



April 1, 2016 VOL.127-WEB

# Rockyfield Newsletter

## US Economy & Housing Market

WSJ recently reported: "Funds Flow to Venture Firms." Sluggish consumption and business investments are preventing the US economy from growing fast enough to rescue the world economies. While employment has been improving well, household income has been leveling since 2000. Tepid consumption is discouraging corporations from making a long-term investment in equipment and facilities.

Venture Capital has raised \$13 billion during the 1st quarter, the highest in 15 years. The fundamental of the economy is exchanges and circulation of money. Without confidence in investment, money has been clogged with corporations and wealthy people, or circulating within the financial market only. A large increase in venture capital funds means money has started flowing and circulating; it is even better if more money becomes available for entrepreneurs as 2/3 of employment is made by small businesses, and more importantly, real innovations are made by entrepreneurs.

After the dotcom burst, the remedy for the recession was to boost large corporate profit and their share prices by the lower dividend tax rate and deregulations. Blue chip companies' dividend attracted investors who were doomed by risky dotcom investments. DJIA soared while Nasdaq slumped. Venture capital funds, which normally require a 10 year commitment, has been unpopular since then.

Mediocre consumption curbs investments; the resurgence of venture capital may reverse this causal direction, and may beef up consumption. As the historical low interest rates are expected to continue for the time being, if increased consumption leads to more business investments, the prospect for the US economy will dramatically improve, including the household income which helps our housing market.

Powerful growth of our economy will rescue Asian and European countries. The unwise minus interest rate has doomed Japan; China's super growth faces socio-economic imbalance; Europe is shackled by the Euro and threatened by UK's departure from the

## *PV Market Should Grow Further*

### 1031 Exchange

Sale of an income property is subject to capital gain taxes and State withholding tax. The 1031 Exchange allows to carry the tax base thus capital gain to the next property. Any cash received (called Boot) from the transaction will be taxed. The new property must be rented under the "same kind" rule of 1031 Exchange.

Since a couple of years ago, capital gain in excess of the threshold is subject to the higher 20% tax rate and 3.8% Medicare surcharge. The State also created two additional marginal tax brackets. Wise investors sold their income properties before the new tax rules. Investors who have been using the 1031 exchange rule can face a large tax when they sell their properties. Depending on which party wins the election, capital gain tax rate may go up or even may be eliminated. Tax driven deals always inherently have a huge risk.

During the past couple of years, we came across two cases, in which the income property owners wanted to buy a new house for them to live by selling their rented houses, but did not want to pay large taxes. They wanted to use the 1031 Exchange. Of course, they could not move in the new house. While the IRS ruling is unclear, the industry experts recommend they wait two years. Then they could get the \$500,000 (joint) exclusion. However, depending on the future price increase, their capital gain may become subject to the higher taxes; inconvenience of not being able to live in the house for two years; needs for repairs after being rented. The cost of their apartment rent for the two year waiting period is not deductible like mortgage interests. Sometimes we wonder if the 1031 Exchange is really beneficial.

EU; Brazil's turmoil continues. We cannot expect effective economic policy; the private sector seems to be finding its own way for prosperity. Starting with venture capital, we hope small businesses flourish. We have many business owners in Palos Verdes. This will help our housing market.

### Palos Verdes Housing Market

The difference between active and in-escrow listings was 80 in mid-February, which sharply dropped to 40 in March end. Our index E/A ratio (in-escrow/active) is reaching 80% which we call a hot market, and the west RPV's E/A ratio is already above 100%. However, the near real time price (median escrow price) has been weak. The share of expensive home sales was large in the past; now they are closing while inexpensive homes are now selling more in number. This is the reason the median escrow price has been stagnating. This statistics is not reflecting the current market condition or prices. From our own business dealings, we feel individual prices are rather increasing.

An unusual trend has been seen in West RPV this year. Homes priced just above \$1 million are not selling well. We would cite two reasons. First, the supply is very limited, especially of good properties. Second, buyers with financial capacity will go for homes with view, large size or in a better location. Buyers for the price range just above \$1 million may have limited resources. There may be a gap between what they want and what they can afford.

We are entering the tax return weeks. Every year we can see a minor trough in early April. Although it is rather insignificant and a short period of time, it may be better to list properties after April 15. The first week is very important for any new listing. Given the historical low interest rates, and expected demand from school driven buyers in the coming months, the PV housing market should get even better after temporary dull weeks.

Please see our Trend graph which shows the market supply-demand condition and price movements.

[www.rockyfield.com/documents/Trend.pdf](http://www.rockyfield.com/documents/Trend.pdf)

## Importance of Plumbing Maintenance

Plumbing is one of the most common and troublesome for any household with respect to convenience and costs. While plumbing costs are high, closing and painting walls are also expensive.

Water leaks are often visible and needs fixing before damages spread. Many houses in PV have slab foundation, and water leaks may not be known to the owner for a long time if the water pipes are under the ground. Small amount of leak may be happening from a toilet. If you are concerned, stop all water use and check the water meter. The needle may not be visibly moving, but if the blue fan is moving, you have a very small leak. If there is a major water leak, you first need to close the main water valve and open a faucet close to the main valve. An old valve corroded with scale may start leaking when you try to close it. Such a valve must be replaced.

The most common waste (drain) line problem is a clogged or backed up toilet. Old ceramic main sewer line may be intruded by tree roots. Even if cleaned, there is a gap at the pipe connection, and roots will come in again. Inserting a pipe liner could be much cheaper than digging and replacing the whole sewer line.

Relatively unknown, but serious plumbing issue is in the kitchen where oil and foods are poured into the kitchen sink drain. After years of neglect, sludge will accumulate inside the pipe, narrowing the actual diameter to be very small. The sludge can spread to other drain pipes. Snaking is not very effective. When the sludge gets really heavy in weight; sometimes it breaks the pipe at a connection. The sludge can be very hardened and impossible to remove; then drain pipes need to be replaced.

Good news is that regular, inexpensive maintenance can prevent it from happening. Dump hot water into the kitchen drain pipe to warm up the pipe; pour baking soda and vinegar; then hot water again. Chemical drain openers may not be very effective. Try a "Drain Buildup Remover" which works very well.

## 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#



## Rockyfield contacts

DRE broker license:  
01328577

27520 Hawthorne Blvd. Suite 144  
Rolling Hills Estates, CA 90274  
Phone: (310) 544-0857

Anthony Iwata Ext. 1#  
(English+Japanese)

Catarina Zerbinatti Iwata Ext. 2#  
(English, Spanish, Portuguese, Japanese, Italian)  
email: properties14@rockyfield.com

## Need a handyman?

If you are looking for a house cleaner, handyman, painter, plumber, roofer, electrician, gardener, bathtub repairman, rain gutter installer or contractor, we should be able to introduce a quality one. Contact: Catarina

## Free weekly market information

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

## 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. No strings attached.



Anza Borrego

## SELECTED LISTINGS

Please Contact

Rockyfield

A: Active B: Backup P: Pending S: Sold  
Prices in '000s. Source: MLS (as of 03/31/16)