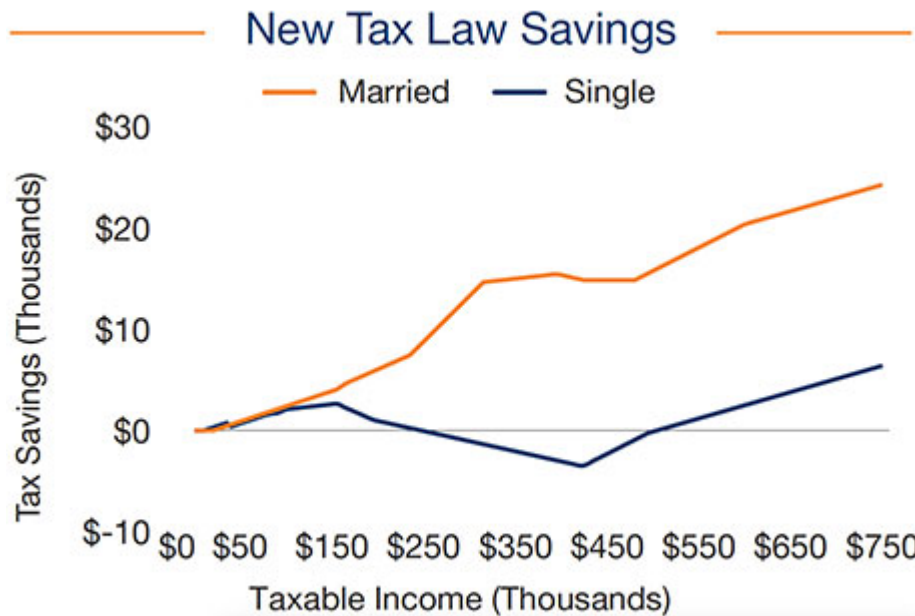


# M&M: New Tax Law ‘Holds Favorable Prospects’ for Commercial Real Estate

POSTED ON JANUARY 16, 2018 BY JEFF SHAW IN FEATURE ARCHIVE, TOP STORIES



Source: Marcus & Millichap

*Increases in personal tax savings should have residual effects on the commercial real estate industry, according to Marcus & Millichap.*

The Tax Cuts and Jobs Act — signed into law by President Trump at the end of 2017 — should be a net positive for the commercial real estate industry, according to a special report by Marcus & Millichap.

By adding business-friendly provisions and reducing uncertainty, the new law “holds favorable prospects for commercial real estate,” the report states, with “potential to boost space demand and capital flows.”

Among the business-positive results are minimal changes to the 1031 tax-deferred exchange system, the mortgage interest deduction for investment real estate, and asset depreciation. Uncertainty over the future of those programs had previously “caused many investors to move to the sidelines,” the report states.

“This consistency in tax law will enable investors to move forward with most of their existing investment strategies.”

More direct benefits to businesses include “generous tax cuts to corporations,” which may cause investors to use this opportunity to reconfigure portfolios. This, in turn, could boost capital flows throughout commercial real estate.

## Multifamily Demand Should Rise, but Healthcare Takes a Hit

Several of the provisions in the tax bill relate specifically to individuals, but will have residual effects on the commercial real estate industry. Changes to the standard tax deduction and Affordable Care Act provide two working examples.

With the standard deduction being raised from \$12,700 to \$24,000 for married couples, it is less likely that taxpayers will see a benefit from itemizing deductions such as interest on home payments.

According to Marcus & Millichap’s calculations, taxpayers previously would need a home value of approximately \$200,000 to see a benefit from itemizing deductions. That home value will now be raised to \$400,000.

“Because the threshold has increased well above the median home price in most metros, there will likely be a modest reduction of first-time homebuyers, lifting apartment demand,” the report states.

On the negative side, the controversial removal of the personal mandate from the Affordable Care Act — which required people to buy health insurance — will have a softening effect on the healthcare real estate market.