

2021 Real Estate Year-End Tax Planning Update

December 15, 2021



The COVID pandemic has had a significant impact on families and businesses and continues to disrupt the New York Real Estate market. According to the Office of the New York State Comptroller report, the New York City (NYC) office employment market saw a 5.7% decline during 2020, while total employment declined by 11.1% due to employees shifting to remote work. This has resulted in a vacancy rate of 18.3%, the highest level seen in 30 years, with 463.8 million square feet of office inventory as of the second quarter of 2021 (11% of all office space in the country). Additionally, asking rents have also seen a decline of 4.2% as of the second quarter of 2021, which has contributed to the decrease in the market value of office buildings by \$28.6 billion. From 2010 to 2020, there has been a decline of 11.8% in the square footage utilized by employees, with the largest decline being in the business services sector with a decline of 26%. With the uncertainty around how remote working arrangements will be in the future, the reduction of square footage needed by businesses is an unknown and could result in a further increase in overall office vacancies and an increase in sublease vacancies.

As of late September 2021, the Office of the New York State Comptroller reported that only 28.9% of workers have returned to offices in New York City. Many companies had planned on bringing workers back after Labor Day, but due to the new COVID variants, many companies have delayed this decision.

As you walk around the city, you can't help but notice the number of retail vacancies. Many of the vacancies are restaurants that are closed, not only due to the decline in customers feeling comfortable eating indoors, but also to the inability to find staff to work in their establishments. The increase in retail vacancies has resulted in a decrease in asking rents, which has given some businesses such as e-commerce and direct-to-consumer businesses the ability to afford brick and mortar.

The multi-family residential market seems to have been able to rebound quicker than other segments of real estate, despite the fact that they have had an eviction moratorium in place. Earlier in the pandemic, multi-family landlords were giving new tenants incentives of free months in order to entice them to rent an apartment, but this seems to no longer exist and the demand for NYC apartments appears to have increased significantly. This may be partially due to people's concerns of commuting, whether they be COVID-related concerns, or safety concerns.

We are in the midst of changing times, the likes of which we've never experienced, with the final outcome unknown. What we do know is that New York City real estate is resilient and has historically always bounced back. Part of being prepared for these changing times is making sure you are positioned to deal with the income tax rules at both the federal and state levels.

[Click here to read this year's tax planning update.](#) The articles contain some very timely tax topics that are affecting the real estate industry. Please contact your Anchin Relationship Partner should you have any questions on year-end tax planning.