

# California Commentary

## Assuring the Viability of Home Ownership

By Jon Coupal

During World War II, experienced fighter pilots understood that if they maintained the maximum angle of ascent, eventually the aircraft would shudder, stall and begin to plummet toward earth. Recovery could be thousands of feet below.

Those buying real estate in California know the feeling. After a meteoric rise in the California median home price — which has seen a doubling over the last five years — the market is experiencing a shudder. The rate of increase appears to be rapidly diminishing, and nationally, it has just been announced, the median home price has declined for the first time in 11 years.

A down market should not come as a big surprise. After all, this occurred as recently as the early 1990s when a heated market saw a cooling that resulted in five straight years of lower prices.

However, like those who bought at the last market peak in 1991, those who have recently purchased property should be okay if their objective was to buy a house as a residence and if they arranged for a sensible mortgage. After all, those who bought 15 years ago may have suffered an initial loss of value, but over time they have seen the value of their asset triple.

Nevertheless, foreclosures are up and one can't help but wonder what will happen in a down market to those who gambled on a continuation of skyrocketing home values by agree-

ing to an exotic interest-only loan.

However, for those in the sensible category, property taxes will continue to be a major concern. Fortunately, homeowners have on their side Proposition 13 which sets the tax rate at one percent, and limits annual increases in assessed value to two percent. Additionally, those in a declining market, who find themselves with property that is worth less than the value on the assessor's books, are eligible for a tax reduction that can last until the market value is restored.

Still, paying five or six thousand dollars a year in property taxes on top of a mortgage for a typical middle class home can be a substantial burden. Sure, buyers knew what they were getting into when they decided to buy, but the question remains, with California home prices at a level that would buy two comparable houses in many other parts of the country, is it fair to continue to extract amounts that are resulting in double-digit increases in property tax revenue in many counties?

Politicians who talk about property tax reform usually end up targeting Proposition 13. Once one gets through all the spin, it becomes obvious that their goal is *not* making home ownership more affordable, but rather *increasing taxes* on longtime homeowners — many of whom could not afford to buy their own homes at today's prices — to supply even more revenue for government.

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However, Proposition 13 is working very well, thank you, and it is still very popular with voters who remember how much worse things were prior to its passage — property tax rates at nearly three percent and no limits on annual tax increases.

Property tax relief can easily be provided, for new as well as longtime homeowners, without tinkering with Proposition 13. Home ownership can be made more affordable simply by increasing the homeowner's exemption, which has not been changed since it was established at \$7,000 in 1972, a time when the typical home sold for \$28,800. Today, this exemption saves the homeowner approximately \$70 a year, an amount so small in relation to the entire property tax bill, that it almost goes unnoticed.

Bringing the homeowner's exemption up-to-date based on inflation in the housing market would mandate an increase to something closer to \$100,000, or an annual savings of nearly \$1,000.

And by indexing the exemption to inflation, as Howard Jarvis did with the California income tax — Proposition 7 in 1982 — taxpayers would continue to enjoy the full benefit of this savings in future years.

New buyers would see a decline in their expenses, as would longtime homeowners, who paid what they could afford when they bought their homes. In short, it would provide relief to those struggling to keep a roof over their heads by making home ownership more affordable.

And government? While bureaucrats and politicians will complain that they cannot afford a modest reduction in the rate of increase in property tax revenues, for most Californians there isn't a service government can provide that is more important than assuring the viability of home ownership.

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*JON COUPAL is an attorney and president of the Howard Jarvis Taxpayers Association — California's largest taxpayer organization which is dedicated to the protection of Proposition 13 and promoting taxpayer rights. He can be reached through the Association's website: <http://www.hjta.org>.*

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