



Rockyfield Newsletter

US Economy & Housing Market

The US economy has been struggling on its recovery path with often disappointing employment and GDP figures. Debates over regulations are becoming a hot issue.

The free market economy works at best if the market is perfectly competitive. And there are four major conditions for the market to be perfectly competitive: 1) a large number of suppliers and buyers; 2) no barrier for a new competitor to enter; 3) no differentiation among products; 4) all consumers have the same information and knowledge of the product quality and prices. The last condition also includes that suppliers have no advantage over consumers in terms of knowledge and expertise. The perfectly competitive market eliminates companies that supply inferior or unsafe products though only after harm is done; it also provides the lowest possible prices to all consumers everywhere.

Now you can easily tell that no such thing as a perfect market exists. Consumers are not uniform, nor are suppliers; geographical cultural differences are significant in the real world. If you are business owner or CEO, competing with other companies, you will try to edge against competition: e.g., advertising, product differentiation, innovation and other positive strategies that are all aimed at eliminating or lessen your competition. And you may try to suppress your competitors by suing them for patent infringement; or simply buy the competitor. In short, all businesses are trying to be a monopoly, so that they can enjoy large profit margins. However, everyone agrees that monopoly is the worst kind of business model for consumers, the economy and the country. And there are industries which have natural tendency to converge into a monopoly like the telephone industry and utilities as their entry barriers are prohibitively high.

So, we need regulations to ensure fair competition as all companies wish to be a monopoly; we need regulations to ensure

Brisk Sales Finally Cooling Down

3.8% Home sales Tax?

No. It is not Sales Tax! You may have received email which warns you that Obama Care will impose 3.8% Home Sales Tax next year. This is a political scam. The NAR (National Association of Realtor) has made announcements to correct such incorrect info. and published a brochure to educate the general public. The following summary by the NAR will explain exactly what it is:

Applies to:

- Individuals with Adjusted Gross Income (AGI) above \$200,000
- Couples filing a joint return with more than \$250,000 AGI

Types of Income:

- Interest, dividends, rents (less expenses), capital gains (less capital losses)

Formula: The new tax applies to the lesser of:

- Investment income amount
- Excess of AGI over the \$200,000 or 250,000 amount

The 3.8% surcharge will apply only to the portion of AGI over \$200,000 or \$250,000, and the exclusion (\$250,000 and \$500,000) still applies to capital gains of principal homes.

For homeowners (joint returns): if your capital gain is less than \$500,000, there will be no 3.8% surcharge tax. If your capital gain is more than \$500,000, and if the total AGI of your other income and the portion of the capital gain over \$500,000 is no more than \$250,000, there will be no 3.8% surcharge either.

For investors: if your total AGI (capital gain, rent and other income) exceeds \$250,000 (joint), the portion above the amount will be subject to the 3.8% tax.

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product safety and other desirable values as the market mechanism works only after-the-fact.

Palos Verdes Housing Market

The housing selling season usually ends in late June to mid July; we have less listings and less buyers. As we had predicted, unusually high volume sales continued through mid August: often about 20 houses were sold a week. Despite the large number of continued new listings, strong sales kept the market inventory decreasing from almost 300 to 170 in one year. The supply-demand condition has been very tight since March. However, prices have been struggling to move up because many sellers entered the market as they saw prices start going up.

During the last two weeks in August, both sales and listings calmed; a typical September quiet market seems to have arrived a little earlier. The trend in which good selling price ranges started moving from the below \$800K to over \$1000K has fizzled out. The only price range that is still brisk is between \$2 million and \$3 million. However, the statistics do not necessarily agree with our own daily business experience. We feel there are still many active buyers. The sales slump may be due to the scarcity of good inventory under \$900,000. Buyers for lower prices are financially limited and cannot provide a large down payment. The properties over \$850,000 may require a jumbo loan which requires higher interest rate unless the buyer increases the down payment.

There are still so many potential sellers waiting for higher prices. We will probably not see clear and significant price increases until next March. It is also subject to the outcome of the Presidential election. Today's buyers tend to request many repairs or credit in lieu of repairs that cost sellers thousands of dollars. It is still a tough market for sellers.

August closes sales were 58; both median and average price increased from July and also a year ago. However, prices are yet to be out of the small box range.

(3.8% Home Sales Tax? – False)

So What to Do?

Homeowners (principal residence) are unlikely to be subject to this 3.8% tax and even if it is the case, selling your own home involves many other personal or family factors. Our advice is: Do not get pan-ic. Even if you are subject to the 3.8% tax, if the house price goes up, you are likely to be better off.

Investors must consider many things: Those properties that have deferred capital gain taxes with 1031 exchange may get hit hard, especially if your other income is large. There is also a genuine concern that the capital gain tax rate may go up in the future, given the large government deficit. You may consider settling the tax with the current 15% (fed) this year without the 3.8% surcharge for the accumulated capital gains so far, and immediately buy another property while property prices are low. However, if housing prices appreciate a lot during the spring next year, you may be better off even if you become subject to the 3.8% tax by holding on the property until next year.

For the full details, please download from this link.

<http://www.ksefocus.com/billdatabase/clientfiles/172/8/1437.pdf>

(We cannot guarantee the accuracy of the above content as we are not a tax expert; you must consult your own tax counselor before taking any action.)

The NAR Statement:

Beginning January 1, 2013, a new 3.8 percent tax on some investment income will take effect. Since this new tax will affect some real estate transactions, it is important for REALTORS® to clearly understand the tax and how it could impact your clients. It's a complicated tax, so you won't be able to predict how it will affect every buyer or seller. To get you up to speed about this new tax legislation, the NATIONAL ASSOCIATION OF REALTORS® has developed this informational brochure. On the following pages, you'll read examples of different scenarios in which this new tax — passed by Congress in 2010 with the intent of generating an estimated \$210 billion to help fund President Barack Obama's health care and Medicare overhaul plans — could be relevant to your clients. Understand that this tax WILL NOT be imposed on all real estate transactions, a common misconception. Rather, when the legislation becomes effective in 2013, it may impose a 3.8% tax on some (but not all) income from interest, dividends, rents (less expenses) and capital gains (less capital losses). The tax will fall only on individuals with an adjusted gross income (AGI) above \$200,000 and couples filing a joint return with more than \$250,000 AGI.

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 SAMPLES

Please Contact

Rockyfield

A: Active S: Sold B: Backup P: Pending
Prices in '000s. Source: MLS (as of 09/07/12)