ADVANTAGE ASSET MANAGEMENT

PRESENTS

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Real Estate Outlook in the Face of the New Tax Act

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A. Tax Cuts and Jobs Act (TC&JA):

Signed by President Trump December 22, 2017:

- Slight reduction in personal tax brackets, but big deduction in Corporate.
- Major changes in standard and itemized deductions. Beyond the scope of this presentation to include very much, but standard deduction for a single person is $12,000 and a couple is $24,000, but the personal exemption is gone. The idea is that “most people” will not need to itemize deductions.
- Those who do itemize will face limitations on deduction of state and local income and real estate taxes. Many other deductions are gone, like employee expenditures. Charitable deductions are now only available to those who itemize.
- Office cost deductions for investments is no longer allowed, nor is deduction of cost of tax prep for personal returns. However, holding business property and attaching tax prep solely to that part of the tax return may still be allowed.
- Personal home interest limited to $375,000 or $750,000 mortgage face value for a single or couple filing jointly, repectively, after end of 2017. Interest on Home Equity loans is no longer deductible.
- Some reports on the TC&JA emphasize the importance of having really good records for any expenses for tax filing.

Investor Positives:

- AMT eliminated for corporations and many earners. This definitely helps investors:

Filing Status	AMT Exemption Amount	AMT Phase-out Income Level
2018 AMT Thresholds and Exemptions by Filing Status AFTER GOP/TRUMP TAX REFORM		
Single	$70,300	$500,000
Joint Returns or Surviving Spouses	$109,400	$1,000,000
2017 AMT Thresholds and Exemptions by Filing Status		
Single	$54,300	$120,700
Joint Returns or Surviving Spouses	$84,500	$160,900

- Rental property interest and taxes appears untouched in this bill. Not clear how mixed personal/rental property will be handled.
- However, many investors itemize and may find many deductions cut or eliminated outside of their investment properties.
- Faster write-off of equipment purchases is now possible and this could be a big tax savings for investors.

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- If an investor holds property in an LLC or SubS corporation, it is possible that there will be more favorable tax treatment. Definitely worth reviewing with a CPA.
- Long-term capital gains rates will remain the same.
- Important – 1031 Tax Free Exchanges now limited to only real estate, again a plus for the real estate investor.

B. The Home Market Fares Worse:

- The TC&JA limits home interest deduction for personal residences bought after 2017, as noted above.
- The Act also limits deductions for sales and real estate taxes combined to basically $5,000 single, or $10,000 joint filing, a year. That is why this Act is often referred to as a killer for "high tax states" like CA and NY.

C. Real Estate Outlook:

- Perhaps a slow build during the year.
- Low & middle income houses moving, $500K and up – not so much.
- Harvey destroyed or damaged 161,000 homes in the Houston SMSA.
- Watch for short-term rental demand, although that may be mitigating about now.
- Higher interest rates virtual certainty for mortgages and other borrowing.

D. Employment Outlook

- Employment relatively flat, although even during 2016 and 2017, the Houston area added new jobs.
- Mixed impact of Super Bowl, World Series and Harvey.
- Major construction on east side primarily completed. Big drop in construction jobs.
- High income energy sector jobs not very promising. Some good healthcare jobs, but the rest fairly negative.
- Note high government employment increase!