

# National Association of REALTORS® Issue Brief

## Commercial Real Estate – Top Priorities

April 2015

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**1031 LIKE KIND EXCHANGES:** During 2013 and 2014, tax reform proposals in both the House and Senate would have repealed Section 1031. The President's budget proposal for Fiscal Year 2015 contained limits on the deferral provisions of Section 1031. Fortunately none of the proposed changes to Section 1031 progressed beyond the idea stage. So far no tax reform plans have been introduced in 2015, but since it is typical for tax reform proposals to borrow heavily from ideas floated in previous years, the risk to Section 1031 remains a clear and present danger..

**NAR ACTION:** NAR participates in multiple coalitions to protect Section 1031 from repeal or limitation. As part of the "1031 Like-Kind Exchange Coalition," which includes non-real estate industry groups, NAR commissioned a study from Ernst & Young on the macroeconomic effects of repealing Section 1031, and participated in a press conference and a bill-visit day to meet with key Members of Congress to discuss the issue. As part of the "Real Estate 1031 Like-Kind Exchange Coalition," made up solely of real estate sector groups, NAR has commissioned another economic study on Section 1031, focusing on its impact on real estate. In 2015 NAR surveyed its membership to gauge how REALTORS® use Section 1031, and how their businesses will be affected if it is repealed. NAR continues to monitor this, and will oppose any plans to repeal or limit its use.

**BASEL III:** The Basel Committee on Banking Supervision released a proposal addressing Revisions to the Standardized Approach for Credit Risk, which outlines the risk-weighting regime for credit exposures for those using the standard approach. The proposal would have a negative impact on credit availability for commercial real estate through its changes to risk weighting different factors within the loan, and increased lending standards that would be higher than what regulators already have in place.

**NAR ACTION:** NAR signed onto a comment letter in March 2015 with several industry partners calling for the Committee to rethink its approach to the risk weighting standards and to scale back some of the changes that would be most limiting to commercial real estate lending.

**LEASE ACCOUNTING:** The Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) have been working since 2005 to develop a standardized approach to lease accounting. The initial proposal included new accounting rules that would force many companies to capitalize commercial leases onto their balance sheets using a "right-of-use" accounting model. Efforts to fully converge the two standards have stalled. The latest reports from FASB indicate it will replace the current dual model approach with a new one: though leases currently categorized as "operating leases" will be brought onto balance sheets under it, "Type A" leases are treated as capital leases and "Type B" leases continue to be recorded as straight-line rent expenses. Most real estate leases will fall into the "Type B" category. The updated standards are expected to be released in 2015, to be effective in 2017 or 2018.

**NAR ACTION:** Throughout the standards convergence project, NAR has been active on its own and in coalitions to express concern the new lease accounting proposal would be detrimental to the economy by reducing the overall borrowing capacity of many commercial real estate lessees and lessors. NAR will continue to monitor the FASB and IASB negotiations as they approach finalization of their standards, and will provide education to its members about the new standard and the impact it may have on commercial real estate.

**MARKETPLACE FAIRNESS:** In March 2015 Senators Enzi (R-WY) and Durbin (D-IL) introduced S. 698, the "Marketplace Fairness Act of 2015," which would create authority for state governments to collect sales taxes on Internet sales for goods delivered to their states, which would level the playing field between brick-and-mortar and e-commerce retail businesses while assisting the states in collecting billions of uncollected state sales taxes. Earlier in 2015 Rep. Goodlatte (R-VA), Chairman of the House Judiciary Committee, circulated a draft proposal which would implement an origin-based collection system for online sales, which has been strongly criticized by many industry groups.

**NAR ACTION:** NAR participates in the Marketplace Fairness Coalition, and will continue to support S.698 and urge Congress to pass this legislation.