PALOS VERDES RESIDENTIAL PROPERTIES

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Rockyfield Newsletter

US Economy & Housing Market

It is time to stop advocating the Keynesian fiscal policy to help the economy as the US economy is getting out of recovery and entering a growth period. Given the massive excess liquidity left in the financial market, inflation will be the real threat in the coming years. It is time to move back into the "true" supply-side economic policy. The Supply-Side economic theory has been distorted over years as "supply-side economics = tax cuts." The core of the supply-side economic theory is to improve productivity or to produce the same quality goods at a lower cost: Consumers buy more goods and boosts the economic growth without inflation. Let's focus here on economic (and social) efficiency.

Simpler tax codes, including the number of different taxes; efficient and effective regulations if not less; reducing legal jungles and ambulance chasing lawyers; removal of health insurance mandate for businesses (burden on businesses is too much in the US compared to other nations); efficient infrastructures for transportation, communications and internet (e.g., insufficient fiber optics network). Improving infrastructures require government spending, i.e., fiscal policy, which is no longer necessary from the point of view of the current economic cycle. However, the US infrastructures are in dire condition compared to other leading countries. Roads, bridges and other transportation systems, port facilities, power grids, natural disaster preventions like flood control systems… all those, if improved to the best possible, will increase productivity of our economy and our competiveness in the world markets.

The employer provided health insurance system started when the government imposed salary caps, and companies compensated their employees more with benefits. The mandate for corporations to provide health insurance under Obamacare can be removed, and become an option. By making individuals' health insurance premium a deductible expense, it is possible now that we have exchanges.

Inflation is a real threat, not only in the US, but also all over the world. While monetary policy by Ms. Yellen should take preemptive anti-inflation measures, fiscal policy should focus on improving economic efficiency (growth) rather than just spending cuts (suppression).

PV's Housing Market Lags Behind?

Tax Increases

Some of you may have found new tax increases on your tax return this year.

Qualifying dividends and capital gains tax rate – Qualifying dividends and capital gains are 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.

Personal exemptions are also subject to the phase out rules; the exemption that can be taken by a married couple is reduced by 2% for each $2,500 above AGI $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 self-employment income.

3.8% Medicare tax applied to net investment 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 – A new 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%.

California income tax – the highest rate is now 13.3%.

(This is from our March 2013 issue. We are not a tax expert, and cannot guarantee the accuracy of this content. Please consult with your CPA or tax specialist.)

Palos Verdes Housing Market

Robust sales of single family homes in Palos Verdes suddenly became mediocre during the last two weeks. As this is the best time of the year, it is disappointing. The surrounding areas like Torrance are still going strong almost: "Anything sells" In PV, too many listings above $3,000,000 have pushed up the market inventory to 140, while good listings below $1 million sell quickly. The market condition up to $1.5 million is still in a good shape. The total market inventory has been in up trend since January. The new listings are calming down in number and so are sales, which are contrary to our forecast. It is still April, and it is still possible to see large sales volumes before July.

The median escrow price rose well above $1,300k in February and March, it came down to more or less $1,300k which is we feel about right under this market condition. Although high end properties are selling very well this year, the number is very small. For the market price to further rise, more sales between $1.5 to $3.0 million must happen. It is also necessary that the economy consistently grows 3.5% or more, the long-term unemployment substantially decreases and household income must increase. Listings below $1.5 million may get help from the booming condition in the surrounding markets. Sellers who have been waiting for higher prices may need more patience.

March closed sales (SFR) were 48 compared to 68 last year. Closed sales were fewer than last year for three months in a row. This also indicates the struggle of the PV housing market during this spring's selling season. The average and median prices have been modestly up.

Loan Contingency Removal

Loan contingency provides a buyer the right to cancel the transaction without penalty during the contingency period. The default days in the California Association of Realtors (CAR) agreement is 17 days with option to designate any number of days or until the loan is funded. In practice, just because "17" is printed, many buyer's agents leave it as printed; many listing agents feels the contingency period needs to be 17 days, which they tend to insist without being able to explain why. This "17 days" was changed from "21 days" prior to the 2008 meltdown, and remained afterward even though the mortgage market has dramatically changed.

Buyer is supposed to remove the loan contingency when the lender issues a formal approval with certain due process conditions like employment verification. After removing the contingency, Buyer may forfeit the deposit if the loan fails to fund and buyer cannot close the deal. If Buyer does not remove the contingency within the period as agreed, Seller can first send Notice to Perform, and if buyer cannot fulfill the demand, Seller has the right to cancel the transaction. However, we know no lenders who can issue a formal approval (underwriter's conditional approval) within 17 days. The fastest lender we know may do in 20 days provided that Buyer submits all the supporting and required documents in a couple of days. There seems that many buyers do not remove the loan contingency ignoring the agreed date. In reality, most sellers are afraid of losing the deal, and they tend to keep going as long as the loan seems to be eventually funded.

At the time of Acceptance (contract), many listing agents demand the loan contingency period to be 17 days even though buyer's agents request realistic, say, 25 days. We have never gotten a convincing justification for 17 days, other than saying "That is normal." We often suggest that Buyer's agent to request a realistic number of days and remove the contingency as promised. It is actually much better for sellers rather than keep going with worries and suspicion.

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 or contractor, we should 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. No strings attached.

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 LISTINGS

Contact

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For

Information

A: Active S: Sold B: Backup P: Pending
Prices in '000s. Source: MLS (as of 04/11/14)