



Economic Focus *for the week of July 28, 2003 Volume 7, Issue 27*

PROPERTY TAXES

In an environment of shrinking government revenues local governments are eyeing their property tax rolls.

The staggering acceleration in home values has also prompted an equal increase in property tax revenues. In fact property taxes are outperforming other state and local tax sources. Over the last two quarters property taxes grew at an annual rate exceeding 7%.

This phenomenon, of course, is a multi-edged sword.

FOR GOVERNMENTS - The steady rise in real estate values translates into increased property tax revenues in an economy where most other government sources of revenue are producing less and less. This is first accomplished through immediate increases through the tax assessor's valuation procedures triggered by each real estate sales transaction. Secondly, rising values provides opportunity for reassessment of existing real estate, thus further fattening the tax rolls.

FOR THE REAL ESTATE INDUSTRY – They also benefit nearly all who participate in the sales and financing processes. They mean higher fees for real estate professionals, escrows, title companies, lenders, and all others whose fees are based on the value of the transaction.

FOR SELLERS - Rising prices of course benefit the sellers with higher capital gains.

FOR BUYERS – The cutting side of this sword is slicing right into the buyer's pocketbook. In a rising market buyers are first paying more for the same property. Secondly, their purchase triggers higher assessed value thus a higher property tax bill. Even sellers are not exempt from this as most sellers are

Key Economic Reports Released This Week

| RELEASE DATE | ECONOMIC INDICATORS | RELEASED BY | CONSENSUS S&P MMS Survey | Wt. | INFLUENCE ON INTEREST RATES |
|--------------------------|---|---|--------------------------------|------|---|
| Tue 07/29 10:00am et | Consumer Confidence Index <i>for July '03</i> | Conference Board | 85.0 | ** | ▲ If greater than consensus ▼ If less than consensus |
| Wed 07/30 2:00 pm et | Beige Book | Federal Reserve Board | N/A | ** | Undetermined |
| Thu 07/31 8:30 am et | Jobless Claims <i>week of 07/26</i> | Bur. of Labor Statistics Department of Labor | 405K | * | ▼ If strong demand ▲ If weak demand |
| Thu 07/31 8:30 am et | Gross Domestic Product (GDP) <i>2Q03 advance</i> | Bur. of Econ. Analysis Dept. of Commerce | 1.8% | **** | ▲ If greater than consensus ▼ If less than consensus |
| Thu 07/31 8:30 am et | Employment Cost Index <i>for 2Q03</i> | Bur. of Labor Statistics Department of Labor | 1.0% | **** | ▲ If greater than consensus ▼ If less than consensus |
| Fri 08/01 | Motor Vehicle Sales <i>for July '03</i> | Automobile Manufacturers | Autos 5.6M Trucks 7.6M | ** | Undetermined |
| Fri 08/01 8:30 am et | Employment Report <i>for July '03</i> | Bur. of Labor Statistics Department of Labor | Unemp @ 6.3% (Payrolls 10K) | **** | ▼ If greater than consensus ▲ If less than consensus |
| Fri 08/01 8:30 am et | Personal Income & Outlays <i>for June '03</i> | Bur. of Econ. Analysis Dept. of Commerce | Income 0.3% Outlays 0.4% | *** | ▲ If greater than consensus ▼ If less than consensus |
| Fri 08/01 9:50 am et | Consumer Sentiment <i>for July '03</i> | University of Michigan | 90.7 | * | ▲ If greater than consensus ▼ If less than consensus |
| Fri 08/01 10:00 am et | Construction Spending <i>for June '03</i> | Bureau of the Census Dept. of Commerce | 0.5% | ** | ▲ If greater than consensus ▼ If less than consensus |
| Fri 08/01 10:00 am et | ISM (NAPM) Index <i>for July '03</i> | National Association of Purchasing Mgt. | 51.0% | ** | ▲ If greater than consensus ▼ If less than consensus |

* Low Importance ** Moderate Importance *** Important **** Very Important

buying other property and moving somewhere where they to a going to be paying a higher carrying cost.

Truth is that tax burdens erode the value of housing and eventually could contribute to a contraction in the housing market in the future.

Should the housing market recede, as it has in the past, it will again prompt a wave of reassessments that will lower the tax base of local and state governments, thus exasperating an already soft economy.



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