Press Release

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THE IMPACT OF THE HOUSE TAX PLAN ON CALIFORNIA COUNTIES' HOME PRICES

ORANGE, CA—A study conducted by the Anderson Center for Economic Research and Hoag Center for Real Estate and Finance examines the potential impact of the Republican-sponsored House tax-overhaul bill (House bill) on the median home price in California as well as every California county.

Although the House Bill grandfathers mortgage interest deductions up to $1,000,000 for current homeowners, new caps are proposed on housing-related deductions for homebuyers of existing or newly built homes. Those include a new cap on the mortgage interest rate deduction of $500,000 instead of the existing $1,000,000. The House bill also proposes that the deductibility of property taxes paid be capped at $10,000 for new and current homeowners.

In addition to these recommended changes, the House bill calls for other revisions, including changes in tax rates and standard deductions, the elimination of the personal exemption, the elimination of the alternative minimum tax (AMT) and an end to the deductibility of state and local taxes.

This study is based on the assumption that homebuyers evaluate the beneficial tax consequences of purchasing a home and are willing to pay more for a home to reap the resulting tax benefits.

Table 1 below presents the following data relating to the impact of the House bill on a median-priced home in California:

- The median-priced home is currently $478,800 for single-family homes and condominiums (1).
- To qualify for a 30-year mortgage with the required down payment, the minimum median family income level is $87,900 (2).
- Based on the existing federal tax code with existing home-related deductions in place, the study's findings suggest that a family with the required income of $87,900 will save $18,700 (3). That is the present value federal tax savings over a 30-year period.
- Under the proposed House bill tax regulations and its caps on home-related deductions, the present value of the tax savings from buying the $478,800 home drops to zero, since a California couple, at a median income level of $87,900, is better off taking the new higher standard deduction than taking any home-related mortgage deductions (4).
- Buying a home under the House bill tax regulations will, therefore, result in a loss of home-owner tax savings of $18,700 (5).
- If the tax savings from buying a home declines as a result of the proposed revisions in deductibility, so too will the amount a family will be willing to pay for that home. In the case of a median-priced home of $478,000, a decline in price of $18,700 represents a drop of 3.9% (6).

Table 1. Impact on California Median Home Price Resulting from Loss of Tax Benefits in Proposed House Bill

	(1)	(2)	(3)	(4)	(5)	(6)
Area	Median Home Price	Qualifying Income	Present Value of Existing Home-Related Deductions	Present Value of Proposed Home-Related Deductions	Net Loss (Column 3 Less Column 4)	Impact on Median Home Price
California	$478,800	$87,900	$18,700	-0-	$18,700	–3.9%

The accompanying Table 2 (see pages 3–5) uses the methodology described above on a county-by-county basis. The counties are ranked in order of lowest to highest median home price. The projected housing price depreciation that would result from the loss in home-related deductions in the House Bill ranges from zero for counties like Siskiyou and Shasta to a high of 13.0% in counties like San Francisco and the Westside and West of Los Angeles. These depreciation rates are also shown graphically in Figure 1 (see page 6).

It might be argued that grandfathering current home-related tax deductions for existing homeowners in the proposed tax plan will limit the potential losses (gains) in home values. That is not the case. Home prices are largely set by new transactions that will reflect the changes

under the proposed tax plan, since new homebuyers will be subject to the new caps on mortgage and property tax deductions.

Since selling a home means a loss in potential home-related tax deductions, resale activity will likely decline, reducing the supply of homes for sale. But demand will also decline, since potential homebuyers will have an incentive to stay in their current homes in order to continue benefitting from the housing deduction of the grandfathered provision. New homebuyers will therefore be forced to more narrowly rely on newly built housing to a greater extent. Although these trends are national in scope, the dynamic changes outlined here will be far greater in areas where incomes and housing prices are higher.

Table 2. Impact on Median Home Price in California Counties Resulting from Loss of Tax Benefits in Proposed House Bill

	(1)	(2)	(3)	(4)	(5)	(6)
County	Median Home Price	Qualifying Income	Present Value of Existing Home-Related Deductions	Present Value of Proposed Home-Related Deductions	Net Loss (Column 3 Less Column 4)	Impact on Median Home Price
Siskiyou	$168,000	$30,838	-0-	-0-	-0-	-0-
Tehama	$185,000	$33,958	-0-	-0-	-0-	-0-
Kings	$215,000	$39,465	-0-	-0-	-0-	-0-
Kern	$218,000	$40,016	-0-	-0-	-0-	-0-
Tulare	$220,000	$40,383	-0-	-0-	-0-	-0-
Imperial	$225,000	$41,301	-0-	-0-	-0-	-0-
Madera	$235,000	$43,136	-0-	-0-	-0-	-0-
Plumas	$235,500	$43,228	-0-	-0-	-0-	-0-
Shasta	$244,500	$44,880	$4	-0-	$4	-0-
Fresno	$259,000	$47,542	$286	-0-	$286	–0.1%
Merced	$259,000	$47,542	$286	-0-	$286	–0.1%
Tuolumne	$270,100	$49,579	$713	-0-	$713	–0.3%
Yuba	$270,228	$49,603	$719	-0-	$719	–0.3%
Colusa	$275,000	$50,479	$943	-0-	$943	–0.3%
Sutter	$275,000	$50,479	$943	-0-	$943	–0.3%
Humbolt	$275,500	$50,570	$968	-0-	$968	–0.4%
Butte	$279,000	$51,213	$1,146	-0-	$1,146	–0.4%
Stanislaus	$282,000	$51,764	$1,306	-0-	$1,306	–0.5%
Calaveras	$286,000	$52,498	$1,536	-0-	$1,536	–0.5%

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County	Median Home Price	Qualifying Income	Present Value of Existing Home-Related Deductions	Present Value of Proposed Home-Related Deductions	Net Loss (Column 3 Less Column 4)	Impact on Median Home Price
San Bernardino	$315,000	$57,821	$3,536	-0-	$3,536	–1.1%
Amador	$320,00	$58,739	$3,919	-0-	$3,919	–1.2%
Sacramento	$335,000	$61,492	$5,122	-0-	$5,122	–1.5%
San Joaquin	$345,000	$63,328	$5,958	-0-	$5,958	–1.7%
Mendocino	$360,000	$66,081	$7,248	-0-	$7,248	–2.0%
Riverside	$365,000	$66,999	$7,689	-0-	$7,689	–2.1%
Solona	$398,000	$73,056	$10,680	-0-	$10,680	–2.7%
Mono	$420,050	$77,104	$12,760	-0-	$12,760	–3.0%
Yolo	$425,000	$78,012	$13,235	-0-	$13,235	–3.1%
Nevada	$430,000	$78,930	$13,721	-0-	$13,721	–3.2%
Placer	$459,000	$84,253	$16,620	-0-	$16,620	–3.6%
El Dorado	$483,000	$88,659	$19,112	$21	$19,091	–4.0%
Santa Barbara	$515,000	$94,533	$22,480	$558	$21,922	–4.3%
San Diego	$535,000	$98,204	$26,752	$1,118	$25,634	–4.8%
Monterey	$543,750	$99,810	$29,948	$1,351	$28,598	–5.3%
San Benito	$553,750	$101,646	$33,529	$1,607	$31,921	–5.8%
Ventura	$565,000	$103,711	$37,465	$1,887	$35,578	–6.3%
San Luis Obispo	$569,500	$104,537	$39,009	$1,999	$37,010	–6.5%
Contra Costa	$572,000	$104,996	$39,864	$2,058	$37,807	–6.6%
Sonoma	$572,750	$105,133	$40,121	$2,075	$38,046	–6.6%
Los Angeles	$575,000	$105,546	$40,881	$2,128	$38,754	–6.7%
Napa County	$595,500	$109,309	$47,579	$2,611	$44,968	–7.6%
Santa Cruz	$639,500	$117,386	$59,933	$7,430	$52,503	–8.2%
Orange	$685,000	$125,738	$69,090	$9,488	$59,603	–8.7%
Alameda	$752,750	$138,174	$82,375	$12,340	$70,035	–9.3%
Santa Clara	$935,000	$171,627	$118,905	$19,783	$99,122	–10.6%
Marin	$965,000	$177,134	$126,433	$20,991	$105,442	–10.9%

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	(1)	(2)	(3)	(4)	(5)	(6)
County	**Median Home Price**	**Qualifying Income**	**Present Value of Existing Home-Related Deductions**	**Present Value of Proposed Home-Related Deductions**	**Net Loss (Column 3 Less Column 4)**	**Impact on Median Home Price**
San Mateo	$1,150,000	$211,093	$172,142	$23,115	$149,027	–13.0%
San Francisco	$1,200,000	$220,270	$179,381	$23,301	$156,080	–13.0%
Los Angeles (Westside & West LA)	$1,233,929	$226,498	$183,406	$23,408	$159,997	–13.0%
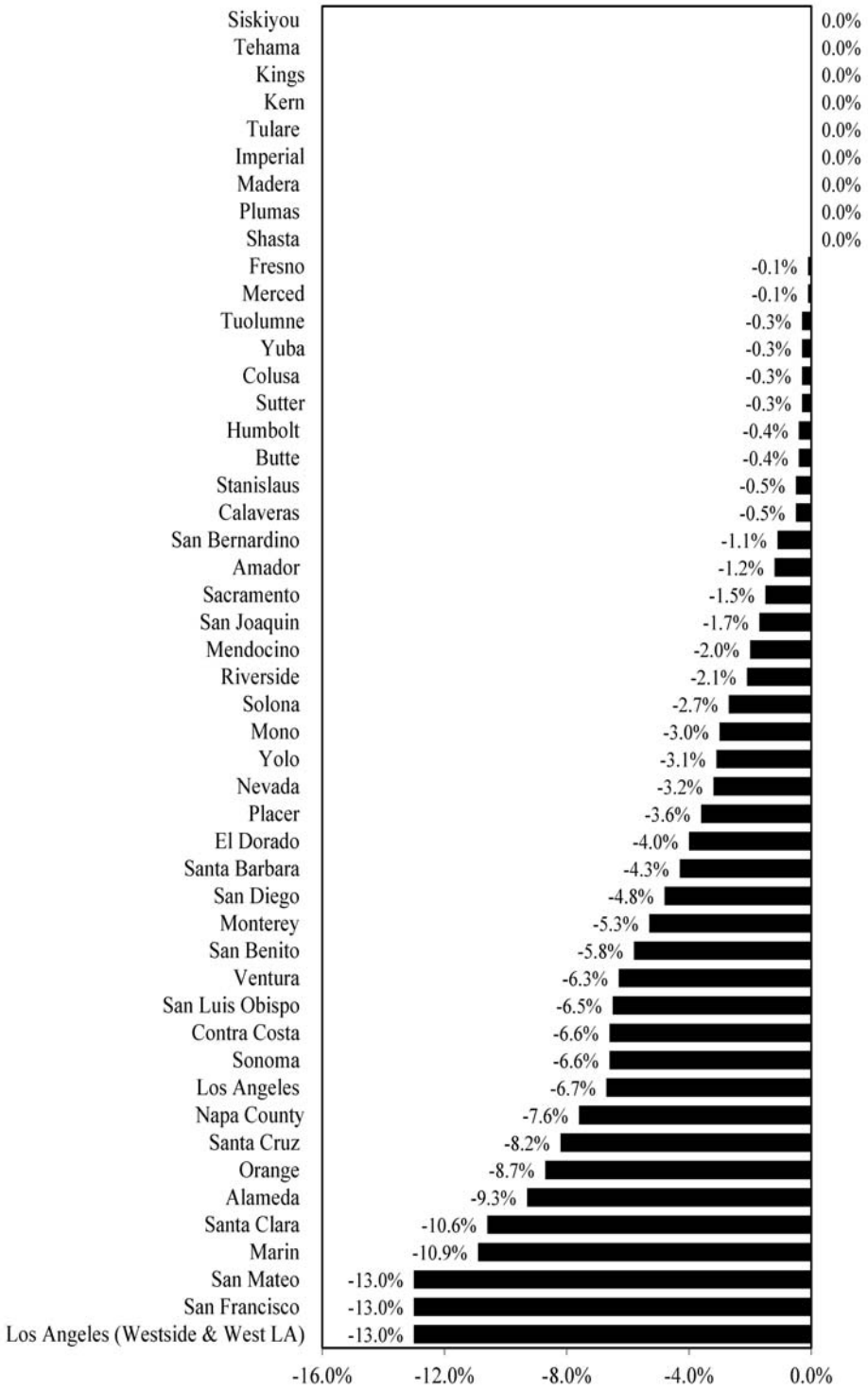
Figure 1. Projected Impact on Median Home Price by County