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The 2017 Tax Bill's Impact on Commercial Real Estate

By Dion Sorrentino, Colliers Research Intern, Fall/Winter 2017 | DECEMBER 2017

While the tax plan currently waiting for the president's signature has been met with mixed reviews from the public, the bill may be a boon to the commercial real estate market. The latest provision to the tax plan lays out a 20% deduction for income earned through businesses set up as partnerships, LLCs, and pass-through companies. A pass-through company does not pay corporate tax but rather defers the income to the owner to be included as personal income tax. This is the way that most commercial real estate firms operate.

According to Steven Rosenthal, a senior fellow at the Tax Policy Center, the bill would be the proverbial jackpot for the commercial real estate industry. Further, Mr. Rosenthal says that the final version of the bill adds an amendment that accounts for the acquisition of depreciable property in the calculations of the income deductions. Owners of commercial real estate are also exempted from some deduction limits that other businesses face. The bill also preserves a provision for real estate investors that allows sellers to defer capital gains tax if they reinvest proceeds in other property—a 1031 exchange. More potential good news for owners is that businesses leasing commercial space could have a period of growth and therefore a larger budget going forward. Steve Witkoff, a New York real estate investor, has touted the tax bill, saying that the benefits of the new provisions might encourage companies to be more willing to expand their offices, whether through growth of the companies or a larger budget for their space.

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Besides the bill's advantages for property owners and investors, it may also lead to an increased demand for rental housing. As property tax deductions shrink, more people may look to the rental market, a promising notion for multifamily developers and investors. Retail landlords also stand to benefit, as their tenant companies will have lower corporate tax rates and consumers' discretionary income may increase.

It will take time for accountants and tax professionals to sort out all the details. Overall, the tax bill seems to be a positive for the real estate community, promoting possible increased investment in the asset class and prolonging what has already been one of the longest economic recoveries on record.

Disclaimer: Please do not take this as tax or investment advice. Consult with experts on your personal situation.

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