

New York real estate: Taking the market's temperature

By Michael McVetty, CPA



Federal tax reform may not pass congress until later this year, but its specter is already weighing on New York real estate professionals.

According to a recent survey by Margolin, Winer & Evens LLP, 63% of New York real estate professionals said that tax reform will have the biggest impact on the real estate market in NYC when compared to other major potential reforms. The executives were comparably far less concerned about bank financing reform – which garnered only 20% of the vote – and predicted even less of an impact from immigration, healthcare and trade reform, each of which received less than 10% of the vote.

We likely won't see any movement on tax reform until this fall at the earliest. Still, it's clear that the impact of what could be the most significant tax overhaul in three-plus decades is top of mind for real estate executives.

The survey, which polled 90 real estate executives at Crain's New York Business' June 2017 Real Estate Conference, also indicated that real estate professionals' concerns surrounding tax reform are likely tied to fears around costs in general.

The survey found that over the next 12 months, nearly half (48%) of respondents believe land and construction costs will most affect the ability of developers to create new projects. A lack of government tax breaks and incentive programs was cited by 34% as being the biggest barrier to new projects.

New York real estate professionals aren't unique in their



strict adherence to the realities of costs, but face an added burden in the sheer weight of regulations they face from the city and state level. That being said, benefits do exist as well. Governor Cuomo's rejuvenated 421-a program to build affordable housing was cited by 47% of respondents as the greatest trigger for local development in the coming months.

Additional opportunities for growth include mass transit improvement/expansion (cited by 24% of respondents as the top trigger for development), the mayor's re-zonings and affordable housing program (19%) and general job growth (5%).

While nearly half of respondents named housing as the top trigger for short-term development, the importance of job growth in the long-term outlook cannot be understated. A focus on jobs and infrastructure development is going to be the path ahead for future growth in the industry.

As the Hudson Yards mega-development project on the West Side becomes a reality, participants were asked what the biggest byproduct of the development would be. Nearly 40% expected "piggyback" development in surrounding areas to further the Hudson Yards footprint in the neighborhood, while 28% expected to see the further expansion of subway lines to be the biggest knock-on effect of the project.

Clearly, the industry continues to predict a boost in related development upon the completion of Hudson Yards. Moving beyond that, developers and residents alike stand to benefit from the transit and infrastructure enhancements that will result from this project.

This winter, New York opened the expanded Second Ave. subway line, connecting the Upper East Side to midtown Manhattan. While the transit expansion may seem small from the outside, the expansion is handling 176,000 average daily riders on a given weekday, according to the MTA. Changes in public transportation are hugely important to a city with as many commuters as NYC. Finally, when it comes to using alternative sources of financing for new development, more than two-thirds (66%) said that private equity was their alternative funding source of choice.

Pending tax regulations leave a few questions in the air for New York real estate markets and 2017 could be a year of great change in the industry. In the meantime, the recently implemented 421-a program, the Hudson Yards development, public transportation extensions and a focus on private equity financing paint an optimistic outlook for industry professionals.

About Michael McVetty, CPA

Mike is an accounting and auditing partner with over 15 years of industry experience. He is involved in the planning and supervision of various audit engagements, as well as the preparation and review of various corporate, partnership and individual tax returns. Among his clients are both closely-held and publicly-traded companies across diverse industries including manufacturing, distribution, services, real estate and construction.

During his tenure at MWE, Mike has also demonstrated leadership and hands-on involvement in several of the firm's quality assurance, marketing and staff development committees. They include his service in the Real Estate Practice Group, Manufacturing and Distribution Practice Group, Audit Efficiency Committee and the Mentor Committee. Mike can be reached at [***MMcVetty@mwellp.com***](mailto:MMcVetty@mwellp.com).

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