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Rockyfield Newsletter

US Economy & Housing Market

Interest rates became volatile after the US backed out from the Iran agreement and tariff announcement. The 10 year US Treasury yield exceeded 3.1% in mid May; then it sharply decreased below 2.8% on May 29. The yield gradually increased to near 3.0%. The 30 year fixed mortgage rate is loosely linked to the 10 Year T-yield. It went up by 0.10% in late April and 0.125% during the third week of May. Then dropped 0.10% for two weeks in a row and up 0.10% again. While housing sales are not as brisk as expected this spring, buyers' financial abilities are very sensitive to the rate movements as housing prices have gone higher. Impacted by the volatile interest rates, the housing market is behaving unlike the past years.

Interest rates are volatile because the labor market is at full employment; job openings (6.7 mil) exceeded the number of job seekers (6.3 mil) for the first time since 2000 when such stat started. Lagging wages are finally increasing. The real interest rate in the US (net of inflation) almost reached 1% in May; it is now around 0.75% which is about 0.25% higher than last fall, keeping the US dollar strong and oil price 10% lower than the recent peak, easing the inflation concerns.

Interest rates seem to be impacted by international politics: Iran, North Korea and trade tariffs; especially skirmishes with allies are concerns for the US economy. It is unlikely that they can reach an agreement before the November election.

The worst scenario would be: Trade war breaks out, and military tension looms with Iran and N. Korea. If they were to happen, resource prices, including oil, would soar while the economy would slow. The housing market may face another collapse. The issues with China are not limited to trade; their military aggression in the South China Sea and fights over international power will prevent any solution from happening soon.

The US economic policy should focus on steady growth rather than rapid growth. Under the full employment, a 200,000 increase in payrolls a month is inflationary; around 150,000 is more appropriate. The new tax law, including the net operating loss rule, will benefit large corporations

Volatile Rates Unpredictable Housing Sales

When Escrow Fails

Traditionally, the most common reason for escrow cancellations is buyer's failure to obtain a loan. However, a dispute over unusual repair requests by a foreign buyer is increasingly becoming prevalent, perhaps because those non-resident buyers cannot undertake any repairs by themselves. Their unfamiliarity and limited language proficiency may contribute to their demand for repairing everything mentioned in the inspection report, including trivial or maintenance items. Sellers may offer a credit; they still want the house to be completely ready. Overseas buyers often do not follow what they have agreed apparently due to their lack of understanding of the agreement. Long-term homeowners cannot put aside their emotional attachment to the house. It is only natural for them to feel that they do not want to sell their home to such a buyer.

When a transaction is cancelled, it is recommended to make important repairs that were pointed out by the inspection report, and that are likely to be demanded by the next buyer. The seller is obliged to show the previous inspection report to the new buyer. If such repairs are made during escrow, the seller would need to hire a licensed contractor who can be expensive if the buyer's approval is required. If such repairs are made before a new contract, they may be done cheaper by a contractor of seller's choice, and when the new buyer's inspector accepts the condition, the buyer should be satisfied.

Natural Hazard Disclosure report and others can be used again.

more than small businesses. We need new cutting-edge businesses; strong support for start-ups and growing businesses are desirable. From the macroeconomic point of view, curbing the ballooning deficit is also critical for the future prosperity.

Palos Verdes Housing Market

The number of contracts, which began rising in late April, reached 26 during the 4th week; then only 9 contracts in the following week. We were scared. Then 29 listings were contracted, thanks to the lowered rates. The number of contracts has wildly fluctuated every week, making our forecast very difficult. Inconsistency is also evident across prices and areas.

New listings continue coming like big waves. The reason is rising prices. Sellers (or their agents) tend to price higher and higher as if prices continue soaring. Well, looking at other active listings, they cannot help going for similar or even higher prices. This tendency is unmistakable for the price range between \$1M and \$1.5M. Rush for listing is pushing the market inventory sharply higher. It was 160 at the end of April; it is now well over 200.

The median escrow price has been rising rapidly: over 20% since January 1. However, the steep price increase in late May was due to the disappointing contract volume. Now that sales seem to be picking up, the median escrow price should be adjusted to be normal levels.

Lunada Bay and Montemalaga of PV Estates, which have been very slow this year, suddenly had life last week. Accordingly, 8 houses in the \$2M's and 3 houses over \$3M were contracted. In contrast, the Silver Spur area suddenly slowed. This area now has 18 active listings where prices have gone too high. They are typically between \$1M and \$1.25M, and a few are up to \$1.5M. A price war seems to be inevitable, and if it happens, it will affect other areas for primarily up to \$1.5M.

Contracts in May were 75, below the past 2 years' record. Closed sales were 63 that is also fewer than past 2 years. May is usually the best month.

Although the market condition should remain upbeat for the next several weeks, it is a volatile and unpredictable market.

Rent Control May Be Expanded

The 1995 Costa-Hawkins Act forbids California localities from placing rental-price caps on single-family homes, condos and newer construction. It also bans vacancy controls, meaning that landlords in rent-controlled cities are free to raise their rent to market rates once a tenant vacates the property. Fifteen California cities have rent control policies, that includes the cities of Los Angeles, West Hollywood, and Santa Monica in the LA area. San Pedro, Harbor City and Willington are City of LA, so they are subject to the LA rent control. The main target is multi-unit rental properties like apartments.

Facing the recent soaring rents, supporters have gathered enough signatures to qualify the measure for the November 2018 ballot to repeal the Costa-Hawkins. If this measure passes, a new tenant will be protected by the rent control (vacancy control), and the new rent is likely to be below the true market rate. It will be a serious loss to apartment owners. And if the rent control applies to individually owned unit (single family home, townhouse and condo), the lease market can crash, and bring down housing prices in general, and the housing shortage may be worsened.

Basically, rent control is imposed by cities, not by the State. Therefore, repeal of the Costa-Hawkins may not immediately expand the rent control; it is up to these 15 cities. If any of the 3 cities in the LA area expands the rent control to "vacancy control," how to treat the cost of repairs or improvements need to be defined by the city.

WSJ has reported that apartment owners and investors are selling or stopped investing in apartments in California, while buying in other states like Nevada, instead. We have no rent control in PV, Redondo or Torrance; however, if the measure passes in November, and those three cities expand their rent control, general rents will not only be suppressed but also housing prices may be impacted, especially if single family homes in those cities become subject to rent control.

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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Great House in PVE for Lease

5 bedrooms/4.5 baths, 4956sf house with Ocean View on Via Coronel needs a new tenant. It is available now. The asking rent is \$7,500. Please contact Catarina for showing.

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 06/11/18)