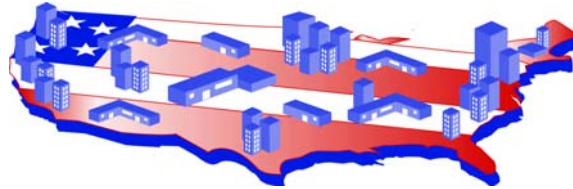


NATIONAL REAL ESTATE ORGANIZATIONS

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October 6, 2009

The Honorable Arnold Schwarzenegger
Governor
State Capitol Building
Sacramento, CA 95814

Re: Business Net Receipts Tax Proposal

Dear Governor Schwarzenegger:

The undersigned organizations, representing the major segments of the commercial real estate (CRE) industry, respectfully urge you not to enact any form of the business net receipts tax (BNRT) proposed by the Commission on the 21st Century Economy (Tax Commission). The BNRT would impose an entity-level business tax for the first time on pass-through entities, contrary to federal tax law and the vast majority of U.S. states, including those that surround California. While we certainly appreciate the efforts of the Tax Commission, we believe that the imposition of the BNRT, or any type of new business tax on these entities, the primary form of real estate ownership in this country for decades, would damage the already fragile CRE industry, along with the millions of jobs as well as the property and sales tax revenues it generates.

The CRE industry is facing its biggest challenge since the savings and loan crisis that began in the late 1980s. Faced with an uncertain cost of funds, most lender banks have withdrawn from the market, and the CMBS market is basically non-existent. Commercial borrowers face a growing challenge of refinancing maturing debt, estimated in the hundreds of billions of dollars over the next 12 to 15 months, and the threat of rising foreclosures and delinquencies.

Federal Reserve Chairman Ben Bernanke noted the difficulties in the CRE industry in recent remarks¹: "Conditions in the commercial real estate sector are poor. Credit conditions in the commercial real estate sector are still severely strained, with no commercial mortgage-backed securities (CMBS) having been issued in almost a year."

¹ <http://www.federalreserve.gov/newsevents/testimony/bernanke20090505a.htm>

With virtually no liquidity, commercial borrowers face a growing challenge of refinancing maturing debt and the threat of rising foreclosures and delinquencies.

Imposing a BNRT on pass-through entities would inflict serious damage on the CRE industry just as the industry tries to recover from the current economic crisis. It would be inappropriate to impose a drastic new set of tax liabilities on pass-through entities such as those encompassed by the BNRT, particularly without any type of tax reduction, such as that proposed for other types of business entities.

If enacted, the BNRT would affect California's competitiveness in attracting new real estate investment and improvements to existing real estate and may result in little or no increased tax revenue. The BNRT proposal would result in double taxation for pass-through entities and their owners in complete non-conformity with the federal tax rules and the tax rules of most other states. Thus, the BNRT would diminish California's competitiveness to obtain and to keep capital investments. Continued investment is essential to commercial real estate development and property values in California. Accordingly, imposition of the BNRT would decrease already depressed commercial real property values in California, potentially resulting in little or no increased tax revenue.

Thank you for the opportunity to provide our opposition to enactment of a BNRT on pass-through entities. Please do not hesitate to contact Dara Bernstein at dbernstein@nareit.com or (202) 739-9446 for further information.

Sincerely,

American Hotel & Lodging Association
American Resort Development Association
Building Owners and Managers Association International
Commercial Mortgage Securities Association
International Council of Shopping Centers
Mortgage Bankers Association
NAIOP, Commercial Real Estate Development Association
National Apartment Association
National Association of Real Estate Investment Managers
National Association of Real Estate Investment Trusts
National Multi Housing Council
The Real Estate Roundtable