



Rockyfield Newsletter

US Economy & Housing Market

The first quarter GDP growth was just 0.2%, far below the consensus 1% which was adjusted low for the bad weather. Doubters' voices are spreading: the US economy may not grow as fast as it should. The strong US dollar was the main contributing factor. In fact, the March trade deficit was the largest in 6 years and the largest margin of increase in 18 years. Unlike other countries, the large trade deficit does not pull down the US dollar; such deficit has been re-invested back in the US, especially in the US Treasurys, keeping interest rates low. The major reason for the strong dollar is the weakness of European and Asian economies.

Except for a temporary dip in March, employment has been rapidly recovering, and finally there is a sign of higher wages. The housing market is a beneficiary of the improved employment; however, general consumption still lacks energy, despite stable inflation and low gasoline prices. During the past couple of months, there has been build-up in saving rates, indicating consumers are extremely cautious. General public's wealth has not recovered; the marginalized middle class, bitter memory of losing jobs after the meltdown and regret over lavish life styles by borrowed money have encouraged people to save rather than to spend. Our economy has traditionally been driven by consumption based on large consumer debts. A structural changes may be going on in our economy. The higher saving rate tends to reduce the consumption in the short run; however, it will lower the leverage and lead to a stable growth in the long run.

There are some positive signs in the Euro currency zone; however, the financial risk has not gone away. Asian economies have their own problems. China needs to pay the price of the super growth such as product safety, labor condition, pollution, etc. The current political system may not be able to overcome these issues. India may be the only exception that we can still expect a high growth. South America is also struggling. Under such unfavorable in-

Housing Prices Soar As Envisaged

Selling Rented Homes

It is not easy to sell a leased/rented property with tenant. In case of month-to-month tenancy, the landlord can terminate the contract with a 30 notice within the first 12 months and a 60 day notice thereafter. A 30 day notice is allowed for sale. Many owners want to keep their tenants until escrow closes to avoid losing the rent income; however, it is not easy to show and also go through the escrow process unless the tenant is very cooperative.

In case of leases, the landlord cannot break the lease, and it has to be sold with tenant. This is a challenge: target buyers are limited to investors who are typically profit driven and tough on prices. Often the tenant does not allow to show the property. If the remained lease period is only a couple of months, it may be marketed to general buyers. Some buyers may be interested in buying the property with tenant for several months and moving in after the lease expires; however, the loan cost is higher for an income property, and VA or FHA loans cannot be used. Another issue is the tenant payment behavior as no investors will take a bad tenant.

Though it is possible to ask a tenant with bad payments to leave, it must be done very carefully; the reason must be delinquency not the landlord's desire to sell the house. And of course, eviction is very expensive and unpleasant.

Some tenants may want to move out but would not say so because of the contract. So it may be a good idea to talk honestly with the tenant. If the tenant knows that they cannot renew the lease, they may find a new place earlier. Either forcing them out or terminating the lease with mutual agreement, but for the landlord's reason, "generosity" is the key.

ternational circumstances, the US economy, which has its own structural issues, may not grow fast this year. The remedy may be massive investments to improve aged infrastructures. But the current political environment is unlikely to allow such spending. Mediocre growth without inflation may be the best path for us.

Palos Verdes Housing Market

The market inventory of single family homes, which had been relatively stable since March end, started increasing to 160. Sales have remained good, though often surpassed by new listings, and reached 120. In short, it is an extremely active market with many sellers and buyers. The median escrow price, which stagnated in March due to the swelling inventory, began soaring more than 10% during April alone. As usual, higher prices lure more potential sellers to the market; however, given the consistently strong demand, the tight market condition is likely to continue. Luxurious property sales continue to amaze us.

However, we are cautious about further price increases in the coming weeks as the median escrow price is reaching \$1,600,000: it will simply not be supported by economic and other fundamentals. Interest rates are another concern; the 10 year Treasury note yield has gone up about 0.3%, and the 30 year fixed mortgage rate is following. When prices are rising, many buyers stretch their financial burden to their limits; a small increase in the rate may undermine their ability to pay or obtain a loan. Lenders are very strict on the income-expenditure ratio. The gasoline price, which has a very large impact on consumer psychology, is now rising, expected to increase until summer.

We believe that this very active market condition will continue through July; however, we do not expect "overheating." Listings, which are priced too high, still tend to remain on the market longer, as today's buyers are very well informed thanks to internet.

The townhome market continues its strength while condos are still struggling.

Alternative to Lawn

The new California water saving regulation requires Palos Verdes to cut its water consumption by 36%. Many people are looking for alternatives to lawn which requires a lot of water. In fact, many townhouse and condominium complexes are replacing grassy lawn with water saving plants. Although a cactus garden with gravel or beautiful desert plants can be considered, families with small children prefer grassy backyards. And when you sell your house, grassy yard is more desirable and attractive.

Houselogic.com is a website operated by National Association of Realtors, providing a wide range of information about houses in general. We found there an interesting lawn alternative called UC Verde Buffalo Grass.

Low-Maintenance Turf Grasses

If you need grass for kids or pets, consider new "miracle" cultivars or blends. UC Verde Buffalo Grass, for example, delivers lush, silky blades that require little or no water once established, rarely need mowing, and need no fertilizer or pesticides. The secret to these grasses are long (but noninvasive) roots and thin blades. Make sure you get the right fescue, or grass, blend for your soil type and growing zone.

Synthetic grass is starting to get some respect. New versions are so amazingly life like. Synthetic turf is suitable for either an expansive play area or a little jewel box of a garden nook, particularly where nothing else will grow.

On the downside, Synthetic turf made of petrochemical plastics can feel stifling in hot weather and offer no habitat for birds or insects. Some are concerned that the recycled-tire crumbs used as infill to provide drainage and keep blades from matting contain high levels of toxins. It is also about twice as expensive upfront as conventional turf.

You can find more alternatives in Houselogic.com.

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A: Active B: Backup P: Pending S: Sold
Prices in '000s. Source: MLS (as of 05/10/15)