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Rockyfield Newsletter

US Economy & Housing Market

The current economic weaknesses are evident in business investments and consumption despite the historical low interest rates; the strength is found in housing. Consumption has been lagging due to the stagnating household income. Corporate profits used to be very robust; however, tepid growth in sales due to the disappointing recovery in consumption seems to be suppressing the corporate profits and investments. Here is the good news. The Census Bureau recently announced the median household incomes grew 5.2% to \$56,516 in 2015, the first gain since 2007, and the largest gain since the survey began in 1967. While this is truly good news, the median household incomes stood 1.6% shy of the 2007 level and 2.4% below the all-time high in 1999. This trend must continue to realize real growth in consumption and investments. However, as many economists have expressed their concerns, sustained growth is rather questionable this year. The housing market has been in slump since August, and auto sales, one of the reliable leading indicators, were down in September. While the pace of sales remains historically strong, dealership traffic is cooling after more than six years of steady growth. In general, the consensus perception is that the US economy is losing the momentum for growth.

Our focus is investments in productive facilities and equipment which will not recover without business confidence in future sales growth. Low interest rates or lower taxes are not effective under today's circumstances, both domestic and international. Being trapped in negative interest rates and deflationary doldrums, Japan and Europe do not seem to be able to recover on their own. The US is the only country which still has the means and abilities to provide growth opportunities for the entire world.

The FRB has already run out of monetary policy tools. It seems that infrastructure investments are the only and effective way

Inventory Persists as Sales Fading

Sell or Lease

Sellers may consider a lease given the excess market inventory and weak prices. It is a serious issue for a seller who needs to move out soon after staying on the market for a long time, or to keep making mortgage loan payments after moving out. Before jumping onto a lease option, there are a few things a seller needs to ponder. Leasing and selling require different mindsets and different marketing methods; the agent may have difficulty in promoting both at the same time. While a house can be sold as-is or as a fixer, a rental property must be clean and all functional. For owners, a lease is a continuous on-going transaction. If the owner moves far away, it is not easy to manage it, and if the owner goes out of the State, tax returns in two states may be needed.

More importantly than these technical issues, taxes may be a serious issue. For a married couple, they may lose the \$500,000 exclusion in capital gain unless they sell the house within 3 years (closing date basis), assuming they have lived in the house for years. If the gain is over \$500,000, though depending on income, this exclusion means a tax saving of \$125,000 or more. If the housing market slumps in a couple of years, it will be a disaster. Renting costs more than many people think: vacancy (the largest), repairs/updatings, taxes, real estate broker fees, possible management fees, etc. With a mortgage loan, a negative cash flow may happen. Hustles of dealing with the tenant may not be worthy.

If the \$500,000 exclusion is lost, the price needs to rise more than \$200,000 from today's price just to get even. Choosing between lease and sale, you must weigh various costs and other factors.

to stimulate the economy and also for future social/economic efficiency.

Palos Verdes Housing Market

September closed sales were only 39 houses which were mostly contracted between mid July and mid August. This may be just due to the timing; it is still shocking, knowing that October closed sales will be small, reflecting the recent slump.

On the contract basis, the volume recovered a little since mid September. In late August, new listings became modest in numbers, and reduced the market inventory, but it still remains over 210. As new listings are increasing during the recent weeks again, it is unlikely that the inventory will go below 200 in the near future. As we do not expect sales to jump at this time of the year, the oversupply condition is expected to persist for the time being.

Prices are inconsistent. While there are listings that are obviously too expensive, a few are priced lower than the market and sold rather quickly. The median escrow price, which had been declining since the beginning of August, reversed its direction upwards in mid September; however, this is in large part due to the increased share of expensive homes as the total sales decreased. We still feel the weakness in the market price.

The supply-demand condition for listings around \$1,000,000 is still holding, and with modest pricing, they can still sell well. The same theory would go for properties with great attributes like wonderful views or special locations. If you are thinking of selling your home, you will need a serious market analysis and strategic marketing as we cannot expect significant improvement in supply-demand condition or prices.

We often suggest sellers wait until early next year if they can. However, unlike any past years, we are not sure how the next spring market would be.

Water Conservation and Green Yard

For the purpose of achieving the goal of saving water by 36% in PV, CalWater assigned the budget (quota) for each household based on 2013 usages, and started charging penalty for excessive water use this year. We have designated days for irrigations and other restrictions. As a result, we see many dry brownish yards while many homeowners have replaced the lawn with succulent plants and mulch, alternative grasses, or artificial lawn. Home sellers tend to choose the low cost option: mulch/succulent plants. We believe homeowners in California are very conscious about saving water, and some of us may be doing too much.

As we are entering a cooler season with possible rains, it may be a good time to review the water bill to see how we are doing against the budget. One of the largest amount of water use is sprinklers. The Outdoor Irrigation Restrictions allow 3 days a week, but we know many people have set the sprinkler system as 2 days a week. Even street numbers can do Tue, Thr, Sat; odd street numbers, Sun, Wed, Fri. And no irrigation is allowed between 6 am and 8 pm. If you use a hose, it must have a shut off nozzle. For tree and bushes, a drip irrigation system is more appropriate.

When you sell your home, its curb appeal is one of the most important factors. If you do not replace the lawn, you may want to water the grass with a hose after dark. It may also rain; in a couple of weeks, your yard may become green again. You may say, you do not mind the penalty; however, CalWater encourages reporting and there is penalty for violations. Washing down the driveways and sidewalks, watering landscapes within 48 hours of rain-falls, washing a vehicle with a hose without shutoff nozzle, etc.—are violations.

Check those restrictions with CalWater website.

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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2.5 Acre Vacant Lot with Spectacular View

The whole Catalina Island spreads in front of you. It is extremely rare in Palos Verdes: 2.5 acre with all utilities coming in or close to the entrance; geological and engineering surveys were done and the owner once got RPV city approval (already expired) for a 4000sf house. The current price is attractively \$1,000,000. A great opportunity to build your dream home. Text Catarina 310-365-6309.

Lease: 4 bedroom 1900sf home with ocean view

It is located near Trump golf course; just south of Ladera Linda park. This Sea View community is secluded from urban hustles and noise. Enjoy the view of Catalina Island. Unlike general perception, this location is convenient to Harbor Freeway, Torrance via Western Ave, shopping at Western and 25th, or Golden Cove where Trader Joe's is located. Contact: Catarina 310-365-6309



SELECTED LISTINGS

Please see
Attached Sheet

A: Active U: Contracted P: Pending S: Sold
Prices in '000s. Source: MLS (as of 10/05/16)