

SUMMER 2019 MARKET UPDATE

CHANGES TO WASHINGTON STATE REAL ESTATE EXCISE TAX (REET)

Following passage of Senate Bill 5998, and starting in January 2020, owners of residential real estate will see some significant changes in their Real Estate Excise Tax (REET) obligations when they decide to sell.

As it stands today, excise taxes are calculated at a flat rate of 1.28% with municipalities adding their own tax on top of the state tax — generally cities* add 0.5% for a total of 1.78%. The newly passed legislation changes this to a tiered system as shown below:

- ◆ **1.1%** if the selling price is equal to or less than **\$500,000** (1.6% total*)
- ◆ **1.28%** on the portion of the selling price that is **greater than \$500,000 but equal to or less than \$1,500,000** (1.78% total*)
- ◆ **2.75%** on the portion of the selling price that is **greater than \$1,500,000 but equal to or less than \$3,000,000** (3.25% total*)
- ◆ **3%** on the portion of the selling price that is **greater than \$3,000,000** (3.5% total*)

In general, most home sellers will not be adversely affected by this change, as homes priced at or below \$1.5M will benefit from a tax cut, meaning that the increases primarily impact high-end home sellers.

Given current home values, 80% of Washingtonians are expected to receive a tax cut on the sale of residential real estate.

Examples of Sellers' Tax Obligations

Sale Price: \$500,000
 Current REET \$8,900
 New Tax Liability \$8,000
Difference \$900

Sale Price: \$750,000
 Current REET \$13,350
 New Tax Liability \$12,450
Difference \$900

Sale Price: \$1,000,000
 Current REET \$17,800
 New Tax Liability \$16,900
Difference \$900

Sale Price: \$1,500,000
 Current REET \$26,700
 New Tax Liability \$25,800
Difference \$900



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Sale Price: \$2,000,000
 Current REET \$35,600
 New Tax Liability \$42,050
Difference (\$6,450)

Sale Price: \$3,500,000
 Current REET \$62,300
 New Tax Liability \$92,050
Difference (\$29,750)

* Taxes include a 0.5% municipal excise tax, but this is lower in select jurisdictions

HOME SALES



There were **22,281 home sales** during the second quarter of 2019, representing a **drop of 4.8%** from the same period in 2018.

- Since the middle of last year, there has been a rapid rise in the number of homes for sale (listings), which is likely the reason sales have slowed. More choice means buyers can be more selective and take their time when choosing a home to buy.
- Compared to the second quarter of 2018, there were fewer sales in all counties except Whatcom and Lewis. The greatest declines were in Clallam, San Juan, and Jefferson counties.

Listings rose 19% compared to the second quarter of 2018, but there are still a number of very tight markets where inventory levels are lower than a year ago. Generally, these are the smaller — and more affordable — markets, which suggests that affordability remains an issue.

Annual Change in Home Sales Q2-2018 to Q2-2019	
Thurston County	-0.1%
King County	-2.8%
Pierce County	-5.3%
Kitsap County	-6.2%

HOME PRICES

Annual Change in Home Sale Prices Q2-2018 to Q2-2019	
Thurston County	8.6%
Kitsap County	6.6%
Pierce County	6.3%
King County	-0.4%

Year-over-year price growth in Western Washington continues to taper. The average home price during second quarter of 2019 was \$540,781, which is higher than a year ago. When compared to first quarter of this year, prices were up 12%.

- Home prices were higher in every county except King, which is unsurprising given the cost of homes in that area. Even though King County is home to the majority of jobs in the region, housing is out of reach for many buyers, and experts anticipate that this will continue to act as a drag on price growth.
- When compared to the same period a year ago, price growth was strongest in Lewis County, where home prices were up 15.9%. Double-digit price increases were also seen in Mason, Cowlitz, Grays Harbor, and Skagit counties.

The region's economy remains robust, which should be a positive influence on price growth. That said, affordability issues are pervasive and will act as a headwind



through the balance of the year, especially in those markets that are close to job centers. This will likely force some buyers to look further afield when searching for a new home.

FROM THE EXPERTS

GOOD NEWS FOR BUYERS Affordability is the best it's been in over a year. As a result of falling interest rates and slowing home price appreciation, affordability is the strongest it has been in 18 months.

GOOD NEWS FOR SELLERS Here are four reasons to sell your house in 2019:

- New buyers are still entering the market.
- Interest rates are still on the lower end.
- You have high equity.
- Selling now will be better than waiting till 2020.



WHAT SHOULD YOU DO IN THIS MARKET?

Whether you are a Seller, a Buyer or an Investor, there are lots of good opportunities in today's market.

I'm always available to consult with you to help you assess and achieve your real estate goals.

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MORTGAGE MARKET REPORT from Fred Holland

CoreLogic released a special report last week named “**The Role of Housing in the Longest Economic Expansion (July, 2009-July 2019)**” CoreLogic. The report centered around how technology has drastically reshaped how we work, live and access information. In July 2019, the US economic expansion reached 121 months.

With housing comprising approximately 15% of GDP since 2010, the real estate market is an important indicator of economic health.

- The number of homes with **negative equity has decreased** from 25.9% in the first quarter of 2010 to 4.1% in the first quarter of 2019.
- At the end of the first quarter of 2019, total home equity reached \$15.8 tril-

lion up \$6.1 trillion in the first quarter of 2009. The average equity during that period per borrower increased from approximately \$75,000 to approximately \$171,000.

- Since June 2009, **home prices and rents continue to grow**. Through May 2019, home prices increased a cumulative 50% and single-family rents increased 33% in the United States.
- The **unemployment rate** which peaked in October 2009 at 10%, **dropped significantly** to a 50-year low in May, 2019 at 3.6%.
- During the last nine years, the expansion has created more than 20 million jobs, raised family incomes and rebuilt consumer confidence. The **longest stretch of mortgage rates below 5%**



in more than 60 years has supplemented these factors.

The average gain in home equity per borrower in 2018 was \$13,600.

In summary, it is expected that the housing market will enter a normalcy phase over the next 24 months, with prices rising neither too fast nor too slowly.

With the growing stream of young households looking to buy homes over the next two decades, **the long-term view looks healthy.**

FOREIGN INVESTMENT IN REAL ESTATE DECLINING

A recent survey by the National Association of Realtors® revealed that there's been a decline in foreign real estate investment due to low housing inventory and a decline in global growth.

According to the survey, **foreign buyers bought fewer existing homes** between April 2018 and March 2019. Foreign investment in U.S. real estate fell by 36% from the 2019 survey reference period. Foreign buyers purchased \$77.9 billion in existing homes, falling from \$121 billion in the previous 12 months.

MOST POPULAR VACATION HOME LOCATIONS



When people think of buying a vacation home, many often think about the big vacation destination states like Florida, California, or Colorado.

An interesting study from IPX analyzed data from more than 29,000 census-designated locations across all 50 states to identify the **states with the highest percentages of vacation properties. Maine, Vermont, and New Hampshire** had the largest percentages but 100% of the homes in McCarthy, **Alaska** are vacation homes!

SUPREME COURT RULING STANDS TO STRENGTHEN PRIVATE PROPERTY RIGHTS

The Supreme Court has just issued its ruling in the case of Knick v. Township of Scott, a decision which NAR believes will lead state and local governments to be more thoughtful and deliberate when developing laws or regulations that could infringe on Americans' private property rights.

Specifically, Knick v. Township of Scott declared that plaintiffs who have accused local governments of violating the Takings Clause of the U.S. Constitution may proceed directly in federal court rather than first litigating in local circuits, overturning a 34-year old precedent set by a 1985 Supreme Court ruling.

“A property owner has an actionable Fifth Amendment takings claim when the government takes his property without paying for it,” the Court’s opinion reads. “The Fifth Amendment right to full compensation arises at the time of the taking, regard-



less of post-taking remedies that may be available to the property owner. **In sum, because a taking without compensation violates the self-executing Fifth**

Amendment at the time of the taking, the property owner can bring a federal suit at that time.”

As many Realtors® are aware, property owners had previously been required to exhaust all remedies to receive just compensation for private property seizure in state court before they could escalate the case to federal court.

Going forward, property owners will have both state and federal court available to redress their property rights. NAR expects this new development to prompt state and local governments to be more strategic regarding takings, especially in the areas of land use planning and environmental regulations, in order to avoid the uncertainty of litigation in federal court. Considerations surrounding compensation should intensify and increase, as well.

POPULATION GROWTH

- In Washington State, the city that had the most growth was **Kennewick-Richland**.
- 2010-2018 pop. growth: 15.9% (state: 11.8%)
- Feb. 2019 unemployment: 5.8% (state: 4.5%)
- 2010-2017 job growth: 11.5% (state: 17.1%)
- Median household income: \$63,617 (state: \$70,979)

