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Engler's tax cut proposal cheers builders

By Gerald Frawley
staff writer

Gov. John Engler didn't tell representatives of the building industry anything new last week when he spoke at the International Home Flower and Furniture Show — but builders liked what they heard anyway.

Engler told members of the Builders Association of Southeastern Michigan that two of his initiatives — his plans to cut property taxes and to reorganize the Michigan Department of Natural Resources — will be a boon to the building industry.

"I think we can reconcile economic growth with our other agendas," Engler said.

Owning a home is more than the largest single investment a family is likely to make, he said. "Owning a home is part of the American dream," Engler said.

Purchasing a home says a lot, Engler continues. "It reflects a family's confidence in the future."

When a family buys a home, they are saying they expect that home to give them shelter for years to come and to increase in value.

Buying a home also creates construction jobs, retail jobs and a larger tax base for the community, Engler said.

"We want to encourage citizens to express their confidence in the economic future of this state (by encouraging them to buy homes)," Engler said.

ENGLER NOTED that with sales at their lowest point in a decade, recent months have not been kind to the housing industry. "But there's a lot of optimism that things will improve.

Interest rates are down, foot traffic through home models is increasing and "the national enthusiasm over the conclusion of the war in the Mideast should all spur a growth in home sales," he said.

"There's one thing we can do in Michigan (to help the housing industry) and that's to cut property taxes and cut them now," Engler said, reiterating his promise to reduce property taxes by 20 percent over three years.

Cutting property taxes accomplishes two goals: It puts more money in the hands of buyers by taxing them less and increases the amount of money in the hands of sellers, whose property becomes more valuable.

"Michigan property taxes are the fourth highest in the country and the highest in the Midwest," Engler said.

THE OTHER initiative, reorganizing the DNR, will improve the regulatory climate for the building industry. Engler said he is well aware of the problems a builder faces when he attempts to gain necessary permits.

"To improve the permit process, I've come to the conclusion the Department of Natural Resources, as it is constituted, is simply unworkable," Engler said.

Engler gave no timetable for his plans, but said he intends to split the department in two, separating the environmental protection functions from the wildlife functions.

As things stand now, the department tries to be too many things to too many people — and in so doing, is not enough for anyone, Engler said.

There are not enough staff people or resources to serve the needs of everyone who depends on the department, Engler said, and so things get lost in the bureaucracy.

"We've got to have clearer standards," he said. "You've got to be able to walk into a department and be able to ask what do I have to do to get a permit — and then get an answer."

ROY A. MALY, president of Roy Maly Building Co. and the former builder liaison with Detroit Edison, said nothing Engler said surprised him, but it was nonetheless encouraging.

"He was basically reiterating what he's say he's do."

Assuming Engler can overcome political opposition to his goals, cutting property taxes and reorganizing the DNR will help the building industry, Maly said.

Gov. Engler
property tax panacea

"That (political opposition) often happens in politics — you have to be able to roll with the punches," Maly said.

"This is an opportunity for him to come out a winner. He's a capable, good man, and he seems determined — I think he can do it."

Norman Finkelstein, vice president of the Irvine Group in Farmington Hills, said he is encouraged by Engler's commitment to the building industry. "What I liked was his realization of the importance of the building industry to the state."

Finkelstein said that while former Gov. James Blanchard was never anti-building industry, he did little to prevent the housing problem of the past year.

He also said that it's about time something was done about the DNR, which he said has been poorly managed, overburdened and understaffed.

While it's true the DNR grew significantly during the past decade, it did not grow more efficient or effective, he said.

ONE THING Finkelstein said he would have liked to have heard, but did not, was a commitment from Engler to do promote affordable housing in the state.

"I'm not sure if it's possible to do it without federal help or some new thinking, but it is important," he said. More than any other issue, the building industry believes something must be done to insure that housing remains affordable to the majority of people, Finkelstein said.

A lot of what Engler has proposed — lower taxes and a more efficient department of natural resources — goes hand in hand with affordable housing, he said, but more still has to be done in this area.

Samuel Kreis, vice president of construction lending for Comerica Mortgage Corp., said in every recession or depression it has been the building industry that pulled the nation back into economic health.

"It's a definite plus when you have the governor in your corner," Kreis said.

Engler's plans have spurred a sense of optimism in the building industry, Kreis said, adding that he has rarely been as busy. "Walk around at the (Home Flower and Furniture show) and you'll see it everywhere.

"People feel good about what's happening," he said. "I'm confident that we'll have an economy that moves ahead — soon."

Analysts question February rise in housing starts

(AP) — Housing starts rebounded 16.4 percent in February, the first sign of life in that industry in three months and only the second advance in a year, the government said today.

The Commerce Department reported new construction of single- and multi-family houses totaled a seasonally adjusted annual rate of 989,000.

Starts had fallen 12.5 percent to an 850,000 annual rate in January, the lowest level since construction began on 843,000 units in January 1982 in the midst of the last recession.

The February gain was the first since a 10.1-percent advance in November, which itself had been the first increase since a 21.8-percent rise in January 1990.

Still, the number of February starts was down 32.2 percent from the same month last year. And for the first two months of 1991, they were 39.7 percent below the same period of 1990.

Some observers have noted anecdotal evidence that housing activity continued to improve in March.

FOR INSTANCE, the Federal Reserve reported a survey earlier this month showed that, while housing and commercial construction remained slow, eight of its 12 districts reported "an increase in buyer interest and, in some areas, purchases."

It said some builders said they were cautiously optimistic about a recovery for the depressed housing industry this year because of the decline in mortgage rates. Fixed-rate mortgages averaged 9.50 percent last week, according to a survey by the Federal Home Loan Mortgage Corp.

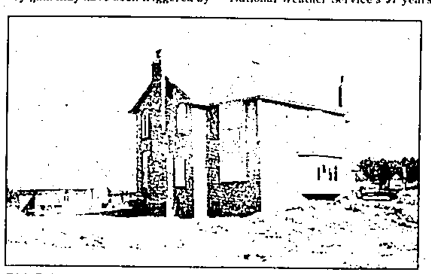
And the Labor Department said earlier the construction industry added 27,000 new jobs in February, the first increase in months. The industry lost 150,000 jobs in January and about 425,000 since last May.

A recent Commerce Department report also offered a glimmer of hope. It said applications for building permits, often a barometer of future activity, rose 8.5 percent to 865,000 — the first increase in eight months and the steepest gain since a 22.8-percent advance in January 1990.

But analysts cautioned about reading too much into one month's activity.

"While the fundamentals are improving modestly for the housing industry (lower interest rates, increasing housing affordability), the February gain may have been triggered by abnormally mild weather," economists at Mitsubishi Bank in New York wrote in their weekly newsletter.

MITSUBISHI'S Weekly Economic Indicator Report said February was the third warmest February in the National Weather Service's 97 years of tracking temperatures and the eighth driest.



Did February's mild weather trigger a modest jump in new housing?

In Michigan, residential construction starts were down 16.6 percent in January. Wayne County suffered a loss of 49 percent from December. Oakland County saw residential starts climbed 42.8 percent for the month.

The February increase was concentrated in the single-family sector, which rose 18.3 percent to a 771,000 annual rate after falling 13.2 percent in January to 652,000 units, the lowest since construction began on 613,000 units in June 1982.

Multi-family starts were up 10.1 percent to 218,000 units, erasing a 10-percent loss in January.

Among the regions, the Midwest posted a huge 77.2-percent gain to 296,000 units, the highest level since a 364,000 rate in January 1990.

In Michigan, residential construction starts were down 16.6 percent in January, the latest figures issued by the Michigan Association of Home Builders. Wayne County suffered a loss of 49 percent from December. Oakland County saw residential starts climbed 42.8 percent for the month.

Starts also were up 7.9 percent to a 384,000 rate in the South.

But both the Northeast and West remained in the doldrums. Starts were down 9.6 percent to 217,000 units in the West, the lowest since a 195,000 rate in August 1982. They fell 0.6 percent to 169,000 units in the Northeast.

Slumping housing market may prevent refinancing

(AP) — While many homeowners rushed to refinance mortgages with lower interest rates this winter, others were left out in the cold, casualties of the soft real estate market.

Once again, the big losers were those who bought when home prices peaked in the late '80s. Not only are they unable to sell now without taking a substantial loss, but they've been denied a chance to become more financially comfortable where they are.

Most banks won't lend out any more than 80 percent to 90 percent of the current appraised value of a home, so when values decline, that makes less money available for refinancing.

"They're in a catch-22 right now: They can't sell because they won't make their money back and they may not be able to refinance because they may not qualify," said John Hickey, senior mortgage underwriter for First Trade Union Savings Bank of Boston, an area hard hit by slumping housing prices.

Hickey and his colleagues have seen growing evidence of this problem nationwide since the start of the year, as more homeowners sought to refinance their old loans to take advantage of a drop in fixed mortgage rates into single-digit territory. The national average for conventional 30-year fixed-rate mortgages fell below 9.5 percent last month, a 4-year low, although rates have risen slightly since then.

BY REFINANCING, homeowners can cut their monthly house payments or rid themselves of fickle adjustable rate mortgages, which reflect prevailing market interest rates. In some cases, homeowners with low mortgages can even refinance beyond their balance and use the excess for other expenses, a procedure known as "cashing out."

Mortgage bankers across the country say there's been a tremendous increase in mortgage activity in recent weeks, with refinancings making up as much as 40 percent of their business. They usually account for around a quarter of mortgage activity, they say.

"Last week was probably our busiest week in two years," said John Battaglia, a vice president at Boston Five Cent Savings Bank.

But Battaglia suspects the rate of refinancings would be even higher had it not be for the tenuous real estate market.

"We're seeing a lot of people calling in and saying, 'I have a $200,000 house that I bought two years ago and I have a mortgage on it for $180,000. I think the house is only worth around $180,000 now. What should I do?'

" said Battaglia. "It's tough."

The homeowners described in that scenario were told to stick with their current mortgages because they'd only be eligible to receive around $162,000 in a refinanced loan, or 90 percent of the current value of that home under standard bank guidelines. To refinance they'd have to come up with an additional $18,000 — the difference between what's approximately left on the original mortgage and the new money that would be provided — as well as closing costs and other fees.

Sometimes financial institutions may bend the rules. "Some lenders will refinance their own loans without a new appraisal," usually for their most credit-worthy customers, said Ross M. Strickland, executive vice president at Northeast Savings in Hartford, Conn.

But more than likely the banks would reject such an application.

Jeannette Patten, a vice president at the Pasadena, Calif.-based mortgage lender Countrywide, said less than 5 percent of all applications are rejected because of low housing appraisals because most people know ahead of time what their homes are worth.

Strickland agreed. "I think people are savvy enough. They have a pretty good idea of their values before they apply."

Boards have options in dealing with delinquencies

With the economic slowdown upon us, the number of delinquencies in our condominium project has increased. What is the best way, in your opinion, to collect assessments on a timely basis?

This is a relatively complex question. Suffice it to say that the association has a plethora of remedies available to it in collecting assessments. The most obvious remedy is the imposition of a lien against the unit owned by the co-owner that can result in foreclosure proceedings by the association against the co-owner in question. The association also has the right to pursue a money judgment against the co-owner for assessments due and owing. Additionally, the association may have recourse in the event that the unit is occupied by a renter or is vacant, in which case the association can have a receiver appointed to collect rentals or require that the tenant in possession pay the rentals directly to the association based upon the condominium documents. In short, the association has a number of legal remedies, which it should uniformly, consistently and vigorously enforce through a policy adopted by the board of directors.

Can you briefly review for me the federal tax ramifications regarding the impact of rental income on the subsequent sale of a residence. I have been leasing our condominium and now want to sell it.

Individuals who use their home as a principal residence are entitled to

condo queries

Robert M. Meisner

certain tax breaks on the sale. They may qualify to defer tax on any gain for they buy a replacement resident of sufficient cost within certain set time limits. If they are age 55 or older and meet ownership and use requirements, they may elect to avoid tax on up to $125,000 in profit.

If a homeowner moves out of his principal residence and obtains a temporary rental, the Ninth Circuit Court of Appeals has allowed both a loss on the rental as well as the deferral of tax on gain in a case in which a homeowner resident rented his residence for few months prior to the sale. The temporary rental did not convert the principal residence to a business use because the rental activity was subordinate to the efforts to sell. In general, no loss is allowed on the sale of a principal residence. But if the property is converted to a profit-making purpose, such as rentals, then loss on a sale would be allowed. It should be noted that casual or temporary rental is not sufficient to establish a conversion for personal use. You are best advised to consult with a tax adviser as to your particular tax matters.

I am an attorney on the condominium board. In interviewing various prospective management companies, one of the management companies indicated that it wished to choose the attorney for the association from someone with whom it was working. It also wanted to pick a CPA and insurance consultant. I have tried to explain to the board that I believe that this is not the role of the management company but that of the board. I need some confirmation from you.

As you correctly perceive, it is the association acting through its board of directors that has the responsibility to retain persons or entities to act in behalf of the association. The attorney, the CPA and the insurance consultant work for the association, not the managing agent. They owe their duty of loyalty and responsibility to the association. The managing agent is merely an agent of the association that operates under the authority given to it by the board of directors in behalf of the association. For the management company to suggest that it pick the association's attorney, CPA and insurance agent may be symptomatic of an attitude on the part of the management company that you may wish to avoid in selecting the best possible management company for your association. For the management company to be that presumptuous and fail to recognize that it is the board's role to pick personnel is not a good reflection on the quality and integrity of the management company.