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Rockyfield Newsletter

NAR Settlement

The focus of the NAR vs Wisconsin case was the 6% commission "system;" however, the reality in Southern California is quite different. Although the most prevalent rate is 5%, splitting 2.5%/2.5% between listing agents (LA) and buyer agents (BA), in many cases, listing commissions are cut by Seller's demand or due to competition with other realtors; BAs often give some credit to buyers or pay for some expenses like inspections. Even if LAs keep the 2.5% commission, they often pay for many small expenses in addition to marketing expenses. Interestingly, many sellers are skeptical of agents offering a lower commission. During the last 20 years of our observation, brokers who attempted to capture market shares by offering low commissions all disappeared.

The lawsuit was brought by a group of sellers who claimed they paid too much commissions because the NAR system requires Seller pay buyer's agent's commission. Therefore, the settlement is naturally biased toward sellers, although it says, buyers can also benefit many ways. It is still subject to court approval; someone may seek an injunction to stop or change it.

News media report that buyers will have to pay their agent commissions, while sellers no longer have to pay BA's commissions. Well, there is much more to it. If buyers pay a commission to their own agents, it is not clear how buyers pay commissions to their agents: pay directly or via escrow?, and some tax questions may emerge. Buyer's agency agreement is also required before showing any houses; buyers will be stuck with the agent even if the buyer is unhappy. It is not easy to find which agent is good before choosing one. Even if BAs are paid for their service somehow, their income is likely to be squeezed. New agents who usually start working with buyers and buyer-focused agents would struggle to survive. Lease transactions could be greatly affected. We predict many real estate agents would not represent tenants. (continued on page 2)

NAR Settlement: Confusion, Worry Anti Free Market

Remodeling for Sale

Many sellers consider upgrading or remodeling their house with an attempt to sell at a higher price. In recent years, it is true that a new condition house can sell higher than the cost of upgrades or remodels. And it has been always true that a new condition house can sell easier and faster. So realtors always recommend to do so.

The question is: "Is it really worthwhile?" The answer is: It depends. A property at an undesirable location may not increase its value as much as the cost of improvements. A property with a special feature like uniquely great location, a large flat lot or great view can increase its value substantially by making it look new although those special properties can sell quickly at a premium price even without remodels.

Another very important factor to be considered is, if the house is occupied or empty. The efficiency of workers will be greatly hindered if the owner resides in the house, and the owner will be very frustrated and bothered by "un-normal" life. It may affect owners' health, work, children's schooling, etc. for many weeks.

When the housing market is very hot, those "fixer" or old condition houses can sell quickly at a good price, making remodeling less profitable.

Each case differs with consideration of the owner's personal situation, too. In conclusion, we can make a reasonable suggestion which we believe is the best for the owner. Of course it is imperative for us to understand all various factors, including the owner's personal situation.

Palos Verdes Housing Market

Since June 2020, housing sales in PV have failed to recover. On the other hand, there have been houses sold more than \$100,000, \$200,000 over list prices. This contradiction is mainly due to the persisting supply shortage. Sharp increases of housing prices in recent years have inflated many long-term homeowners' capital gains to exceed the \$500,000 (married joint) exclusion. Many homeowners have mortgage loans with below 4% rates (some below 3%) which could double if they take a new purchase loan. In short many of them cannot afford to buy replacement homes. Weekly new contracts of the PV single-family homes are more or less 10. Because the volume is so small, it is difficult to identify other reasons than the supply shortage.

The market suddenly heated up in late January, and cooled down in February. Our analysis has found a co-relation between new contracts and rate movements. The rate increases in late March and April have been coupled with fewer sales. There are still many cash purchases. Those cash buyers are not low ballers, implying that they are home buyers, not investors.

Given the continuing strong employment, it is uncertain if the FRB will cut the rate soon. A close observation of Treasury yield movements indicates the 10 year yield, with which 30 year mortgage rate is loosely linked, may not go down so much with the rate cut. If so, we cannot expect substantially lower mortgage rates. Housing sales tend to slow for a few weeks before the Tax Day in April. If any prospect for the FRB's rate cut emerges, the mortgage rates can modestly go down. We are hoping for May and June to be good months as many buyers want to buy houses before July when the NAR agreement becomes effected.

There is a more serious issue, though. Supposing BA's commission is included in the price, the commission is financed by the buyer's loan; however, if a buyer has to pay the commission, it would be an out-of-pocket cash expense. Given the high housing prices, many buyers may not have so much cash left with 20% down payment. Paying for the commission may lead to a higher rate.

The majority of sellers and buyers are the victims of this settlement.

(Continued from the front page)

The major takeaway of this settlement is that BA's commission rate is no longer allowed to be published on the MLS. NAR indicates that there are many ways for Seller to offer a compensation to BAs. The plaintiff claimed that publishing the buyer's commission rate on the MLS forces sellers to accept paying BA's 3% commissions. Prohibiting BA commission rate to be published would create a huge confusion and turmoil. Without knowing which property would pay (and how much) BA's compensation, the real question is if an agent would show a house without knowing if the agent would be paid. If the Buyer Agency Agreement requires the buyer compensate the agent, and if a seller is offering to pay to BA, can the agent double his or her profit?

Sellers normally want to sell their properties as fast as and as high as possible by often paying a few thousand dollars for staging. The best way is to mobilize as many agents as possible to show and sell Seller's property. There are more than 1000 agents in the PV housing market. We suppose many sellers are willing to offer "competitive" compensation to agents who represent buyers: Yes, "competitive" against other sellers who are listing similar properties. However, under the new rule, there is no way to know what incentives other competing sellers are offering. Such circumstances may force sellers to compete in the dark, and they may end up paying more commissions especially during housing slumps.

In conclusion, we speculate the following:

The real issue of the housing market is that housing prices have gone up much faster than other general prices, and agents' commissions which are percentage of sold prices increased accordingly. The commission rate is not the cause of soaring housing prices. This settlement will only create confusion and turmoil among all real estate participants. We have conclude this settlement inhibits the free market solution.

Buyers seem to be losers; however, we do not see clear benefit for sellers either. In fact, many buyers are trying to buy homes before July as they do not want to pay their own BA commissions.

For the time being, many sellers, if not all, may continue the same practice via private conversation with BAs. We have been monitoring how big brokers would do.

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Please make an appointment with Catarina at 310-544-0857



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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.

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

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A: Active U: Contracted P: Pending S: Sold
Prices in '000s. Source: MLS (as of 04/10/24)