Northern Virginia and The New Tax Law: Numbers and Implications

Spencer Shanholtz
Research Associate

Center for Regional Analysis
Schar School of Policy and Government
George Mason University

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Agenda

I. National Landscape
II. Regional Economy Overview
III. Current Housing Market
IV. Impacts of the Tax Law
V. Potential Implications
VI. Discussion – What are you seeing?
Consumer Confidence is High, yet Uncertain

Current Situation

Expectations

Jan 2017
Cur. = 155.3
Exp. = 105.5
(1985 = 100)

Source: The Conference Board, GMU Center for Regional Analysis
Earnings are up... but Barely keeping up with Inflation

Source: Bureau of Labor Statistics, GMU Center for Regional Analysis
Interest Rates on the Rise

Source: Federal Reserve Bank of St. Louis
Mortgage Rates too

Primary Mortgage Market Survey®
U.S. weekly average mortgage rates as of 02/15/2018

Source: Freddie Mac Primary Mortgage Market Survey
Residential Construction Up

- Builder confidence high
- Housing starts up 10% in January
- Permits climbed 7.4%
- Construction sector added jobs

Source: US Census Bureau
Economy Overview
What makes our area unique?

• Many high paying jobs
• Impact of government workers
  • Budget uncertainty?
• Housing Prices are HIGH
• Housing Inventory is low
Annual Job Change - Washington MSA

Source: Bureau of Labor Statistics (Not Seasonally Adjusted), GMU Center for Regional Analysis

December-17
Total: 3,325 K
Annual Job Change – Northern VA

Source: Bureau of Labor Statistics (Not Seasonally Adjusted), GMU Center for Regional Analysis

December-17
Total: 1,476 K
Job Change by Sector
Dec 2016 – Dec 2017
Northern Virginia

(Ranked by Size in 2016)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Change (000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>20,000</td>
</tr>
<tr>
<td>Prof. &amp; Bus. Svcs</td>
<td>7.8</td>
</tr>
<tr>
<td>Educ &amp; Health Svcs</td>
<td>-4.5</td>
</tr>
<tr>
<td>State &amp; Local Govt</td>
<td>4.3</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>-1.0</td>
</tr>
<tr>
<td>Leisure &amp; Hosp.</td>
<td>1.8</td>
</tr>
<tr>
<td>Federal Govt.</td>
<td>-0.8</td>
</tr>
<tr>
<td>Other Services</td>
<td>-1.0</td>
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<tr>
<td>Financial</td>
<td>2.1</td>
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<tr>
<td>Construction</td>
<td>4.3</td>
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<tr>
<td>Transp. &amp; Util.</td>
<td>2.1</td>
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<tr>
<td>Information</td>
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<tr>
<td>Wlse Trade</td>
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<tr>
<td>Manufacturing</td>
<td>-0.1</td>
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<tr>
<td>Manufacturing</td>
<td>0.8</td>
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</tbody>
</table>

Source: Bureau of Labor Statistics (Not Seasonally Adjusted), GMU Center for Regional Analysis
Prices

Source: Bright MLS. Statistics calculated 2/5/2018
Inventory

Source: Bright MLS. Statistics calculated 2/5/2018
Tax Law Changes Overview

1. **Mortgage interest deduction (MID)**
   - capped at $750,000, down from the previous cap of $1 million

2. **State and local property tax (SALT) deduction**
   - limits homeowners to deductions on their first $10,000 in SALT

3. **Standard deduction**
   - doubles the previous standard deduction to $12,000 for single filers and $24,000 for joint filers.
Mortgage Interest Deduction
Active Listings

Source: Bright MLS. Statistics calculated 2/5/2018
Home Sales in 2017

<table>
<thead>
<tr>
<th>Area</th>
<th>Sales Above $1,000,000</th>
<th>Sales above $800,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>NVAR</td>
<td>8%</td>
<td>17%</td>
</tr>
<tr>
<td>Fairfax</td>
<td>7%</td>
<td>14%</td>
</tr>
<tr>
<td>Arlington</td>
<td>7%</td>
<td>14%</td>
</tr>
<tr>
<td>Alexandria</td>
<td>4%</td>
<td>9%</td>
</tr>
<tr>
<td>Fairfax City</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>Falls Church</td>
<td>9%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Source: Bright MLS. Statistics calculated 2/5/2018
Source: Bright MLS. Statistics calculated 2/5/2018
Property Value

- NVAR: 23% Value Greater than $1,000,000, 9% Value Greater than $750,000
- Fairfax: 20% Value Greater than $1,000,000, 8% Value Greater than $750,000
- Arlington: 36% Value Greater than $1,000,000, 14% Value Greater than $750,000
- Alexandria: 24% Value Greater than $1,000,000, 9% Value Greater than $750,000
- Fairfax city: 11% Value Greater than $1,000,000, 3% Value Greater than $750,000
- Falls Church: 46% Value Greater than $1,000,000, 15% Value Greater than $750,000
SALT Deduction Capped

Single family homes and condos where the most recent property tax bill available was more than $10,000.

A rise in standard deduction diminishes tax incentives for home buying

• Percent claiming MID: 21% to just 4% of all taxpayers

• New law: In 64% of D.C. area homes it makes sense to itemize rather than take the standard deduction.
  • Down from 98% percent before.
Possible Implications?

• Complicate Inventory
• Negative Impact on First Time Homebuyers
• Home Prices

*Expect little long term effect; Tax considerations are only one influence on the home buying decision*
Discussion

1. Did/ Do MID and SALT taxes have a homeownership incentive?
2. Is any of this even going to have an effect on the market?
3. Are you seeing any behavior changes in your customers?
Thank You

Further Questions?

Spencer Shanholtz
sshanhol@gmu.edu
cra.gmu.edu
@GMU_CRA