What's Next?

How the real estate market could be impacted by Trump's presidency. **BY TERRY ALLEN , CFP® AWMA℠**

PHOTO: CRAIG TOOCHECK

Many are wondering what the election of real estate mogul turned most powerful man in the world will mean to the real estate market. While much of what we'll discuss is still in the "proposal stages" we do know that our new president has been very forthcoming about his intent to limit the federal government's role in the markets in general, while promising creation of jobs and GDP growth.

President Trump started his career in real estate. His father was a real estate developer, and Trump has made a fortune building or licensing his name to luxury condominiums, hotels and casinos. How will that experience enable him to help the middle class, which faces a lack of affordable housing and rising prices? How will his plans affect home buyers, real estate investors and rental property owners?

Impact on Homebuyers

In the short term, the shock of the Trump victory will be both a boon and a drag on the confidence of the American homebuyer, according to Ralph McLaughlin, chief economist with Trulia.com, a San Francisco-based real estate research site. McLaughlin is quoted as saying "there will be a short term impact on the so-called "Costly Coasts" dominated by upscale liberals, and the "Bargain Belt" of more blue-collar housing markets.[1] Home buyers in economically healthy blue states will likely be rattled and more hesitant about the future of the U.S. economy, while in economically stagnant red states, buyers will likely feel a surge of confidence that could bolster demand. The question remains; even with this surge of confidence, who can afford the sky high housing prices?

Impact on the Housing Market

In Trump's acceptance speech, given early in the morning of November 9th, he promised dramatic new investments in infrastructure, sounding to many, like an old school Democrat. If these investments are made, this could boost demand for housing in the way giant depression-era Works Progress Administration projects like the Golden Gate Bridge and Hoover Dam created relocation opportunities for skilled workers.

Trump also promised that "we are going to fix our inner cities and rebuild our highways, bridges, tunnels, airports, schools and hospitals. We're going to rebuild our infrastructure and we will put millions of our people to work as we rebuild it."

If Trump is successful in launching these massive rebuilding programs in inner cities and across the country, the housing market could soar. In addition to the creation of new jobs, conceivably giving a larger number of people more opportunity to enter the housing market, Trump has also promised to cut taxes, which could in theory, leave buyers with more money to spend on home ownership.

Impact on the Economy

The combination of tax cuts and government spending will no doubt provide a short term boost to the economy. Inflation will likely kick a bit higher from faster GDP growth and that will lead to moderately higher interest rates. If the higher GDP growth can be sustained, and arises out of higher productivity, then inflation will be manageable. Moreover, more jobs will mean more tax revenue, which may lessen the budget deficit. The economy has already seen a bump since the election, not only in the stock markets, but in U.S. construction spending, which rose more than expected in November, reaching its highest level in over 10 years. The commerce department reported that construction spending increased 0.9 percent to $1.18 trillion, the highest level since April 2006. Bloomberg also reports that consumer confidence is- at a 12-year high, boosted by gains in both private and public sector investment.[2]

Lending

There could also be a move away from stringent mortgage underwriting to more normal lending. Credit is still tight for mortgages, as evidenced by high credit scores of those who are getting approved for loans. An important reason for overly conservative lending is due to the exposure of random lawsuits by the government on lending institutions in recent years. To the degree that the Trump administration makes it very clear as to what is and what is not an infraction, then more mortgages will be provided to consumers.

Should the Trump administration, like the Obama administration before him, create an environment of "we will sue you" then the lending institutions will retrench and shut off mortgage access to many consumers.[3]

Construction

There could also be less regulatory land use and zoning burden for home construction, and thereby lower the cost of building. In recent years, prices on new home construction have been much higher than existing home prices. Homebuilders say that is due to all the extra cost of regulation rather than the higher cost of lumber, cement and worker wages.

President Obama's economists, in fact, wrote a white paper on the topic of lifting this burden. President Trump will likely try to move on this issue—though jurisdictional issues of federal versus local will be contested, especially in highly overregulated California.[4]

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Tax Reform

One of Trump's key campaign issues, and a significant part of his 100 day plan, is tax reform. How will this affect the real estate market? As we mentioned earlier, tax cuts, in theory, put more money in the pockets of the American consumer. This provides an economic stimulus which hopefully carries into the real estate market. Trump's goal is to simplify the U.S. Tax code which is said to be thicker than the Bible, but without any of the good news.[4]

One particular aspect of the tax code of note, with President Trump, will be about commercial real estate depreciation. That is because President Trump has said he used this depreciation to not pay any new taxes. Attention could be paid to this depreciation method. In days past, many high income professionals bought real estate at the recommendation of their tax advisors to lower their tax obligation. But in 1986, a new tax code prevented these "passive losses" of depreciation. It initially also tried to limit depreciation to real estate investors who are active in the real estate business. That would have been the equivalent to not being able to depreciate expensive medical equipment by doctors in their business. That is why the National Association of Realtors made it known that depreciation should be allowed as an "active loss" for those who practice real estate as their profession.

Many Are Pessimistic

Not everyone is optimistic, however. According to Bob Edelstein, co-chair of the Fisher Center for Real Estate and Urban Economics at the University of California, Berkeley "the heart of Republican support – blue-collar, middle aged workers, are the people who will be affected by Trump the most. Under Trump, it may be harder to get mortgages, and those that will be available will be less advantageous.[5] Edelstein's pessimism is due to the threats made by the Republican Party to do away with Fannie Mae and Freddie Mac, as well as repeal, or at least limit Dodd-Frank, the Wall Street Reform and Consumer Protection Act. Republicans have also mentioned that the Consumer Financial Protection Bureau (CFPB) could be subject to congressional appropriation. This Bureau was designed to protect consumers against predatory financial services companies, including those providing mortgages. Dodd-Frank and CFPB are designed to ensure financial markets are kept in check and act fairly, says Edelstein.[5]

However, many take the opposite point of view and argue that over-reaching government intervention in any market hinders efficiency and limits activity.

The Rental Market

Unfortunately, no one has developed a crystal ball to see into the future of residential real estate under our new president. It doesn't look like demand from aspiring home buyers will taper off any time soon, and with the price of homes still at record-high levels, many prospective home buyers will remain renters for the foreseeable future. Many cities have been implementing rent control amid the ever increasing complaints of unaffordable housing in the Bay Area. Even though some rents have increased, property owner's bottom lines have not necessarily increased due to increased regulation, maintenance expense and other property ownership expenses in the Bay Area.

The rental picture is complex. There is more to it than the upward trajectory of monthly rental rates. Many property owners operate in the red for years on end. After paying the mortgage, taxes, utilities, fees and maintenance, in addition to ongoing property improvements, profits are slim for many.

But, one thing we do know is that more and more people are turning to renting, either by necessity, deterred from buying by prohibitive homeownership costs, or by choice, as renting is more often associated with a flexible lifestyle. Developers are determined to capitalize on this growing demand, as evidenced by the skylines filled with construction cranes across the Bay.

While new construction can be viewed as a positive economic indicator, not all renters can afford to rent "new," especially in the Bay Area. This bodes well for rental property owners with units to satisfy increasing demand, as long as local politicians do not handcuff owners with impossible eviction laws and burdensome rent control restrictions. Many East Bay cities are moving to enact rent control measures, which according to the State Legislative Analyst's office, will not increase the supply of housing, and in fact would likely discourage new construction.[6] Membership in EBRHA is the best way to ensure you are on the front lines of fighting onerous and harmful policies that hurt the small property owner.

A Favorable Climate for Property Owners?

In a perfect world, job growth, plus positive tax reform, plus less restrictive lending practices should equal a favorable climate

UPCOMING WORKSHOPS

New Tax Laws for Rental Property Owners

DATE & TIME TUESDAY, FEBRUARY 7; 2:00 P.M. - 3:30 P.M.
SPEAKER Jong H. Lee, The Lee Accountancy Group, Inc.
PRICE Members: $39; Non-members: $69
TOPICS **New Tax Laws for 2017, What Property Owners Need to Know About Taxes Affecting Rental Properties**

Understanding The New Capital Improvement Process

DATE & TIME WEDNESDAY, FEBRUARY 8; 2:00 P.M. - 3:30 P.M.
SPEAKER Liz Hart, Rent Board & Property Managment Consultant
PRICE Members: $39; Non-members: $69
TOPICS **Changes to Capital Improvements, the Process, the Oakland Rent Ordinance, Recapturing Potential Income**

Rental Property Owner 101 (RPO 101)

DATE & TIME THURSDAY, FEBRUARY 16; 2:00 P.M. - 3:30 P.M.
SPEAKER Jill Broadhurst, CCRM, EBRHA
PRICE Members: Free; Non-members: $69
TOPICS **Tenant Screening, Application Process, Fair Housing, Local Ordinances, and More**

Unless noted, all workshops are held at:

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for property owners, but we all know that Bay Area rental property ownership is more problematic than in most parts of the country. The optimist in me thinks a robust economy will go a long way in forcing local jurisdictions to come up with plans to provide more rental units to keep up with housing demand, but not on the backs of small rental property owners. So, while a Trump economic boom could impact us favorably, on an individual level, time will tell how that translates to our role of small property owners. Let's continue to support EBRHA in their efforts to educate and advocate on our behalf, and work toward positive change in the intricate web of local rules and regulations. **RH**

This article is not meant to be a political endorsement of any kind by EBRHA.

1. *"What Donald Trumps's Election Could Mean for Home Prices"*, Daniel Goldstein, 11/14/16, MarketWatch
2. *"U.S. Construction Spending Hits More than 10 Year High in November"*, Berkeley Lovelace and Associated Press, contributors, 1/3/2017, CNBC
3. *"U.S. Sues 17 Banks Over Mortgage Losses"*, Philip Van Dorn, 9/2/11, TheStreet
4. *"How Trump's Presidency Could Impact Real Estate"*, Lawrence Yun, 11/10/2016, Forbes
5. *"How President Trump Will Change the U.S. Housing Market"*; Clare Trapasso, 11/9/16, Realtor.com
6. *"Editorial: Rent control exacerbates housing shortage"*; East Bay Times Editorial, 11/2/2016, East Bay Times

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