REAL ESTATE NEWSLETTER

Thaney & Associates, CPAs Quarterly Industry Newsletter

Spring Client Update Newsletter

Now that tax documents have started arriving in your inbox and mailbox, it's easy to set them off to the side to worry about later. There may be some benefit, however, to filing your tax return as soon as you can. In this month's newsletter, read about several reasons why you should consider filing your return early.

Also, Summarized in this issue are some more important provisions to consider when it comes to your retirement account.

And with inflation still upon us, included are some great ideas to help manage your money and tips to help reduce your monthly bills. All this and suggestions on identifying and managing scams that are all too frequently targeting older Americans round out this month's newsletter.

As always, feel free to pass this information on to anyone that may find it useful and call if you have any questions or concerns.

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Why You Should File Your Tax Return Early

Tax filing season officially began on Monday, January 23rd. Not many people file that early, but for some taxpayers it makes sense to do so. Here are common reasons to consider trying to be at the head of the line:

You want to avoid identity theft. One of the more popular scams by identity thieves is to impersonate someone, file a tax return on their behalf and swipe their refund check. But once you've filed your tax return, the window of opportunity for identity thieves closes. If you've had problems with your identity being stolen in the past, or your information has been compromised, consider filing as early as you can.

You want to avoid a dependent dispute. One of the most common reasons a tax return is rejected by the IRS is when you try to claim a dependent who has already been claimed by someone else. This often occurs when there is shared custody of a child.

Someone needs a completed tax return from you. Completing certain transactions require your most recent tax return as evidence of your income, for example when you buy a house. Consider filing your tax return early so you can provide current tax information. This is especially important if you are self-employed and don't have regular salaried pay stubs to use as proof of income.

You need the refund ASAP. Of course everyone would like their refund as soon as possible. One thing to remember, though, is that while the IRS started accepting returns in January, they won't begin processing them until mid-February. Returns that claim the Earned Income Tax Credit and the Additional Child Tax Credit will see processing of their returns start some time after Feb. 15. But otherwise, the sooner your tax return is in the queue, the sooner you should receive your refund.

You just want to get it out of the way. Nothing reduces the stress of filing your tax return better than just getting it done. Instead of thinking about your return for several months and potentially running into a time crunch as the April filing deadlines gets closer and closer, you may want to just get it over with and file your return as soon as you are able.

New Tax Rules Mean Changes for Retirement Accounts

The SECURE Act 2.0, passed by Congress in late 2022, features numerous ways for you to save more money in your tax advantaged retirement accounts. Here are several of the bill's provisions and what they mean for you.

Money can continue to grow tax deferred. If you turn 72 in 2023 or later, you can keep money in a tax-deferred IRA or 401(k) for another 12 months to help the account continue growing before starting to withdraw funds. This retirement benefit is now available thanks to the required minimum distribution age being raised from age 72 to age 73. The age will increase again from 73 to 75 in 2033.

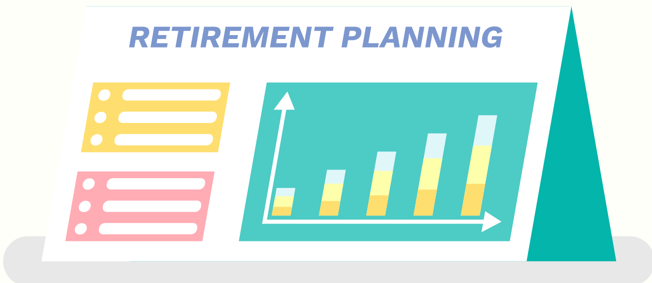
Action: Review your retirement account distribution needs and use this extra time to help make your distributions more tax efficient. For example, if you must earn an additional $10,000 before you hit the next highest tax bracket, consider pulling more taxable income out of your retirement account to take advantage of this lower rate. Or use the extra time to consider converting funds tax-efficiently into a Roth IRA.

Be aware of auto enrollment. The government wants you to save for retirement, so the new law allows businesses to automatically transfer a greater portion of your paycheck into their retirement plan. The maximum contribution that can now be automatically deferred into your employer's 401(k) plan increases from 10% to 15%.

Action: While saving more for retirement is a great idea, this automatic participation does not account for your particular financial needs. So be aware of the possibility that you will automatically be contributing to your retirement account and independently determine what you can afford to put towards retirement. Make any adjustments if necessary, as you are permitted to opt out of auto enrollment. Remember, you also need to build an emergency fund and pay your bills!

Take advantage of higher catch-up limits. Starting in 2024, the $1,000 catch-up contribution for IRAs will receive an annual cost-of-living adjustment in increments of $100, while the $7,500 catch-up contribution for 401(k)s will increase to at least $10,000. This higher 401(k) catch-up limit will also be indexed for inflation starting in 2025. The additional catch-up contribution is available if you're age 50 or older.

Action: Review the annual savings limit for your retirement savings account, including the catch-up amount if you are 50 years or older. Then make adjustments to your retirement savings plan as soon as possible to take advantage of the higher savings limits.



HELP OLDER ADULTS STAND UP AGAINST SCAMS

While anyone can become a scam victim, fraudsters usually turn to one demographic above all others: older adults. Here's a look at some of the more common scams that target older adults, along with some ideas to help stand up against these would-be thieves.

The Top Scams That Target Older Adults

Government impersonation scams. Scammers will call and pretend to be from the IRS, Social Security Administration, or Medicare. The scammer may say the victim has unpaid taxes and threaten arrest or deportation if they don't immediately pay up or threaten to cut off Social Security or Medicare benefits if they don't provide personal identification. Once this information is obtained, it can be used to commit identity theft.

Sweepstakes scam. The victim receives a call or message saying they've won a sweepstakes content or lottery prize. As a condition of winning, victims are required to send money up front to cover tax and processing fees.

Phone scams. Scammers will call the victim and say, "Can you hear me?" When the victim responds "Yes," the scammer records their voice and hangs up. The scammer now has a voice signature to authorize charges on items like stolen credit cards.

Computer tech support scams. These scams target a lack of knowledge about computers and technology. A scammer may proactively reach out to a potential victim by communicating via a pop-up window that says the victim's computer or phone is damaged and needs to be fixed. When the victim calls the support number for help, the scammer may request remote access to their computer or phone, and demand a fee to repair it.

The grandparent scam. Scammers will call a would-be grandparent, tries to build rapport by pretending to be the victim's grandchild, and eventually asks the victim for money to help with an urgent financial problem.

Romance scams. A scammer will build a relationship with the victim via social media or an online dating website before asking for a large sum of money. The Federal Trade Commission reported that losses to romance schemes reached a record $304 million in 2020, up 50% from 2019.

- Call banks and credit card companies
- Reset account passwords
- Call the police to report stolen property
- Report the scam to the U.S. Senate Special Committee on Aging
- Report to the U.S. Justice Department's National Elder Fraud Hotline
- Submit a consumer complaint to the Federal Trade Commission

REAL ESTATE SALES & BROKERAGE

EXECUTIVE SUMMARY

Moving in: Expanding real estate construction will lift real estate sales volumes and commissions, but industry revenue will still fall

Real estate salespeople and brokers sell, buy or rent real estate for others. The industry is closely aligned with the health of the residential and commercial real estate markets in the United States. Revenue is directly correlated with property prices and real estate transaction volumes, and agents are paid completely on a commission basis, receiving a fee only when they close a deal. Also, the residential market accounts for most of revenue, making the real estate sales sensitive to fluctuations in housing prices and existing home sales.

Through the end of 2023, real estate sales have seen growth in line with the overall economy. Despite a combination of the economic disruptions caused by the COVID-19 pandemic and widespread social-distancing measures, demand for homes shot up in 2020, since many consumers moved out of cities and into suburbs amid work-from-home arrangements. In turn, revenue surged 2.5% in 2020. Through the end of 2023, revenue inched up at a CAGR of 2.0% to reach $222.3 billion in 2023, depsite dropping 6.4% in 2023 alone.

Real estate sale revenue will inch down at a CAGR of 0.7% to $214.8 through the end of 2028, despite economic growth as the economy further recovers from the pandemic. However, the Federal Reserve is expected to raise interest rates during the same period, which will push up borrowing costs and temper demand for homeownership. Nonetheless, general economic improvements and expanding corporate profit will improve the commercial real estate market. Also, boosted real estate construction will lift sales volumes and commissions.

Key External Drivers

House price index

Housing prices typically reflect the health of the residential real estate market. Boosted home prices indicate growing demand for single-family homes and an expansion in commission fees received by real estate agents and brokers. Home prices have surged through the end of 2023, indicating expanded consumer demand for houses relative to the supply. The house price index will climb in 2023, representing a potential opportunity for the real estate salespeople and brokers.

30-year conventional mortgage rate

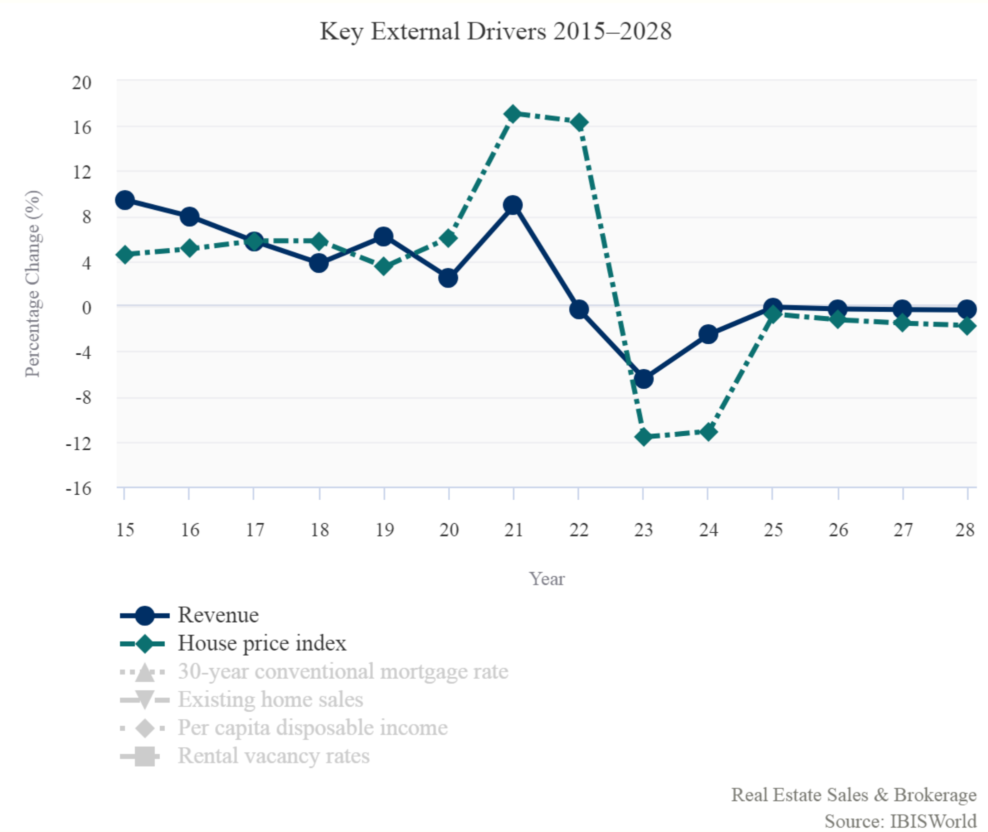
Buyer demand for single-family homes is influenced by the prevailing mortgage rate that borrowers receive. Lower mortgage rates increase home affordability and encourage home purchases. Conversely, expanded mortgage rates push up buyers' borrowing costs. The 30-year conventional mortgage rate will surge in 2023.

Existing home sales

Brokering single-family home sales is a primary source of industry revenue. When existing home sales climb, revenue also expands. Through the end of 2023, improving economic conditions followed by work-from-home arrangements amid the pandemic led to a hike in home sales. Existing home sales will drop in 2023, posing a potential threat to real estate sales and brokerages.

Per capita disposable income

Boosted household income pushes up homeownership rates, home affordability and sales volumes. Mounting per capita disposable income also heightens consumers' ability to purchase goods and services, thereby impacting businesses' desire and capacity to expand. Per capita disposable income will only inch up in 2023.



Rental vacancy rates

The rental vacancy rate, which directly impacts rental income, can be used a metric for supply and demand for homes purchased by investors. As properties remain vacant for long periods of time, landlords will gross a smaller amount of rent and properties will lose value and become less desirable for investors. The rental vacancy rate will drop in 2023.

INDUSTRY OUTLOOK

Real estate salesperson and broker revenue will drop at a CAGR of 0.7% to $214.8 billion through the end of 2028, with profit dropping to 17.6% in 2028.

TInterest rate hikes will continue pressuring the residential market

- Although the house price index will drop, surging mortgage payments will discourage consumers from purchasing homes.
- A drop in home prices will encourage consumers looking to buy a home full in cash, while pressuring agent commission rates.

Rebounding business activity will offset any substantial revenue declines

- Rental and leasing services will be sustained by downstream demand from the nonresidential sector.
- Rising inflation will push up corporate profit which, among other business activity, will support business success.

Poor housing development performance will arise amid a struggling housing market

- Housing development will continue to contract as interest rates swell and new housing starts slow.
- Despite rising disposable income, a cold borrowing environment will discourage consumers and investors from developing new homes.

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Expanded internet usage prompts new external competition

- Home sellers looking to save money and expand profit from sales have become more comfortable listing properties on their own using websites including Zillow Group Inc., StreetEasy Inc. and LoopNet, allowing homeowners to market their homes to a far-reaching audience.
- The internet will continue to be an essential tool for agents and brokers because it has become the primary means of communication for many consumers. Websites like Realtor.com and Trulia, which cater specifically to broker listings, are projected to become more commonplace.
- The use of such websites has swelled amid the COVID-19 pandemic and will continue to remain central to the industry.

GREAT MONEY HABITS

Developing and maintaining great money habits can help you lay the foundation for achieving your financial goals. Here are some ideas.

- **Establish a budget and review it at regular intervals.** Create a workable budget every year then set aside time to review your budget periodically. This will help you think critically about where your money is going and help you eliminate old, destructive money habits.
- Calculate your net worth. Your net worth is an indicator of your financial health and how you manage your money. To calculate your net worth, add all your money and assets, then subtract the total amount you owe to others. The result is your net worth. Often this result is negative due to things like student loans, high credit card balances, or underwater debt (e.g. you owe more on your car than it is worth). So don't worry about the result, just know what your net worth is so you can improve it over time. Like reviewing your budget, a regular check-in on your net worth allows you to think more about your finances and take the necessary action to improve it.

Once you understand the basics of your financial situation, it's time to sit down and proactively plan ahead. Two of the most critical areas you can prepare for are minimizing your taxes and saving for retirement. So plan ahead and feel free to ask for help.

- Use sinking funds to plan. A sinking fund is an account where money is set aside to repay debt or replace a wasting asset (like a car that loses value over time). So create a sinking fund in your budget. Then decide how to use it. Given the rising rate environment, the best use is typically paying down any credit card debt. Then use the fund to attack any other debt, like pre-payment of mortgages. Also consider building a sinking fund to pay for future expenses, like replacing your car, furnace, roof or other large expense so you are ready when it needs replacement.

- Stay curious about personal finance. Your financial picture changes as your life changes, which is why it's important to always learn something new about money that you can apply to your situation. Pick several books, blogs, podcasts, and videos that look interesting, as they may offer a fresh perspective on tips to improve your finances.

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