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On Real Estate Past and Future

2017 proved to be another banner year for home sellers – and one requiring patience and persistence for buyers. With the supply of local listings decreasing almost across the board, multiple offers, sometimes numbering in the double digits, continued to be the rule. The table below shows the year-over-year price increases for single family homes for select cities – let me know if yours is not shown and I will run the numbers for you.

	Average Sale Price			Median Sale Price		
City	2016	2017	% Change	2016	2017	% Change
Palo Alto	$2.985M	$3.522M	18.0%	$2.550M	$2.950M	15.7%
Menlo Park	$2.373M	$2.576M	8.6%	$2.128M	$2.280M	7.1%
Portola Valley	$3.023M	$3.417M	13.0%	$2.700M	$3.000M	11.1%
Redwood City	$1.456M	$1.637M	12.4%	$1.405M	$1.538M	9.5%
San Carlos	$1.792M	$1.897M	5.9%	$1.675M	$1.778M	6.1%
Belmont	$1.539M	$1.702M	10.6%	$1.500M	$1.660M	10.7%
Mountain View	$1.826M	$2.061M	12.9%	$1.723M	$1.980M	14.9%
Los Altos	$2.883M	$3.260M	13.1%	$2.710M	$3.019M	11.4%
Los Altos Hills	$4.412M	$4.733M	7.3%	$3.863M	$3.881M	0.5%
Sunnyvale	$1.459M	$1.699M	16.4%	$1.490M	$1.725M	15.8%

The real question though is, how will the new tax laws impact our local housing market? Specifically, there are 2 changes that may have a direct impact on home sales:

1. The mortgage interest deduction is limited to $750,000 as of 12/15/17 (earlier loans remain deductible to $1M).
2. The state + local + property tax (“SALT”) deduction is now limited to $10K.

If the national and statewide projections are to be believed, housing prices will decline under the new tax laws. Before buyers start rejoicing and sellers start weeping though, consider the following:

- Buyers are more than likely to have their deductions capped by the provisions in the new law. This could reduce their buying power and be a drag on the market.
- Sellers may think twice about moving (vs. remodeling) since moving may lead to both higher taxes and fewer deductions than staying in their current home. This will likely result in even fewer homes on the market and the resulting decrease in supply may drive prices even higher.
- California legislators are contemplating allowing citizens to donate money to the state in lieu of taxes, thereby skirting some or all of the deduction limitations imposed by the new law. Stay tuned to see if this pans out.

The net result? Given that average prices were up anywhere from 5.9% in San Carlos to 18% in Palo Alto last year, I do NOT see home prices declining anytime soon. While the rate of appreciation may slow, I expect it to still be strongly positive as demand continues to overwhelm supply. In other words, more of the same!

Best Regards,

Janie and John

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