Second-Home Perk

Tax breaks for vacation home owners leave new homebuyers picking up the government's bill

A bill that would have taxed non-occupied homes at market rate didn't make it through the Legislative session. | Will Costello

By Will Costello | March 26

With all this talk about a housing shortage in Santa Fe, there are plenty of homes that aren't occupied by someone who actually lives here. An estimated 15 percent of homes in the city don't have full-time occupants, a figure from the 2013-2017 American Community Survey by the US Census Bureau, which includes vacation homes, short-term rentals and investment properties. And, according to Christie's International Real Estate, Santa Fe was the hottest market for luxury second homes in the world in 2018.

Yet those property owners are still getting a tax advantage aimed at stopping gentrification from affecting longtime residents. Under New Mexico's tax code, a law intended to help longtime residents cope with spiking property values also gives the owners of these mostly vacant homes huge tax breaks.

The law, which has been in place since the turn of the 21st century and is intended to combat the phenomenon of tax lightning, caps the amount that homeowners' property values could increase year over year at 3 percent. At the time, the hope was that, for example, a woman who had owned a home on Canyon Road for decades wouldn't be crushed under high property taxes as wealthy newcomers flowed into the neighborhood.

As soon as a property owner sells the home, however, the county assessor is supposed to then assign it market value, and the new owner pays tax on that value. This has resulted in a system where people are encouraged by tax policy to hold on to properties for long periods of time rather than selling them. It also has reaped huge benefits for people the law had no intention of helping: landlords, investors and people who own second or third homes.

"When I first saw that it wasn't limited to owner-occupants, I thought, 'You're fucking kidding me!'" says Mike Loftin, executive director of local housing equity nonprofit Homewise.

In less colorful language, Santa Fe state Rep. Matthew McQueen has the same rhetorical question. He introduced a bill at this year's legislative session that would limit the 3 percent cap to owner-occupants, but the measure never made it to the House floor for a vote.

"If your home is a second home, or if it's a rental or investment property, or if it's owned by a corporation, then you probably don't need the 3 percent cap," McQueen tells SFR. "My bill would limit the cap to owner-occupied primary residences. ... People recognize that the current situation is problematic, and this was at least a partial fix."

At the Las Campanas development northwest of Santa Fe, second homes are the bread and butter.

"I'd say 70-30," says Jonathan Bartlett, vice president of sales at Las Campanas. "Seventy percent second homes, 30 percent primary."

The luxury home development has over 900 units and its own country club that features a golf course, equestrian center, spa and a tennis court.

Homes in the area sold for, on average, $848,000 in the last quarter of 2018, according to data from the Santa Fe Association of Realtors. Those homes are part of a record-high median home price for all single-family dwellings in the city and county that reached $460,000. SFAR Government Affairs Director Donna Reynolds says those astronomical numbers not withstanding, the market needs to serve everyone.

"We need to provide housing to everyone, including people who are buying second homes and people who are living here full-time," she tells SFR.

The tax break policy, however, has severe implications for people looking to move to Santa Fe, or for young people looking to buy their first home or upsize into a better one, according to Loftin. Because the tax code heavily favors people who have owned their homes longer, including people who live elsewhere but own homes in town, much of the city's tax burden falls on new arrivals or people who recently bought a home.

It also can have the effect of stifling development, according to McQueen.

"Currently, if you want to build new rental units, you have to compete with current rental units that have the benefit of not being taxed at their current and correct market value," McQueen says. "You have a competitive disadvantage. Maybe if that playing field was leveled, you'd get some new units on the market."

Because of another relatively complicated element of the tax code, called the yield control formula, property taxes go up and down depending on the market to keep revenues relatively constant. If the 3 percent cap was repealed, taxpayers on the lower end of the income distribution could see their taxes go down.

"If we start making second-home owners, vacation-home owners and investment-home owners pay their fair share of their valuation of property, everybody else's taxes go down," Loftin says.

"Why are we subsidizing vacation homes? It makes no sense," he continues. "It's just a no-brainer."

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