

San Francisco Business Times

Trump's tax changes already casting shadow over Bay Area housing market

By **Mark Calvey** – Senior Reporter, San Francisco Business Times
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President Trump's tax overhaul limiting the deductions for mortgage interest as well as state and local taxes paid is already taking a toll on the Bay Area's housing market, real estate industry participants say.

"A lot of people are going to lose tens of thousands of dollars in deductions and sometimes much more. That's real money out the window. But perhaps it won't be real to people until they do their 2018 tax returns," [Patrick Carlisle](#), chief market analyst for the Bay Area at Compass in San Francisco, told the San Francisco Business Times.

The impact on Bay Area housing could be all the more striking, given the double-digit appreciation the region's homeowners have enjoyed.

"I have been a bit surprised that the first half of the year's market basically ignored those tax law changes and ignored increasing interest rates, and went crazy hot – maybe hotter than any time since 2000," Carlisle said. "Right now, the Bay Area is awash with money. Our high-tech boom is hotter than ever. Some of our local high-tech companies are money-generating machines, which doesn't mean that the tax law changes won't eventually affect our market.

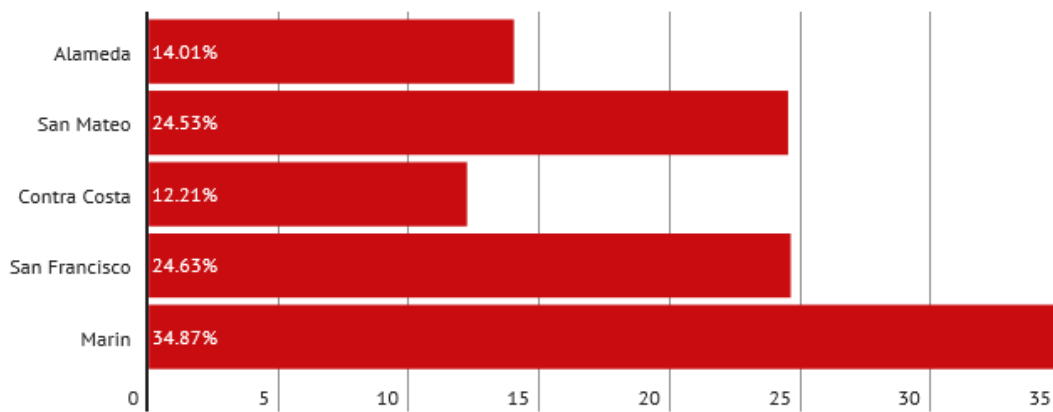
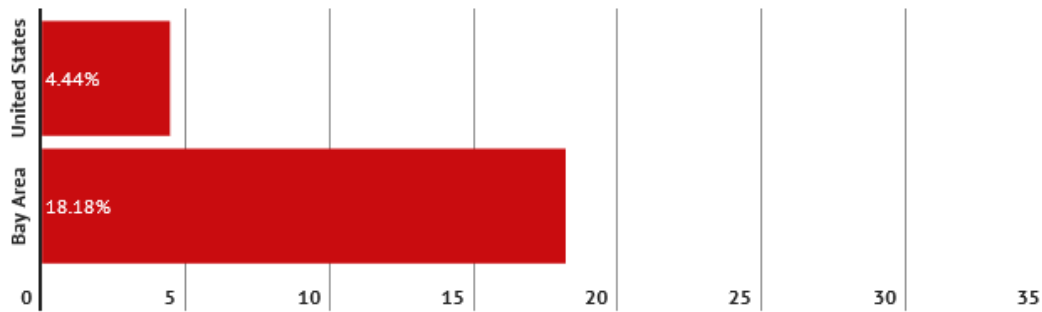
"It would be totally irrational if it didn't, though that doesn't necessarily imply a big drop in values like what they're talking about around New York," Carlisle said, referring to a Bloomberg News report that [home values are falling](#) in pricey Westchester, N.Y. "The Bay Area is a completely different economic dynamic right now."

Even the [California Association of Realtors](#) cautions that those buying homes this year might not get the price appreciation they expect when they go to re-sell as bidders on these homes in four to five years opt to pay less, given the reduced tax benefits of homeownership – especially on homes going for \$1

million or more. (The statewide trade group offers little comfort to Bay Area residents when it calculates that there will be little impact from tax law changes on homes priced at \$500,000 or less.)

PROPERTY TAX

Percent of homeowners paying more than \$10,000 in property taxes.



1,114,802

Number of Bay Area homeowners

91,566,704

Number of U.S. homeowners

202,703

4,062,406

[Moody's Analytics](#) calculates what it calls “the peak percentage change in house prices due to the tax legislation compared to what house prices would have been assuming no change in tax law, as of late 2019,” which the firm calls the “time of maximum impact.”

Price appreciation in San Mateo and Alameda counties will be 3.6 percent less than if there had been no changes to the tax law; San Francisco will see 4.1 percent less price appreciation, Marin County, 4.5 percent less appreciation; and Contra Costa County will see 5.8 percent less price appreciation, according to Moody's Analytics. Santa Clara County will see 4.2 percent less price appreciation compared to where prices would have been at the end of 2019, if there had been no tax law changes, Moody's Analytics said.

“There's going to be a rude awakening next spring,” said [Vanessa Bergmark](#), owner and president of Red Oak Realty in Oakland. “We haven't felt it yet, but it's coming. Storm clouds are on the horizon.”

Bergmark says she's not predicting a decline in prices next year. But anecdotally, she is seeing early signs of a slowdown, such as a property owner pulling their home off the market now to wait until the traditionally stronger fall selling season. In other cases, homeowners aren't getting the bidding wars they had expected.

“This is how a slowdown begins,” Bergmark said.

That point is echoed by the California Association of Realtors.

“In July, we might be seeing some softening in the market. For the second half of the year, we might see even further softening,” said Oscar Wei, senior economist with the California Association of Realtors. In addition to the new tax law, the housing market will also be affected by rising interest rates and possibly

an expanding supply of houses hitting the market, he said.

However, Carlisle at Compass, cautions against reading too much into July's housing market signals, since it's traditionally a slow time for the housing market, especially at the high-end of the market. Still, Bloomberg News has also taken note of weakness in the housing market, reporting late last month "[the end of the global housing boom](#)."

Many Bay Area homeowners will feel the pain of the new \$10,000 cap on state and local deductions. In the five-county Bay Area, 18 percent of homeowners have annual property tax bills exceeding \$10,000.

Almost 25 percent of residential taxpayers in San Francisco and San Mateo counties have property-tax bills exceeding \$10,000. In Marin County, almost 35 percent of property taxes on condos and single-family homes exceed \$10,000, [according to a report](#) by Attom Data Solutions. In Santa Clara County, almost 29 percent of homeowners pay more than \$10,000 in annual property taxes. Presumably, these homeowners also have substantial income to pay those tax bills, which means they will not get a deduction for the state income tax paid on that income.

"It's clear that the way we view our home will change over the next few years. Buying a bigger house won't reduce your taxes," said [Diane Kennedy](#), an accountant in Sparks, Nevada, who has several Bay Area clients. An estimated 80 percent of Americans will no longer itemize deductions, meaning that deductions for mortgage interest, property taxes and charitable contributions will be meaningless for them, Kennedy writes in her new book, "Taxmageddon 2018: How to Brace for the Trump Tax Plan."

Bay Area accountants say their wealthy clients aren't waiting to see how the new tax law affects the region's housing market next year.

At accounting firm Marcum, some wealthy clients are already selling their Bay

Area homes and renting, taking advantage of today's home prices as some prepare to eventually move to states with lower taxes, said Jeff Pera, Marcum's regional managing partner for Northern California, based in San Francisco. He calls these wealthy clients that are opting to sell and rent in the Bay Area "early adopters."

Bergmark at Red Oak Realty has her own observation on these quick-to-act homeowners: "These wealthy individuals didn't find themselves wealthy by doing what everyone else does."