



Rockyfield Newsletter

US Economy & Housing Market

We have reiterated many times that employment must improve for the housing market's recovery. It seems the time has finally come. Over 200,000 increase in non-farm payrolls for three months in a row shows that the labor market is clearly entering a recovery phase. If corporations rush to hiring due to concerns that quality unemployed people may soon disappear, the recovery will be accelerated. There are still 23.5 million people either out of job or underemployed, and politicians are trying to capitalize on it. From the economics point of view, rapidly tightening labor market is not desirable. As the Keynesian model depicted well for the great depression, with the large pool of unemployed people, sizable increases in employment are unlikely to pose pressure on wages. Despite high oil and other commodity prices caused by the excess liquidity in the financial market, inflationary pressure is rather modest, given the decelerating Chinese economy and the renewed recession in Europe. While interest rates will gradually rise, we do not foresee any sharp rate increases in the near future. The housing sales in Palos Verdes are robust and the supply-demand condition is tightening. If this trend continues, sooner or later, the housing market will become very positive, including prices. We see the supply-demand condition is also improving greatly in other good areas.

As the economy is clearly getting better, how to tighten the money supply will be the most critical issue this year. While the FRB cannot hamper the recovery, there is a danger of inflation due to the huge excess liquidity in the financial market. In addition, the FRB's hands may be tied due to the Presidential election to carry out independent monetary policy. The FRB is still buying US Treasuries in the market to keep the interest rates low.

Robust growth of the US economy will help the EU to get out of the vicious circle, and also help the Japanese economy. But the Japanese government debts are in a

Market Tightens Gives Hopes for Higher Prices

How to Buy Short Sales and REO

As the housing market started recovering, immediate multiple offers are happening for short sales and REO (bank owned) in Silicon Valley and premium areas of Los Angeles. Investors seem to realize it is about time for prices to begin going up. The lowest price can be achieved at public auctions, but they require all cash -- may not be for everyone.

In case of REO, evaluate the property as to how much it would cost to fix the problems. Then if the property is a real good one (i.e., valuable in the long-run), do not go too greedy. It is still a good deal if the price + repair costs are about 10% below the market price. If you take a loan, you can avoid per diem penalty for missing closing date by borrowing from the owner bank. Add at least 5 days for the escrow period because the bank will set the closing date counting from your offer date.

Concerning short sales, if there is only one lender, the prospect is much better than two lenders. If it is a condo or townhome, check if there is any HOA lien. If the bank does not allow the seller to pay other liens, the buyer has to pay for them. The buyer may have to pay expenses that are usually paid by the seller. It usually takes a few months to more than half a year to get the lender's answer. Until the lender's consent is received, the buyer can rescind the contract. So we advise buyers to make offers to multiple short sale properties.

It is critically important that you are not blinded by the condition of the house. If the condition is worse, the price is lower. You always look at permanent features like view, location, lot size and type and so forth.

dangerous territory due to the current cabinet's reckless money handouts in addition to the cost of earthquake recovery.

Palos Verdes Housing Market

As explained more on the backside, the PV's housing market is under very tight supply-demand condition. Yet, a closer look reveals that the majority of sales are still concentrated in the lowest price ranges, and gradually spreading to over \$1,000,000. The median escrow price is already about 10% up from the January bottom. Last week, the market inventory once dipped to 163; then a large number of new listings rushed to the market toward the weekend. Now it is about 180, and sales are still going strong. Given this favorable condition, we hope that prices will start going up soon; however, every time prices rise, more listings come on the market. It seems unlikely to see a sharp price increase. From our own conversations with homeowners, we feel there are still many potential sellers in queue.

We also hear some buyers saying that the market price may have passed the bottom. Some of our buyers are losing the opportunities because of either procrastinating to write an offer or going too aggressive in price. It seems certain that competitions among buyers are emerging.

It is possible that the PV housing market becomes very hot in the coming months as the labor market is brighter and interest rates are still low. Since February, more than 15 listings enter escrow every week. However, it is not that "anything goes" like during the boom time; buyers are very picky and well informed. Remodeled houses and properties with good permanent features like view are selling well. High-end properties are also selling well.

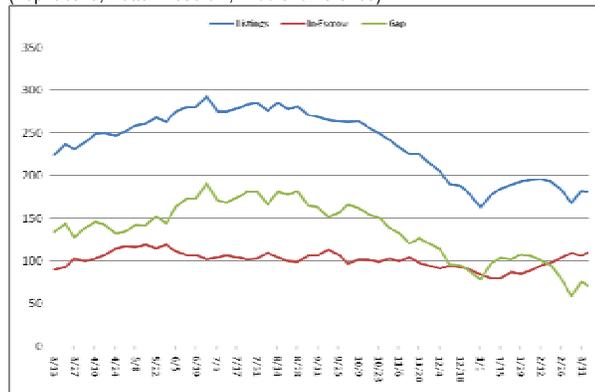
February closed sales were 38, good for the short month, but both average and median prices were the lowest since the 2008 Lehman shock.

The townhome market has been in short supply since last year though their prices have been capped by the single family house price.

Supply-Demand Tightens

Many people are sceptical when they hear "PV housing market's condition is remarkably improving." We analyze the supply-demand relationship with the E/A ratio that is a percentage of escrow/active listings, and a very useful leading indicator. You may be surprised to know that the ratio got below 20% in fall of 2007. The number of sales started significantly declining in 2006 while prices were still sharply going up, entering the "bubble." Like stock markets, volume always precedes prices, and the combination of declining volume and rising prices is a very dangerous sign. That exactly happened in the housing market. The housing market entered a long recession during the latter half of 2007, not with the Lehman shock. A couple of weeks ago, the ratio surpassed 60%, though the following surge in new listings is keeping the ratio just below 60%. Although a closer look tells us that sales are still concentrated in the low price ranges, given this very tight market condition, we expect prices will sooner or later start rising.

(Top: active, Bottom: escrow, Middle: difference)



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

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For

Information