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Trump wants tax reform. Could it hurt South Florida real estate?

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By Jane Wooldridge

The tax reform proposal unveiled this week in Washington calls for capping the interest expense deduction for residential mortgages at $500,000 rather than the current $1 million. Deductions would be allowed only for primary residences. How could that affect South Florida's real estate market, one of the region's biggest employers? These experts on the local picture weighed in via email:

▪ **Christopher Zoller**, *Realtor with EWM and 2017 Chairman, Miami Association of Realtors:*

"The mortgage interest deduction is very valuable to borrowers. The deductability of property taxes, especially in Miami and South Florida, remains a big incentive and benefit to home ownership. Home buyers in all price ranges will be less interested and incentivised to purchase if this proposal is enacted. Losing or limiting those deductions will not benefit home owners and buyers in South Florida."

▪ **Steven Fischler,** *president, SRF Ventures real estate advisory firm:*

"I don't see the proposed limits to the mortgage deduction having an effect on the Miami market at all. That's not why people buy in Miami. Much more important is the removal of the state and local income tax deduction for the north east states. I can see the moving trucks already filling up with people moving to South Florida already.

▪ **Mike Pappas,** *CEO, The Keyes Company realty*:

The Realtor and builder communities are fighting hard to put back the mortgage interest deductions in this proposal. Saying that — if it does pass as is — we believe there may be a short term affect but not long term. The value of homeownership is far more powerful than only the interest rate deduction. With the raising of the deduction and knowing one-third of all homes are free and clear — the perception is far greater than the reality.

▪ **Camille Douglas,** *senior managing director, LeFrak developers:*

“Taken as a whole the proposed tax plan will reduce or eliminate many of the incentives of home ownership that this country has relied upon for decades which will not be positive for many, many people. However, I would say that Florida may fare better than many other states like New York and California with high state and local taxes and Miami will fare relatively better in Florida due to the larger percentage of foreign buyers.

“Miami is already a very desirable place to live, and this tax plan creates additional incentives to live there at least 6 months of the year whether as an owner or as a renter.”

Ron Shuffield, *president, EWM Realty*:

“During the third quarter of 2017, 15 percent of all single-family homes purchased across Miami-Dade County were priced between $500,000 and $1,000,000. Therefore, this proposed legislation would affect 15 percent of the potential home buyers purchasing single-family homes annually across Miami-Dade County.

“In the case of condominiums and townhomes, this product type priced between $500,000 and $1,000,000 represented 9 percent of all condos and townhomes sold across Miami-Dade during the same period. When adding all sales of single-family homes, condos and townhomes together for Q3 2017, 12 percent of the buyers purchasing housing in Miami-Dade County would be affected by this proposed legislation.”

The most recent stats show that 37 percent of homes sold between $500,000 and $1 million are cash purchases, he said, reducing the number of home buyers actually being affected by this proposed legislation.

▪ **John Warsing,** d*irector of sales at Verzasca Group developers*:

“I don’t see the proposed cap on mortgage interest deductions effecting the development business. Most of the buyers we deal with are cash buyers and the contracts are cash contracts with no financing contingencies.

If this has any effect on our market it will be with the resale market and first time buyers. “

▪ **George Jalil,** *owner-broker of First Residential Realty and 2018 Chairman, Miami Association of Realtors:*

“Tax reform proposal would be terrible for south Florida home owners.

To begin with, homes will see a 13 percent devaluation and maybe more. This right after hurricane Irma in my opinion would have a cumulative negative affect on values and would bring a chilling effect on future home and condominium purchases. First time homebuyers, FHA buyers, VA buyers and buyers that are looking to downsize or purchase larger homes would all be affected in a very negative way.”

▪ **Art Falcone,** *chairman and CEO, Encore Capital Management developers*:

“I think it will have little effect on condos and housing. Most buyers for condos are cash buyers to begin with. People who are buying homes for primary residence buy to own a home,and not for a tax shelter. Americans love owning their residence to be part of the American dream and having something to show for their hard work. Also, people look to their home to build equity and save for retirement.”

▪ **Steven F. Klein,** *managing corporate & real estate partner at Gerson Preston accounting firm:*

“Given Miami’s status as a coastal market with higher property values, the limitation of the mortgage deduction will have a significant and depressive impact on Florida’s real estate market, especially as interest rates continue to rise and the overall economy improves. While much attention is given to cash only condominium sales, a key driver of Florida’s real estate market remains the purchase of single family homes. Potential home buyers may now hold off on purchasing because of higher costs without the deduction. The impact will be exacerbated by the proposed $10,000 cap on property tax deductions.

“However, because Florida has no state income tax the region may still benefit as we experience continued migration from higher-tax states in the northeast who would be hit harder.”

▪ **Jonathan Miller,** *CEO, Miller Smanuel real estate consultants*:

“The changes may have some impact Miami with its emphasis on luxury. With new development’s shift towards luxury product, high-end buyers could feel the impact more than the remainder of the market...Just the idea of reducing the incentive of homeownership could dampen prices across the U.S., not just Miami, since those incentives have been built into value for decades...[Also,] placing a cap on the removal of state and local taxes as deducations would place more strain on housing affordability.”

▪ **Jay Jacobson,** *president of Miami-based EDEN Multifamily development*:

"The country is in a fiscal crisis, and everybody at every income level and every business needs to do their part to help resolve it. If reducing the mortgage interest deduction in half helps, then we all support it. The flip side is that it will go a long way to help people make rental decisions and could help drive positive impacts for the Miami apartment market."

▪ **Mark Meland**, *real estate attorney and partner at Meland Russin and Budwick*:

“When it comes to high-end residential real estate, which comprises of a substantial portion of the Miami and Miami Beach inventory, I do not think it will be very impactful at all.

For buyers at the less expensive end of the spectrum, tax savings will pay a more important role in the buying decision. For instance, many sellers and developers of less expensive properties will do a rent-versus-own cost comparison. In that scenario, the amount of the tax deduction (or lack of a deduction) may drive more of these folks to remain renters. This sadly may mean that many may not be able to afford that first home.”

▪ **Rosemaria Bravo**, *a principal at MBAF in the Tax and Accounting department:*

The elimination of applicability to a second home could have an impact on the Miami real estate market since there are many people that purchase second homes in the area.