

## BAILOUT AND STIMULUS PROGRAMS: \$9 TRILLION AND COUNTING. IMPACT ON WASHINGTON METROPOLITAN AREA? AS OF MID-DECEMBER 2008

As the national economy weakened in 2008 – gradually at first, then more rapidly – the Federal government decided to intervene. From the initial stimulus package signed into law earlier this year, to the Wall Street bailout (or rescue plan) designed in the early fall, to the additional loan guarantees, taxpayers have taken on over \$7.5 trillion in potential obligations. Not all of this money necessarily will be spent, and some that is spent may be recouped as asset values recover. However, already-allocated taxpayer dollars exceed 50% of the U.S. GDP, which is approximately \$14.3 trillion in 2008.

An additional \$1.5 trillion in spending is proposed for the coming months in the form of a second stimulus package, new Federal Reserve programs to make credit available to home buyers, and a bailout for the automotive industry. In sum, the Federal government may commit over \$9 trillion to economic recovery efforts. Not all of these programs are bailouts, or rescue plans targeted at specific industries. But in the aggregate, taxpayers are taking on enormous liabilities now in order to try to mitigate the impact of the current recession, save hundreds of thousands of jobs in vulnerable industries, and keep people in their homes.

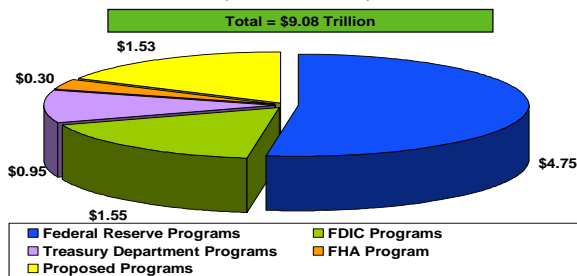
### Federal Reserve Programs

The Fed's overarching goal in the near term is to loosen credit, getting money into the hands of home buyers and other consumers, thereby stimulating the economy. With the Federal Funds Rate already down to 1%, the traditional method of cutting interest rates to spur economic activity largely has been ineffective during the current recession.

Rather than simply exchanging Treasury bonds for less stable assets, as it has done in the past, the Fed is printing more money to increase consumers' liquidity. The Fed also has provided targeted support for specific financial services firms, such as Citigroup and AIG, which it deemed too large to fail. So many consumers have assets at these institutions that failure could cause a dangerous crisis of confidence in the financial system.

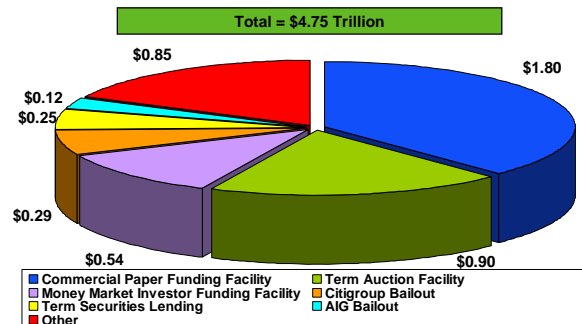
To date, the largest share of the Fed's spending is focused on commercial paper. The government is buying short-term notes from companies, which use the influx of cash to pay off debt and stay afloat.

**Analyzing the Federal Bailout and Stimulus Programs**  
(in Trillions of Dollars)



Source: Washington Post, Delta Associates; December 2008.

**Analyzing the Federal Bailout and Stimulus: Federal Reserve Programs**  
(in Trillions of Dollars)



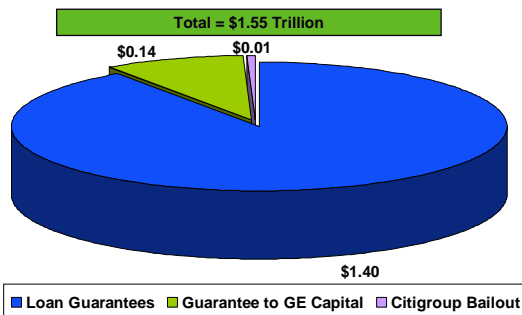
Source: Washington Post, Delta Associates; December 2008.

Where is that \$9 trillion going? The spending can be categorized into five major types of programs.

## FDIC Programs

The FDIC's objective during this economic crisis is to reduce the risk in interbank lending, keeping credit flowing. Over 90% of FDIC spending is geared toward loan guarantees, with the balance directly supporting major lenders Citigroup and GE Capital. The FDIC also remains responsible for insuring consumers' bank deposits, ideally maintaining confidence in the U.S. banking system.

**Analyzing the Federal Bailout: FDIC Programs**  
(in Trillions of Dollars)

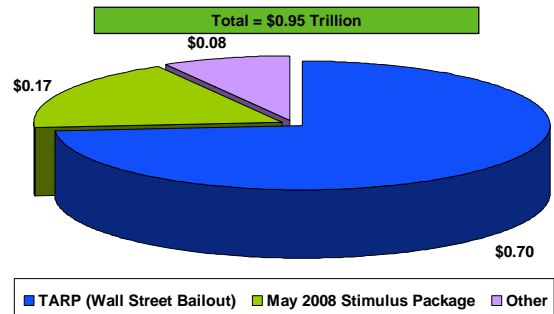


Source: Washington Post, Delta Associates; December 2008.

## Treasury Department Programs

The government program that grabbed the most headlines since the full force of the financial crisis began to be felt in September is TARP – the Troubled Asset Relief Program. This is the “Wall Street bailout” that was much discussed during the closing weeks of the presidential election, and which is being administered directly by the Treasury Department, primarily under the supervision of the Secretary. Of the \$700 billion set aside for TARP, over half (\$375 billion) has already been injected into the financial system. The Treasury Department also was directly responsible for implementing the stimulus plan that President Bush signed into law earlier this year, at a cost to taxpayers of \$168 billion.

**Analyzing the Federal Bailout and Stimulus: Treasury Department Programs**  
(in Trillions of Dollars)

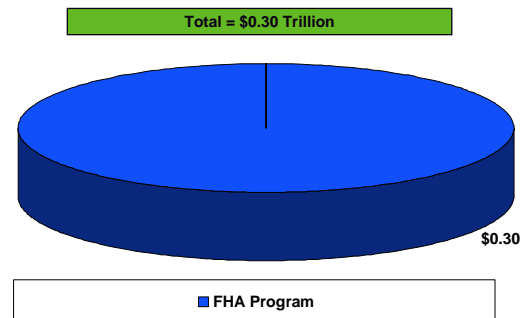


Source: Washington Post, Delta Associates; December 2008.

## Federal Housing Administration Program

The current recession was brought on largely by problems in the housing market, amplified by Wall Street. The Federal Housing Administration (FHA) has been charged with making up to \$300 billion in loan guarantees to help those who are struggling to pay their mortgages stay in their homes.

**Analyzing the Federal Bailout: Federal Housing Administration Program**  
(in Trillions of Dollars)



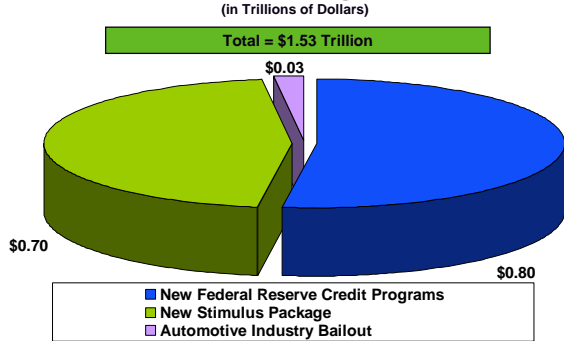
Source: Washington Post, Delta Associates; December 2008.

## Proposed Programs

While \$7.55 trillion already has been allocated for stimulus and bailout activities, another \$1.53 trillion in proposed programs is on the table. Of this total, \$800 billion to loosen credit for home buyers, consumers, and small businesses was approved by the Fed in late November. An additional \$700 billion is the estimated cost of the second stimulus package that may be shepherded through Congress by the Obama Administration, a plan focused on creating jobs by rebuilding America's infrastructure. The proposed automotive industry bailout, at \$34 billion, has received a lukewarm reception by Congress as of this writing, but

we believe it will be approved in some form given the number of jobs associated with the auto industry.

## Analyzing the Federal Bailout and Stimulus: Proposed Programs



Source: Washington Post, Delta Associates; December 2008.

## What Does This Spending Mean for the Washington Area?

It is very early in this bailout process to be making predictions about the impact on the Washington area office market. This is particularly true given that much of the money that will be injected into the economy is

not through direct spending but rather through interbank lending. However, it is clear that TARP and the other bailout programs require government oversight, and some new hiring already is taking place.

The Treasury Department already has created 200 full-time-equivalent positions in a new Office of Financial Stability (OFS). The OFS likely is just the beginning of the staffing process, given the enormous size and scope of the government's programs. Our initial estimate is that the bailout plans, plus follow-on regulations yet to be enacted, could generate demand for two million to four million SF of office space over the next two to three years. This would be in addition to the demand created by normal market forces. The long-term average net absorption of Washington metro area office space is approximately eight million SF per year, so an increase of even one million SF per year would be a material gain.

Bailout-related job creation will be beneficial to the Washington housing market over the short term to the extent the talent to manage these new programs comes from outside the area. These new residents may provide additional demand in submarkets that are in close proximity to the program's job creation centers.

## Delta Associates

Delta Associates is a firm of experienced professionals offering valuation, consulting and data services to the commercial real estate industry for over 25 years. The firm's practice is organized in three related areas:

1. **Valuation** services for partial interests in commercial real estate assets.

2. **Consulting**, research and advisory services for commercial real estate projects, including market studies, market entry strategies, asset performance enhancement studies, pre-acquisition due diligence, and financial and fiscal impact analyses.

3. **Subscription data** for select metro regions for office, industrial, retail, condominium and apartment markets.

For further information about Delta Associates and to see all of our publications, please browse our web site at: [DeltaAssociates.com](http://DeltaAssociates.com).

### Headquarters

Gregory H. Leisch, CRE  
Chief Executive  
500 Montgomery Street, Suite 600  
Alexandria, VA 22314  
703/836-5700; Fax: 703/836-5765  
[Greg.Leisch@DeltaAssociates.com](mailto:Greg.Leisch@DeltaAssociates.com)

### Government Services

Craig Powell  
2101 Wilson Boulevard, Suite 200  
Arlington, VA 22201  
703/516-2263; Fax 703/516-2299  
[Craig.Powell@DeltaAssociates.com](mailto:Craig.Powell@DeltaAssociates.com)

### Consulting and Advisory Services

David Weisel  
President, Consulting Division  
500 Montgomery Street, Suite 600  
Alexandria, VA 22314  
703/535-3551; Fax: 703/836-5765  
[David.Weisel@DeltaAssociates.com](mailto:David.Weisel@DeltaAssociates.com)

### Market Publications Group

Alexander (Sandy) Paul  
National Research Director  
500 Montgomery Street, Suite 600  
Alexandria, VA 22314  
703/299-6373; Fax 703/836-5765  
[Alexander.Paul@DeltaAssociates.com](mailto:Alexander.Paul@DeltaAssociates.com)

### Cyber Contacts

Website: [DeltaAssociates.com](http://DeltaAssociates.com)  
  
General eMailbox:  
[info@DeltaAssociates.com](mailto:info@DeltaAssociates.com)