Recent Developments and Outlook

NIFA Housing Innovation Marketplace
March 13th, 2018

Michael Neal
Assistant Vice President and Senior Economist
Tax Reform
Tax Reform – Policy Changes and Impacts

- Individual Taxpayers
  - Lower tax rates, with top rate of 37%
    - $1.2 trillion tax cut for rate reduction
  - Personal exemptions eliminated but standard deduction nearly doubles, child credit expands
    - $70 billion tax cut on net basis
  - Housing deductions
    - Fewer itemizers, but offset by larger standard deduction
    - $750K cap for MID, second home rule retained
    - Property tax and income/sales SALT deduction capped at $10,000
  - Capital gain exclusion for principal residences
    - Protected with the existing 2 of 5 year occupancy rule
  - AMT thresholds raised: $637 billion tax cut
  - Estate tax exemption amounts doubled to $11 million per person: $83 billion tax cut
Tax Reform – Policy Changes and Impacts

• Business Taxpayers
  • Special pass-thru deduction of 20%: $415 billion tax cut
  • LIHTC and private activity bonds protected
  • Carried interest now has three-year holding period requirement
  • Business interest deduction protected for real estate
  • Active loss limit of $500K per year against passive income
  • Like kind exchange protected for real estate
  • Completed contract accounting rules protected and expanded
Tax Reform – Policy Changes and Impacts

- Economic impacts
  - GDP
    - Marked up 2018 forecast to 2.7%
    - Dynamic scoring model suggests 0.8% more GDP after 10 years
  - Business investment
    - 1.1% higher after ten years
  - Labor supply and employment
    - 0.6% higher
      - 0.9 million more workers in labor force
  - Reduced home price growth to a positive 2.9% growth rate in 2018
Housing Market
Labor Market Conditions

Job growth is pushing down the unemployment rate
Household Formation

Tenure switching underway

Source: U.S. Bureau of Economic Analysis (BEA).
Inventory of Homes For Sale

Low inventory
Number of Renters Remains Elevated

*Estimate of potential market dynamics tilted toward shortage*

**Number of Renter Households per Available Home**

- **1983-1988 Average:** 16 Renters per available home
- **1992-2002 Average:** 11 Renters per available home
- **2006-2008 Average:** 10 Renters per available home
- **2013-2017 Average:** 21 Renters per available home

Graph shows the number of renter households per available home from 1982 to 2016, with data points indicating a trend towards a higher ratio of renters to available homes.
Supply-side Challenges

Labor, lots, and lumber top the list of headwinds

Top 10 Significant Problems Faced in 2017 and Expect to face in 2018

- Cost/availability of labor: Faced in 2017 82%, Expect in 2018 84%
- Building material prices: Faced in 2017 77%, Expect in 2018 84%
- Cost/availability of developed lots: Faced in 2017 58%, Expect in 2018 60%
- Impact/hook-up/inspection or other fees: Faced in 2017 57%, Expect in 2018 60%
- Inaccurate appraisals: Faced in 2017 47%, Expect in 2018 42%
- Federal environmental regulations and policies: Faced in 2017 44%, Expect in 2018 42%
- Local/state environmental regulations and policies: Faced in 2017 40%, Expect in 2018 45%
- Difficulty obtaining zoning/permit approval: Faced in 2017 40%, Expect in 2018 42%
- Gridlock/uncertainty in Washington making buyers cautious: Faced in 2017 39%, Expect in 2018 42%
- Development standards (parking, setbacks, etc.): Faced in 2017 38%, Expect in 2018 38%

Source: HMI Special Survey, NAHB EcHp.
Nearly two-decade high for builder confidence

Source: Census Bureau and NAHB/Wells Fargo HMI survey.
Existing House Price Index

Local house prices still recovering

United States

2000Q1 = 100, SA
Homeowners’ Equity

 Owners’ equity is expanding
Housing Affordability

Higher prices eroding affordability

United States
Owner Occupied Households

Younger households now account for smallest portion

[Graph showing percentage changes in owner-occupied households by age group from 2000 to 2016.]

Mismatch

Buyers’ expectations not well matched with prices of homes started

Price of Single-family Homes Started in 2015 vs. Price Buyers Expect to Pay

- Less than $100,000: 0% (Price of SF Homes Started), 15% (What Buyers Expect to Pay)
- $100,000 - $149,999: 6% (Price of SF Homes Started), 16% (What Buyers Expect to Pay)
- $150,000 - $249,999: 29% (Price of SF Homes Started), 28% (What Buyers Expect to Pay)
- $250,000 - $349,999: 18% (Price of SF Homes Started), 28% (What Buyers Expect to Pay)
- $350,000 - $499,999: 21% (Price of SF Homes Started), 13% (What Buyers Expect to Pay)
- $500,000 - $999,999: 8% (Price of SF Homes Started), 15% (What Buyers Expect to Pay)
- $1 million and over: 1% (Price of SF Homes Started), 2% (What Buyers Expect to Pay)

Medians
- Expect to Pay: $219,896
- 2015 SF Starts: $298,800

Sources: NAHB tabulation of data from the Survey of Construction, U.S. Census Bureau and HUD
2015 Home Buyer Preference Survey, NAHB
## State Housing Conditions

*State indicators suggest strong demand, but not enough of single-family homes built*

<table>
<thead>
<tr>
<th></th>
<th>Normal</th>
<th>Trough</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>969 (Peak)</td>
<td>945 (97%)</td>
<td>1,028 (106%)</td>
</tr>
<tr>
<td>SF Permits</td>
<td>7,239</td>
<td>3,597 (50%)</td>
<td>5,609 (77%)</td>
</tr>
<tr>
<td>MF Permits</td>
<td>2,573</td>
<td>598 (23%)</td>
<td>3,310 (129%)</td>
</tr>
<tr>
<td>HP Index</td>
<td>198 (Peak)</td>
<td>189 (96%)</td>
<td>248 (125%)</td>
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</table>
GDP Growth

Growth expected to accelerate in 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Potential</th>
<th>Actual</th>
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</thead>
<tbody>
<tr>
<td>1950-2007</td>
<td>3.5%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>
Mortgage Rates

Rates expected to rise

Federal Funds Rate  Yield Curve  Mortgage Risk Premium

Mortgage Rates
8.1%
2.0%  7.0%  6.5%
5.8%  5.8%  5.9%
6.4%  6.3%  6.0%
5.0%  4.7%  4.4%
3.7%  4.0%  4.2%
3.9%  3.7%  4.0%
4.8%  5.2%

0.5%
1.8%  1.3%  1.0%
2.3%  2.0%  1.8%
3.0%  3.4%  3.3%
4.3%  5.3%  2.0%
1.8%  1.5%  1.7%
1.9%  1.7%  2.2%
2.4%  2.4%  2.4%
3.7%  1.7%  1.8%
4.8%  2.1%  2.9%

NAHB
National Association of Home Builders
## Single-Family Home Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth</th>
<th>Existing</th>
<th>New</th>
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<tbody>
<tr>
<td>2017</td>
<td>2%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>1%</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>2%</td>
<td>8%</td>
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</tr>
</tbody>
</table>

![Bar Chart](image-url)

- **Existing Single-family Home Sales**
- **New Home Sales**
Starts Expected to Normalize

Single-family starts expected to grow, multifamily starts expected to slow

<table>
<thead>
<tr>
<th>Year</th>
<th>SF (Growth)</th>
<th>MF (Growth)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>9%</td>
<td>-9%</td>
</tr>
<tr>
<td>2018</td>
<td>5%</td>
<td>-1%</td>
</tr>
<tr>
<td>2019</td>
<td>6%</td>
<td>-1%</td>
</tr>
</tbody>
</table>
S&P/Case-Shiller National US Home Price Index

Yearly Changes (%): 2000 - 2019

- 2000: 8.7%
- 2001: 8.0%
- 2002: 8.0%
- 2003: 9.4%
- 2004: 12.5%
- 2005: 14.2%
- 2006: 6.8%
- 2007: -1.9%
- 2008: -8.8%
- 2009: -9.5%
- 2010: -2.6%
- 2011: -3.7%
- 2012: 1.3%
- 2013: 9.6%
- 2014: 6.6%
- 2015: 4.6%
- 2016: 5.1%
- 2017: 5.9%
- 2018: 3.1%
- 2019: 4.1%
Residential Remodeling
Strong market conditions

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<td>2017</td>
</tr>
<tr>
<td>2018</td>
</tr>
<tr>
<td>2019</td>
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Thank you

Questions?
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