



# Rockyfield Newsletter

## US Economy & Housing Market

It's been debated if the economy has bottomed out and started recovering. The reality seems that the decline is almost stopping. After the economy bottomed out, there tend to be more bankruptcies and continued rise in unemployment for the time being. Job losses increased again in June, making the market worried; however, the June figure was still much smaller than April with no change in the improving trend. Some people already started talking about the second stimulus package. We strongly oppose such an idea. We are getting out of the serious and unique economic devastation where our financial system became dysfunctional and fundamental structural damages surfaced. It will take some time before we get the feeling of recovery. Just to absorb the labor force increase, non-farm payrolls must grow at least 100,000 every month; we still have job losses. Therefore, it is inevitable for the employment rate to continue rising, very likely to go over 10%.

It is a great relief that interest rates that shot up last month have calmed down. Housing sales in Palos Verdes were apparently affected by the higher interest rates, especially at low price ranges. A sign of economic recovery pushes up interest rates which, in turn, caps the economic growth; such sea-saw condition will keep the economic growth at a very slow rate or even zero for a few years after the economy gets out of this recession. Given the large deficit and liquidity, rapid growth may trigger inflation. The FRB is expected to soon switch back to anti-inflationary monetary policy. Some say the recent increase in personal saving rate will hamper consumption and the recovery; we believe it is a good fundamental shift for a long-term stability of the US economy when the whole country, from governments to individuals, is dangerously leveraged.

While healthcare reforms and other extremely difficult political agendas that will greatly affect the economy are still ahead,

## *Sellers Slashing Prices Before Summer*

### *First-Time Buyers*

Given the (up to) \$8,000 tax incentive, first-time buyers are very important for low to mid priced properties. But their behaviour may be different from replacement buyers.

A home may be the most expensive purchase they ever make; personal preferences vary for locations, styles and their needs. First-time buyers are often extremely nervous and worried, sometimes suspicious about the seller, seller's agent, their own agent, properties, neighbours: literally everything. One of the crucial things in dealing with first-time buyers is to avoid anything even unthinkable that could add to their concerns. Of course, sellers must be honest and make proper disclosures.

They tend to be interested in fixers or REO for their low prices; however, due to lack of experience in repairing houses and also due to their limited financial resources, they tend to end up with a house in good condition. Nonetheless, we discourage sellers to spend much money to remodel their houses just to sell because it simply will not pay off.

Seller's support for buyer's closing cost is still definitely a good incentive, better than reducing the price by the same amount.

More importantly, remember: "Every offer deserves a counter offer." As first-time buyers tend to be worried about paying too much or looking foolish, some of them tend to offer a very low price. If the seller gets upset and rejects the offer, that's it. Sellers should consider that it is a business; they should never feel insulted. A counter offer may lead to a surprising result. Note that once they are locked into negotiations, it is hard for buyers to walk out.

we are optimistic about the future economy. What we are most concerned about is insolvency of state and local governments.

## Palos Verdes Housing Market

A few important trends have emerged. We have noticed many sellers started slashing their prices probably because they are anxious to sell and open escrow before the summer recess. It is true that the housing market becomes less active during summer, and this year particularly, it seems that inactive market may continue through the rest of this year. While we are sympathetic to these sellers, we are worried about the secondary recession in the housing market.

The "interest-rate-sensitive" low-end market was effectively halted by the higher mortgage rates in mid June. It was significant because the low-end market had been the driving force for the robust housing sales during this spring. Due to a lack of low-price home sales, the market price went up amid the new listing rush in June. The market inventory, which had been steadily improving, increased for two weeks in a row. The usual pattern (town-homes sell well when the low-end single family home sales stop) emerged again. This time, condos are selling well, too.

As the mortgage rates came down again and sellers are cutting their prices, we forecast that housing sales will remain active in July. Many buyers seem to be waiting to snatch bargain properties in July.

Closed sales of single family homes swelled to 49, compared to 25 in May and 28 in April, even surpassing 38 in June 08, though being short of 62 in June 07. This proves how great the sales in April and May were. Prices still remain more or less the same; but the median escrow price seems to be up a little in the recent weeks.

### No August Issue

If you need market information, please contact us by email.

## Good Time for Investment?

Housing prices have not turned upward while sales are increasing in many markets. As in the stock market, the volume is a very important leading indicator for future prices, but the time lag is much greater for real estate. We feel more comfortable to say, it is a good time to invest in residential real estate for the following reasons: while sales are increasing, prices are still stagnating; the new listing rush in June has created even larger market inventory, a wide range of choice is possible during the summer season.

There are mainly two types of residential real estate investment: 1) so-called "flipping": buying REO's or fixers, remodeling and selling them quickly; 2) income property for lease or rent, and holding the property for many years. During the boom era, the former was more popular and profitable, but is no longer viable; income properties were too expensive to generate reasonable returns. Quite the opposite is true nowadays. However, the market price of residential properties in Palos Verdes is still too high as income properties.

If personal preferences are set aside as business, heavily depressed areas should be ideal for income property investment though while such areas are not recommended for capital gains. These areas with many foreclosures also tend to have good demand for rent and lease. We believe Lomita is a good target area, which has no rent control and offers some zoning advantages. San Pedro may be good, but to avoid the rent control, you have to choose either properties built after 1978 or single family homes.

Finally, we always recommend that income property investments be evaluated with a 5 year period. It is also extremely important to target profitability after tax as taxes are the driving force for real estate investments.

## 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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## 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. Please contact Catarina.

## 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. Due to the recent large market inventory, the list below does not include many listings.

## 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. Or you may be simply curious. We will be happy to provide a fair market value estimate based on our own method. If you have no plan to sell your home, please say so when you contact us.



## SELECTED LISTING SAMPLES

For Listing Information

Please Contact

Rockyfield

S: Sold B: Backup P: Pending  
C: Contingent A: Active  
Prices in '000s. Source: MLS (as of 07/08/09)