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President-Elect Trump and Real Estate

I've decided that it is time to live on the edge. Yep, I've decided to share my thoughts on what the Trump presidency will bring - or has already brought - to real estate. Now is probably also the time to mention that anybody (including President-Elect Trump) that claims to know what *will* happen is waaay overconfident.

Broadly speaking, I see 3 main areas that the Trump presidency can/will impact real estate. Namely, through mortgage interest rates, inflation and economic policy.

Mortgage interest rates jumped about 0.5% in the week following the election. Prior to the election they were floating between 3.5% and 3.75%, and since they are generally bumping along between 4% and 4.25%. In dollar terms, this change translates to an almost $300/month mortgage increase for a 30-year fixed loan on $1M.

What is driving this? Many investors have fled the bond market to take advantage of the greater returns offered by the rising stock market. With the accompanying decrease in money available to purchase mortgages on the secondary market, the sellers of those mortgages (e.g. banks) must offer higher interest rates to attract buyers. Consequently, they charge higher rates for the loans they issue.

Even before the election, there was a growing expectation that **inflation** rates would begin to rise, albeit slowly. This expectation has been accelerated by Trump's statements regarding cutting taxes and making a massive investment in infrastructure (among other things). While the Republican led congress may welcome tax cuts, the infrastructure improvements, which many Democrats support, would need to be paid for somehow. Without tax money to cover the investment, the only alternative to paying for infrastructure improvements may be by saddling future generations with even more debt.

How does this relate to real estate? Both tax cuts and stimulus investment would probably have a positive short term economic impact as people feel better off. However, unless the economy as a whole expands simultaneously, the long term impact is likely to be higher budget deficits and interest rates – both of which tend to have a cooling effect on the housing market.

Quite possibly the biggest wildcard when it comes to real estate will be Trump's approach to **economic policy**, specifically tax reform. A November Forbe's article referenced the possibility that any tax reform could trim the mortgage interest and property tax deductions and the home sale capital gains exclusion ($250K/$500K). Living in one of the most expensive areas in the world, any of these could have a significant impact on our local market, especially the capital gains exclusion.

One of the benefits of reaching 50 is that I've learned that things rarely turn out as well as hoped…and are rarely as bad as feared. Since many of the above areas are actually in control of Congress, I'm personally hoping that inertia to change continues to rule the day. We hope you have a terrific holiday season and end of 2016!

Janie and John

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