

Recovery: Can the Feds Be Counted On?

By [Bob Howard](#)



Geithner

LOS ANGELES - Whether the federal stimulus plan will help get the economy moving and how much it will help remains to be seen, but financial and economic experts at Real Estate 2009 in Downtown Los Angeles agreed that the private sector will have to get up and running if the US is truly going to restore its economy. "There will have to be bond market participation," said keynote speaker and CMBS pioneer Ethan Penner, executive managing director at CB Richard Ellis Investors.

Penner outlined the causes of the financial markets meltdown and offered some prescriptions for fixing them, explaining what he would do differently from what is being attempted by the feds. He then stayed around for a spirited interchange with a panel of economists, prompting roars of applause from the audience and at one point, a roar of laughter as Penner declared, "Have Tim Geithner run our economy! Are you kidding me?"

The give-and-take on the economics panel was so spirited that a member of one of the following panels called it "the liveliest economics panel I've ever seen." The spirit continued throughout the day, in panels like "Industry Leaders Crossfire: Will There Be Zen in 2010?," which was moderated by Lew Feldman, partner and Los Angeles office chair of Goodwin Procter LLP. Bruce Mosler, president and CEO of Cushman and Wakefield, summed up the global economic situation, saying that the most significant issue we have facing us is unemployment. "The government has to focus on job stimulus across the board," he said. Thompson National Properties LLC chairman and CEO Tony Thompson reported that despite the gloom, the past three weeks for TNP have been among the best they've seen in the last year in terms of raising funds in preparation for the distressed opportunities that are sure to come.

In Penner's presentation and analysis of the credit crunch and federal stimulus efforts, he first explained that a "misalignment of interests" led to the problems in the securitization of real estate loans that contributed to the economic collapse. He said that under the system for compensating those who package and sell the securitized loans, "the incentive is to create the largest possible pot of gold without regard to the quality of the loans."

Penner then listed the three main things he would focus on and do differently compared to what the federal government is doing in its economic stimulus plan. First, he would address the role of FDIC Insurance in the lenders' business plans and the existing capital requirements for lenders. Penner suggested raising the capital requirement significantly, saying that today's capital requirements and other FDIC regulations, in part, answer the question "Why did smart people make bad loans?" during the boom period before the recession.

Penner's second point addressed the ongoing discussion that the industry is having about the need to mark assets to market value. "Mark-to-market" must be implemented as part of the recovery plan, he said. Penner's sentiment that was echoed by economist Richard Green, director of the USC Lusk Center for Real Estate. Green called marking-to-market a necessity to "clean up the housing mess."

Penner's third point was that in the current economic stimulus plan, "TARP is missing the point." He explained that the TARP funds are targeting banks, but banks provided only a small portion of the credit for the real estate industry when the economy was growing before the downturn. "Seventy to 80% of the credit was securitization," Penner pointed out. He said that instead of pushing the stimulus money at banks, the government would be better off using the money to get the bond markets moving again.

Penner held out some hope that, the trillions of dollars the government is putting into the economic stimulus plan "will eventually find its way into our system." There is a "light at the end of the tunnel," he said, although the recovery "will not be rapid."

Despite the problems wrought by the collapse of the credit markets, Penner sees opportunity amid the gloom. "Today's environment is scary and a bit depressing, but it's also exciting," he said. From such turmoil and turbulence, he said, "tomorrow's great opportunities are born."

The economists agreed that regardless of what the feds do, the private sector will ultimately be the engine that drives the economy to a recovery. Economist Randall Zisler , president and CEO of Manning Napier Zisler, voiced his belief that the public markets for real estate investment, like REIT stocks, "will lead the real estate recovery."

One of the fundamental problems preventing a recovery is that investors both in the US and around the world have lost their trust in the free market, a trust that is one of the foundations of the US financial system, Penner explained in his analysis of what has caused the credit markets to stagnate. Restoring that faith is one of the first steps on the road to economic recovery, he said.

The presentation by Penner, along with the economics and industry leaders panels, were part of a day of presentations, keynote remarks and panel discussions that featured more than 60 leading industry speakers and three networking breaks along with breakfast, lunch and a networking reception at the Real Estate 2009 conference.

The sessions addressed issues ranging from distressed assets to recapitalization, workouts, restructuring and other topics that are foremost in the minds of commercial real estate professionals these days. The Real Estate 2009 conference is an annual event that was produced by Incisive Media, publisher of *Real Estate Forum*, *Real Estate Southern California*, *Real Estate New York*, *Real Estate New Jersey*, *Real Estate Florida* and *GlobeSt.com*. The RealShare Conference Series produces more than 30 commercial real estate networking events every year.

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