



REALSMART

Newsletter

A QUARTERLY JOURNAL OF REALSMART IDEAS

THE NEW TAX BILL: HOW WILL IT IMPACT THE REAL ESTATE MARKET?

It's difficult to start out 2018 in a real estate newsletter and NOT talk about the new tax bill. I'm not here to determine whether the updated changes are good or bad because, as with any new law, the positive or negative effects depend on where you are standing. What I will discuss is how the tax changes could affect the local and regional housing markets.

The new tax bill will limit the property tax, state income tax deduction to \$10,000. Additionally, the limit on the amount of interest deductibility for mortgage debt is now \$750,000, a decrease from \$1m (and \$100,000 for equity lines of credit). These 2 changes are at the center of the conversation about negative impacts to Bay Area residential real estate. I say "residential" because these new limits specifically impact home buyers, not investors. (We will discuss investors and the new changes with LLC, S Corp etc. next time).

While I write this, the state of California is working on a bill that would allow Californians to instead donate to the state, receiving a dollar-for-dollar tax credit, so they can — in theory — deduct the full amount from their federal taxes. This is still in preliminary stages of discussion. Putting the state bill aside, a reduction and limitation of state property taxes and interest deduction on debt will make homes more expensive for new home purchases moving forward.

So what will this do to the real estate market? There are signs of the market beginning to decelerate, but the signs are fleeting. And by decelerate, I don't mean decline. Think about a bell curve; as the line hits the top of the curve, the steepness becomes less pronounced, or decelerates. The market is supported by 4 pillars: Supply, Demand, Jobs, Affordability. We have very little supply, we have a strong job market which is supporting high demand, but our affordability is poor. Affordability is

currently the weak link, and this is what is causing some deceleration in the market.

Back to our original question... how will the tax bill impact the market. Here are some thoughts to consider: With the new tax law, non-homeowners (renters) just got their standard deduction doubled, so they have more deductions than they used to, which makes paying the Bay Area's higher rents a little easier. (Married couples get an extra \$12,000 a year in deductions (\$4200 per year in new tax savings). And with the reductions in Prop Tax/Mortgage Interest, maybe some renters stay renters... which means some slack off of demand??? Maybe, but the grandfathered interest deduction for current homeowners means we likely lose some sellers who decide to stay in their home and remodel/add on to keep current property taxes and their mortgage interest deduction...which means further reduction in supply (which is already much lower than average). So both sides of the equation balance out.

There are many other aspects to discuss, but I would need a few more pages. If you are really interested in hearing about other nuances of the market and effects of the new tax law, give me a call or email me.



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RealSmart Fund Update

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2017 was another busy year for the RealSmart Fund, having recorded 4 purchases and 4 sales in the calendar year. With two properties currently in hand while we hunt for a third, we're picking up in 2018 right where we left off. Here's to another successful year of real estate investing with the RealSmart Fund!

Sold in 2017



2669 Ohio Ave, RWC
Purchased for \$1,208,000
Sold for \$1,650,000

Bought & Sold in 2017



248 Molton, San Carlos
Purchased for \$1,400,000
Sold for \$1,650,000

Bought & Sold in 2017



1209-13 Reese St, RWC
Purchased for \$1,165,000
Sold for \$1,400,000

Bought & Sold in 2017



735 Harrison Ave, RWC
Purchased for \$1,250,000
Sold for \$1,640,000

PROPERTIES IN HAND:

467 Madison Street Redwood City - 3BD/2BA home with garage converted to ADU (unpermitted)
2112 Hyde Street, San Francisco - 3 Condominium units in a 6 condo complex. Purchased Dec '17
Call for more information about the RealSmart Fund: (650) 363-2808

CA RENT INCREASES CURRENTLY LIMITED TO 10%

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Back in October of '17, Governor Jerry Brown declared a state of emergency as wildfires blazed through wine country. Shortly after, he enacted an anti-price gouging law on certain essential goods and services, including rental housing, which limits price increases to 10%. The law initially had a time limit of 30 days, but Brown has extended it through April 2018 via executive order, with potential for another extension before it expires.

Because the price gouging law does not set clear parameters for determining where the price con-

trols apply, rent increases exceeding 10% - **ANYWHERE IN CALIFORNIA** - may constitute price gouging while the declaration is in effect. If you are a rental property owner and are unsure if the law applies to your property, you should consult an attorney before implementing any rent increases above 10%.

Though most people are probably unaware of this law, rental property owners can be subjected to serious criminal and civil penalties if they are found in violation of it. Anyone convicted of violating the statewide law could face a year in county jail, a fine of up to \$10,000, or both, as well as civil penalties. Local ordinances may also impose additional restrictions and penalties, as is the case in the city of Santa Rosa.

Please note that, while the law is set to expire on April 18th, both state AND local officials can extend it for additional 30 day periods should they deem it necessary. So if you are a rental property owner, or a renter, stay informed on the progress of this law to ensure you are not guilty of, or victim to price gouging.

BENJAMIN MOORE'S TOP COLORS OF 2018



Wolf Gray



Smoked Oyster

Every year, Benjamin Moore releases a list of their top paint colors, showcasing what they have found to be their best sellers around the world. It's a great list to reference if you're planning any home renovations, or are just looking for inspiration for a fresh new look. Their 2018 list was recently released, which includes their color of the year: Caliente, a bold and deep red, great for a statement accent wall in any modern home.

We tested out several of these colors at the RealSmart Fund's most recent flip on Harrison Avenue in Redwood City, a couple of which you

can see on the bedroom walls pictures above. We used "Caliente" in the mudroom, as we felt it was too bold of a color to feature prominently in a home that we were about to list for sale. With that being said, there's no harm in taking a chance on a bolder, more in your face color on an accent wall in your own home!

For a complete list of Benjamin Moore's top colors of 2018, head to realsmartgroup.com/BM2018



Caliente -

Benjamin Moore's 2018 Color of the Year

MORTGAGE UPDATE

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EFFECTIVE JANUARY 1, 2018: NEW MAXIMUM CONFORMING LOAN LIMITS:

The Federal Housing Finance Agency (FHFA) has increased the ceilings for conforming and superconforming loans. Conforming loan limits were increased from \$424,100 to \$453,100, and superconforming limits (for homes in designated high-cost areas such as the Bay Area) increased from \$636,150 to \$697,650.

This has a number of implications, the most obvious being that you can now purchase a home at a higher dollar value while maintaining conforming loan guidelines (which generally save you money on your monthly payments). Also, if you recently took out a jumbo loan which now falls under the conforming limit, you could now refi for a conforming loan at a lower rate. Conversely, if you recently took out a conforming loan, you now have room to refi and pull out cash without being subjected to the stricter/more costly jumbo loan guidelines.

In addition to increased conforming loan limits, recent Fannie Mae updates have relaxed underwriting guidelines in a number of ways, including allowing a higher debt-to-income ratio.

To find out if you can benefit from the new conforming loan limits or the relaxed underwriting guidelines, please contact George or Laurie.

Average 30-Year Fixed Rates

Jan '17	4.15%
Feb '17	4.17%
Mar '17	4.20%
Apr '17	4.05%
May '17	4.01%
Jun '17	3.90%
Jul '17	3.97%
Aug '17	3.91%
Sep '17	3.81%
Oct '17	3.90%
Nov '17	3.92%
Dec '17	3.95%

*Rates reflect national averages and assume you pay roughly half a point plus closing fees

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2017 RECAP

Since starting out in the Real Estate industry in the 1980's (referenced with humor on our 2017 holiday card to all of you), we have strived to provide Real Guidance & Smart Insights to exceed the expectations of our clients. By doing this, our business has continued to grow through the development of lifetime relationships and referrals. In 2017, RealSmart Group represented clients in 61 transactions, keeping us in the top 5% of agents in the County because of the continued support from you. Thank you!

If we have worked with you recently, please take a minute to share your experience with us, or tell us why you chose to refer someone to RealSmart. You can share your comments at www.realsmartgroup.com/feedback

-Bryan & The RealSmart Team

Property	Sale Price	Property	Sale Price	Property	Sale Price
530 Santa Clara, RWC	\$3,195,000	855 Cedar St, SC	\$1,605,000	2685 Shannon Dr, SSF	\$1,125,000
1130 Parkinson, PA	\$3,000,000	1105-1109 Juniero, RWC	\$1,600,000	748 Rand St, SM	\$1,040,000
2003 Camino al Lago, MP	\$2,575,000	112 Danbury Ln, RWC	\$1,600,000	1009 Shoreline Dr, SM	\$995,000
5 Deer Lake Ct, SM	\$2,500,000	216 Correas St, HMB	\$1,595,000	27 Oak Grove Dr, Nov	\$995,000
1040 Lakeview, RWC	\$2,420,000	224 Hillview Ave, RWC	\$1,550,000	336 Treas. Island Dr, Bel	\$980,000
730 17th Ave, MP	\$2,100,000	315 E St, RWC	\$1,525,000	307 Madrone St, RWC	\$970,000
2736 Delaware, RWC	\$1,900,000	2708 Carolina Ave, RWC	\$1,500,000	827 Whipple Ave, RWC	\$940,000
943 Stony Hill Rd, RWC	\$1,850,000	569 Alameda, RWC	\$1,495,000	50 Horgan #56, RWC	\$935,000
784 Bain Place, RWC	\$1,800,000	803 Lakeview, RWC	\$1,460,000	6056 Indian Ave, SJ	\$910,000
1684 Tulane Dr, Mt Vw	\$1,750,000	1209-13 Reese St, RWC	\$1,400,000	702 S. Delaware St, SM	\$900,000
1678 Tulane Dr, Mt Vw	\$1,750,000	248 Molton Ave, SC	\$1,400,000	99 E. Middlefield, Mtn. Vw	\$890,000
248 Molton Ave, SC	\$1,650,000 (buyer)	971-973 S. B St, SM	\$1,393,455	424 Grand Blvd, HMB	\$885,000
248 Molton Ave, SC	\$1,650,000 (seller)	510 8th Ave, MP	\$1,363,000	1545 Crespi Dr, Pac	\$875,000
3224-26 Countryside, SM	\$1,650,000	2708 Carolina Ave, RWC	\$1,350,000	2928 Middlefield, RWC	\$866,000
2669 Ohio Ave, RWC	\$1,650,000	1405 Lenolt St, RWC	\$1,305,000	772 Walnut #10, SC	\$850,000
735 Harrison Ave, RWC	\$1,640,000	497 Mtn. View Ave, Bel	\$1,300,000	976 Pavilion Loop, SJ	\$660,000
335 Bodega St, FC	\$1,630,000 (buyer)	425 N Whisman, Mtn. Vw	\$1,275,000	400 Davey Glen Rd, Bel	\$545,000
335 Bodega St, FC	\$1,630,000 (eller)	735 Harrison Ave, RWC	\$1,250,000	1664 Maywood, Manteca	\$335,000
839 Crestview, Milbrae	\$1,610,000	2353 La Mirada Dr, SJ	\$1,200,000	529 Skye A Court, Stcktn	\$250,000
1669 Sugarloaf Dr, SM	\$1,610,000	159 E St, RWC	\$1,190,000		
		1209-1213 Reese St, RWC	\$1,165,000		