NAIOP

COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION

ENERGY EFFICIENCY AND ENVIRONMENT

NAIOP VIEWPOINT

ENERGY EFFICIENCY

- Federally-mandated energy-efficiency targets ignore differences between local markets. Energy-efficiency legislation should rely on incentive-based and voluntary approaches to drive market changes.
- Improving energy efficiency is an important consideration in modern commercial real estate markets. Voluntary and incentive-based programs, such as EPA's Portfolio Manager, encourage increased energy efficiency in the private sector and should be continued.

ENVIRONMENT

- Opponents of development sometimes use the Endangered Species Act (ESA) only to delay development projects, without the existence of a true threat to an endangered species.
- Commonsense reforms to the ESA are needed to prevent abuse of the law and to incentivize voluntary conservation efforts.

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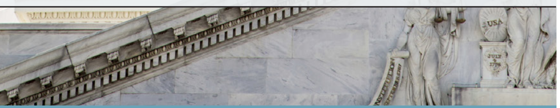

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OUR POSITION: Federal legislation advancing building code efficiency goals should be based on economic and technological feasibility. Incentive-based and voluntary approaches to advancing energy efficiency, such as EPA's Energy Star Portfolio Manager, should continue. NAIOP supports commonsense reforms to the Endangered Species Act (ESA), which codify and incentivize voluntary conservation efforts, and curb abuse of the Act by reducing instances of false reporting.

ENERGY EFFICIENCY

- Local economic conditions, tenant preferences and project development costs determine which energy-efficiency measures can realistically be absorbed in a given market. Arbitrary nationwide energy mandates that ignore local market conditions would create disincentives to new development where the costs cannot be absorbed.
- NAIOP supports legislation that takes a sensible approach to incentivizing energy efficiency without imposing new mandates. Federal legislation that encourages states to update energy-efficiency codes must include provisions for realistic payback schedules and requirements that the provisions be technologically and economically feasible.
- Portfolio Manager, part of EPA's Energy Star program, is a voluntary program that enables owners to track and monitor a building's total energy usage. Eliminating the program would cause confusion and compliance challenges in states, cities and municipalities that require building owners to use Portfolio Manager to comply with local energy-efficiency ordinances. Congress should therefore ensure continued funding of this program.

ENVIRONMENT

- The ESA should not be used solely to delay or stop development projects that pose no threat to an endangered species. Abusive delaying tactics should be curbed to the greatest extent possible. Individuals found to have intentionally reported false or fraudulent species sightings should face fines or further legal sanctions.
- Voluntary conservation programs – including Species Recovery Agreements and Habitat Reserve Agreements – allow the federal government to partner with private landowners to promote conservation of endangered species. These longstanding practices should be formally codified and further incentivized by establishing grant programs for private parties and state and local governments to facilitate implementation of such agreements.

INFRASTRUCTURE AND TRANSPORTATION

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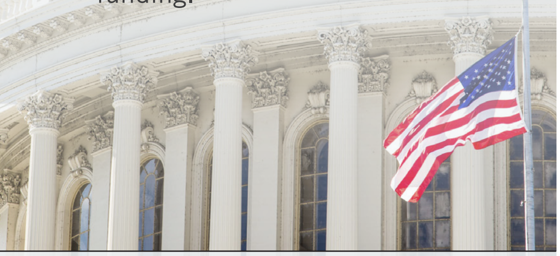
OUR POSITION: NAIOP supports increased funding and investment for our nation's infrastructure and transportation systems. Direct federal support and investment is needed in particular for projects of national importance. We support expanded use of public-private partnerships (P3s) for infrastructure development, continued federal funding for maintenance and repair, and a streamlined regulatory environment for major infrastructure projects.

- The availability of modern and efficient infrastructure systems is a major factor in real estate development and investment decisions. The success of commercial real estate projects is largely dependent on access to quality roads, ports, rail and other infrastructure systems.
- Strategic, long-term investments in infrastructure systems lead to increased opportunities for commercial real estate development and result in stronger job creation and economic growth for our communities. Funding criteria for project selection should be transparent and consistently applied.
- Direct federal investment, particularly for projects of national importance, is needed. Priority should be given to major infrastructure projects that have economic impact beyond their localities and affect all or major regions of the country.
- Public sector investment policies should be based on revenue sources that are predictable, reliable and sustainable to ensure that needed maintenance and repair of existing infrastructure occurs on a timely basis.
- New and innovative ways to fund infrastructure development should be pursued. These include policies that increase the participation and contributions of the private sector, such as increased flexibility for and increased use of P3s.
- Expansion of ports and increased freight rail capacity are needed to relieve congestion. The federal government should work with states to develop strategies that encourage development of warehouses and other distribution facilities along trade corridors to meet future growth demands.
- Regulatory obstacles that unnecessarily deter investment in infrastructure projects should be eliminated. Permitting and approval processes should be streamlined to improve project delivery times and reduce costs.
- States and localities should be afforded greater flexibility over the approval process for projects that have a federal-funding component.

NAIOP VIEWPOINT

- The United States ranks below major industrialized countries in the quality of its infrastructure. Increased investment in infrastructure systems is needed to maintain our long-term economic competitiveness.
- Increased private sector participation in the financing of major infrastructure projects, including expanded use of public-private partnerships (P3s), would provide new and flexible funding sources to offset the cost of these investments to the taxpayer.
- Efforts to streamline regulatory and administrative approvals for major infrastructure projects must be continued in order to reduce costs and speed project completion.
- States should have greater regulatory and administrative flexibility over local infrastructure projects that receive federal funding.



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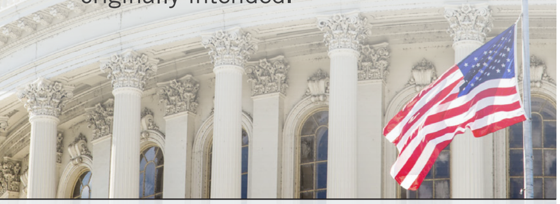
TAX POLICY

OUR POSITION: Establishing a reasonable cost recovery period for Qualified Improvement Property (QIP) has long been a point of bipartisan agreement in Congress. While the Tax Cuts and Jobs Act intended to make permanent a 15-year payback period for these expenditures, an error in the bill instead forces businesses to recover these costs over 39 years (or, for certain real estate firms, 40 years versus the intended 20-year period). Congress should pass legislation that remedies this mistake and restores the original intent of the legislation.

NAIOP VIEWPOINT

- Commercial real estate businesses rely on certainty in the tax code when making long-term investment decisions, including those involving tenant leasehold improvements and buildouts.
- Congress sought to incentivize increased capital investment in buildings by making shorter depreciation periods for Qualified Improvement Property (QIP) a permanent feature of the tax code rather than through temporary extensions.
- A drafting error in the 2017 tax bill requires writing off these improvements over a much greater period of time than originally intended, dramatically increasing the after-tax cost of going forward with these projects.
- Many businesses are delaying investing in building improvement projects until Congress addresses the issue, hurting job growth.
- Congress should pass technical corrections legislation early in 2019 to fix the QIP drafting error, thereby providing certainty and enabling the increased investment and job growth originally intended.



QUALIFIED IMPROVEMENT PROPERTY

- Qualified Improvement Property is defined as any improvement to an interior portion of a nonresidential building, excluding an elevator or escalator, changes to the internal structural framework, or enlargement of the building. QIP includes leasehold and tenant improvements.
- These improvements to commercial office and industrial properties, restaurants, retail, and other leasehold spaces are often the largest investments made by firms with real property holdings, after the land and building themselves.
- Congress intended to make permanent shorter depreciation periods for QIP, which would reduce the after-tax cost of these improvements, provide added certainty and predictability to encourage long-term investment, and foster job growth and economic opportunity in the real estate, construction and other industries.
- Because of a drafting error in tax legislation, businesses are now required to write off the cost of these expenditures over a much longer time period, leading to a considerable increase in the after-tax cost of making improvements.
- The mistake is most accurately characterized as a clerical error, rather than the result of a misguided policy. It has been identified by the Joint Committee on Taxation as one of only three provisions in the bill that require a true technical correction in order to have the statute reflect legislative intent.
- Firms nationwide are delaying or even cancelling leasehold renovation projects, causing a ripple effect across the real estate, construction, retail, restaurant and manufacturing industries.
- The U.S. Treasury Department has stated that the issue cannot be remedied through regulation or Internal Revenue guidance, but requires a statutory change. Consequently, Congress should pass technical corrections legislation early in 2019 to address the error and enable businesses to go forward with investment decisions.

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