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Real Estate Views

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Mortgage Rates*	
30-year Fixed (Zero Points, $417,000, 3.935 APR)	3.875%
15-year Fixed (Zero Points, $417,000, 3.427 APR)	3.375%

** As of June 5, 2017. For reference only.*

Santa Clara County Market Snapshot May 2017*	
# of Listings (Single Family Homes)	943
Average selling price	$1,446,930
% of asking price	105.8%
Avg. number of days on market	18
Number of Homes Sold	1,061

** MLSListings.com*

State Assembly Bill Threatens Mortgage Interest Deduction

Assembly Bill 71 (AB 71) is making its way through the state legislative system and it has the real estate industry abuzz. The bill, designed to increase funding for low-income and farm housing, seeks to eliminate the mortgage interest deduction for second homes as a means to fund it. The concern in the real estate industry is that this will discourage the purchase of second homes and ultimately slow overall home sales. As a result, property owners may see the appreciation rate of their homes slow down or maybe even decline due to fewer buyers in the marketplace and/or increased number of homes for sale.

Here's how the math works. If an investor purchases a home for $750k with 20% down, the principal loan amount is $600k. At 4% interest on a 30-year loan, the interest paid during the first year of the loan is $23,807.72. Deducting this amount from taxable income and applying the state income tax rate of 9.30%, $2,214.12 is the amount that goes back to the homeowner. The bill threatens to eliminate this amount.

This amount may or may not be significant enough to change investors' purchase decisions, but the broader concern of the real estate industry is that this bill will open the door to the cancellation of more existing deductions, perhaps not just at the state level, but at the federal level as well. If this deduction is eliminated at the federal level, the total impact (in this example) can exceed $8,000. And what if they don't stop there? Can the elimination of the deduction for primary residences be next?

Before getting overly concerned, it's important to keep in mind this bill is still at its early stages in the legislative process and, if passed, will only be effective at the state level. Whether or not the bill ultimately passes, I think it's a good time to think about the potential consequences and impact to those who purchase second properties and to homeowners whose home values may negatively be affected. I will certainly keep you updated as the bill goes through the process.

High Employment Keeps Local Market Strong

It's the question many are asking. How long will this strong real estate market last? Of course, I don't know the answer, but I'm willing to offer a guess.

I believe the main driver that determines the direction of the real estate market is the employment rate. When employment is high, the real estate market is good. When it's low, the market slows down.

It happened during the dotcom bust and the Great Recession era. Prior to each market downturn, there was a period of about 2 years prior when the low unemployment rate leveled off. before spiking up.

So far, the trend pattern does not yet show unemployment has leveled off. There have been minor bumps up and down, but nothing consistent.

So, if the pattern holds true, it's at least another year before anything drastic happens in the market. Again, this is just my best guess. Thoughts?