

COMMERCIAL CONNECTIONS

A PUBLICATION BY THE NATIONAL ASSOCIATION OF REALTORS®



A REVITALIZATION NATION

COMMERCIAL REDEVELOPMENT IN THE MOTOR CITY, OUR EMPTY LOTS
& EVEN ALONG THE MOTHER ROAD

ALSO IN THIS ISSUE:

NAR VIEWPOINT / A Note from The NAR President
RESEARCH / Higher Volume, International Increase
TECHNOLOGY REPORT / NAR's REach™ Class of 2014
ADVOCACY / TRIA and 1031 Like-Kind Exchanges



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Real Estate



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THE LATEST

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Looking for tips on improving your business? Have a listen to NAR's Commercial Podcasts, with an archive of over 2 dozen episodes readily available, and at only 15 minutes apiece, they can be easily downloaded so you may listen while working at your desk or on the road to your next meeting. REALTOR.org/CCP

Support

Commercial properties were among the hardest hit by the implementation of Biggert-Waters. NAR heard your concerns with implementation loud and clear and with your help successfully lobbied for the passage of the Homeowner Flood Insurance Affordability Act (HFI-AA), H.R. 3370. REALTOR.org/videos/flood-bill-helps-commercial

Learn

In the recently released Commercial Market Survey, commercial REALTORS® reported broad-based market improvements in the first quarter 2014. In keeping with the upward momentum in the markets, REALTORS® rated the direction of commercial business opportunities 6.0 percent higher in the first quarter 2014, an improvement over the 5.0 percent rise from the fourth quarter 2013.

REALTOR.org/reports/commercial-real-estate-market-survey

Attend

Mark your calendar for this year's REALTORS® Conference and Expo being held November 7th-10th in New Orleans, LA. Visit the convention website throughout the upcoming months as we add information onto the conference schedule, including commercial education, governance meetings and networking events. REALTOR.org/Convention

Involve

Be an agent for change by taking part in NAR's Calls for Action (CFA). In a recent CFA, NAR asked members to help kick patent trolls to the curb by sending your Senators messages via Twitter and other social media, urging their support of patent reform. Your participation is just one way to make sure your voice is heard on Capitol Hill.

Realtoractioncenter.com

Share

We're listening! If you have something you would like to share with any member of the Commercial staff team here at NAR, simply send us an email. Your suggestions and comments are important to us.

NARCommercial@realtors.org



STEVE BROWN, ABR, CIPS, CRS, GREEN

REVITALIZATION AND REDEVELOPMENT

A NOTE FROM THE NAR PRESIDENT

Revitalization and redevelopment are terms that not only apply to commercial practitioners efforts in the Route 66 corridor in Tulsa and in Detroit, but also reflect NAR's renewed efforts to promote the value of commercial real estate externally while also building support inside NAR, too.

As part of this renewed focus, I am thrilled to be able to share my thoughts as your 2014 NAR president through this column. While I wish I wasn't the first NAR president to have a column in Commercial Connections, it is my sincere hope that this serves as a trend for my successors to follow.

The reason is simple. Our commercial practitioners are a valuable component of the Association, and at more than 70,000 strong, represent the largest commercial real estate voice in the industry. You are trusted advisors, experienced brokers, and relationship builders with your clients and your community. You help strengthen the economic health of our cities and towns, and you help business owners establish themselves and grow.

NAR's commitment to you as a commercial real estate professional has never been stronger. We are focused on adapting and growing our resources and tools to better serve you. Enhancements to NAR's communications, and technology tools such as the Realtors Property Resource® will support you in your business success. We'll continue this year to plant new seeds so that you can reap benefits in the years to come.

Thank you for being a member of NAR, and for your involvement and dedication to the commercial real estate industry.



ROUTE 66 GETS NEW KICKS

by Tara Perkins, Contributing Writer

There it is, spread out like the surface of Mars—the hot, dry and barren plains of Osage County, Oklahoma. Or, shall I say there lays what appears to be barren? Beyond the plains exists a new world (or a new ‘old’ world) of thriving and soon-to-be renovated businesses, and a famous, two-lane highway: U.S. Route 66.

Amongst the commercial redevelopment along this fabled route, lays an iconic donut shop from decades past. Lick My Lips Donuts is the type of establishment that one would imagine when drumming up images from the 1950s a la car hops and root beer float stands. U.S. Route 66 is also known as the Main Street of America and has been preserved in popular culture through literature, song and television. There are many references, but most of us remember the Bobby Troup song “(Get Your Kicks on) Route 66” and the namesake TV series from the 1960s.

Much has changed since that time; advancing technology allows many consumers to buy products (even groceries) online and increasing variety at the local market enables folks to one-stop-shop. The interstate system has provided a quick way to bypass streetlights on the way to long- or short-distance destinations. Much of the character that was associated with local, small businesses in America has been lost. Strip malls have become the mainstay. Despite the change in economic landscape, it may seem little is different with the physical landscape in and around



LICK MY LIPS FOOD TRAILER

Tulsa. But, ask the Gooches, who own Lick My Lips Donuts and one soon discovers an entirely new layer of excitement and planning within what appears to be a sleepy town.

“We are excited for the revitalization of Route 66 in Tulsa. Mike Craddock, a REALTOR® and property specialist, found us the building that we purchased on historic Route 66 and are remodeling. We also own a food trailer from which we sell mini-donuts and we are hoping to utilize one of the spaces in the building we purchased for a gourmet, nostalgic-themed Route 66 donut shop. We are meeting with an architect and starting the remodeling phase of our adventure,” says Laken Gooch.

Blake Ewing is a passionate, 35-year-old entrepreneur and restaurant owner with several local venues in Tulsa. Ewing is also a current Tulsa City Counselor and is interested in creating cultural attractions in the area, including a movie theatre, restaurants and more. He appointed Mike Craddock to help with a task force a couple of years ago to help with the redesign of the sign code for the city to allow for more neon signs. In conjunction with that, Craddock has been working with property owners along Route 66 to either buy or sell commercial buildings.

Within downtown Tulsa, there are several redeveloped areas including the old warehouse district, the Pearl District, Cherry Street and the Blue Dome area. A long-term goal is to incorporate fun, neon signage, signs that hang over sidewalks and blade signs (signs

that are perpendicular to the building) in to the 11th Street and Route 66 overlay district. Ideas for park and walks, regionalized parking areas on a mass scale to improve pedestrian traffic and business visibility, as well as city enjoyment are in current review.

“Commercial real estate is up and local owners want redevelopment. NAR can help local REALTOR® associations with grants for streetscaping, walk-able areas and more. The larger, broad goal of connecting these expanding districts with streetcars or trolleys that add an entertainment aspect, along with commuter practicality, is one that is being considered,” explains Craddock.

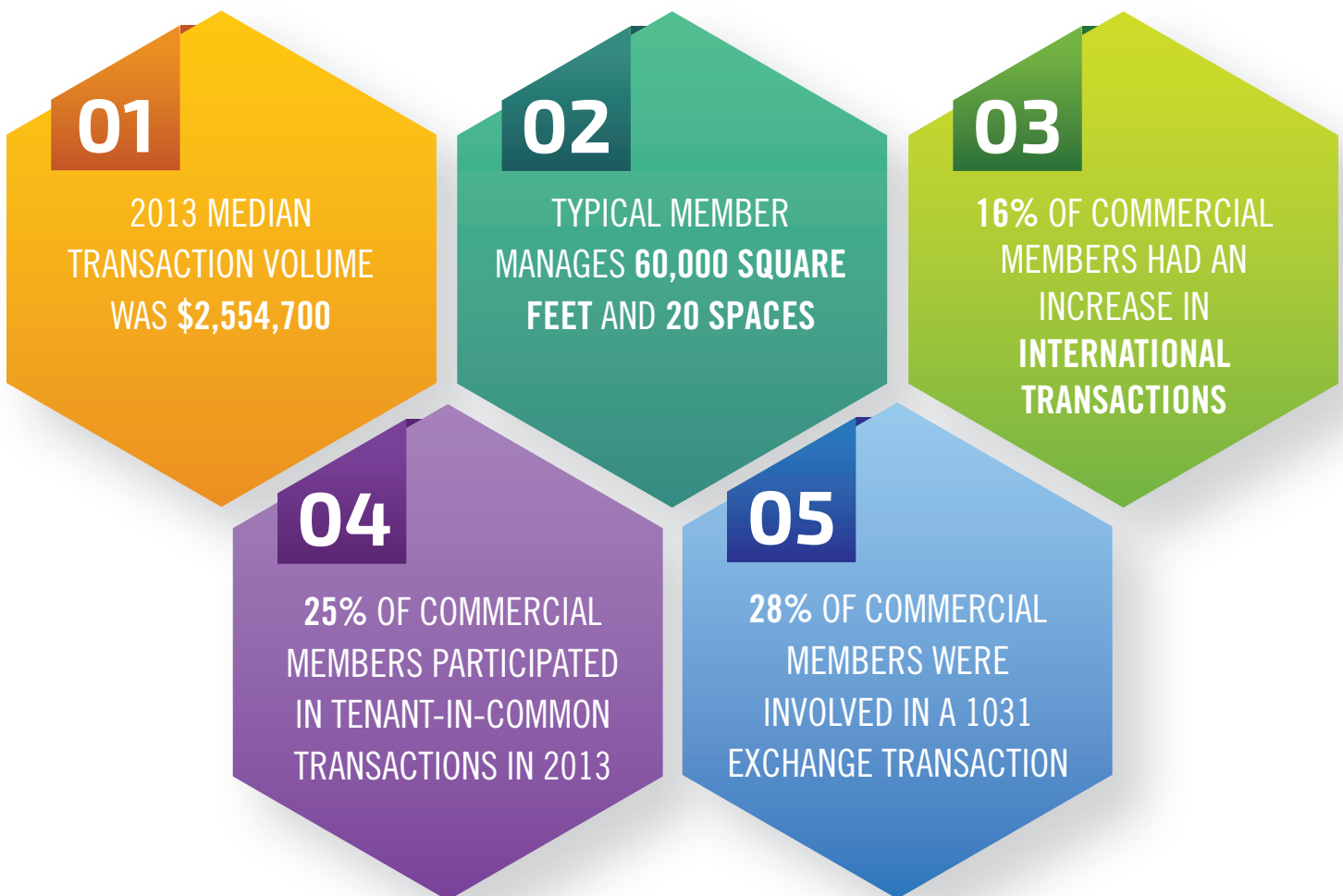
Bringing back the iconic character of the 1950s and 1960s, Route 66 preserves a special piece of American history for tourists and denizens alike. And, commercial restoration aids in the thrust of new businesses and residents (which in turn boosts the residential real estate sector). It is a win-win-win. There is a resurgence of redevelopment of commercial properties because of a great desire to transform what used to be underutilized, ‘seedy’ areas that now intersect with Route 66. These areas are drawing more traffic and interest as they redevelop and there is some connectivity with other pockets of redevelopment.

Route 66 remains an iconic tourist attraction that brings global interest. So the next time you travel west, take the highway that is again becoming the best. Thanks, in part, to REALTOR® champions and a motivated community, Route 66 has new kicks!

HIGHLIGHTS FROM THE 2014 COMMERCIAL MEMBER PROFILE

by Jessica Lautz, Director, NAR Member and Consumer Survey Research

To download the full report visit REALTOR.org/reports/commercial-member-profile



YOU BENEFIT FROM THE STRENGTH OF OUR RESEARCH

Here's a look at other research reports available to you as part of your membership. All of these are available on-line at bit.ly/commercialresearch



EXPECTATIONS AND MARKET REALITIES IN REAL ESTATE

Focused on the economic outlook, capital markets, highlights and expectations for the five major property sector markets, and a collective analysis of the commercial investment environment giving investors the information they need to make decisions in today's market.

1

2

COMMERCIAL REAL ESTATE: OVERVIEW AND OUTLOOK

Produced quarterly, this report covers the economic conditions underpinning current commercial real estate markets and presents trends in market fundamentals, investments and financing. Included are sector reports on office, multifamily, retail, industrial and hospitality.

COMMERCIAL REAL ESTATE MARKET SURVEY

Produced quarterly, this piece is designed to provide you with an overview of market performance, sales and rental transactions, current economic challenges and future expectations.

3

4

COMMERCIAL LENDING SURVEY

One of NAR's newer research projects, this piece summarizes lending conditions that impact commercial transactions nationally, based on survey results of NAR's commercial practitioners.



FOREIGN INVESTMENT IS DRIVING THE MOTOR CITY

by Tara Perkins, Contributing Writer

Most of us associate Detroit with the automotive industry. But recent media reports also highlight a Detroit wrestling with bankruptcy and the decline of its automobile industry. What's interesting is that the bankruptcy filing by the city of Detroit, an unprecedented move, may actually have spurred new interest from foreign investors in both commercial and residential real estate.

As for the Motor City? Its automotive engineering and design roles as well as the EPA's Motor Vehicle and Fuel Emissions lab in Ann Arbor continue to make Detroit and southeast Michigan an international focal point for the industry. Add to that Detroit's College of Creative Studies, whose graduates every year move on to design new models for automakers around the world, and there is an undeniable pool of talent that is driving the industry. Manufacturing in the upper Midwest has moved to other states and to Mexico, but Detroit is still the hub of automotive design and

engineering for the industry, and in turn, is appealing to investors.

Many of the so-called 'gateway cities' have experienced positive effects from foreign direct investment—places like Miami, San Francisco and Los Angeles. But what makes Detroit desirable to foreign investors? And, what impact does foreign investment have on the economic and cultural landscape of the city? Who are these foreign investors? How do REALTORS® connect with these potential clients?



DETROIT CITY SKYLINE

Bill Milliken, CCIM, CIPS and 2013 President of the Michigan Association of REALTORS® (MAR) explains, “It was my goal to open the eyes of Michigan brokers in both the commercial and residential sectors to the fact that the world is getting smaller and there is an enormous amount of international brokerage focusing on this country, on Michigan and specifically on greater Detroit. The statistics are interesting. When we analyzed website hits on realtor.com® International for a couple of months last fall, we realized that Detroit was the most searched city by international consumers, mainly China, Germany, Canada and Australia. We also know that there is enormous cultural diversity in Detroit. It boasts the largest concentration of Arabic and Bangladeshi populations in the U.S., and has a burgeoning Latino population, among others.”

“Detroit has an Emergency Financial Manager, Kevyn Orr, who was appointed by Governor Snyder. The Governor relied on a state statute that allows him to appoint such a manager for a city if its finances reach a critical stage, whereupon he effectively becomes the city’s chief executive with the right to dispose of assets, renegotiate contracts, prepare budgets and to accomplish tasks that political leadership was unable

to. This paves the way for rehabilitating and rebuilding the city. Along the way, it will work a hardship on city retirees, lenders and bondholders as they are asked for concessions. But, the long-term goal of returning Detroit to fiscal health and putting it back on its feet again is the objective,” explains Milliken.

Detroit’s outstanding debt is about 18 billion dollars. In order to balance the budget and help the city work efficiently, many cuts will be necessary, and they will be subject to federal bankruptcy court approval. The financial markets appear to be encouraged and investment activity in the area continues to build as investors see opportunity. There is emerging investment potential in Detroit and, in turn, increased demand for both commercial and residential property.

Mark Dotzour, Chief Economist and Director of Research, Texas A&M University explains, “The main thrust of foreign investment in the United States is in what is referred to as the ‘gateway cities.’ Foreign investment pushes prices higher because it adds a new set of bidders to the market. Like anyone else, they want to invest in places they know and are familiar with. Most have been to the gateway cities of New York

STORY CONTINUES ON PAGE 10

FOREIGN INVESTMENT IS DRIVING THE MOTOR CITY

CONTINUED FROM PAGE 9

City, San Francisco, Washington, D.C., and to a lesser extent Los Angeles. There is also foreign investment in Miami and Vancouver.”

Detroit investor Dan Gilbert, Chairman of Quicken Loans, has a portfolio of more than 3 million square feet of downtown Detroit commercial space, plus the Greektown Casino complex and numerous parking structures. Milliken explains that Gilbert’s Rock Ventures entity has renovated many of the buildings to create vibrant, exciting work environments that operate 24/7. Quicken Loans personnel have been moved into the Detroit properties from the suburbs, but third party tenants also increasingly populate the portfolio. This translates into a workplace with landscape furnishings, sleeping pods, bringing Fido to work and indulging in organic lunch at the on-site cafeterias. This appeals to young professionals who are now flocking to the Motor City.

“Rental rates are now rising for apartments in Detroit between 12-15% in some cases. Of course, as this is positive for market growth, the downside is service personnel, many in blue-collar positions are sometimes unable to renew their leases because they have been priced out of the market and displaced,” explains Milliken.

Detroit is comprised of 138 square miles and is a mosaic of neighborhoods, some of them with enormous challenges. But there are notable bright spots in the City, especially in the Downtown and Midtown neighborhoods. Corktown is another example. These are focal points for young, professionals looking for urban lifestyles. One young woman Milliken knows relocated from Boston to join a Detroit advertising agency, and found the Midtown community she moved to exhilarating and full of life. The tremendous growth and opportunity is clearly contagious and advantageous in the end for all, when business starts to grow at a rapid rate.

SOME INTERESTING GLOBAL STATISTICS ABOUT DETROIT AND ITS VIBRANT CULTURAL, GLOBAL POPULATION

More than 100 Chinese-owned companies in south Michigan



Germany has invested in Michigan for decades



Dearborn, MI (part of metro-Detroit area) boasts the highest Arabic population in the United States, notably Lebanese



Detroit hosts the largest Bangladeshi population in the United States



There is a huge Spanish speaking population with a 7% Latino population



The Canadian border crossing between MI and Windsor, ON is the busiest in North America



Michigan exported 23.4 billion dollars to Canada in 2013 and Canada imported 44.8 billion dollars, most of which were automotive related products

Source: city-data.com/city/Detroit-Michigan.html



COMMERCIAL REVITALIZATION THROUGH PLACEMAKING

by Holly Moskerintz, NAR Community Affairs Representative

Placemaking, simply defined, is a way to transform a space where no one goes or avoids - i.e. a vacant lot - to a vibrant place where the community gathers and returns again and again, a farmer's market, for example. NAR launched a Placemaking Initiative in 2013, introducing a Placemaking Guide, funding through a Placemaking Micro-grant and a series of educational webinars.

Placemaking is a great activity for commercial members to participate in as implementation of these activities and events can lead to an increase in property values and to the leasing/sales of vacant buildings around the transformed place. It can also have other positive impacts on commercial real estate development.

The easiest example of a Placemaking project to implement is something called "Lighter Quicker Cheaper", which focuses on small, incremental, low cost steps to quickly turn a community's vision into reality and build momentum for further improvements. Examples include community gardens, playgrounds and public art or murals.

If you have a downtown or commercial corridor in need of revitalization, other types of Placemaking

might be of value: a Better Block event or a Main Street® project. A Better Block event creates temporary, sustainable improvements to a single city block which can build momentum for long-term financial, social and environmental advancements.

Main Street® is a unique economic development tool that enables communities to revitalize downtown and neighborhood business districts by leveraging local assets.

How can you get involved in your community? Start by listening to the recorded webinars at bit.ly/smartgrowthwebinars. Next steps? Talk to your leadership and staff at your local association about ideas you can champion. Make a difference in your community!

THE NAR REACH® CLASS OF 2014

REACHING OUT TO COMMERCIAL REAL ESTATE

by Jean Maday, Director, NAR Commercial Development & Services

Recently launched, the 2014 NAR REACH® Class features eight companies that were selected for the potential benefit their products will bring to NAR members and impact they can have on the real estate industry. Even more exciting, is the potential for NAR's commercial real estate members - "We also are pleased to be joined for the first time by companies that address commercial real estate as their primary market" said Constance Freedman, managing director at SCV and founder and managing director of REACH. With the addition of several companies who have products that focus on helping commercial practitioners make more money and/or bring added value to the broker-client relationship, this year's class is certainly one to pay attention to. Let's take a look at the companies that can help you:

GOBY, LLC has an award winning energy management and regulatory compliance app for commercial real estate professionals looking to save their clients, tenants, and owners time and money. SeaSuite by Goby helps building owners and property managers run better buildings by capturing and distilling multiple data sources into simple, contextualized dashboards, tasks and reports. SeaSuite outputs ensure compliance with the rapidly changing regulatory landscape and institutional reporting requirements. www.gobyllc.com

DESKTIME helps commercial brokers' clients optimize offices and facilities by turning unused space into co-working areas and connecting them to independent, mobile workers who are seeking well-suited spaces to work. Desktime can help you earn extra commissions from a growing client by allowing them to sublet unused space and cultivate leads from early stage companies who start smaller and grow into their own space. Desktime's online platform facilitates easy management of a shared workspace, booking to billing,



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REACH® Class of 2014

Accelerating Real Estate



Desktime

FundWell

SeaSuite
by Goby

BACK AT YOU
MEDIA

SendHub

smartzip
predictive marketing

wevideo

managing availability and communicating with users - all in a single app.

www.desktimeapp.com

FUNDWELL is an online marketplace that connects brokers and their commercial clients with prequalified lenders that will fund their real estate needs and business expansion plans. Fundwell users get access to the best funding options they are eligible for today, and improve their fundability for more and lower cost financing in the future.

www.thefundwell.com

DEDUCTR was designed to help real estate professionals maximize their eligible tax deductions, eliminate tax-time stress, and keep more of what they work so hard to make. Deductr's patent pending technology automates the tracking of expenses, mileage and time - while providing single-click access to everything needed to maximize deductions.

www.deductr.com

Here's a quick snapshot of the other companies in the REACH® Class of 2014:

BACK AT YOU MEDIA

Build effective Facebook campaigns to drive traffic, connect with customers and build leads. www.backatyou.com

SENDHUB

Cost effective, modern phone system for brokers, agents and teams. Never miss a call or lead with SendHub.

www.sendhub.com

SMARTZIP

Win more listings by identifying and automatically marketing to homeowners most likely to sell in your neighborhood. www.smarzip.com

WEVIDEO

Create your own videos: No Experience Necessary.

www.wevideo.com



RPR COMMERCIAL

WHAT'S THE BEST RETAIL BUSINESS FOR A LOCATION?

by Emily Line, Director, Realtors Property Resource® Commercial Services

Whether consulting on investment opportunities, working with an economic development authority on a redevelopment project, or helping fill a vacant space for a building owner, RPR Commercial assists you in determining what businesses would be appropriate for a given location by looking at consumer spending data and seeing what business types are being underserved in the area.

With RPR Commercial, a benefit available only to REALTORS® as part of their core dues, REALTORS® can run a commercial analysis called “What’s the Best Retail Business for a Location?” By entering a geographic area, a “Business Opportunities Chart” generates in seconds. This chart indicates which business types are over/underrepresented in an area of interest, differentiating new business opportunities from saturated business categories in a market.

Using consumer spending data as a foundation, this marketplace data compares retail sales to demand. The retail demand information is derived from household level consumer spending data, while the retail sales information is from business point of sale transactions. The analysis calculates the number of residents who are leaving their home neighborhood to find a retail business type elsewhere. RPR Commercial ranks the results so it’s easy to see what businesses would likely be most successful in vacant locations or for the development of new locations.

In addition, RPR Commercial Trade Area Reports include demographics and psychographics. REALTORS® have access to stats on the population, age, income, education, economy and home values to see many area facts in one convenient place. The dominant demographic segment (a composite description of the type of resident most common in the trade area), or tapestry segment, provides details about the residents’ lifestyles: what they spend money on, what type of residence they live in, what type of job they hold and what they like to do for fun.

The RPR Commercial Trade Area Report along with the Business Opportunities Chart gives REALTORS® a tool to educate clients in the specifics about consumers and the potential business types for an area.

To learn more about RPR Commercial and to register for a LIVE webinar visit: blog.narrpr.com/commercial





HOW TRIA AND 1031 LIKE-KIND EXCHANGES PROTECT FUTURE DEVELOPMENT

by Erin K. Stackley, Esq. NAR Policy Representative – Commercial Real Estate

Terrorism Risk Insurance Act Reauthorization

Unless Congress takes action, the “Terrorism Risk Insurance Act of 2002,” (TRIA) expires at the end of 2014. TRIA created a federal reinsurance program following the September 11, 2001 terrorist attacks, allowing private terrorism insurance to be both available and affordable. By providing a “backstop,” TRIA allows more insurers, including smaller companies, to offer terrorism insurance, keeping costs affordable and coverage available. According to the Congressional Budget Office, this comes at no cost to taxpayers.

Terrorism insurance is important to commercial financing: many lenders and investors require it to finance construction of large projects, especially in “high risk” areas. If the program expires, insurers may exclude it from property coverage to manage risk aggregations in concentrated areas. It is also an

important structural protection in the Commercial Mortgage-Backed Securities (CMBS) market. Without it, some firms may decline to rate or cap their ratings on CMBS transactions.

Several bills have been introduced in the House to renew TRIA, and the Senate introduced one in early April; the next step will be a bill from the House Financial Services Committee, followed by markup hearings in May and possible passage of a reauthorization measure as early as this summer.

NAR participates in the Coalition to Insure Against Terrorism (CIAT), and has met with many key offices in the House and Senate regarding TRIA reauthorization. NAR has also communicated with both the House Financial Services and the Senate Banking Committees in advance of their hearings on the topic, stressing the importance of TRIA to commercial real estate.

Section 1031 Like-Kind Exchanges

“Like-kind exchanges” under Section 1031 of the Internal Revenue Code allow property owners to defer taxes on gains realized from the sale of “like-kind” real property until a future date. This provision is under threat by the current spate of tax reform proposals – in their discussion drafts, Senator Baucus, former Chairman of the Senate Finance Committee, proposed repealing it, as did Chairman Camp of the House Ways and Means Committee, and the President’s proposal suggests capping it at \$1 million.

Like-kind exchanges allow people who otherwise would not sell due to the tax implications to sell, letting development go forward. They not only stimulate real estate transactions, but also encourage U.S. businesses to reinvest in their domestic operations, as domestic and foreign property are not like-kind. It is not a “loophole” – taxes are still paid, whether upon the sale of the replacement property, incrementally through increased taxes from forgone depreciation, or by inclusion in a decedent’s taxable estate. Elimination of Section 1031 therefore would not create a tax on wealth, but a tax on cash flow.

While it is unlikely that tax reform will happen in this Congress, the current proposals may be the blueprints for future proposals, so it is important to pay attention. NAR advocates for responsible tax reform that provides the best opportunities for economic growth and job creation, and views these proposals as significant threats to real estate. NAR, together with other industry groups, sent a letter to the Finance Committee outlining its concerns with the proposals, and sent a letter to the House of Representatives outlining its priorities for tax reform – including deferral of gain on like-kind exchanges. NAR continues to watch the proposals very carefully and meets regularly with key lawmakers to discuss reform efforts.

MORE TAX ISSUES NAR IS MONITORING

179D ENERGY EFFICIENT COMMERCIAL BUILDINGS DEDUCTION:

The Senate Finance Committee approved a 2-year extender package, the EXPIRE Act, which renews 179D (it expired at the end of 2013). The EXPIRE Act will be debated on the Senate floor; the House Ways and Means Committee held a hearing on business-related tax extenders in April.

LEASEHOLD IMPROVEMENTS:

The EXPIRE Act would also extend for two years the 15-year straight-line cost recovery for qualified leasehold improvements, which expired at the end of 2013.

DEPRECIATION:

Currently non-residential commercial property is depreciated over 39 years, and residential commercial property over 27.5 years. The Senate proposal increases the depreciable life of all commercial real estate to 43 years and is retroactive; the House proposal increases the depreciable life of new properties to 40 years (non-retroactive).

CAPITAL GAINS RATE ON RECAPTURED DEPRECIATION:

Under current law, the rate is 25%; under both the House and Senate proposals, the rate will increase to that of ordinary income.

Download our Issues & Actions white-paper to view these and other NAR actions on commercial issues at bit.ly/issuesactions



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