

## Real Estate Business Journal

### REAL ESTATE ROUNDTABLE; TARP Panel Report Underscores Need for Policy Action to Support Economic Recovery March 6, 2010

A Feb. 10 report by the congressional panel charged with overseeing the Troubled Asset Relief Program (TARP) underscores the need for additional federal policy action to support economic recovery and stabilize commercial real estate markets -- with the top priorities being job creation, tax policies to encourage equity investment in commercial real estate, and steps to restart secondary credit markets, so that banks can begin clearing their balance sheets of toxic assets and lend to credit worthy borrowers large and small, The Real Estate Roundtable stated today.

"This report should be a must read for any policymaker looking to understand the scope of the problem and explore potential solutions," said Roundtable President and CEO Jeffrey DeBoer, who testified before Congress last summer on the \$1 trillion refinancing crisis in commercial real estate. As he explained, the crisis is being exacerbated by falling net operating income (NOI) [a result of business downsizing and high unemployment], significant property devaluation, and a growing shortage of equity capital.

"No single factor is as important to the state of the commercial real estate markets as a steady, and indeed, swift, economic recovery," the Congressional Oversight Panel (COP) asserted in its report, Commercial Real Estate Losses and the Risk to Financial Stability. "Without more people in stores, more people at hotels, more people able to afford new or larger apartments, and more businesses seeking new or larger office space and other commercial property, the markets cannot recover and the credit and term risk created by commercial real estate loans cannot abate without the potential imposition of substantial costs on lenders."

As the U.S. Senate considers jobs legislation, The Roundtable urges enactment of a fast-acting "green building" rebate proposal -- "**Building STAR**" -- to encourage energy retrofits, reduce greenhouse gases, and spur hiring in manufacturing, sales, retail and installation/construction. Another priority is extending 15-year leasehold improvement depreciation. With cash-strapped building owners being pressed to make significant lease concessions (including more capital for tenant space build-outs), they should be allowed to recover these costs over a period closely matched to the typical 7-10-year lease term.

The COP report also identifies tax issues that "complicate [loan] workouts and new investment in commercial real estate," including a 1980 law that discourages foreign equity investment in U.S. commercial property (the Foreign Investment in Real Property Tax Act). "Although many believe that billions of dollars in non-U.S. equity are waiting to be invested in U.S. commercial real estate... non-U.S. investors can be hit with double or even triple taxation on their investments in U.S. real estate," the report stated. The Roundtable views FIRPTA reform as critical to addressing the \$1 trillion-plus equity gap in commercial real estate.

DeBoer said the panel's findings are consistent with The Roundtable's message of many months -- that "without action, the impact of billions of dollars of maturing commercial real estate loans could undermine the economic recovery and extend an already painful recession." The findings also are consistent with The Roundtable's Q1 2010 "Sentiment Survey" of senior commercial real estate executives, who cited declining fundamentals, high unemployment, and deteriorating NOI as formidable challenges facing the sector.

The COP report correctly acknowledges that the problems facing commercial real estate have no single cause, and that there is also no single policy solution -- no "silver bullet."

"We look forward to continuing to work with the panel and policymakers in Washington toward the implementation of additional public policy strategies for addressing this mounting problem," DeBoer concluded.

**Arkansas Democrat-Gazette (Little Rock)**

**WASHINGTON NEWS IN BRIEF Energy efficiency is goal for Pryor Building bill aims to cut pollution**

**ALEX DANIELS**

**March 7, 2010 Sunday**

WASHINGTON - Arkansas' Sen. Mark Pryor and Oregon's Sen. Jeff Merkley, both Democrats, are pushing legislation designed to promote energy-efficient buildings.

"Buildings represent 40 percent of the energy used in the United States, and many have old equipment that waste energy and money," Pryor said in a statement.

**The bill would provide tax rebates and low-interest loans for building owners to take part in the "Building Star" program, by retrofitting their structures with updated energy systems and structural renovations.**

According to the American Council for an Energy-Efficient Economy, the bill would reduce the pollution that contributes to climate change by 21 million metric tons, or the equivalent of about 4 million cars each year.

On Wednesday, Sen. Blanche Lincoln pressed U.S. Trade Representative Ron Kirk to open the Cuban market for American agricultural goods. Kirk testified before the Senate Finance Committee, on which Lincoln sits, about the Obama administration's trade objectives.

"Opening trade relations with Cuba is long overdue, and I will continue my efforts to ensure that our producers gain access to this multibillion-dollar market," said Lincoln, a Democrat and the chairman of the Senate Agriculture Committee.

Lincoln also pressed Kirk to allow the U.S. Department of Agriculture, rather than the Food and Drug Administration, to inspect imported catfish.

The 2008 farm bill called for such a change, which supporters say would restrict a flood of Chinese and Vietnamese catfish that has challenged the domestic catfish industry.

Two days after the hearing, a significant foreign market was opened up to U.S. producers. Russia and U.S. negotiators announced Friday that the Russian market was now open to U.S. pork and pork products.

In late 2009, Russia closed down trade on a majority of the \$257 million worth of pork products the United States exports there, citing health concerns.

On Tuesday, Lincoln met with Maj. Gen. Bill Wofford, the adjutant general of the Arkansas National Guard, and other state Guard leaders.

After the meeting, Lincoln announced that she is drafting a bill that would allow local governments to apply for additional federal compensation if a public-safety officer or first responder was ordered into National Guard active duty for more than 30 days.

## Environment & Energy Daily

### ENERGY POLICY: Dems turn spotlight on 'Home Star,' efficiency and incentive programs

Katherine Ling

March 8, 2010 Monday

Democrats will turn the focus to energy efficiency standards and incentive programs this week with hearings in the Senate and House energy panels.

Senate Energy and Natural Resources Chairman Jeff Bingaman (D-N.M.) is a champion for energy efficiency and has pushed stakeholders and focused his staff on improving standards across the board this session. He is also leading efforts to get energy efficiency tax incentives for home and commercial building included in the Democrats' jobs agenda.

So far, Democrats have included a one-year credit extension of \$1,000 to \$2,000 for new energy efficient homes in the tax extenders bill the Senate is set to take up this week. Bingaman would like to put more efficiency incentives in future jobs bills and is hoping the two hearings may convince more of his colleagues, including ranking member Lisa Murkowski (R-Alaska).

**Thursday, Bingaman's panel will consider the "Home Star" program (also known as "Cash for Caulkers") to provide rebates for upgrades to homes; "Building Star," a similar program for commercial retrofits; and manufactured housing rebates.** A House Energy and Commerce subcommittee will take up the issue on Friday.

Bingaman has the backing of President Obama, who outlined a proposal for a "Home Star" program in a speech last week and repeated his call on Congress to pass incentives for home owners to make their houses more energy efficient from his State of the Union address.

"We know this will save families as much as several hundred dollars on their utilities," Obama said. "We know it will make our economy less dependent on fossil fuels, helping to protect the planet for future generations. But I want to emphasize that Home Star will also create business and spur hiring up and down the economy."

"One of the best things about energy efficiency," Obama said, is that most products, such as windows and insulation, are manufactured in the United States -- perhaps an important element as renewable energy development is coming under fire for requiring components that currently are mostly made overseas (Greenwire, March 4).

The administration's proposal is largely informed by a committee majority staff draft in which consumers can receive a rebate for 50 percent of the project or up to \$1,500 per retrofit for a total benefit not to exceed \$3,000; or, if a whole home is upgraded for 20 percent savings the homeowner could get up to \$3,000.

All rebates would be provided instantly at the retail store, similar to last year's vehicle "Cash for Clunkers" program aimed to get old inefficient cars off the road and to boost auto sales.

The plan is estimated to cost about \$6 billion and could improve up to 3 million homes.

The House Energy and Commerce Committee will hold a hearing on Home Star on Friday.

Rep. Ed Markey (D-Mass.), chairman of the House Energy and the Environment Subcommittee, has been a major advocate of "clean energy" jobs and made several speeches last week touting the potential for jobs in the energy efficiency and renewable energy sector.

Markey in particular has been interested in the potential for digital "smart grid" technology that could provide energy efficiency to homes and the electricity grid. A massive rebate program like Home Star that would replace millions of older appliances could help accelerate the installation of new energy-efficient appliances with wireless communication capabilities.

The technology would enable the appliance to communicate with a "smart meter" or network that could make sure appliances run during low electricity demand periods or even briefly cut unnecessary power use during peak demand

times. This ability could add to the millions of tons of greenhouse gas emission reductions already expected from the more energy efficient products by reducing the need to build new power plants or to use "peak" natural gas plants.

The price tag may raise some eyebrows, especially for Murkowski and other Republican lawmakers. Murkowski last week advised caution about adding new energy programs in jobs bills (E&E Daily, Feb. 5).

The other two bills under consideration at the Senate hearing could encounter similar protests. S. 1320, introduced by Sen. Jon Tester (D-Mont.), would provide up to \$7,500 in rebates for an Energy Star-qualified manufactured home for a low-income household.

**Legislation for "Building Star," introduced last week by Sens. Jeff Merkley (D-Ore.) and Mark Pryor (D-Ark.), would offer rebates for up to 30 percent of the cost of upgrades to energy-related equipment including energy audits, lighting, energy management and insulation for commercial buildings.**

The program could create as many as 150,000 jobs in the next two years, save building owners more than \$3 billion on their energy bills and cut greenhouse gas emissions the equivalent of almost 4 million cars, Merkley's office said in a statement. Industry ready to move

The Senate Energy panel will consider four bills on Wednesday looking to set efficiency standards for water heaters, video game consoles, spas, air conditioners and other high-energy consumption appliances.

While perhaps not as headline grabbing as Home Star, the four bills face perhaps a smoother ride to the president's desk and could provide a significant amount of energy savings.

But S. 3059 is a bipartisan bill sponsored by Bingaman, Murkowski and Sen. Bob Menendez (D-N.J.) that features aggressive energy efficient targets negotiated by efficiency advocates and industry that could result in almost 33 billion kilowatt hours of energy savings and 22.5 million megatons of carbon dioxide emissions by 2020, according to the committee. By 2030, the energy savings and emissions savings are estimated to more than triple.

The standards under the bill include air conditioners, heat pumps, street and parking lot lights, and furnaces. The bill also tightens reporting requirements and testing procedures.

The hearing will also feature two other measures sponsored by Menendez, S. 1696, which would conduct a study of video game console energy efficiency, and S. 3054, which would establish efficiency standards for bottle-type water dispensers, commercial hot food holding cabinets and portable electric spas.

Senate schedule: The Energy and Natural Resources Committee hearing on energy efficiency standards is Wednesday, March 10, at 9:30 a.m. in 366 Dirksen.

Witnesses: Kathleen Hogan, deputy assistant secretary, Energy Efficiency, DOE; Steven Nadel, executive director, American Council for an Energy-Efficient Economy; Joseph McGuire, president, Association of Home Appliance Manufacturers; Stephen Yurek, president and CEO of the Air-Conditioning, Heating and Refrigeration Institute; and Kyle Pitsor, vice president, government relations, National Electrical Manufacturers Association.

Senate schedule: The Energy and Natural Resources Committee hearing on "Home Star" is Thursday, March 11, at 10 a.m. in 366 Dirksen.

Witnesses: Catherine Zoi, assistant secretary of energy efficiency and renewable energy, DOE; Larry Laseter, president, Masco Home Services; Jeffrey DeBoer, president and CEO of the Real Estate Roundtable; Terrence Mierzwa, executive manager of marketing, efficiency and research, Consumers Energy; Phil Giudice, commissioner, Massachusetts Department of Energy Resources; Stacey Epperson, executive director, Frontier Housing; and a representative for the National Association of Home Builders.

House schedule The Energy and Commerce Committee hearing is Friday, March 12, at 9:30 a.m. in 2123 Rayburn.

**The News & Observer (Raleigh, North Carolina)**

**Chandler Design Build wins big with home's energy-saving envelope**

**Nancy E. Oates; Correspondent**

**March 12, 2010 Friday**

After 33 years in the residential construction business and even longer as an environmentalist, Michael Chandler of Chandler Design Build stood before renowned sustainability professionals at Build Well 2010 in Sausalito, Calif., and argued against subsidized weatherization and tax credits for improving energy efficiency.

He hasn't changed his green outlook. If anything, he's more intensely focused on saving energy. And he's getting more vocal about his ideas.

"It's something I've been pushing for a long time," Chandler said, "how to get more energy saved with less paperwork."

Chandler, long a local leader in the green home-building market, received national recognition in January when he was named the National Association of Home Builders Certified Green Building Professional of the Year. He was presented with the award at the NAHB's annual conference in Las Vegas on Jan. 18. At the ceremony, he also learned that a green-built house he entered for the Energy Value Housing Award won a silver award. Given the competition he was up against and the cast of green-building stars he shared the stage with, "That was one of the biggest thrills of my career," Chandler said. "It's like the Olympics of building to me."

The conference provided Chandler the opportunity to exchange ideas with thought leaders from around the country, learn about new products coming on the market and hear what's new in the green-building industry. For instance, new window companies are opening every day, he said, and a whole new class of air conditioning is coming online that works particularly well in the humid South. The units are capable of drying the air even when it doesn't need to be cooled, well-suited for energy-efficient houses that aren't plagued as much by heat in warm weather as they are by humidity.

Because the research organizations that sponsor the EVHA contest use the data from the houses entered to see what the best green builders are doing, the application for entry is complex. Filling it out took Chandler a good 40 hours, and he had most of the information in his computer already.

"We've got five certifications on this house," he said: LEED certification, EnergyStar certification, Builder's Challenge accreditation, and local and national green-building standards.

"You don't want to put a house in unless it's the very best you can do because the application process is so hard," he said.

The house that garnered the silver award for Chandler didn't have much cutting-edge technology in it, part of the reason he was able to keep its cost to about \$158 per square foot, significantly lower than many of its competitors. Chandler focused on insulation and integrated systems so that he didn't have a heating and cooling system that was more powerful than the 2,500-square-foot house warranted. He spent about \$4,500 extra to put 12 inches of insulation in the walls instead of 6 inches, boosting the insulation level to R-46, and put 8 inches of foam under the roof. He had an independent engineer design the HVAC system, thus avoiding "the kind of oversizing that can happen when you let the guy who sells you the equipment also do the design," he said.

Chandler did invest in one bit of high-tech sophistication: The radiant floor heating has a thermometer outside the house that anticipates whether the day is going to be warm so as not to overcharge the heat in the concrete slab. "The rest is pretty straightforward," he said. "Simple durable systems."

Because the payback for energy efficiency comes in reduced power bills, and energy is relatively cheap now, it can be hard for homeowners to justify expensive systems like geothermal heat pumps and photovoltaic panels. “The real payback is in improving insulation and integrating your systems better,” he said. “You have to take care of the basics before the fancy stuff.”

Even though tax credits cover high-priced solar and geothermal systems, installing them without properly insulating the house first is like swapping out a car’s engine without first inflating the tires. “You can put in a hybrid engine, but that won’t help if you have four flat tires,” he said.

Which leads back to his weatherization proposal. Rather than mire homeowners in the paperwork of federally financed home weatherizations for low-income households, subsidized loan programs for solar heating equipment and tax credits for energy-efficient home improvements, Chandler proposes an affordable weatherization package that homeowners could finance through a 15-year note that would be covered by the resulting monthly energy savings. Sealing leaky ductwork, tightening drafty crawl spaces, and upgrading insulation in basement ceilings and attic floors would cost \$3,000 to \$6,000 per household and save \$300 to \$600 a year on power bills. Power companies would collect the money and pass it along to the bond holders. Homeowners would enjoy a more comfortable environment and better air quality in the home. Chandler believes more homeowners would participate, thereby reducing power consumption overall and helping stop global warming.

“Existing tax credits and subsidized weatherization programs are missing the boat because the houses that need to be fixed aren’t getting fixed,” he said. Government experts assumed that the public would take the initiative to weatherize their homes if programs were put in place, and that banks would make small loans for the work to be done. Neither assumption has proved true. Training and hiring people to assess energy leaks and install weatherization might have been a better use of taxpayer dollars.

“Most of the weatherization and tax credits for solar have been badly designed, all the way back to the Carter administration,” he said. “Had we changed just a couple of assumptions, we could have gotten so much done. The missed opportunities are killing me.”