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IREM Boston visits Washington D.C. & Capitol Hill

May 03, 2012 - Owners Developers & Managers

The Institute of Real-Estate Management (IREM) is affiliated with The National Association of Realtors and represents 18,000 individual members and 535 corporate members. There are 80 chapters in the United States and 13 international chapter's worldwide. IREM members manage \$2 trillion of real estate assets including 11.4 million residential units and 10.4 billion s/f of commercial space.

IREM's success as an origination is largely due to its highly rated education programs, management designations and networking events. However, IREM is very active in legislative issues that affect the real-estate industry both at the state and national levels.

Members of the IREM Boston Chapter joined members from chapters around the country and world during our 12th annual Leadership and Legislative Summit in Washington, D.C. this April.

At this important summit IREM members teamed up with members of the CCIM Institute and held more than 200 meetings with their respective senators, and congress- men on Capitol Hill to raise awareness of key issues affecting the commercial real estate industry.

Members of the Boston Chapter, met personally with senators Jeanne Shaheen of New Hampshire, and senator Scott Brown of Mass., as well as high ranking staffers for Kelly Ayotte and congressman Charlie Bass of New Hampshire and senator John Kerry, congressmen Michael Capuano and Edward Markey of Mass.

The topics of discussion included:

Commercial Market Liquidity

While the overall economy is starting to turn around, the commercial real estate sector continues to struggle due to reduced operating income, property values, and a drop in equity. Additionally, commercial practitioners continue to experience difficulty in obtaining construction and land development loans, small business loans, short-term loans for capital improvements, financing and refinancing for mortgages.

* Covered bonds - Covered bonds are securities created from loans, including mortgage loans. They are similar to mortgage-based securities (MBS), but with one major difference. The loans backing the bond remain on the balance sheets of the issuing banks. Covered bonds have long been an important sector to strengthen financial markets in other countries.

IREM urged Congress to pass H.R. 940 that will allow for the development of a covered bond market in the United States.

* Credit Union Lending - Credit unions have been providing business loans for more than 100 years. Today, credit unions have a business lending cap of 12.25% of total assets. Many commercial real estate professionals have reported having strong, long-lasting relationships with credit unions, which could help them refinance and sustain their properties but find the lending cap presents an obstacle. IREM is in favor of increasing the cap to from 12.25% to 27.5%. Legislation introduced this year to

increase the cap on credit unions is being opposed by the bankers. Credit Unions are not taxed the same way as banks and the bankers feel increasing the cap is an unfair competitive advantage for Credit Unions.

Tax Issues

* Carried interest - Real estate partnerships are often organized as limited partnerships (or LLCs) in which the limited partners provide capital and the general partner(s) provides operational expertise. When the partnership property is sold, the limited partners generally receive the profits in proportion to their capital investment. Often, however, the limited partners grant profits interest to general partner(s). This profits interest is known as a "carried interest."

A carried interest is designed to act as an incentive for a general partner to maintain and enhance the value of the real estate so that the operation of the property is a value-added proposition. The carried interest of general partner(s) has historically been taxed at capital gains rates, just as the limited partners' gains are taxed at capital gains rates. The current tax rate on capital gains is 15%. President Obama has proposed having all carried interest income be treated as ordinary income instead of falling into capital gains rates. This would increase the tax rate to a maximum rate of 39.6%, rather than the 15% rate it is at currently.

IREM and CCIM Institute oppose any proposal that would eliminate capital gains treatment for any carried interest of a real estate partnership.

* Lease Accounting - 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. Since lessors raise financing by using the leases and the value of the property as collateral, the amounts they can borrow in the future could be reduced if lease terms are shortened.

IREM is opposed to lease accounting standard changes that would treat the income producing real estate business as a financing business on company balance sheets. 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.

Upcoming Events:

Come see: Cam Marston, a nationally renowned motivational speaker, speak at the Granite Links Golf Club Ball Room in Quincy, Mass. on Tuesday, June 5th. Marston is the leading expert on the impact of "generational characteristics and differences in the workplace and the marketplace." Here is a quick snap-shot of what you can expect to learn from hearing Marston speak:

- * Describe the characteristics, attitudes, and values of each generation: Baby Boomers, Generation X, Generation Y/Millennials and how to best get them to all work together .
- * Discover ways to Gen-Flex in order to solve generational problems in the workplace.
- * Determine how a manager's approach may need to change when coaching, managing and retaining employees of different generations.
- * Identify specific actions a manager can use to coach, motivate, and get results from each generation and how best to get them all to work together toward a common goal.

Whether you are an owner, developer, investor, employer or an employee, everyone can learn from hearing Marston speak on this topic. I highly encourage you not to miss this outstanding opportunity... you won't be disappointed.

Please visit the IREM Boston web site (www.irenboston.org) to find out how to register for either event.

Jonathan Donahue, CPM, ARM, is the 2012 president of IREM Boston.

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