



# Rockyfield Newsletter

## US Economy & Housing Market

The housing sales started increasing in March just as a normal year, and maintained good sales through the summer -- very unusual. Due to the permanent housing shortages in California, it seems that buyers' appetite has accumulated during the housing slump and unleashed this year. Sales finally took a break in September. It is still good for Realtors, but concerns of homeowners over stagnating prices still persist. Even after six months of brisk sales, prices still cannot recover the level before the last year's financial crisis.

The reason for the weak prices despite good sales volume is that there are too many foreclosure related listings, including short sales. While there are only about 20 of them in Palos Verdes, the majority in many other areas are short sales or REO's, where buyers demand low prices for those properties, dampening the market prices. Especially many REO's, which used to be sold through public auctions, now come on the market at very low prices. In short, as long as those foreclosure related listings dominate the market, prices are kept from rising. The prices in PV cannot escape from ripple effects from other areas.

A series of loan rescue programs have been introduced since last year; however, none of them has been very effective because of their narrow targets and limited resources while tons of money have been spent on helping investors and lenders. The number of borrowers who are getting into trouble seems to be surpassing the number of borrowers who are rescued. The programs, which intend to stimulate housing demand, like the first-time buyer credit, do not help solving the fundamental issues, especially in California where demand is not a problem.

Fannie Mae and Freddie Mac have been nationalized and many other banks are under the government control. Direct government lending through them to refinance troubled borrowers with payment holidays and low interest rates should immediately help reducing the number of

## *Price Recovery, Solution for Housing Issues*

### *First-Time Buyer \$8,000 Credit*

The \$8,000 credit for first-time buyers will expire on December 31. The Congress is now discussing the extension and the Realtor association is also lobbying for it. However, we have reservations.

As explained in the main article, the current housing market problem is not demand, but too many foreclosure related properties, including short sales, on the market. It is of greater importance to spend money on the mortgage problems.

Though it is widely advertised as a \$8,000 credit, in reality, the actual amount is the lesser of \$8,000 or 10% of the sale price. The amount also phases out for people with income over \$150,000. And if not a joint return, the credit amount will be half.

A typical first-time buyer does not have much cash or income; their target houses are mostly properties below \$400,000 where short pay or REO (bank owned) properties dominate, carrying well-below-the-market prices. While the first-time-buyer credit may help reducing these troubled properties already on the market, it does not help the fundamental issue of depressed prices.

The FHA is running out of money due to payment delays and defaults on FHA insured loans. The \$8,000 credit is encouraging financially weak buyers to purchase houses, delaying the market recovery.

The extension of the first-time buyer credit is politically attractive, it is not an effective way to use the scarce resources. For these reasons, we do not support the extension.

short sales, boosting the market prices. Price recovery will also reduce potential losses on such government loans. However, those already in foreclosures must go through the process.

## **Palos Verdes Housing Market**

Since the market inventory of single-family homes in PV peaked around 320 in April, it has kept decreasing only gradually with a few bumps due to waves of new listings. The decline has accelerated in September, and now, it reached 240 because new listings finally subsided by 30% in late August, and dipped further in September. If sales had remained strong, the number might have reached 200. But sales also calmed down in September. No need to worry as it is a seasonal pattern to have a dull market in mid September. The media have reported higher housing prices, which were based on closed sales, reflecting a small price increase in May and June. In our market, a sudden, substantial price decline in March triggered the sales recovery; after the small rise in May, prices suffered a little since July. Nonetheless, we can see signs of price recovery in today's market. We expect prices to start rising when the inventory gets to 200 and the E/A (Escrow/Active) ratio exceeds 50% (now 43%). Price increases should start at low priced houses.

Interest rates are also favorable. The US Treasury yields have been normalized with a steeper right up curve (the longer, the higher), and short-term mortgage rates, which had risk premium, have come down substantially lower than 30 fixed rates. This only should help borrowers whose loans have been reset to variable; yet refinancing is difficult due to insufficient equity. While the high unemployment rate keeps consumption from growing, inflation should remain intact, and mortgage rates should stay low.

September closed sales were 49, sharing the highest record with June for 2009. While the average price recovered a bit, the median price declined. We expect October closed sales to decline a little.

## Seller Financing

Seller financing, which was rare under the strong housing market, is making a comeback. If the seller's loan balance is little or zero, the seller can benefit with income at a higher interest rate than a CD or reverse mortgage.

There are two kinds: Second loan where a buyer does not have enough money for down payment of a conventional loan. The seller is effectively assuming the "sub-prime" loan risk. The feasibility of the first loan approval is questionable; good income with no cash may indicate the buyer's undisciplined spending habit; the second loan may well be wiped out when the first loan is foreclosed. Seller financing of the first loan, when the buyer cannot get the first loan despite enough income and assets, for example, a recent bankruptcy due to one-time, unexpected occurrence, will also pose a huge risk as the amount is large. As the credit history can be cleaned within 3 years, the seller can demand a large down payment, balloon payment in 5 years (assuming refinancing will be possible), or lease with purchase option. But in the event of default, legal cost and time may be unbearable. Lawyers may suggest a "land contract" (similar to installment sale), in which the ownership transfers only when the last payment is completed. Again the legal cost of land contract documentation cannot be ignored as land contracts involve many legal issues.

In any case, if the seller does not need immediate cash, we would suggest the seller wait for a better buyer. Sales are going well and prices may start going up in the near future. There is no pressure to take large and tedious risks.

## 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. If you know very good ones, please let us know, so that we can refer them to other readers. Contact: Catarina.

## 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. If you have no plan to sell your home, please say so when you contact us.

## 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 LISTING SAMPLES

Please contact

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for

Listing Information

S: Sold B: Backup P: Pending  
C: Contingent A: Active  
Prices in '000s. Source: MLS (as of 10/06/09)