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Republican tax plan would hurt U.S. housing market-brokers

HERBERT LASH | November 2, 2017

NEW YORK, Nov 2 (Reuters) - A Congressional Republican plan to slash a pair of popular tax deductions for home purchases and property taxes has set off alarm bells among realtors on the U.S. coasts, who fear it will throw cold water on the country’s hottest housing markets.

The tax overhaul plan unveiled on Thursday by the House leadership would cap the deduction for state and local taxes at $10,000, while cutting to $500,000 the top housing price eligible for the mortgage interest deduction - half the current amount.
The state and local tax deduction currently varies by income but is limited, or even eliminated for some, by the alternative minimum tax.

“There’s no doubt the proposed tax legislation will negatively impact real estate on both coasts,” said Judi Desiderio, chief executive officer at Town & Country Real Estate, a brokerage in tony East Hampton, New York.

The national median price for existing homes is around $245,000, according to the National Association of Realtors, and about $320,000 for new homes, Commerce Department Data shows. While both are well below the proposed cutoff, median home prices in the Northeast and California are typically well above $500,000.

Home values would likely take a hit and influence the desirability of owning a home in higher-priced neighborhoods across the United States, said Eric Eckardt, chief executive of British brokerage Purplebricks Group Plc’s U.S. unit.

In Los Angeles county, for instance, the average home sales price is more than $600,000, he said.

“The percentage of homeownership in the U.S. is already at the lowest rate since 1965 and with the proposed legislation we don’t see this trend improving,” Eckardt said.

Aside from the lower limit for the mortgage interest deduction, prospective buyers would have to factor in a larger annual tax bill, said Gabby Warshawer, research director at New York’s CityRealty brokerage.

New York’s real estate market is one of the most expensive in the country, particularly in Manhattan, where many apartments have annual taxes in excess of $10,000, she said.

The median price for a one-bedroom apartment in Harlem and nearby neighborhoods, the lowest-priced market in Manhattan, was $495,395. When larger apartments are included in all sales the median price jumped to $625,000 in that area, CityRealty said.

“On Long Island a couple jointly making $200,000 and owning a home feels very much ‘middle class,'” Town & Country’s Desiderio said.

“In North Dakota, that couple would be at the top of the food chain,” she said.

The areas that would be affected by the new tax code may not have a majority nationwide by numbers of votes, but they account for a majority of tax collections, she said.

The average property tax bill on Long Island likely surpasses $10,000 a year, Desiderio said.

Town & Country data show that about 40 percent of the homes sold in the third quarter were priced between $500,000 and $1 million in the Hamptons, where beachfront mansions can easily fetch more than $20 million. Just 17 percent of sales were under $500,000.

Lawmakers should devise a plan that equalizes the impact of a new tax code, the same as formulas for real estate taxes based on assessments and tax zones, Desiderio said.

There are 52 congressional districts held by Republicans which used the state and local deduction by an above-average amount in 2015, mostly in New York, New Jersey and California, according to Erin Browne, head of asset allocation UBS Asset Management.