

Takeaways from CREFC Miami

Will Divisive U.S. Politics Weigh on Commercial Real Estate?

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Many commercial real estate professionals probably witnessed the effects of the government shutdown firsthand as they convened in Miami Beach for CREFC's annual conference. It is "politics as unusual," according to the name of Monday's panel on the unpredictability of the political landscape. "Just today, one out of 13 TSA screeners didn't show up for work," said Isaac Boltansky, director of policy research at Compass Point Research & Trading. Marty Schuh, who serves as the head of government relations at CREFC, believes that the most likely scenario for ending the shutdown remains the emergency option. He said that President Trump could declare a national emergency, and Congress could pass a bill to reopen the government either before or after the emergency declaration. The Democrats would probably sue to block the wall, and it would be in the courts for the foreseeable future. Boltansky agreed that the only way is the emergency power avenue because it will end the shutdown and moves the immigration debate to the courts and away from the newly formed Congress. But what kind of precedent will this set? Boltansky mentioned that the Republicans he spoke with are worried that the emergency option could have long-term repercussions. What constitutes a national emergency, and could it apply to other hot button issues like gun control and climate change?

How the shutdown plays out in Washington will set the stage for other issues. Boltansky's main concern is the debt limit, which will be reinstated on March 2 after being suspended last year. He doesn't have confidence that navigating the debt ceiling will be an easy process, and he believes the fallout would be far more consequential to the financial services industry.

Panelists were also concerned about the effectiveness of the new Congress on issues relating to the commercial real estate industry. High-profile topics, such as the investigations into the Trump Administration, may overshadow issues of importance to commercial real estate. Other than "must-pass bills," Schuh is fearful that "we'll miss the opportunity to be a constructive Congress" until 2020. One critical topic is the National Flood Insurance Program, which expires after May 31, 2019, after another extension last year. While technically the NFIP is supposed to be part of the shutdown, the Federal Emergency Management Agency, which oversees the program, has stated that it will resume normal operations. The other important piece of legislation is the Terrorism Risk Insurance Act, which was extended again through Dec. 31, 2020. Not funding these programs would be a major disruption to the industry. Boltansky also believes that these issues are of crucial concern to the commercial real estate industry. "How can we feel optimistic about anything when they're struggling to keep the lights on?"

With the House of Representatives switching to a Democratic majority, the U.S. House Committee on Financial Services has a new chair—Rep. Maxine Waters. The panelists were hopeful that the California Democrat's leadership will be positive. Boltansky thinks that Rep. Waters will be pragmatic because she has been on the committee for two decades and knows how it works. He believes that she can be "business friendly" on issues such as flood insurance and terrorism risk.

Her pragmatic leadership may be put to test if Congress finally addresses the Community Reinvestment Act. The law was designed to prevent banks from not lending to a part of the community in which they operate, according to David McCarthy, director of industry and policy at CREFC. It hasn't been updated and needs to be modernized, though this isn't a controversial opinion in Washington. "This is a rare moment where we have both sides, who should be at odds, saying let's do this," said Schuh. Of course, the question is how. Panelist Scott Sinder, a partner at law firm Steptoe & Johnson LLP, added that while both sides agree CRA needs to be updated, the Democrats and Republicans may disagree on the best course of action. Rep. Waters and the other members of the House Financial Services Committee may go in one direction, while the Trump Administration and Senate Republicans may want another approach. CREFC's Christina Zausner, head of industry and policy analysis, isn't convinced of that. She believes that there are areas where both sides would agree and that Rep. Waters' leadership could be beneficial.

Although the current government shutdown is now front and center, the panelists at CREFC's annual conference were also concerned about the longer-term ramifications of the conflict. Consequentially, key questions remain as to how the national political climate might ultimately affect the U.S. business climate and commercial real estate in the years ahead. Their views, for now, mix serious concerns with muted optimism.

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