

2010 IREM and CCIM Capitol Hill Visit Day

AT PRESS TIME, THE 2010 CAPITOL HILL VISIT DAY WAS JUST AROUND THE CORNER, to be held in conjunction with the IREM Leadership and Legislative Summit beginning May 5, 2010. During this exciting and educational event, IREM and CCIM Institute members were scheduled to meet with Congressional members and staff to discuss important issues that affect the real estate industry. Issues for discussion included:

- Increasing short-term business lending, moderate term capital improvement loans and longer term financing or refinancing of commercial property. Having a proper “commercial property toolbox of options” is a great way to address today’s needs in the area of capital markets.
- Accelerating depreciation of properties to generate commercial property cash flow. By shortening the recovery period and providing passive loss relief at the same time, a very important incentive would be provided to those owning/managing commercial real estate.
- Providing additional financing through the use of funds from credit unions. Existing law limits credit union business lending at 12.25 percent of total assets. By moving the limit to 25 percent of total assets—a current proposal in the U.S. Congress, additional funds could be provided for commercial property lending.
- Providing a mortgage insurance program for commercial debt. This concept would support insurance from the government or private sector that would cover the difference between the current value and the debt service amount which could free up capital for other purposes.
- Extending federal tax codes, along with new proposals that would ultimately incentivize investors’ participation in the real estate industry and thus create jobs and promote economic stability.
- Keeping capital gains rates at the 15 percent level to encourage investors to participate in the commercial real estate market. The loss of capital gains treatment for real estate investment ownership would turn long established buy-and-hold procedures upside down.
- Re-proposing or extending other current or past tax incentives, including the 15 year leasehold improvement depreciation and the extension of the current 50 percent bonus depreciation, which allows property owners to deduct 50 percent of the cost of qualifying property in addition to the regular depreciation allowance. The current \$1.80 per square foot energy tax credit for commercial property owners who achieve 50 percent energy savings through energy retrofits is another incentive that needs to be extended.
- Discussing legislative proposals that would change existing law so that income generated from carried interests would be taxed at a rate of ordinary income (at 35 percent or more), as opposed to the current capital gains rate (15 percent). Most general partners with existing carried interests will be penalized under this proposal and be devastating to these businesses.

» To learn more about other issues affecting IREM and CCIM Institute members or to find out how you can get involved in next year’s Capitol Hill Visit Day, please visit www.irem.org/publicpolicy for more information.



UPDATE ON THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

Congress passed the American Reinvestment and Recovery Act (ARRA) on February 17, 2009 to create new jobs and save existing ones, spur economic activity and invest in long-term growth, and provide accountability and transparency in government disbursement of funds. To accomplish these goals, Congress allocated \$787 billion in economic aid through spending and tax cuts. As of February 26, 2010, roughly \$287 billion (or 37 percent) of the package has been spent, with nearly \$500 billion remaining in tax benefits, contracts, grants and loans and entitlements. Below are few updates on agencies and their programs created through the ARRA:

The **Environmental Protection Agency (EPA)** announced in October 2009, that the Energy Star program is off to a slow start. Despite the high interest in the program, which offers a roadmap to grow green job opportunities, boost energy savings and reduce emissions, a series of barriers have prevented a self-sustaining retrofit market from forming. The Recovery Through Retrofit report recommended a series of actions be taken for the successful implementation of the program, including comprehensive training programs for workers, reducing upfront costs and increasing awareness of the program. As of February, 2010, the EPA still has over \$5.9 billion (of the original \$7.11 billion) of funds available to spend on various programs.

In January 2010, the **Department of Transportation (DOT)** kicked off construction on a project that will give drivers using the Caldecott Tunnel near Oakland and San Francisco two additional lanes to alleviate traffic congestion. The \$420 million project, which will create a fourth tunnel, will use \$197.5 million from the ARRA. The DOT has roughly \$27.4 billion dollars of the allotted \$36.8 billion in stimulus funds still available as of February 2010.

The **Department of Housing and Urban Development (HUD)** awarded \$95 million in competitive grants in September 2010. This funding will allow public housing authorities throughout the country to make necessary improvements to communities that address the needs of seniors and persons with disabilities. As of February 2010, HUD has approximately \$10.2 billion in funds available of the initial \$13.3 billion arranged through the ARRA.



States Continue to Struggle with Budget Shortfalls

Despite hopes that the worst economic recession since the Great Depression would end quickly, the U.S. economy continues to struggle and its effects are still being felt throughout all 50 states. Unemployment rates at 10 percent in some states, decreased sales tax revenues, decreased income tax revenues, and increased costs have combined to create gaping budget holes.

Unlike the federal government, states are not permitted to run budget deficits. They must balance their budgets prior to the start of their fiscal year. Budgets are balanced according to projected revenues and projected costs, and fluctuations in actual revenue and expenses can severely alter the financial outlook for the states.

In order to reconcile a collective \$158 billion in revenue shortfalls prior to the beginning of the FY2010 business cycle, 48 states employed a strategy of spending cuts combined with tax and fee increases. Despite efforts, 41 states are facing \$38 billion in new revenue shortfalls this fiscal year.

Funding from the economic stimulus package has provided temporary relief for states. States have been able to fill 30 to 40 percent of their budget deficits with money from the \$787 billion economic stimulus package. However, of the roughly \$250 billion of the stimulus package set aside for states, most will have been distributed by the end of 2010, which will only cover about 20 percent of state budget shortfalls for 2011.

Total shortfalls for states in 2010 and 2011 are likely to reach some \$375 billion.

IREM will continue to monitor the national fiscal condition and advocate for fiscal policies that are in members' best interests.