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Revisiting Stellar Home Sales and Tax Bill's Effect on Housing

There were several interesting developments with relevance to the housing market last week. Rather than let important information fall by the wayside amid the holiday season, this week's newsletter will largely be a reprint of last week's. Interest rate discussion is updated to reflect this week's changes, as is the calendar of economic reports and the list of additional news stories. In order to see the economic calendar or news links in the previous newsletter, you can view it directly.

The tax bill that has been at the center of discussion for the Housing Market was officially signed into law last 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.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.33%	-0.12	0.00
15YR Fixed	6.89%	-0.10	0.00
30YR FHA	6.95%	-0.10	0.00
30YR Jumbo	7.44%	-0.06	0.00
7/6 SOFR	6.81%	-0.19	0.00
30YR VA	6.97%	-0.10	0.00

Rates as of: 11/20

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.51	+0.41
10 YR Treasury	4.9403	-0.1033
30 YR Treasury	5.3324	-0.0738

Pricing as of: 11/20 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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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.

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.

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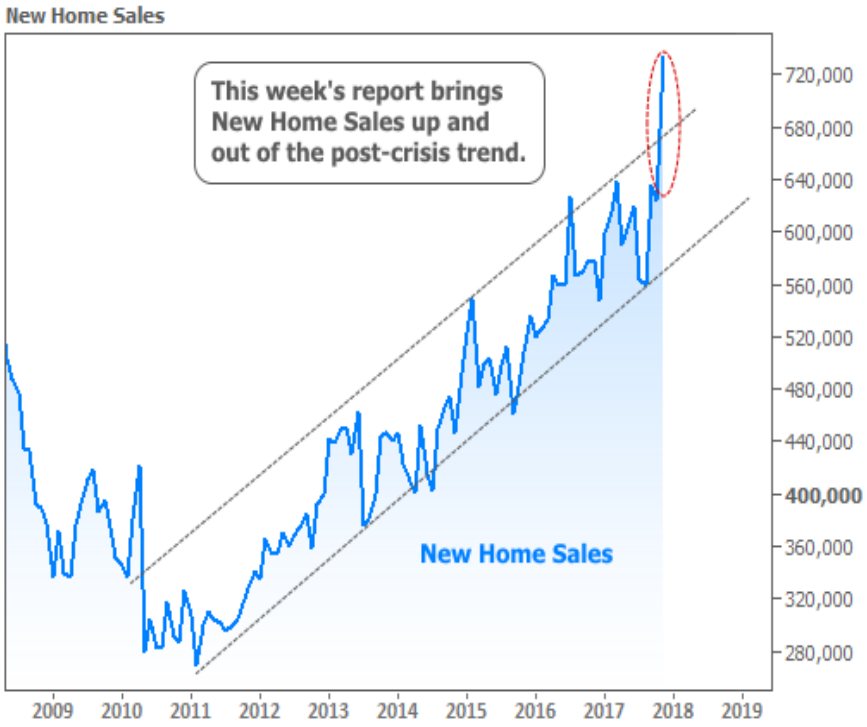

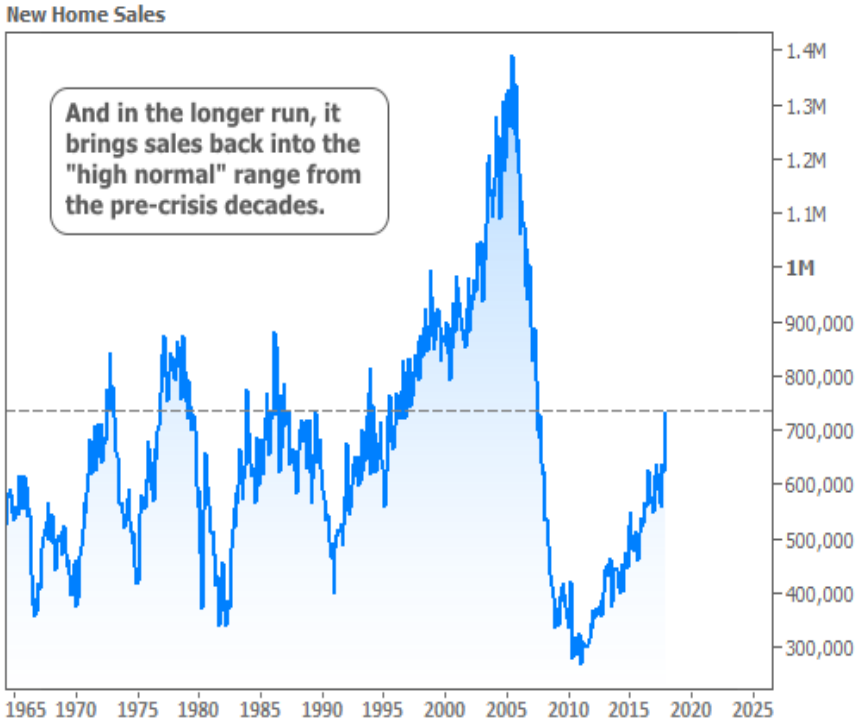

Existing Home Sales may not have surged quite as much as New Home Sales, but they too hit **post-crisis highs**. Moreover, they're in a much stronger spot in the context of the historical trend. The chart below shows plenty of room to weather any effects from new tax policy without exiting a healthy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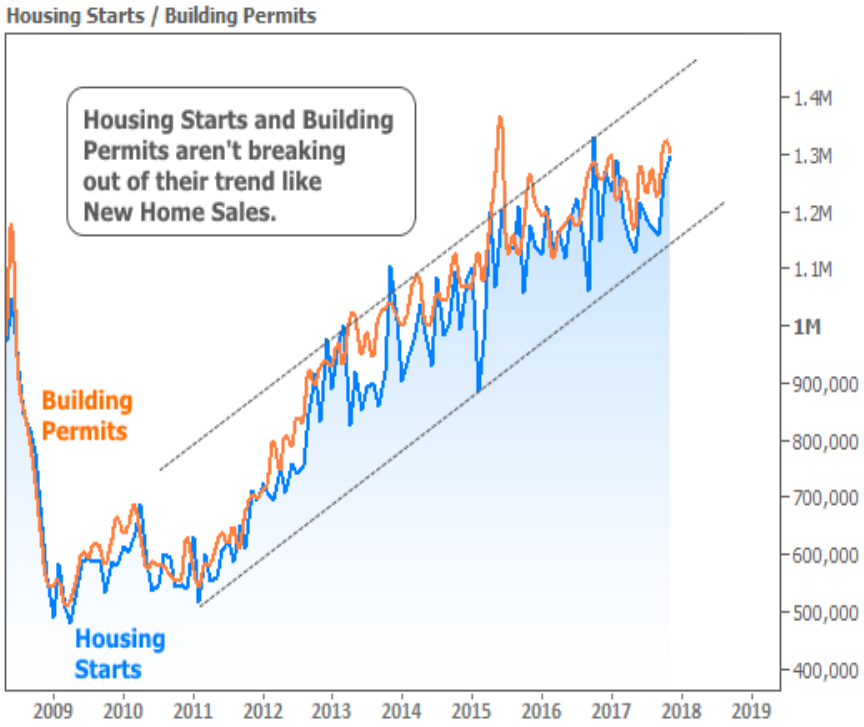

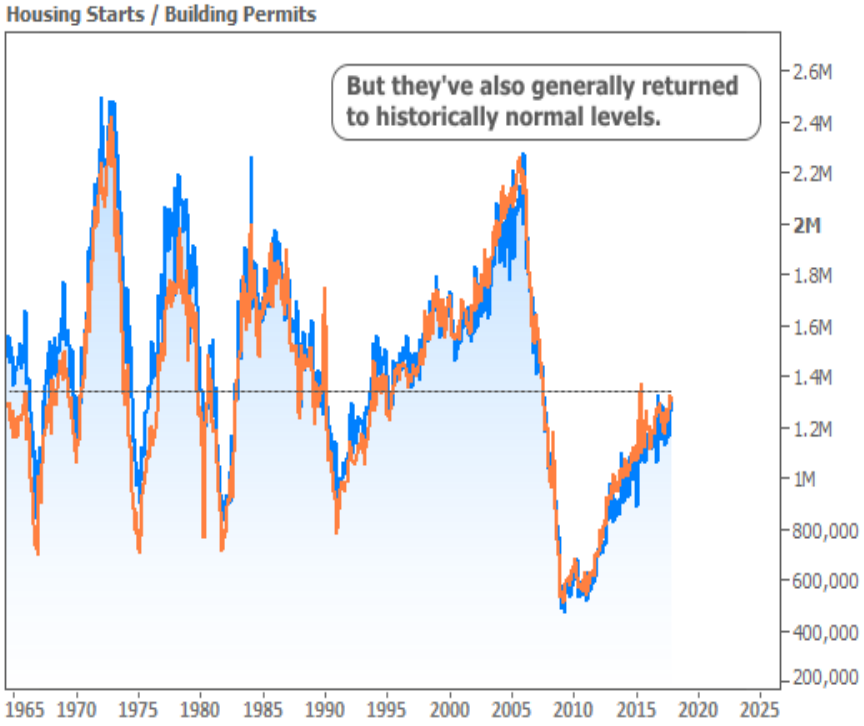

With respectable construction activity and home sales booming, it's no surprise to see builder confidence also exploring a new post-crisis high. In fact, more than any of the week's other housing-related reports, the NAHB Housing Market Index did the most to return **near all-time highs**. This should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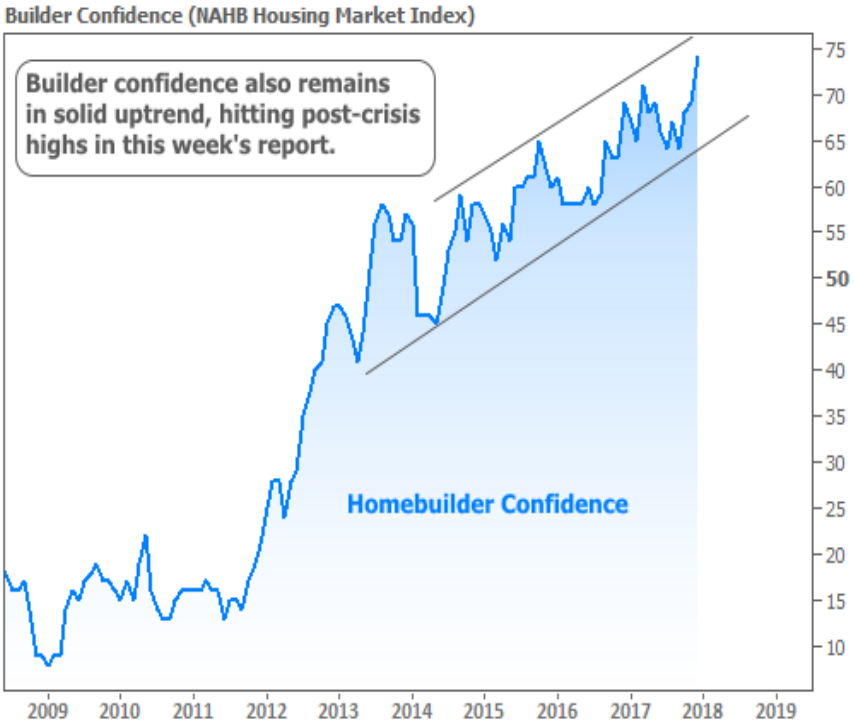

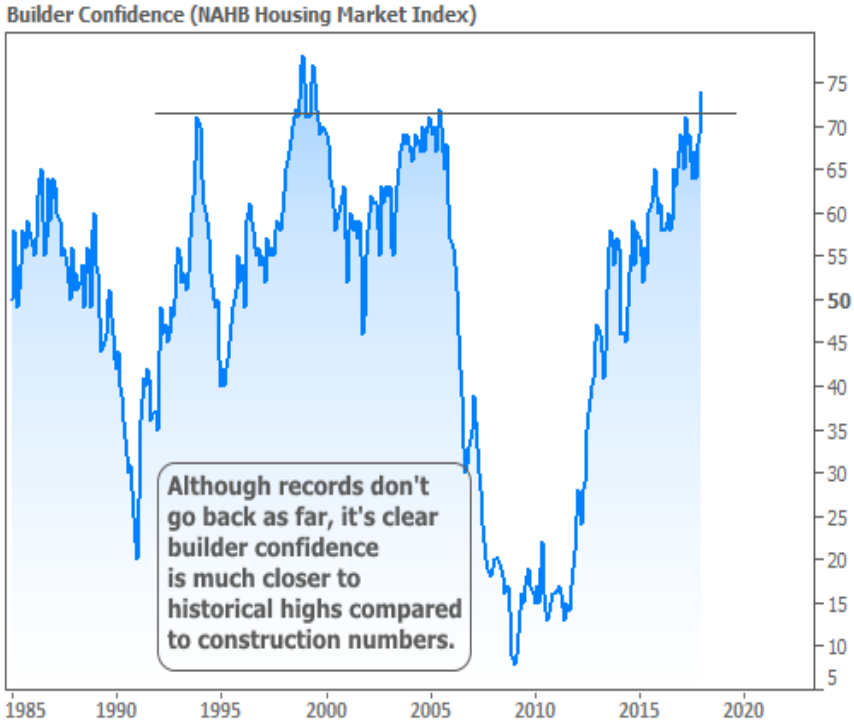

Other than the uncertainties surrounding the tax bill, the **only other cloud** on last week's horizon was a fairly abrupt increase in mortgage rates. This resulted from the uncommonly light trading environment that exists at the end of December (and NOT from the tax bill).

The yield curve (the spread between longer and shorter-term rates, such as 10yr and 2yr Treasury yields) has been a key consideration for traders in 2017. Last week's rate spike was immediately preceded by a bounce at a **post-crisis record low** for the 2yr vs 10yr yield curve.

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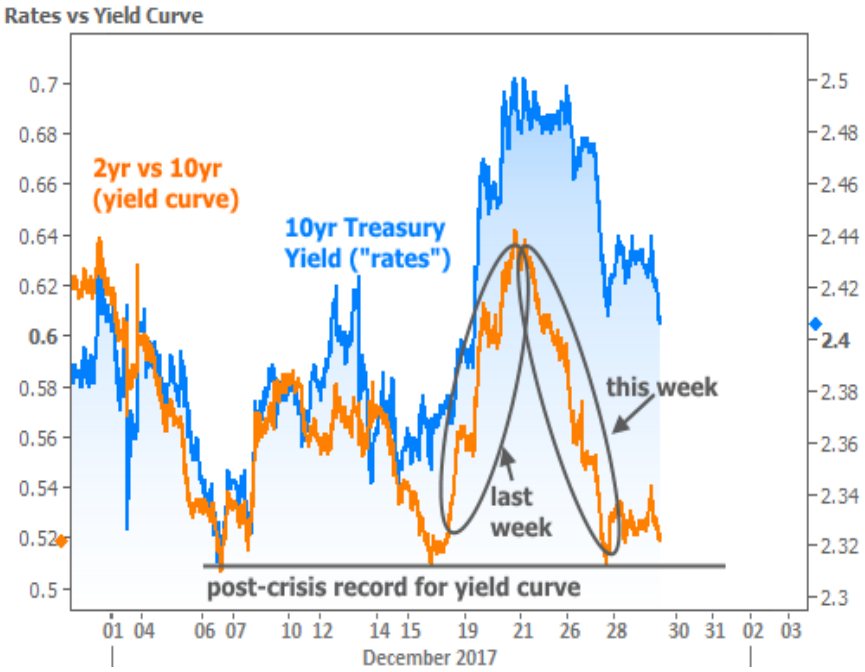
"Uncommonly light trading environments" **work both ways**, thankfully, simply because they amplify the effects of imbalances (rates move more than they otherwise would). This week, the imbalance was in our favor. The yield curve returned to those long-term lows and rates followed. As such, we're set to begin January with rates well-within their range from Q3-2017.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Dec 26				
9:00AM	Oct CaseShiller 20 yy (%)	6.4	6.3	6.2
9:00AM	Oct CaseShiller 20 mm nsa (%)	0.2	0.4	0.4
Wednesday, Dec 27				
10:00AM	Nov Pending Home Sales (%)	0.2	-0.4	3.5
10:00AM	Nov Pending Sales Index	109.5		109.3
10:00AM	Dec Consumer confidence	122.1	128.0	129.5
Thursday, Dec 28				
8:30AM	w/e Jobless Claims (k)	245	240	245
9:45AM	Dec Chicago PMI	67.6	62.0	63.9
Wednesday, Jan 03				
10:00AM	Dec ISM Manufacturing PMI	59.7	58.1	58.2
Thursday, Jan 04				
8:15AM	Dec ADP National Employment (k)			190
8:30AM	w/e Jobless Claims (k)	250	248	245

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Friday, Jan 05				
8:30AM	Dec Non-farm payrolls (k)	148	190	228
8:30AM	Dec Unemployment rate mm (%)	4.1	4.1	4.1
10:00AM	Dec ISM N-Mfg PMI	55.9	57.6	57.4
10:00AM	Nov Factory orders mm (%)	1.3	1.1	-0.1

Who is Mid Valley Financial?

Since 1985, Mid Valley Financial has been a trusted partner for complex real estate financing solutions. We specialize in handling unique and challenging loan scenarios, including those with non-traditional income or asset documentation. Our expertise in hard money and private money lending offers quick funding and flexible terms for real estate investors, business owners, and agricultural operators. Whether you need funds for purchasing, renovating, or refinancing properties, our experienced team is here to help.

Beyond hard money lending, we offer a comprehensive suite of competitively priced home loan options, including conventional, FHA, VA, and jumbo loans. So whether you are a first-time homebuyer, looking to secure the family estate or vacation property, or have unique financial circumstances, our experienced team can help you find the best solution.

Our commitment to exceptional customer service and innovative financing solutions has made us one of the leading direct lenders and mortgage brokers in the California real estate market. With a proven track record of success and a focus on building long-term relationships, we're here to help you achieve your financial goals.

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