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IREM and CCIM take commercial real estate issues to Capitol Hill

May 19, 2011 - Connecticut

Some 347 members of the Institute of Real Estate Management (IREM) and the CCIM Institute recently visited Capitol Hill to raise awareness of key issues affecting the commercial real estate industry. IREM and CCIM Members representing 38 states and the District of Columbia held 263 meetings with their respective senators, representatives and their staffs to voice the industry's concerns about:

- * Problems that continue to negatively impact commercial real estate financing, including bank liquidity, an equity gap, and a contraction in small business lending
- * Issues related to energy efficient buildings.

FINANCING PROBLEMS

Bank Liquidity Issue - Plummeting commercial real estate values have forced many regional and community banks, a significant source for multifamily and commercial lending, to take steep write-downs, resulting in bank failures and a reduction in credit.

Equity Gap - Over half of all commercial mortgages are currently "underwater" and many lenders are demanding that borrowers come up with additional capital to cover this gap. The problem is exacerbated when loans need to be refinanced.

Small Business Lending - Credit to the small business community has declined, which is leading to a decreased workforce and business failures. Elevated commercial vacancies also have resulted, forcing rent prices to fall. These scenarios have intensified pressure on community banks, resulting in banks' reducing credit and further perpetuating a negative economic cycle.

IREM and CCIM Position - IREM and CCIM support protecting and enhancing a healthy flow of capital to multifamily and commercial real estate. Recent regulations have become too extreme, which hinders commercial real estate recovery and limits further economic growth.

Action urged in the regulatory arena: IREM and CCIM support two initiatives that would spur more liquidity in commercial mortgages:

- * **Provide Term Extensions for Performing Loans** - IREM and CCIM ask Congress to urge the Federal Reserve and Treasury to limit restrictions and provide greater flexibility to holders of commercial debt. A simple term extension for performing loans could prevent many properties from going into default or foreclosure.
- * **Reject Proposed New Lease Accounting Rules** - The Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) have proposed new accounting rules that would force many companies to capitalize commercial leases onto their balance sheets. Larger balance sheets would force lessees to shorten lease terms to minimize costs. And since lessors raise financing by using the leases and the value of the property as collateral, the accounts they can

borrow in the future could be reduced if lease terms are shortened.

IREM and CCIM are concerned that the new lease accounting proposal will be detrimental to our nation's economy by reducing the overall borrowing capacity of many commercial real estate lessees and lessors. Also, IREM and CCIM are opposed to lease accounting standard changes that would treat the income producing real estate business as a financing business on a company balance sheet. Such a step would not accurately depict the unique characteristics of the investment real estate sector and, in turn, discounts the usefulness of the industry's financial statements.

Action urged in the legislative arena: IREM and CCIM support two initiatives that would spur more liquidity in commercial mortgage markets:

- * Develop Covered Bond Market - Covered bonds are securities created from loans, including mortgage loans. Long an important vehicle to strengthen financial markets in other countries, covered bonds are similar to mortgage-based securities (MBS), but with one major difference. The loans backing the bonds remain on the balance sheets of the issuing banks. IREM urges Congress to pass H.R. 940, the United States Covered Bond Act of 2011, that will allow for the development of a covered bond market in the U.S.

- * Increase Credit Union Lending Cap - During previous economic crises consumers and businesses have relied on credit unions to fill the gaps where banks could not serve them. Today, however, credit unions are hampered by a business lending cap of 12.25% of total assets. On March 8, 2011, S. 509 - the Small Business Lending Enhancement Act of 2011 - was introduced proposing to increase the credit union lending cap to 27.5% of a credit union's total assets. IREM and CCIM urge Congress to support S. 509 and promote its purpose, which is to expand small business opportunities by increasing the loan threshold amount for credit unions.

ENERGY EFFICIENT BUILDING ISSUES

While the debate over climate change continues, Congress is expected to consider legislation to promote energy efficiency and lessen the United States' dependence on foreign oil. Such legislation could affect the cost of constructing new and retrofitting existing buildings while also impacting the cost of operating multifamily and commercial structures.

IREM and CCIM Position - IREM and CCIM support the development of voluntary standards for reducing greenhouse gas emissions. They support the use of sustainable materials in the construction of buildings, and programs that reduce the "carbon footprint" of real estate assets. However, requirements to retrofit existing buildings must take into consideration the needs of these buildings and costs associated with such changes. Moreover, additional research is necessary to determine to what level greenhouse gases are affecting the environment versus natural climactic changes humans cannot control.

IREM and CCIM support energy conservation efforts by encouraging the proven energy-efficient technologies to eliminate waste and cut energy costs and positive incentives for energy conservation activities. Specifically, the organizations strongly support energy tax credits and voluntary programs like Energy Star and LEED.

Action Urged: Congress should enact tax and other incentive programs to encourage the commercial real estate industry's investment in energy efficiency and "green" building. At the same time, it should oppose mandates that artificially raise the cost of construction and operation of commercial real estate properties.

To learn more about the IREM and its chapter network, call (800) 837-0706, ext. 4650 (outside the U.S. call (312) 329-6000) or visit www.irem.org.

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