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## Home Sales Just Crushed Forecasts. Will Taxes Change The Tune?

The tax bill that has been at the center of discussion for the Housing Market was officially signed into law this week. In the days leading up to that, both New and Existing Home Sales **surged** to post-crisis records. Can the new tax policies coexist with a strong housing market?

In a word: **yes**. While there were some provisions in earlier drafts of the tax bill that would have made this question harder to answer, they didn't make the final cut. **Specifically:**

- Capital Gains on Sale of Primary Residence.** As long as you've lived in your primary residence for any 2 of the past 5 years, you can still exclude capital gains on the sale of that home, up to \$500,000 for joint filers (\$250k otherwise). As recently as last week, the bill would have changed that time requirement to 5 of the past 8 years--something that could have greatly inhibited housing turnover.
- Mortgage Interest Deduction.** In the initial draft of the bill, interest would have only been deductible on the first \$500k of your loan balance. That number rises to \$750k in the final bill (still lower than the 2017 limit of \$1m). Any "acquisition indebtedness" (debt that can be traced back to the purchase of the home) that existed or that was under contract to exist as of 12/15/2017 will continue to enjoy the \$1m limit. This applies to refinances as well, as long as the new loan is only refinancing acquisition indebtedness. To be clear, that means you cannot write off additional interest that results from a cash-out refinance. Interest on Home Equity Lines of Credit (HELOCs) is no longer deductible, even on existing HELOCs, except those used as purchase money (up to \$100k).
- State and Local Taxes.** An initial draft of the bill completely killed state and local tax (SALT) deductions, including those for property taxes. The final bill added \$10k back. This might seem like plenty, but in some states, like New Jersey, it's only slightly above average for property taxes alone! In states with a high combination of income and property tax, this \$10k limit could have some effect on homebuying decisions, but it would have to be considered against the much larger "standard deduction." Many taxpayers that had been itemizing deductions in these areas are now expected to opt for the standard deduction.

## National Average Mortgage Rates



|                            | Rate  | Change | Points |
|----------------------------|-------|--------|--------|
| <b>Mortgage News Daily</b> |       |        |        |
| 30 Yr. Fixed               | 6.89% | 0.00   | 0.00   |
| 15 Yr. Fixed               | 6.33% | +0.01  | 0.00   |
| 30 Yr. FHA                 | 6.33% | +0.01  | 0.00   |
| 30 Yr. Jumbo               | 7.05% | 0.00   | 0.00   |
| 5/1 ARM                    | 6.58% | 0.00   | 0.00   |

### Freddie Mac

|              |       |       |      |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.77% | -0.09 | 0.00 |
| 15 Yr. Fixed | 6.05% | -0.11 | 0.00 |

Rates as of: 7/22

## Market Data

|                | Price / Yield | Change  |
|----------------|---------------|---------|
| MBS UMBS 5.5   | 99.39         | -0.01   |
| MBS GNMA 5.5   | 99.78         | +0.00   |
| 10 YR Treasury | 4.2257        | -0.0268 |
| 30 YR Treasury | 4.4454        | -0.0271 |

Pricing as of: 7/23 6:52AM EST

## Recent Housing Data

|                     |        | Value | Change  |
|---------------------|--------|-------|---------|
| Mortgage Apps       | Jul 10 | 206.1 | -0.19%  |
| Building Permits    | Mar    | 1.46M | -3.95%  |
| Housing Starts      | Mar    | 1.32M | -13.15% |
| New Home Sales      | Mar    | 693K  | +4.68%  |
| Pending Home Sales  | Feb    | 75.6  | +1.75%  |
| Existing Home Sales | Feb    | 3.97M | -0.75%  |
| Builder Confidence  | Mar    | 51    | +6.25%  |

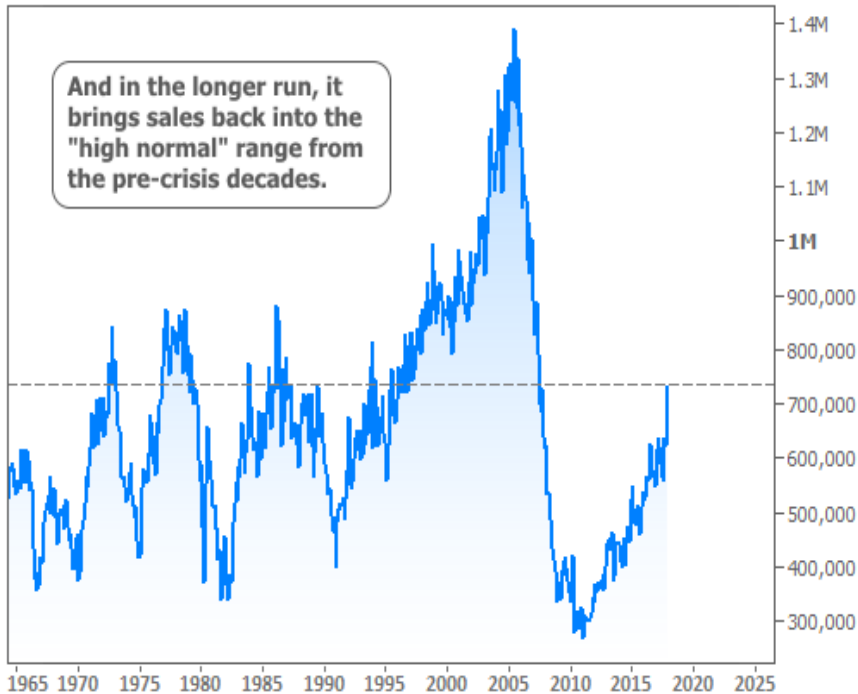
# US Housing Market Weekly

All in all, this is a storm that the housing market **can** weather. It's ability to do so was only reinforced by **EXCEPTIONALLY strong** sales figures this week. **New Home Sales** stood out as the biggest winner, rising a whopping 17.5 percent in November. This isn't merely good in the "post-crisis" context. It puts New Home Sales back in a "high average" historical range.

New Home Sales



New Home Sales



Existing Home Sales may not have surged quite as much as New Home Sales, but they too hit **post-crisis highs**. Moreover, they're in a much stronger spot in the context of the historical trend. The chart below shows plenty of room to weather any effects from new tax policy without exiting a healthy growth trend.

# US Housing Market Weekly

Existing Home Sales



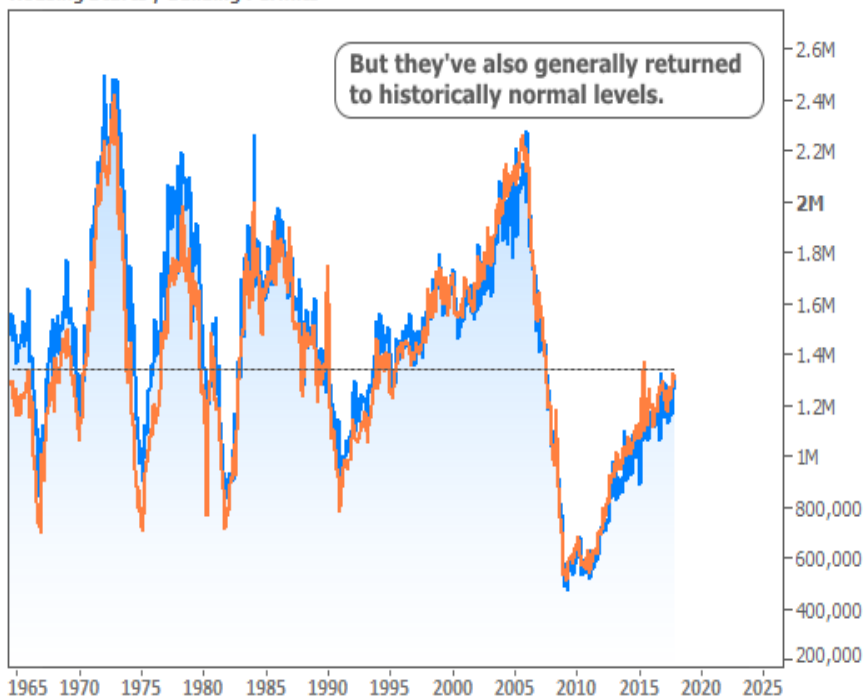
Construction metrics (Housing Starts and Building Permits) weren't quite as balmy as the sales data, but positive trends remained decisively intact.

# US Housing Market Weekly

Housing Starts / Building Permits



Housing Starts / Building Permits



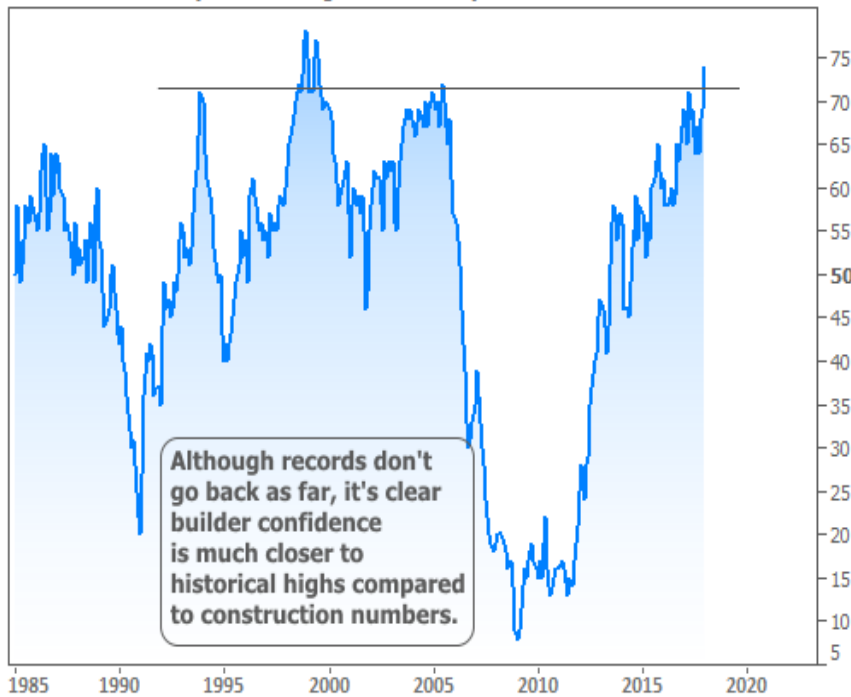
With respectable construction activity and home sales booming, it's no surprise to see [builder confidence](#) also exploring a new post-crisis high. In fact, more than any of the week's other housing-related reports, the NAHB Housing Market Index did the most to return **near all-time highs**. This should be taken with a grain of salt, however, due to the nature of survey data, which tends to oscillate in a steadier range when compared to something like outright sales counts.

# US Housing Market Weekly

Builder Confidence (NAHB Housing Market Index)



Builder Confidence (NAHB Housing Market Index)



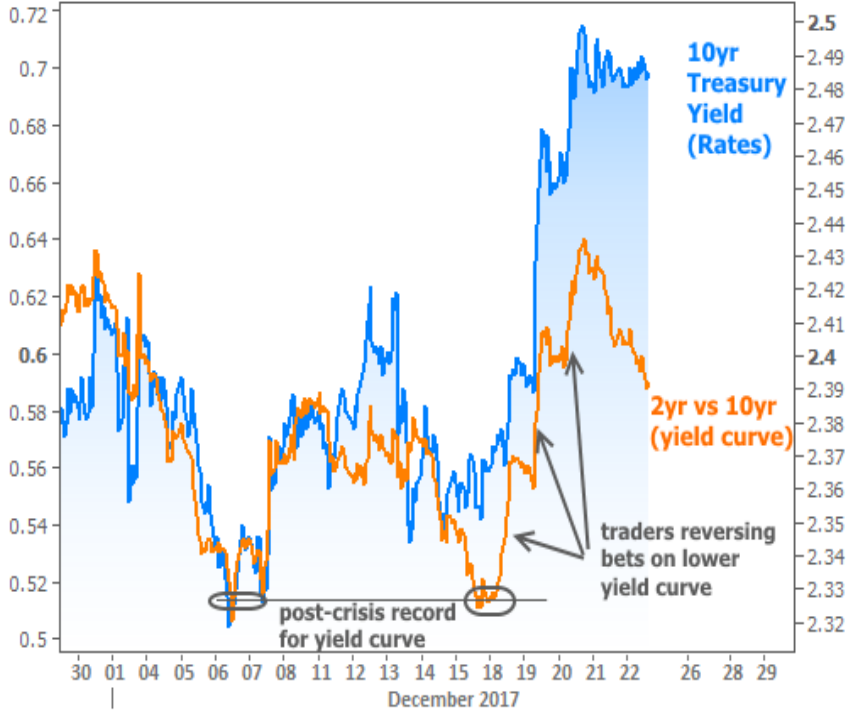
Other than the uncertainties surrounding the tax bill, the **only other cloud** on this week's horizon was a fairly abrupt increase in mortgage rates. This resulted from bond traders exiting the profitable trading positions from 2017 after the 2nd consecutive bounce in a key interest rate metric that measures the gap between longer-term and shorter-term rates. The so-called yield curve is something traders can take a position on, just like stocks.

Betting on a falling (or "tightening") yield curve was all the rage in 2017, and plenty of traders **continue** to expect tightening in 2018. But the 2nd bounce at the post-crisis record combined with the sparse trading conditions in the coming weeks led an **exodus** of traders who took some of those positions off the table for the remainder of 2017.

# US Housing Market Weekly

Removing a bet on a tightening curve often involves selling longer-term bonds, and bond-selling = higher rates. The net effect is mortgage rates that are **.125% higher** than last week in most cases. The 10yr Treasury yield (seen in the chart below) is a good proxy for minute-to-minute mortgage rate pressure.

10yr Treasury Yield ("Rates")



10yr Treasury Yield ("Rates")



Bond markets will be closed for Christmas on Monday, and again next Monday for New Years Day. The days between tend to be a dead zone for relevant goings-on in rates and housing markets.

## Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its “Proposed Criteria for Evaluating Home Buyer Contract Forms” on Tuesday. The 15 criteria focus on the contracts’ form – whether the documents are readable and understandable – and content – whether they are fair to homebuyers.

- the document’s expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
- the right to terminate the contract
- the disclosure that compensation is negotiable
- the broker’s compensation clearly stated and that the buyer broker can’t receive additional compensation for facilitating a sale
- that any additional fees, such as for showing a home, will be deducted from the broker’s commission if there is a successful sale
- that the commission is due only if there is a successful closing
- that buyers have an obligation – for no longer than 60 days, CFA recommends – to pay a broker who earlier showed them a home they purchased after the contract ended
- seller concessions paid directly to buyers
- dual agency not pre-approved by the contract
- an explanation of how a broker treats different buyer clients interested in the same property
- that buyers should not be required to first go through mediation or arbitration if they have a complaint

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