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What the Housing Bill Means for CRE

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Capitol Hill

In a rare weekend session, the U.S. Senate in a 72-13 vote approved a massive housing rescue bill that establishes a \$300 billion fund expected to help some 400,000 homeowners in danger of losing their homes. It also puts the regulatory apparatus in place for the Treasury Department to implement its rescue plan for [GSEs Fannie Mae and Freddie Mac](#). Other provisions in the bill include about \$4 billion in economic development grants to local communities; additional tax breaks for home buyers; the establishment of a national licensing system for mortgage brokers and loan officers; and a raise on the limit on the size of mortgages that federal agencies can guarantee. The House of Representatives passed its bill on Wednesday. [President George Bush is expected to sign it immediately.](#)

Except for the plan to stabilize Fannie Mae and Freddie Mac, this bill targets the residential real estate market. Still, though, CRE will feel its impact, no matter how indirectly, and receive a much-needed boost. It is possible, for instance, that securitization of residential mortgages could be jump-started by the legislation, Gibran Nicholas, chairman of the CMPS Institute, an organization that certifies mortgage bankers and brokers, tells GlobeSt.com.

"A lot of companies have been waiting on sidelines, waiting to see what new legislation will develop," Gibran says. He says that the bill's limits on liabilities will give loan servicers more freedom in deciding what to do with troubled loans. "If a servicer determined that the net present value of the anticipated recovery through a loan modification or work-out plan is equal or greater than what they get out of foreclosure, then that could be deemed to be acting in best interest of clients," he says. The caveat is that the bill is designed to aid owner-occupied home owners, he notes, so the impact will be limited. "So it might jump start some RMBS, which is better than nothing."

The housing bill may also inspire enough confidence in the lender community so that credit is

loosened for CRE developers, says Mark Metz, SVP of the Chicago Deferred Exchange Co., a financial services firm that brokers 1031 transactions for commercial investors. "One of the biggest problems in all the markets right now is that credit is drying up," he tells GlobeSt.com. "You can't [finance] good deals, let alone shaky deals. There is a dearth of available credit, and the cap rates being calculated won't support the prices that are being asked."

Another ripple affect for the CRE industry, says John Driscoll, president of Alter+Care, a healthcare real estate development firm, is its impact in local labor markets. "Employers are not going to expand or relocate their business in markets where there's difficulties in the housing market, due to the diminished labor pool," he tells GlobeSt.com. "If I had a business right now, I wouldn't go to Central Florida, Sacramento, Vegas. All of those locations have chronic foreclosures. Because the Feds are stepping in and providing a floor of support, which employers -- be they retailers, healthcare providers, anything -- will consider expanding their businesses. While this is not the end solution, it's a good first step that helps stabilize the jittery labor economy."

The most immediate impact the CRE will see from the bill, of course, is the life line extended to Fannie and Freddie – essential sources of liquidity in the multifamily market now. However this bailout – coupled with the government's other extraordinary bailout, [that of Bear Stearns in March](#) – could come at a high cost, both in money and in the long-term confidence in, and effectiveness of the GSEs, some critics say.

"The expanded access to the Fed, both in terms of liquidity and potential equity investment address immediate needs," Jim LeBaron, senior director at international business advisory firm, BBK, tells GlobeSt.com. But "one can surmise that the market's cool reception [to it] is an indicator of perceived long-term effectiveness." No one should look to this as a "healing", he adds, "rather it may stop the bleeding and prevent a total melt-down of the entities."

LeBaron says he is skeptical of the "Bigger is Better" attitude towards the GSE's size and the government's actions and involvement. "These entities have been allowed to grow to the point of we can't afford to let them fail' [has become] the persuasive argument. Also, their lobbying strength fosters huge questions as to legislative bias, hence conflicts of interest," he says.

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