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REAL ESTATE WEEKLY

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What Real Estate Owners & Investors can do to make "GREEN" available when they go green!

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Taking advantage of Tax Incentives

Taxpayers should identify and prioritize strategies that will maximize energy efficiency and the return on investment by implementing solutions that incorporate the maximum federal, state and local tax incentives.

It starts with a Forensic Energy Audit

Owners should look for advice that provides the most advanced technological forensic energy auditing services using ASHRAE (American Society of Heating, Refrigerating, Air-Conditioning Engineers) standards and Trace 700, the industry's leading computer software. Owners should receive a detailed report with extensive and precise break downs of their current annual energy use and costs. This report will enable the owner to better understand their building and its systems' efficiencies or inefficiencies.

Building a Critical Benchmark to Energy Efficiency

The forensic energy audit may include a critical benchmark that recommends and provides cost estimates for integrated energy efficient solutions, which will maximize the return on quantifiable and measurable terms. Recommendations will cover renovations, construction, repairs and maintenance for Lighting, HVAC, Building Envelope, Hot Water, Controls and other "energy" systems.

The Result: Maximum Return on Investments

Owners should look to an the expert in understanding the federal, state and local tax incentives and multitude of other programs available to maximize their return on investment which can dramatically reduce the payback period for energy efficient solutions with regard to the following:Federal, State and Local Energy Tax Benefits

1. Public Utility Rebates
2. Insurance Savings
3. Energy Savings Analysis
4. Measurement & Verification
5. Cost Segregation
6. Financing
7. Carbon Credits

Benefits for Real Estate Investors

More than $21 billion has been allocated to the New Markets Tax Credit (NMTC) Program. This little-known, often misunderstood credit offers significant tax savings potential for real estate investors. The NMTC permits taxpayers to receive a credit against federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must, in turn, be used by the CDE to provide investments in low-income communities.

The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually.

The Community Development Financial Institutions (CDFI) Fund has made 396 awards totaling $21 billion in allocation authority.

Availability and use of the credits:

•$5 billion of NMTC allocations were awarded in October 2009 by US Treasury's CDFI Fund (which administers the NMTC program).

• Community Development Entities (CDEs) with awards use the following criteria to determine whether to invest:

• What is the community impact of the transaction? (i.e., job creation).

• The 'but for' test – but for receipt of NMTCs, would this deal happen?

• Does the transaction meet their underwriting standards?

• The business using the credits must be located in or predominately serve a low income community in order to qualify for benefits.

• Low income community definition for purposes of this credit is 30% poverty, 1.5x national unemployment, with median family income less than 60% of statewide median family income.

Historic and New Markets Tax Credits can be used in combination called 'twinning'.

Though a complex program, the benefit to business is below market debt or equity.

• Subsidy stays in the business for 7 years – no return of capital to avoid recapture.

• Typically involves real estate and can be used for new construction or substantial rehabilitation of existing buildings.

• Four states also have a state NMTC.

What to look for:

• Determine whether a potential project is located in a NMTC eligible census tract.

• Review the project to see if the proposed use of the project generally meets NMTC criteria.

• Evaluate whether the project's proposed preliminary budget to see if the NMTC could be practically useful.

Additionally, if NMTCs makes sense for the project:

• Look to identify CDEs who have New Markets tax credit allocations whose goals potentially match those of the proposed project.

• Have an expert assist the developer in structuring, negotiating and closing of the transaction with a CDE.

Discuss the various tax credits with a professional who specializes in green energy solutions. If these strategies make sense for your project, you may benefit significantly.