



**Richland Properties**  
**Richland Home Mortgage Co.**

## ***Real Estate News & Information***

### **Principal Residences & 1031 Exchanges**

A new Federal law called the Jobs Creation Act of 2004 became effective October 22, 2004. This new law now makes it harder for taxpayers to convert a rental property acquired in a 1031 exchange into their principal residence and qualify for the \$250,000/\$500,000 principal residence gain exclusion allowance. Taxpayers in the past would use a 1031 tax-deferred exchange to trade into a rental property that they would like to live in. Then, shortly after exchanging into their new rental property, usually a year or so, the taxpayer would move into the property and convert it into their principal residence. The taxpayer would then occupy the property as their principal residence for at least 2 years and be able to sell the property and exclude up to \$250,000 of the gain on the sale for a single taxpayer or up to \$500,000 for married taxpayers. Under this new federal tax law any taxpayer who sells a principal residence after October 22, 2004 that has been acquired through a tax-deferred 1031 exchange, can not exclude the gain unless 5 years have passed since the acquisition of the property. Additionally, the taxpayer will have to still comply with the existing 2 out of 5 year ownership and use rules for excluding gain on principal residence sales.

### **New Sex Offender Website - Megan's Law**

Starting December 15, 2004, Californians can now access a tremendously useful website [www.meganslaw.ca.gov](http://www.meganslaw.ca.gov) to search their neighborhoods for sex offenders and access information including the offenders' names, photos and in some cases home addresses. Searches can be done by zip codes, addresses, etc. and is very easy to use. According to the site's home page, the site includes information on 63,000 of the state's estimated 110,000 sex offenders who register with local law enforcement. There are home addresses for 33,500 of the offenders. Also according to the site, there are an additional 22,000 other sex offenders known to law enforcement officials but are not included on the site. The site also has other useful information and I recommend that you take a look at the site and perform a search for your neighborhood.

### **Mortgage Update**

Fannie Mae and Freddie Mac have raised the conforming loan limits for residential loans effective for loans closed after 1/1/2005. The new limits are \$359,650 for 1 unit, \$460,400 for 2 units, \$556,500 for 3 units, and \$691,600 for 4 units. Having the conforming loan limits increased is important because interest rates are generally lower for conforming loans and in some cases the qualifying guidelines for conforming loans are a little easier to comply with than the guidelines for larger loans known as jumbo loans.

During the fourth quarter of 2004 and in particular during the months of November and December, fixed mortgage interest rates stayed relatively low and continue to defy many on Wall Street who believe that mortgage rates should be going up. Some Wall Street economists believe that the combined factors of the large trade deficit, the large federal budget deficit, and the weak U.S. dollar should contribute to fixed mortgage rates increasing in 2005 from their current lows. Only time will tell if these predictions are right. Listed below are some examples of current fixed mortgage interest rates for loans secured by single family, owner-occupied residences. The rates assume that a borrower has a FICO score above 720 and pays a loan origination fee or point of approximately 1 percent of the loan balance and customary closing costs (escrow fees, title insurance, lender underwriting charges, appraisal, approx-\$2,200 (conforming loans), \$2,800 (jumbo loans)) As a rule of thumb, loans with no loan origination fee, the so-called "no point" loan have an interest rate of approximately .25% higher for conforming loans and .375% higher for jumbo loans than those listed below.

#### ***Conforming Loans (loans up to \$359,650)***

30 year fixed, minimum of 20% home equity, loan of \$350,000, **rate is 5.5% and 5.605% APR**

15 year fixed, minimum of 20% home equity, loan of \$350,000, **rate is 4.875% and 5.069% APR**

#### ***Jumbo Loans (loans over \$359,650)***

30 year fixed, minimum of 20% home equity, loan of \$500,000, **rate is 5.625% and 5.693% APR**

15 year fixed, minimum of 20% home equity, loan of \$500,000, **rate is 5.0% and 5.19% APR**

The rates listed above are as of December 28, 2004. Interest rates change daily without prior notice so please call if you would like a current quote. Additionally, the interest rate market has been and will continue to be quite volatile and large daily interest rate movements are not uncommon. It is now more important than ever to properly lock your loan rate and process your loan in a timely manner. (Richland Home Mortgage Co. is licensed under the CA. Dept. of Real Estate license No. 01163509)

## **New Condominium Conversion Law in San Francisco**

The San Francisco board of supervisors recently passed an ordinance making substantial changes to the condominium conversion laws in San Francisco. This new ordinance also revokes the 2001 ordinance known as the McGoldrick "McTIC" law. The 2001 McGoldrick ordinance had tried to prohibit groups of owners from forming tenant-in-common ownership groups that specifically gave each owner an exclusive right to occupy a particular unit in a building being purchased. Many of the McGoldrick ordinance provisions were effectively overturned when the city lost in a case known as Tom v. City and County of San Francisco. As a result, the board of supervisors were forced to enact a new ordinance making substantial changes to the condominium conversion rules.

Some of the important provisions of the new 2004 condominium conversion ordinance are: (1) 2 unit buildings where both units are owner occupied for 1 year at the time of filing a conversion application are still generally exempt from the conversion lottery unless certain evictions of certain senior (60 years old and occupying the unit for 10 years), disabled and catastrophically ill tenants have taken place after November 16, 2004, (2) 40% of the tenants in any building being converted have to sign tenant intent to purchase forms – note-owner occupants do count as tenants, (3) for 3 and 4 unit buildings – 1 unit has to be owner occupied for at least 3 years before entering the lottery, (4) for 5 and 6 unit buildings, 50 percent of the units have to be owner occupied for at least 3 years before entering the lottery, (5) buildings that contain the first 175 units selected out of the 200 unit annual condominium lottery conversion limit can not have had an eviction of a senior, disabled or catastrophically ill tenant evicted since November 16, 2004.

## **San Francisco Rent Control Annual Allowable Increases**

The San Francisco Rent Control board just announced the allowable rent increase for rent increases effective between 3/1/05 to 2/28/06. The allowable increase is **1.2%**

The interest rate due on Security deposits held for the period 3/1/04 to 2/28/05 is **1.2%**

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