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The stimulus package works, but is it sustainable?

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It's no secret that there has been plenty of stimulus pumped into our economy to ensure that we come out of this recession sooner rather than later. It's a lot of acronyms, and a lot of $ billions.

The first $700 billion of stimulus was released in the form of "bail out", committed to stimulate credit which had all but disappeared in our financial institutions. This program, the Troubled Asset Relief Fund (TARP) was created to support financial firms such as AIG, Citi, J.P. Morgan, etc. to allow them to make various financial maneuvers which would encourage lending.

Not much of the TARP had been spent, when the Treasury directed its relief efforts more towards consumer debt, and created the Term Asset Backed Securities Loan Facility (TALF) with another $700 billion. This effort was "moving from Wall Street to Main Street" to loosen credit on consumer-backed assets such as car loans, student loans, and credit card payments.

Finally, in February of 2009, a new "stimulus package" (American and Recovery Reinvestment Act of 2009) was approved, creating a new $800 billion fund mostly geared to tax relief to stimulate industry. The "Cash for Clunkers" and first home buyer Tax Credit are good examples.

Despite these good efforts, the next looming problem is commercial property debt, which many worry is the next shoe to drop. The commercial real estate industry is a $6.5 trillion market, and much of the debt needs to be refinanced over the next five years. $155 billion of commercial mortgage backed securities loans are due between now and 2012. But not to worry, Congress is discussing how to relieve the pressure on commercial debt restructuring without adverse tax consequences. If Congress acts on this, it may provide tax relief to commercial property owners who could then restructure loans, thereby allowing them to mitigate foreclosure possibilities.

All of this is good, but it begs the question: are we actually stabilizing our economy, to move it into a stronger market where our problems will be solved by growth? Or, are we "synthetically" stabilizing, and simply pushing the problem into the relatively near-term future. Is it a "synthetic recovery"?

It makes me think about the Tax Reform Act of 1986 which established historic preservation tax incentives in the way of a 20% rehabilitation tax credit. Essentially, it allowed for a modest amount of equity participation in historic renovations with substantial tax credits for high earners. With loan leverage, some of the partnerships actually provided $2.00 return in tax benefits for every $1.00 of equity of invested. Many of us, including myself, flocked to older cities throughout New England to buy historic buildings for rehabilitation. The buildings were restored, and limited partners enjoyed significant tax benefits. We were able to fill the buildings typically with local government agencies, at low rents, and all was well with the world, until the program was over and tax credits were no longer available. All of a sudden, we had to deal with actual market conditions. The buildings no longer cash flowed and banks demanded their loans to be repaid due to actual defaults or reductions in value compared to loan amount. In short, the bottom fell out of the market, helping fuel part of the late 1980s early 1990s real estate recession.

We are hoping that the first scenario prevails, that is, the artificial stimulus we create now will in fact be absorbed into a real, stronger market in the future.

However, it is certainly clear by examples from the past such as historic tax credits, that there is potential downside to stimulus. I don't question the rationale of stimulating the economy, and frankly, I wish there had been just a few of the relief programs available to us real estate people who were overwhelmed by the problems of the early 1990s real estate recession. In any case, we will certainly learn a lot about the process of flooding of the economy with funds and credit to stimulate it, and how it will affect our lives in the future.

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