How A Declining Demand For Commercial Real Estate Provides Opportunity And Tax Incentives For Investors And Building Owners.

Declining Commercial Real Estate Demand Provides Opportunity to Address The Housing Crisis In Local Communities

Commercial real estate trends are closely connected to the overall economic performance in The U.K and the United States. Property owners should assess their property portfolio for the use of commercial space going forward. Things have changed during the pandemic, and new tax advantages are available.

Due to the Covid-19 pandemic there has been a big shift in commercial real estate vacancy rates. There are various factors that have caused changes in the commercial rental market and with the investment of commercial property.

With an almost unrecognizable situation having occurred in the labor market for commercial real estate due to the COVID pandemic, there are still opportunities for property owners and occupiers alike.

The U.K.'s economy is not expected to regain levels before the COVID-19 pandemic until mid-2023, However, savvy current and new investors will look for new opportunities as the workspace going forward will remain different for a long time for the office space.

However, the overall look is bright. Commercial real estate developers and owners must be versatile and have a forward-thinking approach. This will be key to making it through the pandemic and in the future to stay profitable.

How a declining commercial real estate demand supplies opportunity to address the housing crisis in local communities.

Repurposing or redeveloping property for a different uses have appeared as an increasingly practical alternative to keep up with recent market trends.

Multifamily housing is a highly desired asset class among investors, as well as redevelopment of vacant big box store locations into smaller retail, office space, and restaurants. COVID-19 has driven redevelopment efforts to attract new tenants with strong asset prices where developers and owners can adapt to mixed use trends.

Companies are either downsizing their workforce or considering permanent or part time work from home. While there is a lot of vacancy due to global shift in the economy, property owners and developers are converting office space to housing or mixed-use properties, such as multi-family apartments, warehouses, and hotels.

Converting office to residential conversion is tricky. Many modern offices have deep windowless interior spaces that are difficult to repurpose. Moving plumbing and gas lines to the right places is quite a project. Flex living spaces are ways to repurpose where there is a shared kitchen and dining area which has shown to be popular among young professionals. The costs for retrofitting are much less. This can be attractive for companies wanting to keep their workers close to the office to reduce commute time in urban areas and supply affordable housing. If you have less renovation, it could be converted back as market demand for office and residential space changes over time.

The trend for repurposing commercial real estate into private housing is a profitable tax deduction strategy for real estate businesses.

Commercial real estate is taxed higher than residential. The solution would be to convert empty and obsolete offices into residential housing units. The Revitalizing Downtowns Act submitted July 28 by U.S. Senators, inspired after the Historic Tax Credit is a program that subsidizes the rehabilitation of historic buildings. The bill expands the investment tax credit adding a qualified office conversion credit. The Revitalizing Downtowns Act provides a credit equal to twenty percent of "Qualified Conversion Expenses" in converting obsolete office buildings into residential, institutional, hotel or mixed-use properties.

The National Parks Service, a U.S governments agency reports a twenty percent income tax credit is available for the rehabilitation of historic, income-producing buildings that are determined by the Secretary of the Interior, through the National Park Service, to be "certified historic structures." The 10% tax credit is available for the rehabilitation of non-historic buildings placed in service before 1936.

For property owners in the U.K, the passing of the UK Finance Bill 2021 was a blessing allowing attractive capital allowances that were announced by Budget by Chancellor Rishi Sunak. The bill allows companies to offset 130 percent of capital expenditure against their corporation tax. It is also applicable to another first-year allowance, the 50 percent special rate pool. It could be beneficial even build and own a commercial property than lease a building. You should speak with your accountant and tax advisor if you are planning construction projects. Timing is important to see if the business will be able to claim the temporary allowances.

Creating Value and Tax Incentives to Address the Housing Crisis with Commercial Real Estate

The U.K Government reports:

- Add £200 (depreciation expense) to £1,000 (accounting profits) = £1,200
- Deduct £300 (capital allowances) from £1,200 = £900 (taxable profits)
- Apply the appropriate tax rate, e.g., corporation tax at 19%: £900 x 19% = £171 tax due

The two main types of capital allowances are:

- Writing Down Allowances (WDAs) for plant & machinery - covering most capital equipment used in a trade; and Structures and Buildings Allowances (SBA) - covering the construction and renovation of non-residential structures and buildings.

- The 130% super-deduction and 50% first-year allowance are generous brand-new capital allowances for investments in plant and machinery assets. Both will allow investing companies to lower their corporation tax bills.

Source

HLB is a global network of independent advisory and accounting firms. We have a history of innovation, collaboration and are dedicated to helping clients grow across borders. We help you make the most out of your tax responsibilities.

CTA- Due to this pragmatic shift in the economy, there is an abundance of opportunity for those that want to take advantage, especially for tax purposes Do you have office space that is empty or want to invest in a project? Speak with one of our tax professionals to discuss the opportunities and the tax advantages that are available to you. Contact us at https://www.hlb.global/contact-us/