



Welcome, to the Real Estate Connection!

Topics:

Capital Markets Update

Tax Update

Creating Public/Private Partnerships to Develop Regional Strategies



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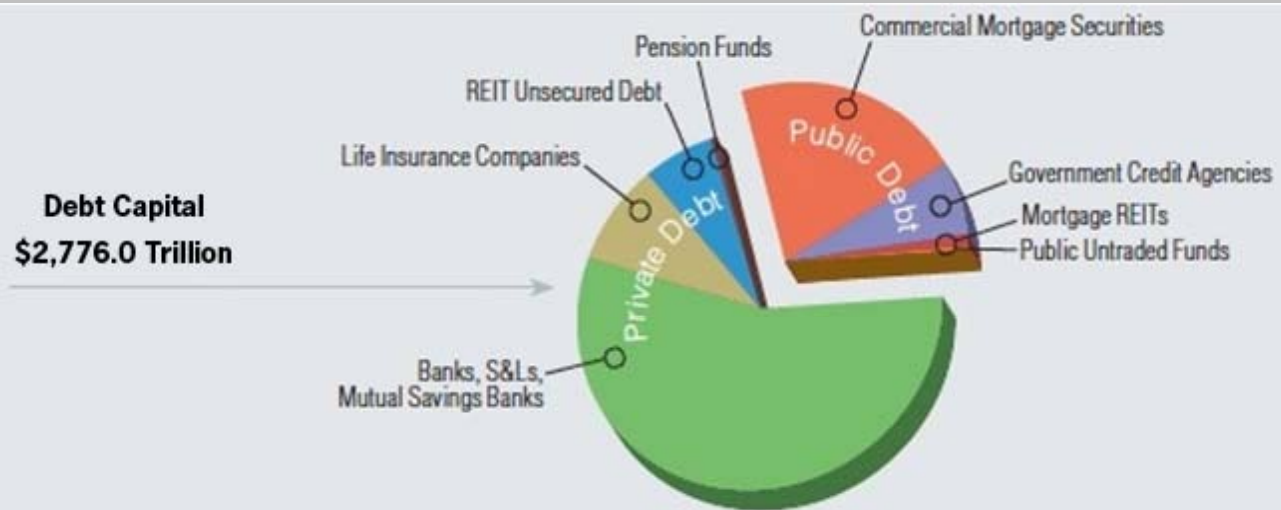
Commercial Real Estate Capital Markets

Presented by
John Petersen, President
Melvin Mark Capital Group

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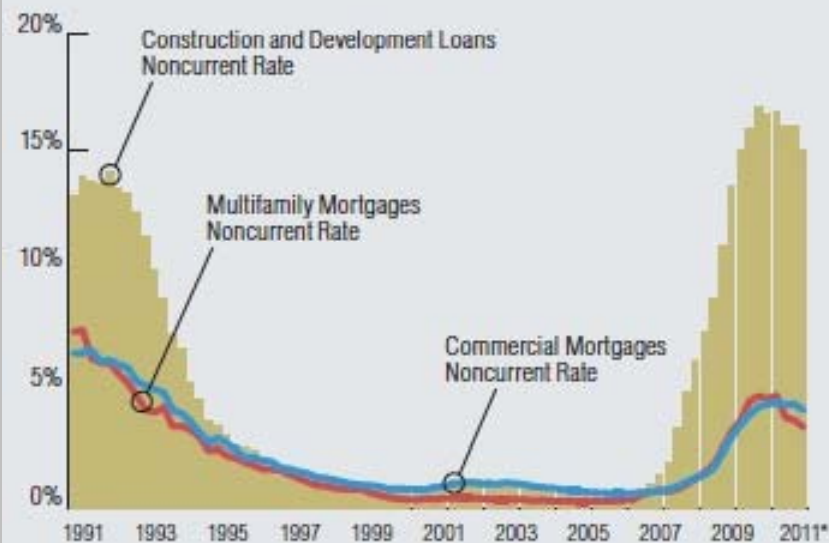


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EXHIBIT 2-8
Bank Real Estate Loan Delinquency Rates



Notes: Delinquent loans are defined here as those that are noncurrent—either 90 days or more past due or in nonaccrual status. As of Q2 2011.

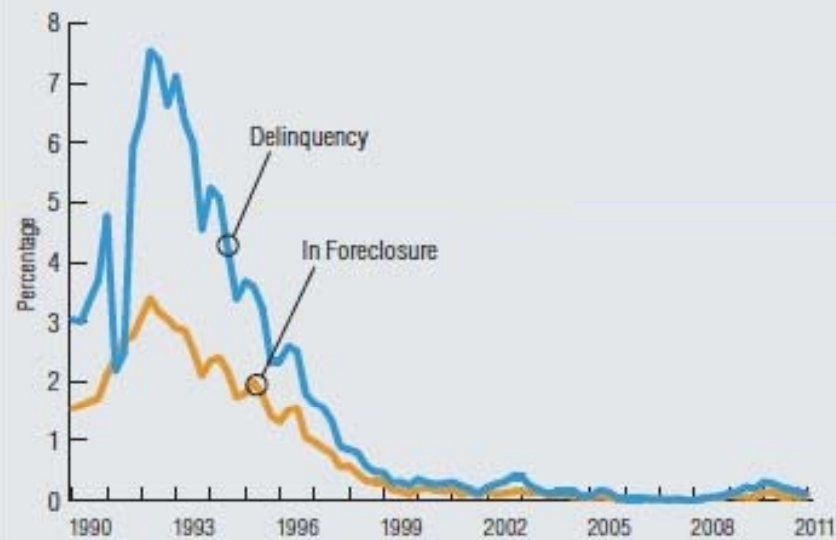
Source: FDIC.

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EXHIBIT 2-9
**U.S. Life Insurance Company Mortgage Delinquency
and In-Foreclosure Rates**



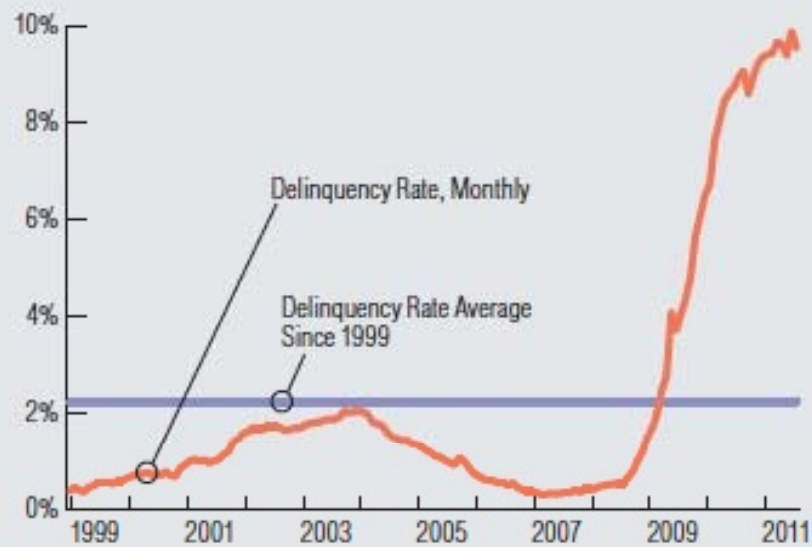
Sources: Moody's Economy.com, American Council of Life Insurers.

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EXHIBIT 2-11
CMBS Loan Delinquency Rates



Source: Trepp LLC.
Note: Through August 2011.

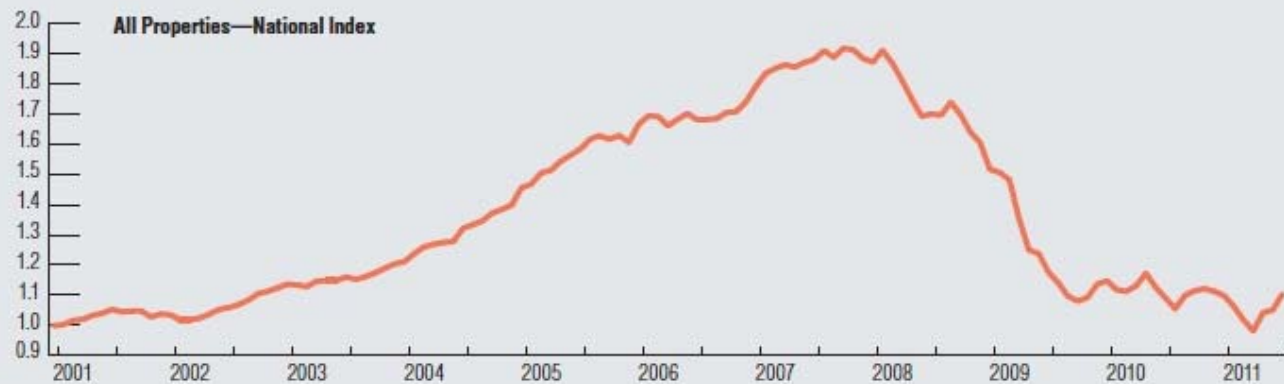
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EXHIBIT 2-1

Moody's/REAL Commercial Property Price Index



Source: Moody's, Real Estate Analytics LLC, MIT Center for Real Estate, Real Capital Analytics.

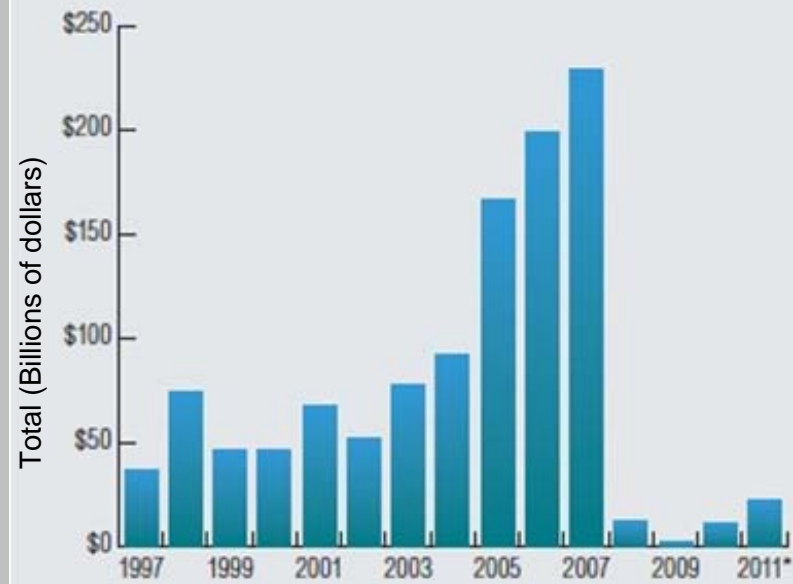
Note: This index is a periodic same-property round-trip investment price change index of the U.S. commercial investment property market. The index is based on the Real Capital Analytics database, which attempts to collect price information for every commercial property transaction in the United States over \$2.5 million in value.

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EXHIBIT 2-10
U.S. CMBS Issuance



Source: Commercial Mortgage Alert.

*Issuance total through August 30, 2011.

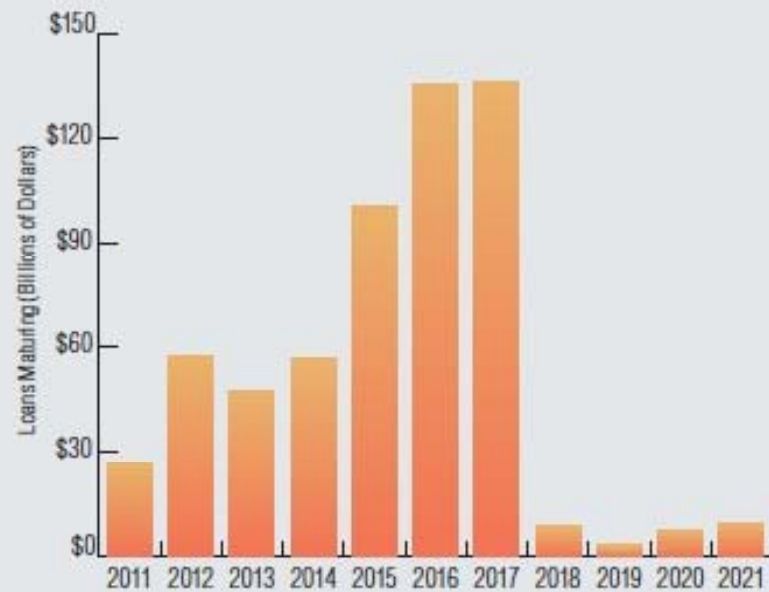
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EXHIBIT 2-14
CMBS Mortgage Maturities



Source: Trepp, LLC

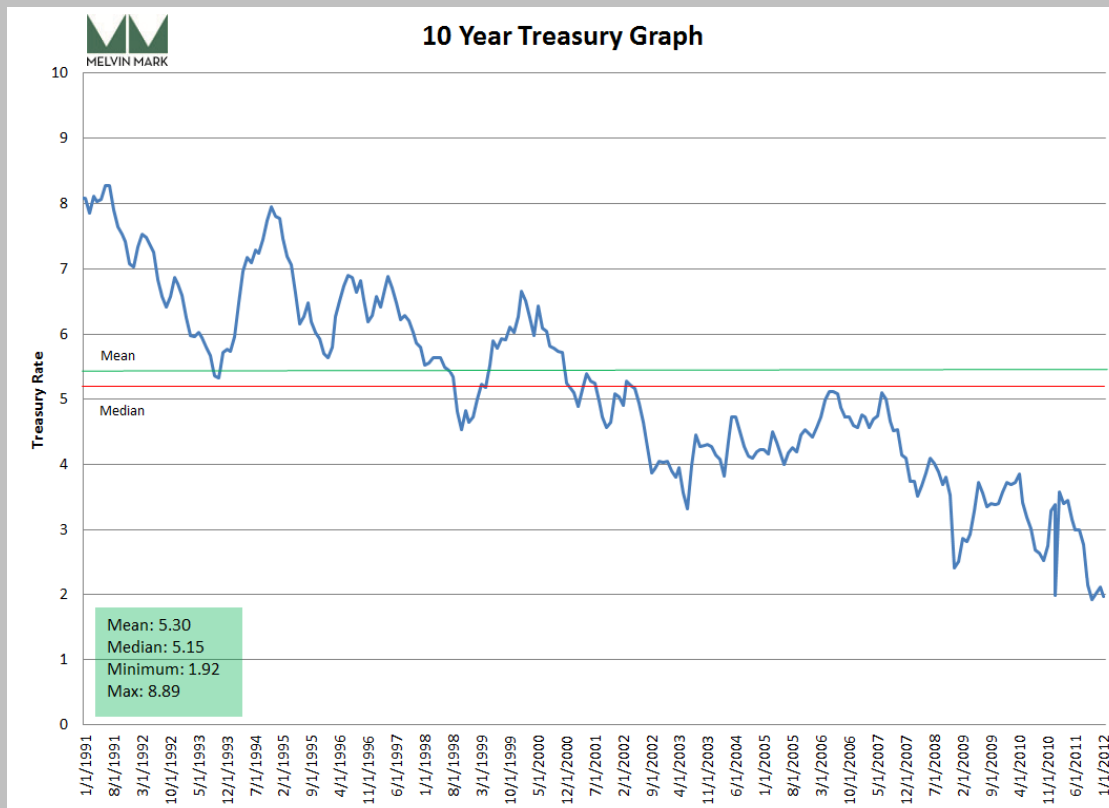
Note: For the public conduit universe, including multifamily-directed, non-multifamily-directed, and fully defeased loans, as of September 2011.

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EXHIBIT 1-4

NCREIF Cap Rates vs. U.S. Ten-Year Treasury Yields



Sources: NCREIF, Moody's Economy.com, Federal Reserve Board, PricewaterhouseCoopers LLP.

*Ten-year treasury yields based on average of the quarter; 2011Q2 average is as of August 31, 2011.

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Summary



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Real Estate Practice Group presents:

Tax Update

**Tim Kalberg, CPA
Shareholder**

**A new year, a
new beginning?**





Agenda

- **2011 Return Changes**
- **What's New for 2012**
- **New R&M Guidance**
- **Planning for Tomorrow**



2011 Return Changes

- **Schedule D reporting**
- **Passive activity reporting**
- **Foreign asset reporting**





What's New for 2012 - Businesses

- Reduced bonus depreciation
- Longer write-off period for real estate
- Reduced Sec 179 expensing
- Work opportunity tax credit (WOTC) tightening
- Stock basis reporting requirements





Bonus Depreciation

In Service Date	2008-2010	2010-2011	2012
Bonus Depreciation	50%	100%	50%
Phase In Date	1/1/08	9/9/10	1/1/12
Phase Out Date	9/8/10	12/31/11	12/31/12



- Oregon – no bonus in 2009 & 2010, reconnected to federal in 2011



- California – no bonus ever



Qualifying Leasehold Improvements

In Service Date	2011	2012
Depreciable Life	15 yrs	39 yrs
Phase In Date	N/A	N/A
Phase Out Date	N/A	N/A
Bonus Depreciation?	Yes	Yes

- Improvements must be pursuant to a lease
- No common area/structural improvements
- No related party leases
- Building must be at least 3 years old



What's New for 2012 - Individuals

- ◉ **Reduced AMT exemption amounts**
- ◉ **Rate changes**





Top Income Tax

	2011	2012	2013
Ordinary Income	35%	35%	39.6%
Qualified Dividends	15%	15%	39.6%
Capital Gains	15%	15%	20%
Depreciation Recapture	25%	25%	25%
Oregon	11%	9.9%	9.9%

- Top rates for 2013 do not include 0.9% Medicare HI or 3.8% investment income surtax



Federal Estate/Gift Tax

Federal	2011	2012	2013
Annual Gift Exclusion	\$13,000	\$13,000	\$13,000(est)
Lifetime Gift Exemption	\$5,000,000	\$5,120,000	\$1,000,000
Lifetime Estate Exemption	\$5,000,000	\$5,120,000	\$1,000,000
GST Lifetime Exemption	\$5,000,000	\$5,120,000	\$1,000,000
Portability	Yes	Yes	No
Top Rate	35%	35%	55%



State Estate/Gift Tax

	2011	2012	2013
Oregon			
Lifetime Estate Exemption	\$1,000,000	\$1,000,000	\$1,000,000
Top Rate	16%	16%	16%
Washington			
Lifetime Estate Exemption	\$2,000,000	\$2,000,000	\$2,000,000
Top Rate	19%	19%	19%



What's New for 2012 – Expired Tax Provisions

- **Expensing of environmental remediation costs**
- **New markets tax credit**
- **New energy efficient homes construction tax credit**
- **Sales tax deduction**
- **Mortgage insurance premium deductibility**





What's New for 2012 – Expired Tax Provisions

- **Nonbusiness energy property tax credit**
- **Allowance of personal tax credits against AMT as well as regular tax**
- **R&D tax credit**
- **2% FICA tax cut (currently extended for the first 2 months of 2012)**





New R&M Guidance

- ◉ **Temp regs issued 12/27/2011**
- ◉ **What they do:**
 - Clarify & expand current regs
 - Provide certain new bright-line tests
 - Provide additional guidance for depreciation and dispositions
 - Amend general asset account regs



New R&M Guidance

○ Key components:

- General capitalization rule
- Elective de minimis rule
- Define materials & supplies
- Rotable & temporary spare parts
- Define unit of property (UOP)





New R&M Guidance

General capitalization rule

- Capitalize amounts paid to/for:
 - Acquire or produce a unit of real or personal property
 - “Betterment” costs
 - Restoration costs
 - Adapt to a new or different use
- Capitalize repair costs prior to placed in service date
- Facilitative costs:
 - “Whether to buy” and “which property to acquire” for real estate
 - Employee comp or overhead



New R&M Guidance

De minimis rule

○ Avoid Capitalization if:

- Applicable financial statement “AFS” expenses costs pursuant to a written accounting policy in place at beginning of year, and
- Aggregate amount expensed is less than or equal to the greater of:
 - ✓ 0.1% of gross receipts
 - ✓ 2% of total depreciation and amortization expense in AFS
- Selective election out available



New R&M Guidance

Materials & supplies tangible property used or consumed in business that is not inventory

○ Also, any of the following:

- Component acquired to maintain, repair, or improve a UOP
- Consists of fuel, lubricants, water & similar items expected to be used within 12 months
- UOP with an economic life of 12 months or less
- UOP with a cost of less than \$100
- Identified in previously published guidance as materials & supplies





New R&M Guidance

Rotable and temporary spare parts

- General rule: deducted when disposed
- Optional rule: deducted when installed, but certain requirements must be followed (FMV and basis adjustments must be made)





New R&M Guidance

Unit of property (UOP)

All components that are functionally interdependent on the placement in service of another component



 **PERKINS & CO**

Real Estate Practice Group



New R&M Guidance

- **UOP for other than buildings:**
 - Defined as anything not classified as a building
 - All components that are functionally interdependent comprise a single UOP



New R&M Guidance

UOP for buildings:

- Defined as a building and its structural components (unless the component is a “building system”)
- Each building and its structural components are a single UOP
 - ✓ Structural components include parts of a building such as walls, partitions, floors, ceilings, windows, doors, permanent paneling and tiling, etc.





New R&M Guidance

- **“Building systems”:**
 - HVAC
 - Plumbing
 - Electrical
 - Escalators
 - Elevators
 - Fire-protection & alarms
 - General building security
 - Gas distribution
 - Other structural components identified in published IRS guidance and not part of building structure



New R&M Guidance

• Lessee's UOP:

- Building structure or any building system if leasing entire building
- Portion of building structure or building system if leasing portion of building
- Exception for allowances
- What about rent substitute?



New R&M Guidance

- **Lessor must capitalize:**
 - Amounts paid to improve unit of leased property owned by landlord
 - Amounts paid indirectly through qualifying construction allowances
 - Exception for allowances
 - Lessee's payment for improvements as rent substitute



New R&M Guidance

• Other UOP rules:

- Retirements of building structural components now treated as dispositions
- Treatment for tax depreciation purposes can override UOP rules (i.e., cost seg)
 - ✓ Note reclassifications for tax depreciation purposes change UOP



New R&M Guidance

- **Other UOP rules:**
 - Repairs in conjunction with improvements no longer required to be capitalized (do not directly benefit or not incurred by reason of such improvements)
 - Nonbuilding routine safe harbor



Peco Foods Tax Court Case

- **TC Memo 2012-18:**
 - Ruled for IRS
 - PSA that defined purchase price allocation between personal property, real property & other assets was binding and could not be modified by subsequent component depreciation accounting method changes



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A vibrant sunset scene with a bright sun low on the horizon, casting a golden glow across a sky filled with wispy clouds. The sun's reflection is visible on the dark water in the foreground.

Planning for Tomorrow

**Short-term strategies
&
Long-term strategies**



Planning for Tomorrow

○ Maximize deductions on fixed assets

- Bonus depreciation (still 50% in 2012)
- Cost segregation
- Repairs & maintenance (new guidance in 2012)
- Section 179 deduction (no longer applies to real estate)
- Section 179D deduction





Planning for Tomorrow

Personal income tax strategies:

- Lock in capital gains?
- Lock in qualified dividends for C corps?
- Passive activity reporting and groupings
- COD planning
- Loss limitation planning





Planning for Tomorrow

◉ Estate Planning Strategies:

- Family limited partnerships
- Defective grantor trust sales
- GRATs
- Partnership freezes
- Intra-family loans
- Don't lose sight of basis reset





Planning for Tomorrow

○ Long-term planning strategies:

- Carried interests
- High-income taxpayer targets:
 - ✓ Medicare and investment income increases in 2013
 - ✓ Charitable contribution limitations?
 - ✓ Home mortgage interest limitations?
 - ✓ Increased audits and compliance focus



High-Income Taxpayer Increases in 2013

- **Medicare hospital insurance (HI) tax**
 - Additional 0.9% on employee portion of wages in excess of \$200,000/\$250,000 for singles/joint filers





High-Income Taxpayer Increases in 2013

○ Surtax on “investment income”

- 3.8% on investment income where AGI is in excess of \$200,000/\$250,000 for single/joint filers
- Investment income - taxable interest, dividends, rents, royalties and other non-wage income
- Business income & rental income classified as passive activities count too!



People, Prosperity & Places

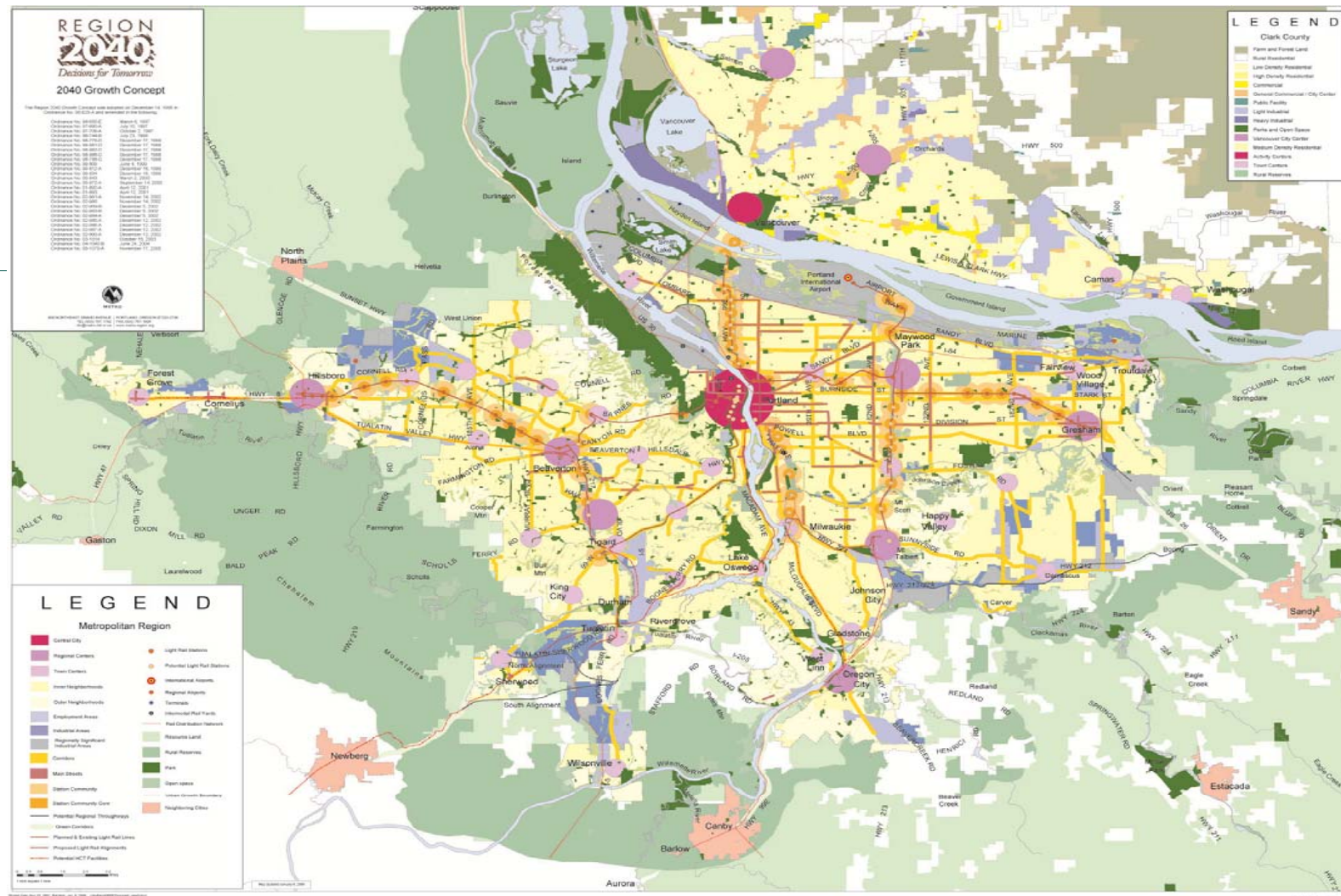
USING PUBLIC/PRIVATE PARTNERSHIPS TO DEVELOP REGIONAL STRATEGIES

PERKINS & CO.

JANUARY 19, 2012

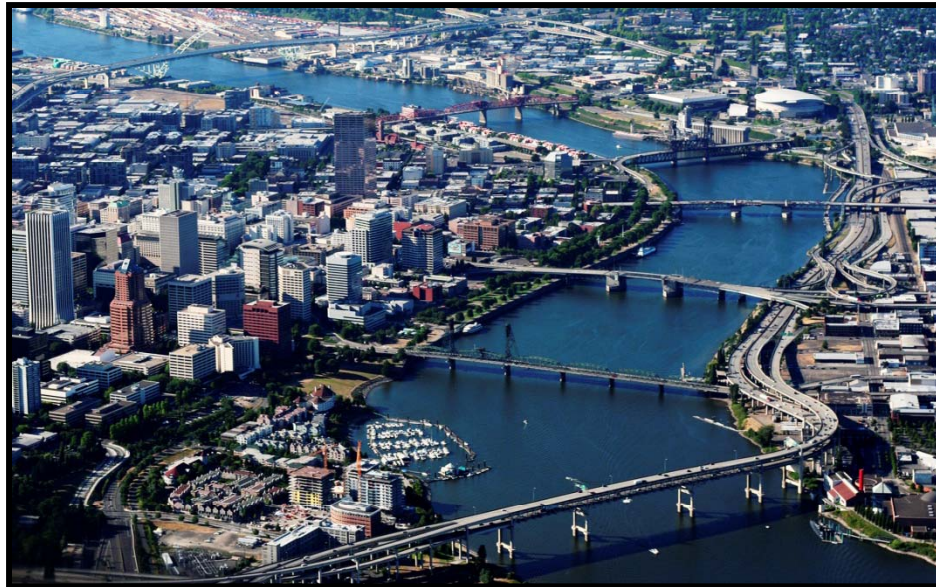
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Growth Concept Map



Identifying The Problem

- **METRO 2008 Infrastructure Needs Analysis**

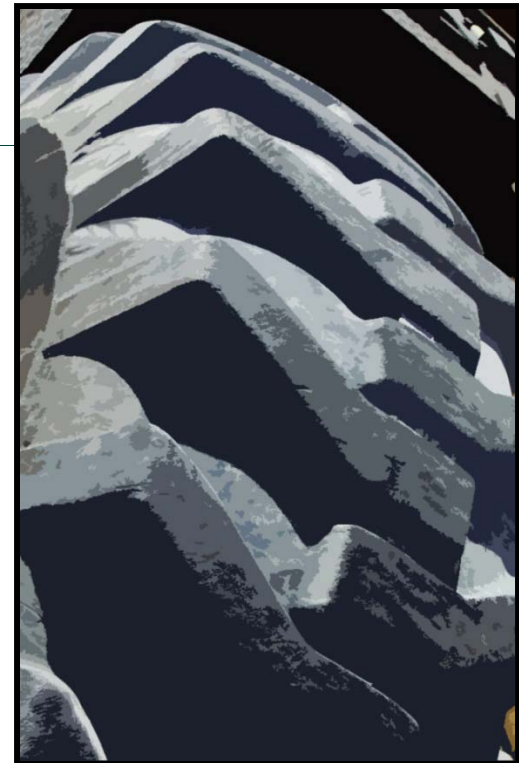


Regional Infrastructure Analysis

- **The estimated cost of building the public and private facilities needed to accommodate growth in jobs and housing in the three-county Portland region through 2035 is \$27-41 billion.**
- **Traditional funding sources are expected to cover only about half that amount. Even if the region does not experience this projected growth, \$10 billion is needed just to repair and rebuild our existing infrastructure.**

Who's Driving this Bus?

- **3 Counties**
- **25 Cities**
- **More than 100 Special Service Districts**
- **METRO Regional Government**



Special Problems

- **Fractured jurisdiction in the public sector**
- **“Where talented young people come to retire”**
- **Public sector revenues dependent on income and property taxes – No Sales Tax!**
- **Land use system perceived as too long, too costly and too uncertain**

The Solution – A Public/Private Partnership

- **Ad Hoc Private Sector Group Convened by METRO to discuss infrastructure needs**
- **Initial meetings lead to clear conclusion a regional approach is needed in which both the public and private sectors participate**

Models For Action

- **Oklahoma City – “MAPS”**
- **Denver - Transit**
- **Salt Lake City - Transit**
- **Chicago – Economic Development**
- **Europe – Infrastructure Bank**
- **Australia – Infrastructure Bank**

Oklahoma City & Portland Metro Regions A Basic Comparison

	Oklahoma City	Portland
Principal City Population	579,999	583,776
Metro Region Population	1,322,459	2,226,009
Land Area	6,359 sq. mi.	6,684 sq. mi.

Metropolitan Area Projects ("MAPS") In Oklahoma City

- **Approved by voters in 1993**
- **True public & private sector involvement**
- **Three successful rounds of funding**
 - **1st Round: public facilities**
 - **2nd Round: "MAPS for Kids"**
 - **3rd Round: parks, transportation, river and trails, new convention center**

“Maps” Funding

- **1993: 1 cent sales tax increase for 5 years**
- **2001: 1 cent sales tax increase for 7 years**
- **2010: 1 cent sales tax increase for 7 years**

“MAPS” Public/Private Structure

- **An 11 member Citizen Advisory Board reviews all proposed projects and makes recommendations to the city council**
- **Eight citizen subcommittees with more than 60 members provide input to the Citizen Advisory Board**

First Steps

- **Large and Small Group Private Sector Meetings**
Study Successful Collaborations from other regions
- **A core group of committed private sector individuals meet with METRO Councilors, City and County Elected Officials and Opinion Leaders**
- **All agree a triple bottom line approach is essential**

METRO Regional Government Agrees to Support, BUT NOT CONTROL!

- **METRO commits \$2.8 million over three years in cash and administrative support to provide seed money, but the initiative will be led by the private sector and be completely independent**

The Process

- **Opinion research to focus public outreach**
- **Substantial and comprehensive recruitment to provide a “brain trust” and public face for the initiative**
- **Task forces to develop integrated strategies**

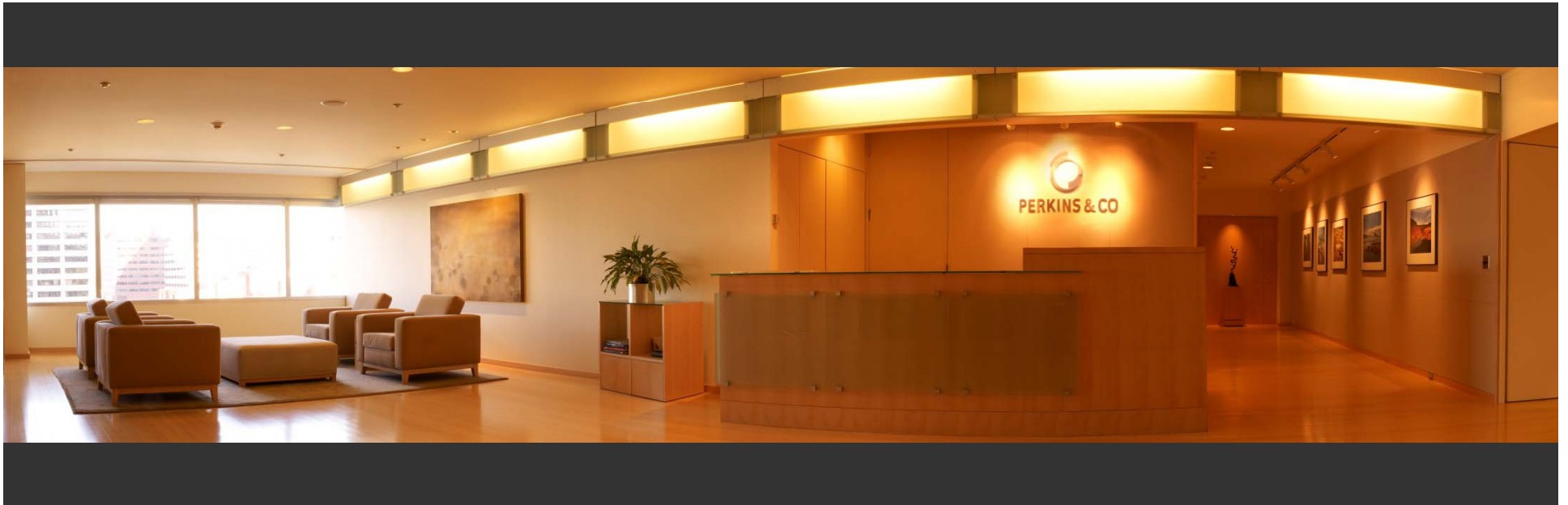
What Can Be Accomplished?

- **Establishment of a regional infrastructure bank**
- **Model codes to streamline development**
- **Employment lands readiness and assembly**
- **Jobs and employer recruitment**

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