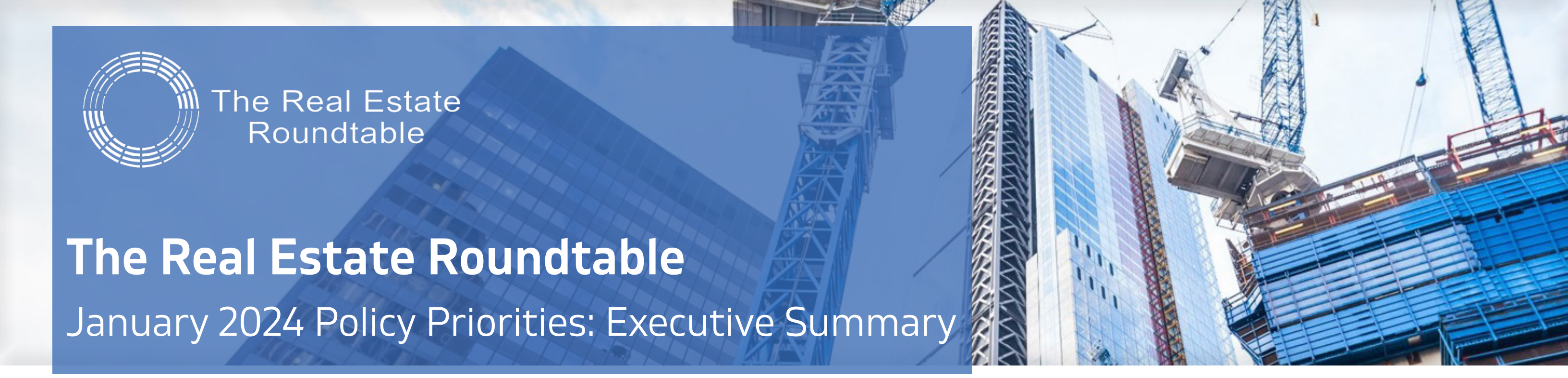

The Real Estate Roundtable

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January 2024 Policy Priorities: Executive Summary

The Real Estate Roundtable works with national policymakers everywhere to build a fairer, healthier, and more equitable America.

Tax Policy

The Roundtable advocates for tax policies that promote capital formation, reward risk-taking, and bolster productive private investment. The U.S. must maintain a competitive tax code grounded in enduring, pro-growth principles to move our economy forward.

Avoid Taxing Unrealized Gains

Recent proposals to tax unrealized gains would upend over 100 years of federal taxation, require an unprecedented IRS intrusion into household finances, and create unknown and likely unintended consequences for the U.S. economy.

Preserve Like-Kind Exchanges

Fundamental to the health and financing of commercial real estate, like-kind exchanges helped stabilize property markets at the height of the COVID-19 lockdown and are facilitating a faster and smoother transition to the our modern economy as many real estate assets are repurposed.

Reward Capital Formation and Investment

Maintaining a reduced tax rate on capital gains and carried interest decreases the cost of capital, drives long-term investment, encourages productive entrepreneurial activity, draws investment from around the world, and increases U.S. workforce productivity and competitiveness. Current business interest deductibility rules also support these same benefits.

Equitable Tax Treatment of Pass-Through Businesses

Our pass-through regime is a competitive advantage of the U.S. tax system. Closely-held partnerships and pass-through businesses drive job growth and entrepreneurial activity. Congress should retain the full 20% pass-through business income deduction.

Homeland Security

Working to Mitigate Risk and Improve Resilience for Cyber and Physical Threats

The commercial facilities sector continues to face a broad range of threats. To address these risks, the Roundtable's Homeland Security Task Force and Real Estate Information Sharing and Analysis Center (RE-ISAC) continue to work to identify and address an array of physical and cyber threats facing the industry and works with our Risk Management Working Group on strategies to most effectively help manage those risks.

Capital and Credit

The Roundtable supports public policy that minimizes regulatory burden, encourages the availability of credit and the formation of capital in commercial and multifamily real estate markets, while maintaining appropriate systemic safeguards, stable market valuations and appropriate transparency.

Addressing Pro-cyclical Regulatory Proposals and the Wave of Maturing CRE Debt

While well intentioned, a "perfect storm" of regulations—Basel III Endgame and others from the SEC—could increase borrowing costs, diminish credit capacity and impair capital formation at just the wrong time for the industry. Further, $2.75 trillion in commercial real estate loans maturing in the next four years—many financed when base rates were near zero—now need to be refinanced in an environment where rates are much higher, values are much lower, and markets are illiquid. It is imperative that policymakers and regulators do not engage in pro-cyclical policies such as requiring financial institutions to increase capital levels, which will only limit credit and feed a downward spiral that will put additional pressure on the financial system.

Expanding Commercial Insurance Coverage

The proliferation of natural catastrophe and pandemic threats has raised concerns about commercial insurance coverage for commercial real estate and the importance of closing the gap between insured and economic losses resulting from natural catastrophe perils. It is important to enhance economic protection against catastrophic risks with reauthorization of the National Flood Insurance Program (NFIP) and to enact measures that will help close coverage gaps, protect jobs, and ensure a sustainable and speedy economic recovery from future events.

Restrictions on Foreign Investment

Foreign investment is a major source of capital for U.S. real estate, leading to job creation and economic growth. Unfortunately, policies at the national and state level have sought to restrict foreign investment in U.S. real estate. We support efforts to protect the nation's security and the integrity of CRE investments, but have concerns about rules that may hinder investment by legitimate enterprises and capital formation by law-abiding entities.

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Energy and Climate

Real estate companies must reduce carbon emissions to sustain our environment, create jobs, respond to investor demands, and attract employee talent. The Roundtable advocates for national and attainable guidelines, incentives, and data that help our industry progress toward a net zero emissions economy.

Clean Energy Tax Incentives

The *Inflation Reduction Act (IRA)* is the largest federal policy investment ever made to tackle the climate crisis. New and revised tax incentives can help U.S. real estate improve building energy efficiency, deploy solar panels and other renewable power projects, store clean energy, and expand the nation's fleet of EV charging stations.

IRA amendments that encourage more retrofits and allow REITs to "sell" certain tax credits are positive—but further improvements to the code are needed to optimize clean energy building investments. Notably, Davis-Bacon "prevailing wage" requirements are a major disincentive to access the *IRA's* tax incentives and they should be repealed or curtailed. Meanwhile, smart rules from the Treasury Department and the IRS are necessary to make the incentives usable and accessible—such as rules that streamline prevailing wage and apprenticeship paperwork compliance.

Corporate Sustainability Disclosures

A long overdue climate reporting rule from the SEC is expected this spring. It will likely require registered companies to quantify "material" climate-related financial risks and disclose emissions in 10-Ks.

The California legislature has moved faster than the SEC. In 2023 it passed the first laws in the U.S. requiring businesses to calculate and disclose emissions—including remote Scope 3 "indirect" emissions from sources in the "value chain" that are not owned or controlled by a reporting company.

There should not be mandates for Scope 3 disclosures. CRE companies typically lack the means to collect or confirm emissions data from their external suppliers—such as from manufacturers regarding emissions embodied during the fabrication of concrete, windows, and other building materials. Further, no industry standards exist to guide accountants when certifying emissions numbers based heavily on estimates. Protocols are helpful to supoprt Scope 3 reporting—but it should not be required and subject to fines and penalties.

Need for Voluntary, Unifying Fed Standards

An inconsistent patchwork of climate regulations exists at the city and state level. Meanwhile, international frameworks set their own climate-related requirements on CRE owners, developers, and investors. The U.S. government has no authority to impose climate mandates on buildings.

Need for Voluntary, Unifying Fed Standards cont.

But workable and usable federal guidance, tools, and standards—developed with our industry's input and practical knowledge—can go a long way to bring uniformity and consistency to the chaotic climate regulatory landscape. Specifically, DOE's imminent definition for "Zero Emissions Buildings" and EPA's "NextGen" label for low carbon buildings, can set voluntary guidelines that have the potential to provide unifying, ambitious, yet achievable standards.

Housing, Infrastructure, and Cities

The Roundtable champions policies that bolster the health of our cities—the forefront of our post-pandemic transition—alongside policies that aim to enhance housing availability to promote equity, resiliency, and job growth while modernizing our nation's critical infrastructure.

Return to the Workplace

Returning to in-person work is critical for the health of our cities, local economies, tax bases, and small businesses. The Roundtable has been and will continue to be a tireless advocate for policies to get employees back to the workplace.

Failure to return to the workplace is hurting the health and well-being of cities, property values and local tax bases, and small businesses. The White House should follow through on recent guidance directing federal agencies to bring more of their employees back to the office. Federal employers should lead by example and return to their pre-pandemic workplace practices.

Expand Affordable Housing Through Tax Incentives and Property Conversions

America's chronic housing shortage is driving up prices and making it more difficult for individuals to find safe, affordable places to live. Innovative policy solutions and incentives to develop and rehabilitate new housing are central to closing this gap.

Affordable housing is critical to America's well-being. An expanded low-income housing tax credit could create and preserve more than two million additional affordable homes, support three million jobs, and generate $119 billion in sustainable tax revenue. Congress should also enact a tax incentive to encourage the conversion of older, under-utilized buildings to housing. And, existing federal agency programs should be mobilized to offer low-interest federal loans and guarantees to support conversion projects, with streamlined underwriting criteria for the swift disbursement of funds.