

Housing Outlook After Tax Reform



Greater Houston Builders Association
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Tax Reform – Policy Changes and Impacts

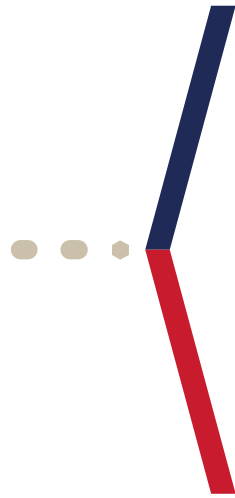
- Individual Taxpayers
 - Lower tax rates, with top rate of 37%
 - \$1.2 trillion tax cut for rate reduction
 - Personal exemptions eliminated but standard deduction nearly doubles, child credit expands
 - \$70 billion tax cut on net basis
 - Housing deductions
 - Fewer itemizers, but offset by larger 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

Tax Reform – Policy Changes and Impacts

- Individual Taxpayers
 - AMT thresholds raised: \$637 billion tax cut
 - Estate tax exemption amounts doubled to \$11 million per person: \$83 billion tax cut
- 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

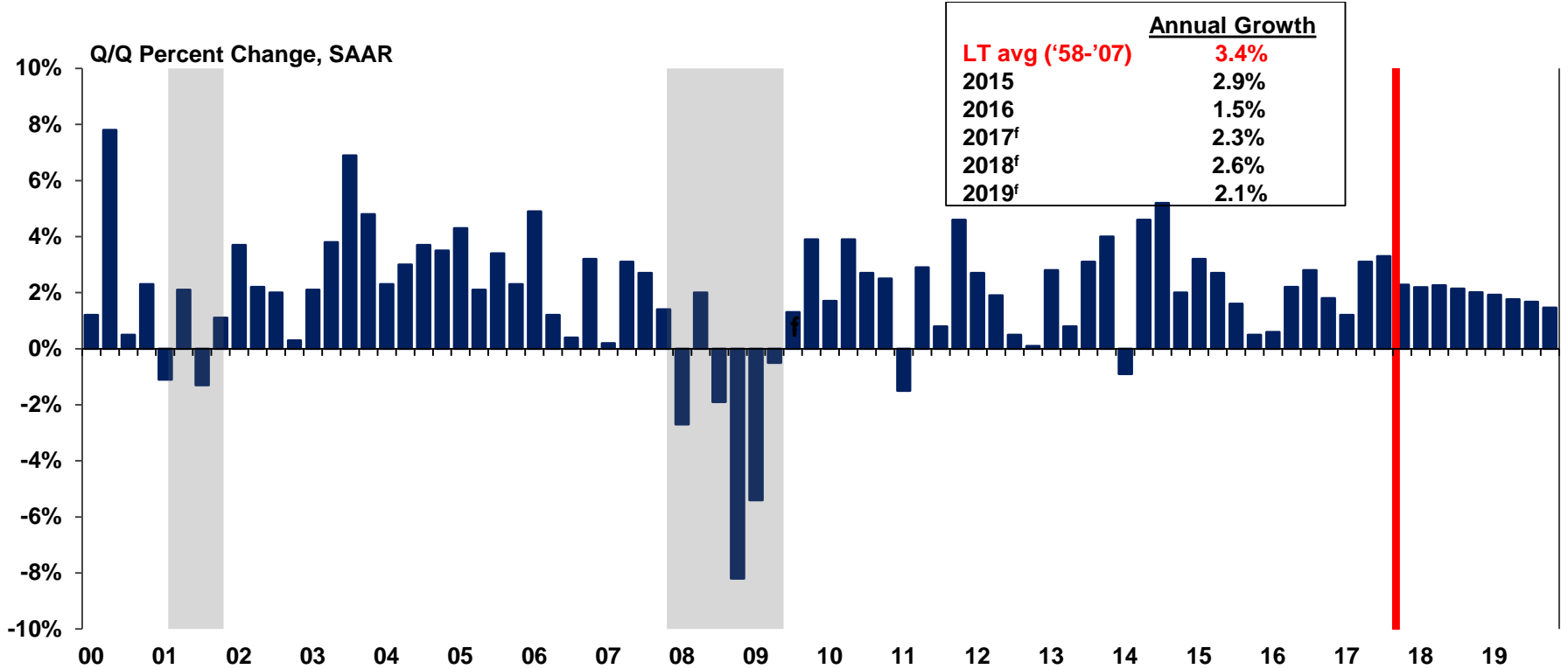
- Economic impacts
 - GDP
 - Marked up 2018 forecast to 2.6%
 - Dynamic scoring model suggests 0.8% more GDP after 10 years
 - Business investment
 - 1.1% higher after ten years
 - Labor supply and employment
 - 0.6% higher
 - 0.9 million more workers in labor force
 - Reduced home price growth to a positive 2.9% growth rate in 2018



Macroeconomics

GDP Growth

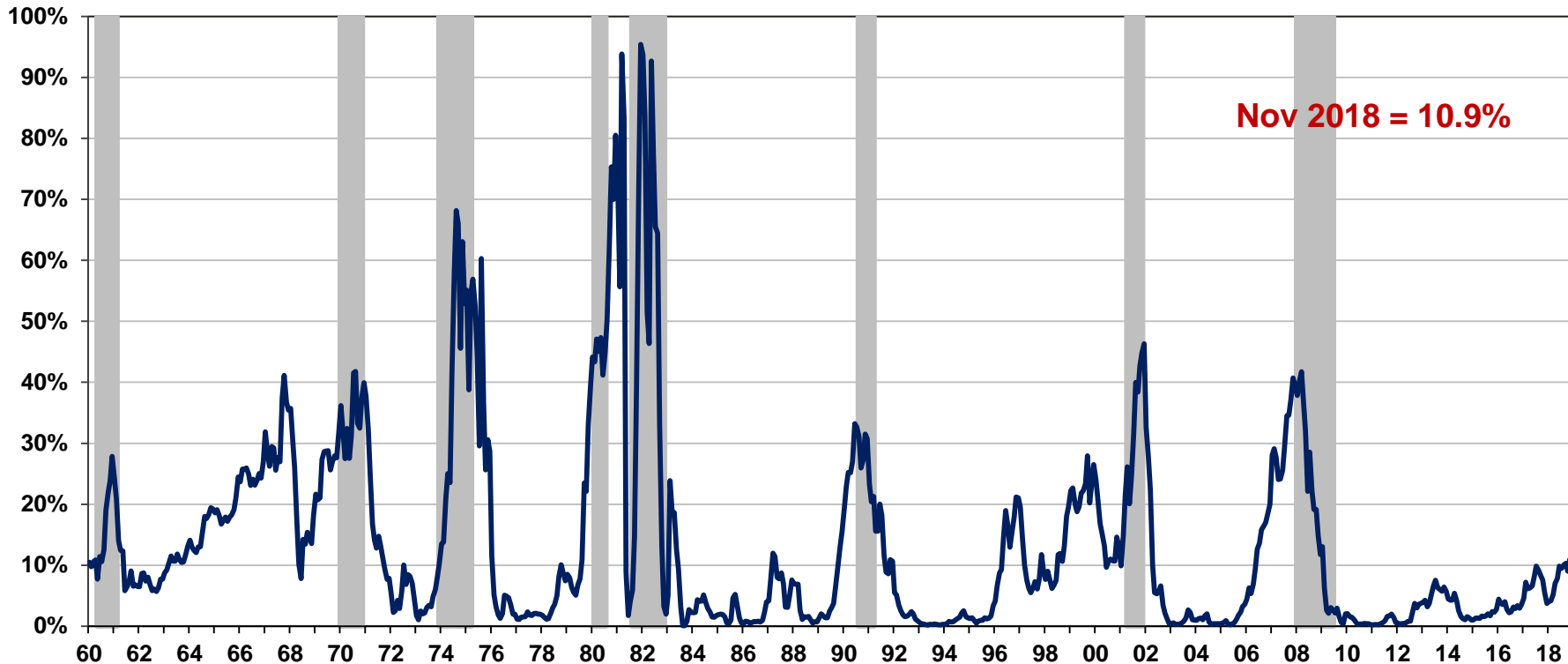
Stronger growth expected post-tax reform



Source: U.S. Bureau of Economic Analysis (BEA).

Probability of US Recession

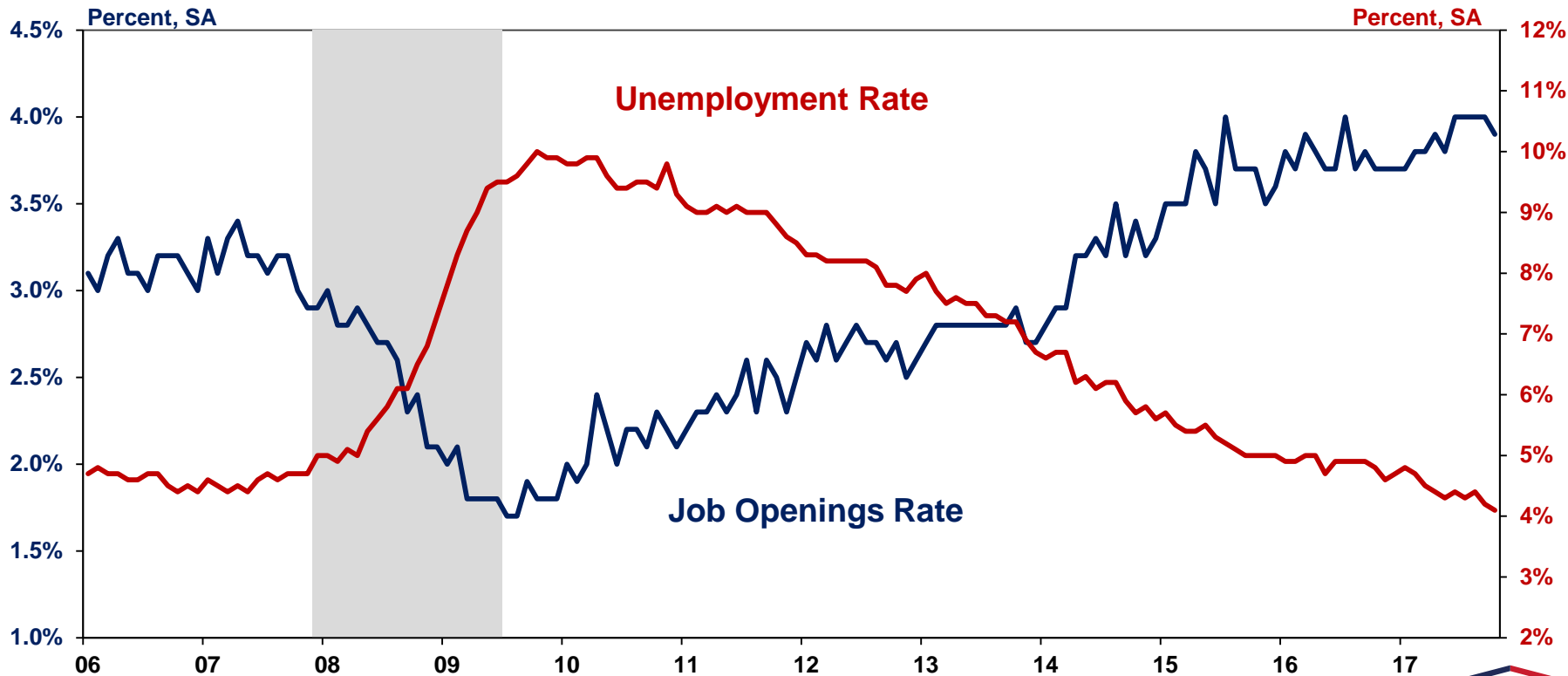
Recession probability small for 2018



Source: NAHB calculations and Federal Reserve Bank of New York data.

Tight Labor Market

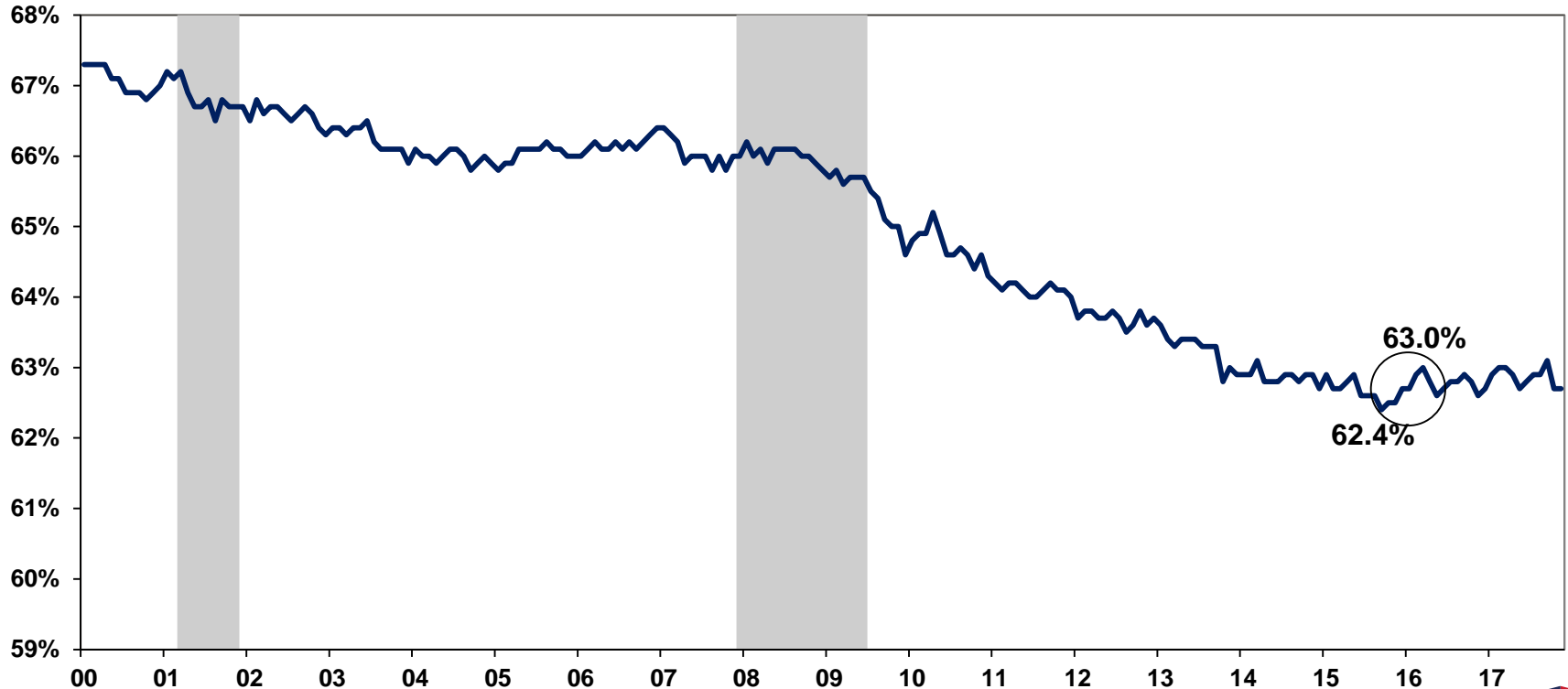
How low can unemployment go?



Source: U.S. Bureau of Labor Statistics (BLS).

Labor Force Participation Rate

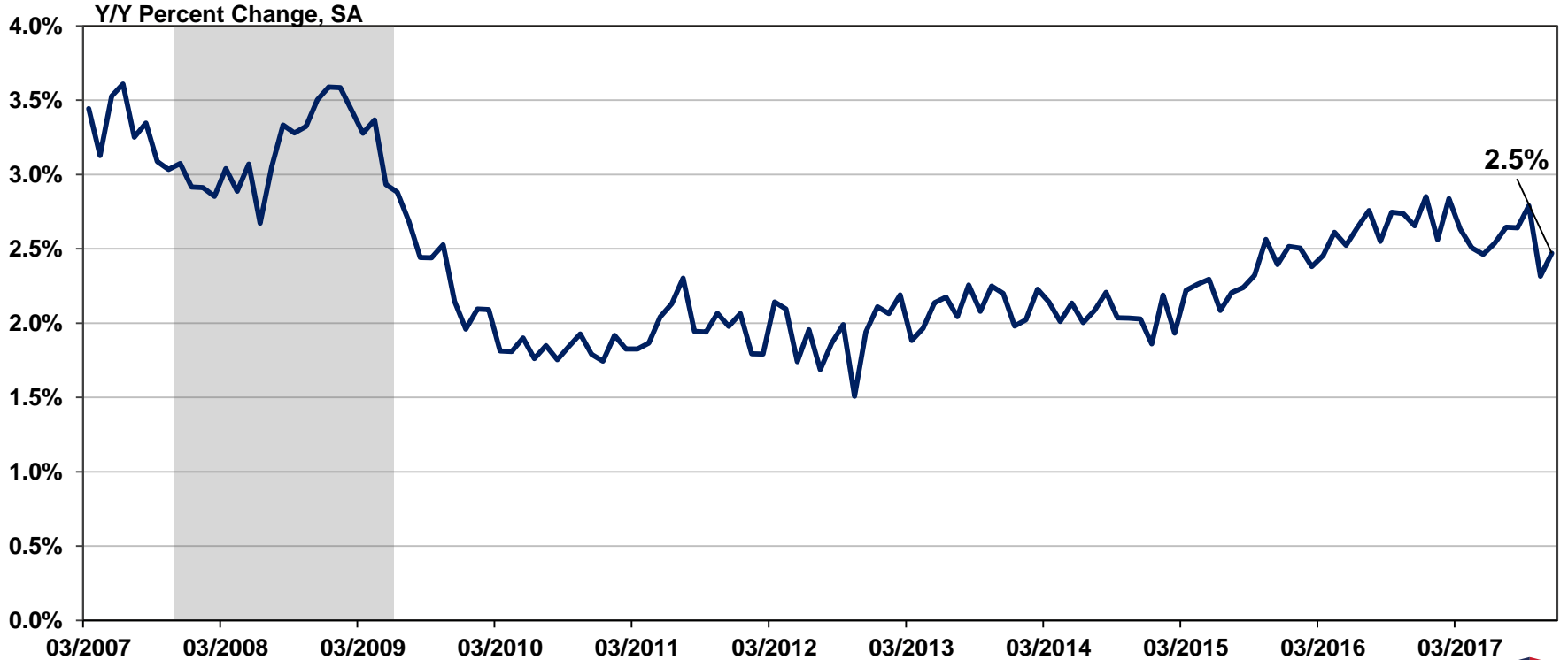
Stabilized labor force participation key to future growth



Source: U.S. Bureau of Labor Statistics (BLS).

Average Hourly Wages

Tight labor market plus tax reform should boost wage growth



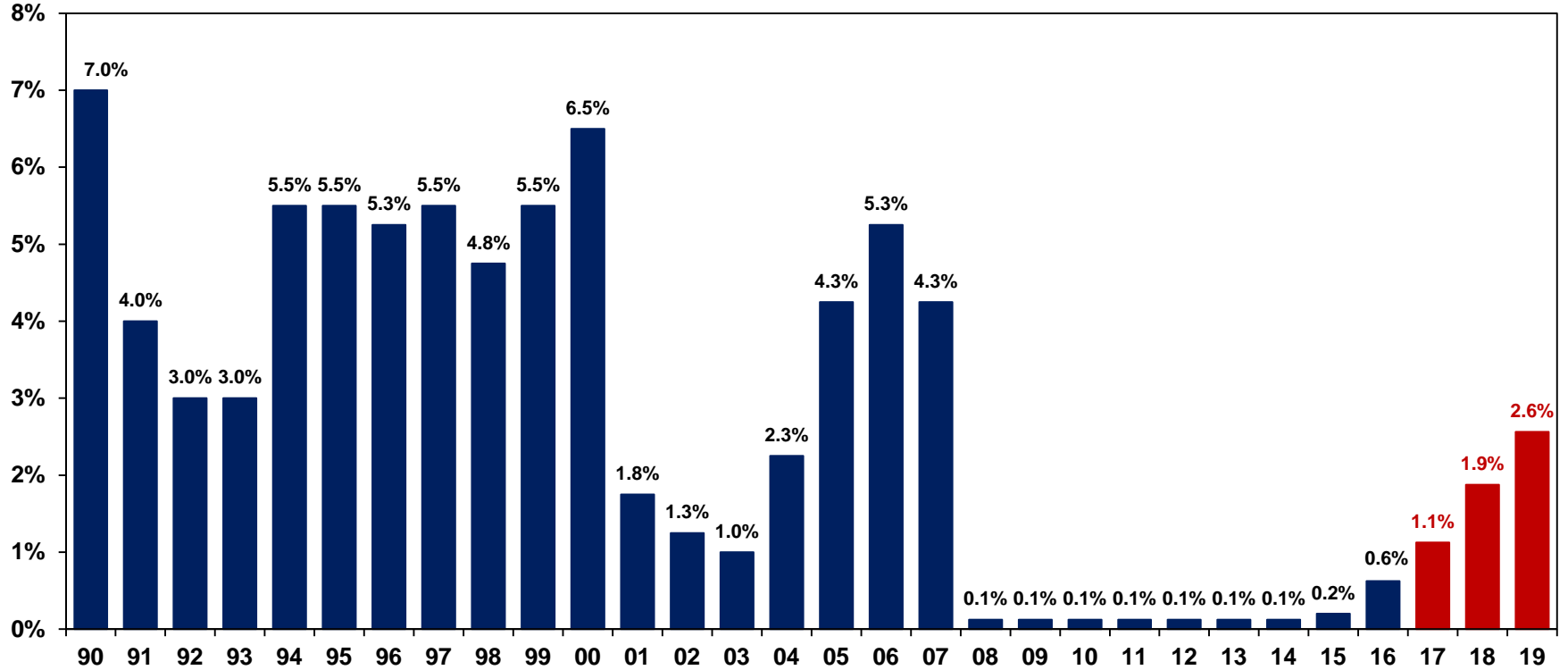
Source: U.S. Bureau of Labor Statistics (BLS).



Interest Rates and Demand

Target Federal Funds Rate

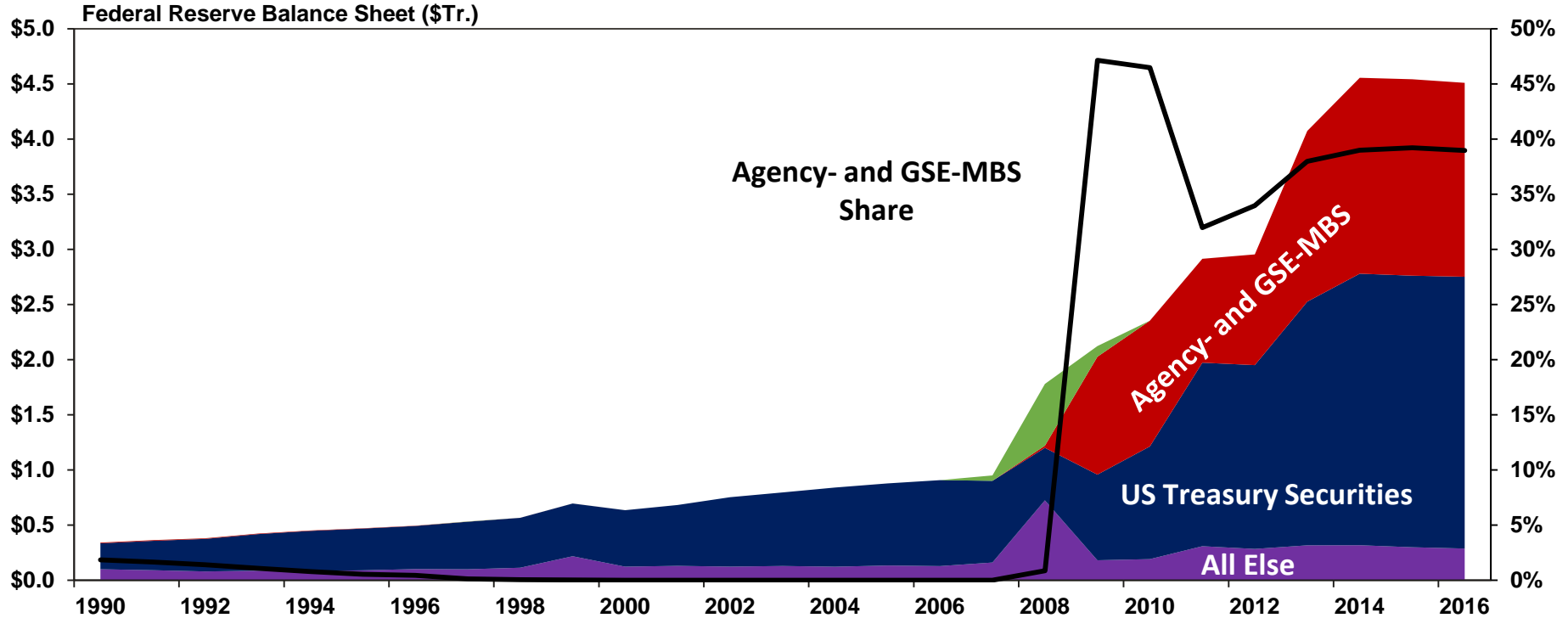
Fed will continue to raise rates



Source: NAHB forecast and Federal Reserve data.

Federal Reserve Balance Sheet

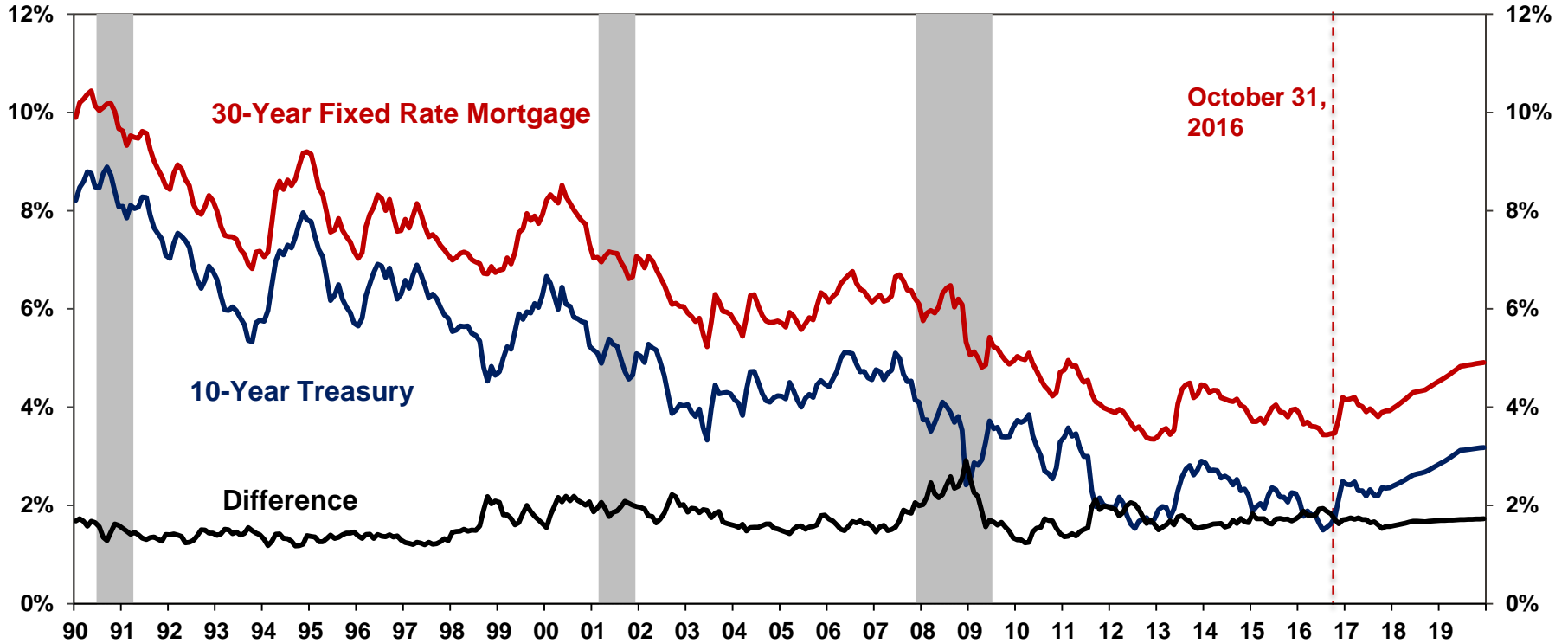
Balance sheet reduction underway



Source: U.S. Board of Governors of the Federal Reserve System (FRB).

30-Year Fixed Rate and 10-Year Treasury

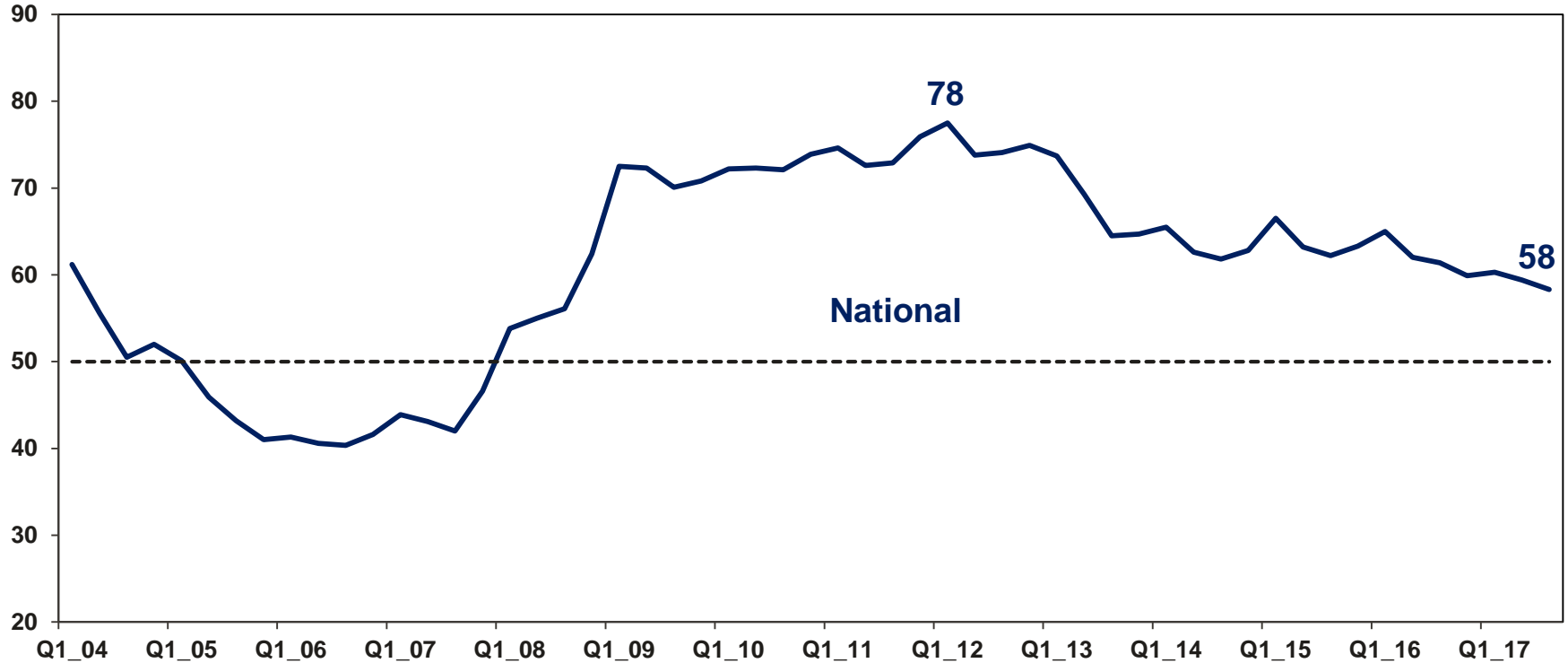
Rates will rise due to Fed policy and tight labor markets



Source: NAHB forecast and Federal Reserve and Freddie Mac data.

Housing Affordability

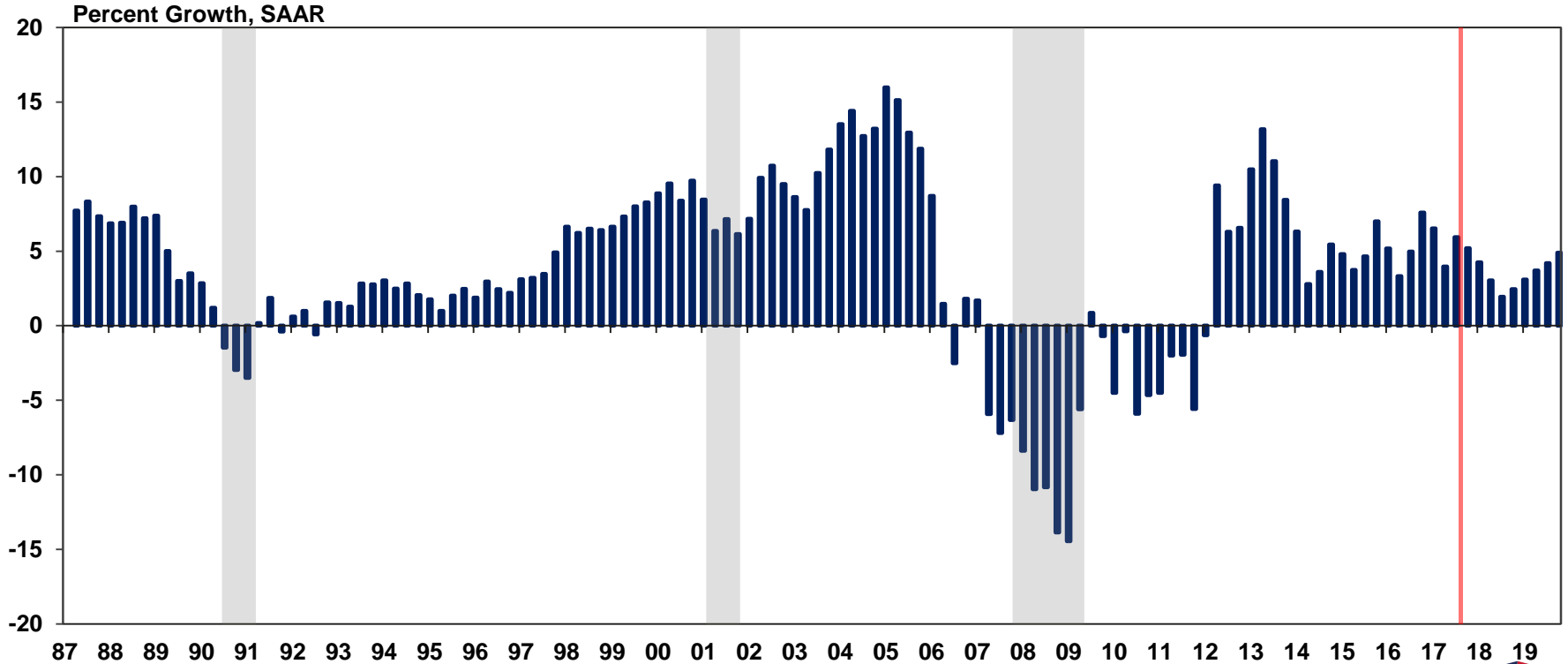
Affordability declining



Source: NAHB/Wells Fargo Housing Opportunity Index.

S&P/Case-Shiller National US Home Price Index

Prices growing faster than income



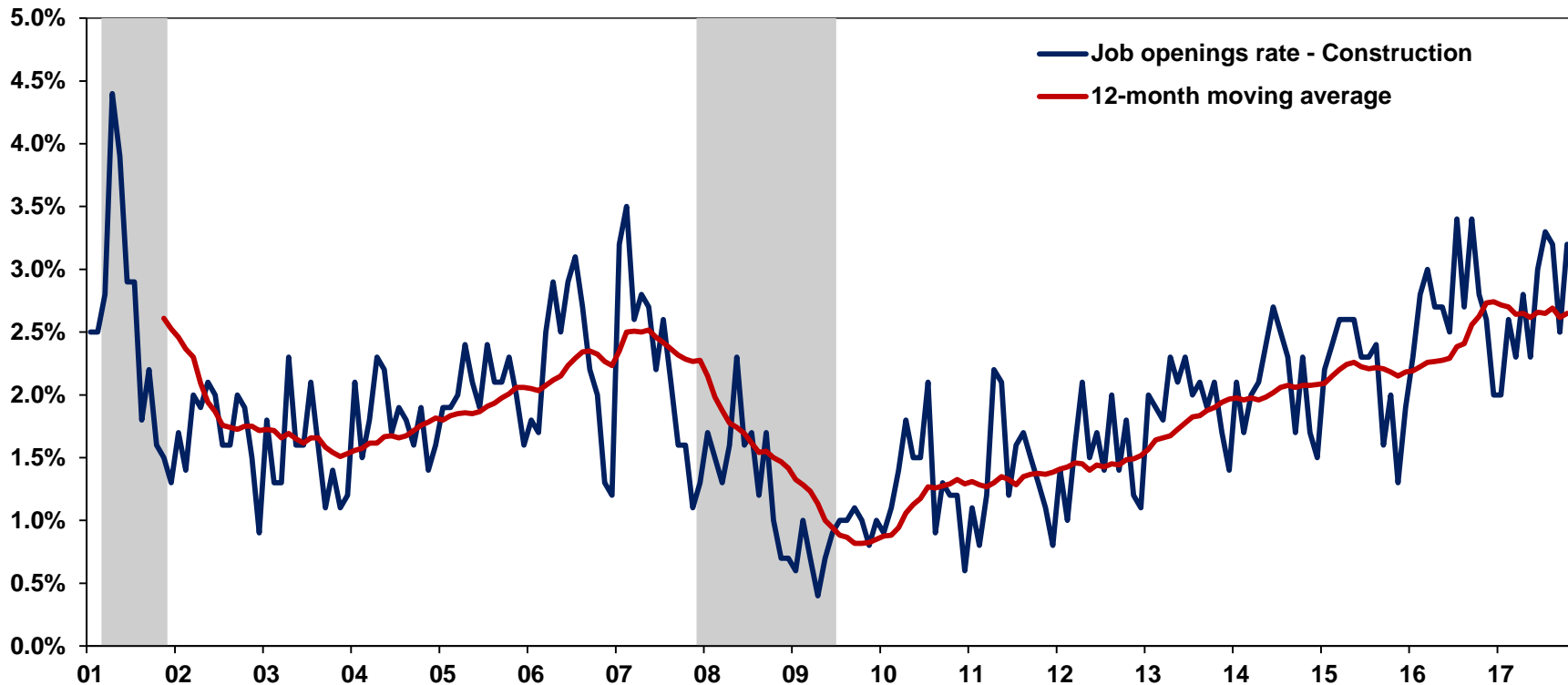
Source: NAHB forecast and S&P Dow Jones Indices LLC; CoreLogic, Inc..



Supply-Side Headwind Update

Labor

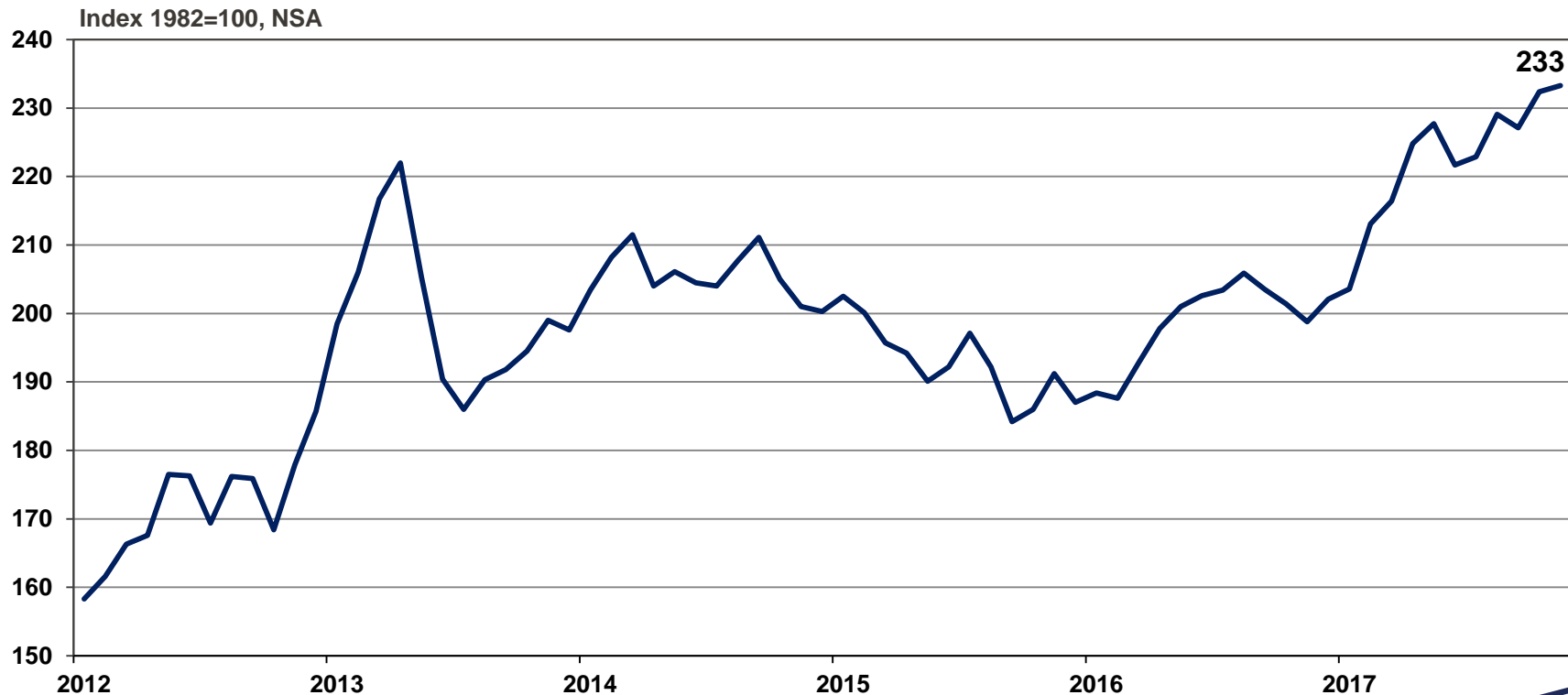
Elevated count of unfilled construction jobs



Source: U.S. Bureau of Labor Statistics (BLS).

Building Materials – Softwood Lumber

Since January 2017, softwood lumber increased 14.6%



Source: U.S. Bureau of Labor Statistics (BLS).

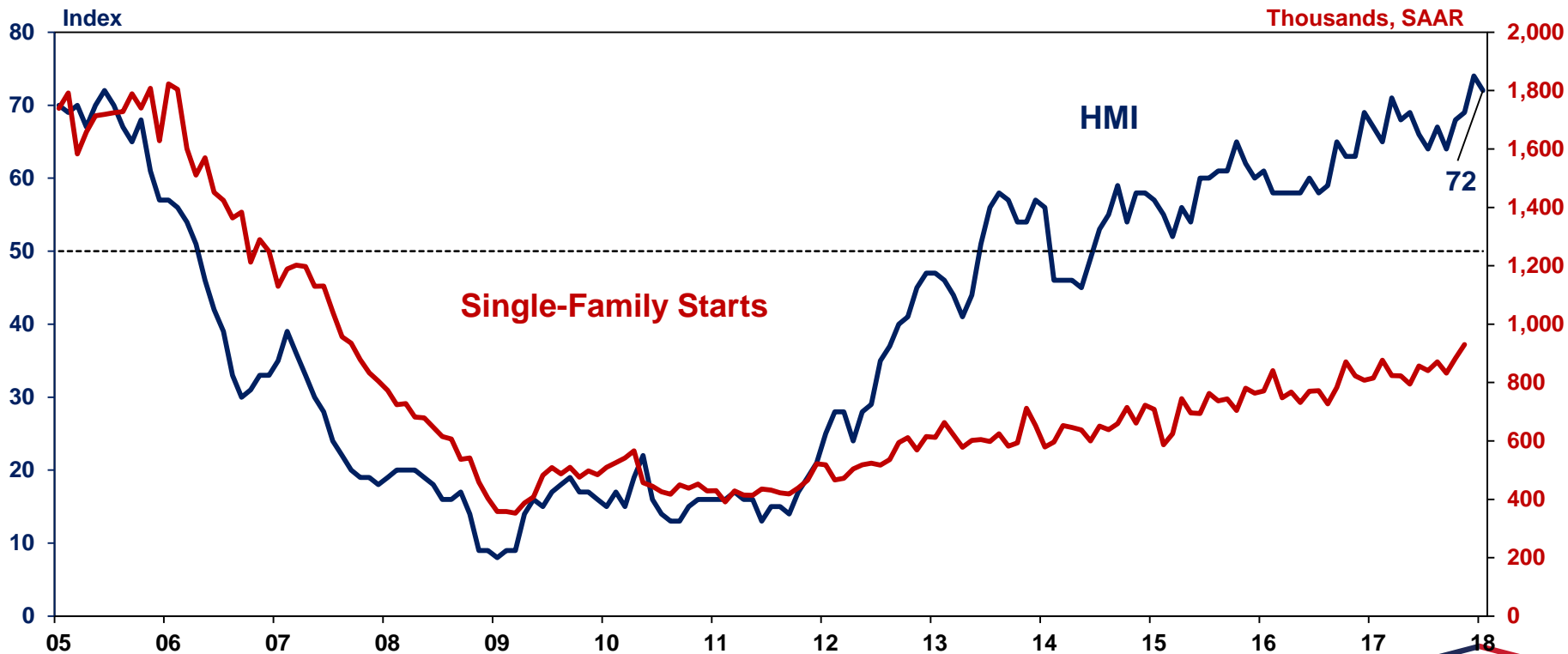


Forecasts



NAHB/Wells Fargo Housing Market Index

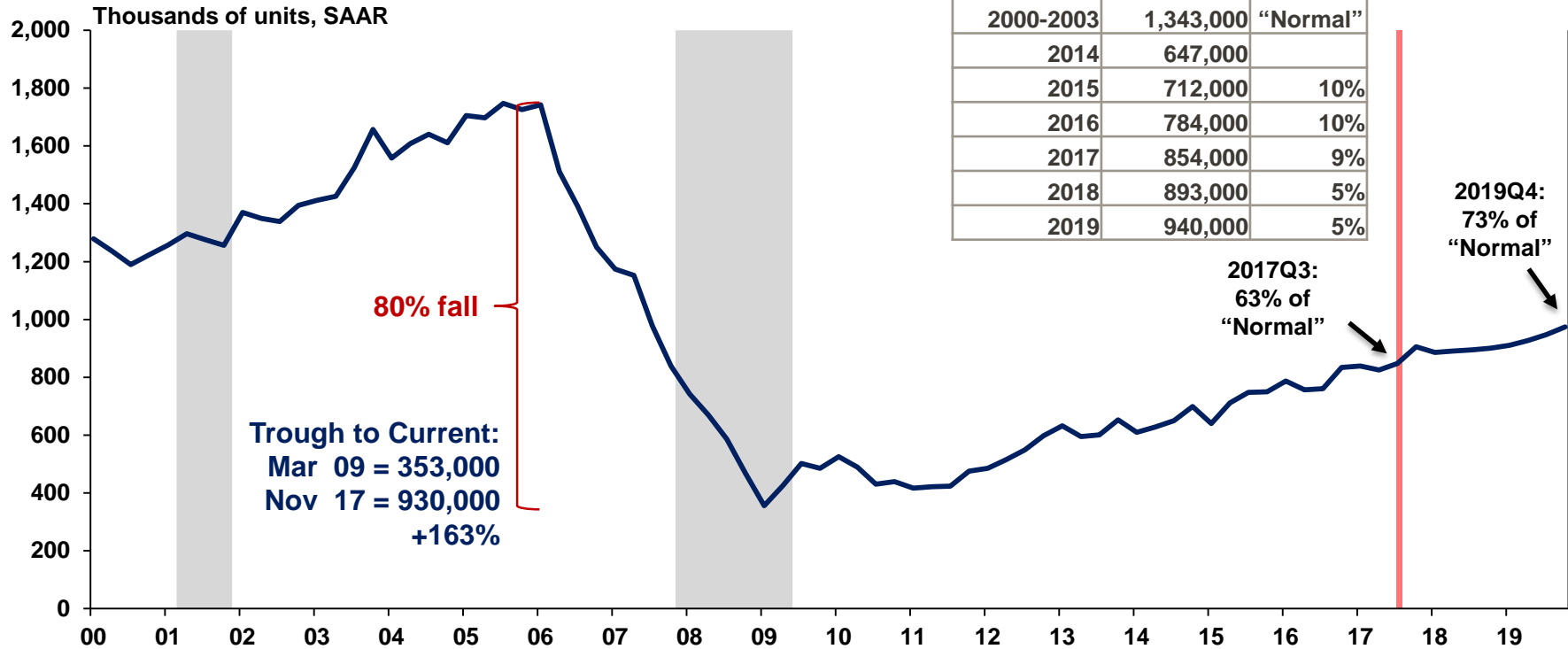
Nearly two-decade high for builder confidence



Source: Census Bureau and NAHB/Wells Fargo HMI survey.

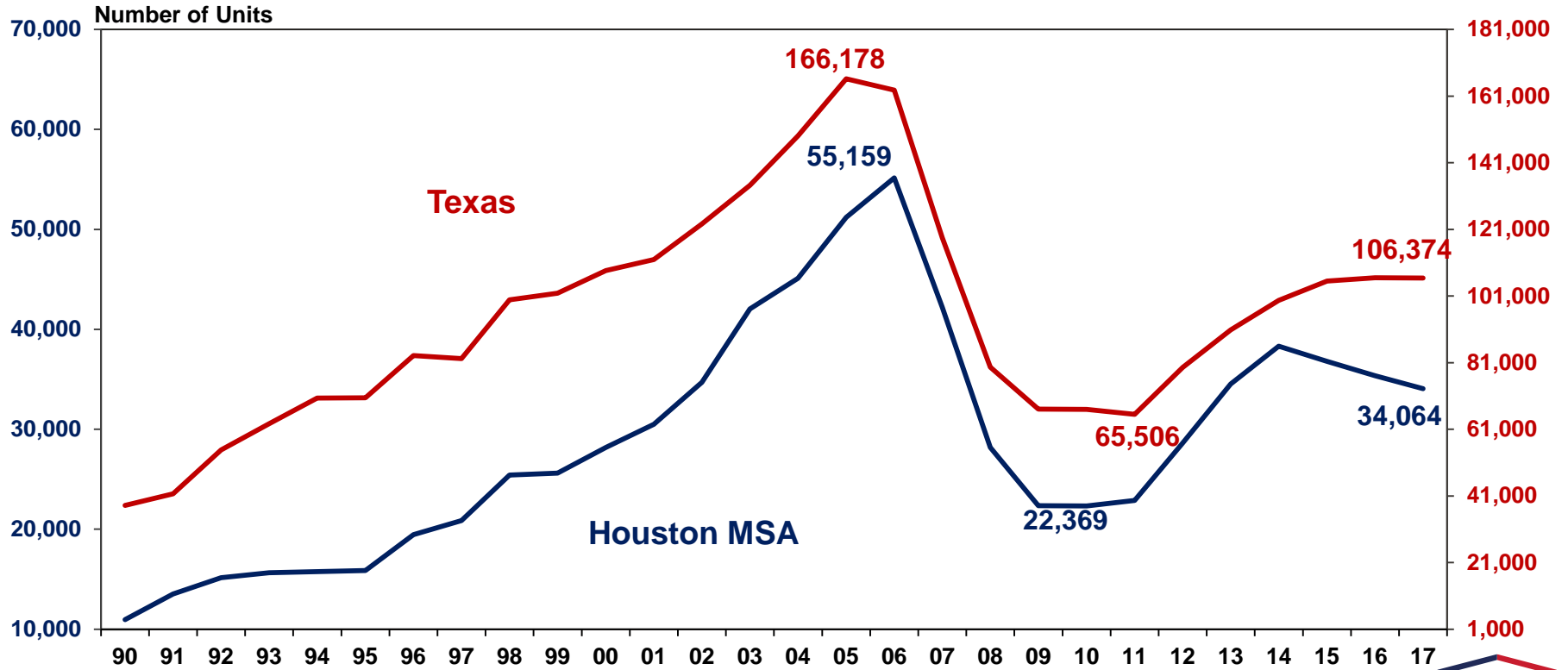
Single-Family Starts

Growth ahead



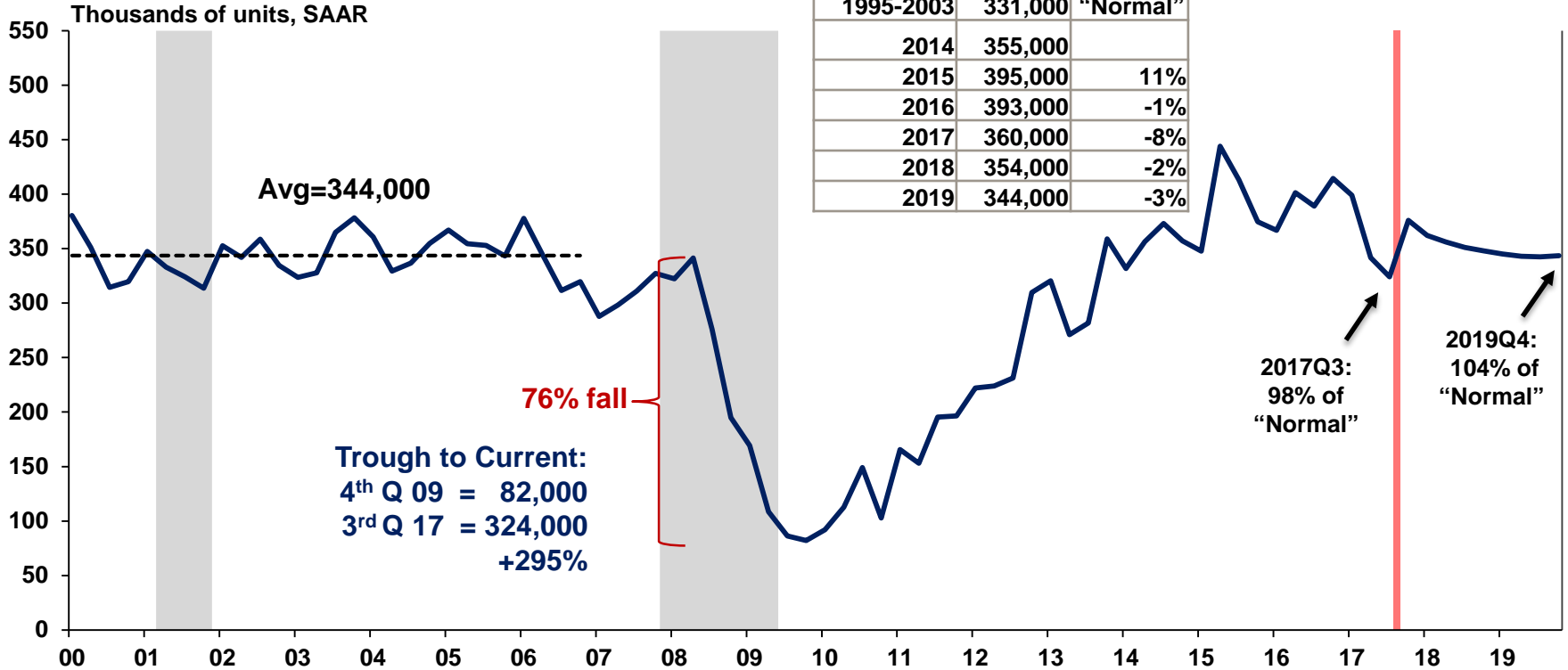
Source: Census Bureau and NAHB forecast.

Single-Family Building Permits – Houston MSA



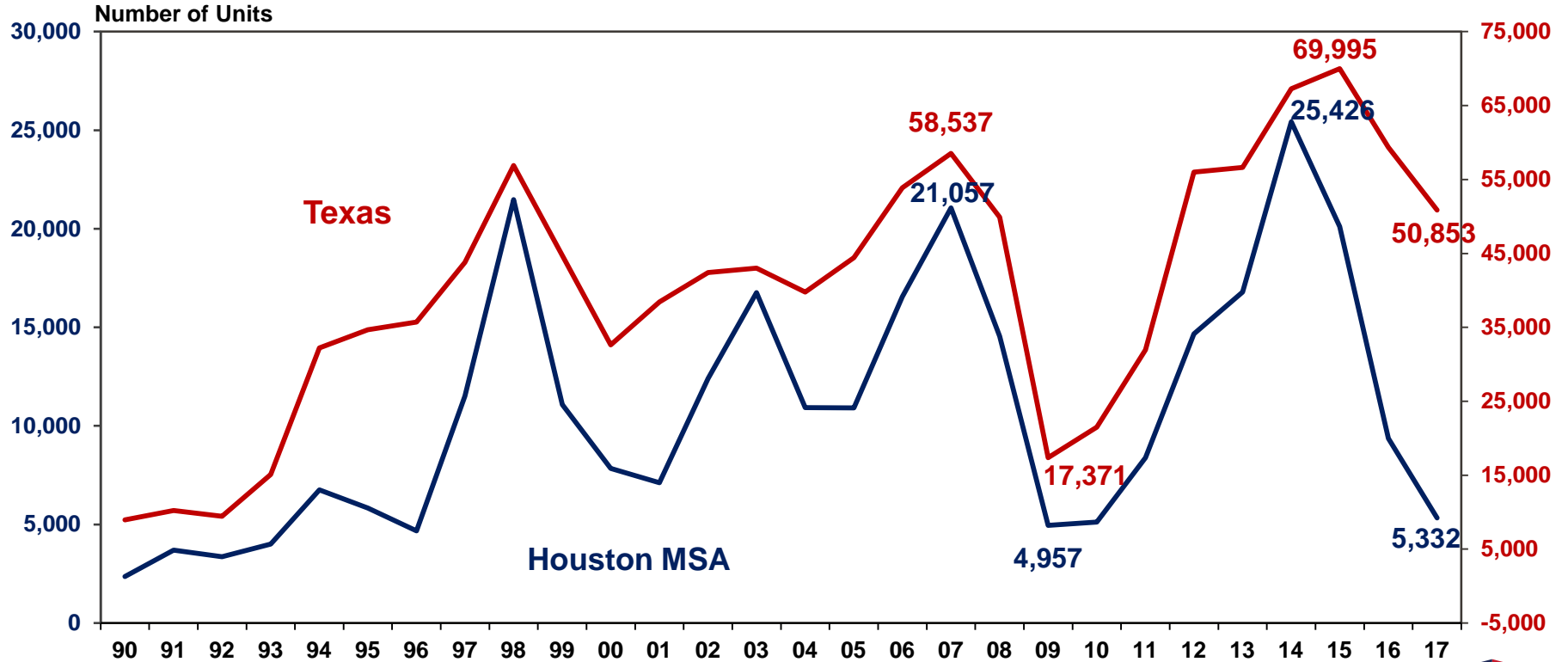
Multifamily Housing Starts

Leveling off



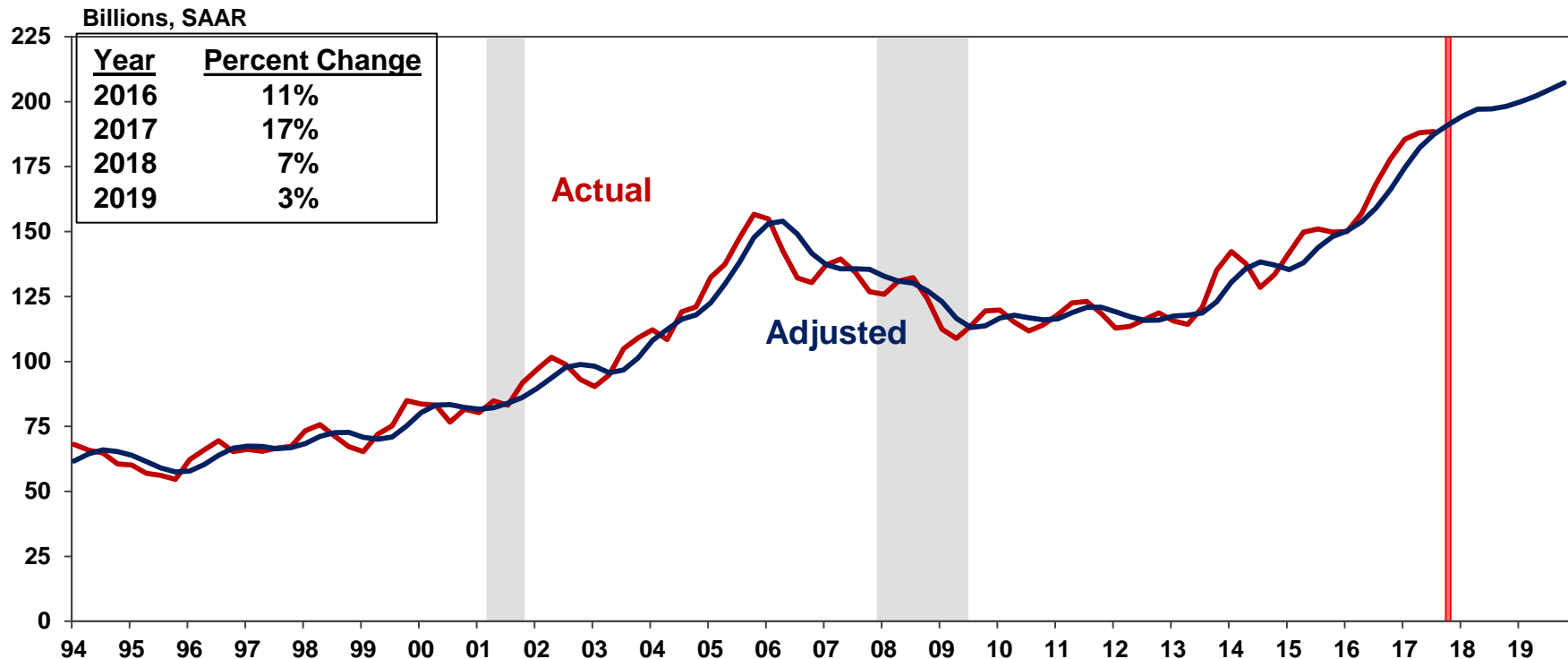
Source: Census Bureau and NAHB forecast

Multifamily Building Permits –Houston MSA



Residential Remodeling

Strong market conditions



Source: Census Bureau and NAHB forecast.

Thank you

Questions?

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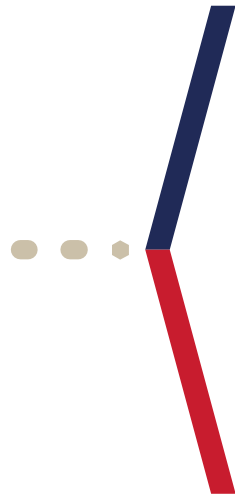
@dietz_econ



Economic Leadership Sponsor

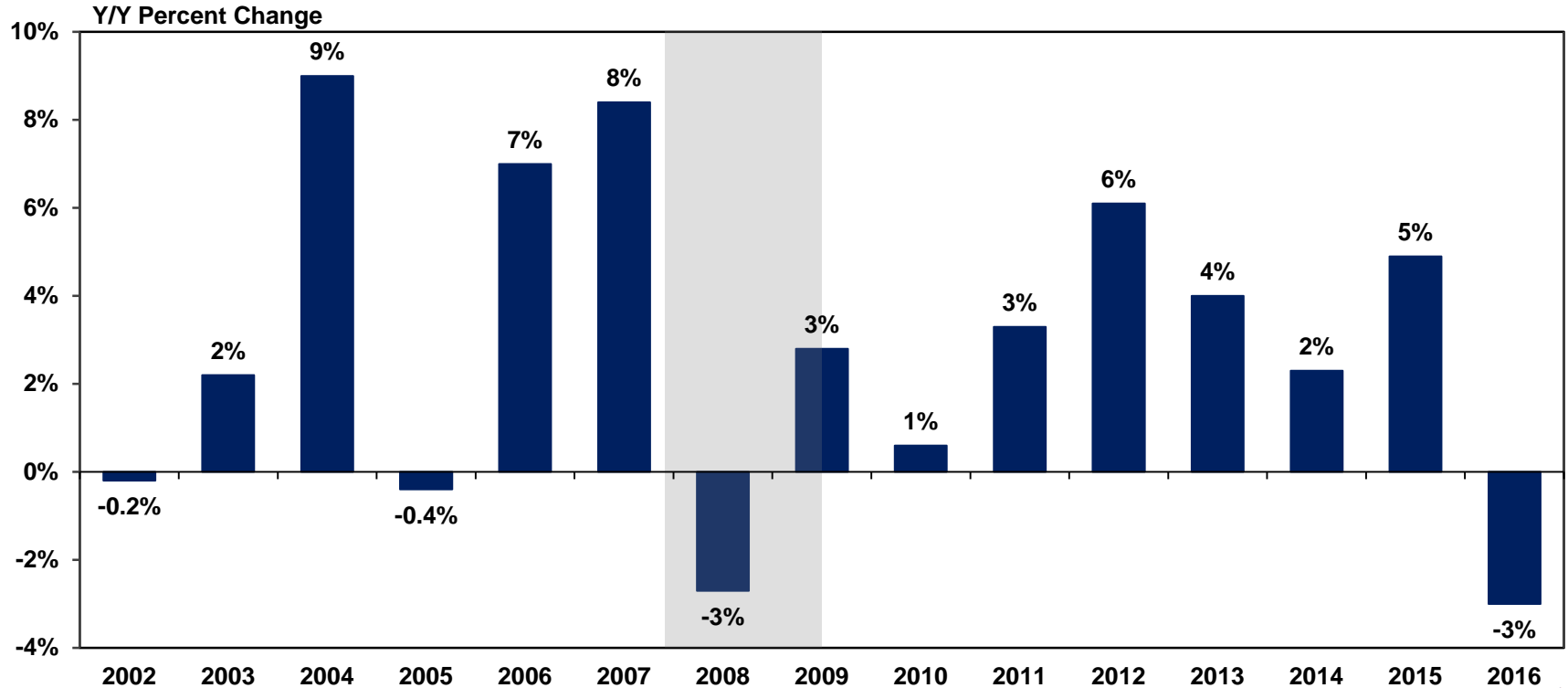


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Local Look

Houston MSA GDP Growth



Texas GDP Growth

