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WELCOME



Election Results

HEAR HOW COMMERCIAL REAL ESTATE WILL FAIR
IN THE ELECTION'S AFTERMATH

NOVEMBER 15TH, 2012

SPEAKERS



ANN HAMBLY, Founder and Co-CEO, **1st Service Solutions**

Ann Hambly created 1st Service Solutions in 2005 recognizing the need for a borrower advocate in commercial real estate. Hambly has over 30 years of commercial real estate servicing experience and has served as the CEO of servicing for Prudential, Bank of New York, Nomura, and Bank of America. In 2011 she was recognized as one of the most influential woman in commercial real estate by National Real Estate Investor. She has also been recognized as one of the top 25 CEOs across all industries in a book called True Leaders. She has been at the forefront of setting industry standards for commercial real estate and has led many initiatives for industry groups that included attorneys, rating agencies, master and special servicers, trustees, and bondholders.



ROBERT BACH, National Director, Market Analytics, **Newmark Grubb Knight Frank**

As National Director of Market Analytics, Bob Bach prepares NGKF's national market publications covering the office, industrial, retail and investment markets. Bob oversees the preparation of approximately 70 quarterly market reports covering conditions in metropolitan office and industrial markets across the U.S. He works with research managers in the local offices of NGKF to ensure their data are accurate. Additionally, Bob works with NGKF clients as needed to complete specialized consulting assignments. He is a frequent speaker at national professional conferences.



BILL KILMER, Senior Vice President for Legislative and Political Affairs, **Mortgage Bankers Association**

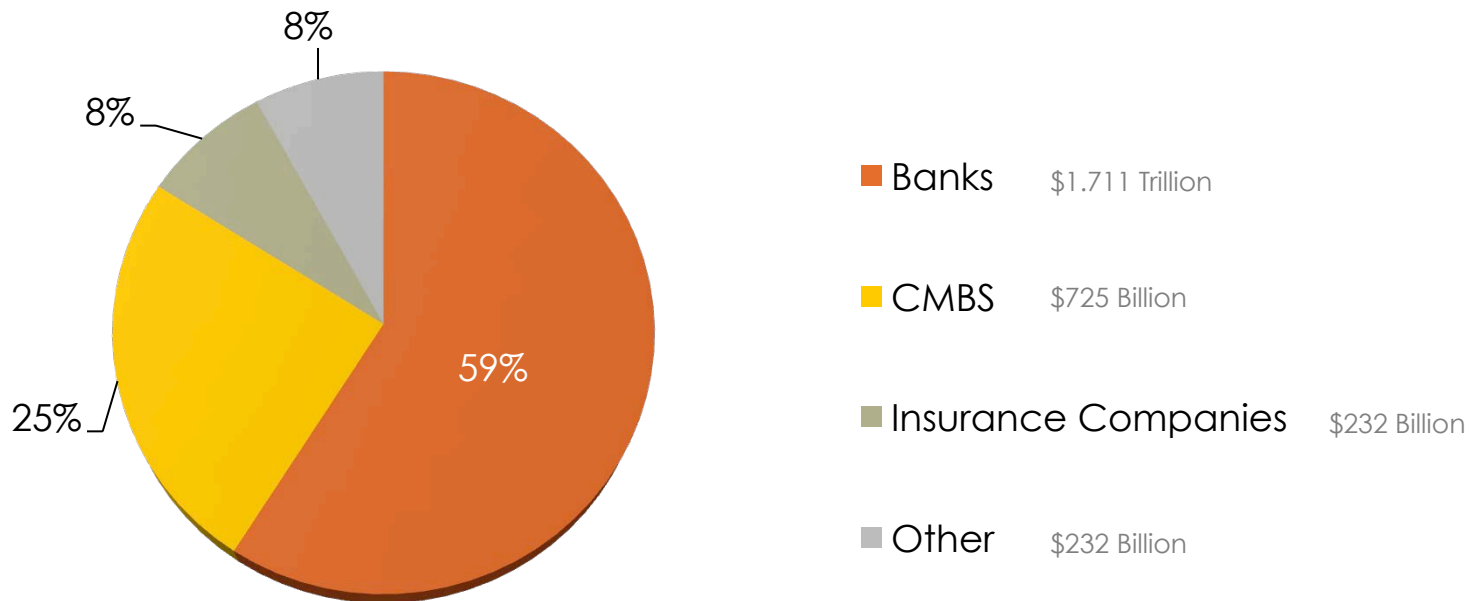
Bill Killmer is Senior Vice President for Legislative and Political Affairs at the Mortgage Bankers Association (MBA). A veteran of over twenty years within the housing industry, Bill is responsible for managing the real estate finance industry's legislative, political and grassroots activities, in close coordination with the MBA member leadership and its public policy team. He directs MBA's outreach to Congress, as well as other key state/local and political advocacy efforts.

OVERVIEW OF THE COMMERCIAL REAL ESTATE DEBT MARKET TODAY



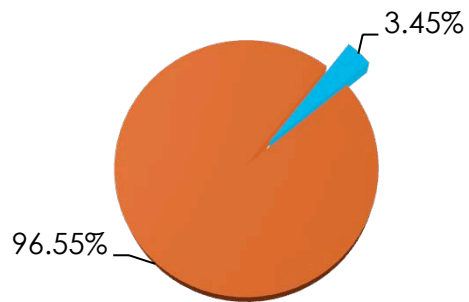
DEBT MARKET BY FUNDING SOURCE

- Total Outstanding U.S. Real Estate Loans = **\$2.9 Trillion**



DEFAULTS

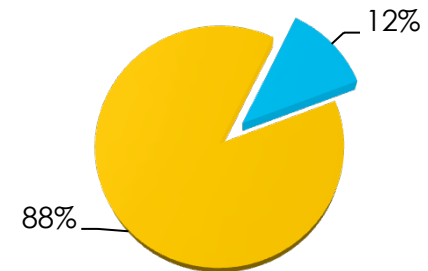
- **Banks** (of the \$1.711 Trillion)



■ Delinquent
(\$54 Billion)

■ Current
(\$1.657 Trillion)

- **CMBS** (of the \$725 Billion)

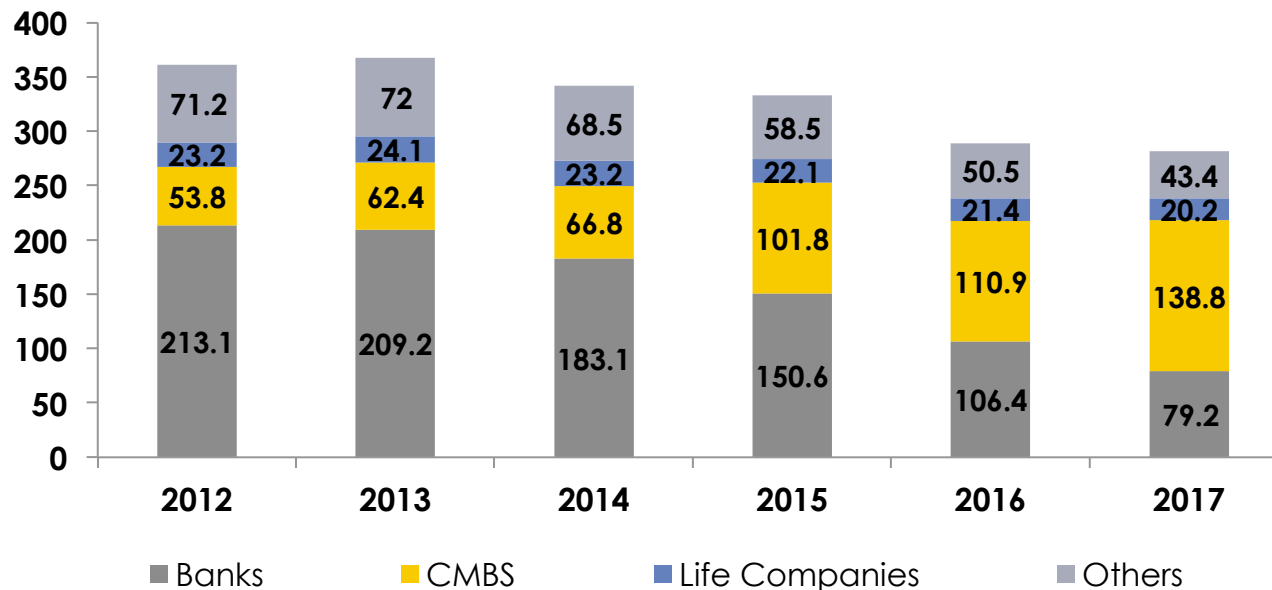


■ Delinquent
(\$85 Billion)

■ Current
(\$640 Billion)

MATURITIES

- There are massive scheduled loan maturities coming due that will need to be refinanced. In the next 5 years the total amount is estimated to be \$1.7 Trillion



FISCAL CLIFF NOTES

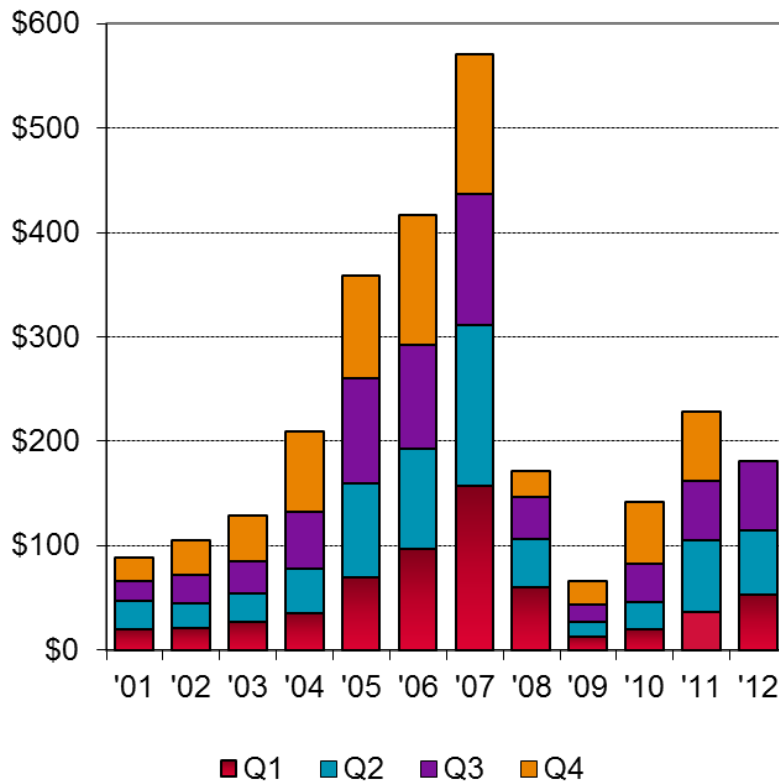
Component	Cost (in billions)	Impact on GDP (percentage points)	Impact on Jobs (in millions)
Defense Spending	\$24	0.4	0.4
Non-defense Spending + Medicare “doc-fix”	\$40	0.4	0.4
Various Tax Cuts + AMT	\$330	1.4	1.8
Payroll Tax + Unemployment Extension	\$108	0.7	0.8
Total	\$503 (rounded)	2.9	3.4

Source: Newmark Grubb Knight Frank, Congressional Budget Office

CAPITAL MARKETS

CRE Investment by Quarter

+61% in 2011, +12% thru 2012-Q3



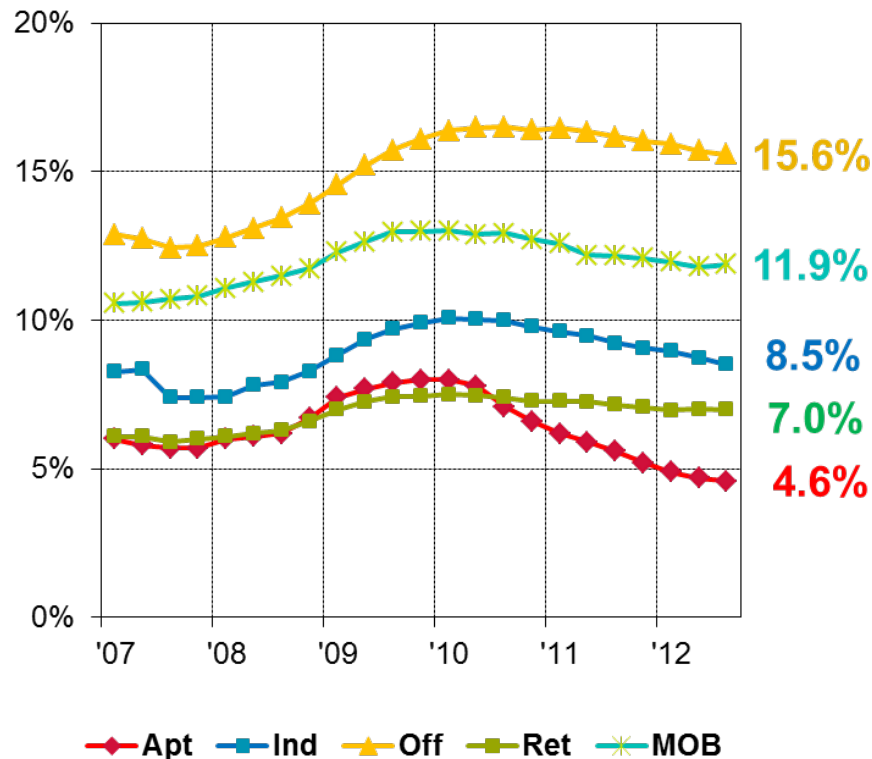
- Fiscal Cliff Impact On Capital Markets:

- Capital gains tax
- Tax on ordinary income
- Gift and estate tax
- Various other

Source: Newmark Grubb Knight Frank, Real Capital Analytics

LEASING MARKETS

Vacancy Rates



- **Fiscal Cliff Impact On:**

- **Apartments** → household formation
- **Industrial** → business capital spending
- **Office** → job creation
- **Retail** → consumer spending, including the holiday season
- **MOB** → doctor visits, but don't forget impact of ACA

Source: Newmark Grubb Knight Frank, Real Capital Analytics

HOW WILL THE CHANGES TO THE TAX LAWS AFFECT COMMERCIAL REAL ESTATE TRADES?



CAPITAL GAINS

- **Description**

- The Capital Gains tax rate is scheduled to increase to 23.8 percent on January 1, 2013. This will be based upon the expiration of the 15% Bush tax rate (increase to 20%) and the 3.8% tax for President's Obama's health care legislation.

- **Legislative Status**

- The 3.8% percent increase is based on the current law. Unless Congress acts to extend the 15% capital gains tax rate, it will be increased to 20% on January 1, 2013.

CARRIED INTEREST

- **Description**

- Tax treatment of carried interest, general partner's share of the partnership's profits, is changed from capital gains (15% tax rate) to ordinary income (35% tax rate). Unless the Bush tax cuts are extended, on January 1, 2013, the capital gains tax rate will increase to 23.8% and the ordinary income tax rate will increase to 39.6%.

- **Legislative Status**

- On February 14, 2012, Rep. Levin (D-MI), the top Democrat on the House Ways and Means Committee, introduced legislation to tax carried interest as ordinary income. Carried interest remains a potential "offset" for other legislation, but given opposition from Republicans, it is unlikely the Levin bill or similar proposals will be enacted during the current Congress. However, it will be in play during tax reform discussions.

RENTER VS. HOMEOWNER SUBSIDIES

- **Description**

- Home ownership tax subsidies include: mortgage interest deduction for the first \$1 million in mortgage value at the taxpayer's income tax rate; deductible property taxes, deductible finance points; capital gains exclusion of \$250,000 for singles and \$500,000 for married couples filing jointly.

- **Legislative Status**

- The mortgage interest deduction and other housing subsidies are being discussed in the context of comprehensive tax reform and reducing the national debt. It is unlikely that Congress will take up these issues before the November elections.

1031 STARKER EXCHANGE

- **Description**

- Under Section 1031 of the United States Internal Revenue Code (26 U.S.C. § 1031), the exchange of certain types of property may defer the recognition of capital gains or losses due upon sale, and hence defer any capital gains taxes otherwise due. However, cash used to make up the difference in market valuations of exchanged property(ies) (“boot”) is subject to capital gains/losses.

- **Legislative Status**

- This issue is likely to only be considered as part of a comprehensive tax reform bill, which is unlikely prior to the 2012 elections.

LOW INCOME TAX CREDIT

- **Description**

- The Low Income Housing Tax Credit (LIHTC) is a dollar-for-dollar tax credit for affordable housing investments. LIHTC accounts for the majority - approximately 90 percent - of all affordable rental housing created in the United States today

- **Legislative Status**

- Reps. Tiberi (R-OH) and Neal (D-MA) and Sens. Cantwell (D-WA) and Snowe (R-ME) have introduced legislation to extend the LIHTC. The Senate Finance Committee's bill extending a number of tax credits included a provision to insure that LIHTC loan rates remain fixed rather than variable. The bill is currently pending before the full Senate and may be considered after the election

TAX-EXEMPTION OF MUNI BOND INTEREST

- **Description**

- Municipal bonds provide tax exemption from federal taxes and many state and local taxes, depending on the laws of each state. Municipal securities consist of both short-term issues (often called notes, which typically mature in one year or less) and long-term issues (commonly known as bonds, which mature in more than one year).

- **Legislative Status**

- This issue is likely to only be considered as part of a comprehensive tax reform bill, which is unlikely prior to the 2012 elections.

CORPORATE TAX RATES FOR SMALL BUSINESSES

- **Description**

- Current corporate income tax rates are as follows:

• Taxable income	Tax rate
• \$0 - 50,000	15%
• 50,000 - 75,000	25%
• 75,000 - 100,000	34%
• 100,000 - 335,000	39%
• 335,000 - 10,000,000	34%
• 10,000,000 - 15,000,000	35%
• 15,000,000 - 18,333,333	38%
• 18,333,333-	35%

- **Legislative Status**

- Corporate tax rates are likely to be addressed through a comprehensive tax reform bill. Such legislation is currently being discussed, but it is unlikely that Congress will take up the issue before the November elections.

THE GSE IS A BIG PIECE OF THE COMMERCIAL REAL ESTATE FUNDING MARKET



FUTURE OF GSE'S IN MULTI-FAMILY FINANCING

- Increasing policy attention on multifamily housing
- Election year and post-election year politics
- FHFA in February 2012 issued Strategic Plan for the GSEs in Conservatorship
- FHFA's scorecard for the GSEs required examination of issues specific to the future of the GSEs' multifamily businesses
- GAO issued its report on Fannie Mae and Freddie Mac's Multifamily Housing Activities in September 2012

KEY THEMES BEING DISCUSSED ON THE FUTURE OF THE MULTIFAMILY SECONDARY MORTGAGE MARKET

- Importance of multifamily rental housing, range of capital sources that support this market, and the need for liquidity and stability in all market cycles
- Private capital as primary source of financing
- Government role supporting mortgage-backed securities that's countercyclical
- Importance of workforce/affordable housing
- Regulation and oversight of secondary market entities eligible to issue government-backed securities
- Stewardship of existing GSE assets and resources during conservatorship, transition and future state of multifamily finance

CMBS, BANKS AND FEDERAL REGULATORY POLICY

- **CMBS AND RISK RETENTION**

- Source of long-term financing
- Risk retention rulemaking will be critical
- Premium Capture Cash Reserve Account Proposal is problematic
- Components of rule could have significant impact on CMBS as capital source

- **BANKS AND BASEL III**

- Regulatory capital rulemaking will have far-reaching impact
- Treatment of whole loans and securitized positions key
- Implementation date delay

WHAT ARE THE PREDICTIONS NOW FOR THE LONG TERM CHANGES IN COMMERCIAL REAL ESTATE, BASED ON THE NEW PRESIDENTIAL RESULTS?



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