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Leaving Money on the Table

A report by ENERGY STAR (a US Environmental Protection Agency/Department of Energy program) has indicated a tax deduction you might want to explore.

This deduction of up to \$1.80 per square foot is available to owners or designers of new or existing commercial buildings that save at least 50% of the heating and cooling energy of a building that meets ASHRAE Standard 90.1-2001. Partial deductions of up to \$.60 per square foot can be taken for measures affecting the building envelope, lighting, or heating/cooling systems.

These tax deductions are available for systems placed in service between January 1, 2006 and December 31, 2013.

Whoever pays for the construction generally receives such a deduction. While this is typically the owner, some HVAC or lighting efficiency projects are paid for by the tenant, who then receives the deduction. Designers can typically claim the deduction in instances where the building is government-owned.

About Energy Star

Energy Star was developed by DOE to help measure and improve energy efficiency. The system is intended to help track the current energy use of a building and determine reasonable energy savings goals. They offer a free online tool with energy use benchmarks for a range of building types.



The organization is now encouraging any participating owners or designers to establish a 10% savings goal for every building in the nation. While administrators feel 10% is a realistic goal, they also recognize the potential for much greater savings. They point to roughly 2,600 buildings nationwide using 40% less energy than typical buildings and offering savings of 50%+ in energy-related costs.

Designers, in particular, are well positioned to qualify for tax incentives provided the buildings they design can save 50% of typical energy costs. The design team must set clear goals, be supported by good technology, and carefully integrate their systems. The years of savings, public recognition, and tax benefits make the extra work worthwhile on many levels, though.

Getting Financial Incentives

Applying for the deduction requires using DOE software, which can be found at www.eere.energy.gov/buildings/info/qualified_software. Additional information is available online at

- www.energystar.go/taxcredits
- www.efficientbuildings.org
- www.energytaxincentives.org

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Building upgrade information relative to Energy Star is available online at www.energystar.gov/bldgmanual.

And while the information provided here is all from the Federal Government (or perhaps we should say because this information is all from the Federal Government), we strongly recommend you contact a tax professional to see how these tax incentives will impact you and your business.

NAR Proposes Commercial/Investment Stimulus

Many property owners are concerned that during 2009 and 2010 they will be unable to refinance existing loans (including land and residential development loans).

With the goal of stabilizing and providing liquidity to the commercial real estate credit markets, the NAR recently proposed a comprehensive commercial and investment real estate economic stimulus package.



Among the group’s recommendations were making mark-to-market accounting rules more flexible. This included use of discounted cash flow analysis for valuing assets in illiquid markets.

They also suggested both the Treasury Department and the Federal Reserve exercise their respective authority to implement and/or expand the TALF (Term Asset-Backed Securities Loan Facility).

Next, the panel examined ways to enhance federal tax policies, with an eye towards strengthening the overall commercial real estate market.

To them, the most plausible solutions focused on improving the depreciation, recapture and leasehold improvement rules; temporarily suspending the rules of designated investments (thus reducing investment impediments) and providing higher income and expenditure limits to attract new investments in existing real estate.

Finally, the group looked to long-term stimulation, support and investment in the commercial real estate industry.

They recognized that owners and investors in commercial real estate consider infrastructure and investment are the critical building blocks for making real estate investments.

Here, too, the team developed potentially viable solutions, such as providing federal funding for capital improvements to our nation’s infrastructure (transportation, roads, energy grids, etc.), and encouraging commercial real estate industry investment in energy efficiency and “green” building initiatives through tax and other incentives.

At this writing there are already indications that at least some of the NAR’s recommendations will be implemented. And though Promus Commercial’s crystal ball is still a bit cloudy, we’re hopeful for the future.

Food for Thought

“Luck is what happens when preparation meets opportunity.”

-- Elmer Letterman

Missing a Trick?

The San Diego Business Journal reports more than 16.6 million square feet of rentable industrial space sits vacant in the county, with another 751,000 square feet under construction. And with consumer spending down for six consecutive months, retail is off and therefore so is commercial leasing activity.

The one percent bump in retail sales in January is not expected to continue over the long term.

At 8.7% overall commercial vacancy, San Diego county is still considered to be in good shape overall. A vacancy rate under 10 percent is considered the divide between a healthy market and one with a glut of space. Several portions of the county have hit double-digit vacancy levels, though, including Otay Mesa (17.7% vacancy); Carlsbad (15.7%); Rancho



Bernardo (12%) and Oceanside (12%). These sectors of the market are expected to require up to four years to have their available space absorbed.

Rob Hixson, an executive with CB Richard Ellis, observed “We are starting to see landlords be more aggressive to lure tenants in,”



Given that the unemployment rate in San Diego County is at its highest level since 1994 (according to the California Employment Development Department), though, there may be an opportunity for the regional commercial real estate market as business startups increase exponentially.

A survey of technology startups in San Diego County shows entrepreneurs are keeping busy despite broader economic declines locally and nationwide. The report shows San Diego County ranks second in startup activity statewide in certain categories.

To encourage these startups to move out of the spare bedroom and into paid office space, “plug and play” office space (providing phone systems and basic furniture) can be useful to them and lucrative for the owner.

Additional ways to smooth the transition from unemployed to entrepreneur are:

- Be flexible about subleasing
- Be willing to offer space on an “as is” and/or on a short-term basis to:
 - Minimize improvement costs
 - Lower risk
 - Minimize the cash tied up by security deposits
- Replace required security deposits with a letter of credit.

Each of these avenues are geared to helping free up cash critical to the survival of the startup.

Every startup business faces many unknowns and flexibility to their survival and eventual growth. Given the current economic climate, these same concerns and unknowns pose a direct impact on commercial property owners. Flexibility in this arena may do wonders for both short- and long-term growth of everyone involved.

About Promus Commercial

We satisfy the nation’s most demanding commercial property owners with our unique combination of skills, blending national credentials in commercial building management with an unprecedented local commitment to service.

We recognize building owners need to know that everything necessary to ensure a property's success has been anticipated and will be handled properly. From due diligence to leasing, management to upkeep, we recognize the importance of communications and prompt attention to both client and tenant needs.

Call Lauri Greenblatt today at 858-751-6300 for a free needs assessment of your property, and learn why Promus is the property steward of choice for discerning owners.