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# Rockyfield Newsletter

## US Economy & Housing Market

As the last quarter GDP growth slowed to 2.1%, concerns over the economic future have surfaced again, demanding the FRB to cut the rate. However, given the full employment and rising wages, the economy may be in a saturation phase. Further fast growth needs increased international trades. But, other economies in Europe and Asia are not doing well, and international trades have shrunken. If our economy is approaching a bottle neck, further push for high growth (over 3%) may create inflationary pressure. Therefore, the current steady growth can be considered as preferred "soft landing." Consumption seems to be calming, erasing fear of overheating economy. The US economy can continue its solid growth.

The real concern is the financial market. The FRB's large intervention in the REPO market last September came as a surprise. We first thought it was just temporary to ease the liquidity shortage in the financial market; however, the FRB's REPO operations (a combination of overnight and 1-2 weeks) are continuing, resulting in about \$180 billion of additional money supply. It is still not clear how and why such liquidity problem happened. One of the likely reasons is increasing issuances of US Treasuries given the soaring government deficit while foreign investment in US Treasuries are not increasing as much mainly due to the decreased exports to the US. In fact, it seems that the timing of FRB's REPOs coincide with Treasuries auctions. It is not known if primary Treasuries dealers are having trouble placing the papers with investors.

The fiscal deficit will exceed \$1 trillion this year, and the US debt keeps soaring as interest payments accrue. The US net debt in percentage of the GDP is not as big as Japan and others; however, the world largest economy has the largest debt. If the demand for Treasuries cannot catch up with supply even if temporarily, it is serious. So far, the FRB is maneuvering the potential financial crisis, and we do not expect large impacts on interest rates, loan availabilities or the economy in general.

## Worry over External Factors

### Conforming Loan Limits for 2020

The Federal Housing Finance Agency's (FHFA) has increased the 2020 conforming loan limits for mortgages acquired by Fannie Mae and Freddie Mac to \$510,400 on one-unit properties and a cap of \$765,600 in high-cost areas. The previous loan limits were \$484,350 and \$726,525 respectively.

The loans guaranteed or purchased by those government sponsored enterprises are securitized and sold to investors in the market. Within these limits, borrowers can have better interest rates. Some lenders have different rates for each limit. Loan amounts above these limits are called non-conforming or "Jumbo" loans that typically have tighter underwriting standards and higher interest rates. However, jumbo loan borrowers often have stronger financial and credit standings; they tend to have close relationships with banks. It is not unusual that jumbo loans carry a very favorable rate and terms and conditions.

A 20% or more down payment is normally required for a conforming loan, or a PMI (private mortgage insurance) is likely to be required.

These new conforming loan limits may not have a direct impact on the PV single family home market as the prices here are even higher. However, good boosts for other markets will certainly help the housing prices of the Palos Verdes housing market.

We are keeping an eye on the foreign exchange rate for an early signal.

Unexpected is the coronavirus. Disturbance in logistics in international trades will cause major damage to the world economy; inflation due to product shortages and a recession may come together. If the financial market faces more liquidity problems, home buyers may face difficulty in obtaining loans. If the coronavirus is subdued, there is no reason to be pessimistic.

### Palos Verdes Housing Market

Single family home sales in Palos Verdes during 2019 increased only 1.9% from 2018; however, it halted small decreases for 4 years in a row. The bad news is the average price was down 1% and median price also down 1.3%. The numbers of sales in recent years have been rather stable. While we do not expect too many more sales this year, given the favorable economic environment like steady growth, full-employment and increasing household income, we hope prices will go up.

It is necessary to have many attractive listings for sales to increase; the numbers of new listings have been smaller than anticipated. Under an active market, the market inventory and listings in escrows should grow together. Unless the coronavirus discourages buyers, the market environment is favorable to sellers, given the small inventory and super low mortgage rates. One of the reasons for a fewer than expected new listings is that prices are not clearly increasing. Currently the majority of active buyers are for lower priced properties in PV. In fact, the severe shortage of townhomes proves this trend. While the seller of a house with permanent features like view can use aggressive pricing, listings above \$1.5 million in general need more time to sell more.

We had a very positive forecast for this spring season; we are no longer so sure due to the uncertainty in the financial market, concern over the international flow of people and products due to the coronavirus. The typical seasonal pattern of increasing sales in February to May and following higher prices may not happen this year because of these external factors.

## Confusing Termite Issues

There have been continued confusions even among real estate agents over how to deal with termite issues. A few homeowners still believe "termite is a must for sale." It has never been a legal point of sale requirement, except for certain lenders' demand. After a case where a seller followed his agent's advice and later learned that it was not a legal requirement, the realtor association removed a termite request form, and stated the termite issue was not a legal requirement, but a contractual matter. Since then it has not been clear how and when a buyer should request the seller for termite inspection and work. In general buyers expect seller to take care of termite problems, and so do many sellers themselves. A request for termite repair is included in the repair request form; however, to do so, a termite inspection must have been completed by then. Even though the Purchase Agreement (offer form) does not have a clause for termite, it is advised that a buyer clearly states who will be responsible for termite inspection and/or work.

It is more confusing for condos and townhouses because the HOA is generally responsible for termite issues of the buildings, if not the interior. Some HOA's conduct periodical or planned termite inspections and repairs/treatments; others may do when they receive a report, requiring work from the seller. Because it is difficult to fumigate the whole building with other residents' consent, termite work is often limited to local treatment even though the termite inspection requires fumigation. A seller can do an inspection only and ask the buyer to deal with the HOA for treatment. If termite or dryrot damages are found in the interior of the unit, then the seller and buyer have to negotiate.

It is the most important that the listing agent consult with the HOA as to its termite policy before the unit is listed; then a seller and the agent set forth a plan regarding how to deal with the termite problems.

## 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

DRE Broker License: 01328577

727 Silver Spur Rd. Suite 205  
Rolling Hills Estates, CA 90274  
Phone: (310) 544-0857

Anthony Iwata Ext. 1#  
(English+Japanese)

Catarina Zerbinatti Iwata Ext. 2#  
(English, Spanish, Portuguese, Japanese, Italian)  
email: properties14@rockyfield.com

## New Lease Listings

We will list for lease a 4 bedroom house (3100sf, built 2009) in early February on PV Drive North, and a 3 bedroom house (1300sf) on PV Drive West in Lunada Bay in early March. Rents have not been decided.

## 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

## 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 even if you have no plan to sell. No strings attached.



## SELECTED LISTINGS

Please Contact

Rockyfield

A: Active U: Contracted P: Pending S: Sold  
Prices in '000s. Source: MLS (as of 02/05/20)