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# Rockyfield Newsletter

## US Economy & Housing Market

Fear of inflation precipitated the sharp plunge of stock prices. The basis for inflation has existed for a while: Over 3% GDP growth, near full employment, the large tax cuts and additional \$1 trillion the government needs to borrow. The 10 year Treasury yield has been inching up, getting closer to 3%. Then, wages increased 2.9% from a year ago. Many economists believed the wage would be the last fort against inflation; the market got panicked even though actual inflation is not here yet. With better employment and soaring consumer debts, consumption finally started growing fast; infrastructure investments are now on the table; the crude oil price is reaching \$65. Demand, wages, resource costs are all pointing to inflation. The FRB did not raise the FF rate maybe because it was Yellen's last meeting. It is very likely that the rate will be raised in March, unless the economy slows.

While long-term interest rates are inching up, they are still historically low. For the economy to continue growing in a healthy manner, today's yield curve is too flat: 2 yr 2.0%, 10 yr 2.71%, 30 yr 3.01% (as of 2/5). If the FRB absorbs the excess money stock, long-term rates would go up, easing the risk of future inflation. As actual inflation does not exist, decreasing the money stock is more desirable than rate hikes if carefully implemented.

However, from our real estate business point of view, higher long-term rates mean higher mortgage rates which negatively affect housing demand and prices. Housing sales will be most affected when rates are moving; once it settles at a certain level, buyers should return. While we currently have a good market, it is not so certain how the housing market will go due to the rising rates.

Though unlikely, there is a risk of a new recession. Consumer debts are sharply increasing, and highly leveraged (high LTV) housing loans are coming back. If the benefit of higher wages is washed out by inflation, the financial condition of many con-

## *Dramatic Turn Around*

### **Short Sale Scam**

Scams using short sales have been reported since December in Southern California. A short sale happens when the net proceeds from a property sale is short of the current loan balance to repay; the lender swallows the difference.

Even though they are typically in poor condition, their prices are often heavily discounted. For those buyers who do not mind if they cannot buy in the end after waiting for months, short sales are still very attractive. The number of short sales had been substantially down in recent years; but there are still a few here and there.

A fake "Broker" convinces a buyer and agent that it is necessary to make the earnest money deposit at the time of Acceptance. The deposit is made to the "broker's escrow." In a normal short sale transaction, the purchase agreement and other information are forwarded to the lender for approval, which may take months. So, the victim buyer waits for a few months. When the buyer's agent calls "broker" and "escrow," the buyer learns they did not exist. The money is gone!

When we represent a short sale buyer, we never let the buyer make an earnest money deposit at the time the agreement is signed. Nothing should start until the lender approves the transaction.

As a matter of our policy, we check the other agent's status, record and ID for all real estate transactions to protect our customers from unwanted troubles.

The Los Angeles County Sheriff has made an arrest in what appears to be an identical scam involving at least 32 victims with a to-

sumers would be strangled. Under the circumstances of rising rates, refinancing would not be an option. With the expanding income disparity, consumer demand may shrink, and the economy could lose steam. However, a normal scenario: inflation and recession, is more likely.

### **Palos Verdes Housing Market**

We began the New Year with worse condition than last year: more inventory and less in-escrow listings, though prices were steady. However, after the holiday season, sales started picking up earlier than normal years. Thanks to less new listings than expected, the supply-demand condition has greatly improved. Naturally, low-end properties started selling first; currently, not too many sales of inexpensive ones just because very few remain for sale. Good sales volume has now expanded up to \$2 million, and positive signs are also evident for over \$2 million listings. However, unlike last year, listings over \$3 million are very slow.

Statistical prices tend to fluctuate by seasonal factors. The real market prices have been rather stable since the spring of 2017. This year, there are two competing factors: better employment and wages for higher prices; higher mortgage rates and the reduced interest deduction limit for lower housing prices. It is uncertain how the stock market crash change buyers' financial capabilities. We do not expect sharply higher housing market prices.

We normally tell potential sellers that they can wait until May or June; however, this year, we believe it is safe to list as soon as possible. We would also advise not to set the price with an anticipation of a much higher price this year. When we suggest the listing price, we use the comps which are past sales record; we do not know what would happen tomorrow under today's uncertainty. It will require a delicate and flexible task.

Townhouse and condo markets continue their strengths since last year. Buyers for single family houses may go for townhomes and condos due to higher rates.

## Money Laundering

Money laundering is to convert illegal money into legitimate money which one can freely use, and real estate transactions have been often used for such purpose. According to U.S. law, any financial transaction of more than \$10,000 involving illegal funds counts as money laundering. A simple scheme is: to buy a piece of property with illegal money (cash) and hold onto it, or often rent for some income so that it looks like a real investment. One thing in common to any scheme is to hide the source of illegal funds by using a shell company to conceal the real buyer's ID. Real estate agents have a limited ability to look into the legitimacy of a corporate entity, which makes it easier for a person hoping to launder the money to get away with it. Even investigators can have a difficult time tracing money when it comes from countries such as Switzerland or tax havens. Suspicious money coming in from a foreign corporate entity can also serve as a red flag to investigators. Others are how the company is formed — Delaware corporations add a level of opacity, too — or who is listed as being involved in a real business. With more sophisticated scheme, buying and selling a property quickly with dark cash at a price that is a far cry from the market value would certainly draw the Treasury's attention.

Since last fall, when a shell company (typically LLC) purchases a property costing more than \$2 million in cash (in our area), the buyer is required to fill out a special form at escrow which is submitted to the title company to confirm the real ID of the buyer and then, submitted to the US Treasury Dept. Seller is not responsible to confirm the buyer's ID unless Seller knows it is money laundering.

## 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  
Rockyfield  
For Listing Information

A: Active U: Contracted P: Pending S: Sold  
Prices in '000s. Source: MLS (as of 02/07/18)