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ICSC supports legislation to jump start commercial real estate

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In an attempt to forestall the looming equity crisis in commercial real estate, U.S. Rep. Shelley Berkley (D-NV) introduced (H.R. 5943) the Community Recovery and Enhancement (CRE) Act of 2010, which provides short term tax incentives to jumpstart reinvestment in commercial real estate thereby stabilizing community banks as well as preventing additional foreclosures and job losses.

With lenders finding it increasingly difficult to refinance existing commercial loans and borrowers faced with paying off loans that are greater than their current property values, the CRE Act offers tax incentives that would attract an infusion of new equity into commercial real estate. The central provision of the CRE Act is that at least 80% of the newly invested capital must be used to reduce the outstanding balance of the commercial loan, with the remainder going toward capital improvements, such as energy efficiency enhancements, and leasehold improvements to attract new tenants. Additionally, the new investment would qualify for a 50% bonus depreciation and investors would be able to deduct losses without regard to passive loss limitations. Together these incentives would provide an opportunity to lower the loan-to-value ratios of existing properties as well as improve debt coverage ratios, giving lenders the ability to responsibly refinance debt and rebalance capital reserve levels, thus freeing up additional lending capacity for the overall economy. In February, the Congressional Oversight Panel report, "Commercial Real Estate Losses and the Risk to Financial Stability," estimated that between 2010 and 2014 about \$1.4 trillion in short-term commercial real estate loans will come due. Historically, commercial real estate loans have been easily renewed or refinanced, however nearly half of these expiring loans are currently "underwater," with the borrower owing more than the property is currently worth. Additionally, the COP report stated that 3,000 FDIC-insured banks are at risk due to excessive commercial real estate debt.

"This temporary and targeted legislation relies upon market factors and economic incentives, rather than direct government involvement," said Betsy Laird, ICSC's senior vice president of global public policy. "To date, small and medium size commercial real estate businesses have been left out of government programs designed to stimulate the economy. The CRE Act would offer owners of commercial real estate a helping hand by moderating their loan structures, and in turn, free up additional capital for the economy at large," Laird said.

Founded in 1957, ICSC is the premier global trade association of the shopping center industry. Its more than 55,000 members in over 90 countries include shopping center owners, developers, managers, marketing specialists, investors, retailers and brokers, as well as academics and public officials. As the global industry trade association, ICSC links with more than 25 national and regional shopping center councils throughout the world. For more information, visit www.icsc.org.

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