

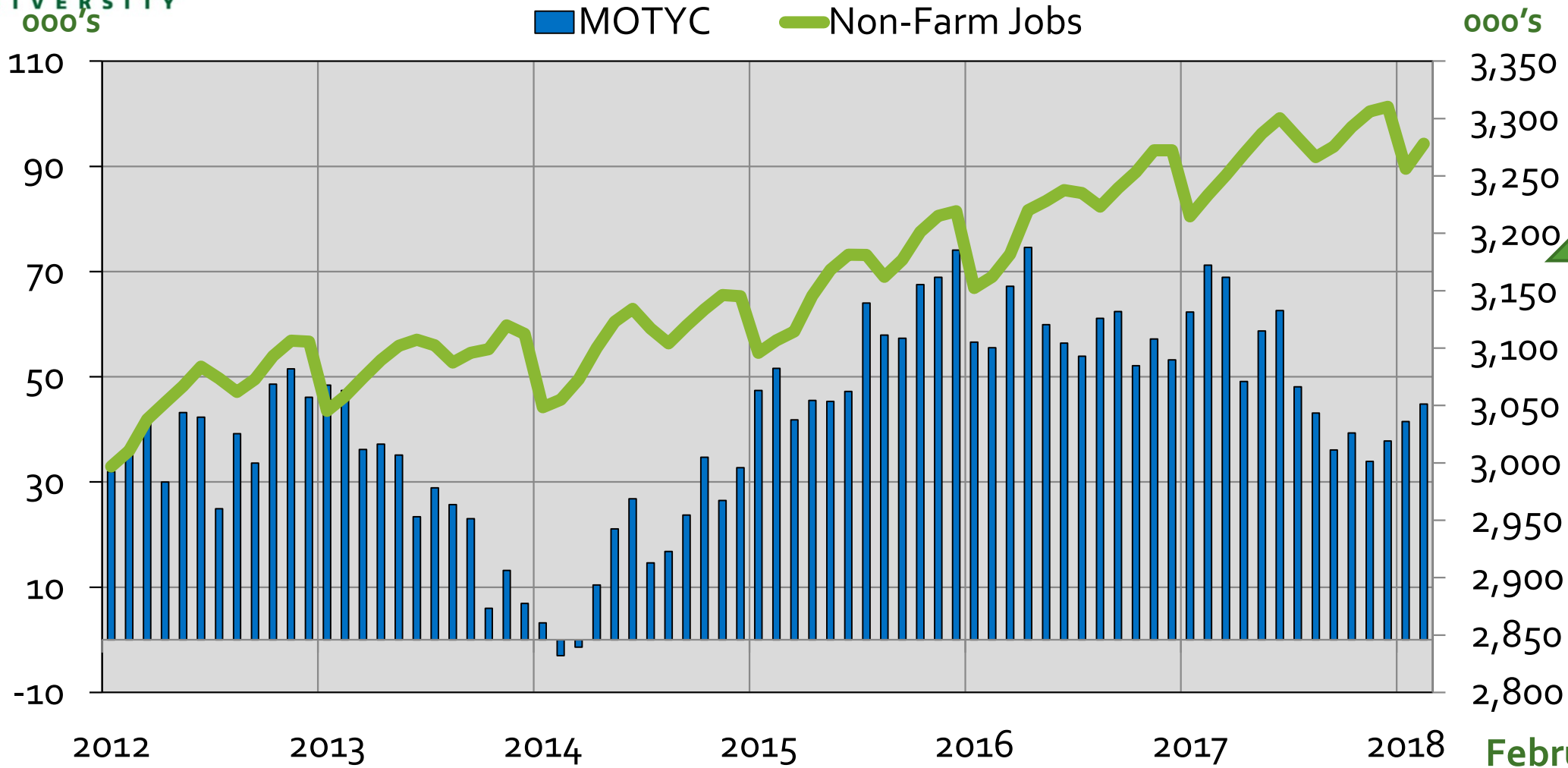


# *NVAR Market & Economic Briefing*

Terry L. Clower, Ph.D.  
Director, Center for Regional Analysis  
Schar School of Policy and Government  
George Mason University

April 4, 2018

# Annual Job Change - Washington MSA

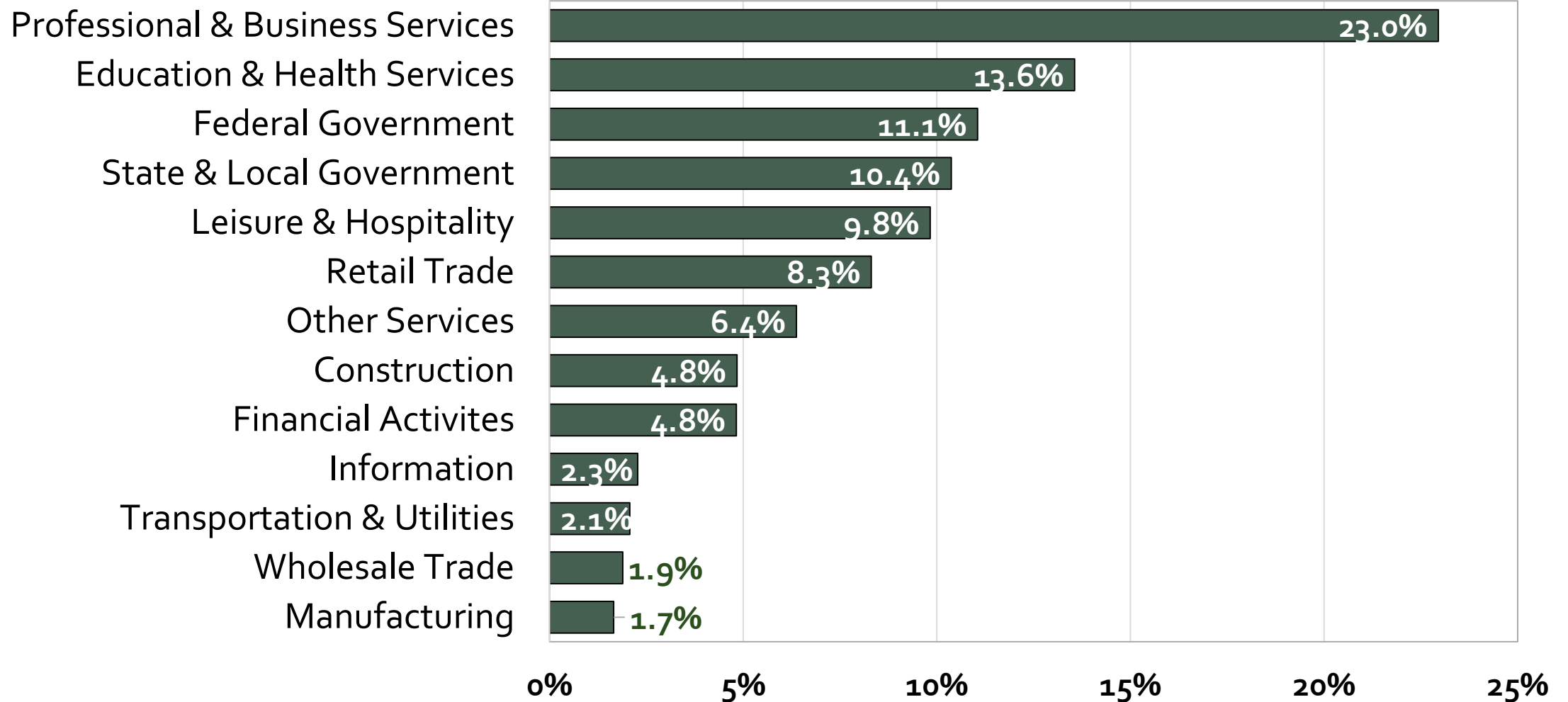


**Feb 17-  
Feb 18  
+44.8 K**

**February-18  
Total: 3,278 K**

Source: Bureau of Labor Statistics (Not Seasonally Adjusted), GMU Center for Regional Analysis

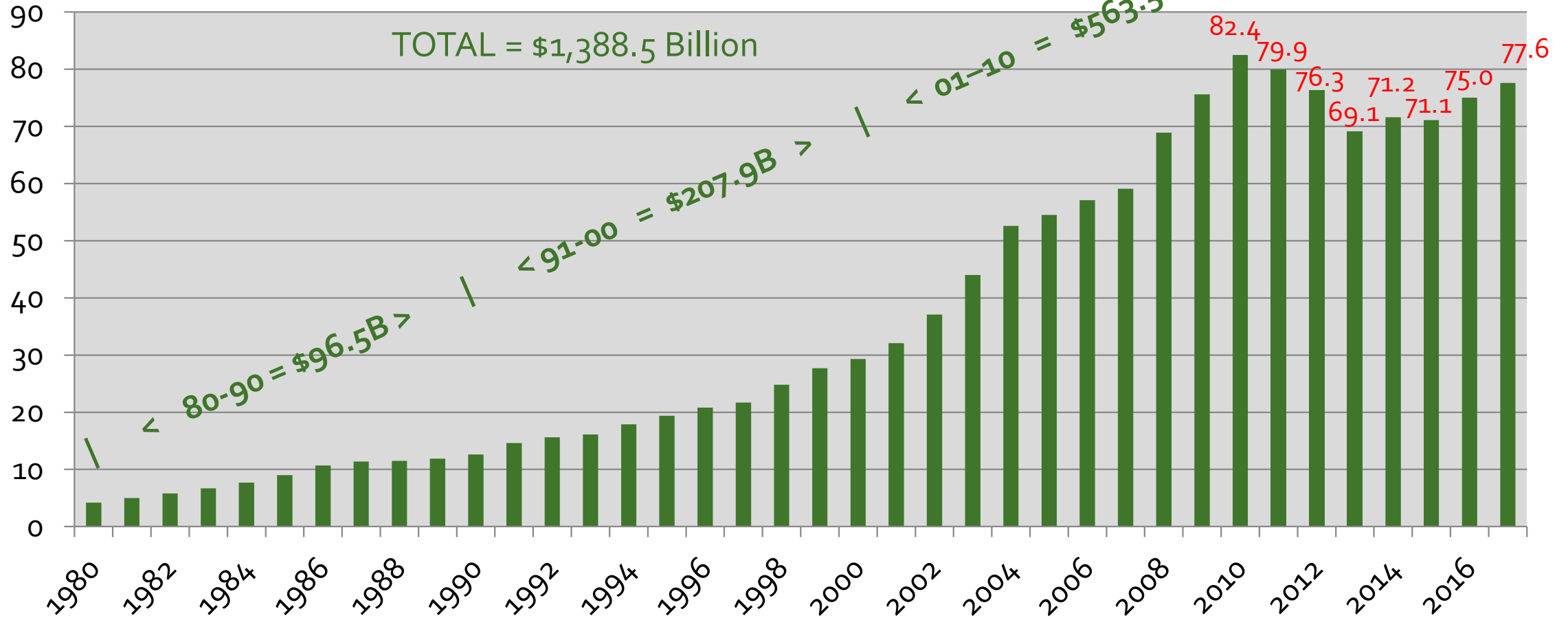
# Employment Composition by Sector February 2018 Washington MSA



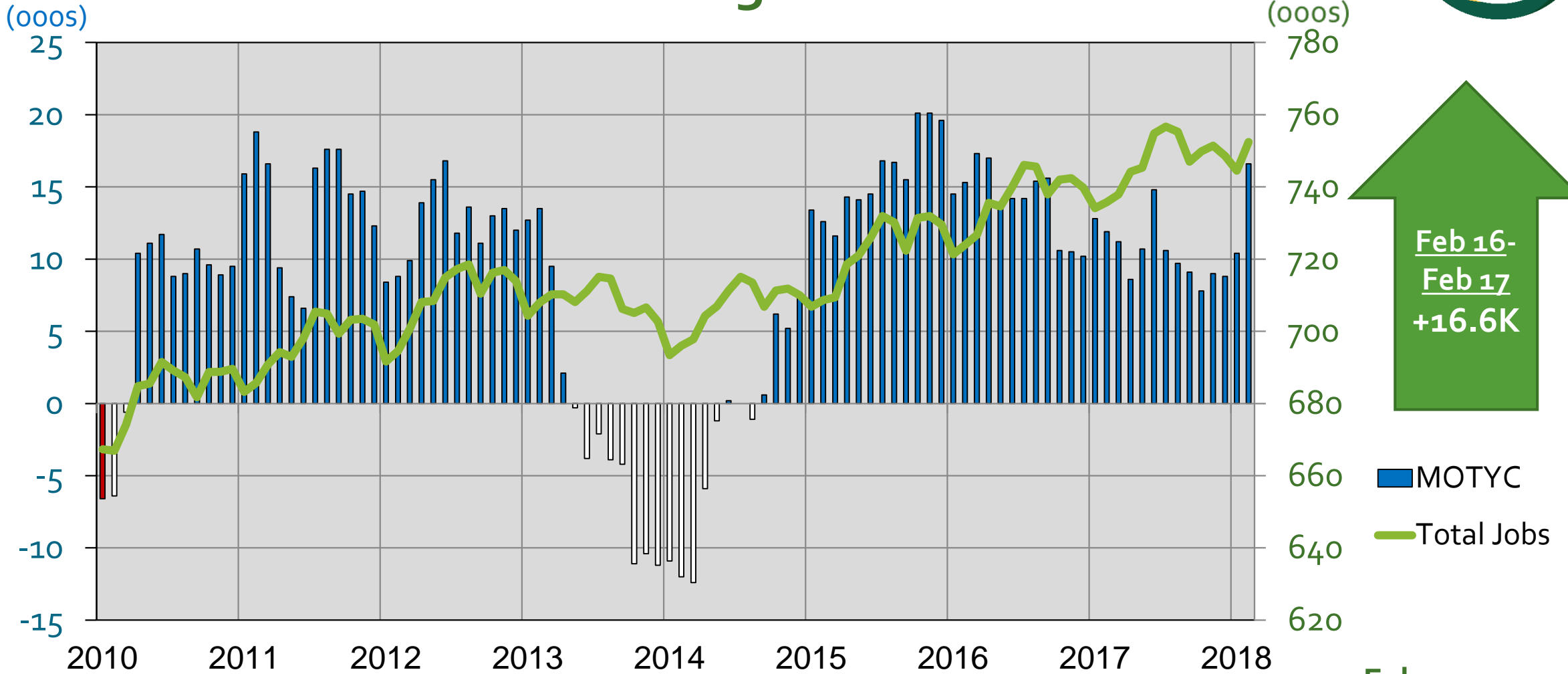
Source: US Bureau of Labor Statistics, Current Employment Statistics

# Federal Procurement in the Washington MSA 1980-2017 (Fiscal Years)

\$ Billions



# Professional & Business Services Washington MSA



**February-17  
Total: 752.4K**

Source: Bureau of Labor Statistics (Not Seasonally Adjusted), GMU Center for Regional Analysis

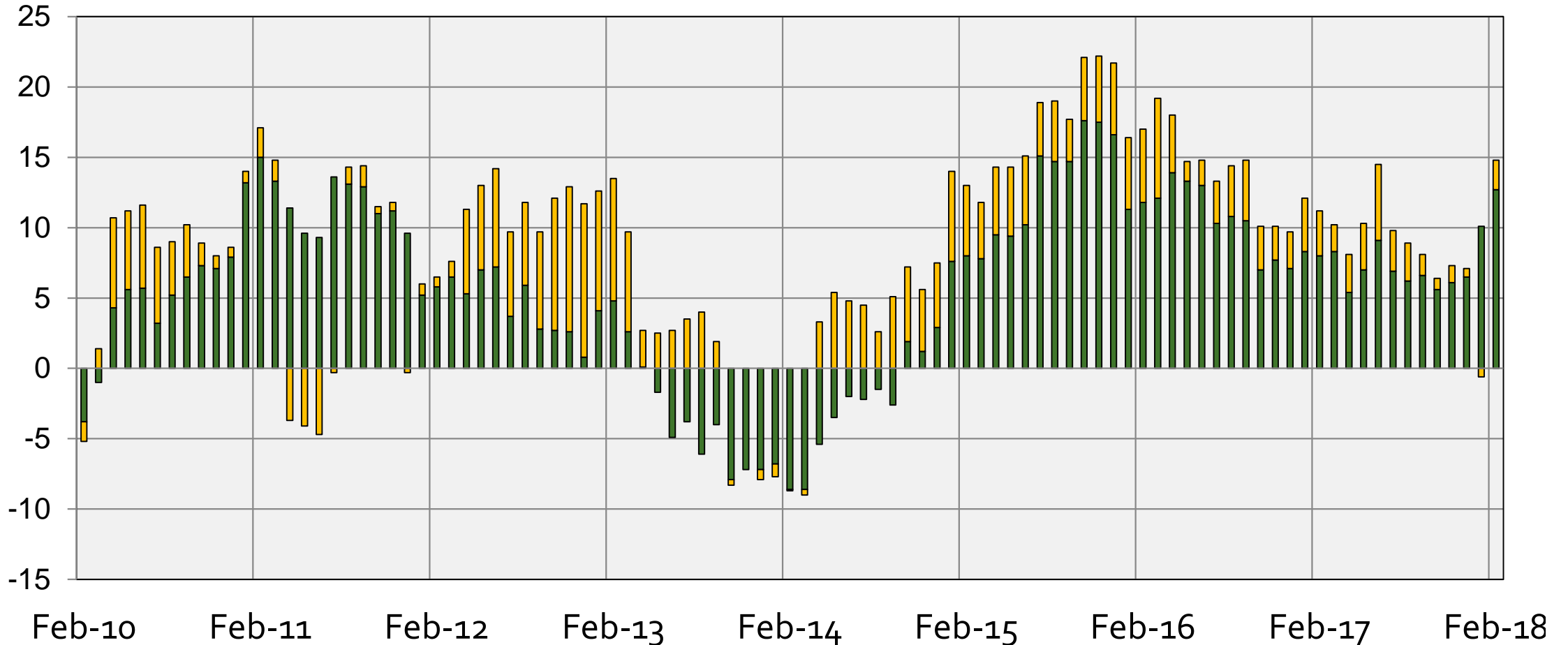
# Professional & Business Services Washington MSA

## Month Over the Year Change

(000s)

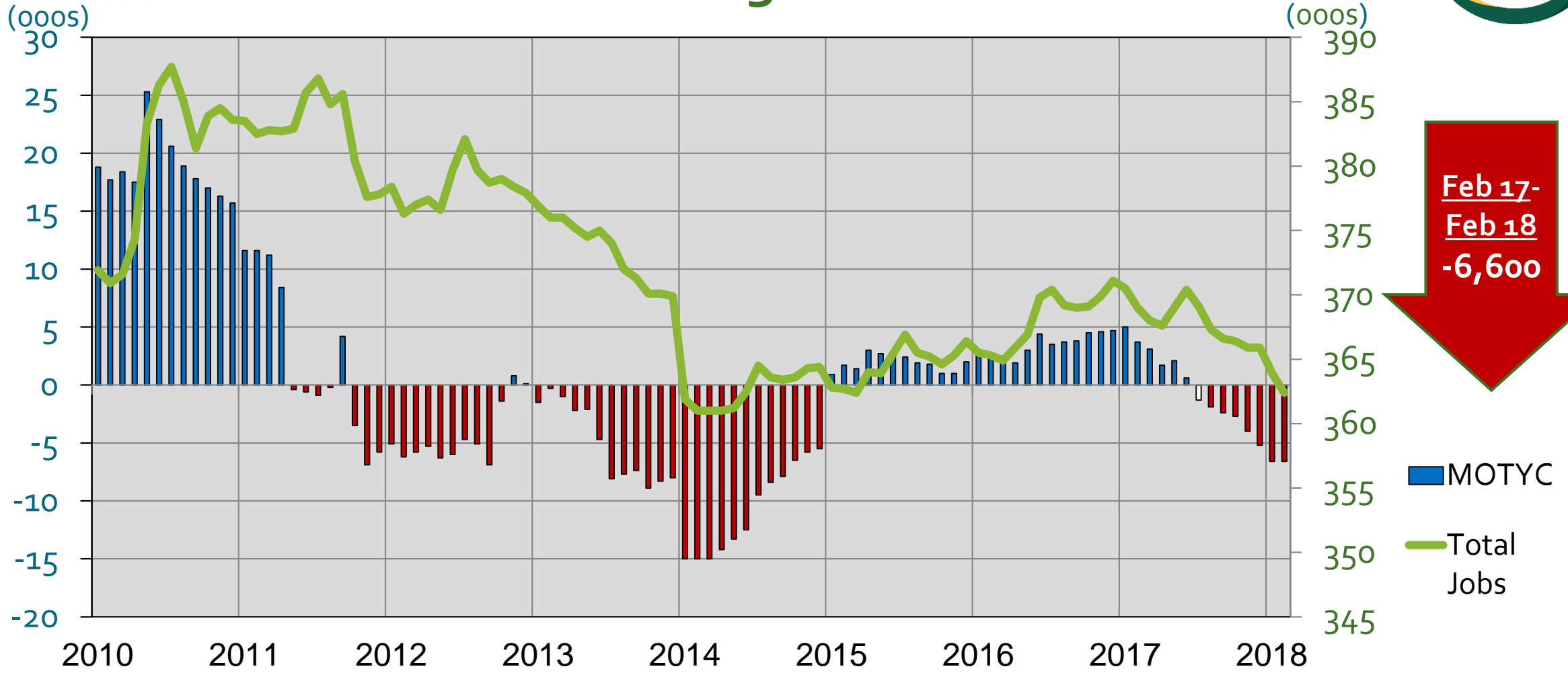
■ Prof., Sci. & Tech. Svcs & Mgt.

■ Admin. & Waste Mgt.



Source: Bureau of Labor Statistics (Not Seasonally Adjusted), GMU Center for Regional Analysis

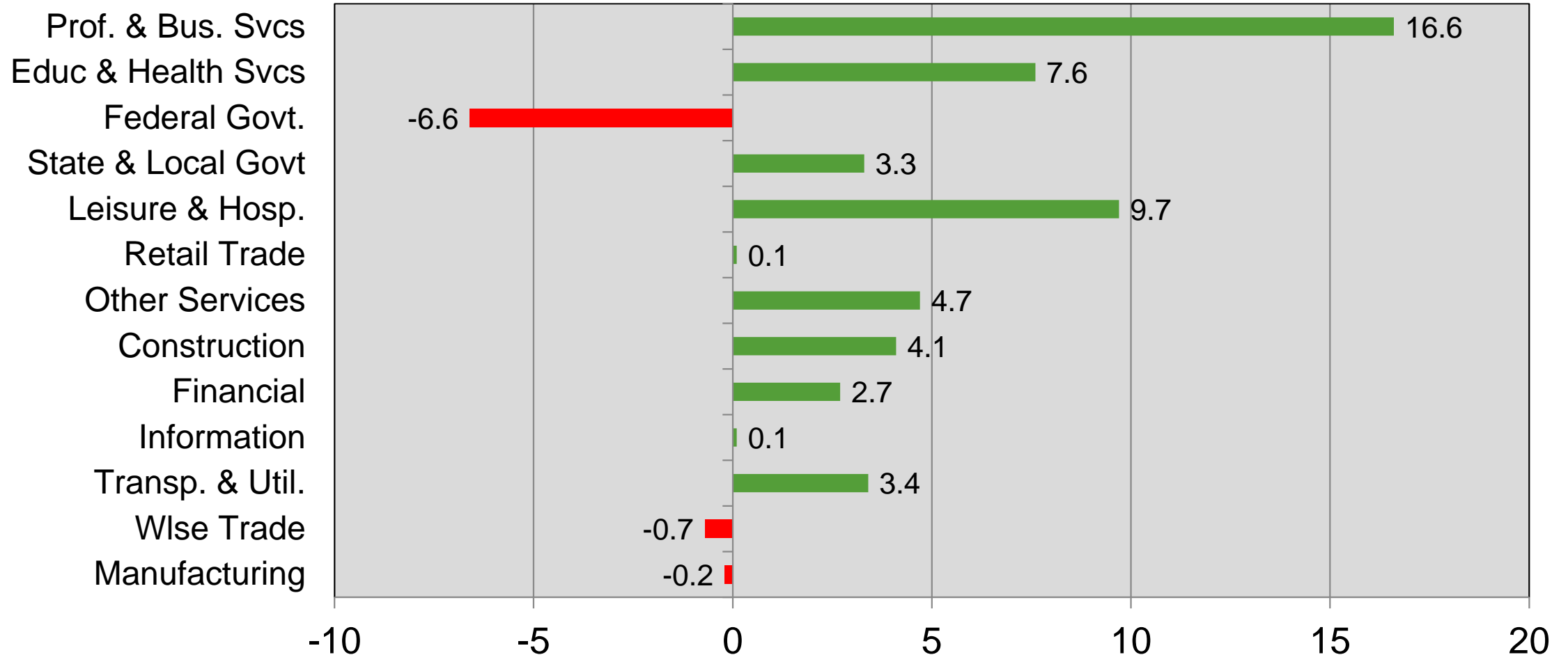
# Federal Government Washington MSA



# Job Change by Sector Feb 2017 – Feb 2018 Washington MSA (000s)

(Ranked by Size in 2017)

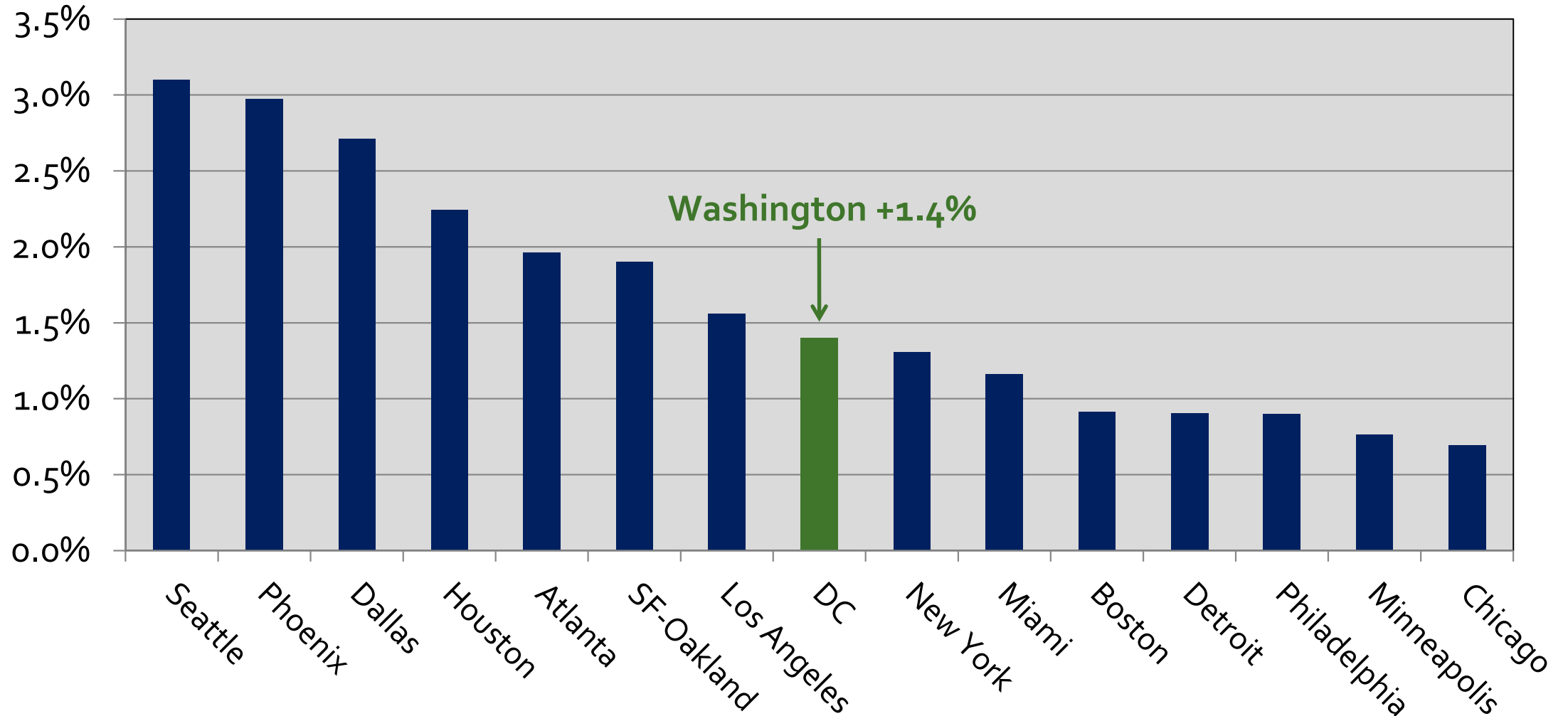
Total = 44,800



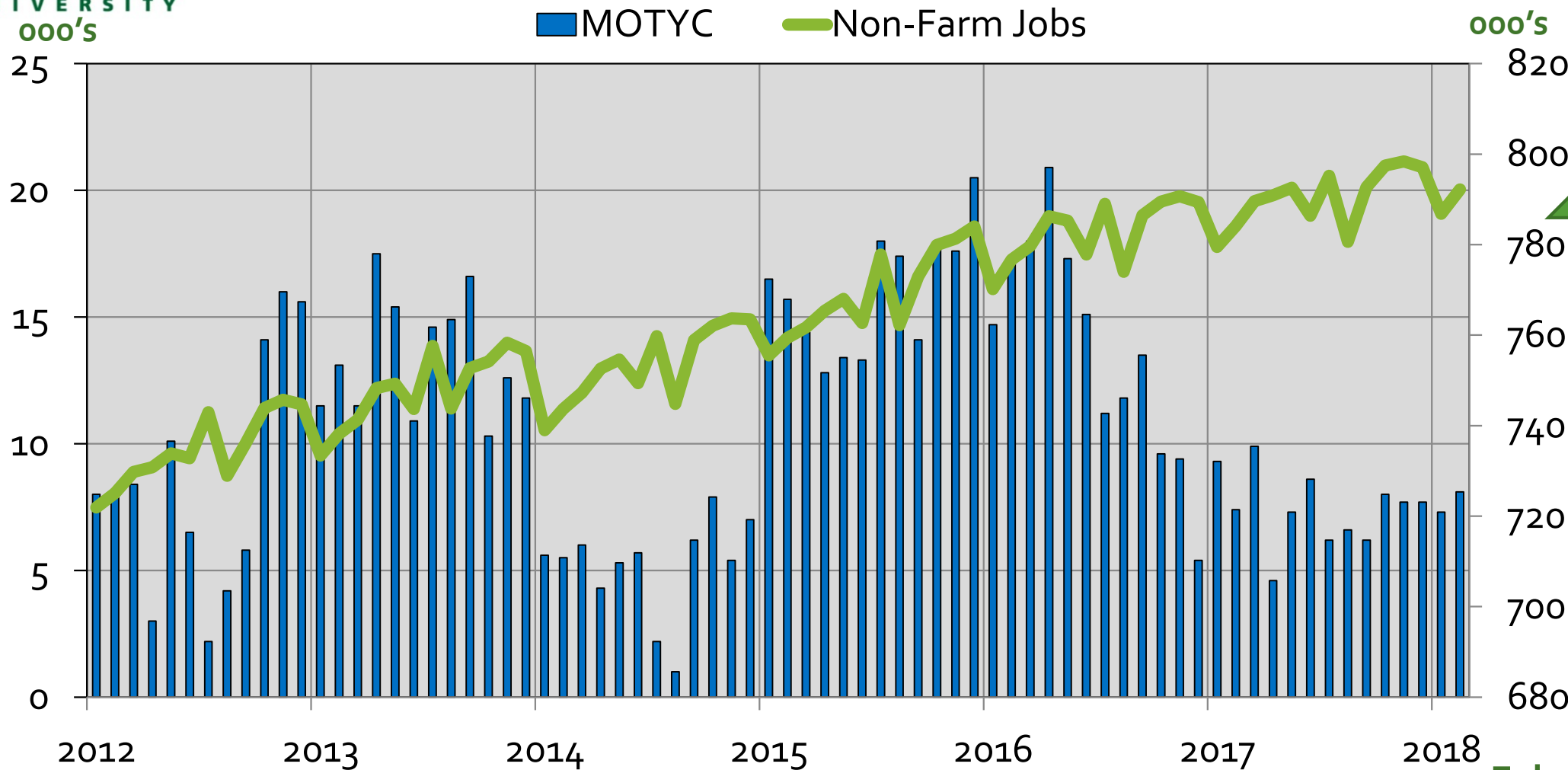


# 15 Largest Job Markets

## Job Change: Feb 2017 – Feb 2018



# Annual Job Change – District of Columbia



**Feb 17-  
Feb 18  
+8.1 K**

**February-18  
Total: 792 K**

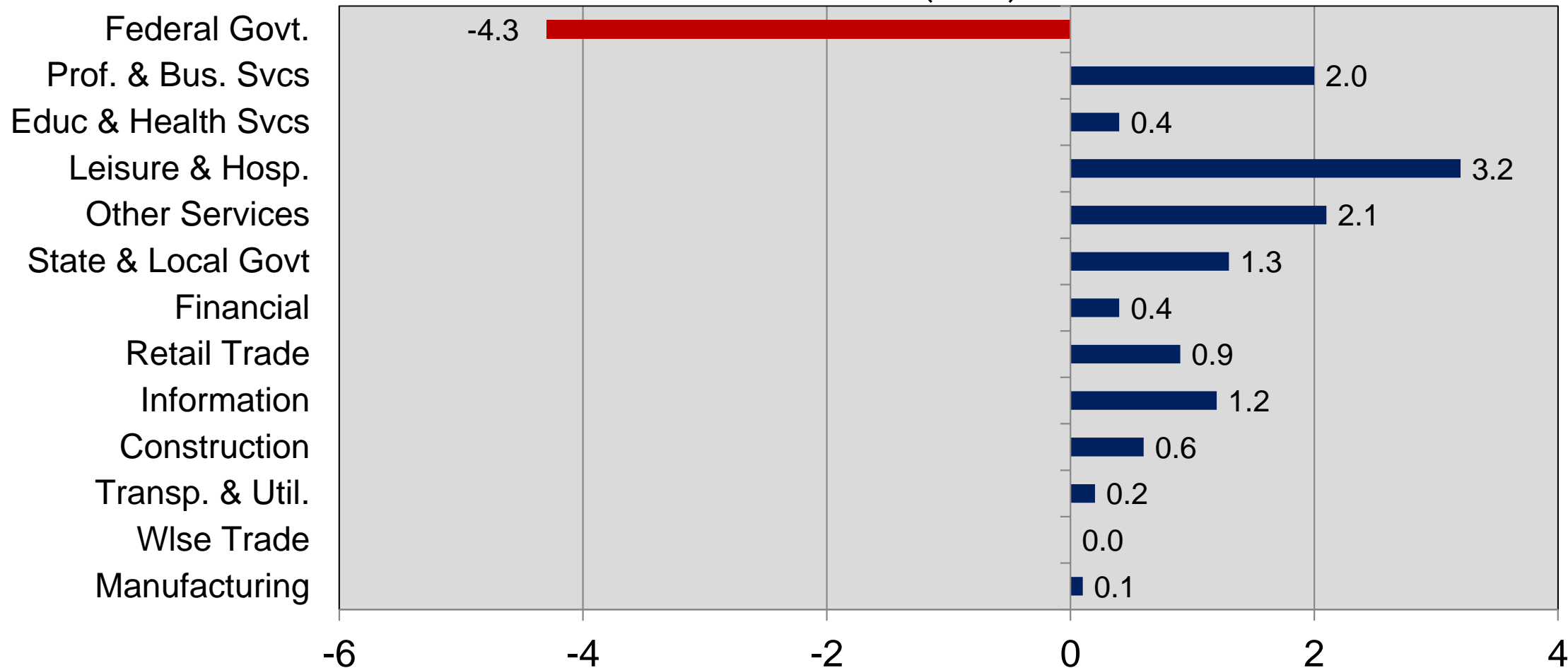
Source: Bureau of Labor Statistics (Not Seasonally Adjusted), GMU Center for Regional Analysis

# Job Change by Sector Feb 2017 – Feb 2018 District of Columbia

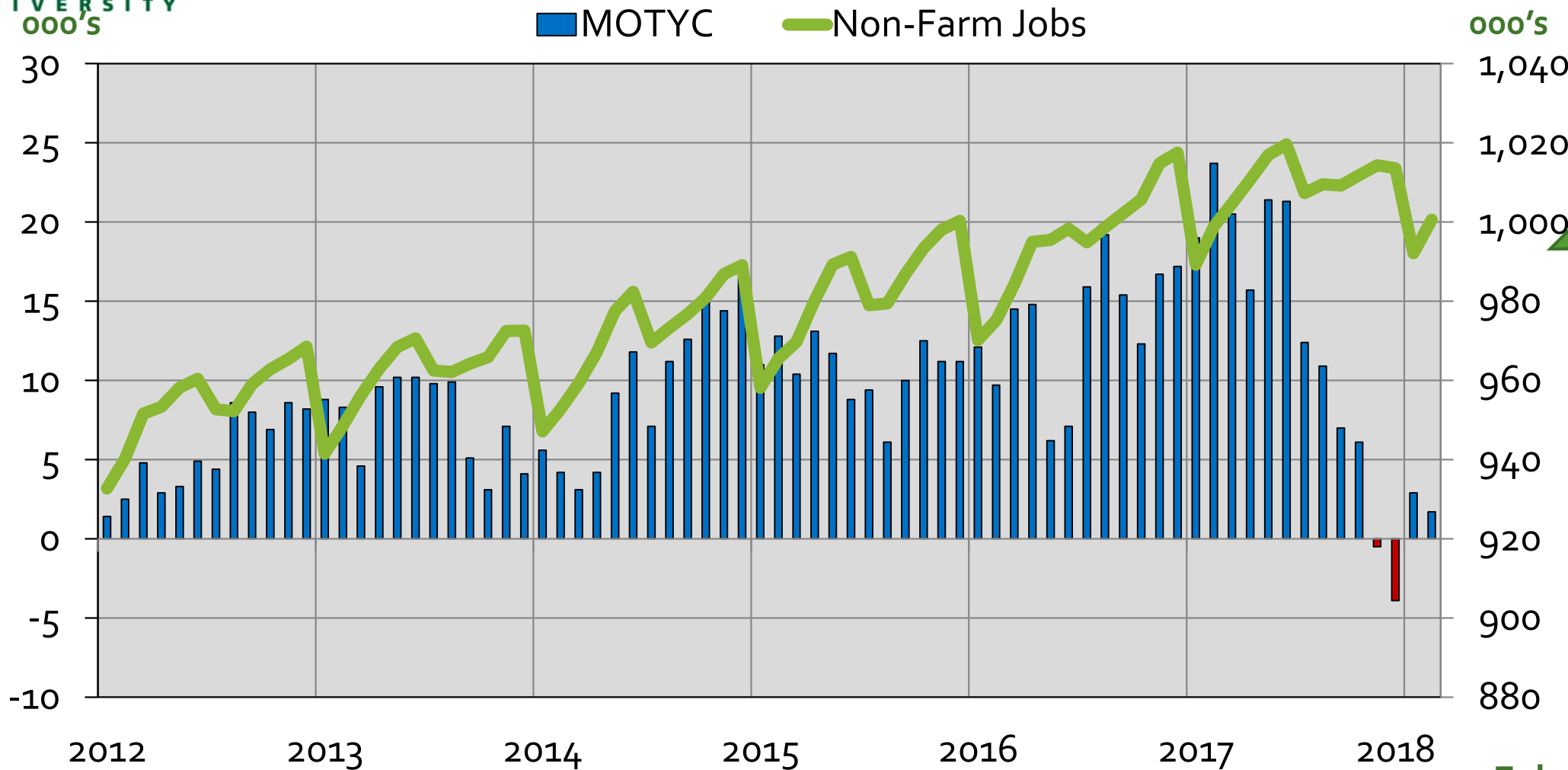
(Ranked by Size in 2017)

(000s)

Total 8,100



# Annual Job Change – Suburban MD



↑

Feb 17-  
Feb 18  
+1.7K

February 18  
Total: 1001 K

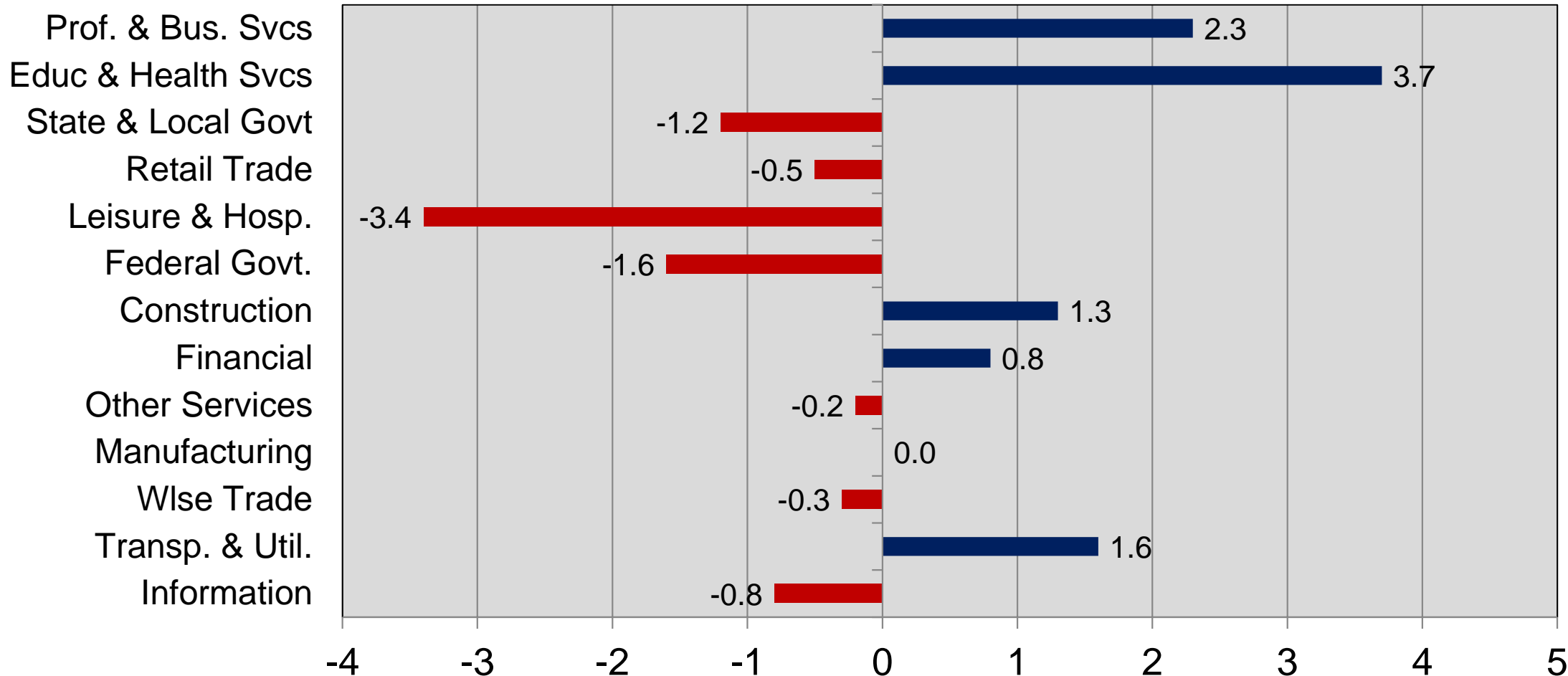
Source: Bureau of Labor Statistics (Not Seasonally Adjusted), GMU Center for Regional Analysis

# Job Change by Sector Feb 2017– Feb 2018 Suburban Maryland

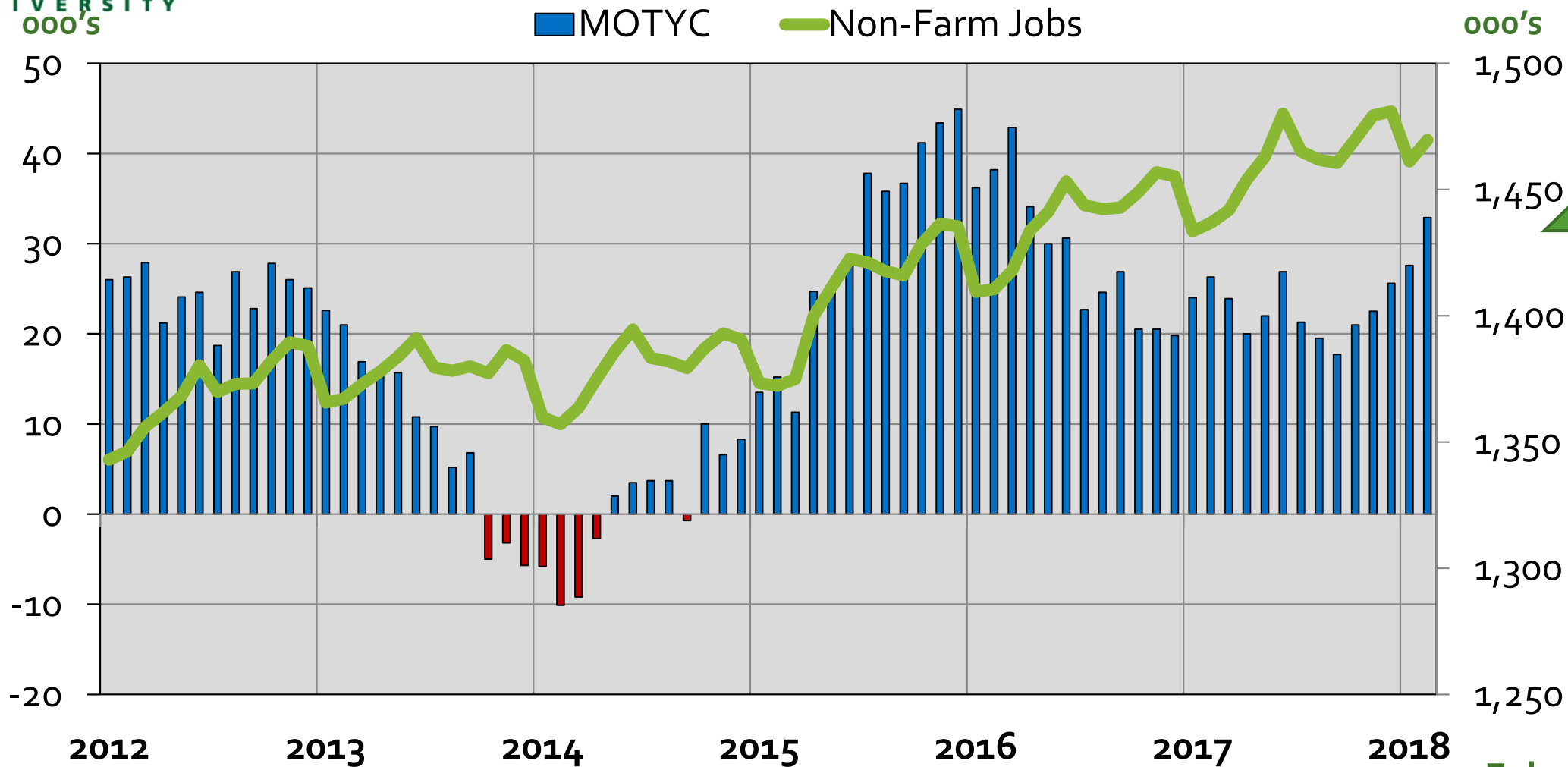
(Ranked by Size in 2017)

(000s)

Total: 1,700



# Annual Job Change – Northern VA



Feb 17-  
Feb 18  
**+32.9K**

**February-18  
Total: 1,468 K**

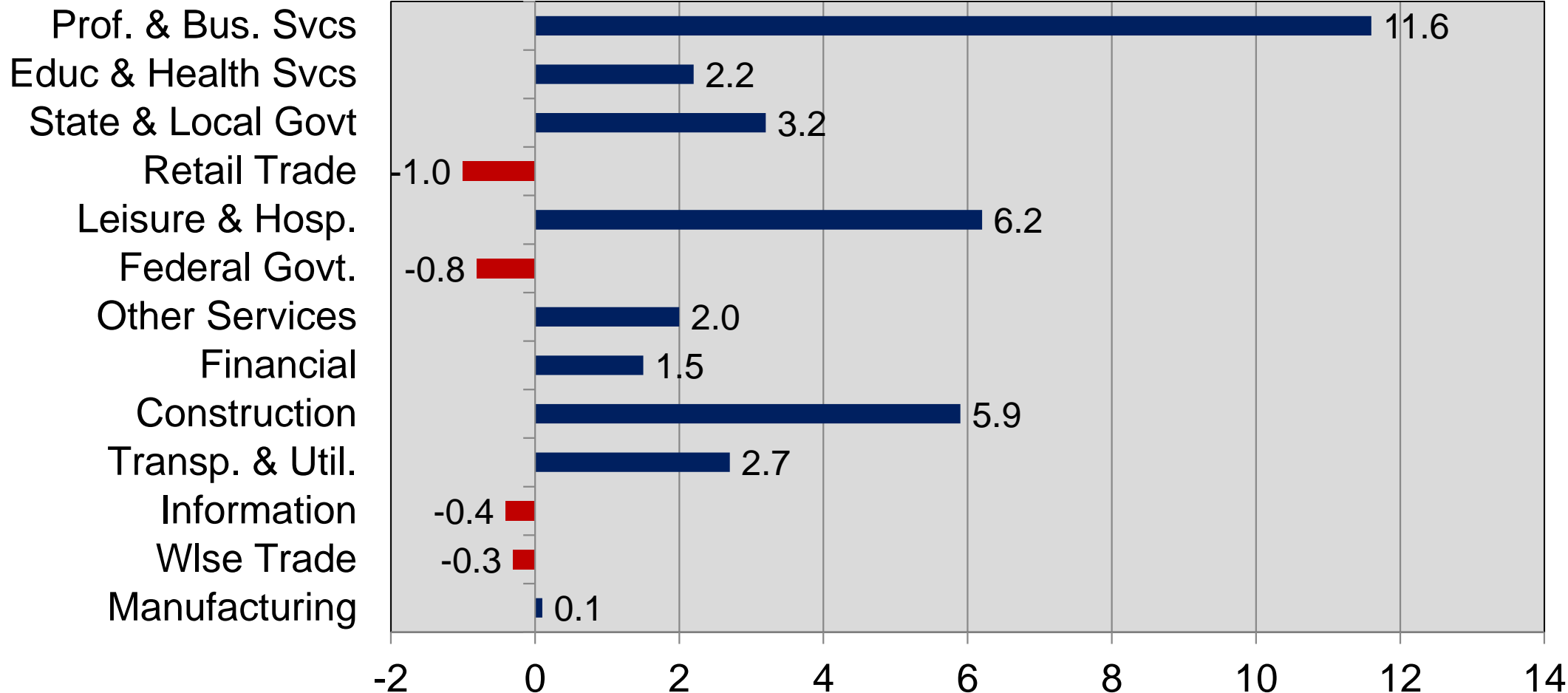
Source: Bureau of Labor Statistics (Not Seasonally Adjusted), GMU Center for Regional Analysis

# Job Change by Sector Feb 2017 – Feb 2018 Northern Virginia

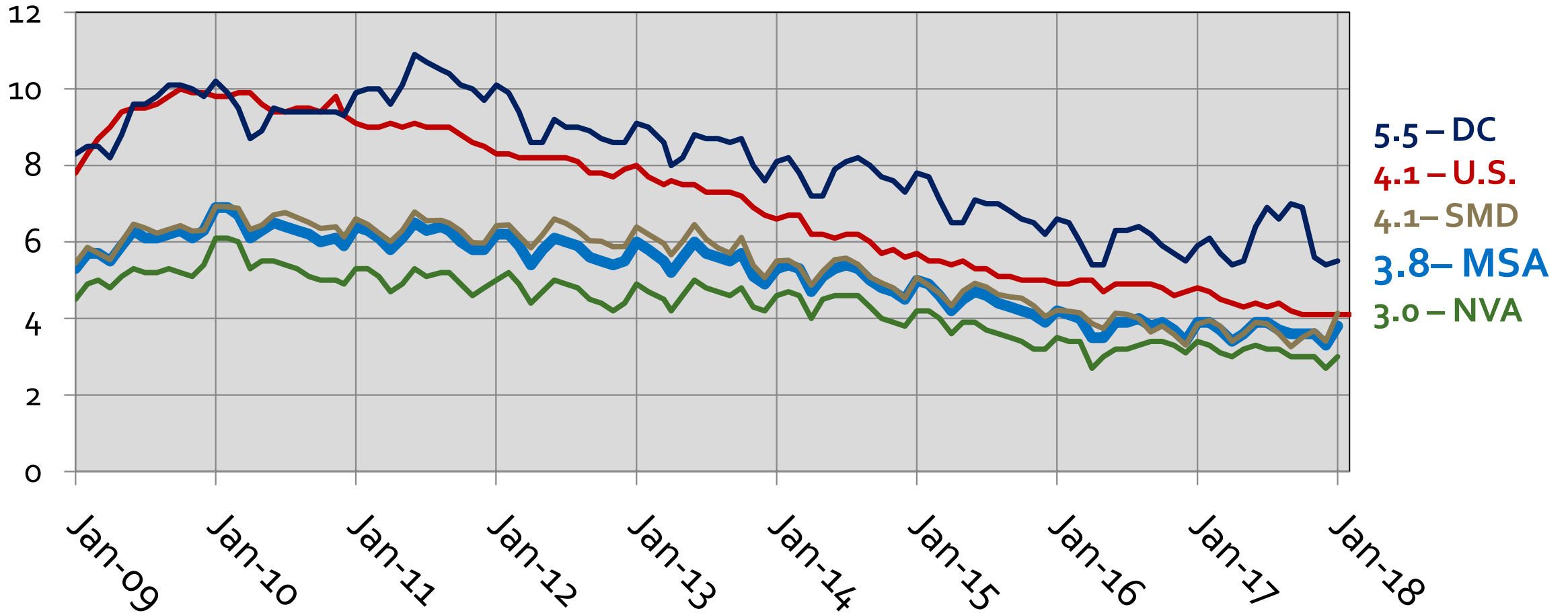
(Ranked by Size in 2017)

(000s)

Total 32,900



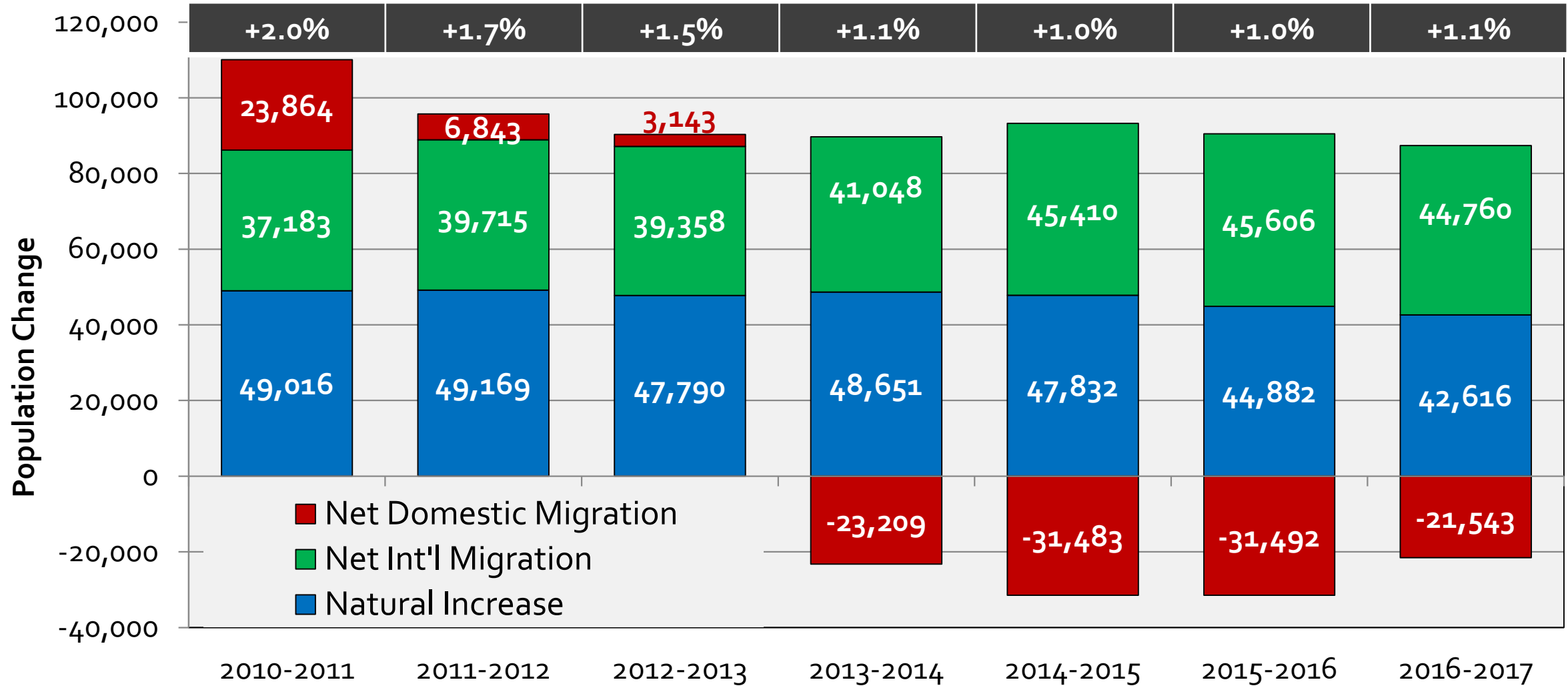
# Unemployment Rates in the WMSA By Sub-State Area



Source: Bureau of Labor Statistics (Region - Not Seasonally Adjusted, US – Seasonally Adjusted)

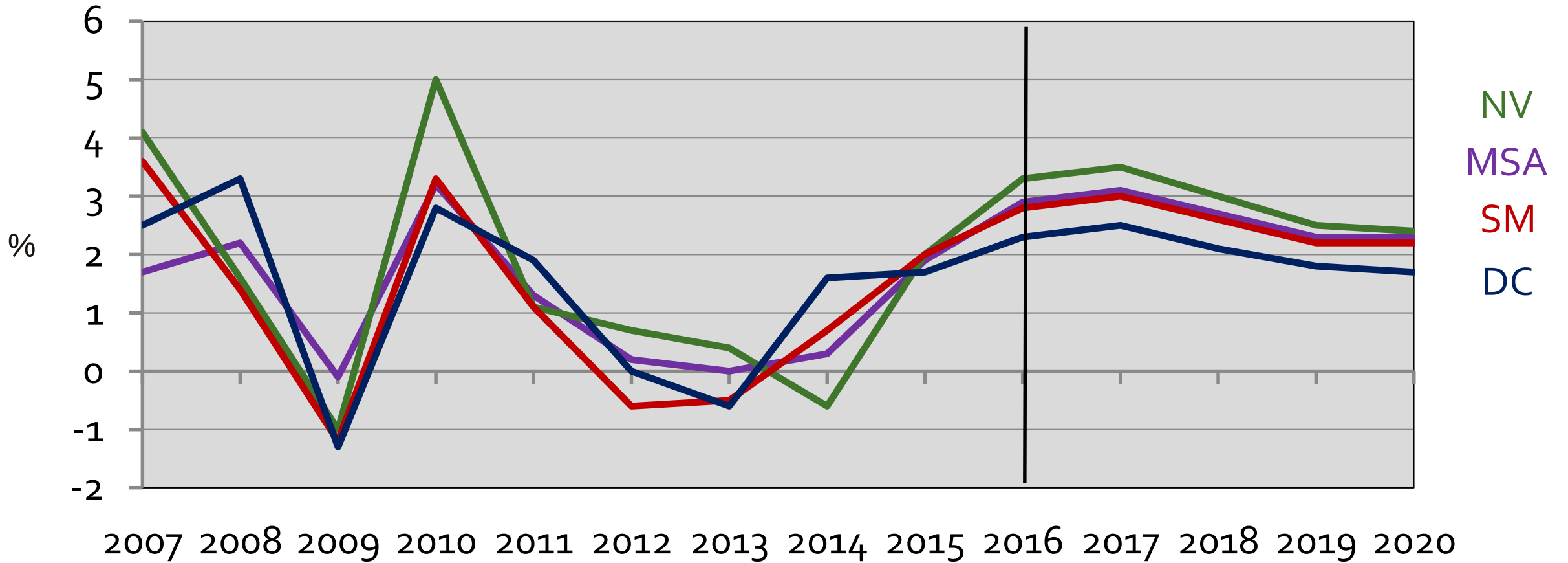


# Elements of Population Change Washington MSA



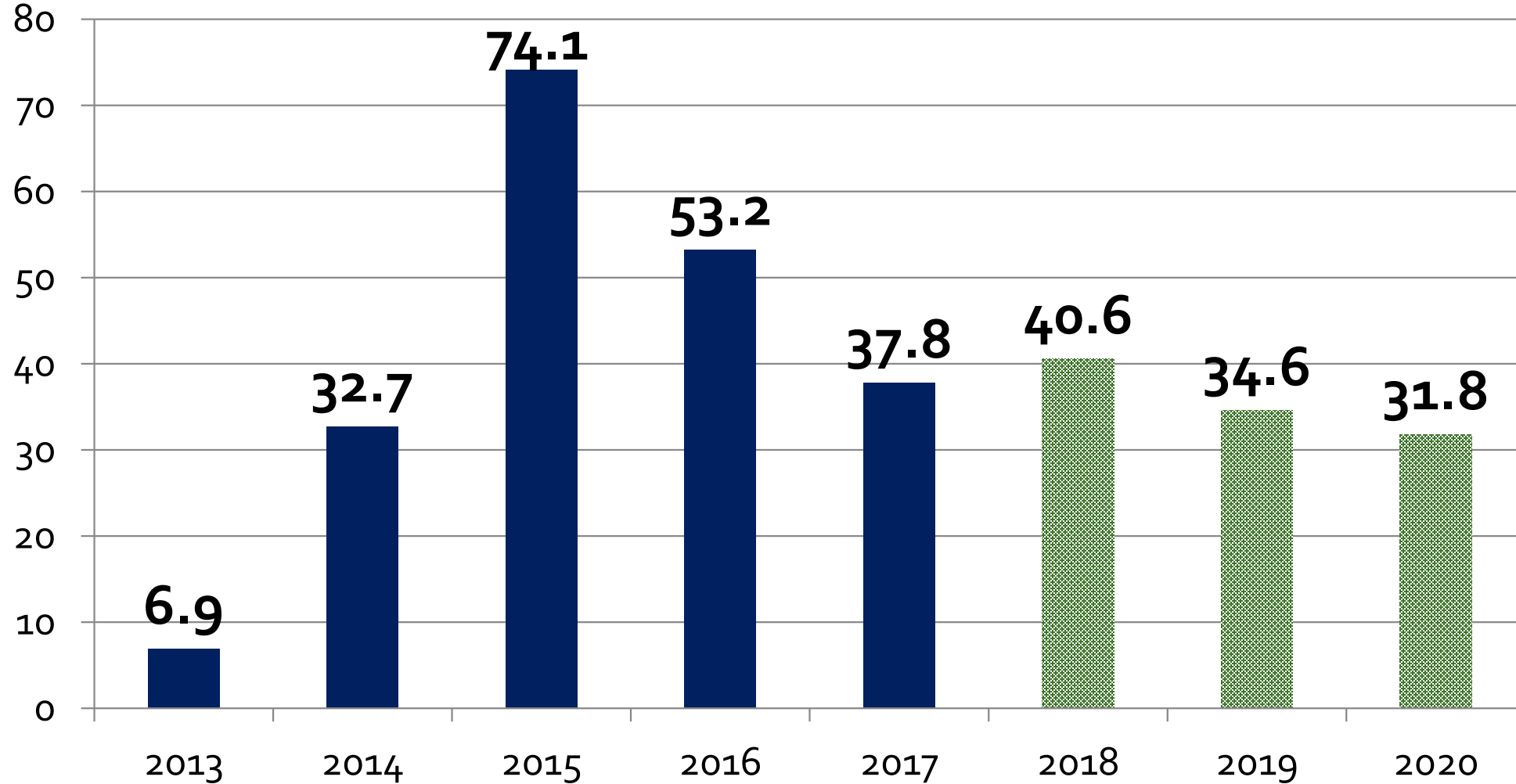
Source: US Census Bureau, Population Estimates Program, V2017

# Economic Outlook (GRP), 2007-2020 Washington Area and Sub-State Areas (Annual % Change)



Source: GMU Center for Regional Analysis, Forecast: April 2016

# Employment Change in the Washington MSA (Thousands of Jobs) Dec-Dec



Source: BLS, GMU Center for Regional Analysis (March 2018)

# Employment Change in the WMSA by Sub-State Area (ooos) (Dec – Dec)

	2013	2014	2015	2016	2017	2018	2019	2020
<b>D.C.</b>	<b>11.8</b>	<b>7.0</b>	<b>20.5</b>	<b>5.4</b>	<b>7.7</b>	<b>10.6</b>	<b>8.9</b>	<b>8.2</b>
<b>Sub. MD</b>	<b>4.1</b>	<b>16.5</b>	<b>11.2</b>	<b>17.2</b>	<b>-3.9</b>	<b>14.1</b>	<b>12.0</b>	<b>11.0</b>
<b>No. VA</b>	<b>-5.7</b>	<b>8.3</b>	<b>44.9</b>	<b>19.8</b>	<b>25.6</b>	<b>15.9</b>	<b>13.7</b>	<b>12.6</b>
<b>REGION</b>	<b>6.9</b>	<b>32.7</b>	<b>74.1</b>	<b>53.2</b>	<b>37.8</b>	<b>40.9</b>	<b>34.8</b>	<b>32.0</b>

Source: BLS, GMU Center for Regional Analysis (March 2018)

NOTE: The sub-state totals do not include Jefferson, WV.

# Where are we?

- We are growing:

- Diversification from cyber and bio-tech
- Recent job growth across all wage levels (bonus caution)
- Job growth decent in 2018, but pace is uncertain
  - Defense/HS good
  - All else?

- Advantages

- Government Center
- International Institutions
- Connectivity to the World
- Concentration of Leaders
- Access to capital
- High Quality-of-Life
- Diverse Population
- Higher Education
- Educated Work Force
- Advanced Occupational Specializations

- Challenges

- Congress/budget
- Further market shifts needed
- Cost of living/doing business
- Mobility
- Access to capital
- Regional branding / cooperation
- Globally competitive?
- Understanding changing nature of jobs

HQ2

# Thank You Questions

[cra.gmu.edu](http://cra.gmu.edu)



# **NVAR Legislative Update: The New Tax Reform Law Impact on Real Estate & REALTORS®**

April 4, 2018

**Ken Wingert**  
**Senior Legislative Representative**  
**National Association of REALTORS®**

# How We Got Here



# **TAX CUTS & JOBS ACT**



# House Republican Tax Reform “Blueprint”

## A BETTER WAY TO HELP AMERICANS



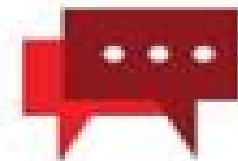
### **JOB GROWTH**

The Tax Reform Blueprint cuts tax rates on America's job creators, which makes it easier for employers to **hire new workers** and invest in their communities.



### **SIMPLE POSTCARD**

By creating a fairer tax system and ending the maze of special-interest provisions, the Blueprint ensures that most Americans will be able to file their taxes with a form **so simple it could fit on a postcard**.



### **SERVICE FIRST IRS**

By rebuilding the IRS into a modern and efficient 21st century administrator, the Blueprint gives taxpayers **the right to quality service**, privacy, confidentiality, and a fair and just tax system.

# Game Changers

**\$1.5 Trillion Tax Cut**

**Failure to Repeal Obamacare**



# New Tax Law's Impact on Residential Real Estate



# Tax Cuts by Congressional District

CD	Median Income (Family of 4)	Ave Tax Cut (Married, 2 Kids)	Median Income All Households	Ave Tax Cut (Single No, Kids)
VA-08 (Beyer)	\$120,361	-\$3,469	\$100,719	-\$2,589
VA-10 (Comstock)	\$161,668	-\$6,159	\$120,384	-\$3,267
VA-11 (Connolly)	\$139,314	-\$4,988	\$106,554	-\$2,713

Source: House Ways & Means Committee

# Dueling Tax Changes

**Standard Deduction Doubled**



**Personal Exemptions Repealed**

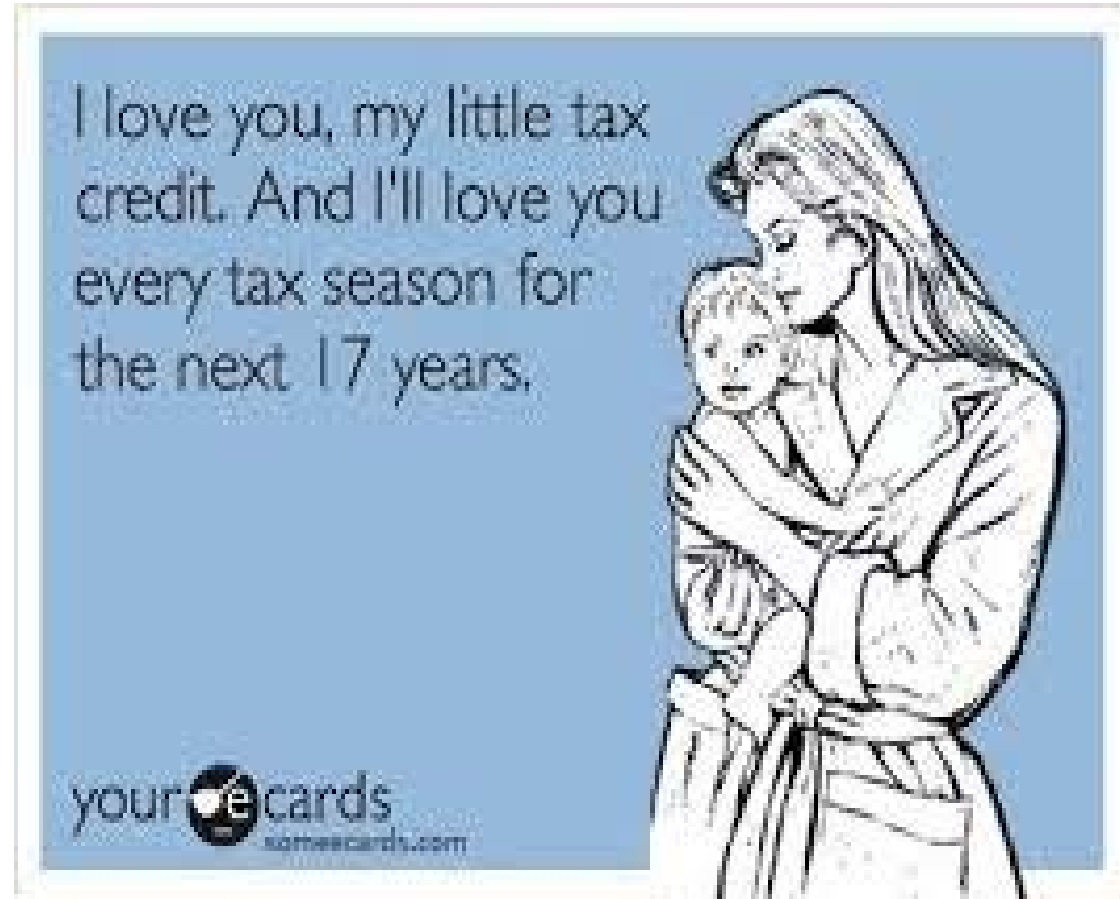


# Standard Deduction Bait and Switch

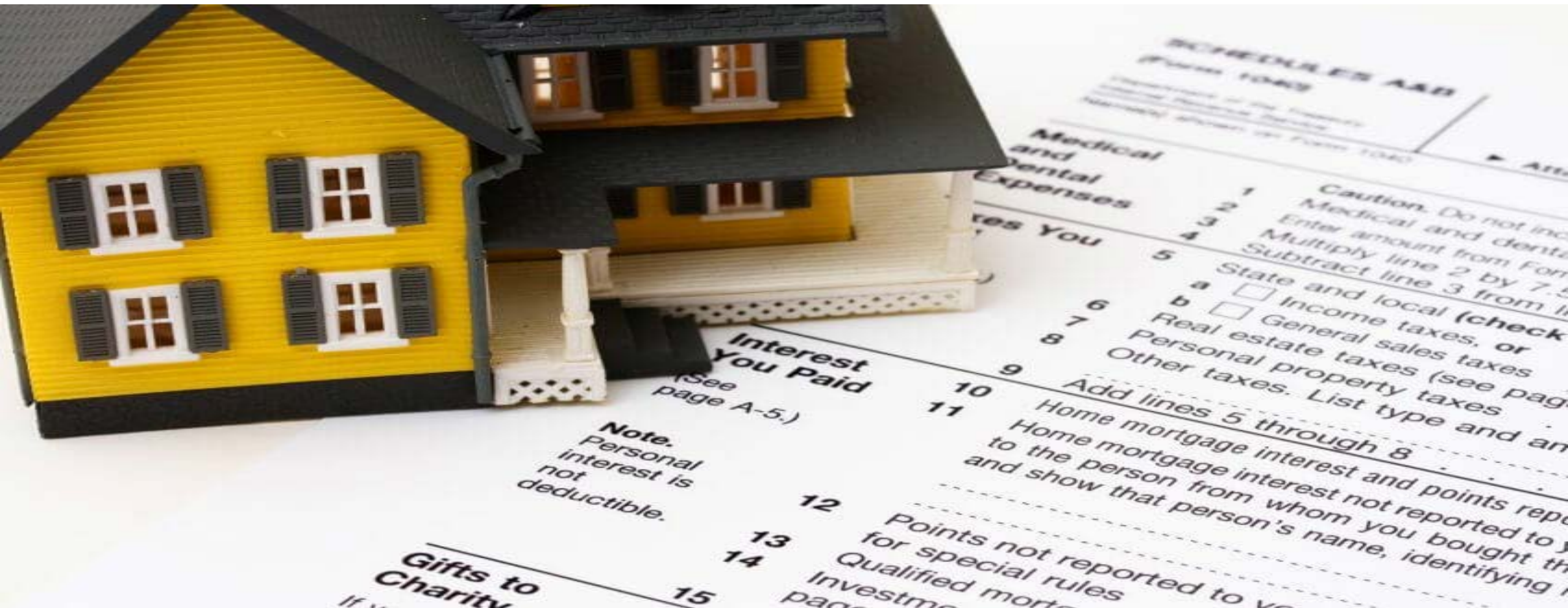


	<u>Prior Law</u>	<u>New Law</u>
<u>Single:</u>		
Standard Deduction	\$ 6,500	\$ 12,000
Personal Exemption	<u>4,150</u>	<u>- 0 -</u>
Total Untaxed	\$10,650	\$ 12,000
<u>Married with 3 children:</u>		
Standard Deduction	\$ 13,000	\$ 24,000
Personal Exemptions	8,300	- 0 -
Dependency Exemptions	<u>12,450</u>	<u>- 0 -</u>
Total Untaxed	\$ 33,750	\$ 24,000

# Child Tax Credit Doubled, Income Limits Increased



# Direct Changes to Home Ownership Tax Incentives



**SCHEDULES A&B**  
**Form 1042**

**Medical and Dental Expenses**

**Caution.** Do not include medical and dental expenses from Form 1042 on this schedule.  
1 Enter amount from Form 1042  
2 Multiply line 2 by 7.5  
3 Subtract line 3 from line 2

**Expenses You**

4 State and local (check one)  
a  Income taxes, or  
b  General sales taxes  
5 Real estate taxes (see page 10)  
6 Personal property taxes  
7 Other taxes. List type and amount.

**Interest You Paid**  
(See page A-5.)

**Note.** Personal interest is not deductible.

8 Add lines 5 through 8  
9 Home mortgage interest and points reported to you  
10 Home mortgage interest not reported to you  
11 to the person from whom you bought the home, and show that person's name, identifying the mortgage.

12 Points not reported to you  
13 for special rules  
14 Qualified mortgage  
15 Investments

**Gifts to Charity**  
If you have a qualified mortgage, see page 10.



# Direct Changes to the MID

## House bill was very bad news:

- \$500K cap, not indexed
- No deduction for 2<sup>nd</sup> homes
- No deduction for home equity loans

## Senate bill was much better

## Final product:

- \$750K cap, but not indexed
- Deduction for 2<sup>nd</sup> homes preserved
- Home equity loans interest still may be deducted, if proceeds used to improve home



# Changes to SALT Deduction



## House bill:

- \$10K limit for property taxes only

## Senate draft bill:

- No deduction

## Final product:

- \$10K limit for property & income/sales taxes, not indexed
- Marriage penalty

# Indirect Changes to Home Ownership Tax Incentives

**Despite vast improvements in final version:**

- Far fewer will be itemizing, so incentive effect of MID and SALT deductions will disappear for many
- Even if many or most will not see a tax increase, this is a significant change that will affect residential real estate in a negative way



# Barbara Buyer's Homeownership Tax Incentives

## Prior Law

	<u>Rents</u>	<u>Buys</u>
Salary income	\$58,000	\$58,000
Standard deduction	\$6,500	- 0 -
Mortgage interest	- 0 -	\$7,856
Real property tax (1%)	- 0 -	\$2,050
State income tax (5%)	- 0 -	\$2,900
Charitable contributions	- 0 -	\$2,088
Personal exemption	<u>\$4,150</u>	<u>\$4,150</u>
Taxable income	\$47,350	\$38,956
Tax	\$7,491	\$5,393

Tax Benefit of Buying Instead of Renting = **\$2,098**

# Barbara Buyer's Homeownership Tax Incentives

## New Law

	<u>Rents</u>	<u>Buys</u>
Salary income	\$58,000	\$58,000
Standard deduction	\$12,000	- 0 -
Mortgage interest	- 0 -	\$7,856
Real property tax (1%)	- 0 -	\$2,050
State income tax (5%)	- 0 -	\$2,900
Charitable contributions	- 0 -	\$2,088
Personal exemption	<u>- 0 -</u>	<u>- 0 -</u>
Taxable income	\$46,000	\$43,106
Tax	\$6,060	\$5,423

Tax Benefit of Buying Instead of Renting = **\$637**

# Exclusion of Gain on Sale of Principal Residence

## Original House and Senate bill:

- Changed rule that owners must own and live in home for at least 2 out of past 5 years
  - to -
- Must own and live in home for at least 5 out of 8 past years
- House bill also had income limits

## Final Version:

- Retained prior law rule

# Great News – 1031 Like-Kind Exchanges Preserved for Real Estate



# More Good News For Commercial

- Interest Deductibility still intact
- Accelerated depreciation for tenant improvements streamlined and made permanent (15 years)\*
- Previous 39 year and 27.5 year schedules remain





# New Tax Law's Impact on Real Estate Professionals



# Deduction for Qualified Business Income



# Basics of Deduction for Qualified Business Income

- Not an itemized deduction
- Based on **net** business income, after other expenses deducted
- Limited to **non**-personal service businesses – however, exception allows personal service business owners to take deduction up to income limits
  - For single taxpayers, limit is taxable income of **\$157,500**
  - For joint returns, limit is taxable income of **\$315,000**
  - Partial deduction available up to **\$207,500** for singles and **\$415,000** for joint

# Basics of Deduction for Qualified Business Income

Personal service businesses are those in following fields:

- any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees.

# Example 1: Amy Agent (single)

	<u>Prior Tax Law</u>	<u>New Tax Law</u>
Net commission income	\$55,000	\$55,000
Business income deduction (20%)	- 0 -	\$11,000
Personal exemption	\$ 4,150	- 0 -
Standard deduction	<u>\$ 6,500</u>	<u>\$12,000</u>
Taxable income	\$44,350	\$32,000
Tax	\$ 6,741	\$ 3,650

Tax savings compared with prior law = \$3,091

# Example 2: **Andy Agent** (married, 2 kids)

	<u>Prior Tax Law</u>	<u>New Tax Law</u>
Net commission income	\$45,000	\$45,000
Spouse salary income	\$45,000	\$45,000
Business income deduction (20%)	- 0 -	\$ 9,000
Personal exemptions (4 x \$4,150)	\$16,600	- 0 -
Itemized deductions	\$18,000	- 0 -
Standard deduction	<u>- 0 -</u>	<u>\$24,000</u>
Taxable income	\$55,400	\$57,000
Tax	\$ 7,358	\$ 6,459
Tax credit for children	<u>\$ 2,000</u>	<u>\$ 4,000</u>
Net tax after credits	\$ 5,358	\$ 2,459

Tax savings compared with prior law = \$2,899

# Example 3: Barry Broker (single)

	<u>Prior Tax Law</u>	<u>New Tax Law</u>
Net brokerage income	\$175,000	\$175,000
Business income deduction (20%)	- 0 -	\$31,150*
Personal exemption	\$ 4,150	- 0 -
Standard deduction	<u>\$ 6,500</u>	<u>\$12,000</u>
Taxable income	\$164,350	\$131,850
Tax	\$38,861	\$25,934

Tax savings compared with prior law = \$12,927

\*Note: Barry's deduction is limited because his taxable income is higher than phase-out amount of \$157,500.

# Example 4: Bobbi Broker (married)

	<u>Prior Tax Law</u>	<u>New Tax Law</u>
Net brokerage income	\$175,000	\$175,000
Salary income	\$270,000	\$270,000
Business income deduction (20%)	- 0 -	- 0 - *
Personal exemptions (4 x \$4,150)	- 0 - **	- 0 -
Itemized deductions	<u>\$24,250**</u>	<u>\$28,000</u>
Taxable income	\$420,750	\$417,000
Tax	\$113,573	\$ 97,329

**Tax savings compared with prior law = \$16,244**

\*Note: Bobbi's deduction is zero because their taxable income is higher than upper phase-out amount of \$415,000

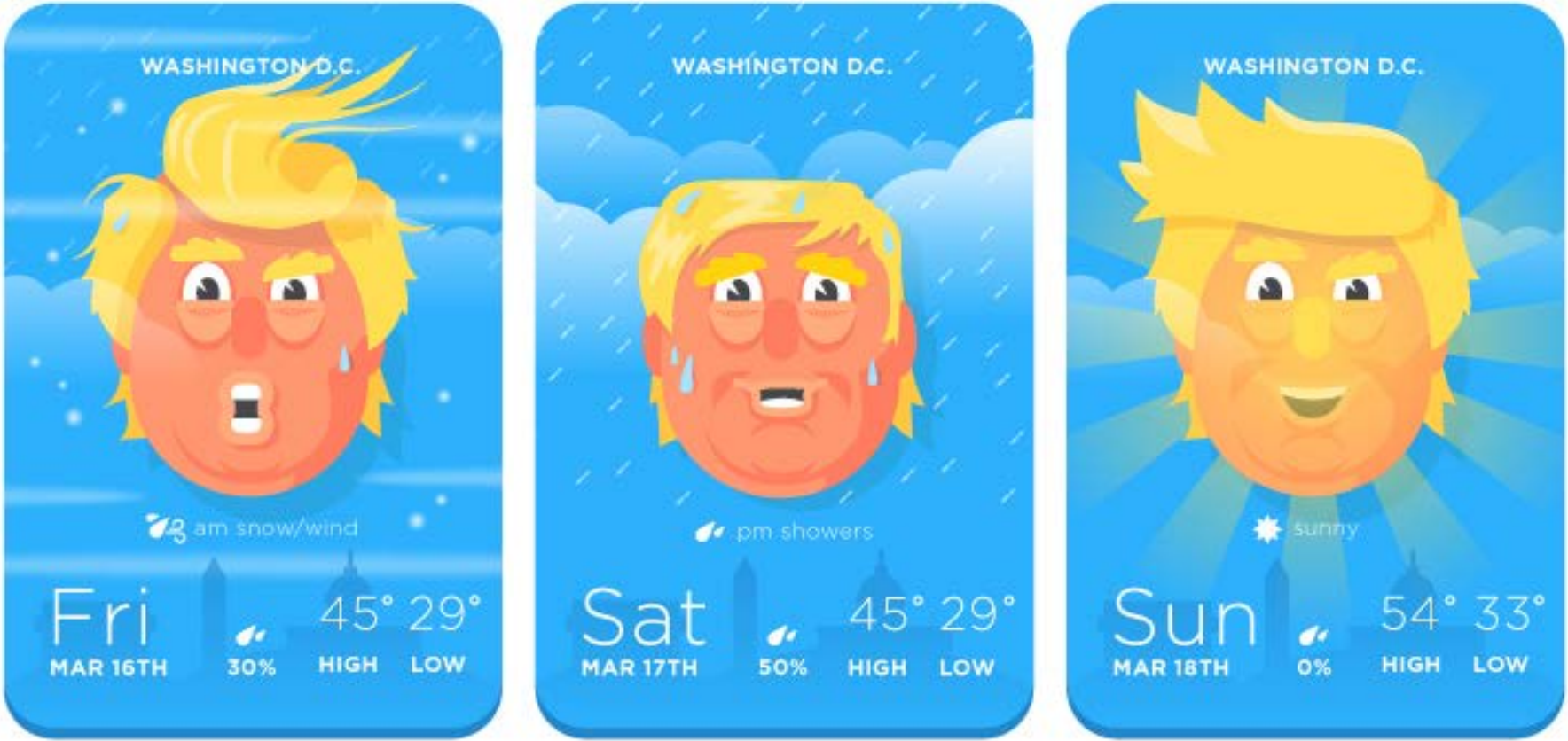
\*\*Note: At their income level, Bobbi's personal exemptions are phased out and their itemized deductions are limited under the prior law.



# Deduction for Meals and Entertainment

	<b>2017 Expenses (<u>Old Rules</u>)</b>	<b>2018 Expenses (<u>New Rules</u>)</b>
<b>Office Holiday Parties</b>	100% deductible	100% deductible
<b>Entertaining Clients</b>	50% deductible	No deduction for entertainment expenses
<b>Business Meals</b>	50% deductible	50% deductible
<b>Meals Provided for Employer's Convenience</b>	100% deductible provided they are excludible from employees' gross income as de minimis fringe benefits; otherwise, 50% deductible	50% deductible (nondeductible after 2025)

# Market Forecast



# Economic Forecast

	2015	2016	2017	2018 Forecast
GDP Growth	2.9%	1.5%	2.5%	2.6%
Job Growth	+2.6 million	+2.0 million	+2.1 million	+2.1 million
CPI Inflation	0.3%	1.3%	2.0%	2.5%

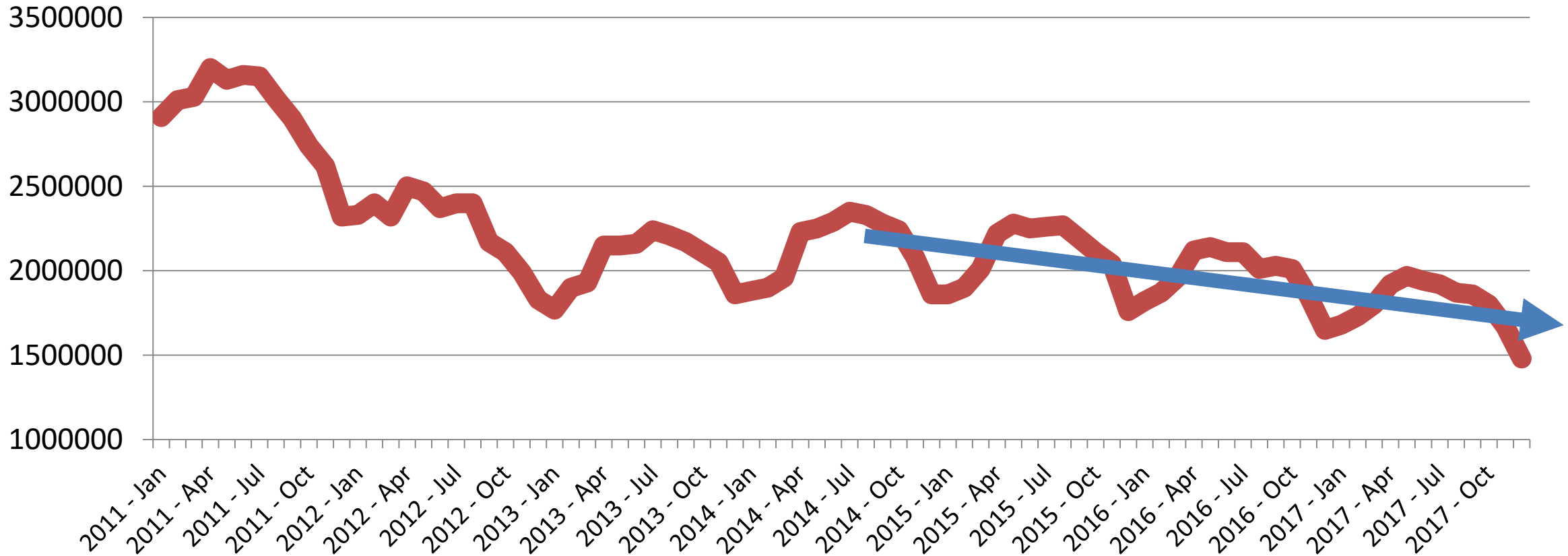
# Housing Forecast

	2015	2016	2017	2018 Forecast
New Home Sales	500,000	560,000	600,000	700,000
Existing Home Sales	5.3 million	5.4 million	5.5 million	5.6 million
Median Price Growth	+ 6.8%	+5.1%	+6.0%	+4.0%
30-year Rate	3.9%	3.6%	4.0%	4.6%

# Biggest Market Driver Right Now

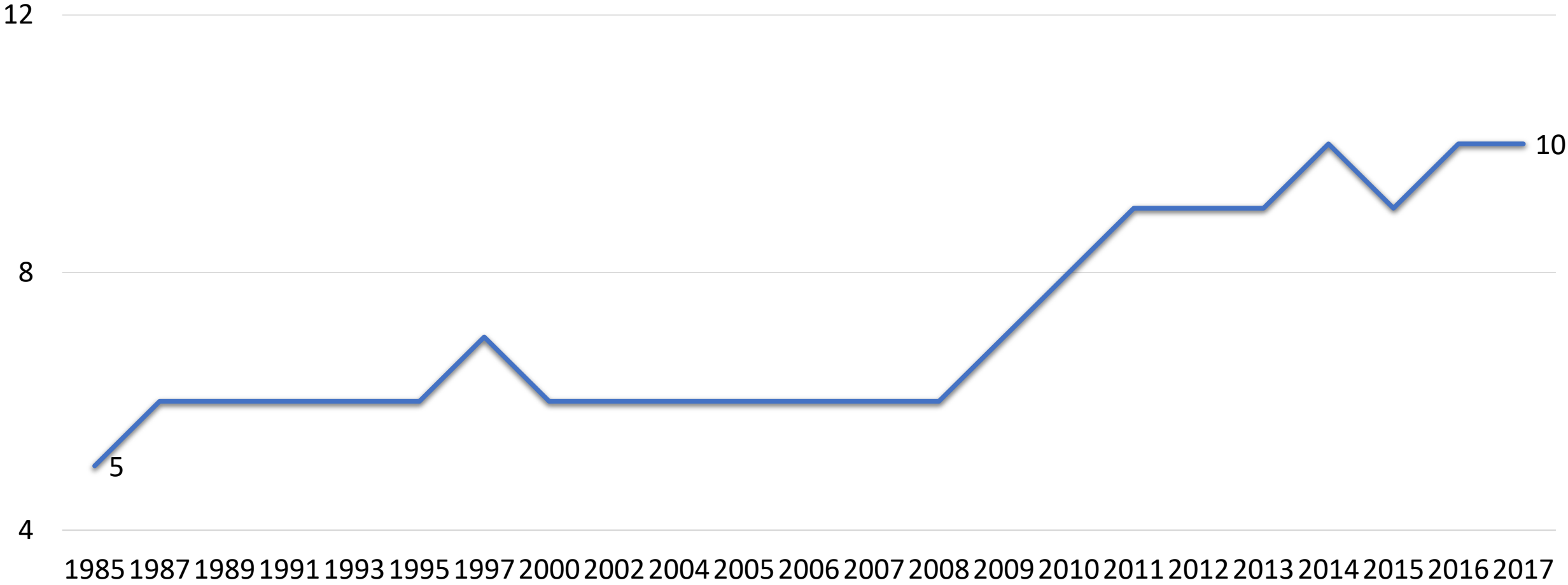


# Inventory of Homes on Market

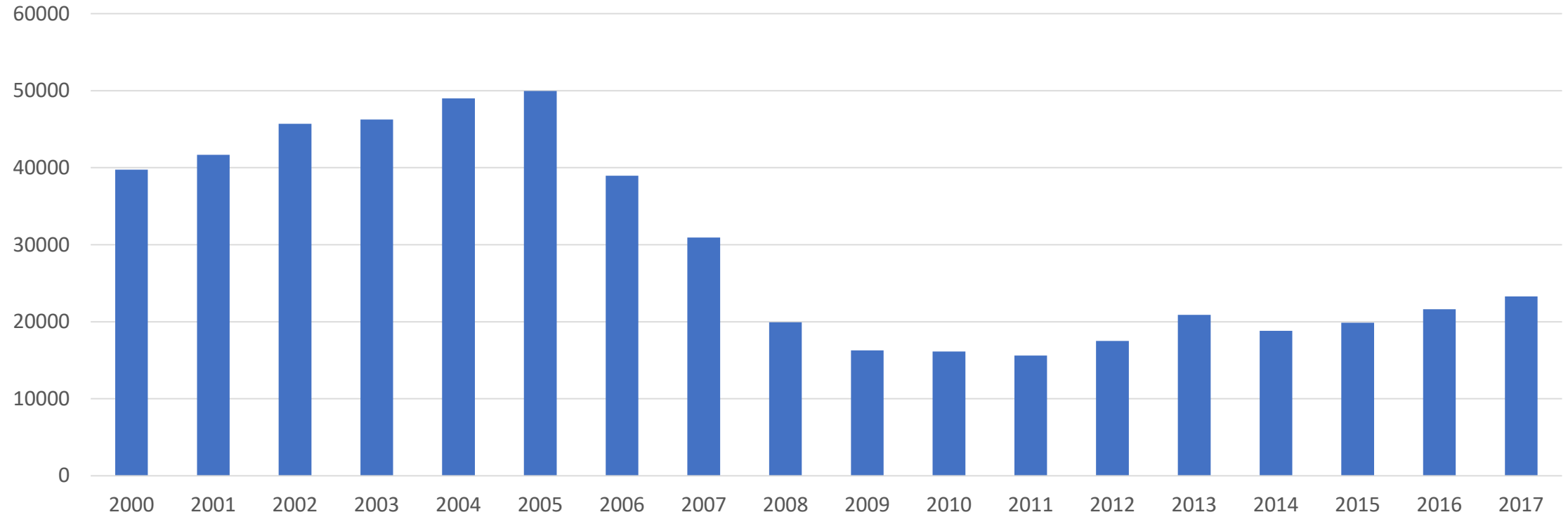


Source: NAR

# Actual Tenure in Home is Elevated



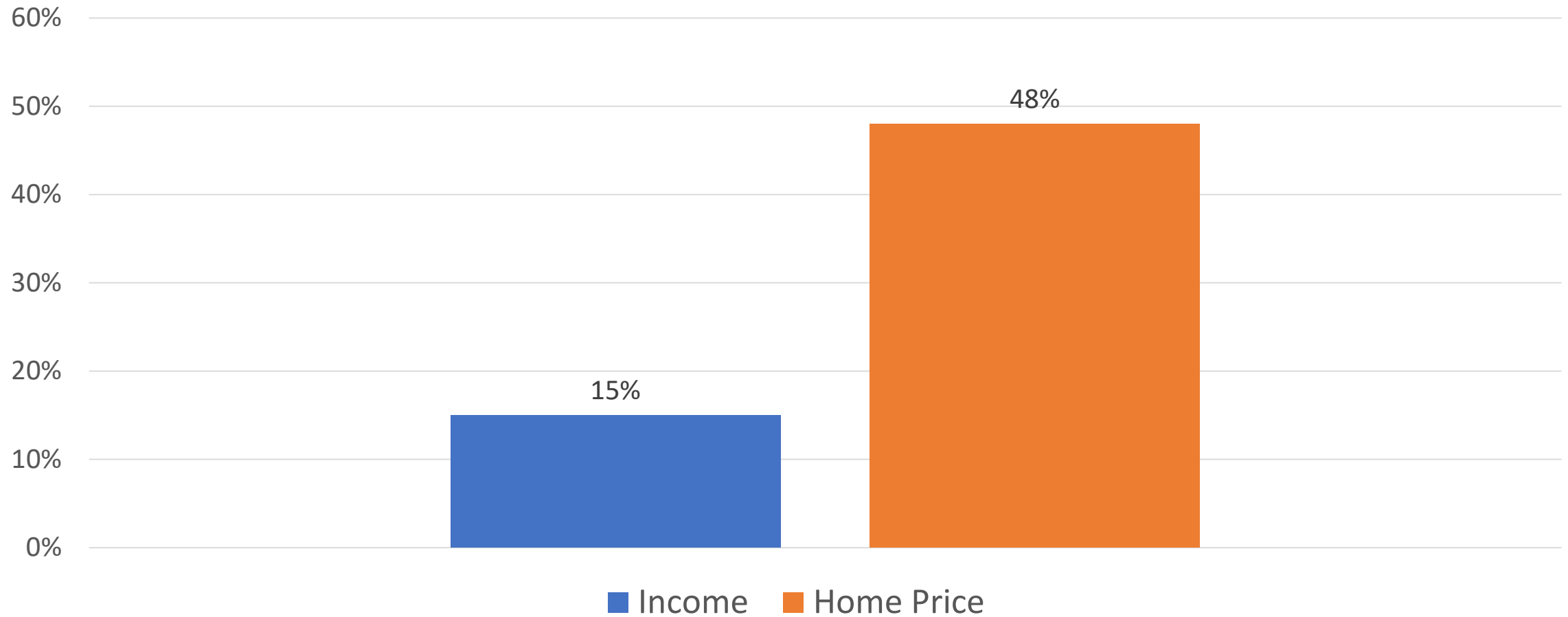
# Virginia Single-Family Permits



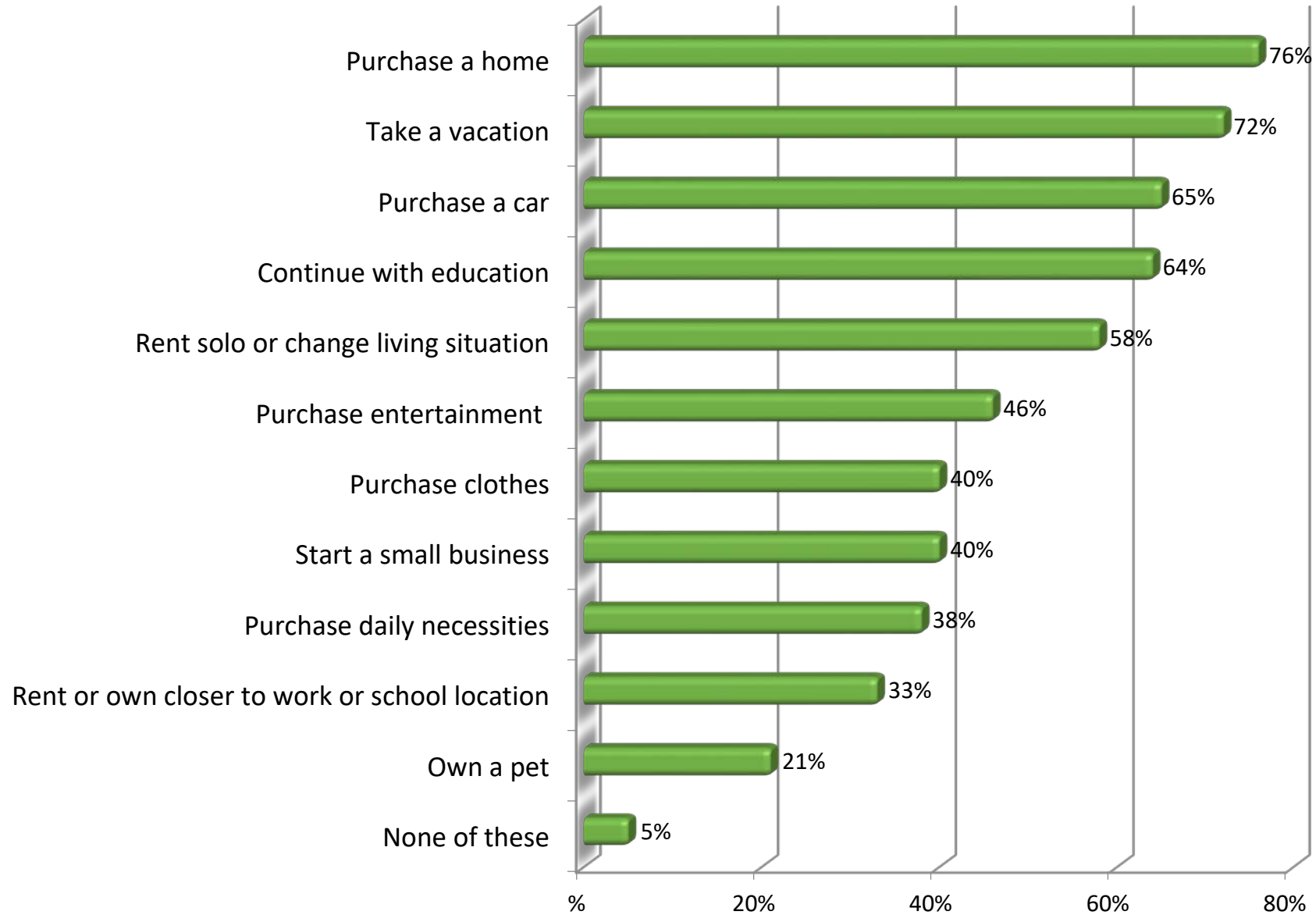


# Income Growth and Home Price Growth

(from lows in 2011 to 2017)



# Student Loan Debt Impacted



WHAT'S NEXT?



# Other Political Factors

- Likely Passage of Dodd-Frank Reg Relief for community/regional banks
  - Includes new requirements on credit scores
- Multi-year Budget Deal gives some certainty re: Sequester
- More interest rate increases likely
- Chances of Infrastructure deal slim
- Increasing likelihood of divided government next year

# Questions and Discussion

## **Ken Wingert**

Senior Legislative Representative | Advocacy

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