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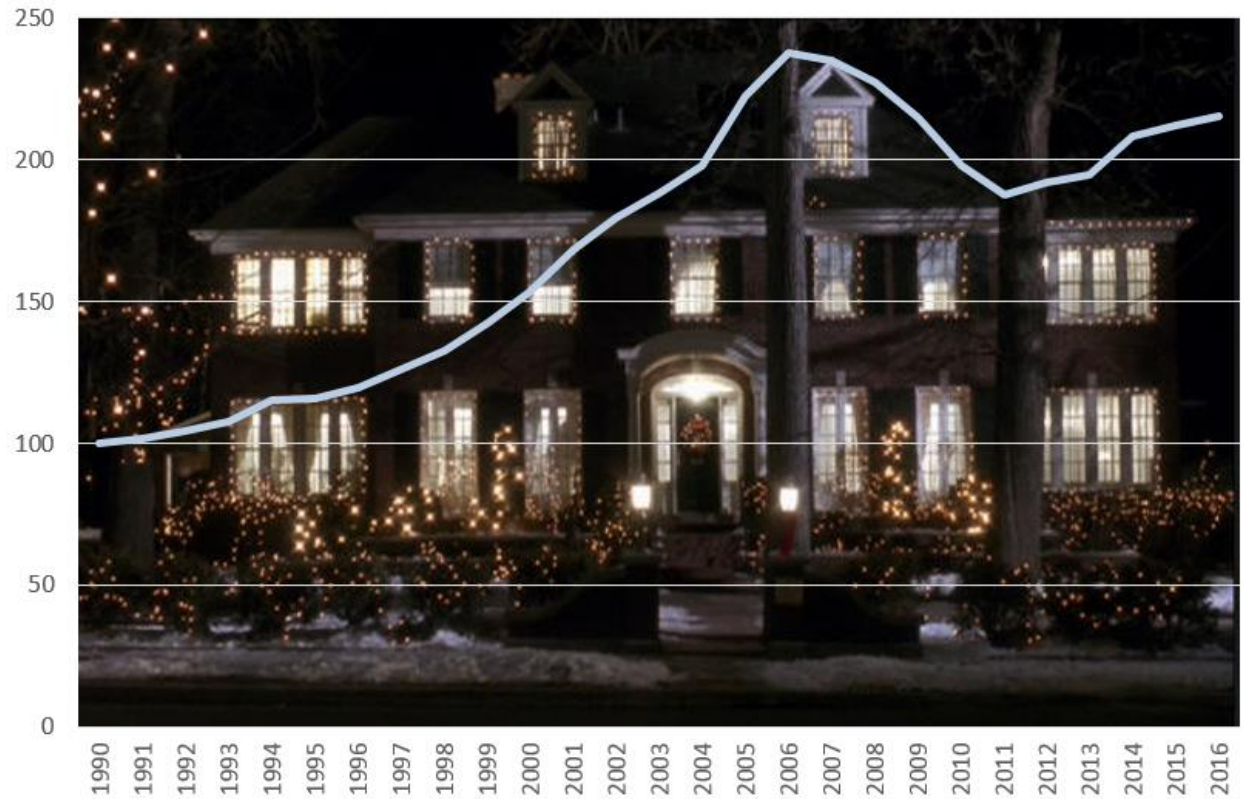
RESEARCH AND ECONOMICS

Chart of the Week - December 22, 2017

FHFA Experimental Zip Code Level House Price Index for 60093



Source: FHFA

This week, we thought a picture of the famous house in the "Home Alone" holiday movie first released in 1990 might provide us a point of focus for considering some of the implications of the *Tax Cuts and Jobs Act*, which was passed this week, on single family housing. A main change for owners of this house, valued by various internet sites between $1.7 and $2.1 million dollars, is that the ability to deduct state and local taxes will be limited (until 2025) to $10,000. Property taxes on this home exceeded $30,000 in 2016 (in Cook County, Illinois), well in excess of the $10,000 limit, and before adding up other state and local taxes that were previously deductible. Changes to the mortgage interest deduction (MID) will not affect any existing mortgages but could affect decisions by future buyers of homes at the high end of the market since interest on only $750,000 of mortgage debt, down from $1 million, will be deductible.

With respect to the broader economy, we see the Act boosting GDP by an additional quarter percentage point over the next two years and unemployment heading even lower than previously expected. Because so few mortgages are expected to be affected by changes to the MID, and other households will benefit from a larger standard deduction, we think that the impact on house prices will be a wash at the national level, leading to similar expectations for home sales and starts. However, the impacts may vary by geography and price point.

We wish everyone a Happy Holiday Season. We'll take next week off and publish again in January.

- Lynn Fisher lfisher@mba.org; Michael Fratantoni mfratantoni@mba.org; Joel Kan jkan@mba.org;