



Rockyfield Newsletter

US Economy & Housing Market

The 2nd Qtr GDP grew 4.2%; the stock market continues its longest bull run since March 2009; consumer confidence soared. Despite the strong economy, anxieties over both inflation and recession persist. On top of the gigantic money stock, fast GDP growth, full employment and gaining consumption by increased consumer debt all indicate the risk of inflation. The tariffs on Chinese imports may add to higher consumer prices. The slow wage growth is keeping inflation in the garage and keeps interest rates relatively stable.

Historically, inflation is followed by a recession; however, the concern for a new recession stems from risk of another financial crisis. Despite the good GDP, government deficit is soaring, exceeding \$1 trillion in 2019 fiscal year for the first time, and must be financed by new Treasury issues. But foreign investment in US Treasuries is flat this year, and they must be sold to domestic investors. New borrowings are mostly by short-term bills; and new 2-month bills are planned this year.

Although the US fiscal deficit is expected to reach 100% of the GDP within 10 years, it will not happen in the immediate future. A recession is likely to be brought by an international financial crisis due to ballooning US dollar borrowings by emerging economies. The amount is estimated as \$169 trillion, 70% up from 2008-2009. Even worse, much of them are coming due in the next few years. Like Turkey, the falling Lira has sharply increased their debt in US dollar. Argentina has asked IMF for \$50 billion. Financial disasters in those countries will cause decline in US exports and stock market slump. We still have super low interest rates and excess liquidity; due to the worsened deficit, we do not have very effective means to fight a serious recession. The Federal Reserve is struggling to normalize (raise) the FF rate while the economy is still in a good shape.

If such international financial crisis is averted, inflationary pressure may mount instead. Good news is: the FRB has many

Dire Supply-Demand Condition Since 2010

SALT Deduction Limit

Beginning the 2018 tax year, "The Tax Cuts and Jobs Act" (TCJA) limits the deduction of state and local taxes, including property tax (SALT) from an individual's federal taxes to \$10,000.

In California, New York and other high property value states, the SALT limit will expose many taxpayers to an increase in their federal taxes. In response, state legislatures are considering proposals that allow a tax payer to pay their state and local property taxes into funds that could be considered as "charitable contributions" that can be deductible on their federal tax returns. The "charitable" funds would then be transferred to the state and local authorities to satisfy the taxpayers' liabilities.

California S.B. 227 would allow taxpayers to contribute to county-level education offices, which would issue certifications to taxpayers and notify the California Franchise Tax Board of the donations. The taxpayers would receive a certain percent of state tax credit for their contributions. The county offices would then distribute funds to the intended recipients. The bill passed the Assembly Revenue and Taxation Committee 6-3 June 25 with little debate and will be considered next in the Assembly Education Committee.

The Treasury and IRS are saying not so fast. They announced a plan to block such workaround; essentially to disallow any credit a State issues from deducting from Federal income. Hearings are expected this month. States may sue the federal government. It is far from over.

tools to tame inflation. However, interest rates will go up. If inflation comes, talks about tax hikes may loom. The future of the housing market is not very bright.

Palos Verdes Housing Market

Housing sales in PV (contracts) began slumping in late July. New listings have become moderate often below 20 a week. However, weekly contracts exceeded new listings only for two weeks since July 1. Even though the market inventory is leveling off, in-escrow listings continued falling, widening the demand gap. The E/A ratio (escrow/active listings) dipped to the 2010 levels. September is known for a slump in stock, housing and other market; we cannot expect recovery in the supply-demand condition for the time being.

After a sharp climb in late May, the median escrow price fell in June/July to the level in early January; then it gradually started recovering in August to the March-April levels. However, it does not indicate a price increase for each property. Low-end properties used to lead the number of sales thanks to their attractive prices. This year, they stopped selling well in late June; they are now no longer the best selling price segment. As a result, the median escrow price has been boosted without many low prices in its components.

Cash buying sprees by Chinese (from China) are not new; this year however, many Chinese buyers are taking a stated loan (no credit or proof) this year, and their purchases also spread to mid to low priced properties. China's restriction on taking money out of the country, and the US's tougher requirements to prevent money laundering may have altered their buying patterns.

They are often represented by out of town agents. They may lack local knowledge and tend to pay premium for remodeled houses.

Though we have no factual information or data, we speculate Chinese "panic" buying may have subsided in July. If it is not temporary, our housing market in the coming months may become tough.

The townhouse and condo have also slowed during the last couple of weeks.

Pitfall of Digital Revolution

Cell phone, email, text, social media... Our communication has become more convenient and instant. In our real estate business, e-signing has ushered in a new modus operandi; clients can remotely sign docs at their convenient time with just a few clicks. Today, the majority of signings are done electronically. However, there is a pitfall. While prices and other crucial points may be discussed in a real meeting, over the phone or via email, there are many other important issues in standard pre-printed parts of agreements which must be read carefully and understood. Clients may not even read them during e-signing.

We send a draft document in PDF for client's perusal with detailed explanations by email; yet, we find many clients do not remember those details at a later time. As a matter of our policy, we try to have a face-to-face meeting whenever or wherever possible, especially with a first-time buyer or seller to go over each clause of the agreement.

It is not unusual for an agent to complete a transaction without seeing their client in person. With sellers, we complete disclosures and personal information forms with them; we accompany them to the escrow office to sign the grant deed and others; we visit the escrow officer to open escrow and explain transaction details with a prepared information sheet. For buyers, we visit the escrow officer to introduce ourselves even if their office is located hours away.

As a homeowner, you must be bombarded by real estate agents soliciting a listing. Once they get the listing, their communications tend to be limited to phones, emails and texts. We do not make "cold calls" but we keep seeing you after being appointed.

We have recently noticed that many open houses are held by a different agent than the listing agent. When the listing agent is unable to hold an open house, it is beneficial. However, such an agent's main purpose may not be to sell the property, but to find a buyer for any properties.

At Rockyfield, we always respect our client's privacy; we also believe in real meetings as many things cannot be fully understood by electronic means only.

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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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

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A: Active U: Contracted P: Pending S: Sold
Prices in '000s. Source: MLS (as of 09/07/18)