



Rockyfield Newsletter

US Economy & Housing Market

Interest rates are soaring. The 10 year Treasury yield, which the 30-year fixed mortgage loan rate is closely linked, has once dropped from 2% in early March to 1.6% in May and the resulting low mortgage rates helped housing prices in March. Now, the mortgage rates, following the 10 year T yield, started rising sharply since early May. This represents a \$34.5 increase in monthly payment of a \$100,000 loan; and a \$24.5 increase per \$100,000 of a jumbo loan. The amount is not big, but it does not help the price recovery. Sales seem to be moderately affected. Some buyers may rush to buy before rates go up further; or cash buyers may wait with the belief that prices will go down.

The objective of economic policy should be "stable growth" without inflation or recessions. It is undesirable to use fiscal policy (government spending) for such purpose during normal economic cycles. Stable economic growth should be achieved by higher productivity, measured money supply and automatic economic stabilizers such as progressive tax rates and unemployment benefit. However, the great recession precipitated by the financial meltdown in 2008 created huge unutilized resources, including equipment, human and natural resources. Under such circumstances, fiscal spending does not cause inflation as Keynes described for the Great Depression, and is the only way to boost demand to get out of the vicious circle. After the initial stimulus spending, the deficit became the enemy number one in the political arena. Fiscal spending has been in fact decreasing and so has the deficit. The Sequester has further cut the government budget and also employment in the public sector as a 14,000 decrease in May payrolls. Job recovery is still a long way to go; government investment in infrastructure is still desirable.

The reductions in spending and deficit should cool down interest rates; why rates are soaring now? As fiscal policy is impossible, monetary policy was the only way to help the economic recovery; how-

Soaring Rates How do they affect housing prices?

Watch Out for New Scam

We have heard a few cases and we recently experienced twice a new scam. While sellers or buyers may not become a direct victim, buyers or agents may be involved with unwanted situation.

It seems that these predators target vacant houses, especially NOD or REO properties. The scheme is as follows: They search vacant houses for sale or after closing if the buyer does not move in immediately. They list these houses for lease at a ridiculously low rent (in our case, \$700 as opposed to our \$2500 listed rent) on Craigslist. They communicate with victims via email only, telling them not to worry about the sign on the premises or not to talk with any one at the house. They take money and disappear.

In our case, when our investor-buyer was visiting the house to see how the contractor was doing, a lady, who came to see the house and picked up our flyer, talked to our client after seeing the listed rent amount which was 3 times more than she was offered by the scammer. Luckily she had not given money yet. Subsequently, we received 4 or 5 phone calls in our office from those who went to the house and saw our phone number from the sign or flyer. In another case, a few days before closing, a person talked to the owner (the house was not vacant); it was the same story. However, the seller and listing agent were suspicious and called us to know if we listed the house for lease before closing.

Buyers looking for an REO, short sale, NOD need to be aware of such scam.

ever, it has been creating gigantic liquidity in the financial market. As the economy recovers, the FRB will let long-term rates rise while keep short-term rates low until employment recovers. Therefore, we expect mortgage rates to further increase.

Palos Verdes Housing Market

Despite the continuing strength of housing sales in PV, the single family home inventory, which was once below 100, increased over 140 now. It is because many sellers rushed to the market following the rapid price recovery in March. There have been 20 to 25 new listings almost every week, compared to the average 52 listings per month during 2012. The new listings seem to be a little calming down in late May. The number of in-escrow listings is more than 120; the market size is expanding with no significant change in the tight market condition. However, we can also see an apparent effect of rising mortgage rates, though we need to watch the sales trend for a few more weeks. Prices softened in May due to the new listing rush from the peak in early April. Right now, the median escrow price is holding around \$1,200,000. Individually, many sellers are still receiving multiple offers and prices higher than the list price. It is still a seller's market.

Given the rising rates, sales may have troughs and buyers tend to pay more attention to new listings. We must caution overly aggressive pricing.

The west side of RPV is still in an extreme short supply condition; even properties that have been staying on the market for many months are selling if their prices become within the reasonable range. The Lunada Bay area of PVE has too many listings; the supply-demand condition in PV Estates is not as tight as other areas. The tight market condition also exists in Torrance and Redondo Beach.

We are surprised to see many cash offers. Cash buyers from China are not new; but domestic cash buyers are now active.

June closed sales were brisk 61 after 63 in May. Both average and median prices are substantially up.

Residential Hazards - Formaldehyde

Formaldehyde is a colorless, pungent gas that is soluble in water and most organic solvents. While it is found in the outdoor air, indoor sources are more important as we spend more time indoors. Composite wood products are probably the greatest source of formaldehyde in the house, including plywood, particleboard and oriented strandboard which are bound together with formaldehyde-containing resins. They may be cabinets, bookshelves, furniture and etc. Formaldehyde emissions ordinarily decrease to low levels over time.

While exposure to formaldehyde can cause cancer in humans, it may also worsen asthma or allergy symptoms in those with such pre-existing sensitivities. Levels of formaldehyde can be measured by chemical analysis of air samples under strict federal and state guidelines which may take 24 hours to several days. Unless you have a suspicion of formaldehyde problems, it may not be practical to conduct a test. Instead, you can contact manufacturers of suspicious products. Many people experience eye and throat irritation when exposed to formaldehyde at levels above 100ppb. OEHHA has identified 27 ppb as the eight hour average level that is protective against non-cancer effects for sensitive individuals.

Immediate protective measures include opening of windows to increase ventilation, and reducing the number of new composite wood products in a home. Where possible, replace composite wood products such as bookcases with products made from solid wood or non-wood materials. Formaldehyde emissions increase with higher humidity and temperature. Therefore, reducing the temperature and humidity in the home will help. The following link can be very informative and useful: www.arb.ca.gov/research/indoor/formaldg108-04.pdf
(We can send you a PDF file by email)

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For

Information

A: Active S: Sold B: Backup P: Pending
Prices in '000s. Source: MLS (as of 06/11/13)