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KRUEGER REALTY NEWS

Insider News and Views about Real Estate in Hidden Meadows.
To our customers and all the residents of the country town of Hidden Meadows.

What's New In and Around Hidden Meadows

HAPPY NEW YEAR!

Since our bi-monthly newsletter arrives during the first week of January, a Happy New Year's greeting might seem a bit late. However, I think it is still appropriate to wish a post "Seasons Greetings" and Happy New Year to all our friends and customers in Hidden Meadows and elsewhere.

We would like to express our gratitude for your loyalty, support, and patronage this last year.

This year will no doubt be as eventful as the last in our community. A big change for Krueger Realty is our new e-mailed Newsletter. Starting with this edition our newsletter will come to you via the Internet. It will still be convenient to get a printed copy, just follow the link to our website to connect to a PDF copy which can easily be printed. One thing that will not change is our commitment to Buyers and Sellers; we will continue to offer professional real estate services year in and year out.

Some of the more notable items worth watching in this New Year follow. January finds Greystone putting on the finishing touches to the last homes being completed at the Highlands. Many Hidden Meadows residents are still anxiously awaiting the opening of the Meadow Glen Way extension. There is some interesting graffiti painted on some of the cement barricades facing Meadow Glen Way West, "IHP Tear Down this Wall". Hopefully the wall will soon come down and "West will be connected to East". The anticipated new fire station hopefully will continue its journey from "plans" to "reality". The announcement from Meadow Lake Golf Course is they are conducting feasibility studies with Centrex Homes that may lead to the construction of condominiums/cluster homes in the area of the existing driving range, as well as a new clubhouse, restaurant and cart barn. Residents and golfers will undoubtedly monitor this closely. There are no details that I know of, as the process is in a very early stage. Some Hidden Meadows residents may have noted that there has been grading equipment working in the High Vista/Legend Rock Lane area. A very prominent early Hidden Meadows resident, Al Steinbeck, initially divided these lots, which are now being developed by his sons Neal and Mark. When the work is done new homes will follow allowing for more fortunate people to be able to call Hidden Meadows home.

Often times we are asked who lives in Hidden Meadows and who is moving here? I have lived here for six years and have been coming here since 1980 when my Sister and Brother-in-law built their home on Rim Road. In those earlier years, it was fair to say that Hidden Meadows was comprised of a substantial number of retirees, perhaps upwards of 75%. It is now guestimated that retirees make up somewhere between 35-40% with the balance of adults still active in the work place. I am not aware of any censes relating to children, but it is fair to say their numbers have increased over the past few years as well. As new homes become available, they will attract both younger residents looking for a superb quality of life and retirees looking for that special place to make a retirement home.

To be sure, there will be more things to keep watch on during this year along with enjoying numerous events and activities that are a part of the Hidden Meadows life style. Again, we wish everyone a happy and prosperous New Year.

WHAT QUALIFIES FOR A 1031 EXCHANGE?

Section 1031 of the Internal Revenue Code allows you to transfer the gain from the sale of your old property to your new property without paying taxes. To qualify for this benefit, both properties must be property held for investment or used in a

trade or business. The new property does not have to be the same type as the old property. Both the old property and the new property must be located within the United States. Also, you may sell one old property and buy several new properties. Or, you can sell several old properties and buy one new property. Multiple property transactions must meet the 45 days to identify and 180 days to close timeframe requirements.

The term "held for investment" does not mean your personal residence or property held for resale. A property held for investment would be one you are renting (or trying to rent). You should retain proof of your rental attempts in case of an IRS audit. Land is almost always considered investment property and can be exchanged for a rental property or visa-versa.

If you personally own the land and building that houses your business, that property is part of your business and qualifies for a 1031 exchange. If you do business out of a home office, that home office is now property used in a trade or business and could be part of an exchange when you sell your home.

Property held for resale does not qualify for a 1031 exchange. An example of property held for resale is a fixer-upper that you buy, fix up, and put back on the market a few months later. In order to qualify for a 1031 exchange, you must typically hold the fixer-upper for a year and a day. Always consult with your CPA or tax advisor prior to making any 1031 decisions.

NEW BANKRUPTCY LAW

A new bankruptcy law took effect on October 17. The National Association of Realtors applauded Congress for passing several real estate provisions, which are included in the new act. Only time will tell the true impact of this new complex law.

There are two paths a financially troubled consumer can take: Chapter 13 or Chapter 7.

Chapter 13 is an interest free repayment plan whereby all debts are consolidated and the consumer makes payment on this debt over a 3 to 5 year period. While the consumer is in a Chapter 13 debt plan, his creditors cannot collect directly from the consumer and the creditors are legally obligated to honor that plan.

Chapter 7 is a plan whereby all unsecured debts are wiped out. If your car and mortgage payments are current and there is no significant equity in your property, you are allowed to keep those items (while continuing to make your regular payments).

The most important aspect is the "means test." The means test is as follows: If the combined gross income of the consumer's family is greater than the median family income in your state, the law may require that you file a Chapter 13 instead of a Chapter 7. This "means test" must be applied when the judge is deciding whether or not to discharge consumer debt. The median family income in California is $67,800. For information on other states go to http://www.census.gov/hhes/income/4person.html

Another important aspect of this new law is that before anyone can file for bankruptcy relief, they must submit to counseling from an "approved" non-profit credit-counseling agency. Some credit-counseling agencies may not be on the "approved" list.

Bankruptcy should always be the last resort for any consumer in financial difficulty and this new law will make it even less attractive. If anyone is in financial difficulty, they should talk to their financial and legal advisors immediately to determine all options.

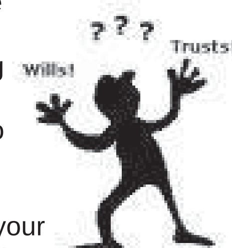
LIVING TRUSTS

Living trusts may not be for everyone. You will pay fees to establish and manage a trust. Make sure your estate is large enough to justify the fees. Before you take action, be sure to discuss the pros and cons with your attorney or financial advisor. Seniors have been targeted and pressured into purchasing Living Trust kits that may be expensive, lack proper instructions, and may not meet their state's legal requirements.

Check your Medicaid eligibility. The Living Trust might make you ineligible for Medicaid-covered nursing home care. If you create a Trust within 5 years of the time you apply for Medicaid, the government assumes that your trust assets are available to pay for your nursing home care. The laws are complicated and change frequently, so consult an attorney who knows Medicaid rules before creating any Trust, or giving away any property. When planning for the distribution of your estate, deal with a trusted and well-referred professional.

What is a Living Trust? It is called a Living Trust because it is created during your lifetime and can be used while you are alive to specify how your property will be managed in case you become incapacitated. It lets you arrange for how you want your property managed while you are alive and how your assets should be distributed after your death. The person who creates a Living Trust (Grantor) names a person who will serve as the Trustee. The Trustee will follow the trust's terms after the Grantor dies. While alive the Grantor usually serves as a Trustee and controls the assets even though they belong to the trust.

What is the Difference between a Living Trust and a Will? Revocable Living Trusts have certain things in common with wills, but they also have important differences. Like a will, a Revocable Living Trust lets you direct how and to whom your property will be distributed after your death. You appoint a Trustee to manage your trust, just as an executor would manage your will. The Trustee holds your assets and distributes them according to the instructions you specify. Although a Living Trust will save probate fees and estate taxes, it will produce no income tax savings. The Grantor is treated as the owner of the trust for income tax purposes, and must report all trust income on his/her personal return under the "Grantor Trust" income tax rules.



A will becomes a matter of public record during the probate process and a copy can be obtained upon request to the Surrogate's Court. A Living Trust is a private document that is not subject to public scrutiny. A Trust can be contested in a special proceeding. There is no blanket rule that a Living Trust cannot be contested.

Tips for Establishing a Living Trust: When you establish a Living Trust, you must transfer your property from your own name to the Trust. This is "funding the Trust." For a Living Trust to take effect, legal title of the assets is transferred by the Grantor(s) to a person called the Trustee(s). For example, title to any bank accounts, stock certificates, or real estate owned by the Grantor(s) must be transferred into the Trust. The Grantor(s) MUST take affirmative steps to transfer assets and fund the Trust. Merely executing the Living Trust will not cause the Trust to become funded. Any property that is left in your name passes through probate as part of your estate. Property held as "Joint Tenancy with Rights of Survivorship" automatically passes to your co-owners and doesn't need to be placed in a Trust.

BUYER'S MARKET?

Two years ago, the San Diego housing market was among the hottest in the nation. Would-be buyers made offers as soon as the "For Sale" sign went up, and then sometimes bid even higher in order to close the deal. In San Diego, home appreciation began a steady cool down this year, thereby favoring homebuyers. Homes in San Diego are now on the market an average of 43 days (almost twice as long as a year ago). In Hidden Meadows (according to the MLS) market time is about 79 days now.

As an example, a couple with their 2 BR, 2 BA condo on the market have so far slashed their asking price by $10,000 (after two months on the market) to keep up with other sellers in the same complex. They want to sell in order to buy another home.

The national housing market has begun showing signs of a slowdown, with the rate of home price increases easing this year in some areas where double-digit percentage increases became routine in recent years.

Experts say this trend should continue next year, particularly if mortgage rates continue to move upward. You can't sustain a 20% plus price growth (source: National Association of Realtors NAR). You will definitely come up to a brick wall of affordability where first-time buyers can't afford to get into the market.

SAN DIEGO HOME PRICES

The median home price in San Diego was down 1.7% in October from the previous month and sales showed a double-digit drop compared to the same period a year ago.

The numbers in the San Diego region support a leveling-off trend. The median existing home price stood at $601,850 in October, down from $612,030 the previous month, but up 6.2% from $566,740 a year ago. Sales were down 13.8% in October compared to the previous month, and were down 10.5% year-over-year.

While California is still experiencing year-over-year double-digit price appreciation, prices are starting to level off compared with the statewide peak reached in August 2005.

Statewide, the median home price increased 17.2% and sales decreased 2.8%. The median price of an existing, single-family detached home in California in October was $538,770 compared to a $459,530 median for October 2004

The California Association of Realtors' (CAR) unsold inventory index for existing, single-family detached homes in October was 4 months, compared with 3 months for the same period a year ago. The index indicates the number of months needed to deplete the supply of homes on the market at the current sales rate.

The 30 year fixed rate mortgage interest rates averaged 6.07% compared with 5.72% a year ago. Adjustable mortgage rates averaged 4.86% compared with 4.02%.

The median number of days it took to sell a single-family home was 35 days in October, compared with 34 days for the same period a year ago. (Source: California Association of Realtors - CAR).

THE NEW FIRE STATION

As Hidden Meadows residents know, the Deer Springs Fire District purchased a lot at Meadow Glen Way E and Mountain Meadow Road a few years ago to build a new fire station here in The Meadows. The planned fire station will significantly improve the response time to Hidden Meadows and RimRock by eliminating the long uphill climb from the present location. Plans have been drawn for two buildings, a 1,600 square foot living space and a 2,000 square foot apparatus building with parking for staff and the general public. The apparatus building will have a public office, a mezzanine area with storage, and bays for a fire engine and other equipment. This new station will be known as Station #3.

The plans are now ready to be sent to the County for approval. The approval process usually takes about three months. After approval, the fire station should be completed within 22 months. There will be a type 1 fire engine based at this station. The ambulance will remain at Station #1, but there will be a paramedic on each three-person crew.

AMERICA'S SAFEST & MOST DANGEROUS CITIES

Each year Morgan Quitno does a national survey to discover America's safest and most dangerous cities. The results of this year's survey are as follows:

Cities of 500,000 or more population

Safest

San Jose CA; El Paso TX; Honolulu HI; New York NY; Austin TX; San Diego CA; Louisville KY; San Antonio TX; Fort Worth TX; Jacksonville FL

Most Dangerous

Detroit MI; Baltimore MD; Washington

DC; Memphis TN; Dallas TX; Philadelphia PA; Columbus OH; Nashville TN; Houston TX; Charlotte NC

<u>Cities of 100,000 to 499,999 population</u>
Safest
Amherst NY; Thousand Oaks CA; Cary NC; Irvine CA; Sunnyvale CA; Simi Valley CA; Coral Springs FL; Port St. Lucie FL; Glendale CA; Provo UT
Most Dangerous
St Louis MO; Flint MI; Richmond VA; Atlanta GA; New Orleans LA; Gary IN; Birmingham AL; Richmond CA; Cleveland OH; Dayton OH

<u>Cities of 75,000 to 99,999 population</u>
Safest
Newton MA; Clarkstown NY; Mission Viejo CA; Brick Township NJ; Troy MI; Round Rock TX; Lake Forest CA; Colonie NY; Fargo ND; Orem UT
Most Dangerous
Camden NJ; West Palm Beach FL; Compton CA; Trenton NJ; Reading PA; Canton OH; Youngstown OH; Miami Beach FL; North Charleston SC; Macon GA

For more information, you can go to the Morgan Quinto website at http://www.morganquitno.com/cit06pop.htm

Of course, we all realize that Hidden Meadows is a safe place to live.

NEW TAX CREDITS FOR HOMES WITH SOLAR POWER

Rising energy prices are prompting more people to look into "zero-energy homes," highly energy-efficient houses designed and equipped to produce as much electricity as they use. New federal tax incentives that take effect in January could help these dwellings, now just a green niche in the home-building industry, draw even more interest.

The concept has been around for years: Draw electricity from the power grid when needed and harness solar energy to produce electricity when conditions permit, sending any excess into the power grid to earn financial credit. In an ideal scenario, the result would be zero net electric costs during the course of a year.

Achieving this balance takes a home equipped with a combination of photovoltaic cells and special construction features, like proper site planning, improved insulation and energy-efficient appliances and lighting. Some homeowners have gone further, incorporating structurally insulated panels to form walls, ceilings and floors that reduce the thermal leakage experienced in conventional homes.

So far, though, zero-energy technology isn't very cost-effective. Solar panels and the inverters that transform the sunlight into usable energy can raise construction costs by $8,000 to $20,000, depending on the amount of power they produce — which means it can take years to recoup the expense.

Few homebuyers have been willing to pay the costs and, consequently, few builders have been willing to build such homes. No accurate statistics exist on how many have been built, but estimates range only in the low thousands, with most found in the Southwest and West, where ample sunshine and other factors stoke consumer interest. There is a solar electrical home here in Hidden Meadows. My next-door neighbor has installed such a system. For further details on this home, feel free to give me a call.

Builders and photovoltaic-equipment makers say one way to help lower costs is to continue to expand various tax incentives available for alternative-energy technology. All 50 states offer tax credits of various amounts to builders using solar technology. Under the wide-ranging federal Energy Policy Act passed this summer, which takes effect Jan. 1, the buyer of a new home equipped with a solar photovoltaic system may claim a tax credit valued at 30% of the system's cost, to a maximum of $2,000. While that would only partially offset the cost of such equipment, the homeowner would also benefit from the recurring energy savings.

Similar credits have existed in the past at the federal level, but most were aimed at encouraging the use of solar technology in commercial construction. The new credit, which is temporary and comes up for renewal in 2008, is part of a national initiative to reduce home energy consumption by 70% by 2020.

The Department of Energy estimates the average U.S. household pays about $1,500 a year for electricity. That is expected to climb to $1,640 during the next five years, experts say. Since most of that expense is for heating and cooling, supporters say adopting zero-energy technology could substantially reduce energy consumption and its effect on the environment. Renewable energies, including solar, only account for 2.3% of all U.S. energy production, with coal as the dominant source at 50.8%, according to the DOE's Energy Information Administration.

PROPOSITION 60 TAX BENEFIT

Are you reluctant to sell your home because of the low Proposition 13 property tax base you have? Did you know that there is a way to transfer and keep your low tax basis even after selling and moving?

Here are the basics of how to claim a Proposition 60 tax benefit: You need to be older than 55 when you sell. For couples, either spouse can be the person who makes the claim.

You need to buy a home of equal or lesser value than the one you sell. Moving to a more expensive home will not work, as there is no partial benefit available. The comparison is value-to-value, not selling price to purchase price. Suspicious transactions will be investigated.

If you wait more than a year to buy, the replacement can be slightly more than equal value, due to an inflation formula that allows you to buy for more if you wait more than 12 months for your replacement property.

Your new home must be in the same county as that of your previous home, or in one of the counties that allow inter-county transfers (San Diego for instance).

For example, you could sell in Riverside County and buy in San Diego County and still get the benefit. However, if you sell in San Diego County and buy in Riverside County, you will not receive the benefit, as Riverside does not approve inter-county transfers.

Other counties besides San Diego that have allowed inter-county transfers are Alameda, Los Angeles, Orange, Ventura, San Mateo, and Santa Clara. You must buy within two years of selling. Even if you are building a new home, you will need to move into it within two years of selling your previous home.

The County Assessor in the County you are moving to can provide specific information and all the forms you will need. It is easy to confuse these rules with those related to the Capital Gains exclusions on home sales, which provide an income tax benefit in the year of sale. In contrast, the above rules (Proposition 60) provide a property tax break, which can stretch over many years.

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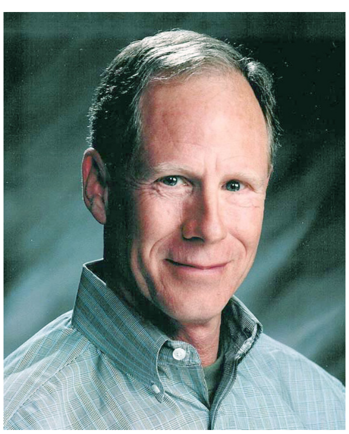
Put our many years of local real estate knowledge, training and experience to work for you.

If your property is listed with another Realtor, this Newsletter should not be considered as a solicitation.



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