Real Estate Update

Volume 17 Issue 4 April 2023

THIS NEWSLETTER IS BROUGHT TO YOU BY:

John Doe
Senior Loan Officer
Ajax Mortgage
111 Mortgage Way
Mortgagetown, MD, 11111
(301) 555-1212
(800) 555-5555
Ajaxmrtg.com

Specializing in

- ☑ **Residential Purchases**
- ☑ **Residential Refinances**
- ☑ **Commercial Properties**
- ☑ **Home Equity Loans**

Can The Machine Keep Humming?

The employment sector of the economy has been nothing short of amazing. Close to full employment, we lost an amazing number of jobs during the pandemic – close to 25 million. By July of last year, we had recovered those jobs and it was expected that the pace of job creation would slow down from that point on. And the pace did slow down a bit towards the end of 2022, though the job market stayed stronger than normal.

We turned the page to 2023 and what happened? The economy created approximately 800,000 jobs in the first two months of this year, significantly out pacing expectations. At this juncture, we have to ask this question—how long can the employment machine create these many jobs with the unemployment rate again nearing full employment levels? Logically, we should see job creation slow to the point that we are just replacing jobs lost and accommodating population growth.

Thus, the March employment report to be released the first Friday in April, will be watched with great anticipation – together with the measure of wage inflation. Again, logic says that wage inflation will not

Continued on Page 3

Did You Know…

Zillow said home prices nationally should bottom out in 2023, then return to a more normal growth rate. Zillow surveyed economists and analysts for its Zillow Home Price Expectation survey. Respondents said they expect home prices to fall 1.6% through December.

Starting next year, however, the panel foresees price growth picking back up, the report said

Selected Interest Rates

March 23, 2023

30 Year Mortgages———6.42%
2022 High (Nov 10)——7.08%
2022 Low (Jan 6)———-3.22%
15 Year Mortgages——5.68%
10 Year Treasuries——3.45%

Sources—Fed Reserve, Freddie Mac
Note: Average rates do not include fees and points. Information is provided for indicating trends only and should not be used for

In This Issue

Ownership Tenure Rising

Redfin reported the typical U.S. homeowner has spent 12.3 years in their home, down from the peak of 13.4 years hit in 2020 and 12.9 years in 2021. But the typical American is still living in their home much longer than before, with median homeowner tenure sitting at 10 years in 2012 and 6.5 years in 2005.

Homeowners

The report said older people aging in place are driving the general trend toward longer homeowner tenure. Most Americans 65 and older have owned their home for at least 23 years, and most Americans aged 35 to 64 have owned theirs for at least eight years. Compare that with homeowners under 35: Nearly half (49%) have owned their home for three years or less, and another 37% have owned theirs for 4 to 7 years.

Redfin said overall homeowner tenure has ticked down from its peak largely because so many people moved from one home to another in 2021 and the first half of 2022. Low rates and pandemic-fueled remote work prompted many Americans to relocate to a different part of the country, too. But Americans are staying put much longer now than in the past couple decades. There are several reasons why that's true, said Redfin Senior Economist Sheharyar Bokhari, and why homeowner tenure is likely to stay elevated in the coming decade, including the low rates they obtained when they bought their homes...

Source: The Mortgage Bankers Association

Tax Deductions...

You have heard it before owning a home is a great tax deduction. It is one thing to make a general statement. It is another to understand the specifics of how owning a home may lower your tax liability. Below is a list of important points that every homeowner should know. Note that this is not a complete list of allowable deductions.

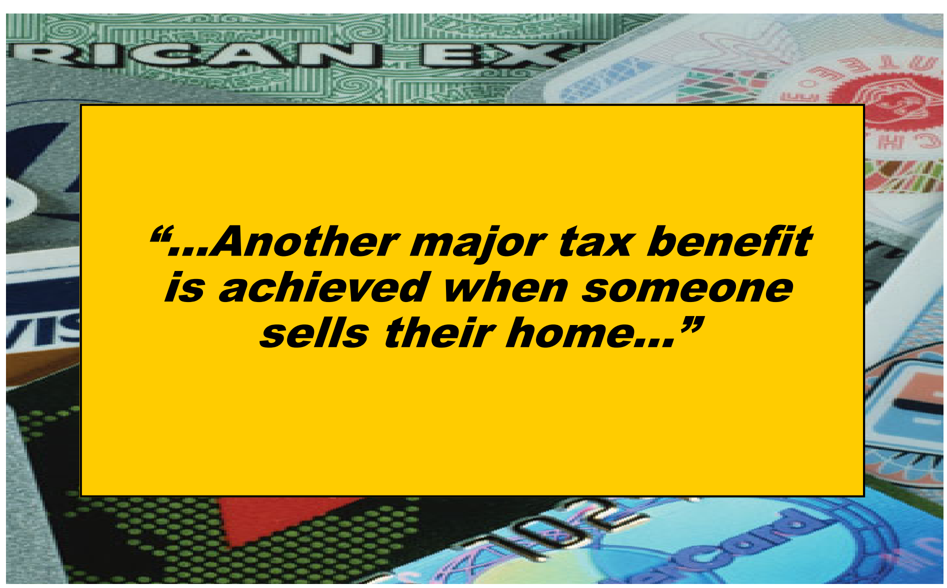
Itemizing deductions. In order to deduct your mortgage interest, you must itemize deductions rather than take the standard deduction. As a general example, if your allowable standard deduction is $12,000 and you only have $6,000 in itemized deductions, you will be better off taking the standard deduction. However, if the home gives you an "extra" $10,000 in itemized deductions, you are better off itemizing. Note that the "excess" $6,000 ($12,000 minus $6,000) will not garner any benefit because you are now itemizing. The standard deduction changes most years because it is indexed to inflation.

The housing payment. The housing payment is generally comprised of four segments: Principal, interest, taxes and insurance (PITI). Generally, you can deduct two of these—mortgage interest and taxes. The good news is in most cases these two items comprise the greatest majority of the total payment. For example, here are some fictitious numbers given to illustrate this point:

300 Principal
1,000 Interest
400 Taxes
50 Insurance
$1,750 Total Payment (PITT)

Again, using fictitious numbers, if the above homeowner was in a 25% tax bracket, the home payment would actually be reduced by approximately $350 per month after taxes. There are a few exceptions or requirements with regard to this rule—

- The deduction is only allowable for principal residences and second homes. Homes which are rented out (investor properties) have additional tax benefits.
- The maximum deduction for state and local taxes is $10,000 (including state/local income taxes). Thus, if you have a higher income and/or live in a high-tax state, not all of the real estate taxes may be deductible.



"...Another major tax benefit is achieved when someone sells their home..."

…For Homeowners

* You cannot deduct interest on any loan amount above $750,000. You can only deduct interest on a mortgage which is taken out to purchase, build or improve a property.

* You may be able to deduct a mortgage insurance payment under certain conditions depending upon the year that you paid them.

Points. A point is a cost charged by a mortgage company for originating a mortgage and/or buying the rate down on that mortgage. Generally, points can be deducted in the year that they are paid when they are used to purchase a primary residence. If the purpose of the mortgage loan is to refinance an existing loan, then the points may still be able to be deducted, but the deduction must be spread out over the life of the loan, unless the refinance was to improve the present home. There are additional restrictions regarding the deducting of points which are not delineated herein.

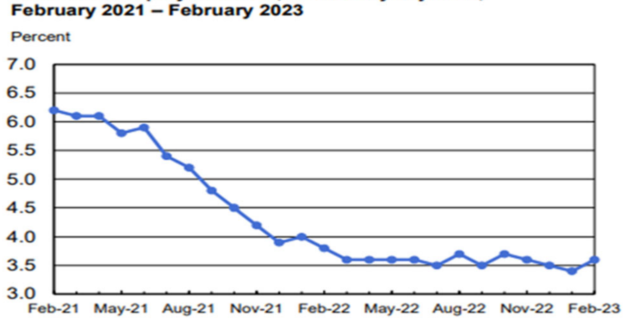
Investment properties. Those who own properties for the purpose of generating income can deduct the cost of expenses of carrying the property against the income of that property. Allowable expenses would include interest, insurance, taxes, maintenance, depreciation and more. Again, using a fictitious example…

$1,000 Rental Income (monthly)
-800 Interest, taxes and insurance
-50 Maintenance
-100 Depreciation
$50 monthly "net" income or
$600 for the year

Sale of the home. Another major tax benefit is achieved when someone sells their home. The profits of the sale of a principal residence are excluded from income up to a maximum of $500,000 for joint filers, including married couples, and $250,000 for individuals. You must have owned the home at least two years and used it as your primary residence at least two out of the past five years.

The tax benefits of owning a home are "great" as advertised. You are advised to get with your tax advisor for greater clarification with regard to these general rules. Note that changes to the tax law will affect some of these calculations, including increases in the allowable standard deductions, the lowering of personal tax rates and the maximum deductions for state/local property and income taxes paid…

Chart 1. Unemployment rate, seasonally adjusted, February 2021 – February 2023



Can The Machine Keep Humming?

Continued from Page 1

slow down until the jobs machine slows. And if wage inflation continues, the Federal Reserve will have no choice but to continue to raise rates and keep them higher for a longer period of time – which would be very problematic for them considering the current weakness in the banking sector. Very few times in our history we have been rooting for the economy to create fewer jobs. But if we want lower interest rates, this is the path we must follow…

"….we should see job creation slow to the point that we are just replacing jobs lost…"

My goal is to provide expert advice and direction for my clients with an overall goal of providing a real estate finance transaction that exceeds their goals and expectations.

-- John e
Senior Loan Officer

No Better Time Than Now

While it might be tempting to hold off on buying a property until a better deal arrives, there's no guarantee that mortgage rates will drop or that homes will become more affordable in 2024, say real estate analysts and economists interviewed by CNBC Make It. Despite forecasts of lower mortgage rates in 2024, don't expect them to bottom out to the record lows of the past decade, either, says Lawrence Yun, chief economist at the National Association of Realtors. "Returning to rates of 3% or 4% is not going to happen, in my view," says Yun — Plus, if "mortgage rates go back down to that level, people can always refinance their mortgages," says Yun.

As for home prices, a price correction is largely expected to be short-lived due to a chronic shortage of homes. Declining mortgage rates could also stoke demand, which would likely push prices higher. "I wouldn't necessarily wait around and see if you can get the best possible deal because timing the housing market is very difficult," says Cristian deRitis, deputy chair economist at Moody's Analytics. His firm predicts another 5% to 10% drop in home prices from their peak over the next 18 to 24 months, after which prices will start rising again.

While professional house flippers might need to worry about short-term fluctuations in home prices and interest rates, regular homebuyers who plan to live in their homes more than five years should be less concerned about timing the market, he says. The short-term forecast for home prices is "a modest decline," he says...

Source: CNBC

In This Issue:

Can The Machine Keep Rising?

John Doe
Senior Loan Officer
Ajax Mortgage
111 Mortgage Way
Mortgagetown, MD, 11111
(301) 555-1212
(800) 555-5555
Ajaxmtg.com

Address Correction Requested

Joe Customer
Joe's Appliance Center
111 Center Way Drive
Suite 1005
Happyville, VA 20000