the Trump effect (on real estate)

by deborah huso

He's known as a real estate mogul, but with proposals that could both boost or blast the housing market, Trump makes it far from clear what his presidency will do for housing, and even industry professionals don't agree on what the future may hold.

If you ask Jim Jacobs, president of Jacobs Realty Group in Philadelphia, what he thinks the presidency of Donald J. Trump will do for residential real estate, he's quick to say the market is going to grow. "The No. 1 thing the Trump presidency brings is restoring the confidence of the American worker," said Jacobs. "Confidence is why people purchase."

He adds, "They're not afraid to take a mortgage out anymore. Working class people are getting more jobs because there are not illegal immigrants working at Home Depot for half the price."

Meanwhile Billy Nash, who specializes in commercial and luxury real estate sales with The Keyes Company in Palm Beach, Fla., noted, "We are seeing a positive impact on Palm Beach County for both buyers and sellers of luxury real estate. Corporate tax cuts will have a huge impact on our real estate market."

While many of those working in real estate are positive about the potential for a growing housing economy under the Trump administration, Jamie Gregory, chief lobbyist for the National Association of Realtors (NAR), is a bit more measured in his assessment of the new administration's policies and proposals: "I think so far we haven't seen anything that's going to have a big impact [on the housing economy]." He added, "A lot of it has to do with what's happening on Capitol Hill. Is tax reform going to be comprehensive? We have serious concerns with how the blueprint will play out."

hits to HUD

If one looks at the blueprint for Trump's proposed budget, released in March, it's definitely what Office of Management and Budget Director Mick Mulvaney calls "the America First budget" in its approach. Whether or not Congress will go along with the administration's aims, however, remains to be seen.

In order to meet his objective of increasing defense spending by 10% (or $54 billion), Trump is calling not for an increase in taxes but cuts in other areas of government, including a 13% ($6 billion) cut to the budget of the Department of Housing and Urban Development, now headed by Dr. Ben Carson. The White House proposes eliminating HUD's Community Development Block Grant, the Home Investments Partnership Program, the Choice Neighborhoods Program, and the Self-Help Homeownership Opportunity Program, all of which help create and sustain affordable housing in this country.

Gregory believes the proposed HUD cuts would deeply impact housing, particularly for lower-income Americans and first-time homebuyers, but he's not convinced all the cuts will be accepted by Congress. "I think Capitol Hill will create their own version of the budget," he said. "We've tried not to overreact. We hope that cuts proposed for HUD are not implemented. That would be catastrophic. HUD couldn't fill its function."

Gregory said that NAR is stemming alarm for now. "The administration hasn't staffed up yet," he said. "At HUD, there's

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nobody to talk to over there. We're sort of in a holding pattern. We're waiting for personnel to get in place."

Gary Acosta, CEO of the National Association of Hispanic Real Estate Professionals (NAHREP), said he's "cautiously optimistic," adding that no one really has "a clear sense of the direction of the administration. It's been a very slow start in that regard."

And Acosta thinks it may be premature to worry. "Dr. Carson isn't really a housing person," he said, "so he'll surround himself with experts in the housing field."

impacts of tax reform

There has also been plenty of debate about changing the popular mortgage interest deduction (MID), though Jacobs doesn't think the Trump administration will follow through on that, at least not in terms of elimination. "I can't see that happening," he said. "Trump has learned quickly there are battles to fight and battles not to fight."

And while Gregory doesn't believe the MID will be eliminated either, he noted that the House Republicans' blueprint for tax reform, while not killing the deduction, will make it less relevant because it will double the amount taxpayers can take for the standard deduction. That means fewer people would take the MID and, perhaps, would be less inclined to move from renting to buying.

The White House is also looking at eliminating the deduction for state and local taxes, which can be a pretty big tax cut in high-end communities and in states like New York and California. But Aaron Terrazas, senior economist at Zillow, doesn't think those tax cuts make much difference to homeowners and buyers. "When people buy houses, they're not factoring in these marginal things," he said. "That's not going to make or break a deal."

"If you take away the state or local tax deduction and double the standard deduction, less than 5% of tax filers will itemize," Gregory warned. "You've essentially made no difference between renters and owners. We're taking it seriously."

Gregory said if Congress takes away that incentive, he believes it would slow down the housing economy. "You'll have fewer buyers, so home values will drop," he points out. "As a result, you'll have lots of people that will lose equity in their houses."

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Terrazas doesn't think proposed legislation on the MID will have much impact, however. "More money in people's pockets gives them more ability to buy regardless of how [the money] gets there," he said. "Most economists agree the MID doesn't really incentivize people to go from renting to buying." What it might impact, he said, is homeowners upgrading to more expensive residences.

When it comes to first-time buyers, the elimination of the student loan interest deduction would be the biggest damper on the market.

NAR is in the process of collecting numbers to produce a full analysis of the impacts of the House Republican blueprint for tax reform (which is substantially similar to that of the White House). Those figures were not available by press time but NAR Spokesperson Jon Boughtin shared early findings from PricewaterhouseCoopers' study, noting that home-owning families with incomes between $50,000 and $200,000 would face average tax hikes of $815 the year after enactment while non-homeowners in the same income category would see tax cuts of $516.

"Home values could fall in the short run by more than 10%," Boughtin added, if the House blueprint for tax reform is fully enacted, and that drop in values could be steeper in high-cost housing areas.

Gregory said he hopes Congress will extend mortgage debt forgiveness for homeowners that sell their houses at a loss. He also hopes to see the capital gains tax exemption of the Taxpayer Relief Act (1997) for home sellers extended, whereby couples who sell a primary residence don't have to pay capital gains on the first $500,000 of profit. It's $250,000 for single sellers.

Jacobs is more optimistic about proposed tax cuts and believes, if implemented, they will be good for the economy and will make it easier to build and grow businesses and, likewise, create jobs. "Money is a reward for the service you give or the product you sell," he said. "Trump doesn't want to penalize that but encourage it."

Acosta said he's long been a proponent of reducing the corporate tax rate. "I think that will stimulate jobs more than anything else," he explained. "Jobs are issue No. 1 when it comes to housing and homeownership."

He also hopes for tax relief for the middle class: "That could make the difference in being able to afford a home or not. We have a very complicated tax system, and anything that simplifies it is good. I see tax relief for the middle class and corporations as positives."

the immigrant conundrum

Meanwhile, things might not be looking so great for the nation's immigrants, documented and undocumented. While Harvard University's Joint Center for Housing Studies reports that immigrants have been responsible for 40% of housing growth since 2010, Jacobs minimizes the impacts from immigration on the housing economy. He said he thinks areas like southern Texas will feel an impact, "but around the country, no."

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Currently, 25% of the nation's construction workers are immigrants, and there's no telling how many of them are undocumented. But Jacobs doesn't think construction companies will feel too much pain. "There's still a way to make a profit," he said. "Construction companies will find another way, and if undocumented workers are building houses, then their elimination will mean more documented Americans working." He also thinks that eliminating illegal immigrants will boost American wages.

Aaron Terrazas, senior economist at Zillow, isn't convinced immigration restrictions are a net positive, however. "The housing market in general now is strong, and the labor market is tight, so incomes are growing," he said. "A lot of people who have been renting are looking to buy and are able to buy."

But given the tightening inventory, the housing market overall is very competitive right now. "A big unknown is the extent to which new construction will or will not begin to take off to meet that demand," Terrazas added. "New construction has been flat on average." That means eliminating a chunk of the industry's labor force could slow things even further.

Terrazas said Zillow conducted research recently on the significance of the immigrant workforce to new construction, looking at a law in Georgia passed in 2011 designed to reduce unauthorized immigration. "The premium price on new construction over existing homes jumped about 20% in the year after the law passed," he explained. "Georgia was a relatively cheap place to build previously. Now it costs as much to build there as Connecticut."

Gregory points out that "a big portion of first-time homebuyers are immigrants, too, and that's something we're watching [at NAR]."

Acosta said the NAHREP has concerns about the way the Trump administration's immigration policies are being implemented. He fears a significant impact on the first-time homebuyer population given how many of them are Hispanics, and he also points out that undocumented immigrants' status impacts the larger community of legal immigrants. "Many households have more than one family living together, and if one person is vulnerable to deportation, that could affect the whole household's income," he explained.

He expects basic human psychology will reduce home-buying demand in communities with substantial immigrant populations because would-be homeowners will be reluctant to purchase with so many uncertainties, and would-be immigrants will be putting off plans to relocate to the United States.

"That's a big deal," Acosta said. "We have an aging population. New birth rates are not keeping up in replenishing the American

workforce." He points out first-time home buyers, in particular, have a big impact on the overall housing market because they also impact the "move-up" buyers.

relief for lenders?

While there has been a lot of strong-arm talk, not just by Trump but by Republicans in Congress, about rolling back a lot of the initiatives of the Dodd-Frank Act (2010), Gregory said the NAR doesn't see those proposals impacting housing very much.

"A lot of what they're talking about doesn't have to do with the housing part of financial services like capital ratios," he explains, noting that the NAR is reviewing the latest version of the Financial CHOICE Act (H.R. 5983). "The first version from last year," he noted, "had very little impact on housing." The latest version of the CHOICE Act, introduced by House Financial Services Committee Chairman Jeb Hensarling, R-Texas, would, among other things, exempt some banks from newly instituted regulatory standards if they maintain a certain ratio of capital to total assets.

Jacobs said complete elimination of Dodd-Frank would be a boon to banks, particularly smaller community banks. "Jobs are number one," he said, "but lending is number two. In some countries, you have to put down 30 to 50% [on a home purchase], but here, everything revolves around debt." He sees the thinking that real estate only goes up in value as the major factor in the recent housing crisis, noting "bankers seem to have short memories."

But he said the loan standards now are entirely too tight. "It's been so tough for existing business to get lending because banks want their last three years' financials.

"There's absolutely no question that Dodd-Frank's elimination would be a boon for smaller banks," Jacobs added. "They're the ones who do lending locally. They're local people who understand the area and have better lending criteria."

Acosta agrees: "We need community banks. They know their marketplace. They can make decisions relevant to their local communities and understand local nuances. If you just have big players, the marketplace is affected negatively. A lot of the community banks pulled back on lending or sold out because they anticipated an excessive regulatory burden [with Dodd-Frank]."

Gregory agrees that any legislation or legislation rollbacks that help community banks would be good for housing and the economy at large. "For a lot of our members, it's the local banks that do a lot of the lending," he said.

"A measured rollback of regulatory apparatus would be a positive thing for the marketplace," Acosta added. He points out that major lenders have abandoned Federal Housing Administration (FHA) programs because of the level of regulation involved and fears of unintentionally making violations.

the future looks so...uncertain

Meanwhile mortgage interest rates are slowly increasing, though Jacobs says he isn't terribly concerned about it. "It will probably slow down housing growth to sane levels," he remarked. "Rates have been artificially low for so long."

He said the recent housing crisis clarified that it's abnormal to buy a $200,000 house and see it appreciate to $350,000 a year later. The housing economy, he believes, will normalize now, and that the increase in interest rates is actually a good thing in helping it do so.

Gregory points out, however, that interest rate creeps have historically knocked first-time buyers out of the market.

But Terrazas said that only happens when interest rates get up toward 5% or higher, and he doesn't see rates going above 4.2 to 4.3% before year's end. Where interest rates will have the most impact, he thinks, is in terms of homeowners upgrading: "They'll be less willing to sell if their next home has substantially higher mortgage rates."

Jacobs expects to see housing growth in areas where there is strong job creation and believes those jobs will increase home values and continue to grow the housing economy. "It won't be because interest rates are artificially low," he remarked. "Jobs are going to be the real driver."

He still sees homeownership as the best investment for the average American. "Across the board, the best place to have your money is going to be your home because it will appreciate," he said. "A house is a great place for a financial nest egg for when you retire."

As homeowners, real estate professionals, and economists look on, they're all equally hopeful the Trump administration won't damage the centrality of homeownership to the American Dream and the American pocketbook. ■