



# Rockyfield Newsletter

## US Economy & Housing Market

The turmoil within the Republican Party raises serious concerns over the US and international economies as well. The government shutdown was avoided by another "continuing resolution" until December 11th with hopes that no one wants shut down before Christmas. The real crisis is Debt Ceiling rather than Shutdown. The Treasury Dept. estimated that the US will run out of money to service the US debt on November 5th. While the growing fiscal deficit is a legitimate issue, the debt ceiling is the obligation of the US Government to service its Treasury debts which are merely a result of the deficit.

The US dollar is the international currency for trades and many countries' foreign reserves, and the US Treasury market is the underlying base for the international monetary system. A collapse or even disruption of the US Treasury market instantly leads to dysfunction of the international financial system. For the participants in the Treasury market, the US credit standing is effectively absolute, often considered safer than cash. Foreign governments hold their US Treasury paper as their foreign reserves. Institutional investors temporarily put proceeds from sale of stock shares or other investments into US Treasury bills. The vast market size of the US Treasury market provides great liquidity which allows trading large volume instantly without affecting prices. In addition, most interest rates, even in foreign currencies, are directly or indirectly linked to the Treasury yields. For example, the 30 year fixed mortgage rate loosely follows the 10 year Treasury note yield. Financial institutions hedge their position in the Treasury market every day.

The last time the risk of default loomed, the US debt rating was downgraded. However, no consequences like higher rates happened because no one could simply walk away from the US dollar and the Treasury market. However, an actual default will produce a chaotic situation. Banks cannot operate, all kinds of markets halt, international trades will be disrupted,

## Prices Show Weakness

### Change in Buyer's Preference?

Under a sellers' market where buyers rush to grab whatever they can find, properties with old or poor condition may sell without a large price concession. Since July this year, sales could not keep up the pace with new listings, and the oversupply condition became evident. We have sensed that today's buyers tend to prefer remodeled houses which they do not have to do any work when they move in. And in fact, there are many houses in good condition available for sale. Those buyers tend to demand a large discount for poor condition maybe due to their limited knowledge of repairs and remodels even if a property already offers a lower price. However, a seasoned realtor would suggest a more open minded approach. A totally remodeled house like new will be no longer new in several years. A remodeled house may look nice, but many things may not match the buyer's personal taste. "Real estate is Location, location, location" so they say. Its area, street, position on the street, schools, features like view, and especially in PV, usable lot size – these fundamental features will not depreciate over years. They are likely to increase in value. Nonetheless, buyers with limited experience may choose a house in good condition even if they have to pay a premium. When a sellers' market returns, it is very likely that their behavior would change.

Should a seller remodel their house before putting it on the market? Not necessarily so. Broken or out-of-order items should be repaired or replaced; perhaps upgrades or remodels in the affected area may be considered rather than just repairs. Such upgrades or remodels can be limited to cosmetic work to save money.

loans will become impossible, corporations cannot finance, etc. Since it would be not due to the US monetary failure, but just caused by a political disagreement, the system may be restored in short order; however, even temporarily, damages can be unmeasurable.

### Palos Verdes Housing Market

Every year, September is a slow month for our housing market. We had an even tougher September this year: There was no sales (contracts) for single family homes around \$1 million in West RPV. However, sales of the price range between \$1.5 and \$3 million continued to be strong in September, keeping the median escrow price from falling. Because the market inventory has been very high, though new listings are finally subsiding, prices have finally begun falling little by little. Such price weakness should discourage new listings that will ease the oversupply condition.

If you plan to sell your home soon, please confirm that buyer's closing funds are available inside the US. We have two incidents in July and August: buyers could not transfer their money to the US after escrow was opened. We canceled the first contract. The other buyer was a US citizen and had enough financial resource here. We also spotted a couple of failed escrows where the buyers could not bring the money. If financed by a loan, the lender will examine and confirm the availability of the funds at an early stage of the transaction; in a cash offer, the buyer may try to get the money somehow without telling the seller side. The seller may waste many weeks. So, watch out for a cash offer, if the source of funds is overseas.

Closed sales of single family homes in September were 61 more or less similar to the previous years. The average price was down; the median price's moving average continued gradual increases. This year's total number of sales will definitely be the largest since 2004.

The townhome market that slumped in August has modestly recovered in September. Both demand and supply seem to be dwindling in October.

## PACE Loan for Water/Energy Saving

PACE (Property Assessed Clean Energy) financing is meant to support household's installation of water/energy saving equipment, and California State Government claims it is a "popular program." However, there are several issues about the use of this financing, though PACE offers easy qualifications. Payments are made with property taxes, and it assumes the same lien position as taxes which take priority over the first mortgage loan. The lender of the existing loan is unlikely to allow it. The interest rate of PACE loans may be almost double the 30 year fixed mortgage rate. Even if PACE financing is obtained, mortgage loan refinancing will be almost impossible. When you sell the house, it is unlikely that any buyer would assume the lien. So you will need to repay the PACE loan incurring repayment costs. Unless you can boost the sale price enough, your investment will be lost.

HERO, which is a part of the PACE program, is supposed to ease the issues described above as HERO will be a subordinated debt to the first mortgage by a contractual agreement with a fee. However, it is not a true subordination and FHFA has not agreed with this arrangement: conforming loan lenders may not accept HERO. The State of California has been negotiating with FHFA and HUD; however, as it will affect the entire mortgage loan/security markets, there seems to be no easy solution. PACE may eventually die as a wasted government program.

Homeowners may be better off if they finance purchases of energy saving equipment with refinancing or HELOC. There are also many rebate and other supporting programs for energy and water saving efforts.

## 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#



## Rockyfield contacts

27520 Hawthorne Blvd. Suite 144  
Rolling Hills Estates, CA 90274  
Phone: (310) 544-0857

Anthony Iwata Ext. 1#  
(English+Japanese)

Catarina Zerbinatti Iwata Ext. 2#  
(English, Spanish, Portuguese, Japanese, Italian)  
email: properties14@rockyfield.com

visit: [www.rockyfield.com](http://www.rockyfield.com)

DRE broker license:  
01328577

## Need a handyman?

If you are looking for a house cleaner, handyman, painter, plumber, roofer, electrician, gardener, bathtub repairman, rain gutter installer or contractor, we should be able to introduce a quality one. Contact: Catarina

## Free weekly market information

We can provide a free weekly update of the housing market in your area, including graphs. Please contact us via e-mail with your property address. The list below does not include many listings.

## 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. No strings attached.



## SELECTED LISTINGS

Please contact

Rockyfield

A: Active B: Backup P: Pending S: Sold  
Prices in '000s. Source: MLS (as of 10/11/15)