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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



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.51%	+0.01	0.00
15YR Fixed	7.04%	+0.01	0.00
30YR FHA	7.08%	+0.03	0.00
30YR Jumbo	7.52%	+0.02	0.00
7/6 SOFR	7.12%	-0.01	0.00
30YR VA	7.10%	+0.03	0.00

Rates as of: 11/16

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.72	+0.02
10 YR Treasury	5.1271	-0.0071
30 YR Treasury	5.4736	-0.0022

Pricing as of: 11/16 7:39PM EST

Recent Housing Data

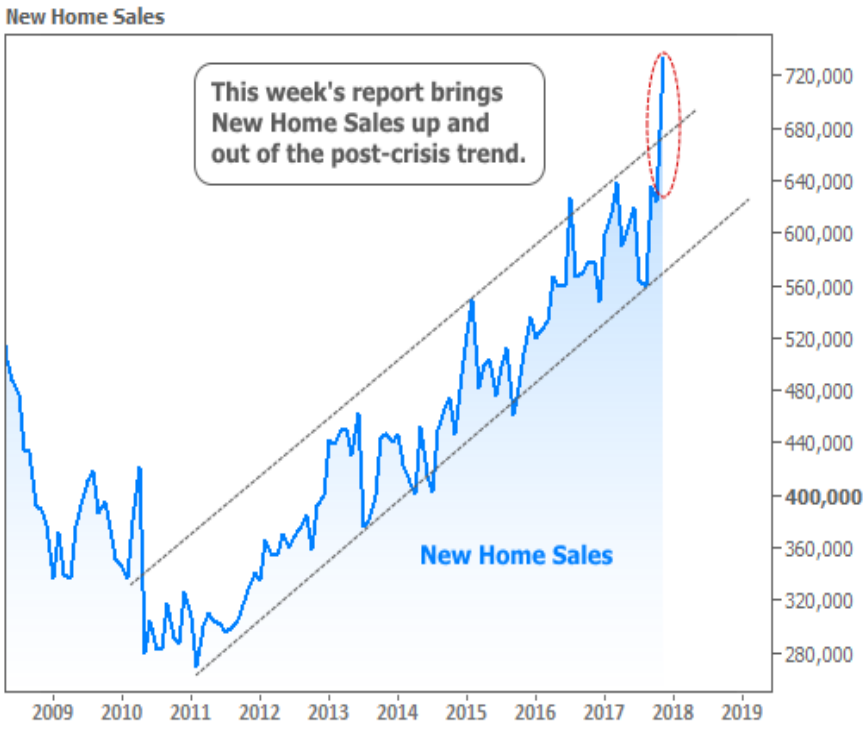
		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

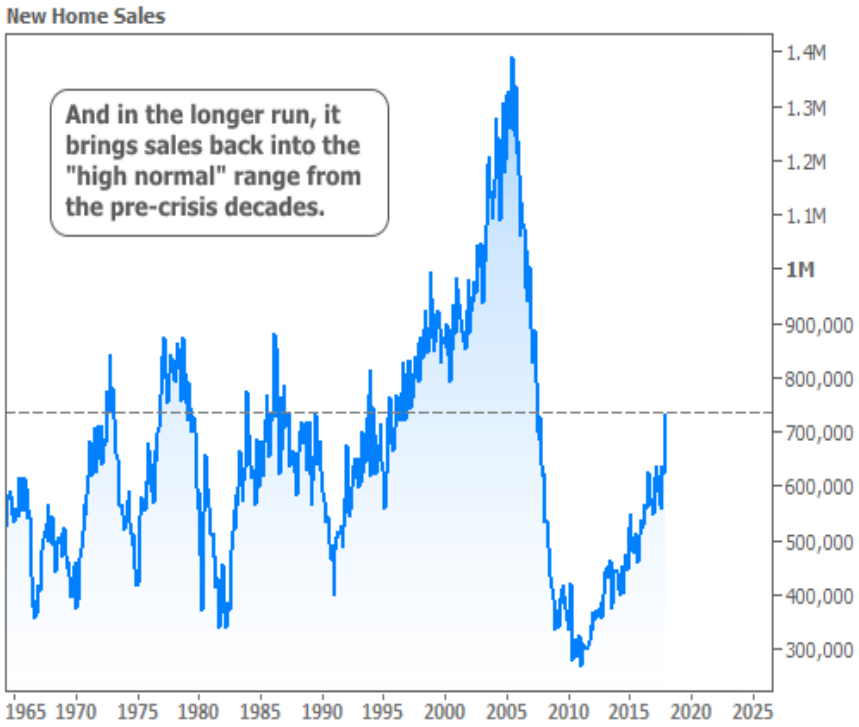
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All in all, this is a storm that the housing market **can** weather. It's ability to do so was only reinforced by **EXCEPTIONALLY strong** sales figures this week. New Home Sales stood out as the biggest winner, rising a whopping 17.5 percent in November.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





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.

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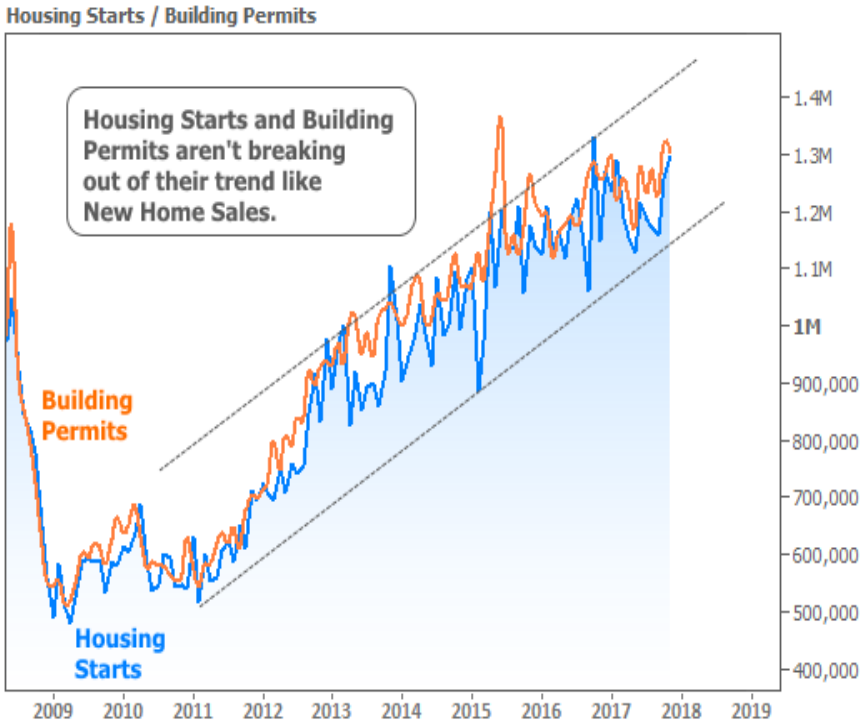


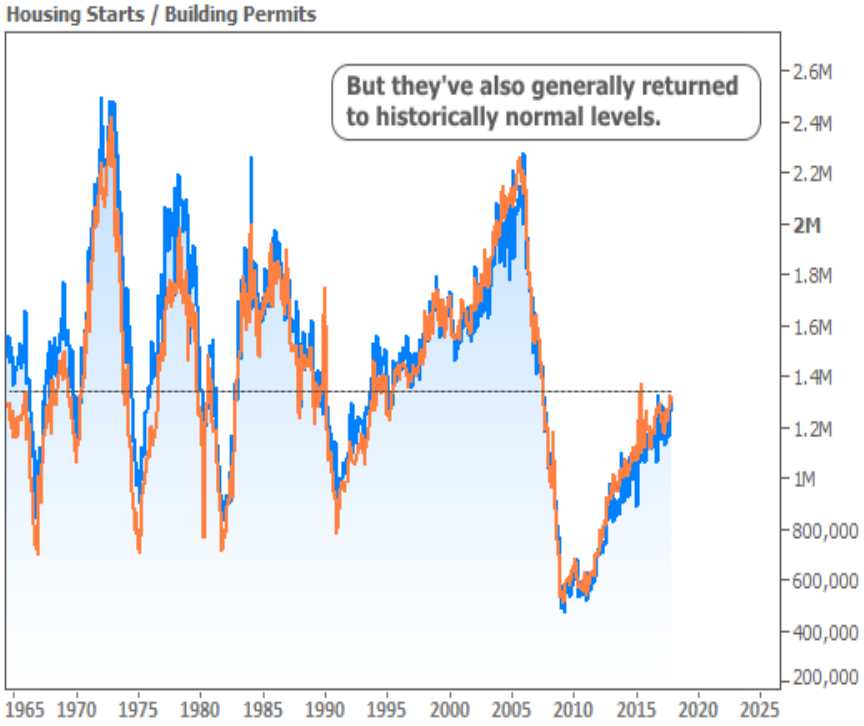
Construction metrics (Housing Starts and Building Permits) weren't quite as balmy as the sales data, but positive trends remained decisively intact.

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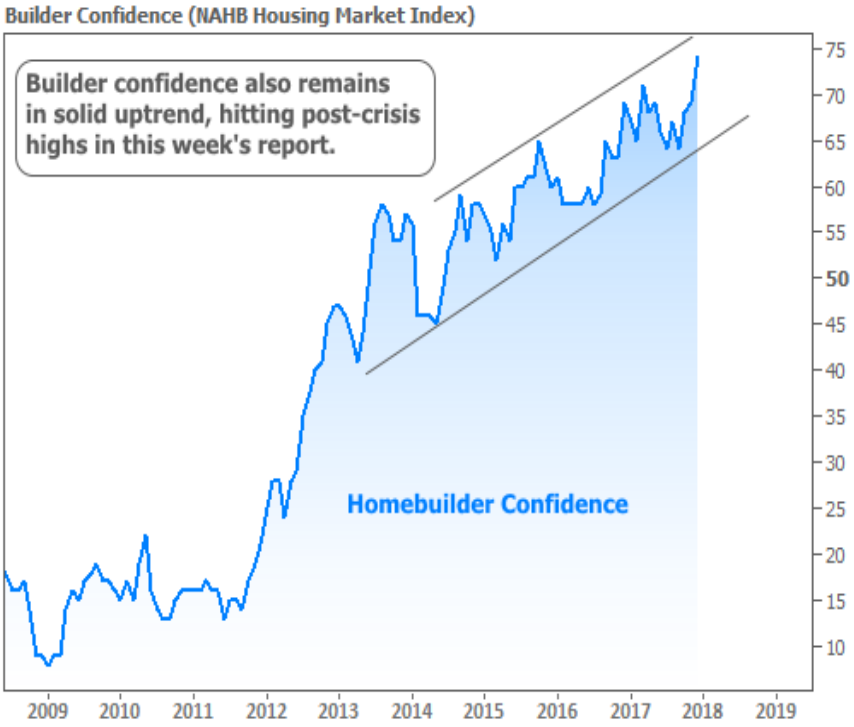


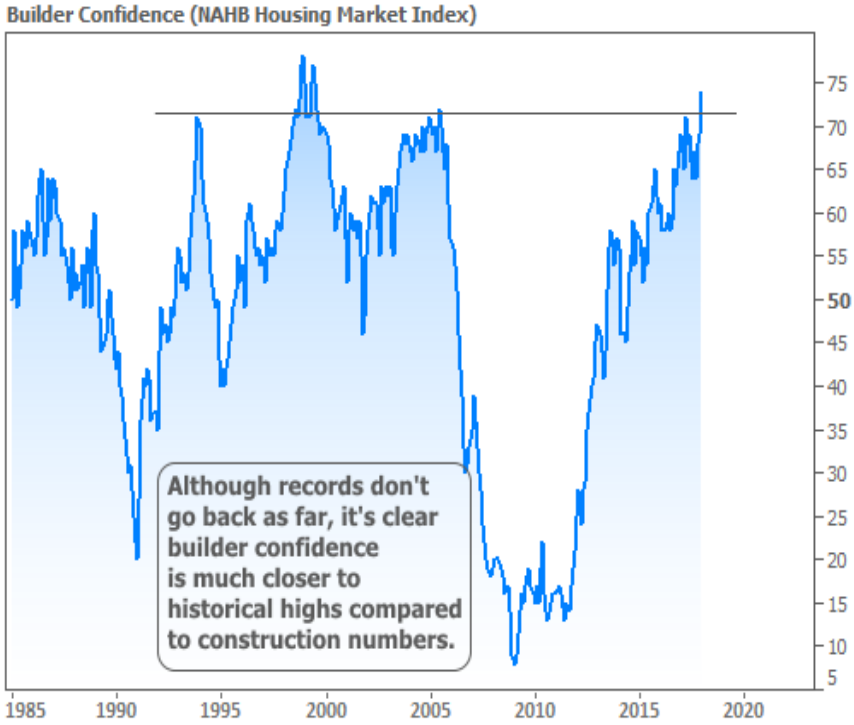
With respectable construction activity and home sales booming, it's no surprise to see builder confidence also exploring a new post-crisis high. In fact, more than any of the week's other housing-related reports, the NAHB Housing Market Index did the most to return **near all-time highs**. This should 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.

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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.

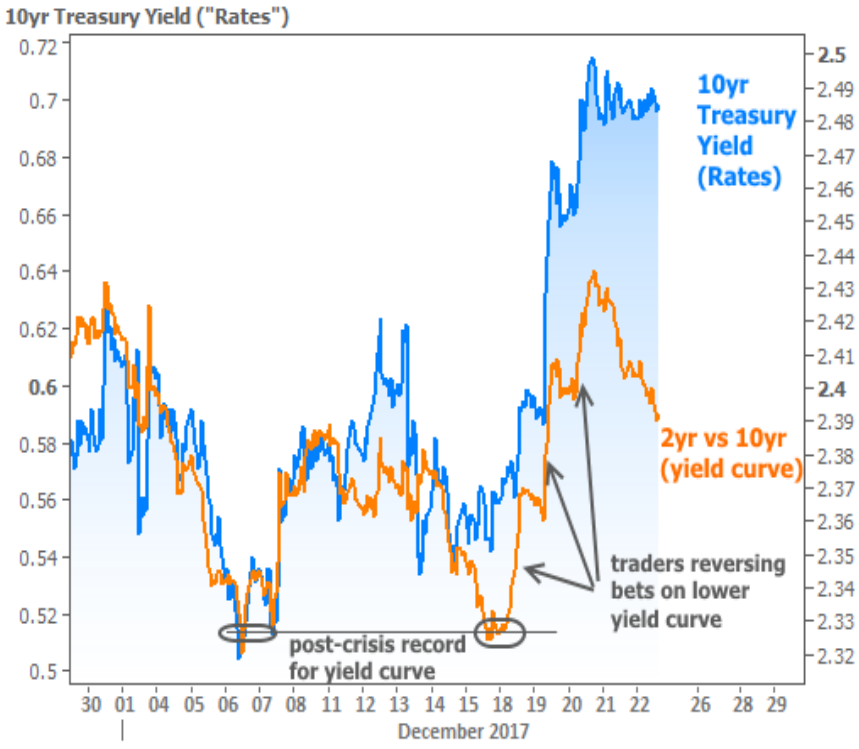
Betting on a falling (or "tightening") yield curve was all the rage in 2017, and plenty of traders **continue** to expect tightening in 2018. But the 2nd bounce at the post-crisis record combined with the sparse trading conditions in the coming weeks led an **exodus** of traders who took some of those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

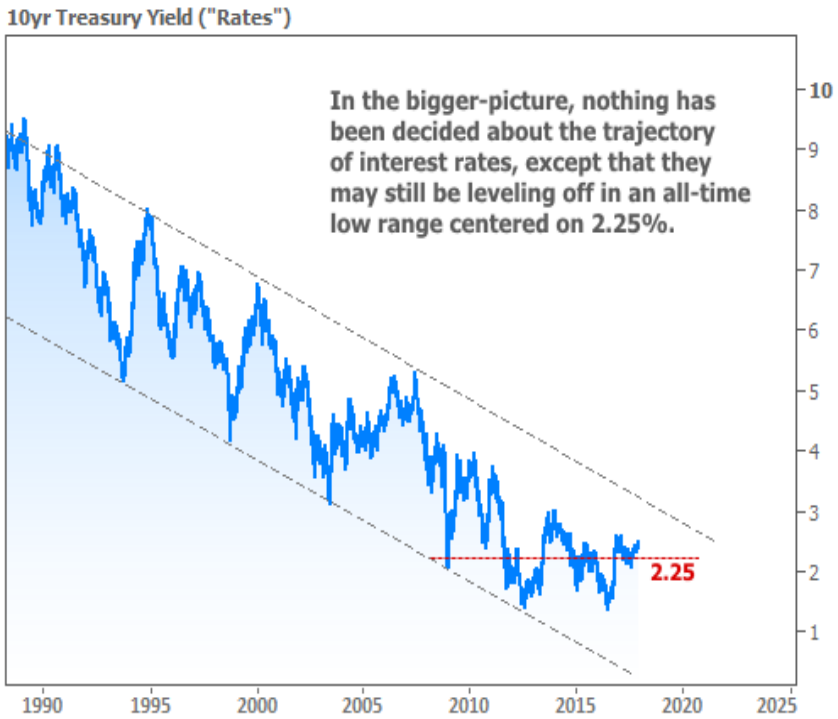
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Removing a bet on a tightening curve often involves selling longer-term bonds, and bond-selling = higher rates. The net effect is mortgage rates that are **.125% higher** than last week in most cases. The 10yr Treasury yield (seen in the chart below)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





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.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Dec 18				
10:00AM	Dec NAHB housing market indx	74	70	70
Tuesday, Dec 19				
8:30AM	Nov Building permits: number (ml)	1.298	1.273	1.316
8:30AM	Nov Build permits: change mm (%)	-1.4		7.4
8:30AM	Nov Housing starts number mm (ml)	1.297	1.250	1.290
8:30AM	Nov House starts mm: change (%)	+3.3		13.7
Wednesday, Dec 20				
7:00AM	w/e Mortgage Refinance Index	1240.5		1281.0
7:00AM	w/e MBA Purchase Index	234.3		247.9
7:00AM	w/e Mortgage Market Index	379.2		398.8
10:00AM	Nov Exist. home sales % chg (%)	5.6	0.9	2.0
10:00AM	Nov Existing home sales (ml)	5.81	5.52	5.48
Thursday, Dec 21				
8:30AM	Q3 GDP Final (%)	3.2	3.3	3.3
8:30AM	Dec Philly Fed Business Index	26.2	21.5	22.7
8:30AM	w/e Jobless Claims (k)	245	239	225
9:00AM	Oct Monthly Home Price yy (%)	6.6		6.3
10:00AM	Nov Leading index chg mm (%)	0.4	0.4	1.2
Friday, Dec 22				
8:30AM	Nov Consumer Spending (Consumption) (%)	0.6	0.5	0.3
8:30AM	Nov Core PCE (y/y) (%)	1.5	1.5	1.4
8:30AM	Nov Durable goods (%)	1.3	2.0	-0.8
10:00AM	Nov New home sales-units mm (ml)	0.733	0.654	0.685
10:00AM	Dec U Mich Sentiment Final (ip)	95.9	97.1	96.8
10:00AM	Nov New home sales chg mm (%)	17.5	-4.7	6.2
Tuesday, Dec 26				
9:00AM	Oct CaseShiller 20 yy (%)	6.4	6.3	6.2
10:00AM	Dec Consumer confidence		128.1	129.5
Wednesday, Dec 27				
10:00AM	Nov Pending Home Sales (%)	0.2	-0.4	3.5
1:00PM	5-Yr Note Auction (bl)		34	
Thursday, Dec 28				
8:30AM	w/e Jobless Claims (k)	245	240	245
9:45AM	Dec Chicago PMI	67.6	62.0	63.9

Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important
★★ Very Important

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Date	Event	Actual	Forecast	Prior
1:00PM	7-Yr Note Auction (bl)	28		

Responsive service, experienced expertise

I've dedicated my 26 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

Ted Rood 

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