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Real Estate Trends For Realtors, Homeowners and Professionals
February 2018

The Downside is The Upside

The stock market has set several records already this year. We have a new tax plan which lowers taxes significantly for companies and moderately for individuals. We just had a decent retail holiday season with higher home sales closing out the year. In other words--everything is looking up for the economy. Most economists are cautiously optimistic that the good times will continue through at least 2018.

Unfortunately, with the economy gaining momentum, some of the movements upwards are actually turning out to be downers. More specifically, we are referring to interest rates and oil prices. The price of oil moved over $60 per barrel in January after oscillating above and below the $50 level for more than a year. Certainly, higher oil prices is the price we have to pay for having a better economy that increases oil demand. However, oil prices could still fall if the news on the supply side becomes more optimistic.

Not so with interest rates. You can't pump money out of the ground. The better economy has caused the Federal Reserve Board to raise short-term interest rates five times over the past two years. Long-term rates have also been trending upward as the economy has improved. Most are not expecting another increase by the Fed when they meet as we go to publication. But that does not mean that long-term rates won't keep rising if we get the news that the economy is still rolling. As a matter of fact, the threat of higher interest rates is one reason that real estate is so hot. Most want to purchase before rates go up further. Will rates keep moving up? That depends upon whether the economy stays strong in 2018...❑

Existing homes sales jumped by 5.6% in November and improved by 3.8% from a year ago.
Source: National Association of Realtors

Tax Reform and Real Estate

The new tax law brings many changes for individuals and corporations. Much has been written about the provisions of the law which goes into effect in 2018, and this coverage will focus upon how the changes might affect homeowners or those who are considering purchasing. In general, the tax benefit for owning will be lessened. Here is why:

Lower tax rates. Though the tax rates will not come down for individuals as sharply as they will for corporations, any reduction in tax rates will reduce somewhat the tax benefits of having a home loan. For example, if someone was in a 25% tax bracket and now is in a 22% tax bracket, there would be a 12% reduction in benefits. How much your tax benefit will be reduced will vary, not only by gross income, but also because of the elimination of personal exemptions and the enlargement of the standard deduction.

Larger standard deduction. The larger standard deduction will mean that married couples financing lower-cost homes are likely to see little or no tax benefit from having a home loan. For example, if a married couple has mortgage interest of $15,000 per year and no more than $9,000 in additional deductions, they will be better off taking the standard deduction of $24,000. (*continued next column*)

Selected Interest Rates

January 25, 2018

30 Year Mortgages———4.15%
2017 High (March 16)—4.30%
2017 Low (Sept 14)——3.78%
15 Year Mortgages——-3.62%
5/1 Hybrid ARMs————3.52%
10 Year Treasuries———2.64%

Sources—Fed Reserve, Freddie Mac
Note: Average rates do not include fees and points. Information is provided for indicating trends only and should not be used for comparison purposes.

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Maximum loan size. The maximum home loan which can be written off will move from one million dollars to $750,000. This lower cap will affect those who own expensive properties and/or live in high-cost areas. Further, because existing loans are exempted from the lower cap, it may discourage some from selling their home.

Maximum state deductions. The $10,000 cap on state and local income and property tax deductions again will have a greater effect upon those who have higher incomes, own more expensive homes and/or live in higher cost areas. It should also be noted that the deduction for moving expenses is also going away.

Home equity loans. The new law keeps the deduction for debt on second homes, but does not allow the deduction of home equity debt. Apparently, this provision applies to existing home equity debt. This might change how owners pay for expensive renovations or whether they might purchase instead.

While these changes may look like a negative for home ownership, the net-effect upon housing could be positive. Putting more spending money in the hands of consumers could boost the economy which creates jobs and demand for housing. The tax law also did not change the benefit of selling a home as compared to other investments. Therefore, while the tax write-off may become less important, a home could become an even better investment. Homes also provide protection against inflation and forced savings plans, while renting provides none of these benefits.

Disclaimer…

Note that the tax law is very new, and the IRS has not even issued regulations or instructions to implement the law. This information provided is based only upon what has been published by the media reporting upon the law. We expect many clarifications, and perhaps even technical amendments, to the law in the coming months. We suggest you speak with your accountant for tax advice based upon the new law and for updates as they are issued.

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