

Economic Stimulus Statement of Policy

Background: The commercial real estate market has come to a virtual standstill. With credit markets frozen, many owners are finding it difficult to obtain business loans for capital improvements or refinance existing mortgages. With property owners unable to refinance their commercial structures, there has been an increase in delinquencies and foreclosures.

Without action to liquefy credit markets, new construction and development projects will most certainly be affected. Credit markets are terrorized by the fear that debt may be deemed less valuable shortly after it is issued. Commercial real estate deals are on hold these days as buyers and sellers wait for the credit crunch to ease and the economy to rebound.

IREM Position: IREM urges Congress and the federal government to provide favorable relief to the commercial real estate industry in the next planned economic stimulus package. IREM recommends the following three provisions be included in the next stimulus package:

1. Availability of small business loans
2. Short-term loans for capital improvements
3. Refinancing for mortgages

Additionally, IREM encourages Congress and the federal government to consider the following goals and solutions which support the three recommendations above:

I. Goal: Stabilize and Provide Liquidity to the Commercial Real Estate Credit Markets, Including Mortgage-backed Securities

Solutions:

- Make mark-to-market accounting rules more flexible, including use of discounted cash flow analysis for valuing assets in illiquid markets.
- The Treasury and Federal Reserve should exercise their authority to implement and/or expand the Term Asset-Backed-Securities Loan Facility (TALF). The TALF should be encouraged to purchase commercial mortgage-backed securities and conventional commercial real estate loans.

II. Goal: Maintain or Enhance Federal Tax Policies that Strengthen the Commercial Real Estate Market

Solutions:

- Retain current capital gains rules as they apply to appreciated property, like-kind exchanges and carried interests, in particular by keeping the capital gains tax rate at the existing 15%. Suspend passive loss rules.
- Improve the depreciation, depreciation recapture and leasehold improvement rules without triggering the Alternative Minimum Tax.
- Reduce the investment impediments caused by the passive loss rules by providing a temporary suspension of the rules for designated investments.
- Attract new investment in existing real estate by providing higher income limits and expenditure limits to the so-called "small investor" provisions of the passive loss rules.

III. Goal: Stimulate and Support the Commercial Real Estate Industry through Investment

Solutions:

- Provide federal funding for capital improvements to our nation's infrastructure (transportation, roads, energy grids, etc).
- Encourage the commercial real estate industry's investment in energy efficiency and "green" building initiatives through tax and other incentives, and not through legislative and regulatory mandates that artificially raise the cost of construction and operation of commercial real estate properties.