



Rockyfield Newsletter

US Economy & Housing Market

As the labor market seems to be recovering in full steam, concerns over inflation are spreading in the financial market. Although there has not been any real inflation or its sign, it is expected that the financial market tends to overreact to any news that implicates inflation.

The excess liquidity in the market seems to be the basis for such nervousness. Since the fiscal spending has been contracting due to the political reasons, the FRB's massive money supply through bond purchases has been the only means to shore up the economic and especially employment recovery. Given the low interest rates and excess liquidity, if consumption sharply increases with borrowings with better prospect for the future jobs, increased demand will boost production that will be followed by higher wages and supply costs. Then, it is possible for inflation to flare up. It is also a question how effectively the FRB can absorb the excess money stock from the market.

We, too, expressed our concern for possible inflation many times in the past. So far, there has been no inflation or rising interest rates. When the FRB announced their plan to taper down the bond purchase problem, interest rates temporarily rose but soon dropped to the past low level. It seems that large money supply does not directly cause inflation. If money supply is ample, it is easy for corporations to borrow money at a low rate, resulting in lower production and distribution costs.

The most direct and significant cause for inflation is higher wages due to labor shortage where an increase in productivity cannot catch up with the cost of production. Excess liquidity under a recession may rather increase the risk for deflation spiral which luckily did not happen to our economy, unlike in Japan.

We expect continued pressure for higher interest rates; however, inflation does not seem to become real this year. Although the macro economy is recovering well, stagnating household income, shrinking fiscal spending, widening income disparity

Market Inventory Soaring, Prices Adjusting

Termite Procedures

Termites must be eradicated before the escrow closing unless the buyer waives the termite clearance. If you are lucky, it would cost less than \$2000 for a smaller house. But it could cost more than \$10,000, while the majority would cost \$4,000-\$5,000 if the fumigation (tenting) is needed. The cost is relative to the size of the house and the owner should budget another \$400-\$800 for broken tiles if you have a tile roof and also for painting after termite work. If the infestation is light, local treatments will do the job. However, expensive carpentry work is possible when extensive damages to the wood structure exist. This could be very expensive. The termite cost will be settled by escrow. Even if it may not be the cheapest, we suggest that roof tile replacements and painting be done by the termite company.

One way to avoid potentially large termite cost is to have periodical termite inspection and treatment. However, you need to know there are two kinds of termite companies: one that can issue a termite clearance required for a purchase transaction; the other cannot issue a clearance. Periodical termite inspections/treatments are usually done by the latter who can offer a lower price.

The timing of fumigation is another issue. It takes one day for tenting, the second day for gas treatment, the third day to take down the tent. We suggest, sellers move out four days before closing as closing should become reasonably certain at that time.

may be preventing the economic growth from accelerating. Therefore, we do not expect sharp increases in mortgage rates; and the housing market will not "pop" as a few people predict though it is likely to have a slump in September.

Palos Verdes Housing Market

In short, "Too many sellers are rushing to the market." As more than 30 new listings came on the market, there is no way for sales to match them. The market inventory of single family homes in PV have exceeded 190. There were less than 100 in early January. The market inventory started growing sharply in late March, while the number of "in-escrow" reached 100 during the second week of May, it has been hovering around 100. We must admit that the supply-demand condition has collapsed. It shows in prices. The median escrow price that peaked at the end of April has entered an adjustment period. Today's price is about 5% down. Unless the new listing waves stop soon, further 5% decline is quite likely.

However, homeowners who are contemplating to sell their homes should not be discouraged. Each individual property's performance could be quite different from the whole market movements. Even during a slump, quality properties attract many offers. Today's price is still about 15% higher than a year ago.

By price ranges, the size of the lowest segment has shrunk; price ranges between \$1.5 and \$3 million that have been fantastic this spring have eased a little. During the recent few weeks, properties around \$1 million are still very hot. Setting the list price above the market value that is desirable in the rising market may produce a poor result. Precise reading of the market and correct estimate of the market value are crucial in pricing.

The surrounding areas like Torrance are in much better shape than Palos Verdes; however, the easing supply-demand condition seems to have started showing in statistics. We do not see any sign of weakness in prices in these areas.

Suggestions for Buyer's Strategy

Even though the market condition is softening, it is still a seller's market; buyers have to compete very hard for good quality listings. Of course, there is no question that the price is the most decisive factor in the selection process. We have emphasized many times that the value of a property varies from one buyer to another, and what price a buyer should offer is relative to how much the buyer likes (or perfect fit) the property. If a buyer really wants to win the deal in a multiple counter offer situation, it is generally advised that the buyer raise the price at least to the list price.

Apart from the price, there are many things buyers can do to improve his or her offer, and they share the same goal: Certainty of closing the deal. A very high price means nothing if the transaction does not close. This includes a cash offer and large down payment, but many buyers' ability to improve these two may be limited. There are a few other things that can be appreciated by sellers. Unlike the pre-2008 era, some appraisers may value the house below the agreed price. Under today's market condition, the agreed price may become very high. While sellers love to see a higher price, the buyer may not get the loan, demand a reduced price, or request a large repair credit if the appraised value comes below the contract price. Some agents recommend that buyers exclude the loan contingency; we will say, that means nothing. Instead, removing the appraisal contingency will appeal to or ease the seller's mind.

A statement: "Buyer will make no request for repairs" will tremendously increase buyer's chance to win the deal. This statement will not remove the buyer's investigation contingency. If the buyer plans to remodel the whole house, this is a recommended strategy.

A cash offer does not have so much advantage against a 50% down payment offer, except for a quicker closing, ONLY if a short escrow fits the seller's plan.

In short, understanding Seller's needs is the most important step before you make the final offer.

Free Notary Service

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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Search properties for sale on the MLS.

visit: www.rockyfield.com

Listings by Rockyfield

120 Calle De Andalucia (Hollywood Riviera)

3 bedrooms / 2 baths. 1618sf

Located in a serene street, it is a very charming and classy house.

700 Esplanade #5 (Redondo Beach) Condo

2 bedrooms / 2 baths, 1237sf

With Ocean view. Advantages of end unit include a patio, small garden, more windows.

23340 Brightwater Pl, Harbor City Sale or Lease

4 bedrooms / 3 baths, 2348sf

Just remodeled.



SELECTED LISTINGS

Please Contact

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A: Active S: Sold B: Backup P: Pending
Prices in '000s. Source: MLS (as of 06/16/14)