SPECIAL REPORT

Marcus & Millichap

WASHINGTON STATE EXCISE TAX PASSED INTO LAW

MAY 2019

Q. What changes were made to Washington's real estate excise tax?

A: Senate Bill 5998 was signed and passed into legislature on May 21, 2019, establishing a graduated real estate excise tax (REET) on the sale of all residential, commercial, multi-unit and industrial properties. The bill takes effect Jan. 1, 2020, creating four tax brackets based on the sale price of the real es-tate, replacing the flat rate structure of 1.28 percent that is currently in place. The new excise tax will be imposed at the following rates:

- 1.1 percent if the selling price is equal to or less than $500,000
- 1.28 percent on the portion of the selling price that is greater than $500,000 but equal to or less than $1,500,000
- 2.75 percent on the portion of the selling price that is greater than $1,500,000 but equal to or less than $3,000,000
- 3 percent on the portion of the selling price that is greater than $3,000,000

Q: Are any other taxes being imposed?

A: Local governments already have the ability to impose additional real estate excise taxes at their own discretion. Cities and counties can impose a 0.25 percent excise tax or a 0.5 percent excise tax, dependent on the allocation of those funds. In addition, on the county level, a 1 percent excise tax can be enforced to finance the acquisition and maintenance of conservation areas, while a 0.5 percent excise tax is allowable to fund affordable housing for low- to moderate-income residents.

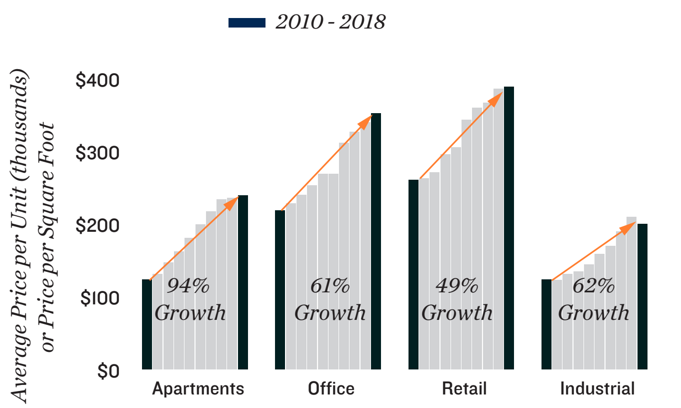
Q: How will the new tax policy impact investors?

A: Washington state already has one of the nation's highest REET, which will climb even higher on all sales greater than $1.5 million, disproportionately impacting owners of commercial real estate. The largest impact will be on investors of assets greater than $3 million. Included in that segment are institutional and other large owners whose exit strategies and internal rates of return will need to be adjusted. Family-owned private investors will need to closely examine investment goals as these groups may be more challenged with absorbing the new tax rates.

Q: What effect will this have on sales activity?

A: Sales activity may accelerate in the latter half of 2019 as some owners move forward with a sale before the end of this year to avoid the increased excise tax. Values across all property types are at cyclical highs, making now an opportune time to cash in on recent equity growth. Strong demographics and favorable property metrics will maintain healthy investor sentiment in the state despite the new tax policy, ensuring elevated liquidity as an abundance of capital searches for well performing assets. Washington and the Seattle-Tacoma metro have performed exceptionally well throughout the current economic expansion, posting exceptional job growth and attracting an abundance of development. Apartment values have nearly doubled since 2010, while other property types have also seen sizable appreciation. As the later stage of the current cycle approaches, now would be a prime time for investors to evaluate their portfolios, taking into careful consideration the impact Washington's increased excise tax will have on investment strategies.

Seattle CRE Appreciation



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Sources: Marcus & Millichap Research Services; CoStar Group, Inc; NMHC; RealPage, Inc.