

# Policy and Pricing

*HBA of Fayetteville  
January 25th, 2018*

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NAHB Chief Economist*



# Policy and Pricing – Economic Update

Tax Reform – policy change and economic impact

Macroeconomic update

Interest rates and housing demand

Supply-side factors update

Local economic factors

Forecasts

A tipping point for homeownership?



# Tax Reform – Policy Changes and

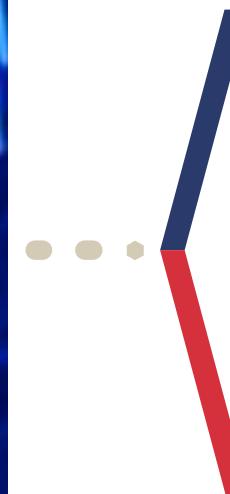
- Individual Taxpayers
  - Lower tax rates, with top rate of 37%
    - \$1.2 trillion tax cut for rate reduction
  - Personal exemptions eliminated but standard deduction nearly doubles, child credit expands
    - \$70 billion tax cut on net basis
  - Housing deductions
    - Fewer itemizers, but offset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

- 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

- 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

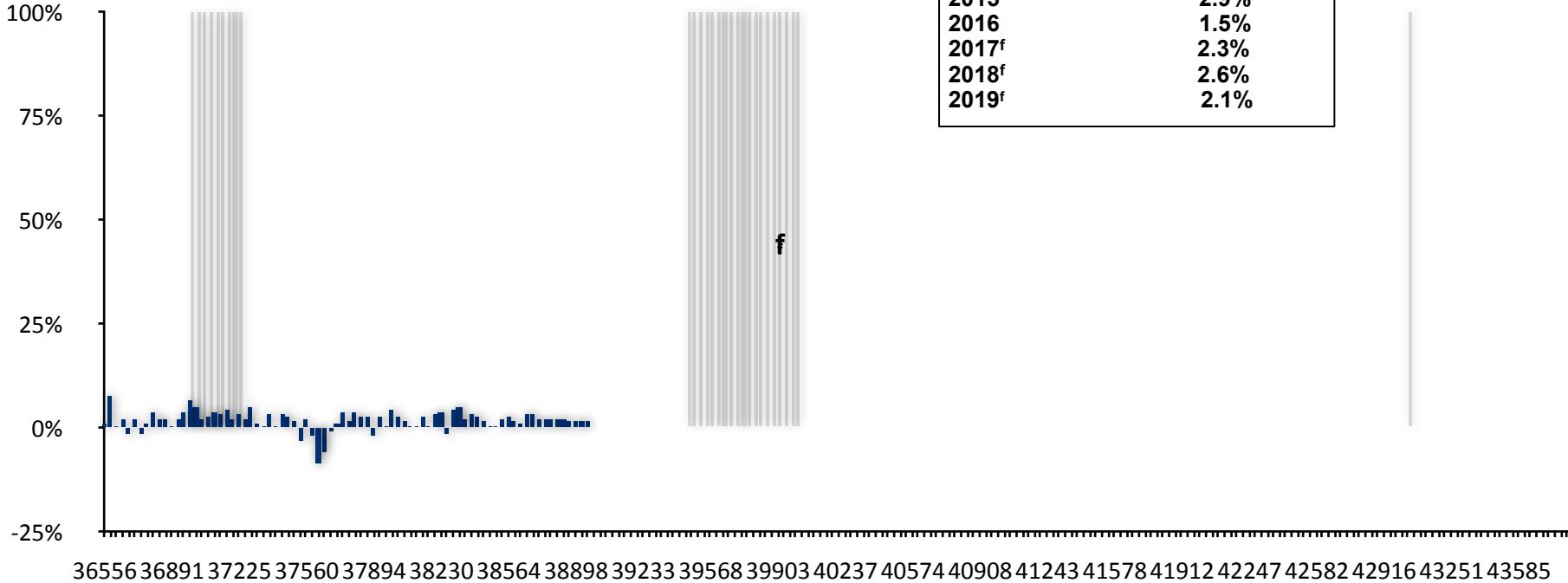


# Macroeconomics

# GDP Growth

*Stronger growth expected post-tax reform*

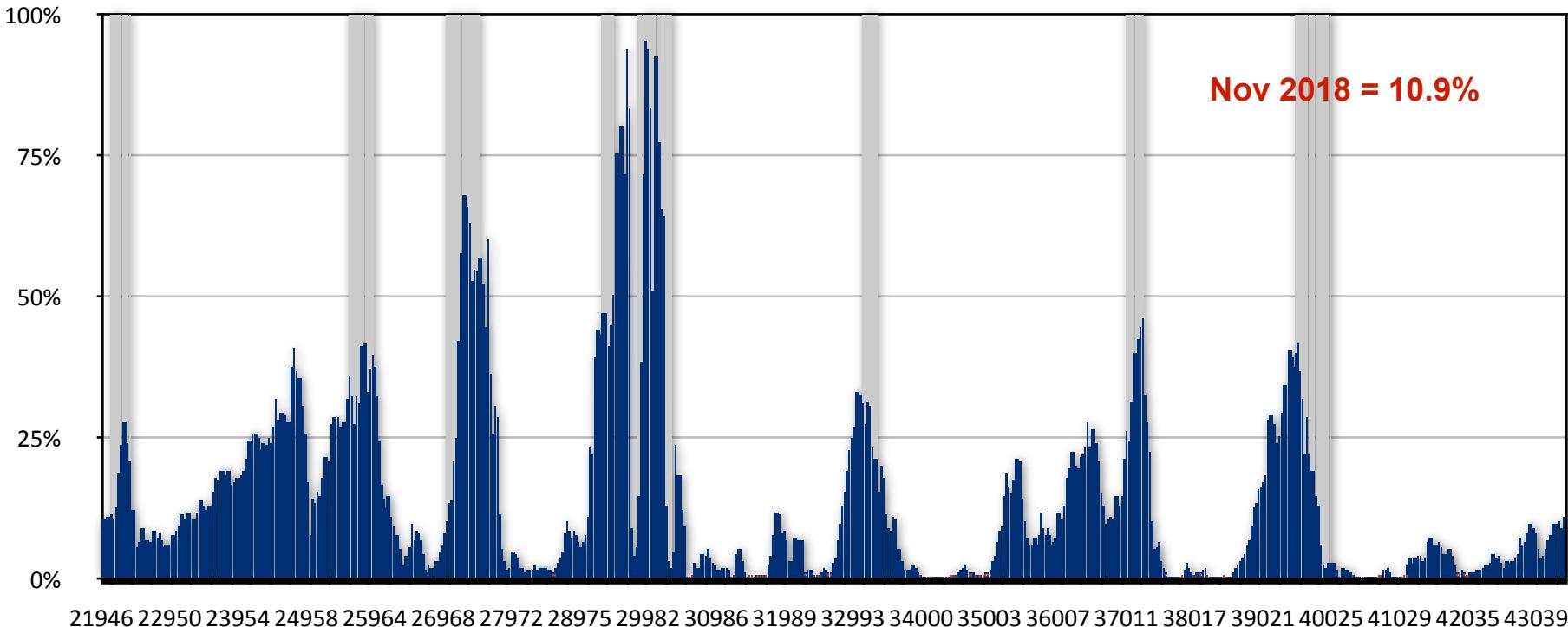
Q/Q Percent Change, SAAR



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

# Probability of US Recession

*Recession probability small for 2018*



21946 22950 23954 24958 25964 26968 27972 28975 29982 30986 31989 32993 34000 35003 36007 37011 38017 39021 40025 41029 42035 43039

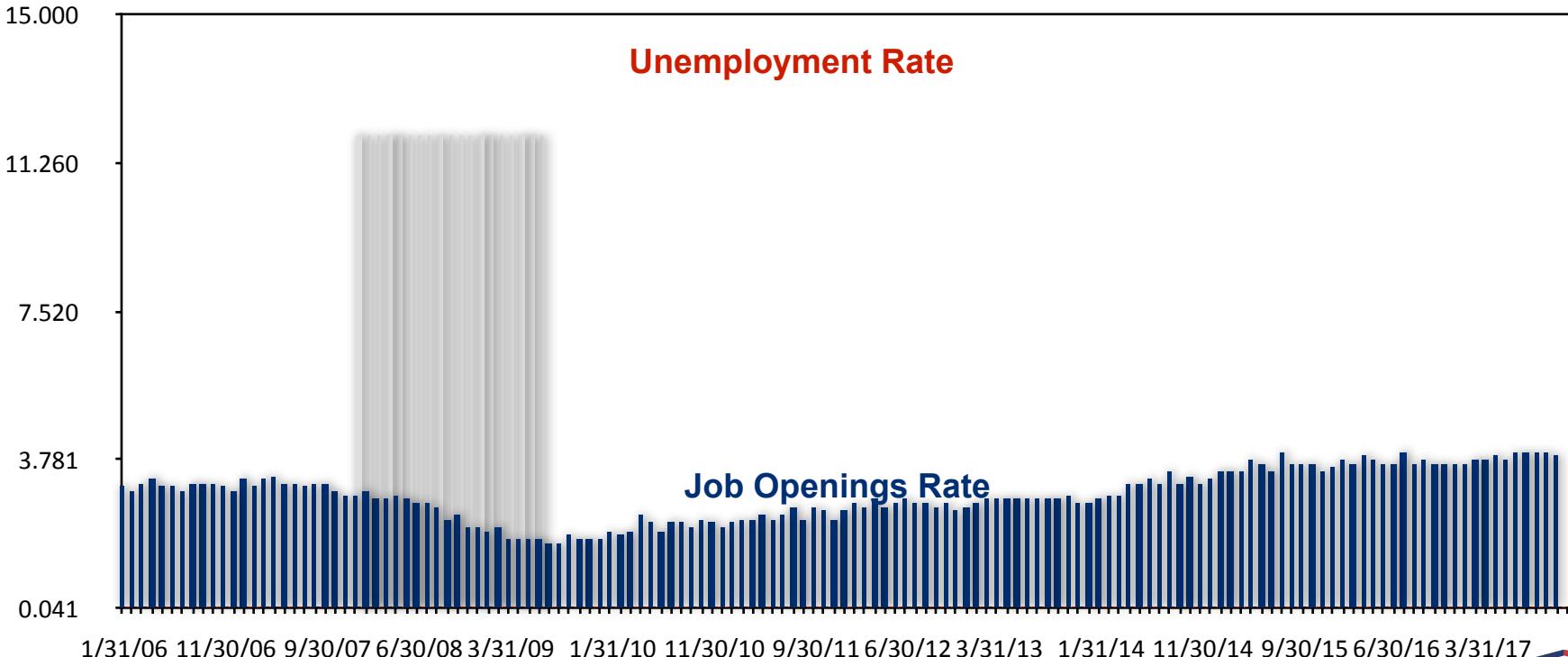
Source: NAHB calculations and Federal Reserve Bank of New York data.

# Tight Labor Market

How low can unemployment go?

Percent, SA

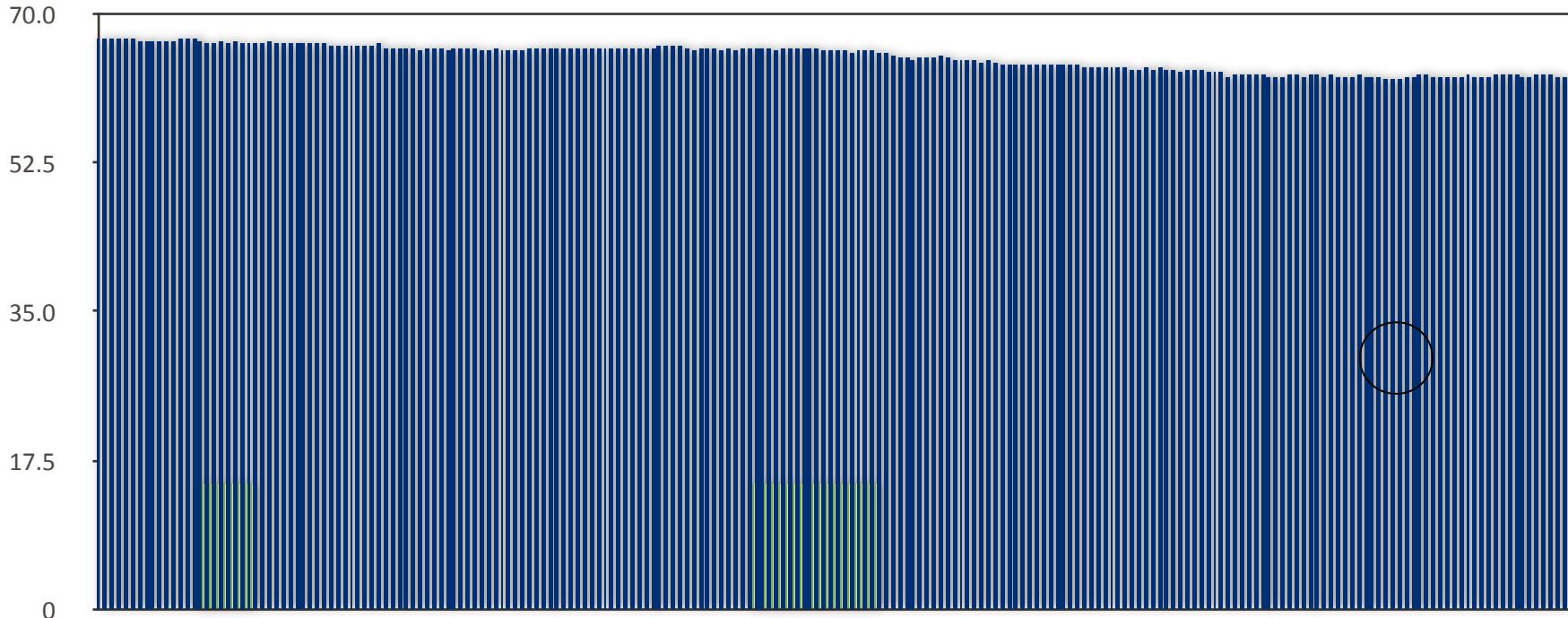
Percent, SA



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

# Labor Force Participation Rate

*Stabilized labor force participation key to future growth*

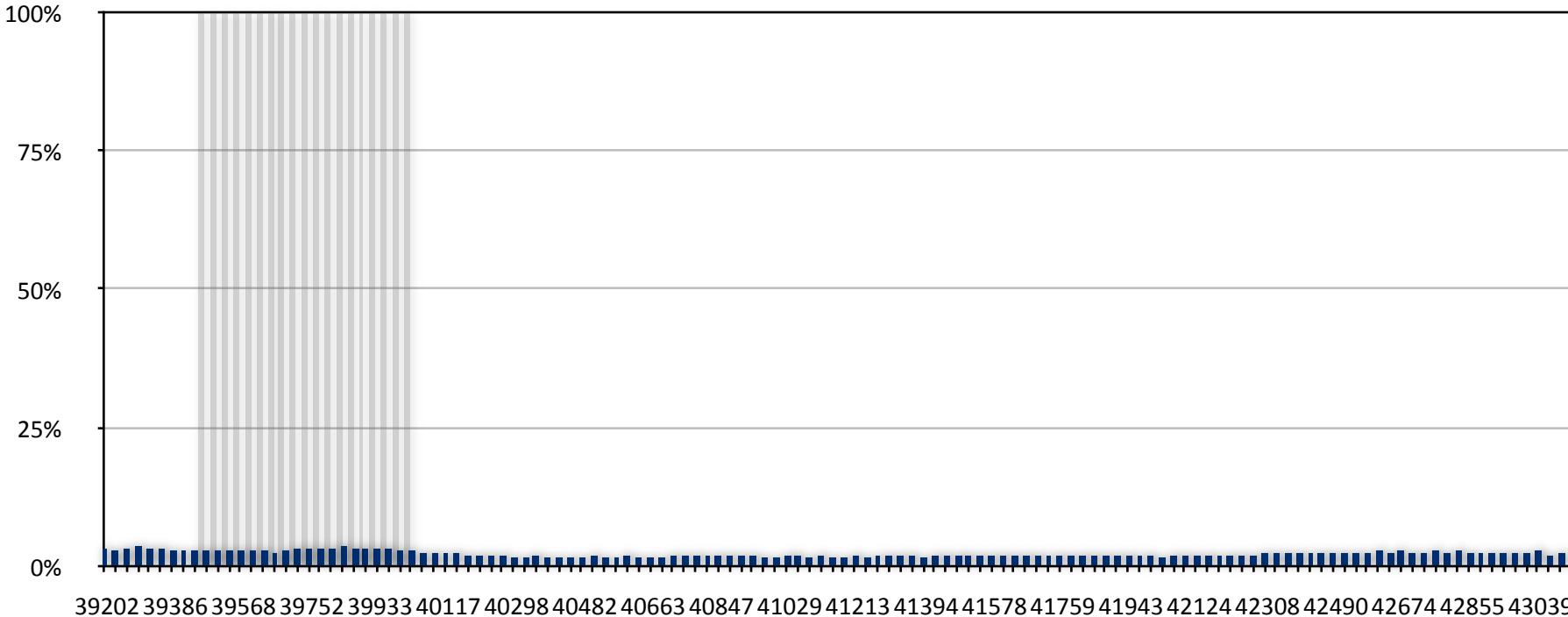


Source: U.S. Bureau of Labor Statistics (BLS).

# Average Hourly Wages

*Tight labor market plus tax reform should boost wage growth*

Y/Y Percent Change, SA



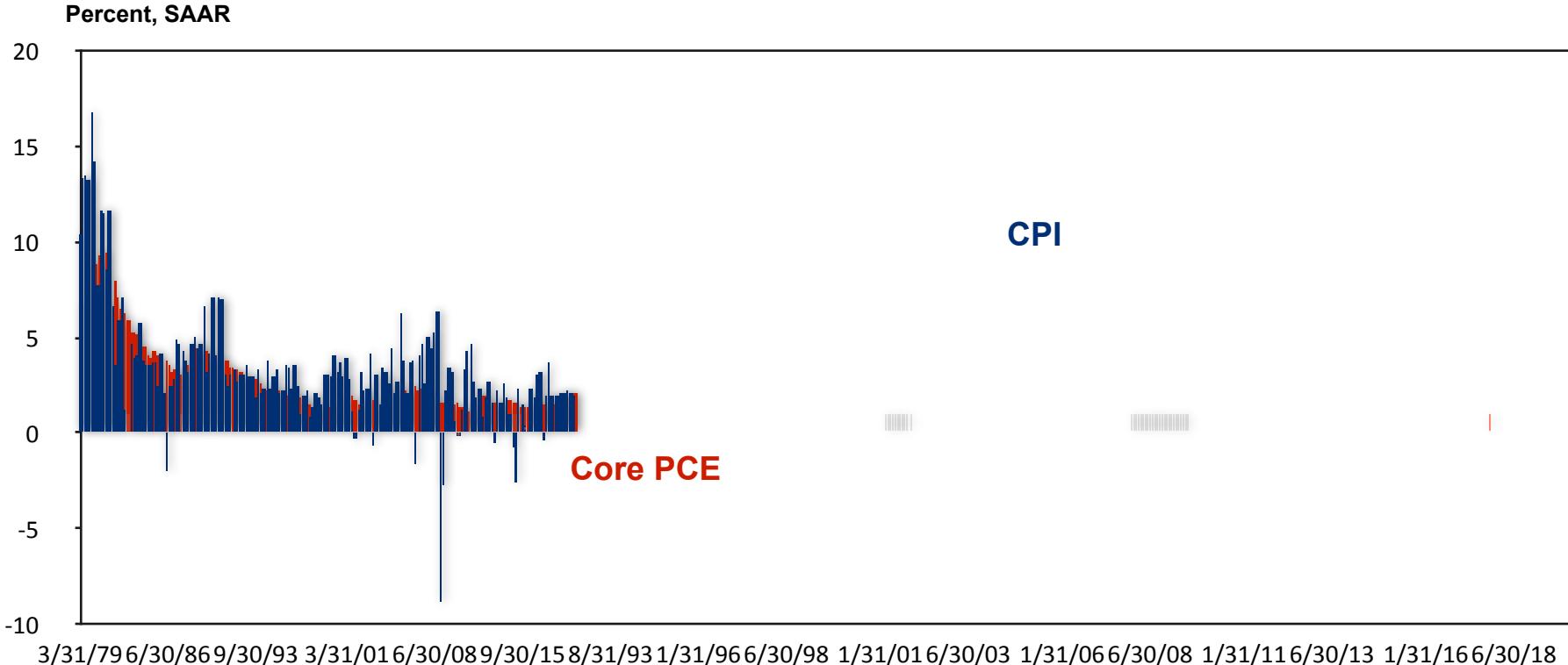
Source: U.S. Bureau of Labor Statistics (BLS).



# Interest Rates and Demand

# Consumer and Core Inflation

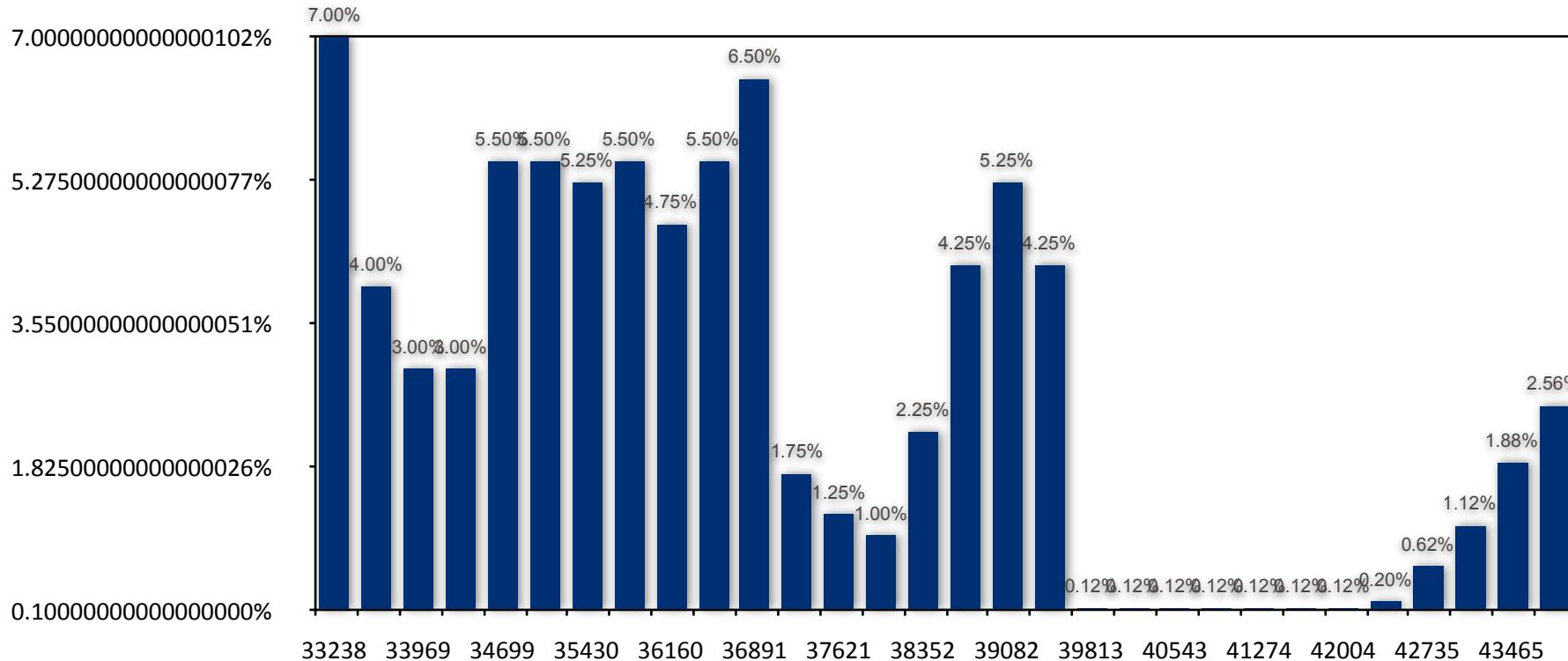
*Inflation pressures building*



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

# Target Federal Funds Rate

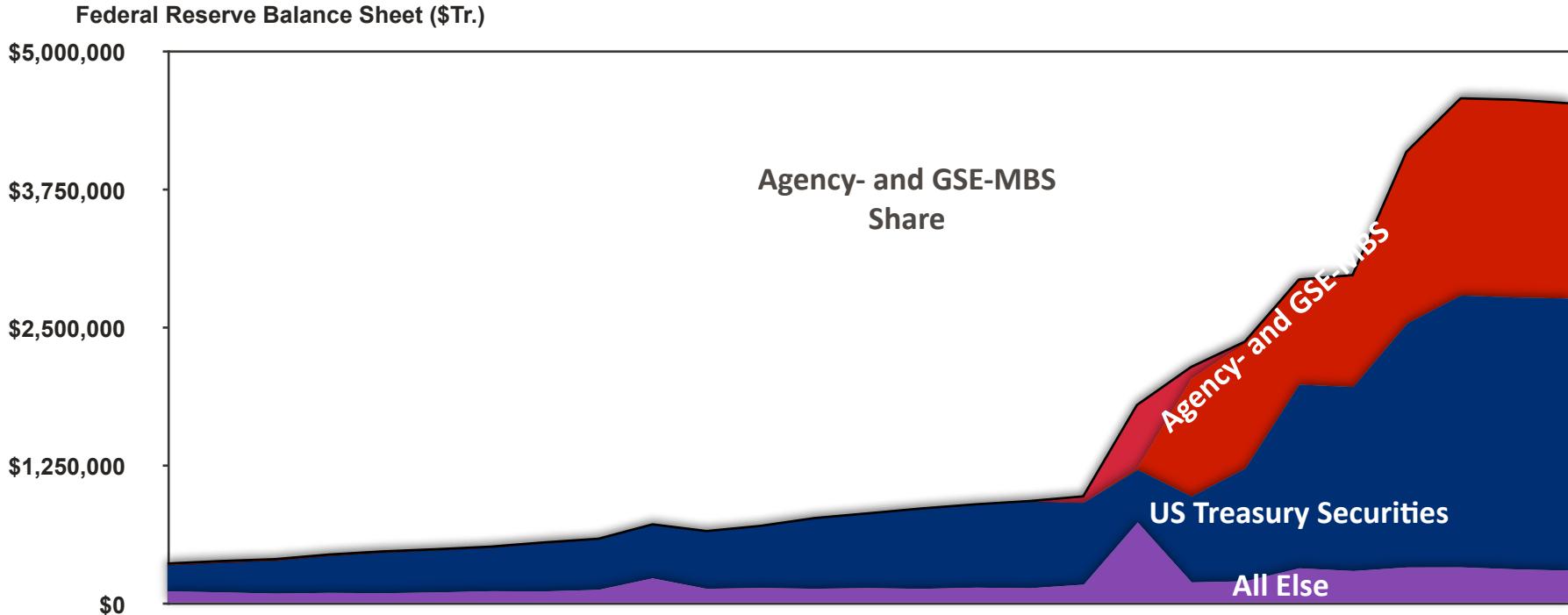
*Fed will continue to raise rates*



Source: NAHB forecast and Federal Reserve data.

# Federal Reserve Balance Sheet

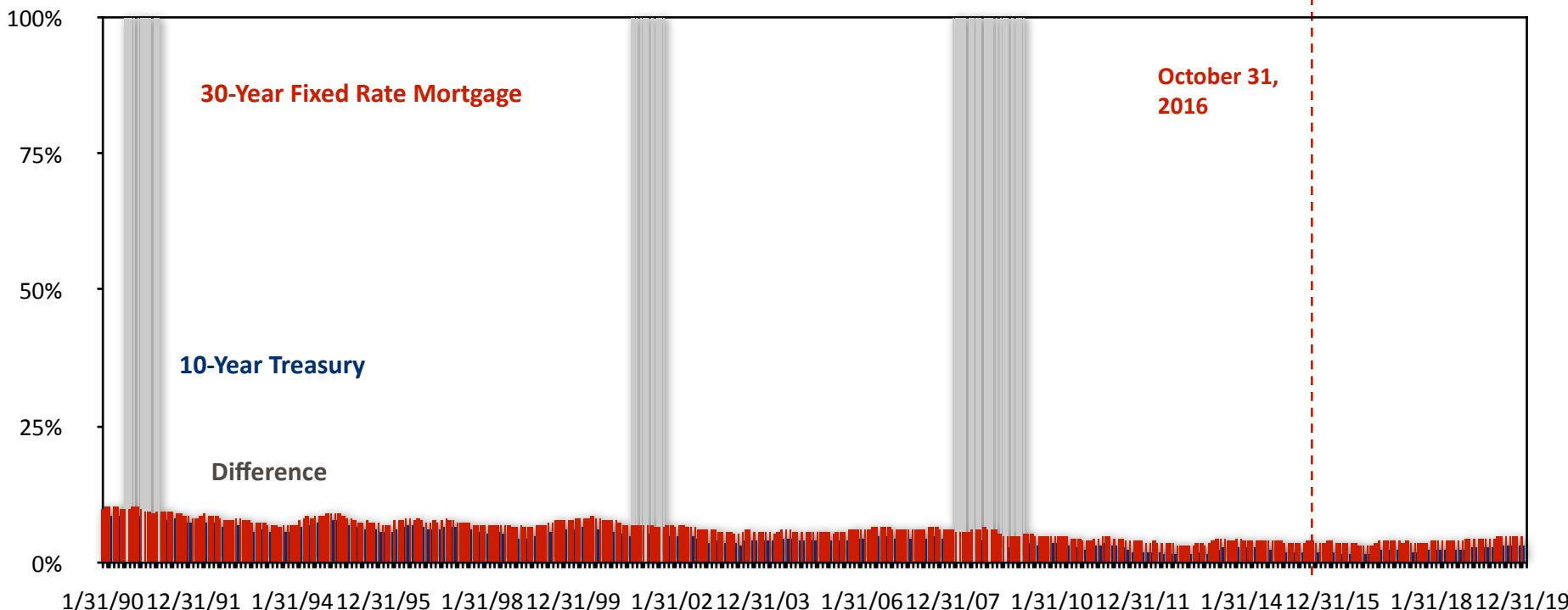
*Balance sheet reduction underway*



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

# 30-Year Fixed Rate and 10-Year

*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*

**National**

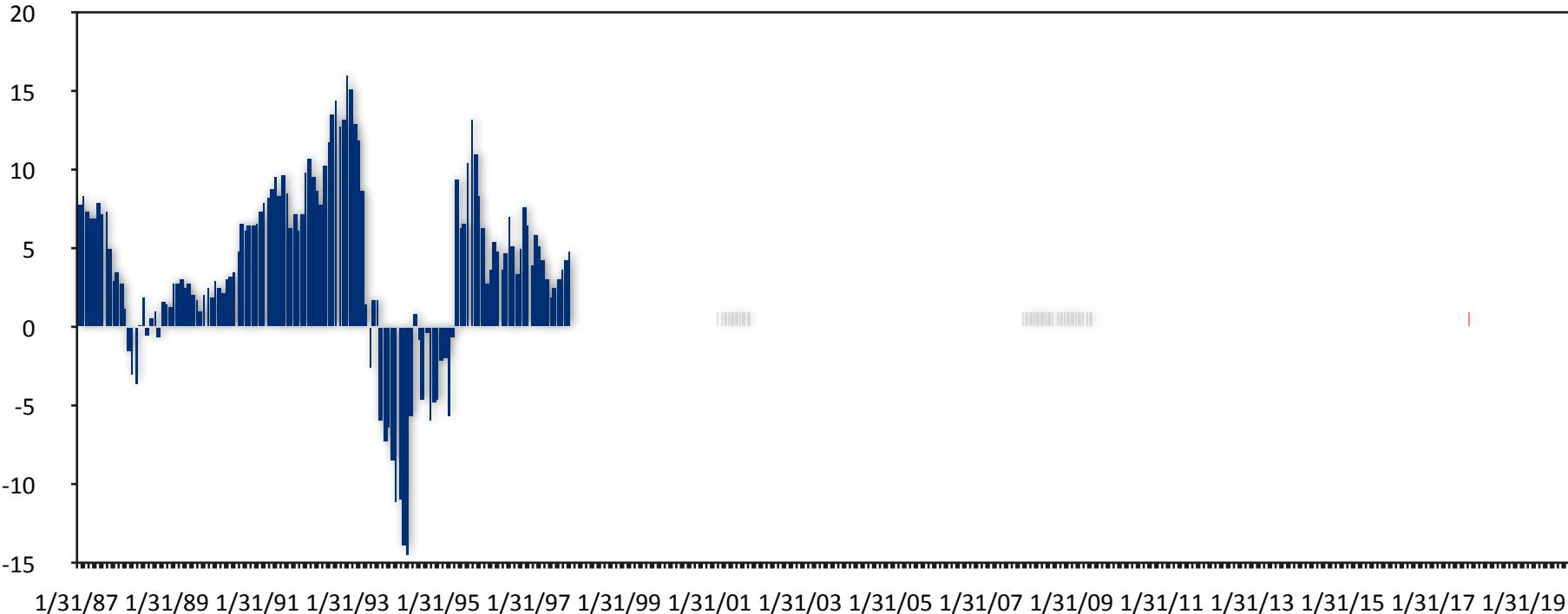
Source: NAHB/Wells Fargo Housing Opportunity Index.



# S&P/Case-Shiller National US Home

*Prices growing faster than income*

Percent Growth, SAAR



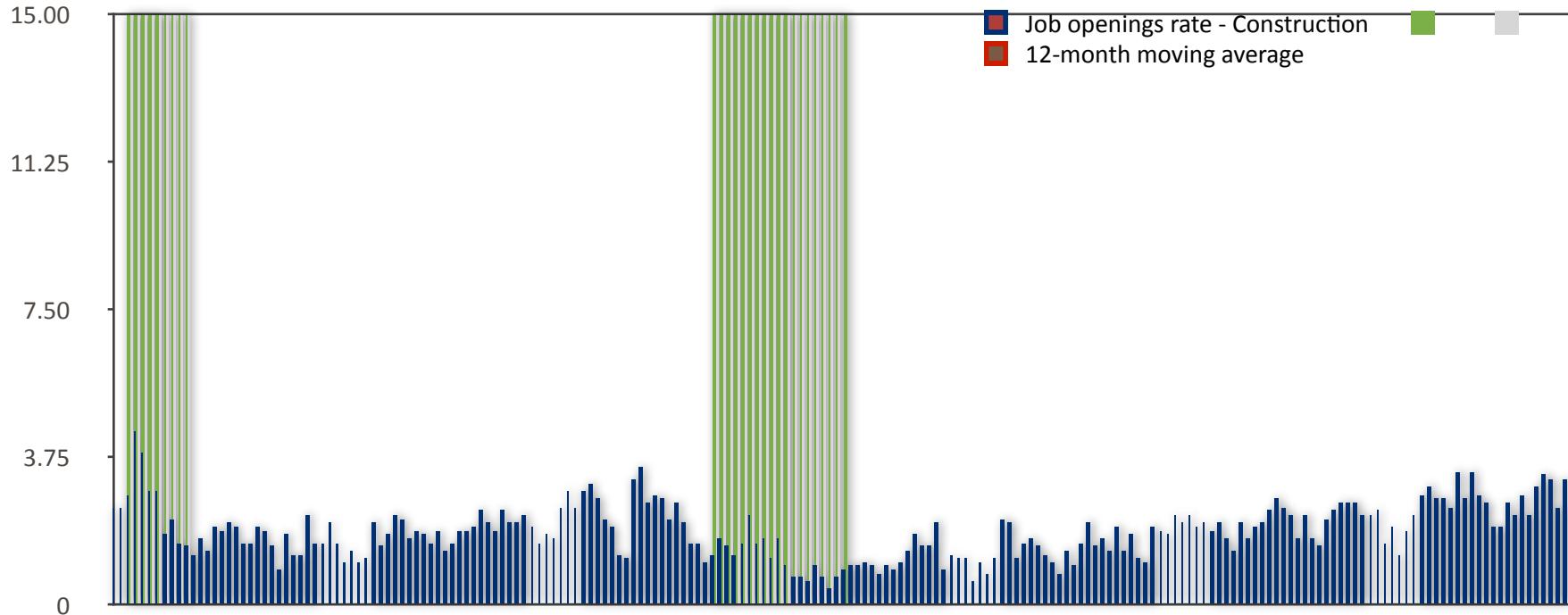
Source: NAHB forecast and S&P Dow Jones Indices LLC; CoreLogic, Inc..



... / Supply-Side Headwind Update

# Labor

*Elevated count of unfilled construction jobs*

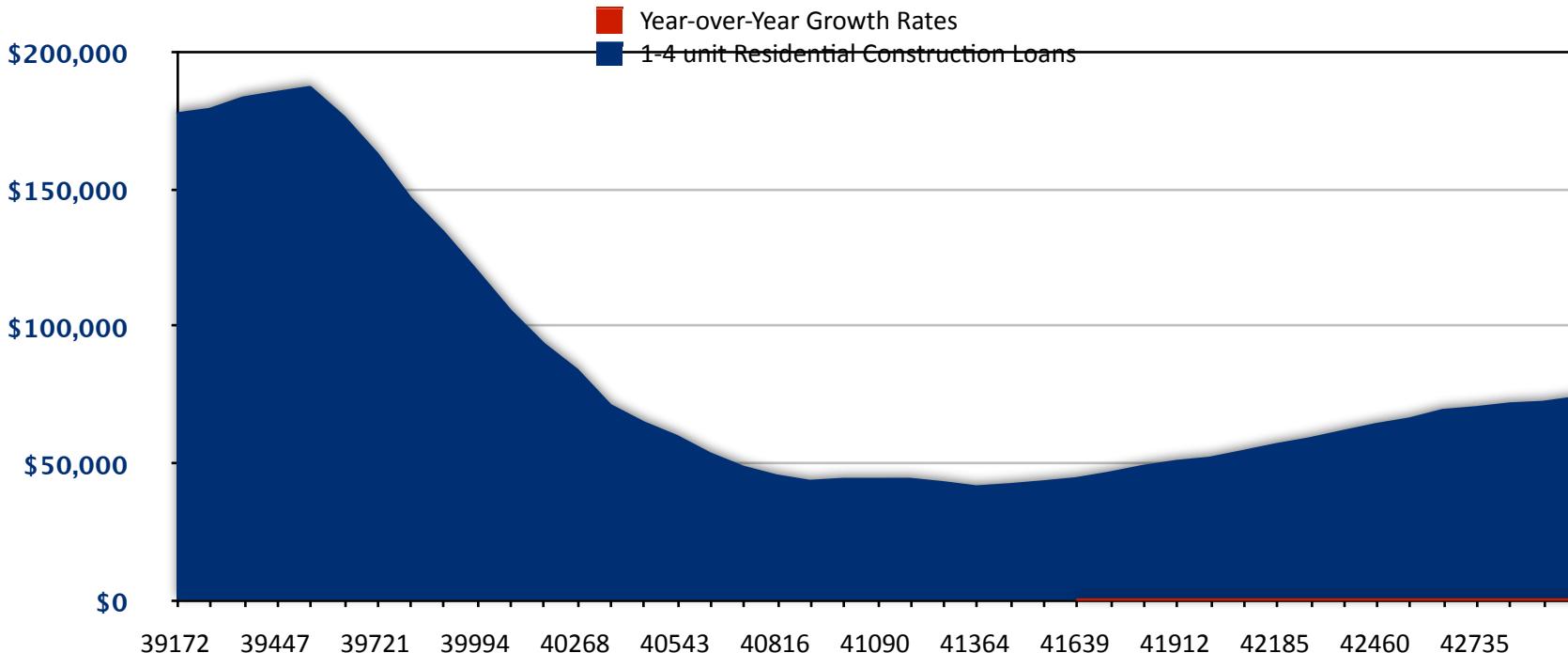


Source: U.S. Bureau of Labor Statistics (BLS).

# Lending – AD&C Access

*Loans growing but at a slower rate*

Millions

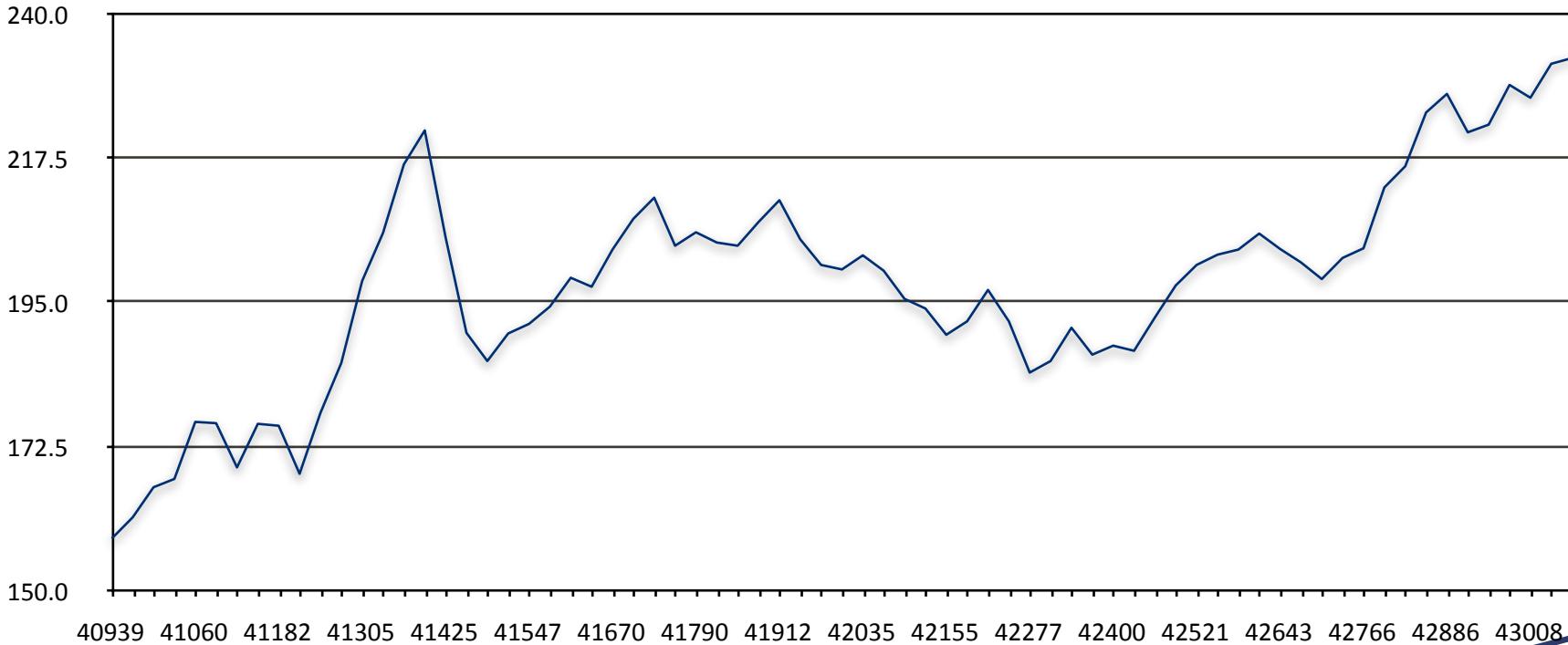


Source: Federal Deposit Insurance Corporation.

# Building Materials – Softwood Lumber

*Since January 2017, softwood lumber increased 14.6%*

Index 1982=100, NSA

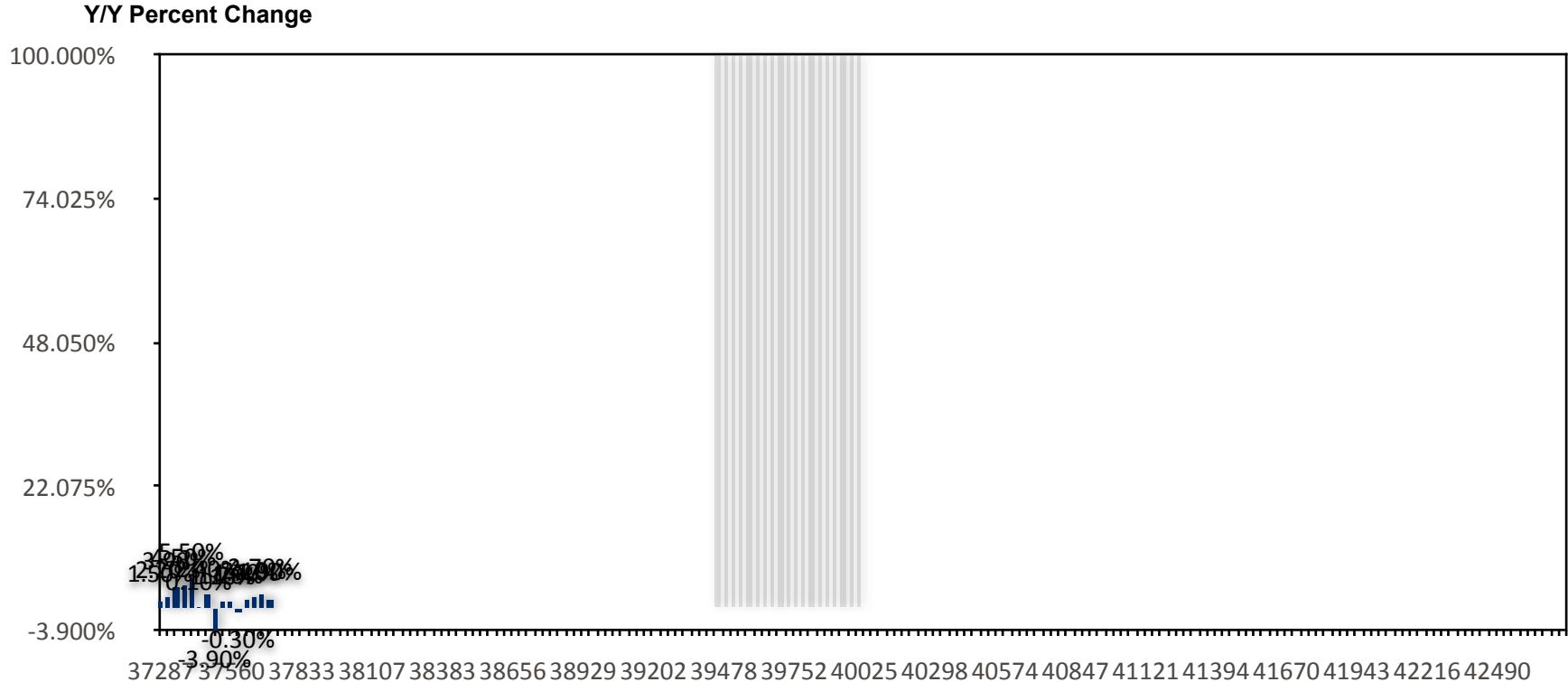


Source: U.S. Bureau of Labor Statistics (BLS).



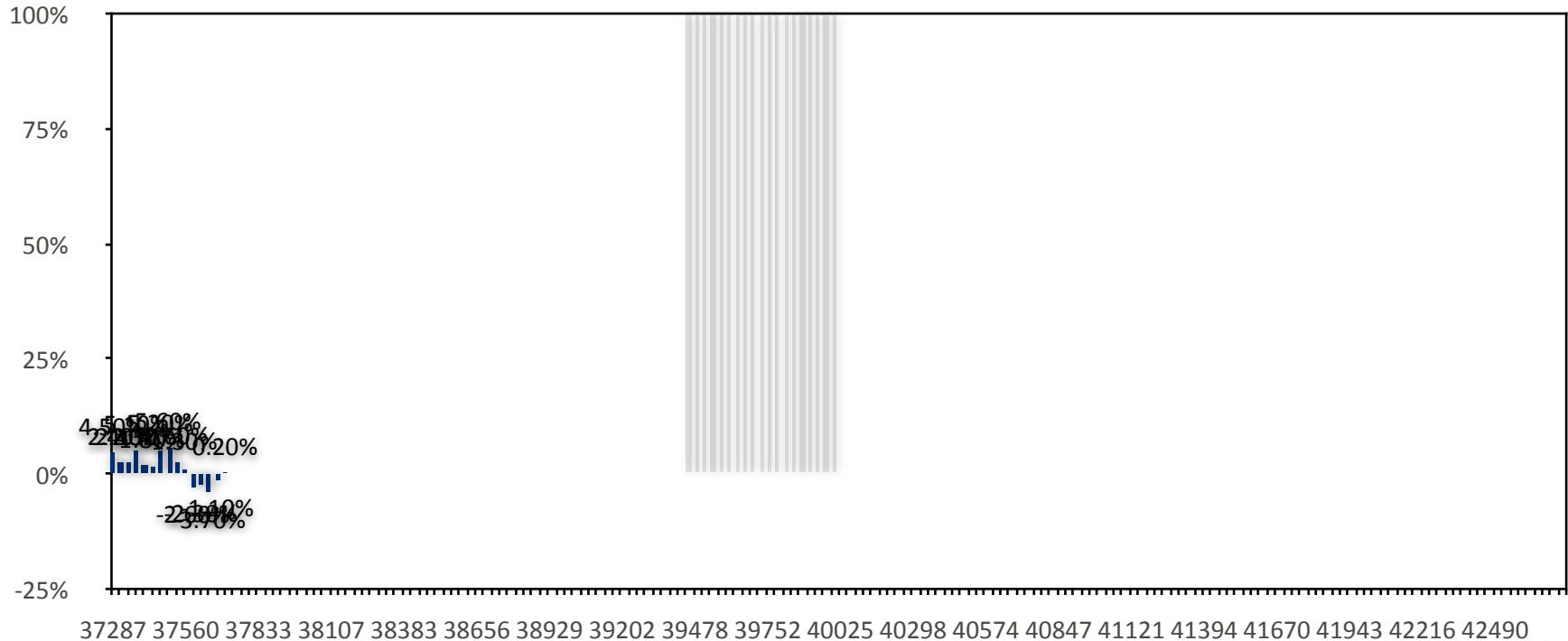
## Local Look

# North Carolina GDP Growth



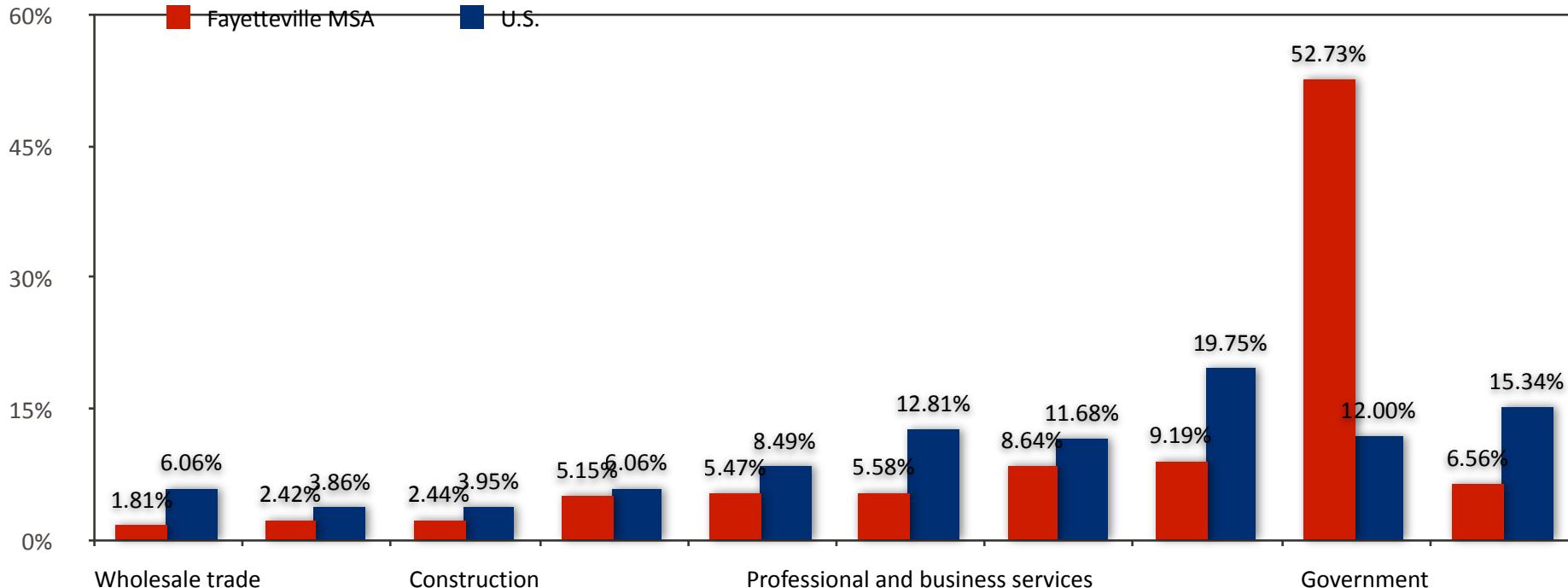
# Fayetteville MSA GDP Growth

Y/Y Percent Change



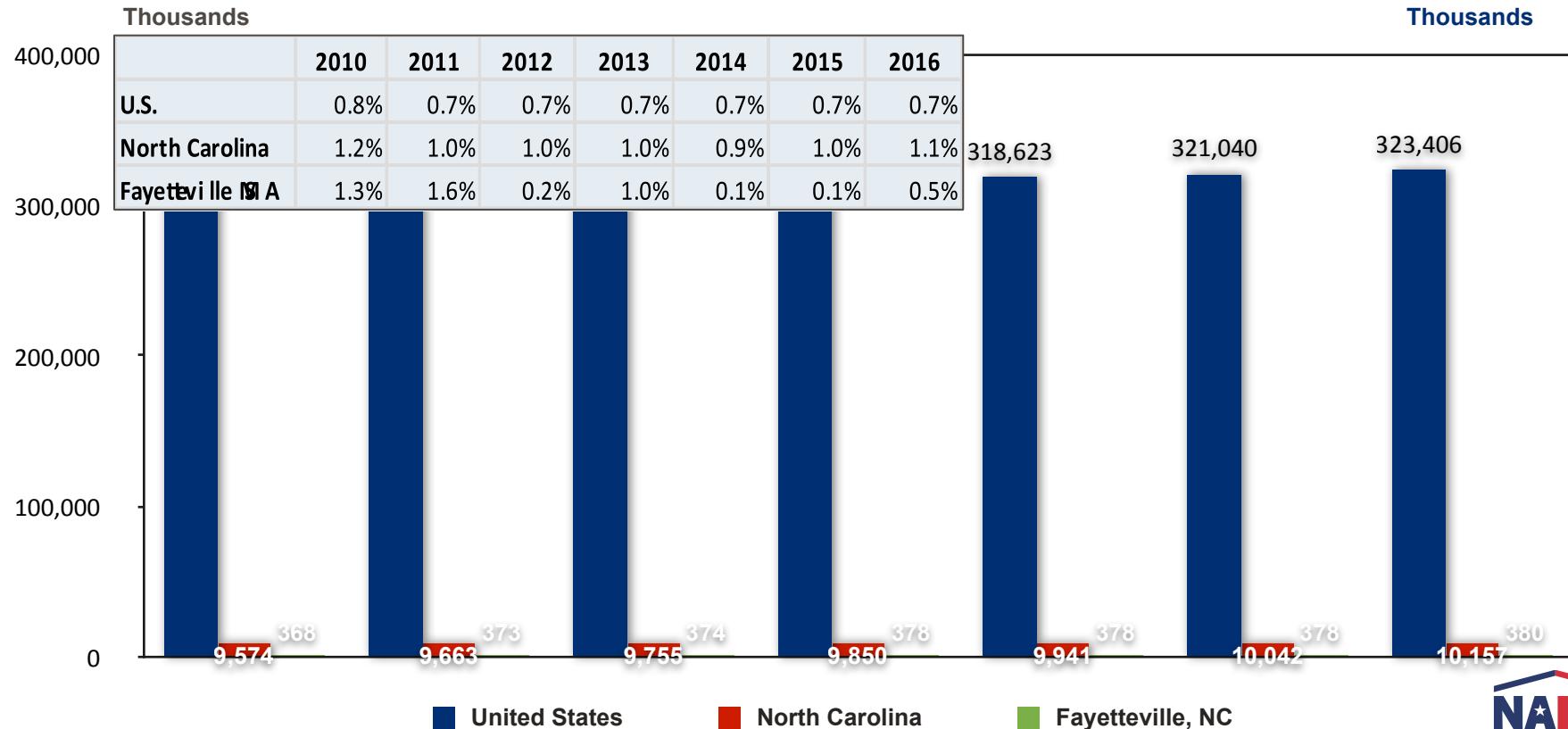
37287 37560 37833 38107 38383 38656 38929 39202 39478 39752 40025 40298 40574 40847 41121 41394 41670 41943 42216 42490

# Share of GDP by Major Industries –



# Population Growth

*Fayetteville MSA population growing slower than national and statewide rates*

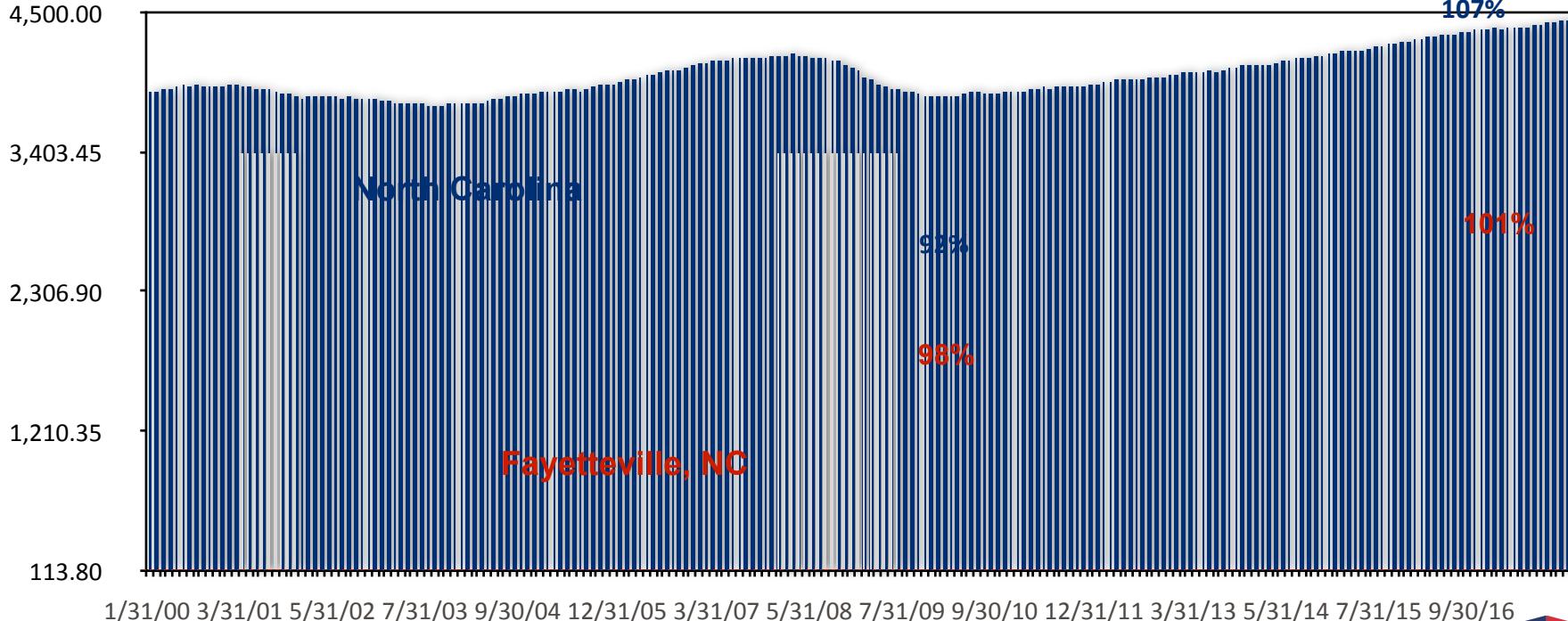


# Payroll Employment

Fayetteville MSA above pre-recession peak

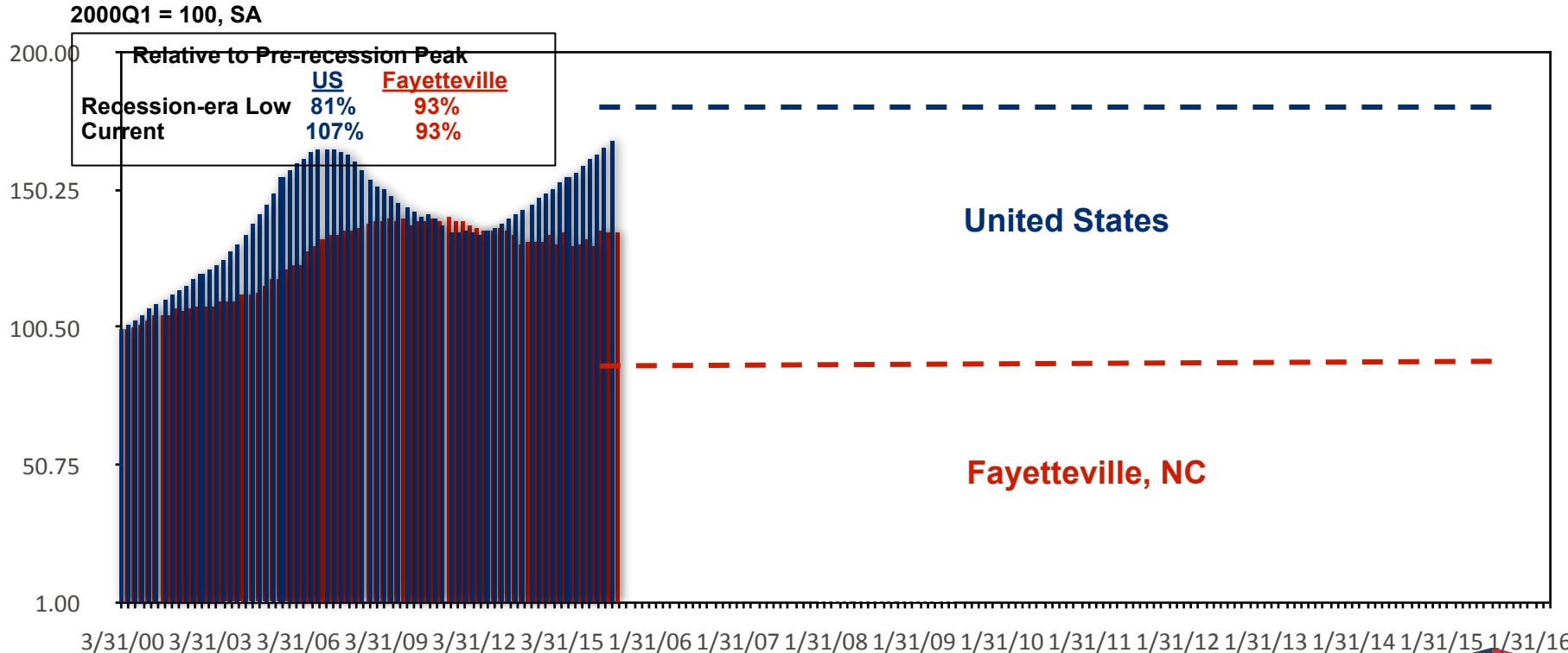
Thousands, SA

Thousands, SA



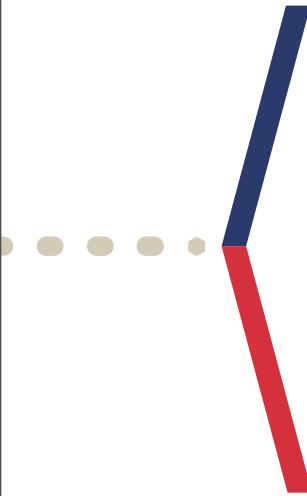
# Existing House Price Index

Fayetteville MSA below pre-recession peak

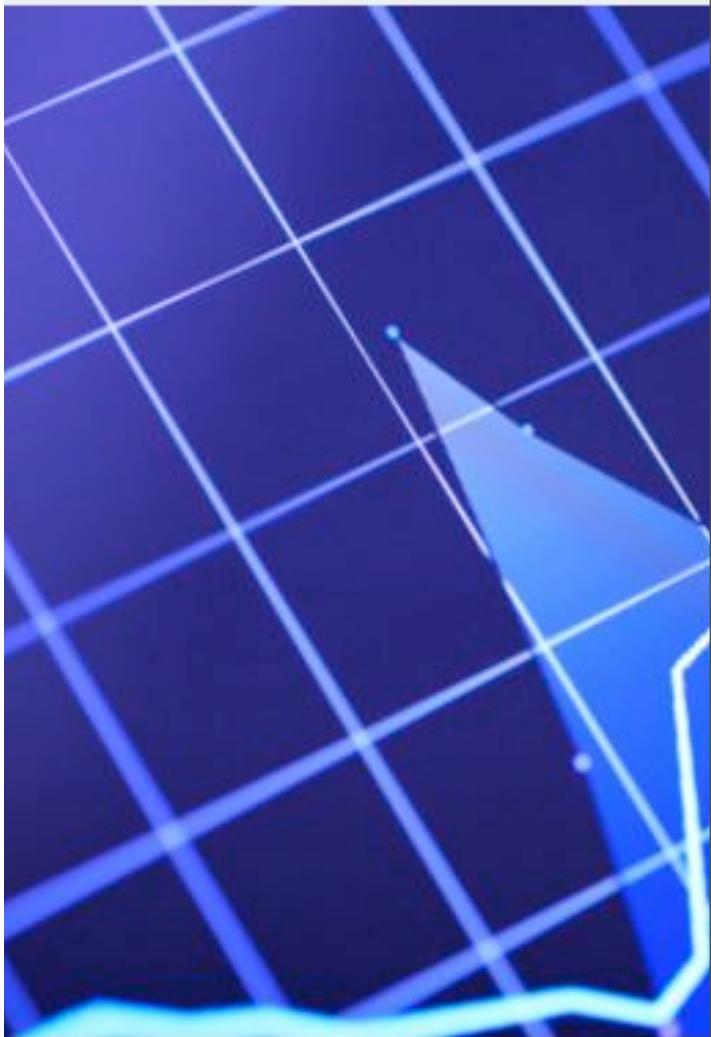




# Affordability Higher Than National Level



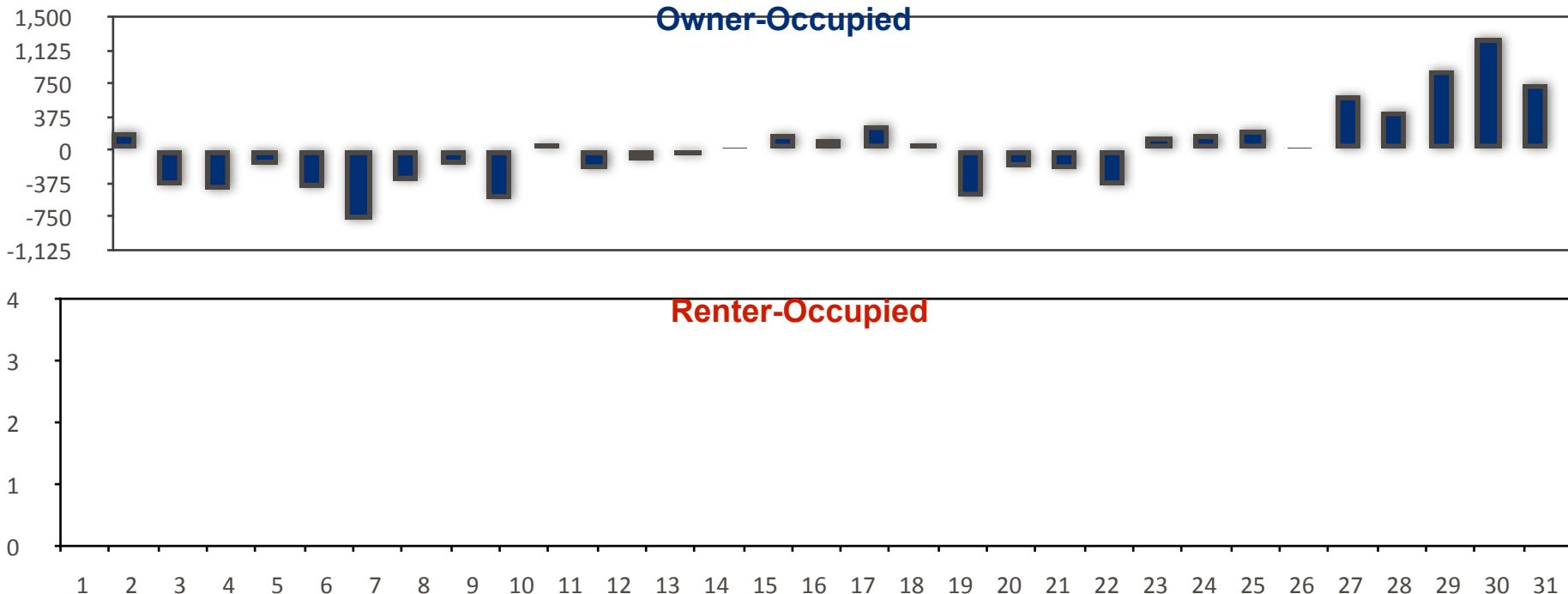
# Forecasts



# Household Formation

*Demand for home ownership strengthening*

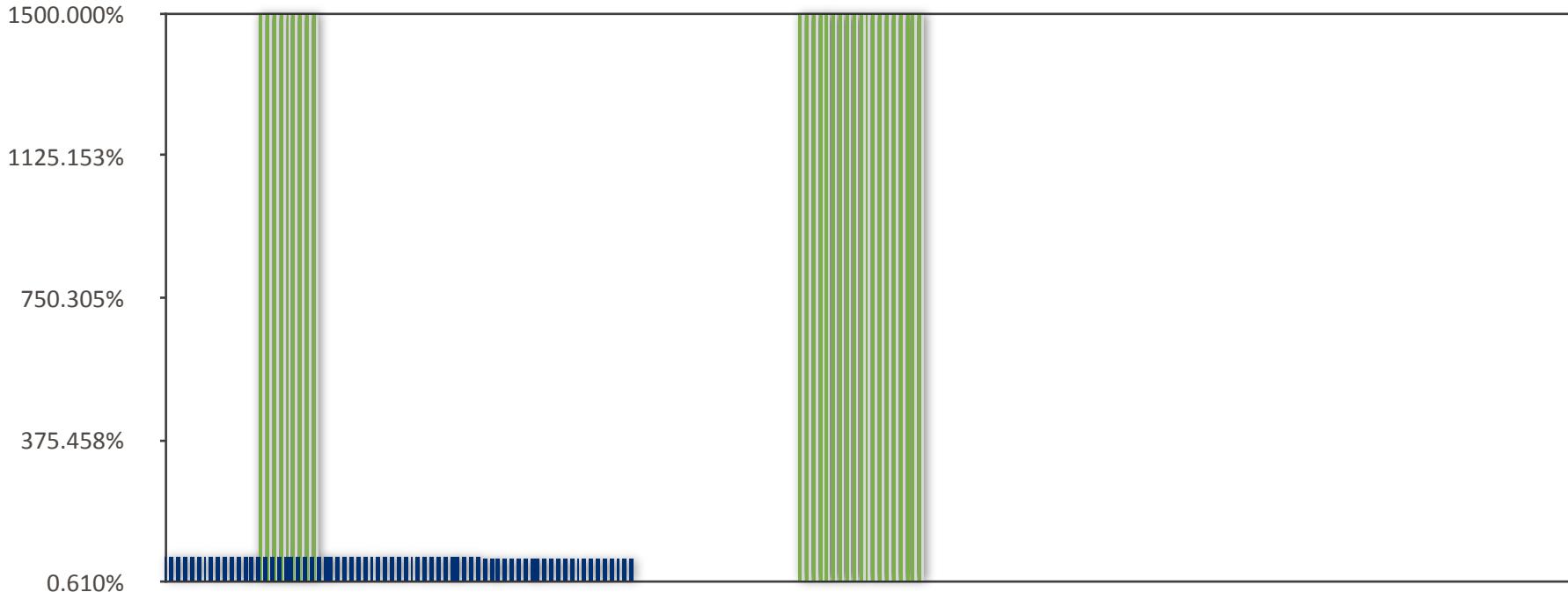
Y/Y Change in Household Count, Thousands, NSA



Source: U.S. Census Bureau (BOC): Housing Vacancies & Homeownership.

# Homeownership Rate

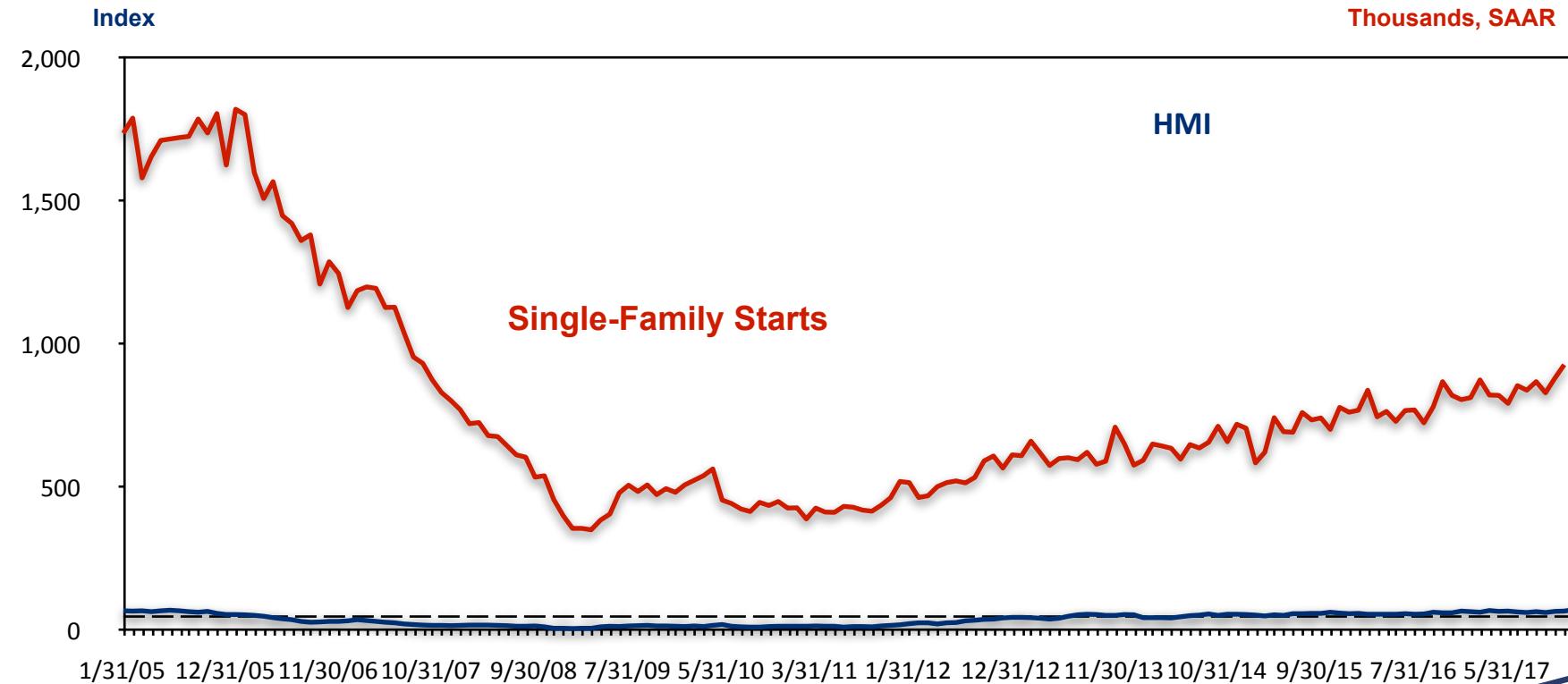
Percentage, Quarterly, SA



Source: U.S. Census Bureau (BOC): Housing Vacancies & Homeownership.

# NAHB/Wells Fargo Housing Market

Nearly two-decade high for builder confidence

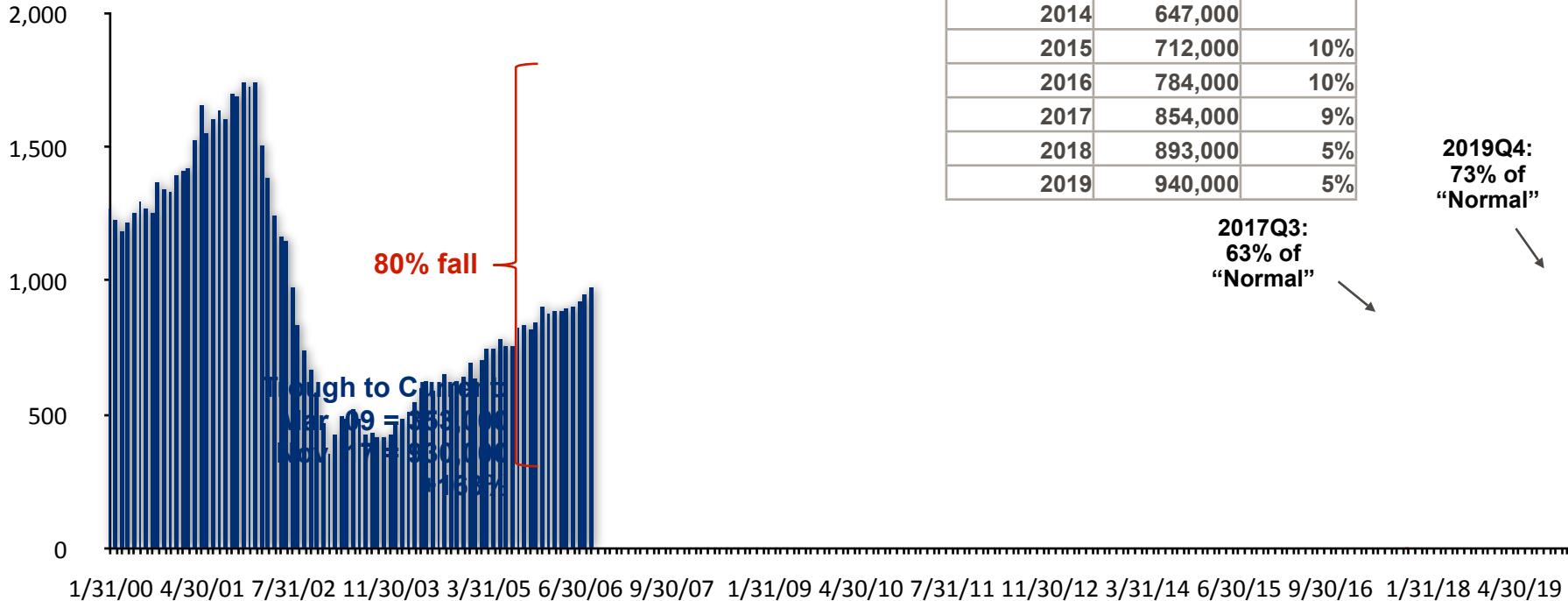


Source: Census Bureau and NAHB/Wells Fargo HMI survey.

# Single-Family Starts

Growth ahead

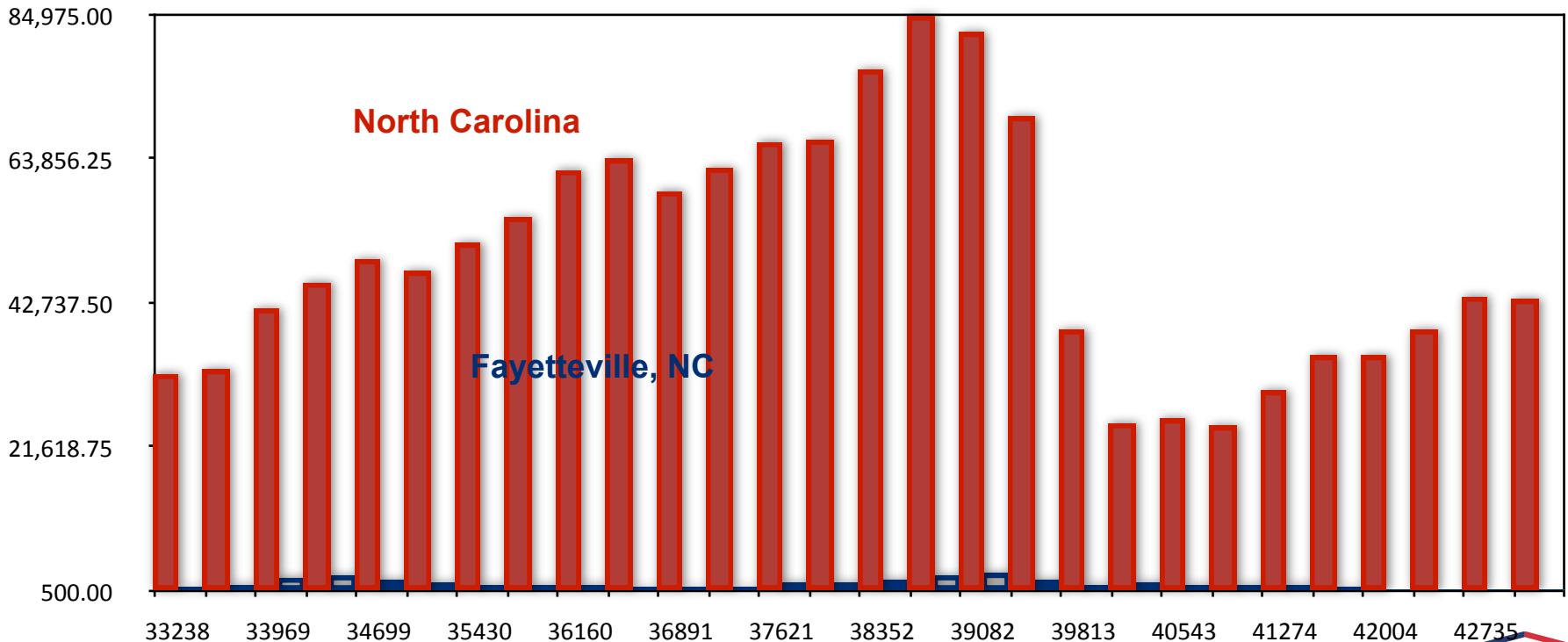
Thousands of units, SAAR



Source: Census Bureau and NAHB forecast.

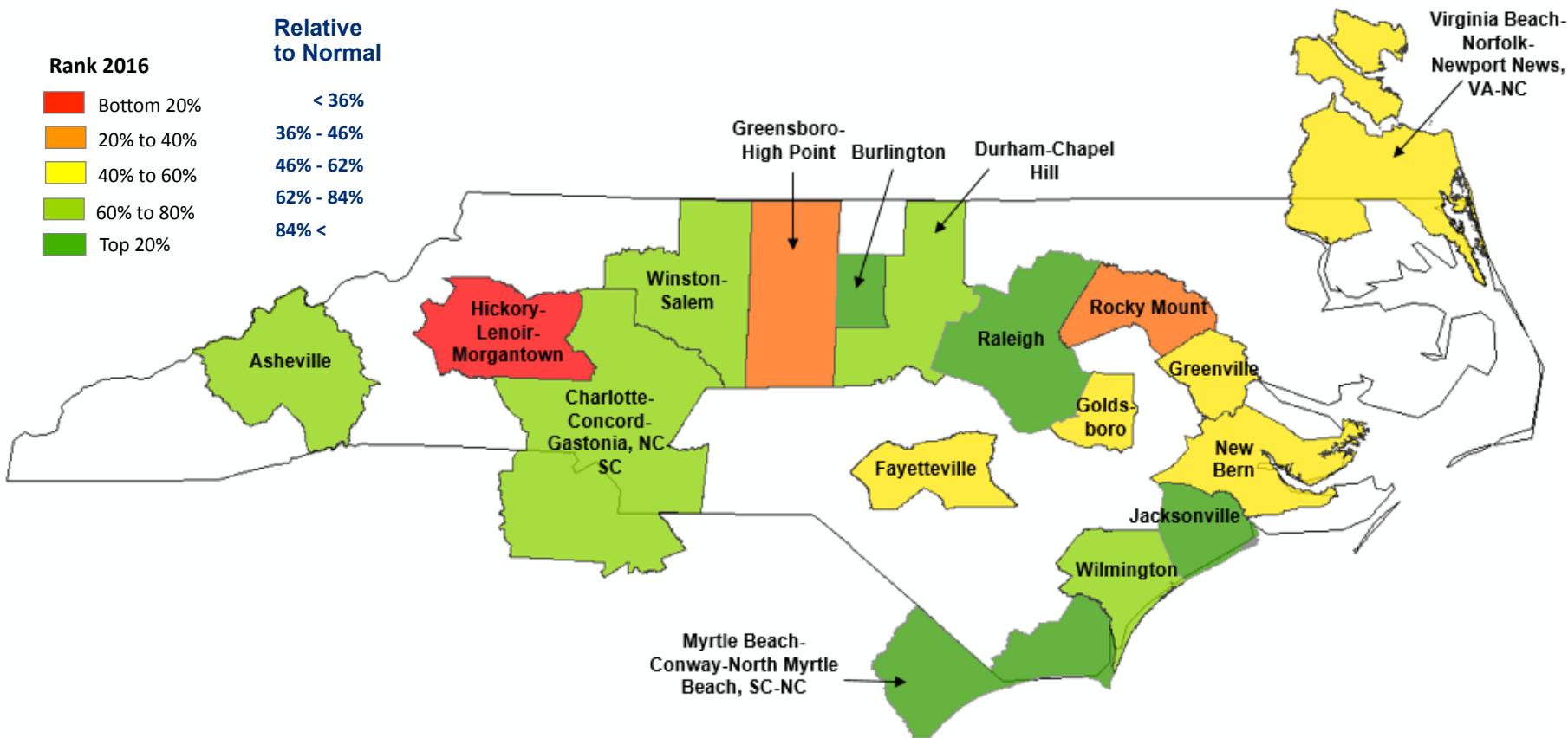
# Single-Family Building Permits -

Number of Units



# North Carolina Single-Family Housing Market

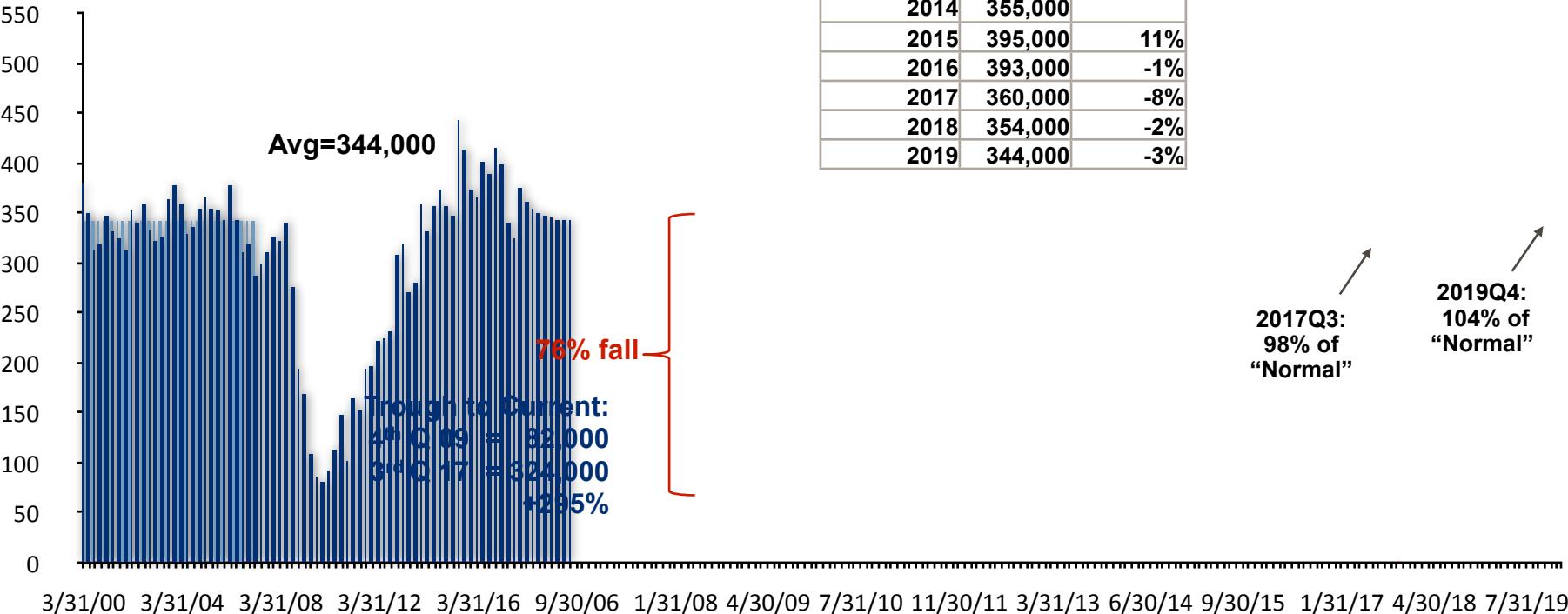
*Some metro areas are closer to a recovery than others*



# Multifamily Housing Starts

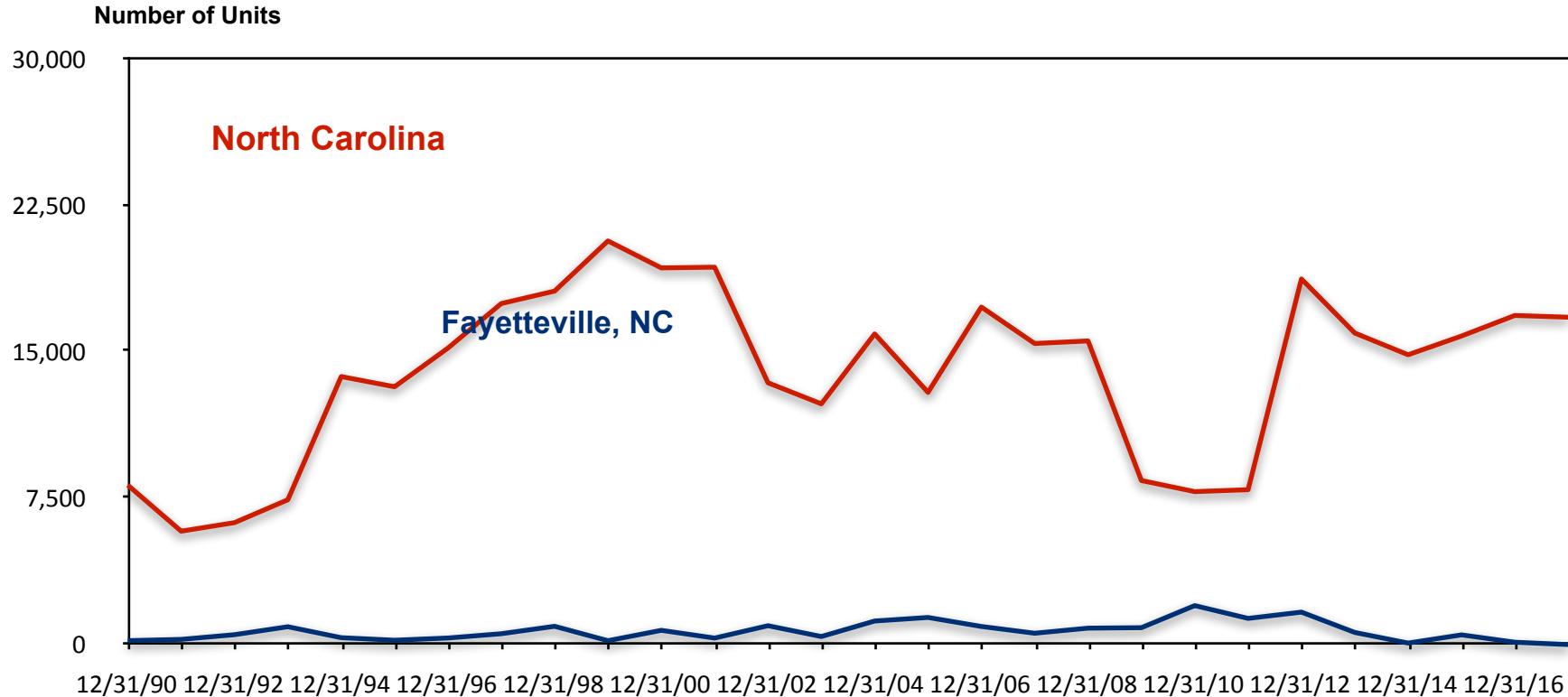
Leveling off

Thousands of units, SAAR



Source: Census Bureau and NAHB forecast

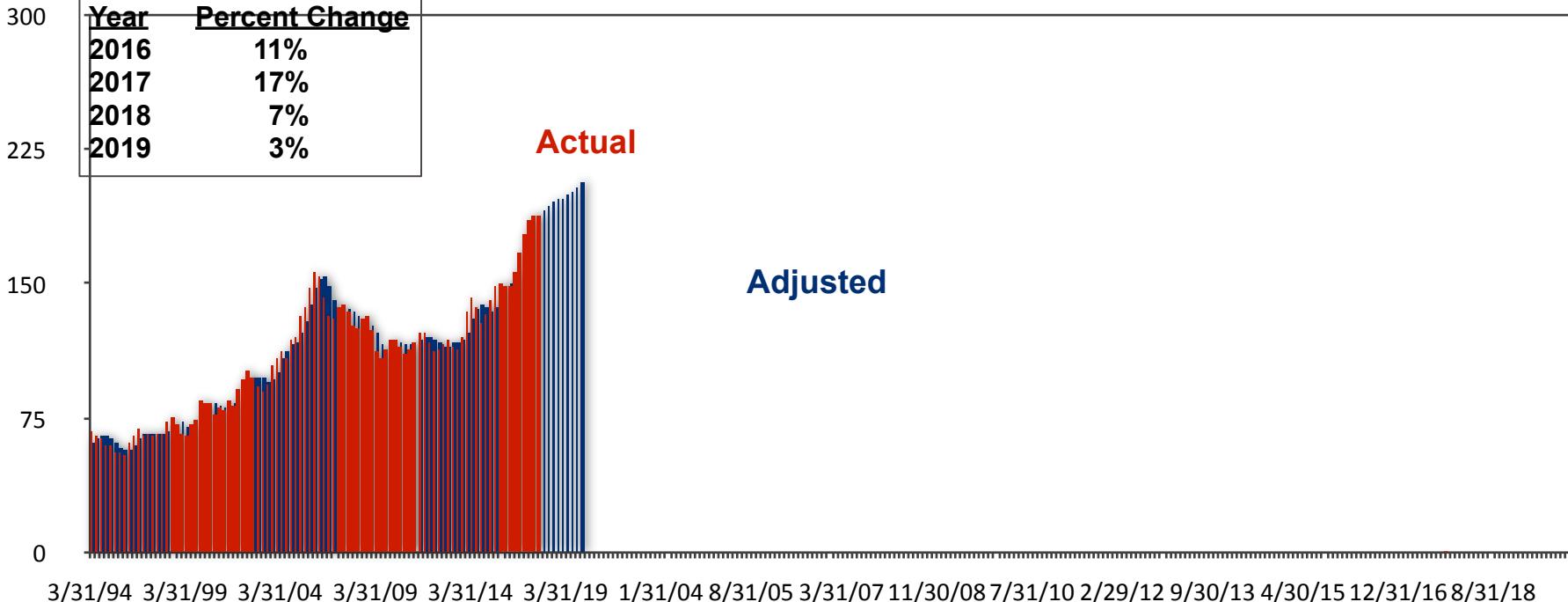
# Multifamily Building Permits –



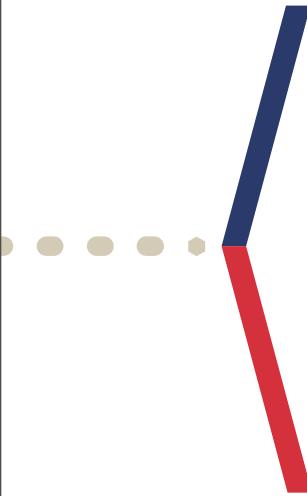
# Residential Remodeling

*Strong market conditions*

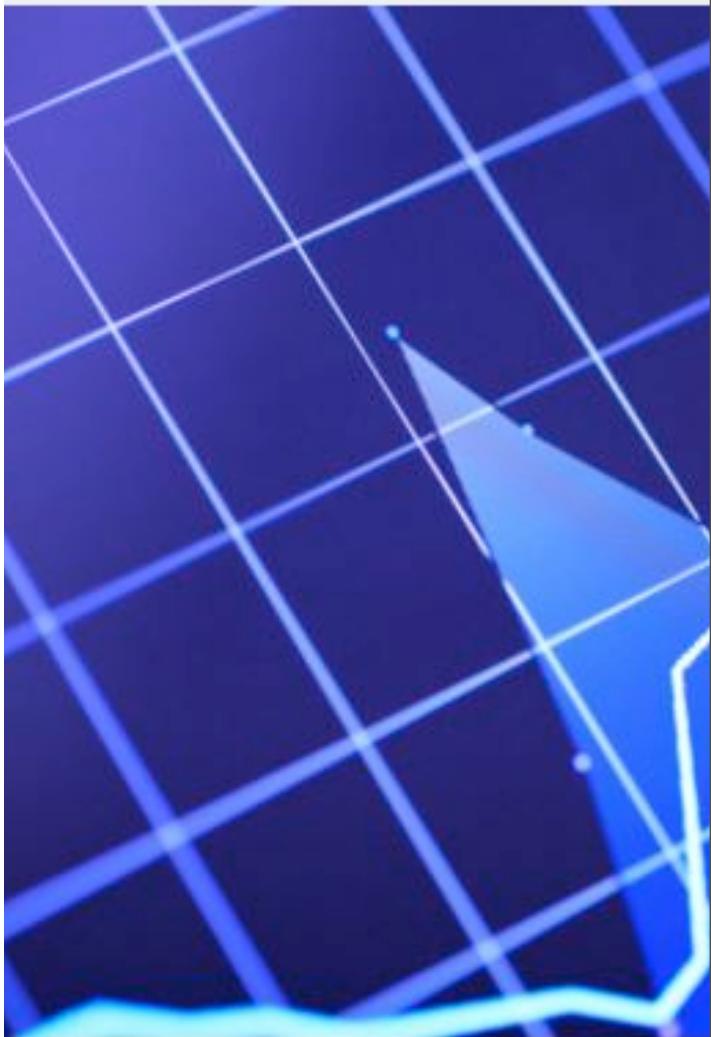
Billions, SAAR



Source: Census Bureau and NAHB forecast.

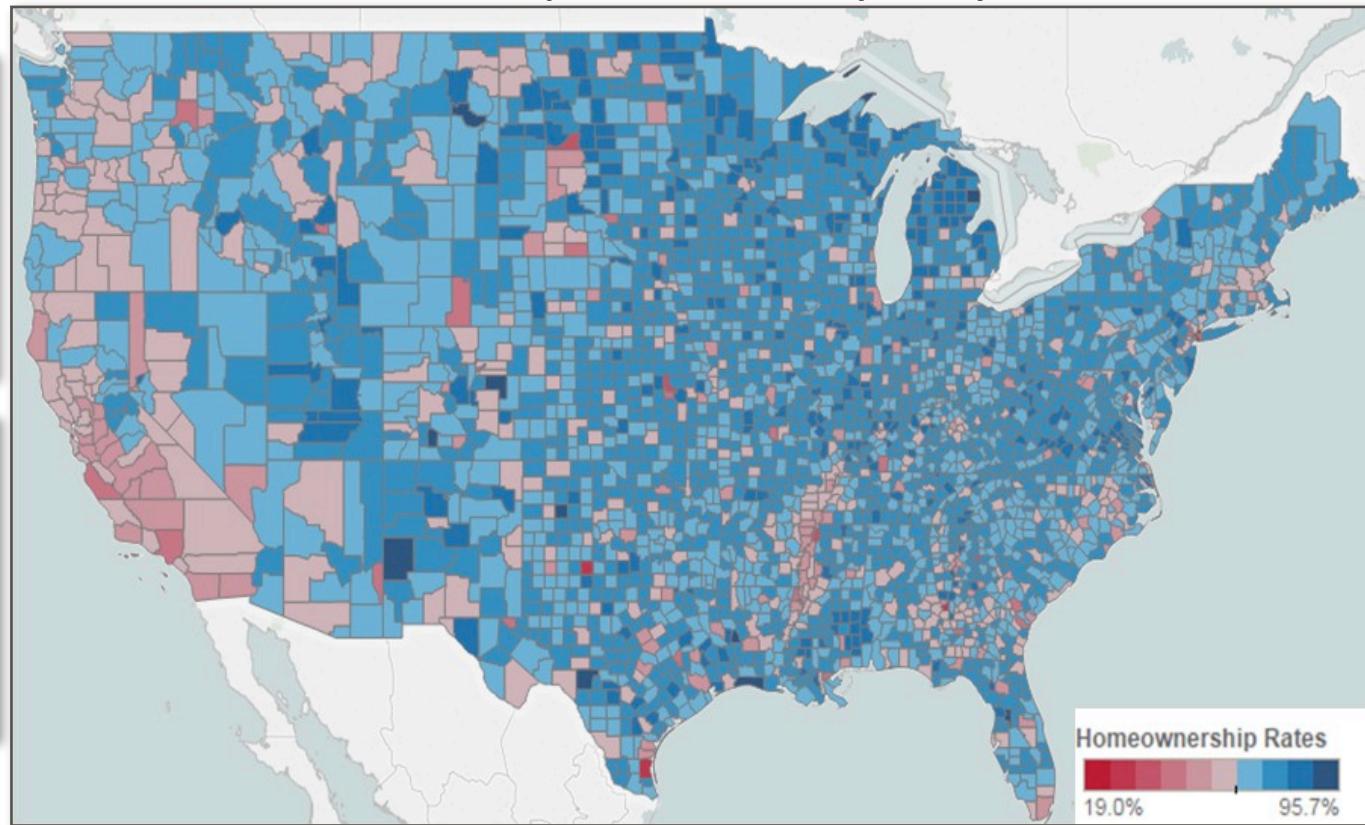
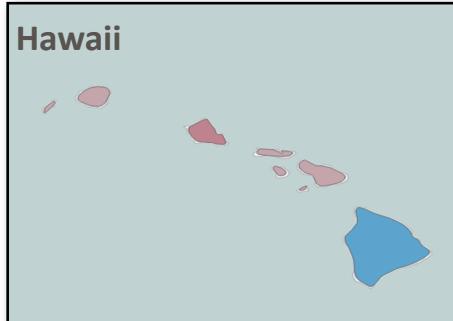
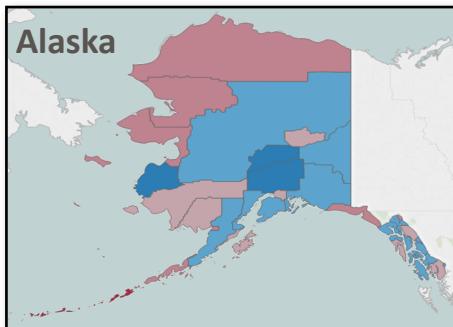


# Homeownership



# Geography of Homeownership

Homeownership Rates in the U.S. by County



# Determinants of Homeownership

## NAHB Economic Analysis

Important factors for county level analysis:

- Age
- Marriage
- Local home costs
- Local incomes

# Determinants of Homeownership

## Modeling Results

Increase average age in county by 5 years

- Adds 3 percentage points to rate

Increase share of married households by 10%

- Added 5.1 percentage points to rate

Increase local incomes by \$10,000

- Adds 0.6 percentage points to rate

Decrease housing costs by \$75,000

- Adds 4.1 percentage points to rate

# Policy Implications

## Economic / Social Policy That Promote Housing

Provide affordable housing (rental and owned) for young people so they can develop roots

Tax / economic policy that doesn't discourage marriage

Income growth is always good

Reduce cost of housing

- Lower regulatory costs (up 29% over last 5 years)

# Regulatory Costs Rising – Up 29%

*Total effect of building codes, land use, environmental and other rules*

Regulatory Costs as a Share of Home Price



\* For quartiles, construction and development costs do not sum to the total.

Source: NAHB/Wells Fargo HMI survey, assumptions described in the Appendix.

# Thank you

*Questions?*

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