

July 8, 2011

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, D.C. 20510

Dear Majority Leader Reid and Minority Leader McConnell:

On behalf of the millions of taxpayers that comprise the commercial real estate community, we are registering our strong opposition to modifying the current-law tax treatment of carried interest and respectfully request that you oppose efforts to include a tax increase on carried interest in any agreement to increase the federal debt ceiling.

While some claim that dramatically changing the tax on “carried interest” is something that would only affect hedge fund managers, that is not the case. In fact, the carried interest tax increase would squarely hit commercial real estate, since 46% of all investment partnerships in America are real estate and the vast majority of them use a carried interest structure.

Carried interest has been used in the commercial real estate industry for several decades as an investment model for taking on the risks and liabilities associated with real estate projects, such as environmental concerns, operational shortfalls, construction delays and loan guarantees. Furthermore, carried interest proposals similar to those previously considered would effectively be retroactive with partnerships, including family partnerships and LLCs, that may have been in existence for decades, losing the capital gains treatment on the carried interest, effectively devaluing all applicable existing properties. This scenario is exactly what occurred after enactment of the Tax Reform Act of 1986, which subsequently caused a meltdown in commercial real estate.

The commercial real estate industry is also deeply concerned about the impact this proposal will have on our communities. A tax increase on real estate partnerships will limit future economic development projects and slow the creation of desperately needed jobs. It is for this reason that the U.S. Conference of Mayors and National Association of Counties have opposed this tax increase.

As you and your colleagues continue the negotiation process to increase the debt limit, we implore you to reject consideration of the proposed tax increase on carried interest because of the unintended consequences associated with this policy. Simply put, increasing the tax on carried interest will hurt entrepreneurship, investment in communities and job creation in commercial real estate at a time when the economy is still struggling under the weight of a 9.2 percent unemployment rate.

Sincerely,

International Council of Shopping Centers
NAIOP-The Commercial Real Estate Development Association
National Multi Housing Council / National Apartment Association
The Real Estate Roundtable
CCIM Institute
Institute of Real Estate Management
Realtors Land Institute
Society of Industrial and Office Realtors
Building Owners and Managers Association
CRE Finance Council
Appraisal Institute
American Resort Development Association