

How health care legislation may impact future sales of luxury homes



The Home Front By Don DeBat

Hundreds of future luxury home sellers on Chicago's Gold Coast or in affluent North Shore suburbs could be slapped with hefty new Medicare tax to help pay for the Obama Administration's health reform package, real estate experts warn.

The health care legislation will impose a 3.8 percent Medicare tax for some high-income households that have "net investment income," warns the National Association of Realtors.

Such investment income likely would include interest payments, dividends, annuities, royalties, rents, and capital gains on the sale of luxury private residences, analysts say.

Effective in 2013, the Hospital Insurance payroll tax applies to households with adjusted gross income of more than \$250,000, \$200,000 for individuals.

As most homeowners know, one of the primary benefits of selling your home is that a significant portion of any profit—\$250,000 for a single taxpayer and \$500,000 for a married taxpayer who files jointly—is completely tax free if you've lived in the home two out of the last five years.

That is still true. However, the new Medicare tax will be

collected on the profit above that exemption amount for taxpayers in certain brackets.

Therefore, if a single taxpayer earns more than \$200,000, or a married couple earns above \$250,000, they are subject to the new 3.8 percent tax on the profit above that exempted amount starting in 2013.

Real estate experts say luxury homeowners in Chicago's Gold Coast and Lincoln Park neighborhoods and in North Shore suburbs who sell after 2012 could get hit with this tax.

"This new real estate tax now opens the door for future heavier taxation at the federal level," said Lincoln Park Realtor Sara Benson of Benson Stanley Realty. "It runs counter to the fundamental rights of homeownership."

How much will the new tax cost a Lincoln Park homeowner who sells his or her home in 2013?

Let's say a single homeowner purchased a single-family home in Lincoln Park in 1998 for \$1 million and put in \$100,000 in improvements. That taxpayer's home might now be worth \$2 million (which is not unusual for someone who purchased prior to the big run-up prices experienced between 1997 and 2006).

If that taxpayer sells the house for \$2 million in 2013, only \$250,000 of the profit will be tax free. The homeowner also will be allowed to deduct the improvements, so the net capital gain subject to the new Medicare tax in this example would be \$650,000. Based on the 3.8 percent tax rate, the Medicare tax would be a hefty \$24,700.

The home sales transaction also would be subject to an Illinois real estate transfer tax of \$1 per thousand dollars of the sale price, and a Cook County transfer tax of 50 cents per thousand dollars of price. The city of Chicago charges the seller a transfer tax of \$3

per thousand dollars of price. The total of the transfer taxes would amount to \$4.50 per thousand dollars of the sale price and would add another \$9,000 to this luxury home seller's tax bite.

The Medicare tax on the same house would be \$15,200 on a married couple because \$500,000 of the profit will be tax free, and seller the also would be allowed to deduct the improvements. The transfer tax would remain \$9,000.

So, it is important for long-term luxury homeowners to carefully plan the sale of their home. If you have significant appreciation in your property, and are above those income limits, you may want to "cash out" between now and 2012 to save 3.8 percent, tax experts advise.

Today's rock-bottom interest rates are another reason to consider selling a luxury home now. Buyers have more purchasing power than they've had in years thanks to historical low interest rates, although jumbo mortgage rates are higher than conforming-loan rates.

Even though real estate prices are depressed, it also may be a good time to sell investment real estate. Many investors are already aware that capital gains tax rates for most brackets are due to increase to 20 percent in 2011 from the current 15 percent. Sellers and buyers in Illinois, Cook County and Chicago also would be subject to transfer taxes on investment real estate.

Of course, there are ways to delay these capital gains taxes. Many investors will consider pursuing 1031 tax-deferred exchanges. But if you're hoping to liquidate some of your real estate holdings, experts advise that 2010 may be the year to do it.

Don DeBat's weekly real estate column is syndicated by DeBat Media Services. For more home-buying information visit his website at: www.dondebat.net.

A South Loop treat Astoria Tower offers a luxury spa experience in privacy of home



Waldorf Astoria spa features floor-to-ceiling windows in the various lounges, treatment rooms, fitness center and pool. Prices range from \$169,800 to \$328,800. An \$8,000 cash incentive is offered for a limited time.

CHICAGO — Condominium shoppers seeking a luxury spa lifestyle should visit Astoria Tower Residences and Spa, a 30-story Art-Deco-style high-rise at the northwest corner of 9th and State streets in Chicago's South Loop.

"Astoria Tower is an opulent retreat in the heart of the city, where residents can relax and rejuvenate—all in the privacy of their own home," said Jim Psychogios, vice president/broker for WEICHERT, REALTORS—Frankel & Giles. "A spa concierge is available to book a variety of treatments for residents on-site."

The \$87-million Astoria Tower is a brick, stone and glass building, designed by Patrick FitzGerald of FitzGerald

Associates Architects with a unique stepped design featuring curved bay facades on the east and west sides of the building, according to Astoria Tower, LLC, the developer.

Reserved just for residents of the luxury tower, the \$3-million Spa Life Center encompasses more than 12,000 square feet including a swimming pool, a state-of-the-art fitness center, a sauna, a steam room, private massage room, nails & pedicures salon, men's and women's changing rooms and two landscaped terraces with more than 1,900 square feet of space.

"Astoria Tower Residences and Spa offers an urban hotel/spa lifestyle for residents with stunning views of the city and lake," Psychogios said.

"The two terraces located off of the spa offer amazing views and a tranquil place to rest at the end of a long day," he said. "Floor-to-ceiling windows in the various lounges, treatment rooms, fitness center and pool capture the views."

The spa center is flanked by two dramatic terraces that are fully landscaped. Rooms outfitted to accommodate salon services, a massage or body treatment and manicures/pedicures are available. Residents will book their appointments, consulting with the spa concierge to arrange for the services. Urban Oasis is the preferred spa provider.

Residents can enjoy the spa's fitness center, outfitted with state-of-the-art exercise equipment, is open to residents, as well as a professional yoga

studio. The spa includes a pool for water aerobics and laps as well as an adjacent hot tub.

Saunas in the men's and women's locker rooms are available, and the spa lounge offers an ideal alternative to the terraces during inclement weather.

To complement the spa, an on-duty concierge also will be available to cater to residents' every whim, including reserving theater tickets, arranging travel plans, making dinner reservations and much more.

Other upscale club-style amenities in the building include: business center/conference room, a billiard/recreation room, personal storage locker, a bike room, a library/business center, a golf center and private home theater. Parking for 238 cars is on levels 2 to 9 of the building, as well.

Attractive discount pricing is offered on all remaining residences in the 78-unit final phase of condominium sales at Astoria Tower.

"Although more than 70-percent of the 248 residences already have been sold at Astoria Tower, we still have a wonderful selection of residences available at attractive prices," Psychogios said.

Prices for junior 1-bedroom units now start at \$169,800, while 1-bedroom, 1-bath residences begin at \$199,800 and 1-bedroom-plus-den layouts with 2 baths start at \$245,800, said Psychogios. Two-bedroom, 2-bath residences begin at \$328,800.

In addition, the developers now are offering an \$8,000 cash incentive for a limited time. "The incentive may be used to discount the price or go toward paying closing costs," Psychogios said.

Condo foreclosures rise primarily in Chicago suburbs Many don't qualify for Obama's foreclosure prevention program

CHICAGO -- While single-family homes continue to represent the bulk of initial foreclosure filings in the Chicago area, the rate at which condominiums are entering the foreclosure process, particularly in northwestern Cook County, is startling, according to a study released Wednesday by the Woodstock Institute.

Condo foreclosure filings within the city of Chicago rose 37.5 percent during the year's first half, but suburban condo foreclosures in northwestern Cook County and regional condo foreclosures have risen to 53.8 percent, compared with the first half of 2009.

The problem appears to be most acute in northwestern Cook County where 44.2 percent of the initial foreclosure filings made during the first half were on condo units. In 2009's first half, condo foreclosures accounted for 39 percent of total foreclosure volume in that area.

Breaking down the numbers, they show that of the 225 foreclosure filings in Wheeling during the year's first six months, 164 were on condo units. In Schaumburg, 176 of 322 new foreclosure actions involved condos. And in Palatine, 305 of the 432 overall filings, or 70 percent, involved condo units.

Officials in Palatine and other communities trace most of the increases to condo conversion projects caught in the housing market's bust, but

federal data released Tuesday revealed that many homeowners simply don't qualify for foreclosure help.

Some 91,118 people in trial modifications were canceled in June, bringing the total to 520,814 since the Obama administration's program began in the spring of 2009. More than 60 percent of those who dropped out last month had been on trials for at least half a year.

Homeowners usually are kicked out of the trial program because they do not make the required payments, meet the qualifications or submit the needed paperwork.

Launched with great fanfare, Obama's foreclosure prevention plan call for servicers to reduce eligible troubled homeowners' monthly payments to no more than 31 percent of their pre-tax income.

However, it has come under persistent fire for being slow to launch and for not helping enough people. Many homeowners complained the servicers continuously lost their applications and left them hanging. Financial institutions said borrowers didn't provide the necessary documents.

"We have to let market forces come back. It's going to take time," said an administration official last week. "Meantime, we know people are suffering out there and need assistance."



**Bright Ideas.
Brilliant results.**

Advertising specialties

Ben Ritter
Account Executive

Phone: 708-481-5682

www.ben.leewaycatalog.com