



Government Stimulus Programs Could Benefit Commercial Real Estate

Feb 18, 2009 3:28 PM, By Denise Kalette

It's been a busy week for President Barack Obama. On Tuesday he signed into law his \$787 billion economic stimulus plan. Earlier today, he unveiled a \$75 billion program to stem the tide of home foreclosures. To what extent will these moves benefit the commercial real estate industry? NREI asked a handful of economists and industry experts to weigh in on whether the president's prescription for the economy and the housing market will work.

The Homeowner Affordability and Stability Plan unveiled today will help as many as nine million families restructure or refinance their mortgages to avoid foreclosure, according to the Obama administration. The program provides financial incentives for both borrowers and lenders working to reduce the risk of default.

The homeowner plan could have a trickle-down effect for commercial real estate, says John Terrence Farris, director of the master of real estate development program at Clemson University. Farris is a former community development consultant and subcontractor in Columbia, S.C. and other cities.

"Any way we can get the housing market protected so it has a bottoming out, such that mortgagees and mortgagors are protected and inventory is reduced because of that stabilization, the effect on the housing market will certainly be positive," says Farris. Increasing housing production and reducing the inventory of unsold properties will in turn benefit the retail industry, he says. "Retail follows rooftops."

Once the residential housing market stabilizes and turns around, commercial real estate will see results, adds Farris. And if Obama's program reduces mortgage expenditures, that may free up consumer cash for retail spending. But critics of the plan say it will help on the margin but won't do enough to stop the downward slide in housing prices.

The housing market is not functioning properly because of the bid-ask gap between buyers and sellers, notes Donald Haurin, professor of economics at Ohio State University and president of the American Real Estate and Urban Economics Association. Sellers think prices are too low despite the fact that on a historical basis housing prices remain above average, he says.

Left on its own, the housing market is likely to remain anemic, Haurin says, and government intervention could help. "With relatively low demand for residential property, with existing homeowners unwilling to market their properties, and with the foreclosure issue, that suggests to me that prices will be relatively weak for the foreseeable future. It means we'll have a relatively depressed housing sector. I don't think we've hit bottom yet."

The downturn has also affected the multifamily sector, including rentals and condos. Although some analysts had expected that multifamily rentals would profit from the downturn in the residential market and a drop in apartment construction, that effect has been dampened by the widespread economic slowdown, Haurin says. "The whole economy is depressed."

David Geltner, professor of real estate finance at the Massachusetts Institute of Technology Center for Real Estate, says the president's stimulus plan is a good idea, but it's not large enough. "It would have been big enough six months ago. This economy is in a spiral, and it's spiraling down pretty quick. [The stimulus] is better than nothing but it's not going to be enough to jolt us out of this recession," he says.

"At first the problem with commercial real estate was the financial crisis and lack of liquidity and a driving up of cap rates, so that values were taking a hit from that regard. But now a more fundamental threat to real estate is the loss of income. Tenants are vacating spaces. Some office, industrial and retail tenants are going bankrupt." Because of the recession, commercial property sectors face a serious threat of declining income, as commercial rents slide downward, Geltner says.

Still, the new stimulus package and the effort to encourage consumers to spend will benefit commercial real estate, says Lawrence White, professor of economics at New York University. "I think the stimulus bill will have a positive effect on the economy, and a positive effect on the economy is going to have a positive effect on commercial real estate," says White.

Job growth is a key to recovery, White says. The bill provides for an infusion of spending that will create jobs to modernize the country's electric grid, clean up nuclear sites, and improve government facilities such as the National Oceanic and Atmospheric Administration research labs, among other properties.

Budgeted items in the 1,073-page federal spending bill range from repairing crumbling infrastructure to boosting police protection in struggling cities. The government will invest in cleaning up former industrial sites and it will also provide tax credits for the purchase of alternative fuels like solar and wind energy. Schools will benefit by receiving overdue repairs, and the Obama administration will offer grants for capital investment in high-speed rail corridors.

"The whole point of the stimulus is to get extra spending and thereby create extra jobs that would not otherwise be created," White says. Job creation, in turn, could have a beneficial effect on the occupancy of office buildings and on development in the retail sector, which has slumped along with the economy.

Other aspects of the newly approved plan could also help the commercial real estate industry, says Farris of Clemson.

For instance, commercial growth could accompany infrastructure projects targeted in the stimulus budget, he says. "Commercial development depends on good infrastructure."

But commercial growth also relies on lenders' willingness to offer loans for development, Farris cautions. "They're hesitant now because they are not sure where things are headed."

Turning the economy around won't be easy, adds Farris. The retraction in the economy has caused an increase in inventory of both residential and commercial properties; many companies have laid off workers, bringing the national unemployment rate to 7.6%. The turnaround will require a change in psychology including consumer sentiment, from negative to positive, Farris says.

"The hope is that the stimulus, including tax reductions as well as the spending programs, will in conjunction with the foreclosure program and another level of the Troubled Asset Relief Program — that all of that will allow us to move forward," says Farris. "This is a ship at sea that needs to be turned around."

Find this article at:

http://www.nreionline.com/finance/news/government_stimulus_program_0218

Check the box to include the list of links referenced in the article.

2008 Penton Media, Inc. All rights reserved.