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Rockyfield Newsletter

US Economy & Housing Market

Extreme volatility extends beyond the stock market to crude oil, bond and others. After hitting \$75 in early October, crude oil dropped to \$45, and now over \$50. The 10-year Treasury yield was up to 3.24%, recently hit 2.6%. A big gain may be possible for once or twice; however, many people lose money in the end as it becomes a "gamble," no longer investment. It is especially true when the market is swayed by politics rather than economic and business fundamentals. The stock prices plummeted last year because of the persistent concerns of a recession. We have pointed out signs of both inflation and economic slowdown; now given the huge loss of capital, another recession is possible. The FRB's rate hikes are not traditional inflation measures; but to restore their tools to deal with a future recession. Now that the FF rate is 2.25-2.50 which is close to 10-year T yield, the yield curve is ominously flat as it is historically a sign of a recession.

The US economy is still going strong with full employment, finally rising wages and good consumption. However, a close look at each factor indicates a lot of concerns. Consumer debt is increasing; 80% of refinancing is "cash out." After the mega corporate tax cuts, business investments have been tepid; excess cash has been used for share buy-back, M&As and dividends; as after-tax profit was boosted, typical corporate "slack" allows small luxuries, leading to higher expenses and operational inefficiency. The recent increase in corporate borrowings is a mystery. The excess cash has also been invested in financial products, and it is possible lots of money has been lost due to the declining share prices. The tax cuts seem to have contributed to the market volatility.

The largest factor that worries the market is the slowdown in international economies. The EU, including Germany, is slumping; the Brexit will either way create confusion and cause a serious setback for the UK economy. Steel and aluminum are used in a wide range of various products. The US manufacturers are incurring higher costs, losing competitiveness in both US and international markets. Despite the promise to buy more US soy beans, Chinese purchase of US soy beans became ZERO in November. China is apparently trying to buy from other countries. Since the US walked away from the TPP, other

Happy New Year

Psychological Battle

During a housing market slump, "Buyers are driven by greed while Sellers are driven by fear" becomes market psychology. A housing market slows because financially weak buyers give up or postpone their plan to buy a home due to concerns over their future income and employment. Financially strong buyers naturally become emboldened and try to take advantage of seller's struggle. Especially those buyers who have no urgency to buy a house may walk away from the deal if Seller takes aggressive approaches.

The best way to deal with those buyers with a strong ego is to maintain a firm position while giving them a small concession that makes them feel "I won!" However, in real estate transactions, agents also play their roles. A seller should give an assurance to the agent: "I don't mind if the buyer walks away" to enable the agent to negotiate with a firm stance. Otherwise, the agent cannot say anything tough to the buyer side because the agent is afraid of upsetting the seller and also losing commissions if the buyer is gone. High quality agents should be able to negotiate effectively with seller's strong backup. The basic principle in a battle is to establish a stronger foothold than the enemy's. In negotiations, rather than attacking and pushing only, there is a better tactic that makes the other party worried with their own imagination, inducing them voluntarily to make concessions.

It is only natural for sellers who have a necessary reason to sell their houses to have fears, especially under a soft market condition. However, we tend to do wrong, or often stupid, things when we act on a fear. A seller needs to accurately recognize and accept the market condition, property's characteristics and personal situations. Even if the market condition is bad, a buyer would not like to lose a house with a great view, for example. However, many homeowners tend to have a biased opinion of their own home; a piece of honest advice from a good local agent with a wealth of experience through tough times will be very valuable.

countries, including Canada and Mexico, are making trade pacts without the US. Japan and EU started a new treaty where EU cut the tariff on Japanese vehicles; and Japan will remove the tariffs on 80% of agricultural products from EU. Japan buys 80% of its corn import from us; now that could change. In general, the US exports are decreasing while imports are NOT decreasing.

Under this negative economic environment, political fights, miscalculations and uncertainty are amplifying the volatility in every corner. Business's worst enemy is uncertainty; if the prospect is certain to be bad, businesses can handle it accordingly.

Palos Verdes Housing Market

"Will prices go up this spring as usual?" Before answering this question, first, we need to address that the market condition is far bleaker than one year ago. The market inventory of single-family homes in PV was 129 on 1/1/18 and 159 on 1/1/19; listings in escrow were 56; now only 35. Although the median price of closed sales would be the most accurate, it is about 40 days old. The escrow median price is the most useful to track real time price movements. However, the unusual slump of low-priced properties since the last fall, especially in December, has boosted the statistical median price higher than the reality.

Many listings that were taken off the market after Thanksgiving will come back soon, while purchase contracts will not pick up so quickly. As a result, the oversupply condition may get worse this month. Buyers for low-priced houses are often financially stretched. Even with lower mortgage rates, their assets, including 401K, may have been eroded due to the fall of stock prices, reducing their purchasing power and confidence in their future income. The stock market plunge is large enough to contribute to further slow the housing market. Besides, we can no longer expect buyers from China this year.

In conclusion, the statistical market price is not reliable right now; large price increases are questionable for those under \$1.5 million; whether an increase in new sales can reduce the large inventory would affect the market price. We may also see disparities among houses with and without special features like view and location. High priced properties will be fine. Townhomes and condos should continue doing fairly well.

Irrigation System Inspection

The 2019 law authorizes a home inspection report on an in-ground landscape irrigation system to include information regarding the operation and observation of irrigation systems. For purposes of improving landscape water use and irrigation efficiency, a home inspection report on a dwelling unit on a parcel containing an in-ground landscape irrigation system under the exclusive control of the owner or occupant, may include an irrigation system inspection report, prepared by either a home inspector or certified landscape irrigation auditor, that contains all of the following:

- (1) Examination of the irrigation system controller noting observable defects in installation or operation.
- (2) Activation of each zone or circuit providing irrigation water to turf grass, noting malfunctions observed in the operation of (A) The irrigation valve (B) Visible irrigation supply piping and (C) Sprinkler heads and stems.
- (3) During activation of the system, observation of (A) Irrigation spray being directed to hardscape (B) Irrigation water leaving the irrigated area as surface runoff (C) Ponding of irrigation water on the surface of the irrigated area.

The purpose of this new law is apparently to save sprinkler water use at a residential home.

We often notice that sprinkler heads are facing in a wrong direction, especially when the water is sprayed toward house in the flowerbed. The worst enemy of the house is "water." Those nozzles should be installed close to the house and spray water outward. We also see a lot of water flowing over a concrete path or often to the street. For better protection of the house and saving money, it is wise for a homeowner to fix them even if there is no plan to sell the house.

If irrigation systems become a part of a home inspection report, many buyers are likely to demand sellers to correct irrigation system problems. Most gardeners can fix sprinkler systems but some of them may not be very good at it. As sprinkler specialists tend to be expensive for just repairs, a good handyman may be another choice. Please be reminded, each city has its own regulations for the duration and number of days per week for irrigation.

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.

2019 is the Year of the Boar



SELECTED LISTINGS

Please contact Rockyfield

A: Active U: Contracted P: Pending S: Sold
Prices in '000s. Source: MLS (as of 01/09/19)