



Rockyfield Newsletter

US Economy & Housing Market

Sequester, which was postponed during the Fiscal Cliff fiasco, passed the deadline and became reality. This fiscal year's cut is \$85 million which is rather small and estimated to reduce the GDP by 0.5%. However, Sequester is designed to be politically painful. Government layoffs, from federal to local, and their consequences may start surfacing soon. In the meantime, the US economy is gaining steam. Ending the payroll tax cuts has not caused a major drag as consumption is increasing. The housing market is showing a robust turn around nationwide. The income tax hike does not seem to have a major negative effect.

The economy consists of consumption, investment, government spending and export/import. Government spending tends to amplify economic cycles and is inflationary. Politics is now all about "cuts." Businesses will not invest (including hiring) unless they see future sales growth. Corporate money has been "re-cycling" only in the financial market. It seems that they have finally started investing in the real business. Consumers have to be convinced that their future jobs and income are secure before they spend handsomely. Even though private employment has been steadily growing, the public sector has been cutting their workers, making the total employment figure mediocre at best. When such public sector job losses are finally slowing, Sequester is the last thing the economy needs. It is the US Government that is obstructing the economic recovery. To our relief, the Congress is in agreement to avoid the government shut down on March 27th.

While Sequester needs to be resolved soon, our major concern is "debt ceiling" again in May. Given the double recessions in Europe and weakness in Asia, international financial crisis would be possible if the US credit is realistically threatened. It is scary that some Congressmen advocate spending cuts at the expense of default.

While interest rates tend to go upward, the FRB's easy money policy is likely to remain for a while. It should take a little

Supply Shortage Makes Buyers Desperate

Tax Increases for the Rich

The agreement over the Fiscal Cliff has created some tax increases. The summary, including other tax increases, is as follows:

Increase in qualifying dividend and capital gains tax rate – Qualifying dividends and capital gains will be taxed at a rate of 20% on income in excess of \$450,000 for joint filers, \$400,000 for single filers.

Phase out of itemized deductions and personal exemptions – The phase out rules have been reinstated. For a married couple, the rules reduce the amount of allowable itemized deductions by 3% of adjusted gross income (AGI) in excess of \$300,000.

Personally exemptions are also subject to the phase out rules; the exemption that can be taken by a married couple is reduced by 2 percent for each \$2,500 in which AGI exceeds \$300,000.

0.9% Medicare surtax on wages – It increases the Medicare tax by 0.9% for wages in excess of \$250,000 for married couples. It applies to wages and not other forms of income.

3.8% Medicare tax applied to net income – Medicare taxes apply to net investment income at a rate of 3.8%, such as interest, dividends, capital gains, rental income, royalty income, and passive activity businesses. The tax is assessed on joint filers with a modified adjusted gross income (MAGI) over \$250,000.

Increase in the federal income tax rate – As often discussed, an increased top federal income tax bracket of 39.6% has been added. This will apply to taxable income earned in excess of \$450,000 for married couples.

Estate tax increase – the highest rate is now 45% up from 35%.

(We are not a tax expert, and cannot guarantee the accuracy of this content. Please consult with your CPA or tax specialist.)

while for mortgage rates to go above 4%. Though housing prices have strong support from the supply shortage, upward pressure on interest rates and lagging personal income will prevent housing prices from soaring.

Palos Verdes Housing Market

A dramatic change happened during the latter half of February in the Palos Verdes housing market. It is now common to receive multiple offers; and many of them are cash offers. One of our buyers told us that well-off people have accumulated so much money during the recession just as corporate cash flow increases when sales stop growing. While new listings are unpredictable nowadays, the numbers fluctuate wildly, sales are consistently high: often almost 20 houses a week. Ironically, due to the shortage, sales numbers are a little down. As the new good listings come on the market, sales will follow.

The fluctuation of the number of new listings is because many owners who intend to sell their homes are watching price movements very carefully. Our analysis of new listings and price relationship shows that a rush of new listings tends to follow even a slight price increase, and suppress the price increase; then potential sellers hesitate to come on the market. We are impressed how closely and accurately homeowners are watching the market.

Except for the debt ceiling concerns in May, we are confident that this supply shortage will continue through this spring selling season with hopes for higher prices. Prices in PV (single family homes) are now about 4% up from last year's average. We expect at least a 10% increase by June end. We recommend list prices that are slightly higher than today's estimated market value.

Townhome and condominium markets are also very active. As house prices increase, their prices should follow.

The lease market is somewhat cooling as the housing market becomes hot; however, good properties for lease are still going very well.

Remodeling Cost vs. Value

We often advise homeowners, who want to remodel their house with hopes to sell it higher, "Do not spend too much money as it will not pay off. You will be better off selling at a discount without remodeling." Many homeowners, however, resist the idea of selling their beloved house cheaper than the market price. It is also true that a remodeled house will be much easier and faster to sell.

According to 2013 Remodeling Cost vs. Value Report (costsvsvalue.com), the improved exterior (curb appeal) will produce the best returns, such as entrance door, exterior siding, windows, garage doors, which will give over 70% returns. The steel entry door replacement is the least expensive project in the report, costing little more than \$1,100 on average with an estimated 85.6% return. Or, you can go cheap by just painting, clean and decorating up the driveway, replace the front yard grass, or simply planting colorful flowers.

Among interior projects, the kitchen may be the best investment; however, a minor remodel (75.4%) will give a better result than a major remodel (68.9%), where the average minor remodel costs \$19,000. It is a typical "diminishing return on investment." Remodeling must suit the size, area and price range. In short, do not overkill.

Among the worst is a sunroom addition. Upgrading a bathroom is OK, but adding a bathroom is not profitable. Please note, however, old bathrooms can be an obstacle for selling. Again, raising the value of the house and improving the possibility of selling are two different things.

The best information source for home remodeling we recommend is "HouseLogic.com," which is operated by the National Association of Realtors (NAR). And we have a full list of contractors to small job handymen who are recommended by our customers.

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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Search properties for sale on the MLS.

visit: www.rockyfield.com

Need a handyman?

If you are looking for a house cleaner, handyman, painter, plumber, roofer, electrician, gardener or contractor, we will be able to introduce a quality one.

Contact: Catarina. 310-544-0857 Ext 2#

Our free fair market value analysis

If you just remodeled your house, you ought to be interested in how much your home is worth now. Or you may be simply curious. We will be happy to provide a fair market value estimate. If you have no plan to sell your home, please say so when you contact us.

Free weekly market information

We can provide a free weekly update of the housing market in your area. Please contact us via e-mail with your property address. The list below does not include many listings.



SELECTED LISTING INFORMATION

Please Contact

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A: Active S: Sold B: Backup P: Pending
Prices in '000s. Source: MLS (as of 03/12/13)