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Rockyfield Newsletter

US Economy & Housing Market

It is generally understood that Democrats "Tax and Spend" and Republicans "Cut Taxes and Cut Spending." Democrats offset increased spending by higher taxes; Republicans offset decreased revenue because of tax cuts by spending cuts. And both declare their budget is deficit neutral. Numbers may match; however, their end results will not because there are large differences between changes in taxes and spending with respect to their effect on the economy and the lead time to show results. It is impossible to offset tax with spending or vice versa. It is nothing more than a political justification.

Concerning tax rates, a change in sale tax rates should have an immediate impact on consumption; a change in income tax rates will take a long time to show its effects; besides, they do not realize at once, but happen over a period of time. And income taxes are based on progressive rates; how to change each rate will have a different impact on the economy. Tax cuts for middle and low-income families should quickly boost consumption; tax cuts for wealthy tend to increase investments which will need more time to materialize. Spending is also not a clear cut. More handouts to the poor may go directly to consumption but the results may be temporary and provide a less multiplier effect. Government spending on education should contribute to the economic prosperity in the long run, but it does not work to fight a recession. Tax rate changes may pass the Congress quickly, it usually becomes effective for the new tax year. Spending may cause fights across industries and areas. It will also take time to get through the bidding and ordering process even after the budget is passed.

Except for the time of great recessions or hyper inflation, tax and fiscal policy with attempts to boost employment or economy would rather amplify the economic fluctuations. Simplifying the tax codes may be far more important for sustainable economic efficiency. Spending should be made based on the long-term socio/economic vision and needs. It is obvi-

High Market Inventory Caps Prices

Credit Scores Historical High

Our modern life has been often dictated by credit scores when you buy anything: a house, car or even to rent cars or other variety of things.

The average credit score (FICO) reached 700 in April this year which is a record high! The scores range from 350 to 850. 730 or up is considered good. The number of high risk consumers whose FICO scores are below 600 also shrunk to a new low of 40 million, which is about 20% of the US adult population. Our credit worthiness is improving!

Many people experienced hardship like bankruptcies and foreclosures after the meltdown in 2008. Today, we have effectively a full employment condition as the economy has been steadily improving, and household incomes which have been lagging are finally increasing.

Given that credit scores are improving in general, more consumers can finance their purchases of houses and cars at better rates. At the same time, financial institutions are becoming more aggressive in lending money.

While the US savings are still high, consumer debts are also growing thanks to the improved credit scores. However, the race to lend money as we saw after the dot com fiasco, and/or race for consumers to pile up debt to buy bigger, more expensive items than their neighbors can lead to another burst of the financial market.

ous a specific economic policy during a recession is not good under a growing economy and vice versa. Under today's sharply divided political environment, there is a risk of economic slow down in the second half of this year.

Palos Verdes Housing Market

Sales continue to be strong, and some weeks they go over large 20; however, sales have been also consistently overwhelmed by more than 20 new listings every week. The E/A ratio (Active/Escrow) has been steady around 60% (good number) since March; therefore, the supply-demand condition is holding across all price segments. There is a supply shortage for listings priced under \$1 million, where many buyers flock; however, whether or not they remain active in the market after the school season is over is uncertain. Mid- and high priced properties with a special feature like view are also attracting many buyers. Nonetheless, the market inventory of single family homes in PV has been over 210 which represents 3.5 month supply given the monthly average sales in PV is about 60.

Due to the large inventory, the median escrow price has been capped just above \$1.5 million since March. Interest rates, which were once believed to move up, are now coming down again. But they are not helping housing prices to go up further. Some people were worried about the rate hike by the FRB; as we reiterated, long-term rates are rather sliding as it has eased the market fear of the future inflation.

Apart from the political fights and turmoil, international tension, especially with Europe and talks about border taxes are worrisome for the second half of 2017. If the economy slows, interest rates should remain low. However, if large tax cuts and large spending on infrastructure happen, inflation may flare up. It is uncertain which way interest rates would go.

Townhouse and condominium markets in South Bay in general have severe supply shortages.

Costs to Reduce Capital Gain

Capital gain taxes are not a concern for many sellers thanks to \$500,000 exclusion (married couples) unless the gain exceeds the exclusion limit; however, your second home or rental properties are subject to capital gain taxes. We have come across a few sellers who did not keep good records for remodeling or other improvements. In principle, any spending that could add a value to the property can be added to the cost base (acquisition cost) to reduce the capital gain. However, costs for repairs and maintenance cannot be used to reduce the gain, although they can be expensed against rental income if it is a rental property.

Those costs include: additions (bedroom, bathroom, deck, garage, porch, patio), yard and grounds, including fences, installation or upgrading of systems, plumbing, new roof, floors, fireplace, remodeling of kitchen and others, and insulation.

You must consult with your CPA to determine what can be added to the base or not; nonetheless, keeping all receipts for years is so important. Please note that you may declare the cost of your own labor, or by your own record without receipts.

In general, capital gain taxes are 15% for Federal and your marginal tax rate for the State: 25% is a good estimate; however, the rate could be much higher if the capital gain is very large or your income bracket is very high. In addition, there will also be "unrecaptured" capital gain tax on the depreciation you have taken, and ACA (Obama care) 3.8% surcharge tax for the portion of higher income. Taxes are always an unavoidable part of real estate 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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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.



SELECTED LISTINGS

Please Contact Rockyfield

A: Active U: Contracted P: Pending S: Sold
Prices in '000s. Source: MLS (as of 06/18/17)