



# Rockyfield Newsletter

## US Economy & Housing Market

The tax reform is now moving forward. Although there must be changes before the final bill, we look at the corporate tax rate cut from a different angle here.

The reasoning for cutting the corporate tax rate to 20% is: It will encourage capital investments to improve productivity, which will bring about economic growth without inflation and higher wages. The House bill also allows businesses to expense capital investment costs in the first year (for the next 5 years) rather than to amortize the cost over years via depreciation. Since corporate profit levels are high, we welcome this new measure. Given the fast changing technologies, facilities and equipment may become obsolete before their required depreciation periods. It is about time to revise those durations.

The two major reasons for the mediocre economic growth are tepid business investments and weak growth in consumption. Even though corporate CEO's are concerned too much over their quarterly profit, and little interested in the long-term prosperity, reducing the profit to save taxes by investments for the future profit should be accepted by shareholders.

Tax saving is more significant when the tax rate is higher. The proposed corporate tax rate cut to 20% from 35% will diminish the tax saving from expensing the whole cost of capital investments during the current year. It is ironical the tax rate cut will be a disincentive for investments.

The House bill will add \$1.5 trillion or more to the deficit for the next 10 years. More debt means an increase of interest payments to foreign countries. The FRB purchased \$3.7 trillion of mortgage bonds and US Treasury notes/bonds, or they injected \$3.7 trillion into the financial market that created huge money stock or excess liquidity. We also have almost full employment. Inflation can start any time. Yet, inflation fear only will raise long-term interest rates that will suppress the growth. Bernanke recently warned that the FRB is not ready or has little means to fight the next recession given the historical

## Palos Verdes Housing Market "FROZEN"

### Burglaries During Tenting

In recent years, a number of burglaries into houses tented for termite fumigation have been reported. We used to think: "There will not be such idiots who attempt to burglarize a house filled with poison gas." A termite company typically puts up a tent and injects gas on the first day; keeps the house tented filled with gas on the second day; the tent is removed on the third day. The gas becomes less harmful by the second night; so it is possible to enter the house at that night or very early on the third day. If tented on Friday, it is not removed until Monday.

While tented, no one in the house, no dog, no alarm, and a thief inside the tent cannot be seen. Those burglars must have some knowledge of the fumigation schedule and the poisonous gas (Note: we trust termite companies), and they may be a small number of bad guys, specialized in and targeting tented houses.

It is troublesome enough if any thing is stolen or damage is made to the house; the seller has to disclosed the incident to the buyer, who may feel uneasy to move into a house, or, even worse, the buyer may want to cancel the deal.

What can we do to prevent such burglary then? First, if possible, make it difficult for a thief to go into the backyard or sides. Second, ask the Sheriff Dept. to come around the house during the tenting. If you cannot go and see often, the listing agent should go and see the house often. It is just one or two days. If you have security company contract, they can dispatch patrol a few times a day.

low rate and too much money supply. Consumption may suffer as the middle class will see spending increases under the House bill. It is uncertain this tax bill will boost the economy or bring a recession.

### Palos Verdes Housing Market

Sales of single family homes in PV started decreasing since the beginning of October, and dropped to the bottom during the last few weeks. Especially now, low priced properties are no longer selling. Just because of the declined low-priced home sales, the market price is soaring, but it is just a statistic illusion and does not reflect the reality. Torrance and Redondo also seem to be slowing; however, San Pedro and other cheaper areas are still selling well. This slump is unique to the PV market. The reason we can think of is: there have been almost no listings under \$1 million except Eastview along the Western Ave. Sellers seem to wrongly believe prices keep rising ignoring the real demand. The slump started showing its signs after three major hurricanes, then mass shooting in Las Vegas. The North Korean situation heightened about the same period. These things tend to chill buyers' mind.

Usually the market recovers after the typical September slump with a few weeks of good sales; we are already in November and there have been no positive signs. We hope some good weeks will occur before Thanksgiving and in early December.

It is the time for patience if you are a potential seller. There is no fundamental change in the housing shortage in California; a slump in housing sales should be followed by strong sales. However, those potential sellers who have been waiting for a good market may rush to list their house in January. If that happens, you cannot expect a better price.

The House bill will also limit the mortgage interest deduction to the principal up to \$500,000 which is a half of the current rule. It may be removed by the Senate. But if it happens, given the rising interest rates, our PV housing market may suffer.

## New Anti-Money Laundering Rule

It is widely known that real estate transactions have been used for money laundering. The Treasury Dept. has expanded and strengthened the existing anti-money laundering program. About 30% of high-end real estate deals will be subject to the new watchdog program, and Los Angeles is also one of the targeted areas. The market concerns, who had expected that Trump would abolish this rule, were shocked.

The program is to prevent the use of real estate for money-laundering by overseas buyers, and is designed to prevent buyers from using shell company's or LLC's to hide the identities of the real buyers. In practice, the escrow officer will ask such buyers to fill out a special form and send it to title insurance companies who are required to determine the true owners of LLC's or shell companies doing all-cash deals to buy real estate above \$2,000,000 in California. The US Treasury then determines whether those beneficial owners are on its lists of suspicious activity — or people who have been flagged for potential money laundering, corruption or other financial crimes.

The major loophole of the existing program was also closed: Cash payments for real estate purchases by wire transfers were previously exempted from the program; any payment methods are subject to scrutiny.

In Palos Verdes, about a half of single family homes for sale are over \$2,000,000, though actual purchases are 20-30%. We do not know if cash purchases of over \$2 million houses account for 30%. We are afraid there will be some impact on our PV market.

## 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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## Rockyfield is moving

As our office building will be converted into a care facility, we are considering to move to a new location after 15.5 years in this Peninsula Pointe. We intend to find a place near our current office.

## 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.



## SELECTED LISTINGS

Please contact Rockyfield

A: Active U: Contracted P: Pending S: Sold  
Prices in '000s. Source: MLS (as of 11/09/17)