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IREM's 9th annual Leadership and Legislative Summit

June 03, 2009 - Owners Developers & Managers

Last month, I had the privilege of attending IREM's 9th Annual Leadership and Legislative Summit in Washington, D.C., with IREM's Boston Metropolitan Chapter 4's legislative chairman, David Barrett. ARM, CPMC. This month's article, written by David Barrett, is a summary of the legislative meetings held in Washington:

Members of IREM Boston Chapter 4 joined with more than 225 IREM members representing 40 states and the District of Columbia during our 9th Annual Leadership and Legislative Summit held in Washington, D.C. Partnering with members of the Certified Commercial Investment Member Institute (CCIM) more than 200 meetings were held with members of the senate and congress on Capitol Hill to raise awareness of key issues affecting the real estate industry.

Kate Franco, ARM, CPM, 2009 chapter president for IREM Chapter 4, and myself met personally with senator Judd Gregg and senator Jean Shaheen, as well as congressman Paul Hodes of New Hampshire to discuss key legislative issues facing IREM members. Meetings were also held with high ranking staff members for senator Edward Kennedy and senator John Kerry's office as well as congressman Michael Capuano of Mass. During our meetings, the following issues of major concern to our industry were discussed at length:

Commercial Market Liquidity

Hundreds of billions of dollars in commercial real estate loans are expected to mature in 2009 and over \$1 trillion in the next few years. Currently, insufficient credit is available to refinance this wave of maturing loans. IREM members urged Congress to provide favorable relief to the commercial real estate industry through the availability of small business loans, short-term loans for capital improvements, and refinancing for mortgages.

As IREM members had encouraged during this Summit, the Federal Reserve Board has since announced that starting in June Commercial Mortgage-Backed Securities (CMBS) and securities backed by insurance premium finance loans will be eligible collateral under the Term Asset-Backed Securities Loan Facility (TALF). The Board also authorized TALF loans with maturities of five years versus the originally proposed three year term

Energy Efficient Buildings

As discussed in detail in last month's IREM article, the Obama administration has made energy a top priority and congress is expected to pass legislation leading to a reduction in greenhouse gas emissions this year.

IREM members voiced their support of the use of sustainable materials in the construction of new buildings, programs that reduce the "carbon footprint" of real estate assets, and energy tax credits. IREM members strongly voiced that any legislation that would mandate retrofits to existing buildings take into consideration the needs of these buildings as well as the financial burden that would be

created.

Carried Interest

Legislation was introduced in 2007 in an attempt to change the taxation of carried interest for real estate general partners to the ordinary income tax rate (35% maximum rate) from the current capital gains rate (15% maximum rate). While the provision passed in the house, it was not considered in the senate. Now, the Obama Administration has proposed that the carried interests of any partnership, not just real estate partnerships, be taxed as ordinary income, and not as capital gains. IREM members requested congress to oppose any proposal that would eliminate capital gains treatment for any carried interest of a real estate partnership. The commercial real estate sector is currently undergoing an economic crisis. Passing legislation which would raise the tax on real estate partnerships would decrease investment in real-estate and slow the economic recovery of the commercial real estate market.

Fannie Mae

As Fannie Mae guidelines have changed it has become harder to acquire funding to purchase real estate. This is becoming particularly true in the condominium market.

Under the current economic stress, many condominium developments are experiencing a high foreclosure rate and increase delinquencies on payment of monthly fees. Fannie Mae guidelines now require that no more than 15% of the common area fees are delinquent by more than one month and that occupancy by owners be at least 70%.

Other Fannie Mae guidelines making financing difficult are the requirements that the association have an "adequate" budget that allocates at least 10% of annual revenues to reserves and that the association also hold funds equaling the deductible under the master insurance policy with a requirement that Ho6 policies include "walls in coverage."

IREM members support the reconsideration of the Fannie Mae guidelines to support recovery efforts in the real estate market and to stem the climbing number of foreclosures.

IREM is affiliated with The National Association of Realtors and represents 18,000 individual members and 515 corporate members. There are 80 IREM chapters the United States and 12 international chapters world wide. IREM members manage 1.5 trillion dollars of real-estate assets and 977,400 residential units.

David Barrett, ARM, CPMC, is vice president of American Properties Team, Inc. of Woburn, Mass., and serves as IREM's Boston Metropolitan Chapter 4's 2009 legislative chairman. Kathleen Franco is the 2009 president of the Boston Chapter of IREM, Boston, Mass.