

2018 Price Forecast

by state

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Kentucky

Home prices in Kentucky are expected to increase by 2.8% considering the tax impact, current market conditions, interest rate effect, and the employment and construction momentum.

Factor 1: Housing market momentum

According to Federal Housing Finance Agency, home prices in Q3 2017 rose by:

5.9%

Assuming similar conditions, prices will likely move similarly.

Factor 2: Tax impact

The average interest paid for a 30-year fixed rate mortgage:

- \$750K: \$15,170

- \$1M: \$20,220

A homeowner with a \$1M mortgage can deduct \$5,050 less from the taxable income. At 25% marginal rate, this means that he will lose out \$1,264 from the potential savings after claiming the MID.

The number of homes with a mortgage and value between \$750K and \$1M is:

Home value		Number of households
\$750,000 - \$999,999		3,877
Above \$1 million		5,960

However, not all of these homeowners claimed the deduction. For that reason, we calculated the qualifying income for each home value bracket. Then, we applied to each bracket, the share of taxpayers who claimed the MID for the specific income based on IRS data. For instance, the qualifying income for a home with a value \$750K is \$139,300. Based on IRS, 68% of taxpayers with income higher than \$100K claimed the MID in Kentucky.

Thus, the number of households who claimed the MID for each home value bracket is:

Home value		Number of households
\$750,000 - \$999,999		2,636
Above \$1M		4,172

So, the number of owners claiming the MID for homes over \$750K is estimated to be 6,808 in Kentucky.

Under the new tax law, each one of these owners will lose out on their potential savings of around \$1,264. The loss will not be a one-year event but over 10 years.

Moreover, according to ACS, the number of owners who paid over \$10K for real property taxes is estimated to be 3,458.

Applying present discounted value of this tax impact, we expect home prices will be impacted by

-0.7%

Factor 3: Interest rate effect

The Federal Reserve has been raising short term interest rates and will do few more rounds in 2018. Mortgage rates will likely increase as a result. Assuming interest rate will increase 50 basis points in 2018, we estimate that home prices will be affected by

-1.8%

Factor 4: Employment and construction momentum

Many areas across the country are dealing with housing inventory shortages and job growth outpaces new housing construction in these areas. While prices continue to increase because of the limited inventory, we estimated how employment and construction changes will affect home prices in the following four scenarios:

Scenario A:

same job growth & construction creation

Scenario B:

same job growth & 30% faster construction creation

Scenario C:

2.5% faster job increase & same construction creation

Scenario D:

2.5% faster job increase & 30% faster construction creation

The baseline forecast reflects Scenario B since housing permits have been slowly rising. Should job growth accelerate as in scenarios C and D, then home price growth will be more positive. In addition to the above four factors, there are other considerations to estimate the final forecast.