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# Rockyfield Newsletter

## US Economy & Housing Market

June non-farm payrolls added 222,000 jobs that was 50,000 more than the market consensus. The May figure was also increased by 14,000. Although the unemployment increased by 0.1% to 4.4%, this number itself is effectively full employment. The economy has been growing modestly but steadily. It should be no surprise if interest rates were moving up as many people have forecast from time to time. The current yield of the 10 Year Treasury Note is still lower than the beginning of 2017; the 30 year fixed mortgage rate is just above 4%; the FRB's FF (overnight) rate hikes actually lowered the long term rates.

The FRB wants to normalize the undesirably low FF rate; however, it is difficult to raise it when long-term rates stay low. The FF rate is a target rate; the FRB cannot fix it. It is not desirable for the yield curve to become too flat. From that point of view, Yellen's decision to start selling bonds on FRB's balance sheet is the right one as it will push up long-term rates and cool down the "bubble" feeling in the financial market, if it is done in a prudent manner. We believe it should have started earlier.

Interest rates do not go up despite the GDP growth and full employment because: wages have been increasing only by 2.5% (year-on-year) for the past two years, preventing consumption and investments from booming; labor participation is 63% which continues to be at the lowest level in 40 years. Except the U.S., major countries' economies are in trouble, and as a result, the crude oil inventory remains very high; Saudi and other OPEC's production cuts are not working. In the US, the excess cash holding by investors is driving more oil production!! Natural gas is one of the major contributing factors for the declined oil consumption. The low oil price deflates general inflation pressure and the financial market fears less for the future inflation, keeping the long-term rates low.

Wages, Consumption, Oil Price – are the 3 key factors to watch to predict interest rates movements. There are also political

## Inventory Keeps Rising Prices Weak

### 1031 Exchange to End?

1031 Exchange allows you to defer capital gains when you sell and buy investment properties.

During the current debates over the tax reform, according to the WSJ, several lawmakers consider 1031 Exchange to be a loophole that has limited economic benefit, suggesting the provision be eliminated to pay for the proposed tax rate cuts.

1031 Exchange applies to various assets; real estate accounts for the largest portion of exchanges at 36%. While commercial properties dominate, many readers may have used this provision to defer capital gain taxes for their rental properties.

The Joint Committee on Taxation estimated in 2014 that repealing like-kind exchanges could raise \$40.6 billion in extra tax revenue over 10 years. However, given his background, it is unthinkable President Trump would agree with it; the National Association of Realtors is opposing it in the strongest way possible. Therefore, we do not believe repealing the 1031 Exchange would be a part of the tax reform bill.

Even though it is just deferment, some people use the Exchange just because they don't want to "pay" taxes. When the property is eventually disposed, capital gain taxes apply using the very original base. The largest risk of the exchange is: an increase of the capital gain tax rate. It is unlikely to happen under the Republican rule, but if Democrats come to the power, it could.

*(There will be no August issue)*

factors coming up this fall: risk of government shutdown and fights for debt ceiling. The Administration's protectionist trade policy and tension over foreign affairs make us nervous about the possible economic slow down.

## Palos Verdes Housing Market

The market inventory of single family homes in PV does not stop increasing! Sales are not bad, yet not enough to match the new listings; more than 20 (over 30 sometimes) of them have been consistently coming on the market every week since April. While waves of new listings seem to be calming down a little yet still very high, sales are also a little down and we feel quite a large number of listings are coming back from escrow during the recent weeks. The market inventory now reached 235. We hope it will stop increasing by mid July, as sales should continue, thanks to low mortgage rates. However, we do not expect a great improvement in the supply-demand condition.

Naturally, prices have been under pressure. The median escrow price has kept moving within a narrow range just above \$1.5 million; however, it started weakening in mid June, though very gradual.

We cannot expect general price increases until the supply-demand condition improves. It is a problem that there are quite a few sellers who seem to believe that prices are ever going up, and come on the market with very high prices. Those properties priced in accordance with the market are still selling well. The market condition is still good for the price ranges below \$1.5 million; especially listings around \$1,000,000 are sought after. This trend is reflected on market areas. The Silver Spur area of RPV is leading sales right now. Of course, houses with great view still receive multiple offers.

Since last year, the townhouse market has been fantastic, rarely affected by ups and downs of the single family homes. However, we do not believe their prices have been going up so much.

## Pay Attention to Incomplete Permits!

Every city is short of money; they require homeowners to obtain permits for almost everything. In reality, no one applies for a permit for a disposer replacement or interior painting. A large remodeling project, especially if it changes the size or floor plan, needs a permit (Art Jury approval is required in PV Estates). Normally, a contractor will go to the city and get the necessary permits. A little know fact is that a homeowner can easily obtain a permit for a small project, and city officials are willing to help homeowners usually in a polite manner.

Inspections are often required at multiple steps for a major project, and the contractor will handle the final inspection to get the permit signed off for completion. However, the final inspection is often neglected for a small project. When the permit expires, the city sends a notice to the homeowner. Surprisingly, many homeowners misunderstand and think that the notice is a mistake because they have a permit. The permit can be extended with a smaller fee and the homeowner can have the final inspection. If not, the "open permit" remains in the city's property file, and the project is considered as unpermitted. More seriously, unless this open permit is resolved, any future permit applications will be automatically rejected; in short, you may not be able to sell your house.

This is quite prevalent for plumbing projects. We often find an open permit when we prepare for a new listing. We have seen small prints stating that "the final inspection is owner's responsibility." As a city official agrees, it is very common to water heater installations where a licensed installer gets a permit and installs the heater; then leaves without the final inspection. So do not pay the contractor until the final inspection is done and the permit is signed off for completion.

## 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

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## 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 Rokcyfield

A: Active U: Contracted P: Pending S: Sold  
Prices in '000s. Source: MLS (as of 07/12/17)