

Northern Virginia and The New Tax Law: Numbers and Implications

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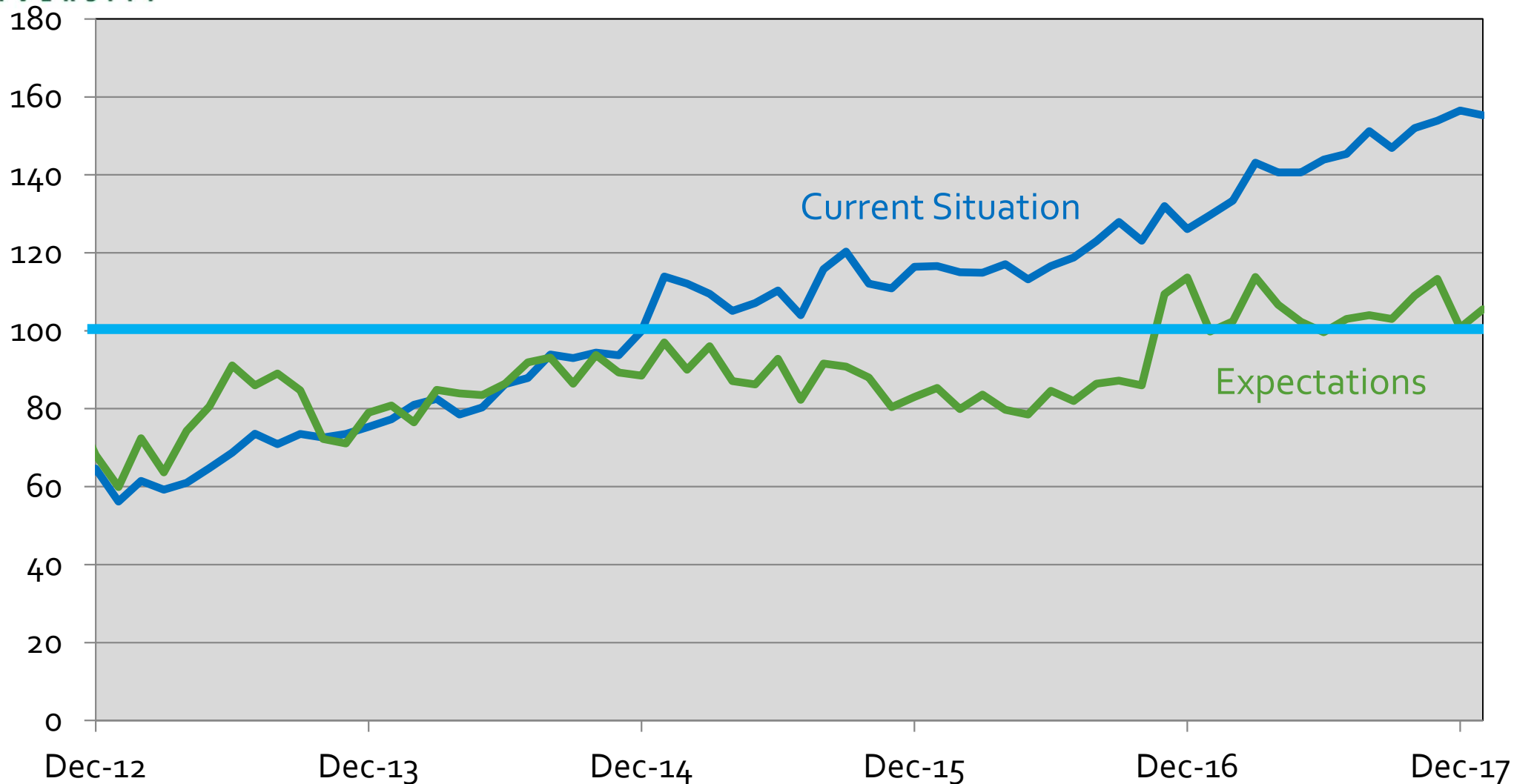
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Agenda

- 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



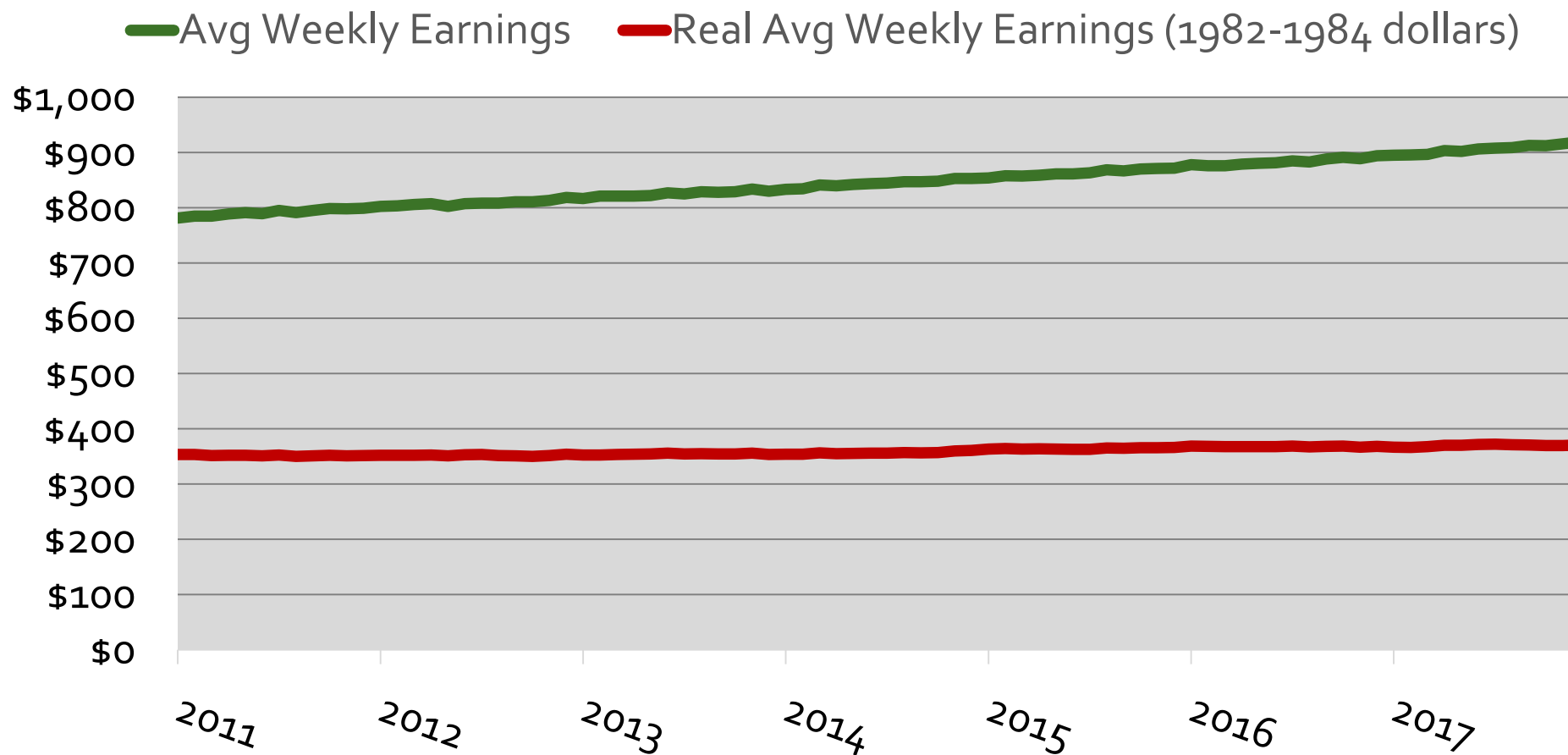
Jan 2017

Cur. = 155.3

Exp. = 105.5

(1985 = 100)

Earnings are up... but Barely keeping up with Inflation

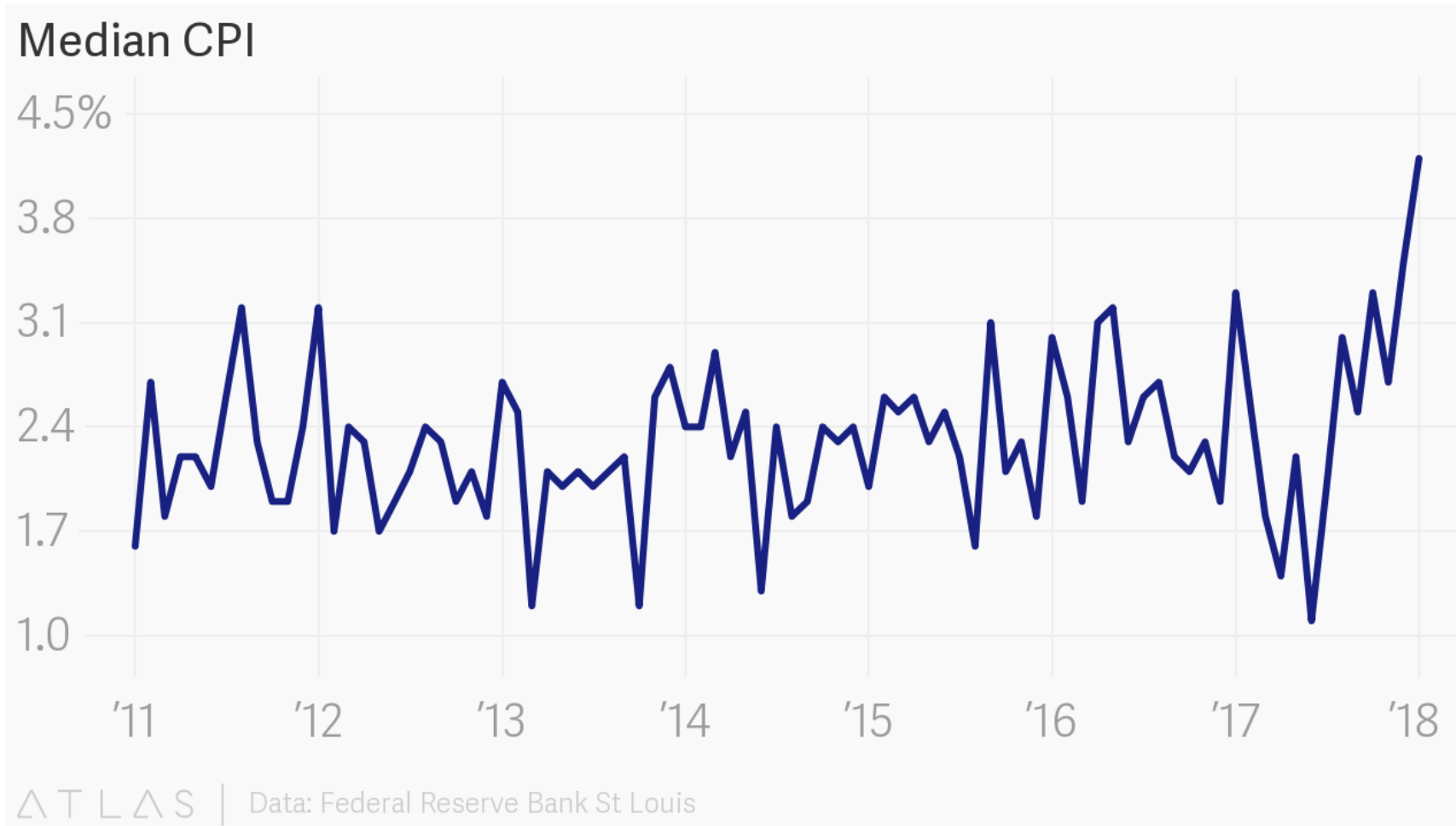


Dec 16 – Dec 17
Avg Hourly
Wages +2.5%

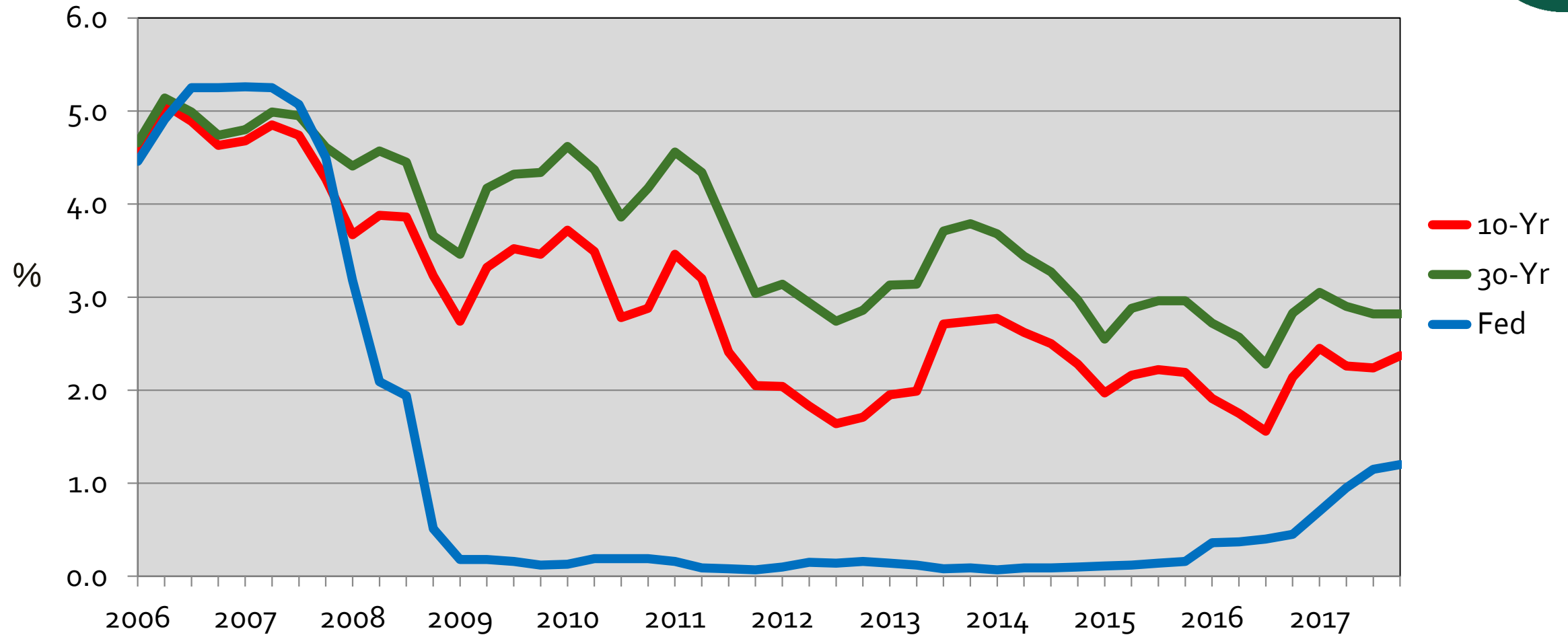
Dec 16 – Dec 17
Avg Weekly
Earnings
+2.8%

Dec 16 – Dec 17
Real Avg
Weekly
Earnings +0.7%

Consumer Price Index



Interest Rates on the Rise



Source: Federal Reserve Bank of St. Louis

Mortgage Rates too



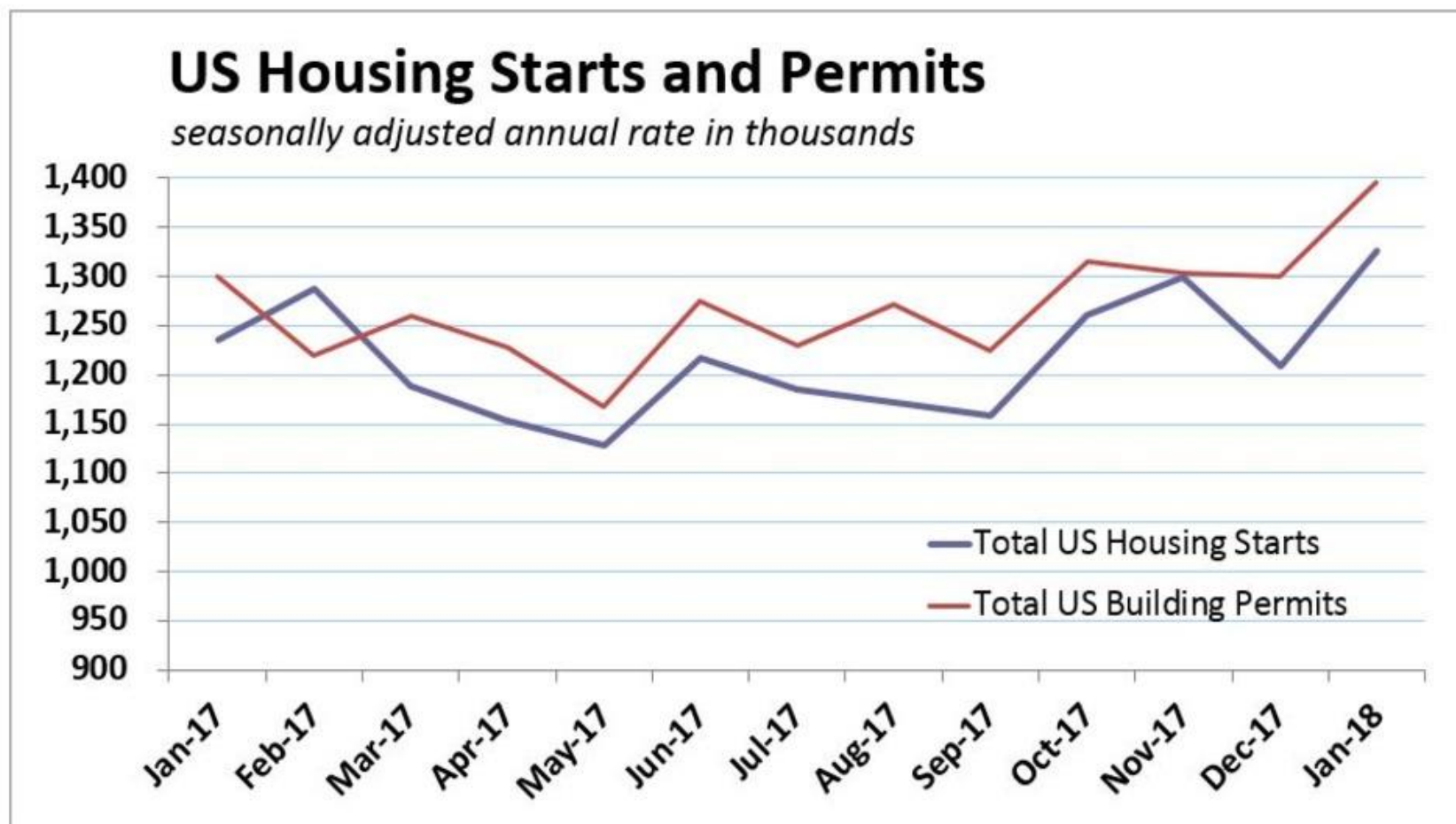
Primary Mortgage Market Survey[®]

U.S. weekly average mortgage rates as of 02/15/2018



Residential Construction Up

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



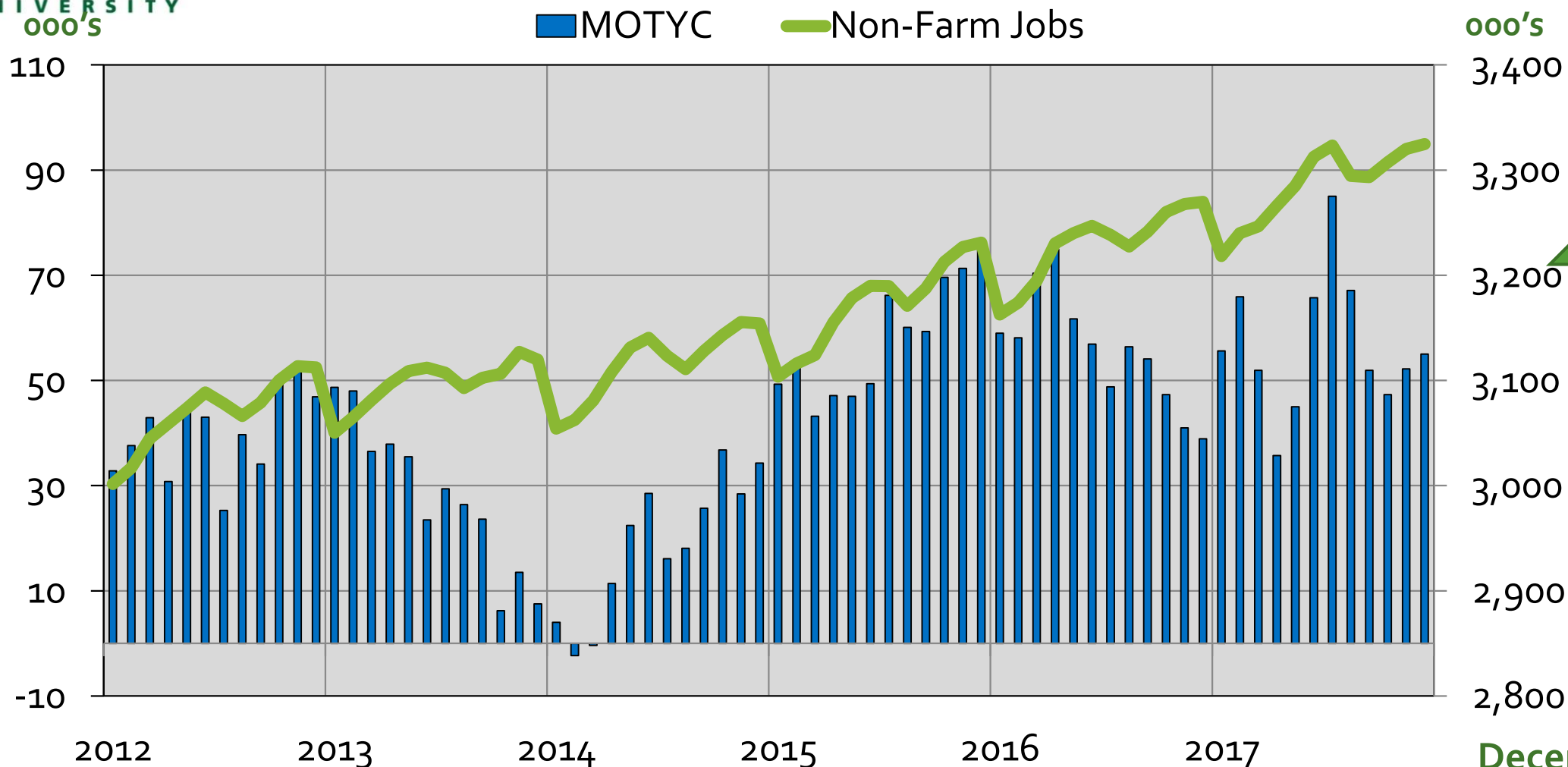
Economy Overview

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

MOTYC Non-Farm Jobs

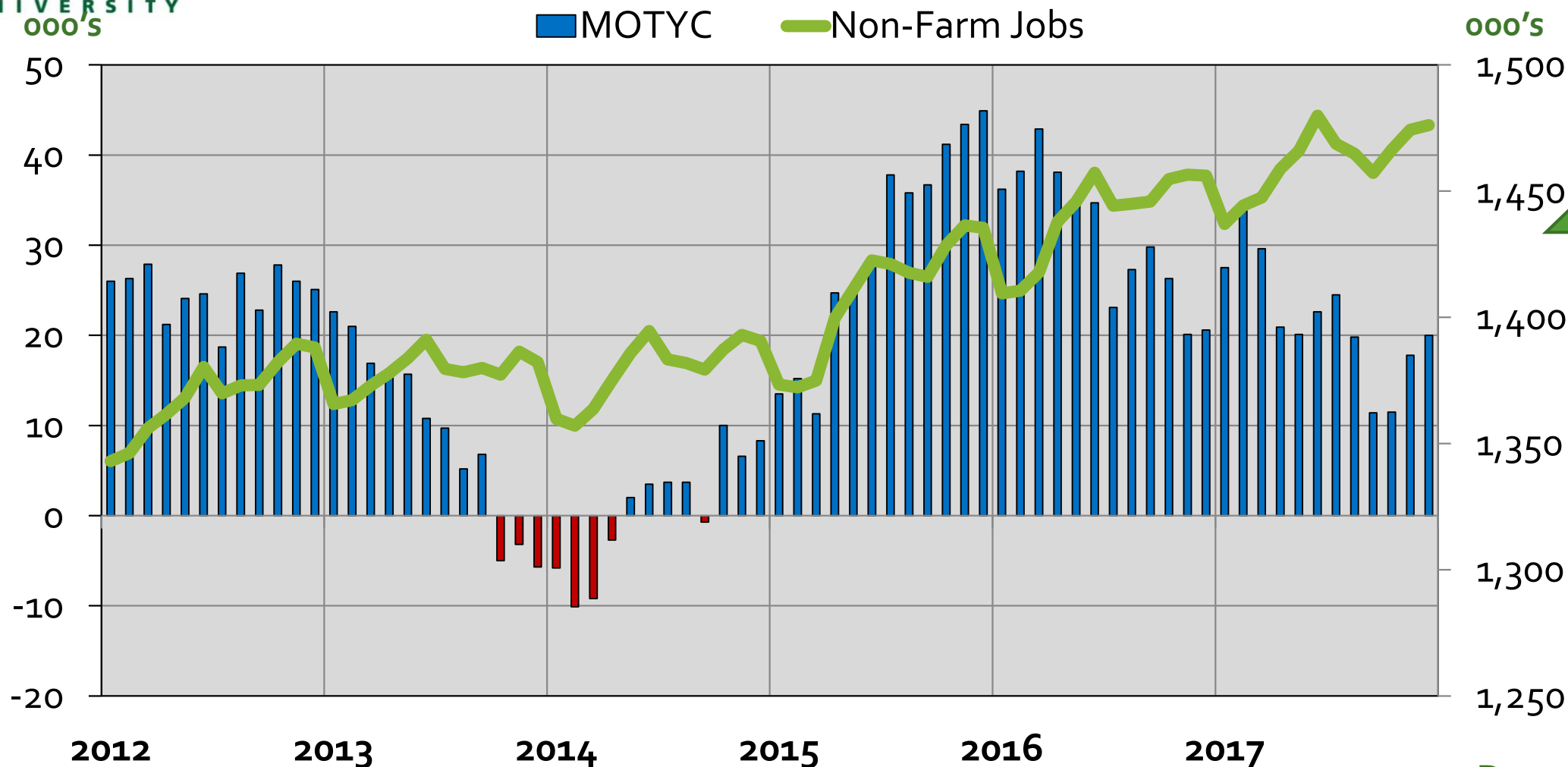


Dec 16-
Dec 17
+55 K

December-17
Total: 3,325 K

Annual Job Change – Northern VA

■ MOTYC ■ Non-Farm Jobs



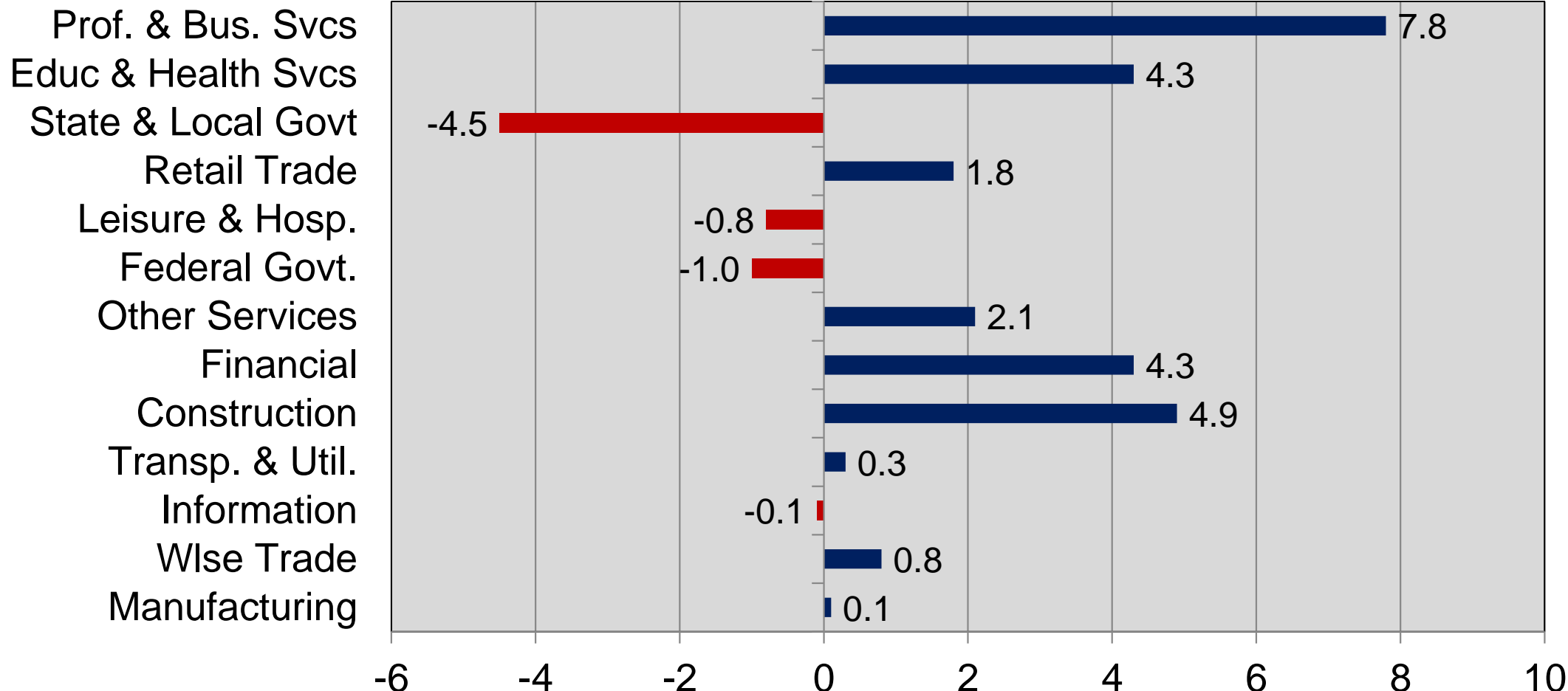
**Dec 16-
Dec 17
+20K**

Job Change by Sector Dec 2016 – Dec 2017 Northern Virginia

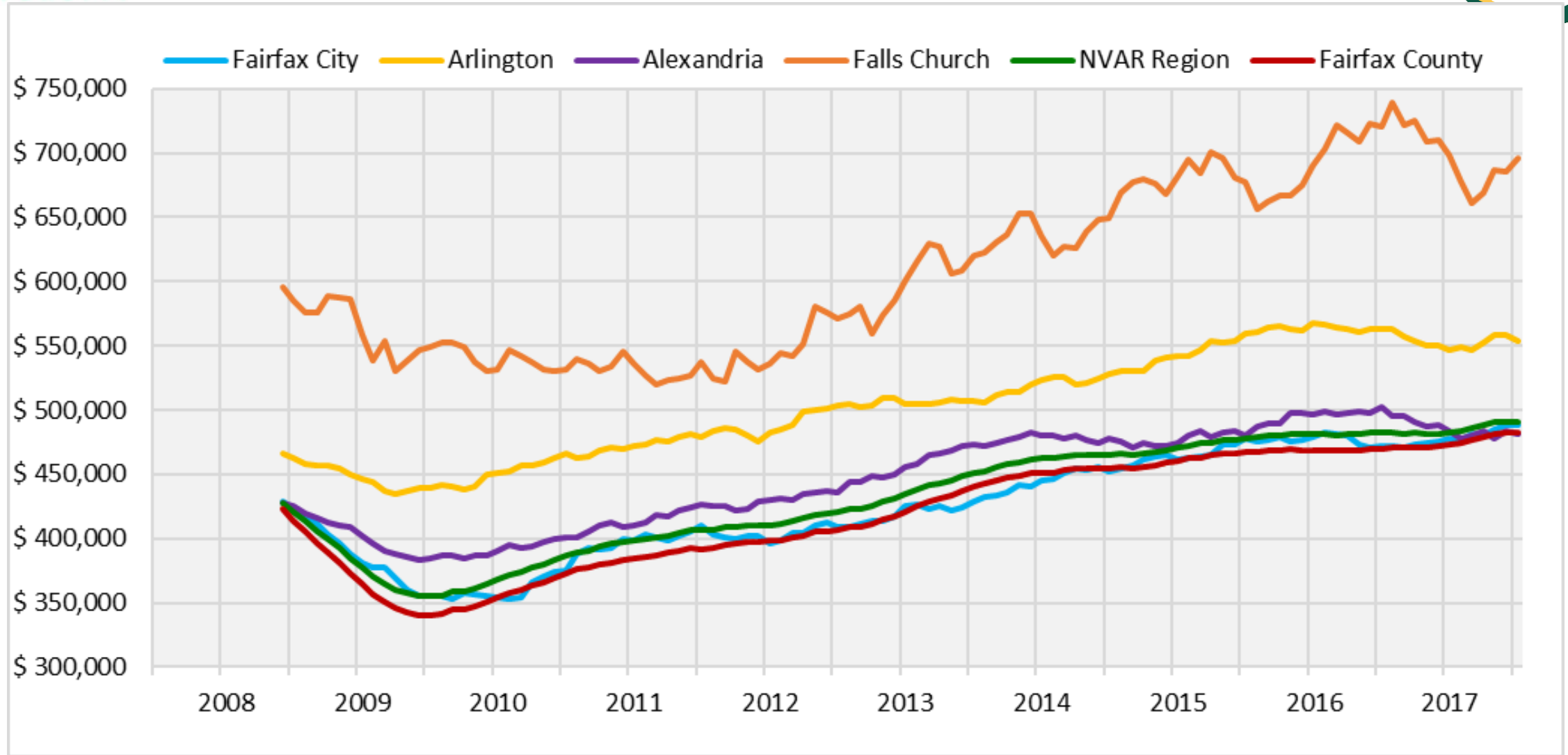
(Ranked by Size in 2016)

(000s)

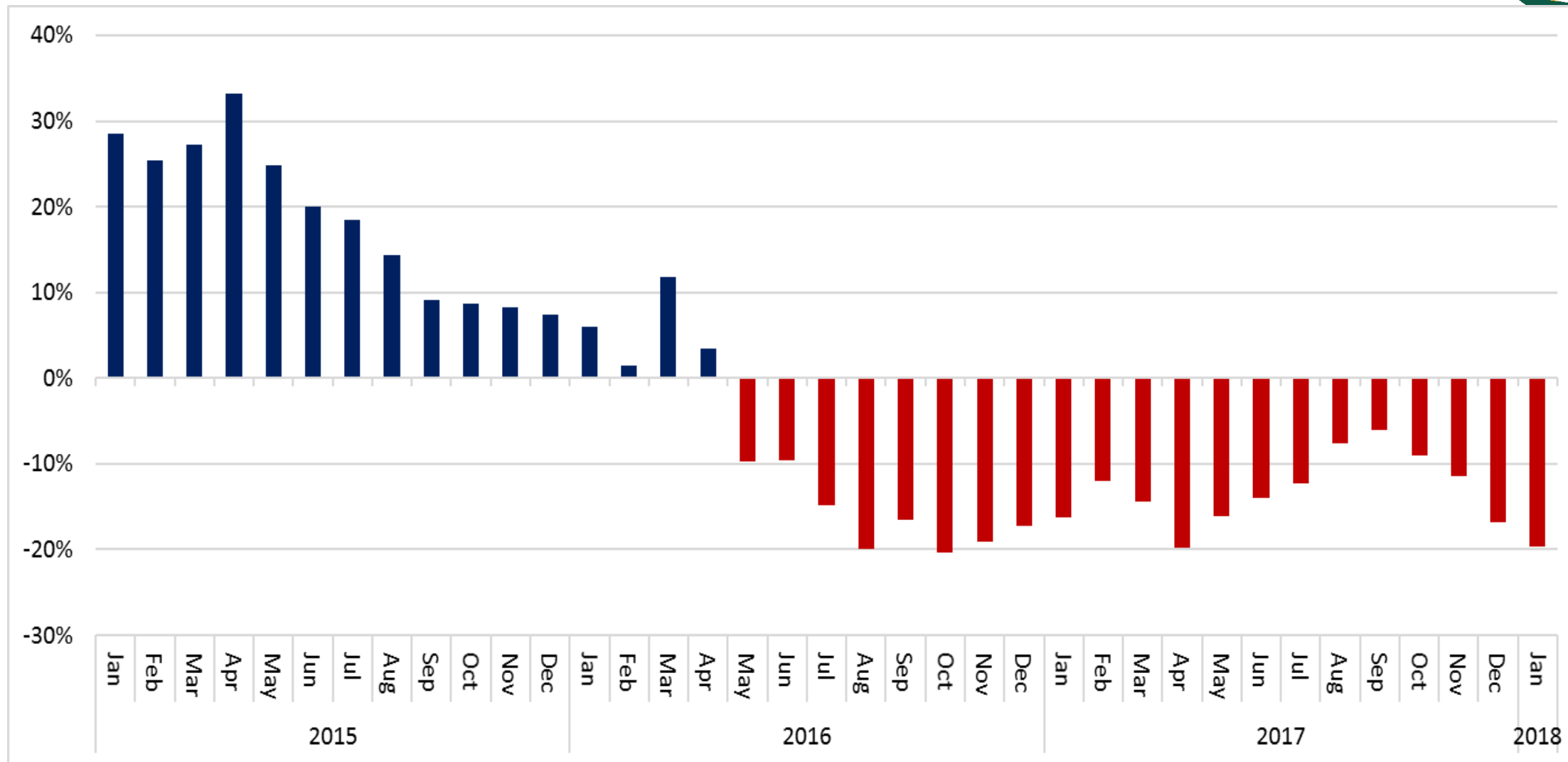
Total 20,000



Prices



Inventory

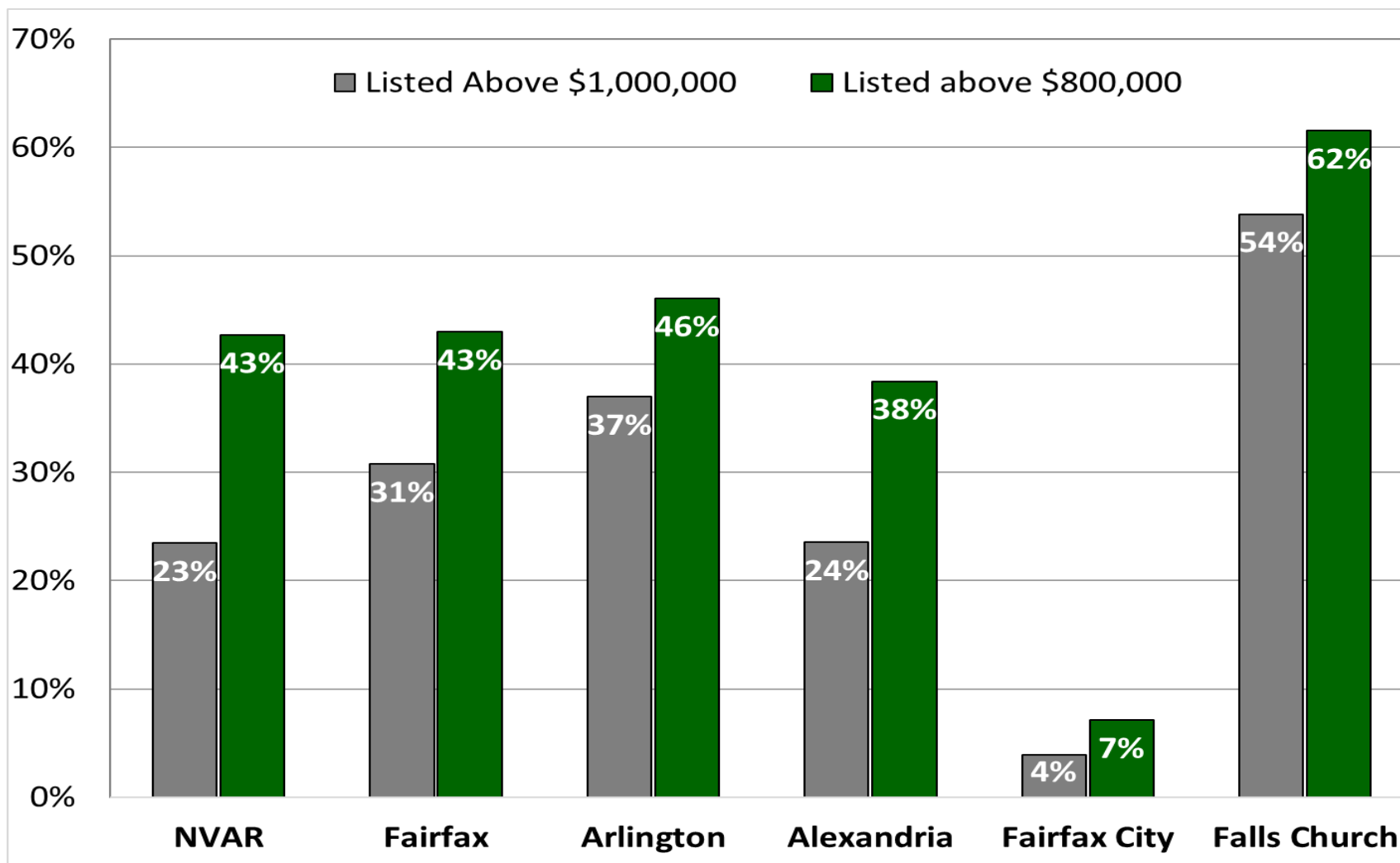


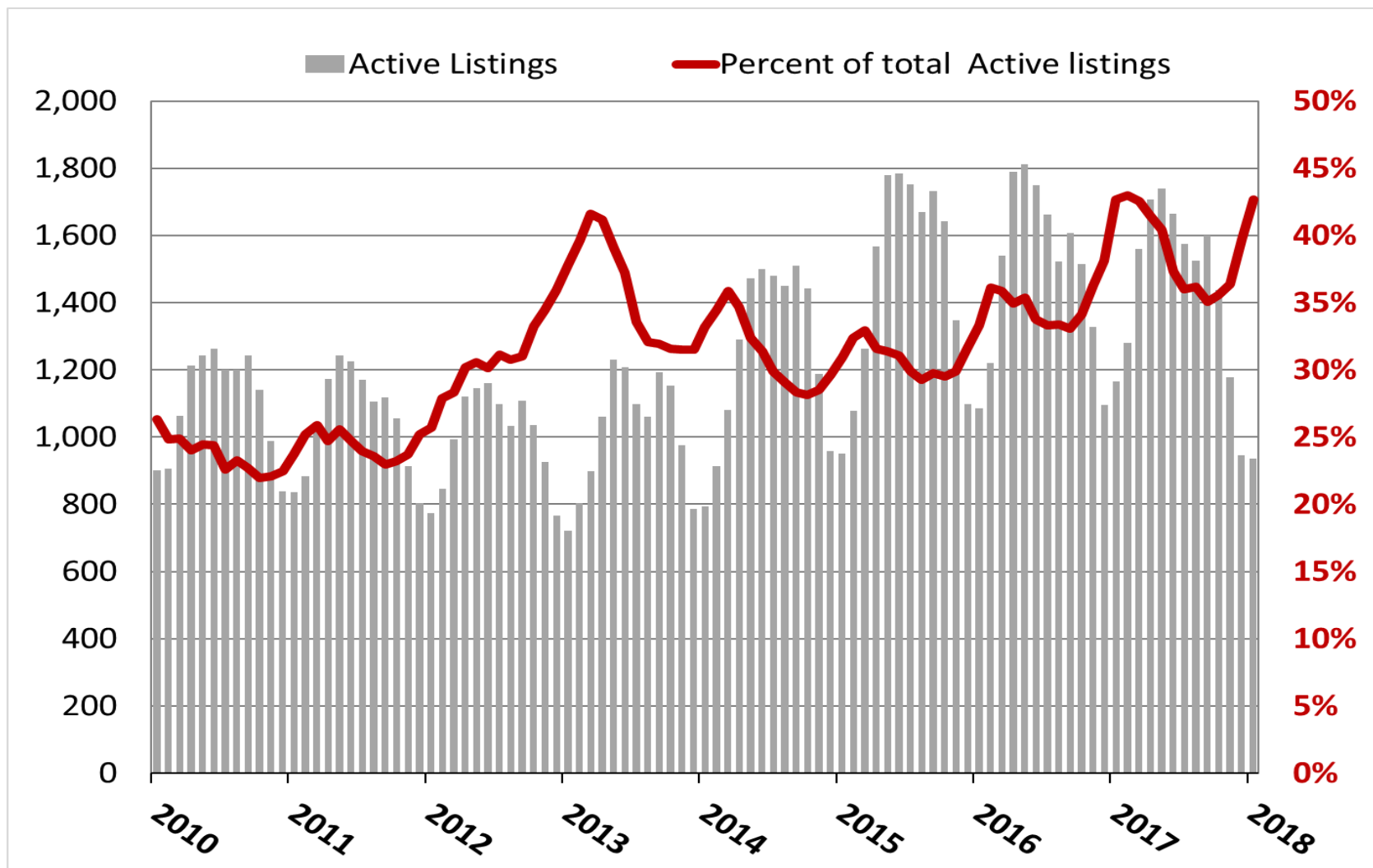
Tax Law Changes Overview

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.

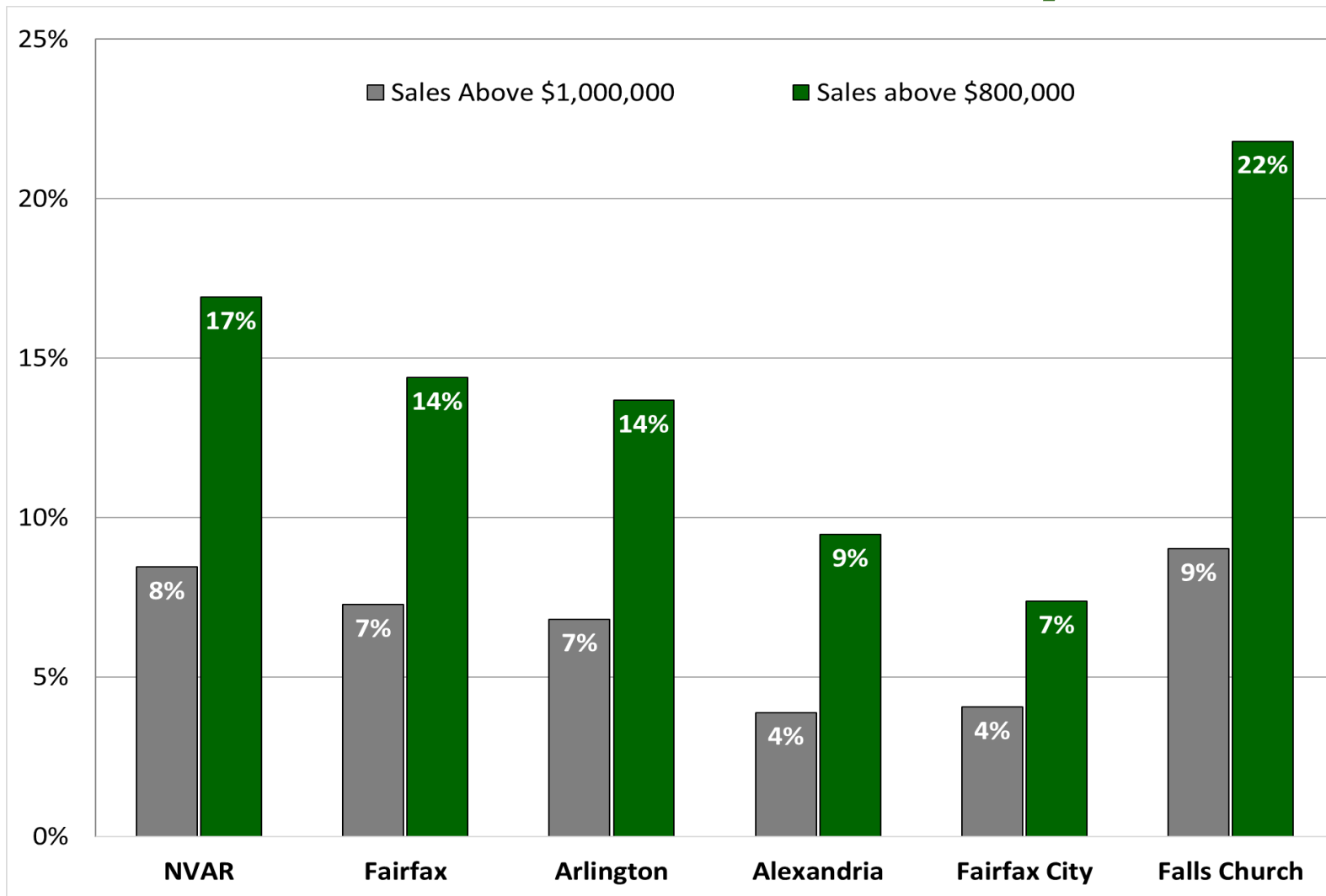
Mortgage Interest Deduction

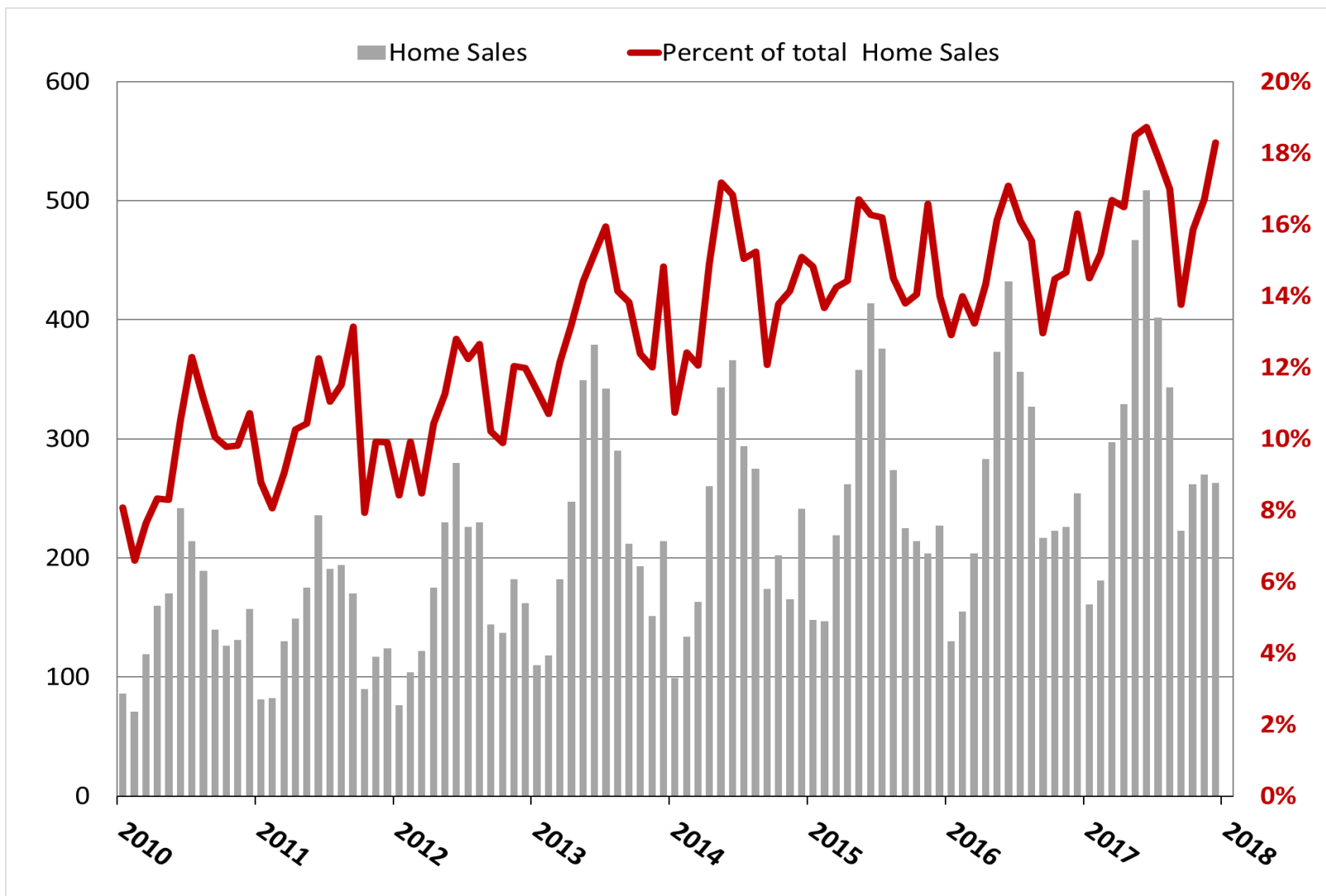
Active Listings



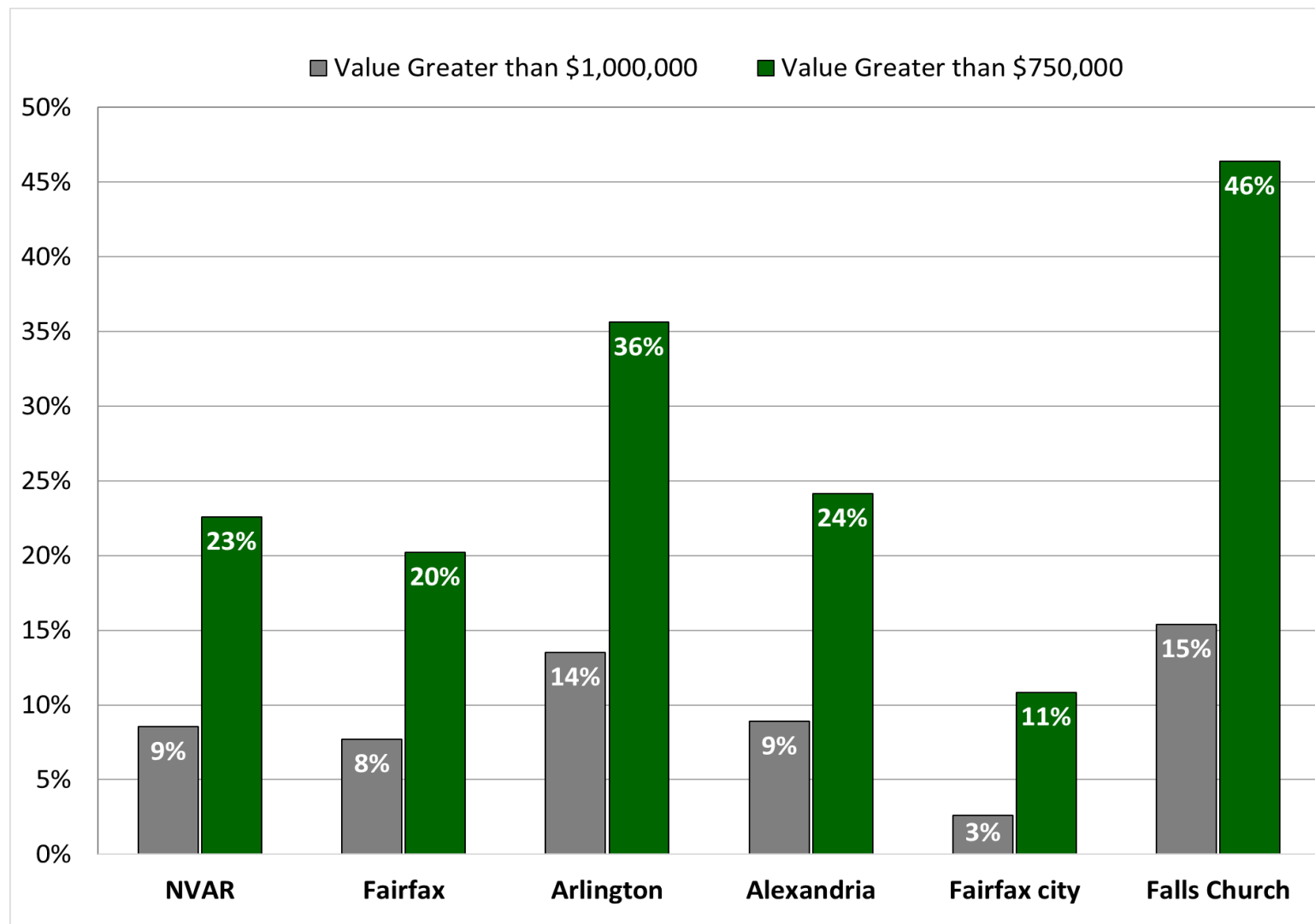


Home Sales in 2017



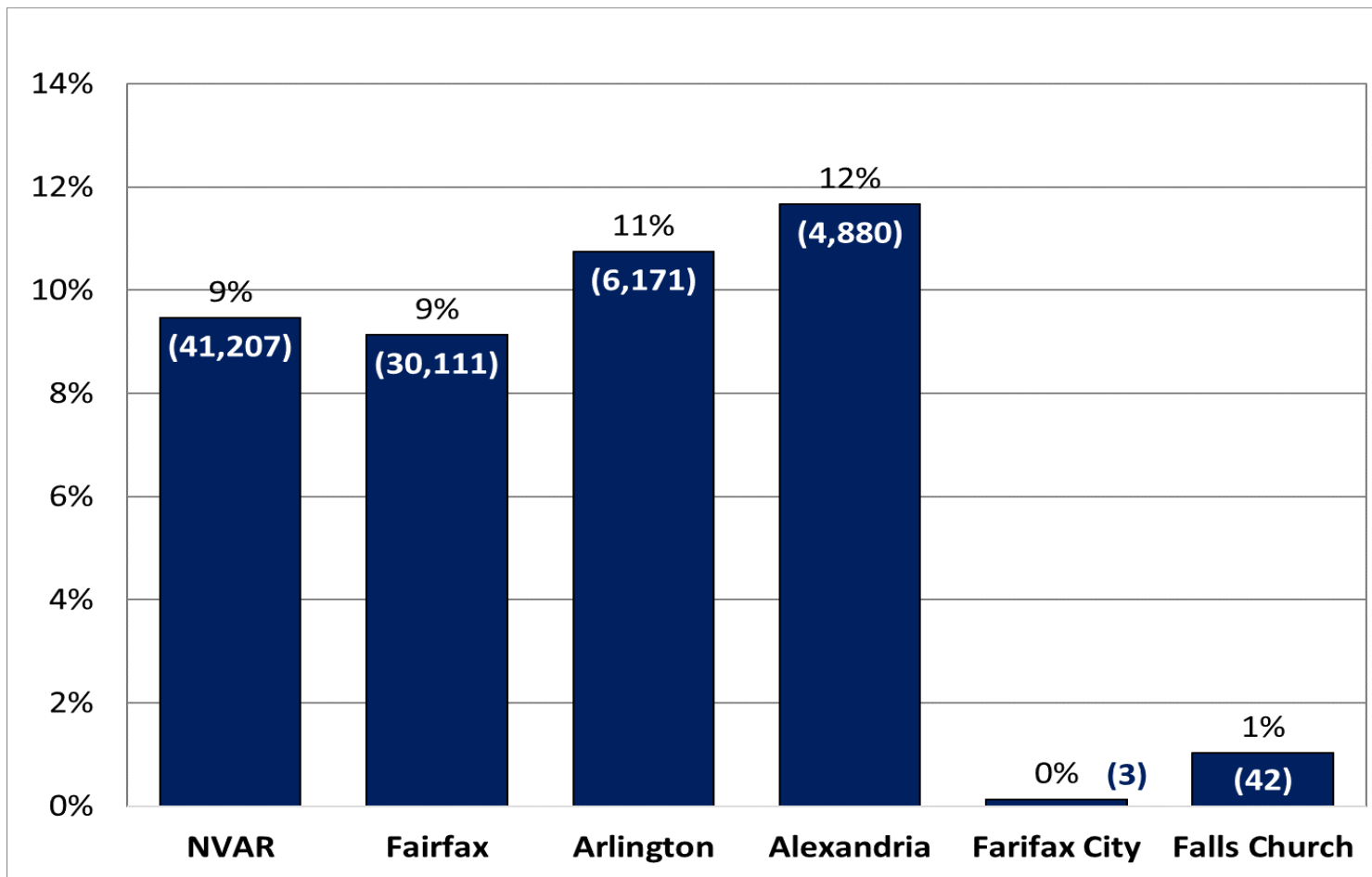


Property Value



SALT Deduction Capped

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



Standard Deduction

A rise in standard deduction diminishes tax incentives for home buying

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

Source: Tax Policy Center, http://www.taxpolicycenter.org/sites/default/files/publication/136906/2001015-effects-of-reforms-of-the-home-mortgage-interest-deduction-by-income-group-and-by-state_o.pdf

- 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.

Source: Zillow, <https://www.zillow.com/research/mortgage-interest-deduction-750k-17620/>

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?

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