



Rockyfield Newsletter

US Economy & Housing Market

Awaken by the US Government take over of Fannie Mae and Freddie Mac, and other financial institutions, a new debate over privatization and de-regulation has started. Both presidential candidates are promising re-regulations. Some people wonder if we are becoming socialism. When facing a serious crisis, any society tends to swing to the other extreme. It is simply wrong to generalize that privatizations and deregulations are bad things.

The premises of the laissez-faire theory - the market force will solve everything and achieve maximum efficiency - is a perfect market where a large number of similar participants (both suppliers and consumers) have the same information, knowledge and power and inferior products and services are immediately eliminated, and no suppliers can make excess rent (profit). Internet can disseminate information and knowledge to a vast number of people at great velocity, transforming many markets closer to perfect. The principle of market competition is more important than ever.

The U.K. got out of the long-term economic decline under Thatcher's strong initiative of privatizations and deregulations. In the US, Reagan pushed similar policies. De-regulation further expanded under Clinton, and the US economy finally got out of the economic doldrums and inflation that followed the Vietnam War.

However, it is simply wrong to privatize everything with no regulations. The market where the law of competition is dysfunctional (e.g., monopoly or close to it) will result in higher prices, lower quality and excess profit. And where significant disparity exists between consumers and suppliers, the market mechanism will not work even there is a keen competition among suppliers. Medical and mortgage loan industries may fall into this category. And where profit and purpose conflict with each other such as police and fire fighters, public services are more appro-

Housing Slump To Continue Even Longer

Root Cause: Excess Savings

The underlying cause of the sub-prime loans that triggered this financial crisis is Excess Savings (in econ terms).

Private assets grew through 90's with the dot.com boom. When the bubble popped, huge liquid assets were created, which were pulled out of new and small businesses, and grew even larger with the tax cuts. The money was first directed to real estate, and also to Blue Chip stocks, given dividend tax cuts, war spending and de-regulations. While Nasdaq struggled below a half of the peak, the Dow continued renewing its record. Venture capital funds shrank and remained small though there has been a sign of recovery since last year.

The Excess Savings have encouraged financial institutions to expand more sub-prime loan market (higher yield), forming a pedestal for today's financial crisis. Consumers, whose income did not grow, maintained their life style by borrowing on skyrocketing housing prices and lowering mortgage rates. Both are responsible for the reckless expansion of the mortgage loan market. When the housing slump came, the stock market also became unattractive, and the money found its way to the commodity market such as oil.

The rescue plan is a necessity as the financial system is clogged due to the credit crunch. Ironically, \$700 bil. and other bail out cash injections into the market will further increase the excess savings which are not invested in real businesses. A serious recession and high-interest rates are our concerns. Redirecting this excess savings to proper businesses and absorbing them to reduce the deficit will be the next administration's major economic mission. Or the market will do it in a dreadful way.

As a perfect market does not exist in reality, different degrees of regulations are necessary for every industry. Under today's extremely polarized political environment, neither policy is good enough in practice. There are fewer and fewer large corporations in many industries, especially accelerated by the recent economic crisis. This should be a major concern for "free market" believers.

Palos Verdes Housing Market

The housing slump is obvious in PV. While the number of transactions dived 35% for the first 8 months this year, the average or median price is holding. This contradicts with our own observations and experience. Here is our own opinion: buyers are paying similar dollar amounts for better houses. If you compare properties with similar attributes during the past few years, it is clear that their prices are down though quantifying the price declines with a very few properties is not desirable. A good comparable market analysis for today and two years ago for your home should give a good idea of the price change of your home, if not the market.

The inventory is hovering around 270 and the number in escrow is below 50. Our unique E/A ratio has been below 20% for some time. This year's Spring selling season did not achieve 30%. A few years ago, the ratio was 120%. By areas, PV Estates is surprisingly in a bad shape.

For the housing market to fully recover, 1) to stop foreclosures from increasing; 2) to restore confidence in the mortgage industry; 3) to increase employment and household income - will be imperative. The US economy has a structural problem; this is not a cyclical downturn. The number of people dropped out of the labor statistics has grown to 1.5 million or more again. The housing recovery will only follow the economic recovery. Therefore, we forecast the housing market to hit bottom during 2009, start recovering in 2010, but the real recovery will not come until 2011.

Housing and Economic Recovery Act

SELLER NEED NOT REVEAL SSN TO BUYER UNDER FIRPTA: Sellers are no longer required to provide to their buyers the Seller's Affidavit of Nonforeign Status, which includes the sellers' social security numbers, under the Foreign Investment in Real Property Tax Act (FIRPTA). Instead, as another option, no federal withholding is required if the seller furnishes the Seller's Affidavit with his or her social security number to escrow or other qualified substitute as defined, who in turn, furnishes a statement to the buyer stating, under penalty of perjury, that it has the Seller's Affidavit in its possession. A "qualified substitute" is a person responsible for closing the transaction, such as an escrow company, title company or the buyer's agent, but not the seller's agent. The federal withholding law is now similar to California's Franchise Tax Board (FTB) policy, which made escrow to be responsible for withholding taxes.

\$7,500 TAX CREDIT FOR FIRST-TIME HOMEBUYERS: With certain exceptions, a first-time homebuyer will receive a tax credit of 10% of the purchase price up to \$7,500 maximum, for the tax year in which the buyer purchases a principal residence. The tax credit, however, must be repaid like an interest-free loan in equal installments over the next 15 years or in full if the property is sold for a gain. A buyer qualifies as a "first-time" homebuyer as long as the buyer (and spouse if any) has not owned a principal residence in the U.S. for the last three years. The tax credit phases out for a taxpayer with a modified adjusted gross income over \$75,000 (or \$150,000 for joint returns). This tax credit is available for qualifying homes purchased from April 9, 2008 through June 30, 2009. This may be useful for your sons and daughters who are buying a house for the first time. CalHFA loans (lower interest rates) are also available for the first-time buyers.

Free Notary Service

We offer free notary public service to our readers. Customers who buy or sell their homes through Rockyfield will have free notary service for 5 years. (Direct service only, excluding 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, gardener or contractor, we may be able to introduce a quality one. A painter who delivers an excellent job at a reasonable price is actively looking for more jobs as the housing slump started affecting him. If you need a painter, please give him a chance.

Free weekly market information

We can provide a free weekly update of the housing market in your area, as a list like below with a short comment about the market. Please contact us via e-mail with your property address.

Our free fair market value analysis

If you just remodeled your house, it is very natural to be interested in how much your home is worth now. We typically spend a half-day to compute a fair market value estimate. We are happy to provide free analysis for any reasons. If you have no plan to sell your home, please say so when you contact us.



SELECTED LISTING SAMPLES

Please see the attached sheet
for
listing information

S: Sold B: Backup P: Pending
C: Contingent A: Active