



Rockyfield Newsletter

US Economy & Housing Market

The first quarter GDP grew 3.2% which is very good, given the super 5.6% growth in the 4th quarter. The year-on-year graph shows a steep recovery from the bottom during the 2nd quarter 2009. The trusted ISM (manufacturers purchasing manager survey index) indicates 60.4, far greater than the market forecast. While service industries are lagging, the manufacturer hiring index was high at 58.5 in April. The ADP estimate of private employment turned to positive for the first time since January 2008. The April non-farm payrolls increased 290,000; more importantly, the March figure was revised upward by 80,000, making the monthly average employment this year to 143,000. Confidence in the US economy and jobs will be restored in the second half of the year.

While the US economy is on the steady path for recovery, concerns over the Greek crisis that may spread to Spain, Portugal and Italy have depressed the US market, fearing another international financial turmoil. I was in the UK when the Euro was launched. I wrote a few reports on the possible future trouble of the Euro, reasoning that the unified currency was premature, given huge differences in productivity, taxation systems, including VAT, and strengths of their financial systems. It would build up economic stress in the absence of the foreign exchange safety valve, and would eventually rupture in the event of inflation or a deep recession. The purpose of the Euro seemed to ease unfair competitions from countries with lower wages under weak currencies, and to encourage factories to return to their original countries. Due to its strong tie with the US, the UK did not participate in the Euro which was a wise decision. Greece was not among the original Euro member.

While the long-term solution is unseen, Greece has accepted the IMF money and austerity plan. The US market obviously overreacted. Greek people need to understand the potential disaster of leaving the Euro now. Finally, the EU leaders have

Listing Rush Overshadows Good Sales

CA Cash for Appliances

Since California's Cash for Appliances started on April 22, more than 20,000 applications have been made. When the funds run out, that's the end of the program. The purpose of the Cash for Appliances program is similar to the Cash for Clunkers: to replace old appliances with Energy Star efficient ones. The rebate amount is \$50 to \$200.

To receive the rebate, applicants must be California residents who buy eligible appliances to replace their old appliances at home. The rebate period is from April 22 to May 23, and one rebate for each type of appliance is available.

If you buy from a Platinum Partner retailer, they will take care of recycling the existing appliances. Or you need to take them to one of Certified Recyclers. Santa Ana is the closest around here.

The appliance must be installed (hooked up) before submitting the rebate claim. You must submit a completed rebate application within 30 days of the date of purchase that includes proof of residency, purchase and recycling. For more details, visit the website:

<http://www.cash4appliances.org/>

You can find, Rebate Form, eligible appliances, Platinum Partners, Certified Recyclers and many good hints for saving energy with this program.

laid out a strong rescue plan for the Euro zone crisis. The US banks may have to support with possible debt rescheduling.

Palos Verdes Housing Market

Prices of single family residences (SFR) that increased for six weeks since late March seem to be taking a break, due to the huge number of new listings, under an over-supply condition. Sales that are still going strong have been overshadowed by new listings; the market inventory, which once decreased to 185 in early March, has swelled to 235. There is a danger that impatient sellers slash their prices to beat the competition.

Thanks to the "flight to quality" by Greek crisis, the 10-year Treasury note yield dipped substantially during the first week of May, and mortgage rates are slowly following. Borrowers with superb financial standing may obtain close to 5% or even below (conforming). The jumbo loan rate is now below 6%. The 5/ARM is substantially below 4%. Lower rates should support housing prices.

By areas, Valmonte in PVE is performing very well; other PVE areas are fair. PV Dr. East is good; RPV South is slow; RPV West is fine, except for Los Verdes. We cannot identify a reason for the recent sales slump in Los Verdes. RPV along the Western Ave. is still doing OK. RHE along PV Dr. North is very slow. The price ranges below \$1 million maintain the booming time condition. Up to \$1.25 million have shown improvement. It is a positive sign that the typical PV sales distribution among different price ranges is returning.

As to pre-foreclosure and foreclosure properties, nine SFR's and five town-homes/condos are on the market; however, there are about 290 properties in trouble in Palos Verdes. Higher prices will give them a few options to get out of the problems. At the same time, their existence tends to suppress the market price.

April closed sales of SFR's was 46, a little smaller than March; yet 64% up from a year ago. The median price recovered to the peak price level in 2008. (Anthony)

New 3.8% Medicare Tax

The new healthcare bill includes a new 3.8% tax on "unearned income" of high income taxpayers to fund Medicare, taking effect in 2013. (Another 0.9% tax may apply to the "earned income" of those high income taxpayers) "Unearned income" includes capital gains, rents (net of expenses), dividends and interest income. Taxpayers with AGI (adjusted gross income) over \$200,000 (single) or \$250,000 (joint) will be subject to the new tax. When you sell your primary residence, the new tax applies to the portion over the existing exclusions which are \$500,000 (joint) and \$250,000 (single), only if your AGI is over the above income limit. However, if you own the house for many years and capital gain from the sale exceeds the exclusion amount and if your total AGI is over the above limit, on top of the 15% federal and state taxes (close to 25% in total), there will be the new 3.8% tax.

The Bush tax cuts will expire at the end of this year. While the 15% reduced capital gain tax rate is likely to be extended, the new 3.8% tax will pose a concern for owners of rental properties (no exclusions), especially for those who have been deferring capital gain taxes by 1031 exchanges. They may consider selling their properties before 2013 and pay capital gain taxes to avoid the 3.8% tax and buy replacement properties. Though the current low capital gain tax rate may be extended after this year, given the large fiscal deficit, there is the risk that the rate may be raised as the economy recovers in the future.

If you are a high income taxpayer and have positive net rent income, it may be better to buy another property to make the total rent net income to become negative to avoid this new tax. Having negative profit and zero or positive cash flow is always ideal in income property investments.

Free Notary Service

We offer free notary public service to the readers on our mailing list. Customers who buy or sell their homes with Rockyfield will have free notary service for 5 years. (Direct service only, excl. loan documents; additional charge for a trip to your place.)

Please make an appointment with Catarina at 310-544-0857 ext. 2#



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A: Active S: Sold B: Backup P: Pending
Prices in '000s. Source: MLS (as of 05/10/10)