

NAR EXPRESSES CONCERN OVER ISSUANCE OF COMMERCIAL REAL ESTATE LENDING GUIDANCE

WASHINGTON (December 8, 2006) – The National Association of Realtors® believes the parameters issued yesterday in the guidance of commercial real estate lending, designed to help prevent imprudent commercial real estate lending, are overly prescriptive causing many banks, particularly smaller, regional banks, to be dissuaded from making sound commercial real estate lending decisions.

“NAR recognizes the important role bank regulators play in protecting the soundness of the nation’s economy,” said NAR President Pat Vredevogd Combs. “However, we are concerned that today’s actions may be more harmful to the commercial real estate industry than helpful.

The commercial real estate industry remains strong and vital,” said Combs.

During the first 10 months of 2006, a record transaction volume of \$213.3 billion in commercial real estate transactions occurred on property valued at \$5 million or more. Vacancy rates remained lower than previous years and in some cases are still dropping, and most importantly, investors continue to invest in the commercial market. NAR released its commercial outlook in September and all indicators reflect an ongoing, strong commercial real estate market.

“We hope the regulators will reevaluate these guidelines and also modify the Federal Reserve’s Basel 1A policies. These actions could result in slowing or even a decline in the commercial real estate sector,” said Combs. The Basel Accords are internationally agreed upon regulatory principles by which the central banks of the 10 largest economies determine their regulatory capital reserves.

In a letter written by NAR last September to the House Subcommittee on Financial Institutions and Consumer Credit, NAR said, “The combined effect of these two regulatory proposals may prompt

banks either to avoid making loans for sound real estate ventures or will increase the cost of capital required for commercial real estate transactions.” NAR continues to warn against such possibilities.

Different classes of commercial real estate lending have different performance characteristics, since not all commercial real estate is the same. Financial institutions should be able to effectively manage risk by creating commercial real estate portfolios that are diverse, noted NAR in testimony earlier this year. Though the commercial real estate lending guidelines recognize that, the guidance remains restrictive and may dissuade banks from making sound commercial real estate loans.

“We feel that the regulators have still not recognized distinctions in classes of commercial real estate – particularly as it pertains to Basel 1A. This could have the unintended consequence of driving down property values in all classes of commercial real estate,” warned Combs. “NAR and our members remain concerned that the implementation of these regulatory initiatives will negatively impact the market resulting in higher financing costs and declining property values. It is our hope that a closer look will be taken before any harm can be inflicted.”

The National Association of Realtors®, “The Voice for Real Estate,” is America’s largest trade association, representing more than 1.3 million members involved in all aspects of the residential and commercial real estate industries.

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