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Rockyfield Newsletter

US Economy & Housing Market

The whole world has been consumed by Coronavirus (COVID-19) with no solution in sight. Even after it passes, how quickly the world economy can recover is uncertain. Although supply chains have been disturbed, transportation and tour industries are suffering, it is unlikely that the world economies would halt completely. However, general slowdown is unavoidable. The already ailing Europe may fall into a recession. The US economy is less likely to precipitate into a recession; the slump of other main economies like China and EU could slow down ours.

However, the crude oil price plunge due to the price war between Saudi Arabia and Russia may be more serious to the economy. The crude oil price must be over \$40 for the US shale oil to be profitable. \$30 oil price will make the US domestic fracking unsustainable. The US gas/oil industry contributes 8% to the GDP and employs 3% of the US jobs, supporting over 10 million people. Unlike the effect of the climate change, such sudden damage to the oil industry is serious and we should not ignore this factor for the stock market slump. The question is why it happened in the midst of the coronavirus pandemic. If the US shale oil production stops, Saudi's oil export to the US, which is below 10% now, would increase and Saudi's leadership in the OPEC and international oil market will be restored. Although the low oil price is a pain, Russia can gain in geopolitics if a big dent happens to the US economy. Above all these, it is disappointing that the US could not stop the oil price war.

The US economic fundamentals are still solid; however, there have been signs of weakness in the financial market. The FRB has been repeating REPOs to ease banks' liquidity shortages. As this COVID-19 crisis brought about huge demand for the US Treasuries, banks' liquidity issue may be eased only in this respect. Their exposure to the fracking business is large. Mega losses in the stock market can rattle the financial market. The original cause is the

Upward Trend Under Uncertainty

Flight to Quality

When investors become unsettled with the future of their investments, they move their funds to safer or less riskier instruments. That is called "Flight to Quality." When the stock prices are very volatile, prudent investors move to stocks with higher dividend payments, which are typically less prospect for capital gains. There are two types of risks: market (price) risk and credit risk. Although they are quite different in how to manage such risk, they are closely related. When either type of risk looms beyond investors' risk management ability, the immediate shelter investors seek is always the US Treasury market, which provides the lowest credit risk and highest liquidity (easy to buy or sell any amount), providing more price certainty, especially short-term Treasury bills. Institutional investors cannot keep large funds in cash or with a bank. Given that disturbance caused by the coronavirus has become reality, investors are no longer certain about the future economy and business performance.

While the coronavirus has a gradual choking effect on the economy, the oil price plunge is a direct, hard impact on the US shale oil fracking industry. The low oil prices may be a good thing for many industries, but not this way.

Facing a very serious crisis caused by the coronavirus and collapsed oil prices, investors may seek other shelters. We are puzzled by the steep rise of YEN. This is another "flight to quality" phenomenon. Yes, Japan's economy is finally recovering through fundamental structural changes. But it is still growing slowly and in fact it fell 6.3% in the 4th quarter. And Japan has been also hit hard by the COVID-19. It is a mystery why money is flowing into YEN. Or investors may be thinking Japan's country risk is less, compared to others.

coronavirus with no solution in sight. The effectiveness of tax or rate cuts is questionable, while the FRB's liquidity injection is necessary even if not boosting the market.

Likewise, historical low mortgage rates may not help the housing market. However, refinancing may sharply increase because many homeowners feel a lower monthly payment will help them going through a tough time ahead.

Palos Verdes Housing Market

The effect of the COVID-19 on the housing market is yet to be clear. Both buyers and sellers are worried. When real pain is felt like layoffs or area lockdown in South Bay, the situation may turn very quickly.

Weekly contracts became normal in the last week of January. Contrary to the expectations of more than 20 new contracts every week in March, 20 were made only in the last week of February, though new contracts exceeded new listings for three weeks in a row in March. In short, both new listings and contracts are fewer than expected. The COVID-19 may be suppressing the market. The stock market plunge has reduced the buyer's purchase funds, max loan amounts as their assets, including 401K, have diminished. It is possible that eroded buyers' purchasing power may push down the market prices.

Since the beginning of March, we have seen new listings which looked cheap! Contrary to our expectations, they are not really fixers. Smart sellers are selling quickly before prices further deteriorate.

The supply-demand condition has greatly improved in mid February; the E/A (escrow/active) ratio exceeded 50%. The West RPV has been very tight. The condition is very good for the price ranges below \$1.5M. The \$2M's that had been in slump since last summer have finally started selling; though the inventory in this price range is still too large.

As the strong demand for low priced properties persists, the townhouse market is also going very well. However, their prices are going up too much, given today's unsettling condition. If single family home prices tumbles, the townhouse market may need a major adjustment.

Prevent Burglary

Recently, one of our customers' houses was burglarized. The owners have been out of the country for months. This concerns everyone who is planning to go on a cruise or to visit a foreign country. Three things are apparent to us, judging from the conversations with neighbors and learning how the burglar(s) broke in: 1) Bad guys are going around and checking houses; 2) Break-ins happen during the daytime; 3) They typically go to backyard and break the window or sliding door glass to enter.

Tips to make your house not to look vacant while you are absent for weeks. The first tip is to avoid a filled mailbox. We believe trash bins are very important, except for PV Estates. You can ask someone to put your trash bins out to the street every week and put them back after collection. You can also ask someone to move a car on the driveway every few days to a different spot.

Many people set a timer switch to turn on and off a light inside the house. However, one light turning on/off at the same time in the same room will not be very effective; two or more lights in different room turn on and off in a couple times in sequence will be ideal. A radio may be turn on and off. Please remember that anything that operates with electricity can be remotely controlled via your smartphone.

They may come and press the doorbell to check if someone is at home; you can answer even when you are away from home and record the video with today's technology.

More importantly, you should let your neighbors know you will be away for a while. It is their own interest to prevent burglaries in the neighborhood, too.

If you have good tips to share with other readers of this newsletter, please let us know.

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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New Lease Listings

We are looking for a new tenant for a beautifully remodeled 2 bedroom townhouse in the Island View complex. It is available to move in now. \$3200 per month.

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

Contact Rockyfield

A: Active U: Contracted P: Pending S: Sold
Prices in '000s. Source: MLS (as of 03/13/20)