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CAPITOL ASSETS

America's Real Estate & Mortgage Update

EQUAL HOUSING OPPORTUNITY REALTOR®

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THE MID-YEAR HOUSING MARKET REPORT

Home sellers in most communities across the country have been the beneficiaries of amazing spring market conditions, and the festivity looks like it will be continuing for late-arriving sellers. All season long, the supply of homes available for sale has been stubbornly short of a balance between buyers and sellers and that has been all to the benefit of those gleeful selling homeowners.

Surprisingly, home sales have continued at a relatively fast pace, despite the relatively low number of homes on the market. Sales dipped a hair from March to April as the number of homes available to purchase slipped further. Unsold inventory in April was at a painfully meagre 4.2-month supply at the current sales pace, down from 4.4 months in March. We are way under the six-months' supply that is considered a balanced market.

The result was that homes were getting listed and sold really fast. The median time-on-market for properties in April was an astonishing 29 days! When you consider that period includes buyers viewing the property, considering (quickly) their options and writing a contract, and, in turn, owners weighing what are sometimes multiple offers before accepting one or engaging in some back-and-forth, that is a lot getting done in a short time.

Home sellers often find listing a home for sale to be a stressful endeavor. However, many recent sellers found the undertaking passed so quickly and with so little time for worry about finding a buyer or hand-wringing over closing hurdles (maybe there was an appraisal issue to deal with) that they have been pleasantly surprised at the rapidity and ease of the process.

The median time-on-market for properties in April was an astonishing 29 days!

As might be expected, home prices have continued their upward march due to the demand/inventory mismatch. The median (midpoint) existing home price hit another high in April at $244,800, up 6% from April 2016 and the 62nd consecutive month of year-over-year gains, according to the National Association of Realtors.

The NAR number may even be a bit too low. Real estate analytics firm CoreLogic, which compares repeat sales of the same property, said that prices rose 7.1% for the year ending in March.

MID-YEAR *continued on page 2*

IN THIS ISSUE:

4 Mortgage Rates Have Been Stable • Why New Homes Need Inspections • Tax Reform Has Unanswered Questions

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MID-YEAR *continued from page 1*

CoreLogic projects appreciation of 4.9% to March 2018, but they have been underestimating how much demand will push up prices. For the period from 2016 to 2017, they had predicted only a 5.3% price gain.

Of course, averages only tell the story in a generalized way. In a number of communities where the number of available properties is especially lean, homes are moving even faster, receiving multiple contract offers and triggering bidding wars.

Consult with your Realtor to learn exactly what conditions currently exist in your community.

However, the great selling environment haven't brought a wave of home sellers into the market, nor is it expected to do so in the near future.

Most sellers are also buyers of a home. Many potential sellers are worried that the inventory shortage that has created such an opportunity for them could work to their detriment as a buyer.

Others are too in love with the attractive mortgage they currently have, though the recent drop in rates, along with more appreciation could start to exert a stronger pull. Rates will only be higher a year from now, most believe.

One problem has been the mismatch between what is most needed in the marketplace (more starter homes) and what builders make the most money on (upscale homes). As prices for entry-level homes continue to rise, builders will start finding it more attractive to build for that segment of the market.

Coping in a sellers' market

The low inventory conditions can present challenges for homebuyers, true, but they are not insurmountable. That is attested to by the fact that there is a buyer on the other side of every selling transaction.

Making a winning offer in a competitive market requires being at the top of your game and doing everything you can to be prepared to make a strong offer. A magic wand isn't need, just effort and persistence.

It starts with fine-tuning your financial issues. Review your credit reports and fix any errors. Sit down with your mortgage advisor and figure out how much house you can afford.

Then, if possible, get preapproved for a mortgage that will allow you to reach that target. Be sure that the source for your downpayment and closing costs is well-established.

You will want to sit down with your Realtor and carefully construct a game plan. Are there specific communities that you want to target? What home features do you consider to be "musts" and which are simply preferences.

If you are purchasing with a spouse or partner, make sure you and that person are totally in tune with respect to what things are the most important features or attributes to look for.

Are there contingencies that you can eliminate when you make an offer? If so, do it.

Sellers like to eliminate as many potential pitfalls as possible and contingencies provide way too many of them.

If you already have a mortgage preapproval, at least, a financing contingency won't be absolutely necessary. A seasoned homeowner might be okay with waiving a home inspection contingency, but a first-time homebuyer may find that just too scary.

When you do find a home that fits your requirements, be prepared to make an offer promptly. And make it a strong one. You may not get a second chance to up the ante.

Watch for flood insurance renewal

We're not quite there yet, but home sellers and buyers in areas where flood insurance is required by lenders (every state has some) should know that the National Flood Insurance Program is due to expire September 30, 2017.

Congress will be looking into making some adjustments to the program and that could cause a squabble between budget-conscious members and those with vulnerable flood-prone areas.

The conflict could delay a renewal of the program and make flood insurance temporarily unavailable. This is an issue that cuts across party lines.

A long-term extension is a (possibly unattainable) objective for some members of Congress. Another goal for some is to make it more attractive for private insurers to offer coverage.

When the flood insurance program lapsed in 2010, tens of thousands of transactions were affected, with thousands of contracts unable to close because flood insurance was unavailable. Fortunately, existing policies continued in force.

Look to new-homes market

Not so long ago, homebuilders could be counted on to ramp up to meet any shortfall and they are a bit. New-home sales, housing starts and permit applications have all been in a general uptrend, but builders have had challenges.

Homebuilders in May registered their second highest confidence rating since the housing recovery began, 70 on a 100-point scale where 50 is so-so.

But builders complain that they are having to cope with higher materials costs (a trade dispute with Canada over lumber imports is having an impact) a lack of skilled construction workers and a shortage of buildable lots.

Available lots in many existing communities are getting snapped up to meet demand, an opportunity for lot owners.

If you can't find the house that meets your needs in the existing homes market, you may find it at one of the new-home communities, where choices are continuing to grow. Your Realtor can help you find the right one, negotiate with the builder and smooth out any bumps along the way.

RATES *continued from page 4*

seemed to be hesitating about the next hike, which many market analysts had expected to come in June. It still might, but more doubt about the move has crept into market analysts' predictions.

Seasoned Fed-watchers also were anticipating another hike would be coming in September, but that, too, has now been called into question.

Freddie Mac's most recent estimate is for 30-year rates to average 4.2% for all of 2017 and 4.7% for 2018. A move up is still expected ultimately, but that eventuality has been delayed for now.

Fannie Mae is addressing student debt

The burden that heavy student loan debt has put on current and potential homeowners is like the weather: everybody talks about it, but nobody does anything about it. Now someone has: Fannie Mae.

Fannie recently announced new policies aimed at helping homebuyers with student loan debt to qualify for a mortgage. The new program from Fannie provides three significant rules tweaks for home borrowers with student loan debt.

Student loan cash-out refinance:

Offers homeowners the flexibility to pay off high interest rate debt while potentially refinancing to a lower mortgage interest rate.

At least one student loan must be paid off in full with the cash-out refi. Partial payments would not qualify.

Debt paid by others:

Widens borrower eligibility to qualify for a home loan by excluding from a borrower's debt-to-income ratio non-mortgage debt, such as credit cards, auto loan, and student loans if they are being paid by someone else.

Twelve months' cancelled checks or bank statements, with no delinquent payments, are necessary in order to exclude it from the debt-to-income ratio.

Student debt payment calculation:

Makes it more likely for a borrower with student loan debt to qualify for a loan by allowing lenders to accept student loan payment information on credit reports.

If there is no monthly payment on the credit report, a lender must calculate a payment for qualifying. One of two options applies: 1% of the outstanding balance or a fully amortizing payment using the documented repayment terms.

INSPECTIONS *continued from page 4*

Example: An electrical outlet in the attic that was a fire hazard because it did not have proper insulation.

Mistakes sometimes occur that should have been obvious to the trained eyes of the builder and government inspectors and were potentially catastrophic, but were still missed somehow.

Example: A gas furnace flue that wasn't connected to the roof, venting deadly carbon monoxide into the bedroom attic.

Even for minor problems, such as faulty ductwork that fails to direct cool/warm air into second floor rooms, fixing the problem early can prevent months of dissatisfaction.

Ideally a new home should be inspected at three points during construction:

(1) When the foundation is laid, to check for correct grading and rough work for plumbing.

(2) Before the drywall is installed, to check the frame structure, wiring, plumbing, HVAC ductwork and exhaust ducts.

(3) Upon completion of the home prior to settlement to check finish work and appliances at the walk-through.

To ensure odds of the most professional job, see that the inspector is a member of the American Society of Home Inspectors (**www.ASHI.org**). ASHI prescribes standards of practice and a code of ethics for inspectors.

REFORM *continued from page 4*

on personal residences can be deducted. In addition, interest on a maximum of $100,000 in home equity indebtedness can be deducted.

These deductions might be eliminated or reconfigured, possibly being subject to a new general limit on itemized deductions.

Another of the main proposals for individuals is an increase in the standard deduction.

Increasing the standard deduction would reduce the number of taxpayers who itemize deductions, removing some first-time homebuyers and homeowners with smaller mortgages from the ranks of itemizers.

Several current proposals contemplate changes in capital gains taxation. Does that include a change in the present homeowners exclusion for sales of a personal residence? That is another detail we have not seen addressed yet.

The same goes for rules permitting tax-free personal use of a rental property for a limited period or the ability to rent a personal residence for a short period without it being included as income.

And what about the provision that allows mortgage insurance premiums to be deductible item, as thought it were interest? No word on that, either. The provision needs an extension to continue to be available past 2016.

The deduction has applied to mortgage insurance premiums paid or accrued, including for prepaid MI, on acquisition (not on refinancing) debt, and phases out for taxpayers with adjustable gross incomes over $100,000.

Tax reform is always one of the most difficult lifts for Congress because there are usually powerful competing interests on each side of most proposals. If not, then it is usually because there are revenue consequences that must be addressed, either offset somewhere or adding to the budget deficit.

Stay tuned. We're just getting started.

SPRING MORTGAGE RATES HAVE BEEN STABLE

One thing that spring homebuyers have had going for them has been surprisingly low and stable mortgage rates.

The worry had been that the sharp runup in interest rates that occurred after the November election would continue into the new year and put a damper on spring sales. Happily, that hasn't happened.

At the end of May, 30-year fixed-rate conforming mortgages were hovering around the 4% mark, dropping to 3.95% per Freddie Mac's last survey for the month. That was about 0.3 percentage points higher than the same time in 2016, but a new low for 2017.

For those who prefer the speediest payoff, Freddie reported that 15-year mortgages were averaging 3.19 %.

Adjustable rate mortgages that are fixed for five years averaged 3.07%. Because there is more lender-to-lender variance with this mortgage product, purchasers can benefit from shopping rates if that loan option is their choice.

Rates are getting some benefit from a newly cautious Federal Reserve. Fresh concerns about the health of the economy and that inflation may be too low might persuade the Federal Reserve to hold off on rate increases that it had hinted at earlier this year.

The Fed raised short-term interest rates by 1/4 percentage point in March. At that time, the Fed had strongly suggested that a couple of more increases could be coming later on in 2017.

More recently, though, Fed members

RATES *continued on page 3*

WHY NEW HOMES NEED INSPECTIONS

With the pace of new-home construction picking up, we need to be cautious about the quality of newly constructed homes. Builders have been finding skilled workers in too-short supply for several years now.

Consequently, hiring a home inspector to carefully scrutinize a new home, just as you would do with an existing home purchase, is a wise investment.

New homes are inspected by the county or city during construction and before a property can be issued an occupancy permit.

However, in this era of tight local government budgets, inspectors can be overburdened as the pace of construction quickens and more new homes need scrutiny.

Builder warranties can cover many obvious problems, but typically last only for a year on most items (perhaps longer on major structural issues).

But what about errors that are not obvious or that the builder may not even consider to be or refuse to recognize as a mistake?

Even when problems are found within the one-year warranty period, there may be disagreements between you and the builder. Having the authority of an inspector adds weight to your side.

The reasons for inspecting a new home are somewhat different from those for inspecting an existing home.

In general, newly constructed homes need inspections to protect against faulty materials, design flaws or construction mistakes, rather than to alert the purchaser of issues arising from aging systems or structural components.

In new homes, some mistakes may be subtle, yet still potentially dangerous and might not, otherwise, be discovered for years.

INSPECTIONS *continued on page 3*

TAX REFORM HAS UNANSWERED QUESTIONS

Homebuyers will want to keep a close eye on the progress of tax reform this year, since there are proposals being floated that would have a significant impact on many, mostly middle-income, owners.

To say that tax reform is complicated and contentious is a given in any environment, but the 2017 iteration may prove to be both those things in even greater measure.

Much of the impetus for tax reform is for a revamp of corporate income tax rules and there is controversy aplenty there, but individuals would certainly see some changes as well.

The proposals currently being circulated are very general and resolution and refinement of some of them could eventually yield some details that will have a significant impact on homeowners

Right now, the greatest effect on homeowner tax rules would seemingly be from a proposal to eliminate the deduction for state and local income and property taxes. These can be big money items in a number of high-tax states.

A study by the National Association of Realtors estimated that homeowners with adjusted gross incomes between $50,000 and $200,000 would see their taxes increase by an average of $815 due to loss of the deductibility.

While deductibility of property taxes appears to be in the crosshairs of some reformers, the proposals getting the most recognition would generally retain the deductibility of home mortgage interest.

However, there is currently a limit on deductibility of home mortgage interest. Interest from no more than $1 million in total mortgage amounts

REFORM *continued on page 3*