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Tax Changes Seen as Boon for South Florida Commercial Real Estate, Pros Say

New Plan Likely to 'Fuel Deals in 2018'

Some real estate professionals insist the Tax Cuts and Jobs Act hurts homeowners, but the impact on commercial real estate is largely seen as positive.

The National Association of Realtors (NAR) says it's concerned that the bill reduces tax benefits for homeowners due to restrictions on mortgage interest deductions. Still, the residential and commercial trade group credits member advocacy for adding significant improvements to the bill.

For instance, the legislation retains the current Section 1031 Like-Kind Exchange rules for real property, according to NAR.

"The exclusion of real estate from the repeal of 1031 like-kind exchanges is a major victory for real estate stakeholders, who had fought hard to preserve the provision for several years, and against long odds," NAR said in a release.

CoStar News asked five commercial real estate professionals in South Florida for their opinions on what the tax changes will mean for the tri-county region. Here are excerpts from their responses:

Neil Merin, chairman, Merin Hunter Codman in West Palm Beach – The new tax changes preserve the carried-interest rule for partnership interests, which taxes those profits as capital gains, and allows the treatment of closely held business income (such as real estate partnerships) as business income, taxed at a lower rate than ordinary income. The result is that a greater return can be provided to real estate investors due to lower taxes on income and profits, and this will increase the value of income-producing real estate investments, boosting values for those type of investments.

Additionally, the elimination of the deductibility of state and local taxes will make Florida, which has no income tax, a more favorable place to live for the wealthy and high-wage earners. As more of these folks move to Florida, they will drive demand for housing and the need for more service-sector employment, especially in financial services and medical-care industries.

Ken Krasnow, executive managing director, Colliers International South Florida in Fort Lauderdale – There is no doubt the tax plan has the potential to boost the commercial real estate market and fuel deals in 2018. Foreign investors will benefit from a reduced corporate tax rate, which will be important for a region like South Florida that attracts foreign capital from around the world.

In terms of real estate deals, businesses will be able to '100 percent' expense many asset acquisitions for the next five years so that could motivate companies to buy offices and retail centers in the short term. Also, because the tax rate on dividends from real estate investment trusts will be capped at 25 percent, we anticipate some repositioning and injection of capital benefiting REITs.

Alex Zylberglait, senior managing director, investments, Marcus & Millichap in Miami – The fact that the Tax Cuts and Jobs Act preserved the 1031 tax-deferred exchange is a huge win for the commercial real estate market. Nearly half of the transactions that I broker every year are 1031 exchanges. Without it, the demand for commercial properties would have suffered and affected market values.

The best part of the new tax law is that it brings back certainty to the market and that's what investors want the most.

Noah Breakstone, managing partner, BTI Partners in Fort Lauderdale – When President Trump took office, the Dow Jones was at 18,000, and now it's almost at 25,000. Clearly, there's a feeling of a pro-business environment, and from what I'm seeing, the tax reform overall has been pretty substantial. It will continue to promote a positive economic and positive real estate environment.

As a Florida real estate development and investment firm, BTI Partners could see some benefit from the recently-passed tax cuts. But I don't think the tax reform has changed our strategy much in how we view 2018. Our real motivation for becoming active real estate buyers in 2018 is tied to where we are in the cycle, and not on the tax cuts. We are positioned to pursue acquisitions and new partnerships throughout the southeastern U.S. in the real estate development opportunities and land across Florida.

Arnaud Karsenti, managing principal, 13th Floor Investments in Miami – Overall, our view is generally positive. It lowers the tax rate at the corporate level and the pass-through level. You will have a bigger write-off in depreciation and capital expenses. And other states are not going to have exemptions for state and local taxes, and what that does is make the spread bigger between the states that have income tax and those that don't. Florida, with no state income tax, is positioned to benefit disproportionately.