

Year-End Scramble To Close Deals Takes On Added Urgency

Buyers/Sellers Rush To Close Deals Ahead of Expected Return to Higher Tax Rates

By [Mark Heschmeyer](#)

December 19, 2012

December typically sees a rush among investors to close property sales transactions by year-end. But this year, the wave of property sales has been much larger than usual, with an inordinately high number of deals closing since the national elections in early November.

CoStar Group has processed 2,040 more property sale transactions in the five weeks since the election than in the same period last year - 8,365 vs. 6,325 -- with half of that additional volume occurring in the past two weeks.

And just as the uncertainty over the election outcomes stalled dealmaking in the months leading up to decision day, the uncertainty over the pending cessation of tax cuts has many dealmakers scrambling to cover their gains in case their deals get hit with a higher tax rate.



"Investors I've spoken with were either caught flat-footed, believing the Romney was going to be elected, or believed they could, via 1031 exchanges, escape the prospect of increased capital gain taxes," said John Mendoza, an agent with New Growth [Commercial Real Estate](#) Co. in Las Vegas. "However, there was certainly a fair percentage of those investors, about 25% -35%, who positioned themselves to sell before year's end to avoid the prospect of higher capital gain taxes."

"I've been working 24/7 for the past three months, compared to working at 50% capacity for the preceding two-and-a-half years," said Clay Rodgers, president of Rodgers Appraisal in Winter Park, FL. "My business usually slows down in an election year, but this year it was the opposite."

"I'm receiving last minute appraisal requests for pending sales which must close by 12/31, and the motivation is to get the property sold in 2012 to avoid increased capital gains. Property type or size does not seem to matter, I'm seeing this with a wide variety of property types and sizes," Rodgers added.

Ron Floyd, vice president, real estate valuation and environmental risk manager for USAmeriBank in Clearwater, FL, said appraisers are quoting them 20 to 30 day business day turnarounds on appraisal requests; double the normal turnaround time of 10 to 15 days.

"I hear attorneys, title agents, environmental consultants etc. are backed up, too," Floyd said.

"Small flex is flying off the shelves in suburban Philadelphia/West Chester, PA," said David A. Partridge with Lieberman Earley & Co. in Wayne, PA. "Current demand is very high with limited inventory. My seller insists that the deal get done in 2012 in advance of expected capital gains tax increases."

Mike Greiner, an associate with National Multi Housing Group of Marcus & Millichap in San Diego, said, even if sellers aren't solely motivated to liquidate ahead of tax rate increases, it is almost always a motivating factor in the sales timelines.

Walter Page, director of office research for CoStar Group's PPR Global, said: "The year-end rush to do deals due to the potential for increasing tax rates has been the motive for a lot of taxable investment deals in the second half of 2012. Most likely this rush is focused on lower value property sales because the high value sales are often done in tax-protected programs, such as for retirement funds."

However, if Tyler Boyd, market research analyst for Voit Real Estate Services in Roseville, CA, is right, we can expect the 'year-end rush' to continue into 2013.

"We are actually seeing a significant increase of buyer activity," Boyd said. "Oddly, this contradicts the logic of the seller's being motivated to dispose before the end of the year to avoid a tax increase. However, this probably has very little to do with the Fiscal Cliff and more to do with the election one month ago. As anticipated by the CRE community, regardless of who won the election, investor certainty has solidified. Investors now know what to expect going forward. With buyer activity mounting, it goes to show that the money was there all along-just hidden in heavy vaults, which now appears to be opening slowly."