



Rockyfield Newsletter

US Economy & Housing Market

The general economy and housing market usually do not move to the same direction at the same time. Investment and financial decisions by individuals and businesses will depend on which will recover first and pull out others among the financial system, economy and housing market.

The problem started with the mortgage defaults caused by lawless lending practices that dampened the housing sales and prices, leading to today's financial and economic crisis. We believe that the previous GNP recovery was merely an illusionary economic growth ballooned by the war spending and the increases in the blue chip profit and Dow. The economy never recovered in a true sense since 2000.

The stability in the financial system must be restored first. The FRB's announcement for the market purchase operation (buying Treasuries to increase money supply) seems to have calmed the anxiety. The mortgage loan modification and the new toxic asset purchase programs are also helping to improve the market psychology. Yet, it may not be enough for the full recovery of the financial market. According to old rules, commercial banks manage/take credit risks, investment banks manage/take market (price) risks, and insurance companies take no risks. We need a modern version of such divisions. Japanese banks competed to increase lending ignoring risks in the 80's. The same happened again here. Such regulatory environment: "Because our competitors are doing..." must be corrected. Without new rules, as pendulum swings to the other extreme, US banks may become over cautious in lending as Japanese banks prolonged the recession. In any case, we will see more write off shocks. It is still a long way to go.

Recovery of the housing market should come to the desirable areas like Palos Verdes, given the low interest rates and decreased prices. Employment will precede the housing recovery on a national level.

When will This Housing Recession End?

Sale or Lease

Due to slump in sales, it takes time to sell even for excellent properties at a reasonable price. Some sellers may consider a lease, instead. If the seller has little or no loan, property tax, insurance and other expenses may well be covered even at a reduced rent for a quick lease. However, if the seller's loan balance is large, negative cash flow happens. We would like to remind the following pitfalls in leasing:

Repair requests from the tenant must be responded quickly; allowance for such expenses must be taken into consideration. Minimum cosmetic repairs/replacements are necessary to attract a good new tenant.

The largest cost in renting is vacancy. A two-month vacancy costs more than a 10% reduction in rent. During vacancy, you need to pay utilities.

Even if you are very careful about the credit report, the tenant's financial condition may change later. Late payments will cost you. Especially the eviction process is very expensive. Needless to say, damages that may be made to the property.

For sale, it always comes down to the price. As the discrepancy between list and closed prices is currently very large, we recommend the initial list price be a little lower than the estimated fair market value that needs fine tuning with competitors' prices.

Please note that the first-time buyer tax credit is the smaller of 10% of the purchase price or \$8,000 with income restrictions. There are too many misleading ads.

And without the improved national market, the PV market cannot fully recover. Employment and business sales/profit are interdependent; when the stimulus package can cut such a vicious circle is the question. It will be no earlier than in May if it does. In order to promote a sustainable recovery, solving the health care crisis will be indispensable.

Palos Verdes Housing Market

The market inventory has exceeded 300 and continues growing to 323 today. Sales are weak but steady. The number is swelling due to a rush of new listings across the price ranges. Single-family home sales below the \$1 mil. price range started remarkably increasing toward the end of February, especially below \$900,000, creating a mini boom. Interestingly toward the end of March, listings over \$1,000,00 to \$3,000,000 began selling while sales below \$1 mil. slowed. The total number in escrow has been stable over a few weeks. This swelling inventory poses a serious concern; facing too many competing listings, many sellers may be engaged in a price war, depressing the market price. There is a bright sign, too. While the median active price is lowering, the median escrow price has been up for three weeks, reflecting the shift of sales in price ranges.

The 30-year fixed rate is 5.15% (national average and borrowers with an excellent credit can get below 5%). We do not believe that the rate will start going up any time soon; we do not believe the rate will go down from this level either, except temporary dips.

Our forecast is: the housing sales in PV will gradually increase in May-July. The concern over the future interest rates, large market inventory and competition among sellers will put pressure on prices. Therefore, a recovery in price may not happen any time soon even though sales increase. If the interest rates stay low for one year or longer, prices should go up.

Energy Efficiency Tax Incentives

The Economic Stimulus Package modifies and expands the scope of the energy efficiency and renewable energy incentives. Some of them include:

- Energy efficiency incentives for upgrades to existing homes have been extended through 2010.
- The financial cap for home envelope improvements as well as heating, cooling and water heating equipment, was increased to \$1,500 (from \$500).
- Lower caps, such as the \$200 cap on new windows, have been abolished. The existing home incentives are now calculated at 30% of the cost of the installation, up to the \$1,500 cap. The legislation is unclear on whether this includes both equipment and labor, however previous IRS rulings suggest that labor is NOT included.
- Standards for equipment eligibility have changed – see: <http://www.energytaxincentives.org/consumers>
- On-site renewables (solar photovoltaic and hot water systems, small wind systems, and geothermal heat pumps) are now eligible for a tax incentive worth 30% of the total cost, without a cap.
- There are new incentives for plug-in electric vehicles, and plug-in conversion kits. Both Toyota and Honda hybrid tax credits are now entirely phased-out.
- Fuel Cells and Microturbines: Credits are available to homeowners and businesses who install qualifying systems.

<http://www.energytaxincentives.org> is a very useful website that we strongly recommend.

In California, the State offers programs in partnership with utility and manufacturing companies, property tax reductions and others. Municipalities also offer various incentives. You can find more on <http://www.fypower.org/res/upgrade> and other websites.

Free Notary Service

We offer free notary public service to the readers on our mailing list. Customers who buy or sell their homes through 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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