Direct: 703-564-4088
Toll Free: 1-800-209-4336
Email: Kwteamcra@gmail.com

8133 Leesburg Pike, Suite 800
Vienna, VA 22182

CAPITOL ASSETS

America's Real Estate & Mortgage Update

Volume XXX Issue V

THE 2018 HOUSING MARKET PREVIEW

It's about to get really interesting. Every year starts with a lot of known unknowns about the year ahead for home sales: where will interest rates be, how many homes will be on the market, are consumers financially healthy and confident and how strong is their desire to buy a first home or change the one they have?

This year, of course, there are uncertainties surrounding the impact of the new tax bill that is creating some general nervousness. Just a few of the questions that it raises include:

Whether lower taxes help to incentivize potential homebuyers, especially first-time buyers, or will higher standard deductions dampen enthusiasm for homeownership?

Will the lower cap on mortgage interest deductibility cause more homeowers to stay put, further worsening inventory levels?

Will the limit on deductibility of state and local taxes, including real estate taxes, spark relocations that boost home prices in some areas and suppress them in others?

See page 4 for some details on changes in the tax rules affecting homeowners and buyers.

The future aside, let's take a moment to review where home sales stand as we start the new year. According to the National Association of Realtors, existing home sales in November were at an annual rate of 5.81 million, which was the fastest pace since December 2006 and 3.8% above 2016's rate.

Nationwide, happy individual home sellers are getting their properties sold even faster than a year ago.

Because homes are getting sold at an exceedingly brisk pace, nationwide, happy individual home sellers are getting their properties sold even faster than a year ago. Homes were on the market for just 40 days on average in November, down yet again from the super low 43-day average for that month in 2016.

Some 44% of homes sold in less than a month. That is barely time to get accustomed to the presence of a "For Sale" sign on the law and the welcome traffic of would-be buyers.

That there *are* buyers on the other side of each transaction suggests they are

PREVIEW *continued on page 2*

IN THIS ISSUE:

"*CAPITOL ASSETS* is published monthly by Real Estate Insight, LLC, Edisto Island, South Carolina, which is solely responsible for its content. The information contained therein has been carefully written and edited, but its accuracy is not guaranteed. If anything is not clearly understood, please consult your real estate professional."

PREVIEW *continued from page 1*

prepared to pull the trigger when they find the home that meets their needs.

The reason for the exceedingly short time-on-market is the result of a persistent condition: the supply of homes for sale is low, low, low.

In November there was only a 3.4 months supply of homes, a rate that is figured at the current sales pace. Six months is considered balanced.

Along with sales, home prices continued their upswing last year. The sparse inventory was one source of fuel for the increase; another was the stronger economy that has given buyers greater confidence and, often, higher wages.

The NAR reported that the median existing home price had climbed to $248,000, which was 5.8% higher than in November 2016. Median prices reflect the mix of homes sold, so they are not always the best reflection of individual home values.

However, real estate analytics firm CoreLogic, which tracks repeat sales of single-family homes, a different price measure, reported even better gains, 7.0% year-over-year in October. That suggests the median home price numbers may be reflecting relatively fewer sales of higher-price homes.

Looking ahead, CoreLogic's prediction for the year ending in October 2018 is for appreciation to slow to 4.2%. NAR sees just a 3.2% rise in its median home price measure.

Understand, though, that CoreLogic, along with many others, has been too pessimistic in recent years. It predicted price gains of just over 4.6%, for 2017.

One rationale for the slowdown in price appreciation had been that as rates rise some potential buyers will get priced out of the homes they have been eyeing, reducing the buyer pool.

One thing that happened in 2017 is that rates didn't really rise at all. We find it hard to imagine that would be the case again this year, though.

Now an additional rationale for moderating home price increases this year is that the tax bill changes will dampen price gains.

Some of the most pessimistic market seerers have even suggested that there could be price declines, but we think that is unjustifiably alarmist. At the worst, we believe, there may be some narrow price ranges and communities where sales and prices take a modest hit.

For now, though, if you are a seller in a community where listings are sparse, you will be in a strong position. Be aware, though, that buyer resistance may start to materialize if higher mortgage rates finally do start to stretch budgets.

Outlook for mortgage rates

So, if mortgage rates (as usual) are going to play an important role in the outlook for 2018 home sales. What, then is the future for rates?

After reaching a high of 4.3% for the 30-year fixed-rate conforming mortgages in March, rates spent most of the rest of 2017 drifting downward. Since mid-July they remained below 4%.

There is almost universal agreement among economic forecasters that rates will be higher in 2018 and that we are not likely to see rates in the threes at the end of the year. But how much higher?

The Federal Reserve will have a lot of influence about that, if not directly. After holding short-term rates steady since March, the Federal Reserve felt confident enough about the state of the economy to raise rates in December.

The increase was a modest one, a mere 0.25% jump in its target rate for short-term borrowings. The Fed has hinted that three or four more such increases may be in prospect for 2018, though. Most economic forecasters agree, with many seeing four Fed rate increases.

With that in mind, the National Association of Realtors, along with most other forecasters, predict 30-year mortgage rates will average about 4.6% this year, but reach 5% by the end of the year.

Home builders ramp up construction

No participant in the housing market is more attuned to the daily hum of business than homebuilders, so their read on the market is valuable. And homebuilders are, well, giddy about their prospects for 2018.

In December their confidence level was sky high. The 74 on the home builder's monthly index was the highest that had been registered since 1999. Those confidence numbers had been ratcheting ever higher throughout 2017.

Let's hope it translates into a lot more new homes being built in 2018. There were very positive signs in the latest numbers. New-home sales in November were at a post-recession high, but still just a little over half the rate of the last 50 years.

New-home building, though climbing, is still way below fully satisfying the need for homes and that remains a plus for sellers of existing homes.

Still, looking at newly constructed homes should be on the checklist of home buyers in 2018 (be sure to even the playing field by taking your Realtor to help negotiate with the builder).

Winter is a fine time to buy/sell

By the way, if you're looking forward to listing your home for sale this spring, why wait? Many think of the winter months as a suboptimal time to sell a home, but statistics suggest that it can actually be a very good season for sellers.

Seasonal statistics show that listing in December through March gives you a better chance of getting an offer above the listing price than if you list from June through November. April and May do remain the most favorable months.

Why do winter listings do so well? Because buyers at this time of the year (and especially now) are usually highly motivated and understand the need to make a quick decision. This year, the desire to get in a sale or purchase ahead of 2018 mortgage rate increases will be another substantial motivating factor.

REFORM *continued from page 4*

even better off, despite the new limit.

An increase in the standard deduction, to $24,000 for married couples, will pare away many filers from needing to itemize deductions.

New mortgage interest deduction limit

For about the last 30 years, interest on acquisition debt of up to $1 million for a principal residence (and a second home) was deductible for itemizers. Interest on up to $100,000 in home equity debt was also deductible.

Current homeowners will still have that $1 million limit, but new purchasers (generally those with contracts signed after 12/15/17), will have to live with a $750,000 limit.

A current homeowner who refinances above the new limit will still be subject to the old limit so long as their mortgage balance does not increase. The National Association of Realtors projects that just 1.3% of new mortgages will be affected by the cut.

The new limit may make a few purchasers think twice about moving up and losing their old deduction limit. The extra $250,000 in mortgage amount at a 4.25% interest rate translates to $10,544 in lost interest deductions in the first year.

However, the prior limit didn't prevent $1 million plus homes from selling before and is likely to be only the most modest deterrent for aspiring, higher income purchasers.

Unfortunately, a provision that treats mortgage insurance payments as interest for certain home purchasers expired in 2016 and was not extended.

In general, the home equity deduction is now (in 2018) gone for everyone, including those with existing home equity loans or credit lines (that is, there is no "grandfather").

However, our reading of the new law suggests that home equity debt used for the purpose of "substantially improving" a home continues to be considered acquisition debt.

So, using a home equity loan or line of credit to remodel or renovate a home should still qualify for deductibility (watch those overall limits, though!). Check with your tax advisor and watch for IRS guidance to be sure.

The loss of home equity indebtedness for all other purposes, though, could prove to be a big disappointment to some. Those who were planning to use their home equity to fund their child's college education, buy a new car or take a world cruise and deduct the interest will now be thwarted.

No changes in homeowners exclusion

Finally, one proposal that was not included in the reform bill is notable: a change in the amount or residency requirement for excluding gains on the sale of a personal residence.

A married couple who live in their personal residence for two out of the five years before a sale can still exclude $500,000 ($250,000 for singles) in gain.

While the amount of gain was not lowered, inflation has been reducing the real value of the exclusion ever since its adoption in 1986, because it is not indexed.

While the new law is now in place, understanding some of the nuances is just getting started. The IRS will need to write guidance clarifying some issues that the legislation did not specifically address.

For instance, what if a mortgage that is grandfathered at the old $1 million indebtedness limit is refinanced above the current mortgage balance, but the additional proceeds are used for home improvements? Is all the interest deductible?

Finally, Congressional leaders concede that there were some, uh, oversights in some of the technical language of the tax bill (this always happens). So it is not out of the question that some of the issues that we thought were resolved will resurface. Stay tuned!

WATCH *continued from page 4*

Credit scoring change moves closer

Could we see an end to the dominance of FICO scores as the mortgage industry standard? Perhaps, or maybe just the FICO model might be changed.

The Federal Housing Finance Agency, overseer of Fannie Mae and Freddie Mac, is asking for input as to whether there should be a switch to another scoring model from Classic FICO.

Scoring vendor VantageScore is pleased at the prospect of ending FICO's monopoly. FHFA just wants to see the best result for consumers and lenders.

Freddie seeks affordable housing options

Mortgage financing giant Freddie Mac says it is amping up plans to provide more affordable housing options.

Among the ideas under consideration: financing more rural and manufactured housing, energy efficiency initiatives, shared equity arrangements and helping preserve existing housing with a new renovation mortgage program.

States stepping up first-time buyer help

States are passing laws to help first-time homebuyers. Growing in popularity are downpayment accounts that give state tax breaks for contributions.

Six states, Colorado, Iowa, Minnesota, Mississippi, Montana and Virginia currently have such programs (though they are each slightly different). More states are expected to join the club this year. Check **downpaymentresource.com** to see what you might be eligible for.

LIMITS *continued from page 4*

up to the $453,100 conforming limit without a downpayment.

Like FHA, Fannie & Freddie, the VA has special limits for high-cost metro areas. The VA high-cost limit is the same as those other three, $679,650.

Check with your Realtor or mortgage specialist for information about the specific limits for your area in 2018.

TAX REFORM AND HOUSING

Tax reform is a reality and now we will have to wait and see just what impact it will have on home sales and the housing market in general.

We are thinking...hoping, really, that it will be much less impactful than the most pessimistic industry analysts would have us believe.

What are the major real estate related provisions?

Probably you have heard by now (especially if you are in a high-tax state or a locality that has hefty real estate taxes), the deduction for state and local taxes, including property taxes, will be limited to $10,000.

This has some suggesting that residents of high-tax states may choose to move to less taxing ones. That could happen maybe a tiny bit. Retirees, especially, often have the flexibility to select another locale.

However, in most cases, we suspect, the dynamics that led them to decide where to live in retirement, in many cases staying put after their working life, will remain compelling. Many older homeowners just are interested in moving.

Those who do find the limitation reason enough to leave could wind up freeing up much-needed inventory for buyers who fervently desire the homes they currently occupy.

For those still gainfully employed, though, the option of an interstate move will usually be a nonstarter. High-tax states contain and surround many metro areas and low-tax refuges are usually too distant to be practicable.

Further, after the effects of lower rates, new bracket structures and higher child credits are factored in, many taxpayers will find they are no worse off, perhaps

REFORM *continued on page 3*

THE HOUSING WATCH LIST FOR 2018

Here are some issues that we will be keeping an eye on in 2018.

Fannie, Freddie remake creeps closer

Fannie Mae and Freddie Mac are potent, some say “vital,” forces in providing mortgage financing for American homebuyers. However, they have been wards (technically, in conservatorship) of the federal government since 2008.

Congress has talked about wanting to get away from government backing for the two mortgage giants ever since, but has not wanted to upset the status quo while the housing market was in recovery mode.

Now talk of a way to make Fannie and Freddie independent of government support and clear the way for other competitors to enter the field has intensified. Even if a pathway forward is found, though, it is not likely to affect home purchasers’ access to mortgages for some years to come.

Flood insurance needs an extension

The National Flood Insurance Program has been operating on a series of short-term extensions, the latest of which was included in continuing funding legislation for the government. Along with the rest of the programs in the bill, the NFIP was due to expire January 19.

The House passed a flood insurance overhaul bill last year that included a long-term NFIP extension, but there has been no Senate action. Without another extension, closings in the 22,000 communities that have flood risk would be put in jeopardy, since lenders usually demand flood insurance coverage.

Keep an eye out for developments on the next NFIP extension if you have a sale or purchase that relies on getting a flood insurance policy. Some 40,000 transactions a month could be affected by a lapse in the program, the National Association of Realtors estimates.

WATCH *continued on page 3*

MORTGAGE LIMITS GET BIG 2018 INCREASE

Home prices that surged higher last year will have a major mortgage impact in 2018, as maximum loan amounts for some of the most widely used mortgage programs are seeing big increases.

Last year, for the first time since 2006, Fannie Mae’s and Freddie Mac’s conforming loan limit (maximum loan amount) rose modestly, from $417,000 to $424,100.

This year, though, the bump will be much more substantial. The 2018 conforming limit is $453,100, a 6.8% increase from last year’s!

Fannie & Freddie’s maximums for their high-cost area programs are also rising, to $679,650 from $636,150 in 2017. All but 71 U.S. counties or their equivalent will be seeing higher limits in 2018.

FHA, which has been the choice of many first-time homebuyers due its low (3.5%) minimum downpayment, also have an increased maximum loan amount on the books.

For 2018, FHA is able to insure to a maximum loan amount of $294,515, up from $275,665, anywhere in the U.S. and to $679,650 in high-cost areas.

Some 3,011 counties have seen their FHA loan limit rise for 2018, while 223 counties are seeing their maximum loan amount remain unchanged.

The limit increases also apply to Home Equity Conversion reverse mortgages. An insufficiently appreciated facet of the reverse mortgage program is that it can be used by seniors to purchase a home and avoid having a new mortgage.

VA mortgages, for veterans and qualifying reservists, National Guard members and military spouses, are now available everywhere for those who have full eligibility in amounts

LIMITS *continued on page 3*