

Louise Phillips Forbes – Predictions 2019 (FINAL)

Interest Rates Will Continue to Climb

- This moment in time is a Call-to-Action for both Buyers and Sellers:
If you are upgrading, buy now and get more today than less tomorrow.
If you are a first-time buyer, lock-in a rate and buy now to secure your future.
If you are selling, list now because the market will soften as interest rates rise. Get more for your home today than less tomorrow.
If you are downsizing and have a lot of equity in your home (especially the Baby Boomer generation), sell now but buy later. Liquidate your asset today but be patient about the next chapter as it will be better to buy after prices go down to maximize retirement funds. Patience is your friend.

Motivated by the forecasted rate hike in March as well as a volatile stock market, I anticipate an increase in first-time buyer transactions during the first two quarters. I expect to see an increase in housing inventory in the first half of the year as sellers will want to sell before prices soften given the intensification around rising interest rates.

Historically, rents rise as interest rates rise so I would keep an eye on the rental market.

Bottom line: We're at a crossroads in the real estate market. Bold decisions made now will put you ahead of the game as the market becomes more volatile due to rising interest rates.

National and Local Lenders will be More Creative and More Competitive

- The refinancing game has declined and interest rates are climbing so lenders are having to get more creative and competitive with their product offerings.
- Buyers will forego loyalty to their bank in favor of going with the one that gives them the best deal.
- You no longer have to put 20-25% down, even in urban markets, however that is more challenging in NYC with much of the inventory being cooperatives. Some lenders are financing more than 90% again, but beware, the risk is greater and the interest rates are higher. A general guideline is 90 Loan-to-Value (LTV) up to a max of \$1.25M and 85 LTV up to a max of \$1.5M loan amount.
- Purchase CEMA is back in action after more than a decade in the dark. This Consolidation, Extension, and Modification Agreement allows the buyer to assume the mortgage tax of the seller's outstanding mortgage and save significant money, roughly 1.65% (after fees) in closing costs. This equates to potentially saving \$16,500 on a \$1M mortgage or \$1,650 on a \$100k mortgage.
- A Seller-paid Mortgage Rate Buy-down is fast becoming a great negotiation tool for real estate professionals in getting both parties to a deal. In this scenario, the seller contributes money towards the buyer's closing costs (AKA seller's concession) out of the proceeds of the sale to buy down the buyer's interest rate. In this scenario, the seller is able to get a deal done without greatly reducing the sales price and the buyer has the immediate and long-term benefits of a cheaper rate.

Bottom line: If you are questioning whether or not you can afford to buy, now is the time to have conversations with lenders. There is more creative financing at play in the market today than we have seen in the last decade. It's better to investigate what

you qualify for now than wait for tomorrow when interest rates will be even higher.

Tax Reform Will Continue to Motivate Real Estate Loopholes

- Without the write-offs previously enjoyed by the wealthy, they are getting creative with their accountants to restructure their real estate to compensate for the lower cap on deductible mortgage interest and new cap on the deduction of property taxes.
- Secondary homes no longer have the luxury of remaining unused, they are being converted to income-producing investment properties to allow for legitimate write-offs associated with the expense of owning and managing the property.
- Many are establishing LLC's and transferring titles of their real estate holdings to one or more LLC's to limit personal liability, gain anonymity, and get the benefit of pass-through taxation so their income isn't taxed more than once.

Bottom line: People with multiple homes might consider converting them into income-producing properties. While the Tax Cuts and Jobs Act of 2017 (TCJA) imposes new limitations on deducting personal residence mortgage interest and state and local taxes (including personal residence real estate taxes), those limitations do not apply to rental properties unless you also use the property for personal purposes.

The NYC Luxury Market Has Reset. Is there more...

- Total real estate sales in Manhattan fell 14% in the third quarter of 2018 compared with a year ago, marking the fourth straight quarter of double-digit declines – a first since the financial crisis. This can be partially attributed to a decline in foreign buyers and changes in the tax law that make it more expensive to own property in high-tax states. But I still feel the resetting and shifting of the luxury market is healthy for the long-term.
- Today, luxury buyers have the power to negotiate that's better than it's been for the past six years. They should be taking advantage of high-end properties sitting on the market for too long due to an oversupply.
- Buyers should not wait for the bottom of the market to make an offer. Have confidence in knowing that prices are already much less than a year ago. Don't wait, act now.
- Despite the slowdown, reports say that nearly a quarter of the ultra-high-net-worth individuals worldwide plan to invest in real estate in the next year or two, particularly in markets like NYC, especially given the uncertainty of global financial markets.
- Some developers are waiting in the shadows to release new inventory while others don't have the luxury of doing that. They are changing their offerings and opting to build products at more modest prices.

Bottom line: Prices have fallen, inventory has jumped, foreign buyers have declined, and discounts are higher and more common. Luxury buyers have the power to seize the moment.

Amazon is Moving to LIC in NYC. Will it be Good or Bad?

- The immediate buzz could be greater than the reality of it, and I believe it will take time to see the full effect on the real estate market, but that being said, it's already had a positive effect. Phones have been ringing off the hook with buyers wanting to capitalize on the area before the market changes more drastically with escalating prices.
- It should be very good for real estate in both LIC as well as Midtown East Manhattan and the Upper East Side, which is currently a soft market, as home owners will see an increase in property values more on par with Manhattan overall and parts of Brooklyn.
- Rents will also increase, especially along the waterfront, which is great for landlords but not so good for people who have enjoyed more modest rates living outside Manhattan.
- Investors will have a hard time competing with landlords of rental buildings who have more flexibility – offering two months free and/or covering broker fees - so my advice to buyers is if you're going to finance the purchase of a condo, use it as your primary residence, not as an investment.
- Developers will continue to capitalize on this area with the creation of both luxury and affordable housing buildings.
- Many of the Amazon employees will look for housing in LIC but they won't all be able to afford the rising rents and housing costs so it's a great opportunity for developers to create a mixed-use community with more affordable housing.
- As a result of escalating prices in LIC, the other areas like Sunnyside, Woodside, Jamaica, Flushing and even Forest Hills could benefit from new developments that provide more affordable housing options for both sale and rent.
- Likewise, current home owners in other areas of Queens will most likely see an increase in their property values but still less than LIC, which will be attractive especially to first-time buyers.
- The state and the city will have to invest more in the infrastructure and transportation system to meet the growing demand so that will be a major point of debate in the coming months.

Bottom line: It is still unclear if NYC will be able to handle the influx of so many people in the vicinity of the new Amazon headquarters. If the infrastructure is improved and guidelines setting aside affordable housing are created, the potential for meaningful growth across socioeconomic levels is very possible and will be exciting to watch.

About Louise Phillips Forbes

With career sales exceeding \$3.5 billion, Louise Phillips Forbes is an industry leader in the New York City real estate market. One of Manhattan's elite Power Brokers, she is a multi-time winner of Halstead Real Estate's esteemed Broker of the Year award and currently leads the firm's #1 team. She has achieved a significant following

among homebuyers and sellers, skillfully negotiating deals of all ranges. Moreover, Louise is a visionary sought-out by developers throughout her career as both an advisor and an onsite director of sales and marketing. She has partnered with some of New York's most accomplished developers on more than 30 projects to date and assembled renowned design teams to change the landscape of the city while maintaining the integrity of cherished landmark buildings. Recognized as a highly dependable advocate for her clients, she considers herself more of an "educator" than a salesperson. Louise is quoted frequently in real estate articles for many notable publications and blogs, and is consistently named in the Real Trends/Wall Street Journal's "Real Estate Top 250" list of best brokers and teams nationwide. She also appears on regional TV shows nationwide to comment on local real estate issues while representing the national and international real estate perspectives and is a regular contributor to Ignite Now Media's weekly TV series, "The American Dream." Louise is a guest lecturer for the Real Estate Board of New York (REBNY) and has been a panelist for the Asian American Real Estate Association's East Meets West Luxury Real Estate conference, Real Estate Top 100 Mastermind Summit, and the annual Inman News Conference in New York. Likewise, she is a regular contributor to Halstead Real Estate's Empowerment Programs and Vince Rocco's "Good Morning New York", America's No. 1 online real estate radio show.