avoid those those job losses.

[**Rep. Lisa McClain (R-Mich.)**](https://directory.politicopro.com/congress/member/M001136)

I ask unanimous consent to enter into the record Cref 30, dated April 30, of 2024, Sisk, at 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 towards monitoring the health of the commercial, commercial real estate market.

So many times what I see is we have hearings after the fact, we're not proactive, we don't 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've seen that time and time and time again, what I would like to do is more of what we're doing today, and I appreciate your thoughts, your inputs in the comments, really on both sides of the aisle, is we have some issues. And we can talk about who's at fault and who's at blame.

But look at we have COVID that that happened. We have interest rates that are higher, that's 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 let's not we have a ton of office space, especially downtown DC.

And people aren't working people aren't going into the office to work. And and some of my colleagues said, Oh, well, we just think they're lazy. I don't I don't think that's the case at all people are logical. I mean, if I don't have to work out and I can eat McDonald's, and stay a supermodel, I do that that's just not the case, right?

We have to look at these events. And we have to be able to project a policies of fact, 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 this is just read the letter, when when people are back to work. There are more coffee shops, there's more restaurants that are open, they're more dry cleaners, there's more small businesses and small business is what was the heart and soul that built America and without small businesses and be in people working at those small businesses. We don't have tax revenue. And it's our economic systems that give us our social programs.

And that's what is hampering DC right now. No one's back to work office spaces empty interest rates are up. I mean, Project A policies of fact, what my greater concern is, is what do we do? And what do we do with the amount of paper that's coming due?

And these loans that are coming due in 2027? Roughly 2 trillion of them. So we don't wake up and say, Oh, my gosh, we're crisis and we unmask the American people. Because whether it's a subsidy or a bailout, that falls on the backs of the American tax paper payer, we don't have to go back to the American taxpayer, like we've done so many times in the past and say, we need you to bail us out.

Let's work on common sense legislation. What I've heard, we've got some good ideas today, let's 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 said something very interesting is, let's take a look instead of a one size fits all approach. Maybe we need to change some classifications.

So what I'm 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 think my Ranking Member had a little administrative business with that and without objection, all members have five legislative days within to submit materials and additional written questions for the witnesses, which will be forwarded to the witnesses if there's no other further business.

Without objection, the Subcommittee stands adjourned. Thank you. [END]