PALOS VERDES RESIDENTIAL PROPERTIES

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Rockyfield Newsletter

US Economy & Housing Market

After the additional tariff against Chinese imports was placed, a few worrisome signs for the US economy have been emerging. The additional 25% tariff on imports from China threw the stock market off the cliff in mid May. Then a 5% tariff on Mexico that would increase to 25% popped up and disappeared. Sharp falls in the stock market mean a loss of trillions of dollars. In an extremely volatile market, only professionals who can get information and act faster can make a fortune.

The trade war with China is not only an economic issue; there is a much deeper geopolitical conflict. The trade war with China is unlikely to be resolved quickly. Even if it is settled, China has already shifted its soybean imports to Brazil, for example; it is not certain that those lost US exports to China would come back.

As the 2018 tax cuts failed to boost investments as intended, many economists believe, the positive effect of the tax cuts has been fading. Under the inverted yield curve, the market expects a future slump, and corporations will not make investment just because they have excess cash. During the past decades, the income disparity in the US has been rapidly widening. Disregarding morality arguments, income disparity is a macro economic issue. It has been historically and internationally evident that a strong large middle class brings economic prosperity. The tax cut in 2018 worsened the situation. The May employment (75K) shocked many; however, the downward revision of 75K for the previous two months was also serious.

The FRB's rate cut is another hot issue right now. In our view, the FF rate is still low after a series of rate hikes. A rate cut may help the GDP a little but not necessarily consumption; besides, we should not fall into a deflation trap like Europe and Japan who are struggling to get out of it. Please note that the housing market is losing steam, piling up market inventory despite historically low and even lowering mortgage rates.

Serious Over-Supply Prices Falling

Rate Lock

When a buyer applies for a loan, the lender usually locks the rate, giving a buyer an impression as if it is required. However, it is up to the borrower's own decision. A buyer can wait and lock the rate later, or not at all. The fee for the rate lock may not show up, but it is certainly buried somewhere. The fee will be more expensive as the locking period becomes longer.

A trouble for a buyer is the high fee for an extension of the locking period when the closing date is delayed. Such extension is usually allowed for 15 days, even if the actual delay of closing is a few days. The fee varies from 1/8% to 3/8% which depends on the customer relationship. In any case, important bank customers can get a better rate and better fees.

Even if a buyer wishes to let it expire as the actual rate is lower, the lender may charge a high fee for the expiration. A buyer can wait for a few days after escrow opening and then lock the rate. Of course, the buyer is exposed to a higher rate if the market rate moves up. The rate lock was originally invented to protect borrowers; however, now it becomes another source of the lender's income. Rate lock is like buying an interest rate option or future contract.

Some people dislike to pay points (%) because it increases out-of-pocket cash payment (closing cost). A point reduces the rate; however, too many points (e.g., 2 points) will not lower the rate as much as you expect. About one point is the most efficient. If you do not plan to keep the loan too long, zero or smaller point is better, and if you intend to keep the loan for more than 6 years, paying a point is recommended.

The rising housing costs may be eroding middle class's purchasing power. If one buys a $1 million house with an 80% loan, the monthly mortgage, property tax and others will be over $5,000. Costs of education and healthcare will leave very little for the middle class.

Palos Verdes Housing Market

The market inventory of single-family homes in PV recently hit 255! This is the highest since the summer of 2011. It seems the recovery and growth of our housing market is stumbling. While sales (contracts), being helped by low rates, keep going well, they rarely reach 20/week, a far cry from booming numbers. Sales have been overwhelmed by huge waves of new listings. Many of those new listings are very expensive properties; PV Estates, except for the Valmonte area, has a serious over-supply problem.

What is selling during the past few weeks are those below $1.5 mil, the price range where the supply-demand condition is still tolerable. By areas, the northwest RPV is doing well while RPV along PV Dr East has a terrible glut. Even in relatively good areas, some sellers or agents especially from outside PV seem to believe the market price is still holding the April level, or even higher, and their listings tend to remain unsold on the market.

Reflecting the excess supply, prices are also falling. However, the price spike in April was caused by a combined effect of strong high-end home sales and a slump of low-end properties. We rather consider the recent weak prices are a result of "market adjustments." We believe the real price level is a little higher than the price level indicated by today's median escrow price. The May contracts were 76 that is a smaller number than the past 3 years. Its median price was 13% lower than April.

This is already June. The good sales season will end soon. Even if a seller needs to sell their home now, correct pricing can ensure a fast sale because the market has many over-priced listings.

The townhome market may be ending its long strong performance run. Condominiums are also slowing.

Costs of Remodeling Increasing

The new tariff on Chinese imports is expected to take effects on those goods arriving in June. The previous tariff has increased the cost of housing construction by $1 billion; the new 25% tariff will add $2.5 billion. Although the new tariff applies to almost all building materials, it is not clear how much the costs to consumers will increase. The building industry estimates 7-8%. How much importers would add to their wholesale prices, and how much retailers and contractors will absorb or pass the cost onto consumers is yet to see. However, due to the serious shortage of construction workers, contractors' costs have been up since last year and there is little room for them to absorb increased material costs. Building materials are mostly imported from China, including laminate/wood floors, tiles, dry walls, roofs, countertops, various pipes, lighting fixtures. Appliance prices have already gone up since last year.

Because of the recent tendency that many of today's buyers prefer new or remodeled homes which they can move in with little or no work, many sellers are remodeling their houses before listing, hoping for higher selling prices. However, given the increased costs (both direct and indirect) of remodeling, it is questionable if it will pay off. In addition, you need to consider months of inconvenience and mental stress. It is not clear either if the popularity of remodeled houses with higher price tags may sustain in the future. Panic buying by foreigners ended in July last year; however, younger buyers typically dual earners, and they are too busy to fix up a new house and prefer move-in condition.

China is now preparing for retaliatory measures, including an export restriction of rare earth used for high tech products and China dominates 80% of the world supply. The trade war has caused the stock market to lose trillions of dollars in a short period of time. Buyers' purchasing power may be eroded. It may be become difficult even to pass the cost of remodeling to buyers.

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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Lease: Large Free-standing Townhouse

We have listed a spacious 2417sf free-standing townhouse in North Redondo Beach. It has 4 bedrooms and 2 ½ baths. It was built in 2006. The rent is $5300 per month. Its location is super convenient .

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 06/11/19)