REAL ESTATE UPDATE

Volume 18 Issue 3 March 2024

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- ☑ **Home Equity Loans**

The Elusive Goldilocks

We have seen so many words describing our economic climate during the past few years. Words/ phrases such as soft-landing, stagflation, sticky inflation, recession, qualitative tightening and more. There are so many that it is hard to keep up with the nomenclature. This week, we would like to bring one more to the table—the famed Goldilocks. Yes, the character famous for visiting the three bears.

Why are we looking for Goldilocks? Well, we want a few economic reports that are not too hot and not too cold. At the start of the year, we talked about how strong the job market has been. We keep repeating the statement that you can't have a recession when you are adding hundreds of thousands of jobs per month.

However, unless the pace of jobs growth slows, it is unlikely that we will see the Federal Reserve lowering short-term interest rates anytime soon. It is so hard to root for the economy to create less jobs, but we need the porridge to cool somewhat.

The bottom line is that a hot job market will keep forcing labor costs higher which in turn will keep the Fed from

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Did You Know…

The latest quarterly report from the National Association of Realtors (NAR) unveiled a significant uptick in home prices across more than 85% of metropolitan markets.

According to the NAR report, 15% of the 221 tracked metro areas experienced double-digit price increases in the fourth quarter of 2023, representing a notable uptick from the previous quarter.

Selected Interest Rates

February 22, 2024

30 Year Mortgages——6.90%
2023 High (Oct 19)——7.79%
2023 Low (Jan 26)——6.09%
15 Year Mortgages——6.29%
10 Year Treasuries——4.33%

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 comparison purposes.

In This Issue

Single Women Moving To Own

Although U.S. women still trail men when it comes to pay, they are pulling ahead financially in one important way of building wealth: homeownership.

A recent study from LendingTree shows that single women own 2.7 million more homes than their male counterparts, with roughly 13% of those women holding the titles to their homes, compared to 10% of men. "A home for most people is going to represent the biggest portion of their overall net worth," Jacob Channel, sr. economist at LendingTree.

Women have historically faced social and economic barriers to wealth creation, and they continue to earn an average of just 82 cents for every dollar men earn for the same work, according to the Pew Research Center. Yet, according to the study, single female homeowners outnumber their male peers in 47 states. Home equity accounts for nearly 28% of household wealth on average, according to a 2020 U.S. Census Bureau report.

Channel notes that most homes are owned by couples and families. Overall, American women's net worth still falls well below that of men. According to the Federal Reserve Bank of St. Louis, the median wealth of women-headed households is 45% lower than those headed by men...

Source: CBS News

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 $14,000 and you only have $7,000 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" $7,000 ($14,000 minus $7,000) 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:

$450 Principal
$2,000 Interest
$500 Taxes
<u>$50 Insurance</u>
$3,000 Total Payment (PITI)

Of this example, $2,500 out of $3,000 is deductible, or approximately 80% of the payment. Note that, depending upon your income, monthly mortgage insurance may be deductible as well.

Again, using fictitious numbers, if the above homeowner was in a 25% tax bracket, the home payment would actually be reduced by approximately $625 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

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

…For Homeowners

and/or live in a high-tax state, not all of the real estate taxes may be deductible.

- 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.

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.

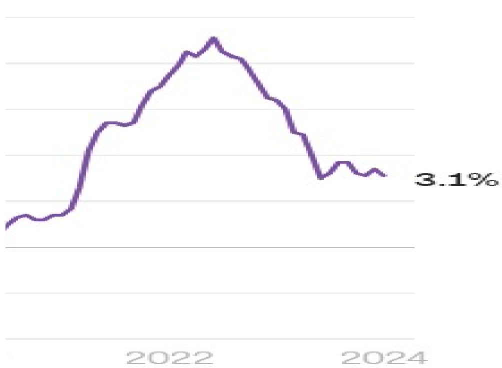
Investment properties. Those who own properties for the purpose of generating income can deduct the cost of expenses of carrying the property against the income of that property. Allowable expenses would include interest, insurance, taxes, maintenance, depreciation and more. Rental losses can be claimed up to $25,000 annually if your income is below $100,000. Again, using a fictitious example …

$2,000 Rental Income (monthly)
-1,600 Interest, taxes and insurance
-100 Maintenance
-100 Depreciation
$200 monthly "net" income or $1,200 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. Any amount above these are treated as capital gains, which are taxed at lower rates than ordinary income.

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 tax laws now allow for inflation indexing of standard deductions and tax brackets.…

The Inflation Picture



The Elusive Goldilocks...

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achieving their goal of a 2.0% inflation rate. What's more, the lack of listings in the market continues to support increasing real estate prices, another inflationary factor.

We have made great progress against inflation, but the Fed has made it clear they need to finish the job and it is not likely we will see a rate cut in March, especially considering the inflation numbers we saw in February. The conclusion? Like Goldilocks—we need to cool it...

"…a hot job market will keep forcing labor costs higher…"

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 Doe
Senior Loan Officer

Not Waiting For "I Do"

While pursuing home-ownership without a partner isn't the norm for all Americans, single homeowners are becoming more prominent in the home purchase market.

A recent PennyMac survey revealed the driving trends and potential roadblocks to purchasing a home for singles. Over half of respondents believe the idea of waiting for a significant other to buy a home is outdated. The survey highlights the role societal pressures played in homebuyers' decision to purchase and the biggest challenges they faced. While some homebuyers have the luxury of using monetary gifts from family for down payments, some 67% surveyed single homebuyers saved for it on their own and didn't have any financial assistance from family and/or friends.

The most popular down payment range reported by both male and female respondents was 6%–10%, with most individuals (65%) purchasing a home in the $0-$250,000 range. There are many reasons why people choose to buy a home, from the opportunity to build their own equity to reaping potential tax benefits. According to our survey, it's not cultural norms, as 70% of respondents did not feel societal pressure to buy a home.

Like many others, half of single homebuyers were prepared to acquire their own home. They made the decision to start building their own equity because 43% of respondents said they had leased on their own before buying a house...

Source: MReport

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