



# Commercial Real Estate Industry Update

May 28, 2020  
3:30pm – 4:30pm  
Webinar

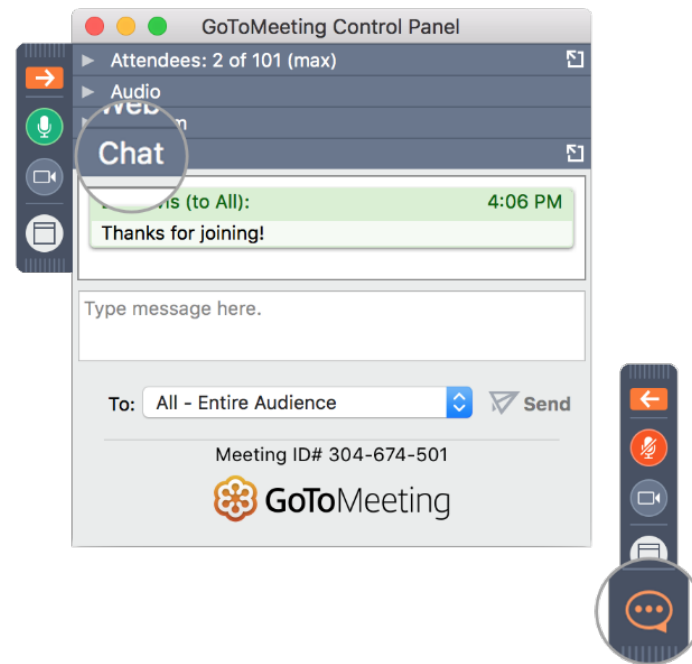
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# Webinar Instructions

+Please submit questions through the Chat Box in the webinar control panel



# Presenters

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Partner  
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Senior Vice President



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# Real Estate Lending During COVID-19



# COMMERCIAL REAL ESTATE INDUSTRY UPDATE



**CAPITAL ON A MISSION.** Redefining the bottom line by contributing to our nonprofit parent company, Enterprise Community Partners, to support affordable housing across the country.

## ○ Key Figures

- Full-Service Commercial Real Estate Mortgage Banking Firm
- \$7.9 Billion Loan Production in 2019 / \$26 Billion Loan Servicing Portfolio
- 27 Offices Nationwide

## ○ Sources of Capital

- Life Insurance Companies – Over 40 Exclusive Capital Relationships
- Government-Sponsored Agencies – Fannie Mae, Freddie Mac, HUD & USDA
- Pension Funds & Private Equity
- CMBS – Commercial Mortgage-Backed Securities
- Commercial Banks

## ○ Asset Classes

- Multi-Family – Market Rate & Affordable
- Industrial
- Retail
- Office
- Non-Traditional – Self-Storage, Hospitality, Senior Housing & Mixed Use

## ○ Transaction Focus

- Fixed-Rate, Non-Recourse Permanent Loans
- Joint Ventures & Participating Loans
- Equity for Acquisition & Development
- Construction & Short-Term Bridge Financing
- Real Estate Advisory Services

ATLANTA, GA  
BOSTON, MA  
CHARLOTTE, NC  
CHICAGO, IL  
CINCINNATI, OH  
CLEVELAND, OH  
COLUMBIA, MD  
COLUMBUS, OH  
DALLAS, TX  
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IRVINE, CA  
LEXINGTON, KY  
LOS ANGELES, CA  
LOUISVILLE, KY  
MEMPHIS, TN  
MINNEAPOLIS, MN  
MONTGOMERY, AL  
NEW YORK, NY  
NORFOLK, VA  
PITTSBURGH, PA  
RALEIGH, NC  
SAN DIEGO, CA  
SAN FRANCISCO, CA  
SOUTH BEND, IN

- **Property Performance by Asset Type**

- Hospitality
- Retail
- Office
- Industrial
- Multi-Family
- Non-Traditional

- **Lender Perspective**

- Forbearance – Lenders, Landlords & Tenants
- Underwriting Implications – Recourse vs. Non-Recourse
- Active Lenders
  - Commercial Banks
  - CMBS
  - Government-Sponsored Agencies – Fannie, Freddie, HUD & USDA
  - Life Insurance Companies

- **Looking Forward**

- Recommendations for Owners & Investors

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Bellwether Enterprise is a national, full-service commercial and multifamily mortgage banking company, connecting profit to purpose. As a subsidiary of Enterprise Community Investment, Inc., we support its mission of advocating, creating and preserving affordable housing in thriving communities.

# New Federal Income Tax Provisions – Commercial Real Estate

# Coronavirus Aid, Relief & Economic Security Act "CARES" (3/27/2020)

- +Phase 3 COVID-19 relief legislation
- +Signed into law on Friday, March 27 by President Trump
- +\$2.2 trillion in economic relief
- +Significant tax law changes for individuals and businesses to access cash as quickly as possible, while enhancing and revising provisions previously contained in the Tax Cut and Jobs Act

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# Tax Cuts and Jobs Act (TCJA) – 2017 Tax Reform (12/22/2017)

- + 100% Bonus depreciation on *acquired* property effective 9/28/2017; QIP was ineligible for the 100% Bonus depreciation deduction. Certain Real Estate Trades or Bus were eligible for Section 179 on QIP.
- + Eliminated the 2 year NOL carry-back claim.
- + Allowed indefinite NOL carry-forward, subject to annual deduction limitation of 80% of taxable income.
- + Real estate professionals – \$500k excess business losses limited.

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# Cares Act - QIP Technical Correction Fix

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- + Beginning January 1, 2018, the Cares Act addressed the so-called “retail glitch” to clarify that Qualified Improvement Property (“QIP”) is 15 year property under MACRS and eligible for 100% bonus depreciation
- + QIP is defined as any improvement to an interior portion of a building which is **nonresidential** real property if the improvement is placed in service after the date the building was first placed in service by the taxpayer and is **not**:
  - + An enlargement of the building
  - + An elevator or escalator
  - + Part of the internal structure framework of the building



# Cares Act – When to Claim a QIP 100% Bonus Depreciation Deduction

- +If QIP originated in 12/31/2018 – Can either:
  - File Form 3115 and claim the missed deduction in a future tax year
  - Amend 12/31/2018
  
- +If QIP originated in 12/31/2019 - if:
  - Already filed, under 3/15/2020 extension – can supersede E-filed return
  - Already filed, not under 3/15/2020 extension, amend

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# Cares Act - Increased Deductions for Business Interest Expense

- + The business interest expense limitation under IRC Section 163(j), currently set at 30% of adjusted taxable income, is set at 50% for tax years 12/31/2019 and 12/31/2020 for C-Corporations, S-Corporations and Individuals.
- + For partnerships the increase to 50% of adjusted taxable income is delayed until taxable years beginning 1/1/2020. However, a partner receiving an allocation of suspended interest in 12/31/2019 is permitted to deduct **half** of such interest **in tax year 12/31/2020**, with remaining subject to previous carryover regime.



# Cares Act - Elimination of Loss Limitations

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- + A provision in the Act modifies the \$500k limitation on business losses applicable to pass-through businesses and sole proprietors, so they can also benefit from the new 5yr NOL carryback
- + Provides for a 5yr NOL carryback period, beginning with tax years 12/31/2018 through 12/31/2020; beginning 1/1/2021 NOL can only be carried forward
- + Suspends the 80% limit of an NOL carryforward, tax years: 12/31/2018, 12/31/2019 and 12/31/2020



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# NOL Basics – Commercial Rental Real Estate Property

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- + Does not necessarily mean negative cash – may be loss due to depreciation or 20% qualified business income (“QBI”) deduction
- + Rental losses are default passive – with some exceptions:
  - + Active participant – passive – loss limited to \$25,000 with phase out
  - + Real estate professionals / material participants – non-passive - loss not limited, can reduce other income; Aggregation Election



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# IRS Announcements - Can Un-elect Certain Irrevocable Elections

- + Can un-elect previous election related to bonus depreciation – Rev. Proc.
  - Applies if a taxpayer elected out of Bonus – Class Life 15yr property
  - Applies to tax years 12/31/2018 and 12/31/2019
- + Can un-elect from ADS depreciation – Rev. Proc. 2020-22
  - Applies if: greater \$25M Gross Receipts, or Syndicate – Interest Expense Limit. Elected ADS depreciation to avoid Int. Exp. limit

Applies to tax years 12/31/2018 and 12/31/2019



# Certain Gain Rollover Extensions – Notice 2020-23

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- + §1031 Like-Kind Exchanges – If 45 day identification or 180 day deferral window ends 4/1/2020 through 7/15/2020, extended until 7/15/2020.
- + Opportunity Zones Capital Gain Deferral – If 180 day rollover period ends 4/1/2020 through 7/15/2020, extended until 7/15/2020.
- 12/31/2019 Partnership K-1 Capital Gains – 180 rollover deferral period begins as late as 3/15/2020.



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# Cancellation of Debt (COD)

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- + Qualified Real Property debt is generally excludable from income
- + Potential to reduce basis – Requires an election (Form 982)
  - + Limited based on FMV
  - + Limited based on adjusted basis of all depreciable property
- + Income tax considerations for type of debt (ordinary vs capital):
  - + Qualified nonrecourse vs Recourse



# Questions?

Please submit questions in chat box

Thank You  
for your time!



**MCM COVID-19 Resource Center**

[www.mcmcpa.com/covid-19](http://www.mcmcpa.com/covid-19)